Market Release
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Vector Limited Annual Meeting of Shareholders Speaking Notes

Chair, Doug McKay

Tena koutou katoa.

Good afternoon and welcome to this meeting. My name is Doug McKay, and I am Vector's Chair.

I'd like to acknowledge Ngāti Whātua Ōrākei as mana whenua for central Auckland, where we are today.

As we have a quorum and it's 2:00pm, I will now declare open the 2024 Annual Meeting of Vector Limited shareholders.

We're starting today with ordinary business, which includes short addresses from myself and Simon and three resolutions. As part of these resolutions, you will also hear short addresses from the directors who are seeking re-election.

After that we'll move to general business, Q&A, and voting.

Today's meeting is a hybrid meeting, where shareholders can participate here in the room and online.

As this is a shareholder meeting, we ask that you please do not use the time for asking specific operational, or customer service, questions. Members of our customer team are available here in the room and will be happy after the meeting to take these types of questions.

We encourage shareholder questions and will indicate question time after the presentations. We'll have microphones available for you. Once you've asked your question, please give the microphone back so that others can have their turn.

If you still have more questions, group chief executive Simon Mackenzie and I will be available after the meeting.

While we welcome the media to our meeting today as observers, please hold your questions until after the meeting. If you would like to talk to Simon or myself, then please make yourself known to one of our communications team, who are at the back of the room, or call our usual media phone number.

If you're online and you'd like some help, you can type your query and one of the Computershare team will assist you.

Voting today will be conducted by way of a poll.

If you're here in the room, you can mark your voting paper at any time, and a team member from Computershare will collect the voting forms before the end of the meeting.

If you're online, you will be able to cast your vote under the Vote tab, once I declare voting open.

I will indicate when voting will close, so that you have a final opportunity to cast your vote.

With those instructions now complete, I declare voting open.

The proxy appointments are shown on screen.

It's now my pleasure to introduce my fellow directors: Alastair Bell, Dr Paul Hutchison, Dame Paula Rebstock, Bruce Turner, and Anne Urlwin. Also at the table we have Group Chief Executive Simon Mackenzie and John Rodger, Chief Legal & Assurance Officer and Company Secretary. Vector's Chief Financial Officer, Jason Hollingworth, and external auditor Graeme Edwards from KPMG are seated in the front row.

Our full year results, announced in August, reflect a strong financial performance underlined by solid business results across the group. I'm pleased with the group's performance across non-financial areas too, such as customer and network.

This is gratifying because, since I've joined the board, I've become well aware of the challenges facing Vector within the energy transition.

A strong focus for the board this year has been to work closely with our chief executive Simon Mackenzie and his executive team, our 75 per cent shareholder Entrust, and our regulator, to drive sound results for our shareholders, whilst wrestling with the energy transition and reshaping the business to facilitate a sharper focus where we believe profitable growth can be achieved.

Adjusted earnings for the group before interest, tax depreciation and amortisation, for continuing operations, were up 14% to $365.2 million. This includes positive results from our regulated business and the gas trading segments performing very well. This gas trading segment saw a year-on-year increase, which was driven by lower LPG input costs, plus higher prices and volumes.

Group net profit after tax was $79.9 million, with underlying profit excluding an impairment of the gas distribution business, of $139.9 million. The impairment, which we announced with our interim results, is for the gas distribution business and was driven by the Commerce Commission's regulatory decision to lower future returns to owners of gas distribution networks by lowering the WACC percentile, and interest rate changes. The result also includes a reduction in net interest costs of $93 million, reflecting lower levels of debt, and interest received on cash held during the year.

The electricity network performed within the regulatory quality standard limits for the duration and frequency of outages, which you may know as SAIDI and SAIFI. These measure the duration and frequency of customer outages. We acknowledge the impact of power outages on our customers, and we understand the importance of reliable energy supply to Auckland homes and businesses. My thanks to the Vector team and field service providers who work so hard to keep the lights on for Aucklanders.

We're continuing to enable growth and electrification across Auckland and have added around 16,000 new electricity connections this year.

From the board's point of view a highlight of the year has been the positive and constructive engagement we've had with the Commerce Commission as they have worked to set the terms of what is known as DPP4. The Default Price Path number 4 is the next 5-year regulatory period in which the price and quality of service for electricity networks is set. Simon will talk more about what this means for you as a shareholder, and as a Vector customer. This is a critical setting for Vector with the final outcome due in November.

We've announced an unimputed final dividend of 13 cents per share, plus a special dividend of 1.75 cents per share. This takes the full year dividend to 24 cents per share.

In the context of the dividend, it's important to note that Vector is more than just a regulated lines company. Vector has a portfolio of businesses and investments which contribute earnings, which includes our investment in Bluecurrent. The group's overall performance is considered during deliberations about an appropriate dividend. Importantly, we have significantly reduced our level of debt following the sale of 50% of what was at the time the Vector Metering business in July 2023, now known as Bluecurrent.

As we have indicated previously, the board will review the dividend policy once the Commerce Commission's final decision on the DPP4 regulatory period is made. As mentioned earlier, this determines the revenue we can earn from our regulated electricity business over the next five years, and so it's a significant factor in setting a dividend policy.

I'd like to thank Simon and his executive team, and everyone else at Vector for their work throughout the year. It's been a strong year for the group, and we're very proud of what we've achieved.

CEO, Simon Mackenzie

Thank you Doug.

In the past year, our business has changed shape, initially with the 50% sale of Vector metering in FY2023. We have now concluded the sale of the remaining contracts of our natural gas trading business and have a conditional agreement for the sale of Ongas and our shareholding in Liquigas. As a portfolio business, we regularly assess our businesses and pursue opportunities that make sense strategically and for our shareholders.

Today I'd like to share with you some highlights of the year including examples of how we are bringing our strategy to life, some key issues facing Vector and the wider sector, and then a brief perspective of what we see ahead.

As you've heard, the Commerce Commission will finalise the DPP4 for electricity distribution businesses in November. This is when the Commission sets our revenue limits for the next five years. This future revenue, and the debt we can raise based on it, is a critical factor in determining how much we can invest in the network, what customers pay in their line charges, and what return we can offer our shareholders.

When the Commission announced their draft decision earlier this year, they acknowledged the new revenue limits they set will lead to price increases on lines charges. A key driver for this is interest rates, which were at historic lows five years ago, when the last reset - DPP3 - occurred. Interest rates today are significantly different, as anyone looking to roll over a mortgage or a term deposit will tell you, and this change in interest rates will have a major impact on the next period, due to the way the Commission's model works.

In this context it's more important than ever to ensure our investments are delivering value for money for our customers and are being made at the right time and not imposing unnecessary costs on our customers.

Our approach is to avoid committing to high levels of capital investment where there is significant uncertainty, such as the rate of EV growth, or what level of resilience investment is appropriate for the electricity network. We take this approach because our capital investment ultimately flows through to customer pricing through the Commission's model. We consider it's not in the best interests of our customers to lock in high levels of investment where the scale and timing of need is not yet certain, or indeed there are other more efficient and less costly solutions enabled by regulatory change or technology.

Instead, we have taken a prudent approach and will re-engage with the Commerce Commission as these uncertainties and/or lower cost options are better understood.

We believe the way to achieve long-term affordability for customers, is to invest as efficiently as possible, using digital solutions, to manage demand, growth, and electrification, at the least cost to consumers. The alternative is to rely only on costly investment in traditional infrastructure, which we do not accept as the right approach for the energy transition. However, we do not have the policy settings yet to fully support this approach.

Total capital expenditure for the year was $510.1 million, or more than half a billion dollars. That's a significant level of investment to support a strongly growing Auckland, as well as to enable increasing electrification such as with public transport. Of this figure, $195.2 million was paid for directly by customers.

These customer contributions fund the cost of their connection to the network, and include a system growth charge which covers any upstream impact they have that requires network reinforcement.

In other words, our approach is to ensure all new customers are paying their way when they want to connect to the network. This includes commercial customers, such as residential or commercial developers, or public EV charging providers.

We believe this is an equitable approach. The alternative is for the costs associated with new connections to be subsidised across all customers. We don't think it's appropriate for households to have to pay more to subsidise a commercial operation connecting to the network.

This approach is currently under review and consultation by the Electricity Authority. The EA is looking into regulating and standardising connection charges, which would prevent us from recovering connection costs from those who are directly responsible for them – with the costs being spread across, and therefore subsidised by, all customers.

We've researched what consumers think about this, and they are overwhelmingly supportive that commercial operators, such as public commercial EV charging providers, should continue to pay their way. We will be advocating against a move by the EA that restricts our ability to set fair and equitable connection charges.

Moving now to some of the highlights from the year and how we are bringing our Symphony strategy to life.

Our Symphony strategy encompasses our approach to navigating the energy transition by creating energy infrastructure, alongside digital solutions equipped to manage the complex demands of the future, and that provide choices for customers. It includes a strong focus on data, customers, and our own people as enablers. Our continued focus is on safe, reliable and affordable energy for all our customers.

Over the past year, we've continued to engage with experts from New Zealand and around the world, to further our understanding and develop strategies around network resilience challenges, using data and advanced climate modelling.

This has included working closely with NIWA and Fire and Emergency New Zealand to model extreme dry year risk, which was predicted last summer, and map the associated fire risk against our assets, which is what you can see on screen. We've gone further with this analysis to map this against the potential impact to customers.

To complement this work, we've also engaged with US-based electricity network businesses to learn from their significant experiences in managing wildfire risk. This helps us prepare for these types of events, and look at how these utilities communicate effectively with customers around extreme heat days.

We've also worked alongside external specialists to develop detailed flood modelling at our zone substations. We've used this to forecast not only where inundation may occur, but also the depth of inundation. We've integrated this analysis into our resilience planning to manage this climate-change related risk to our strategic assets.

This work has contributed to a significant project in Ngataringa Bay in Devonport, which is notable for addressing a number of challenges typical of what we see at a wider scale. This includes sustained growth from residential development, the electrification of public transport requiring capacity upgrades, and climate change modelling that shows a risk from sea-level rise. The project will see the network reconfigured to also enable the disestablishment of the Ngataringa Bay zone substation to mitigate the risk of inundation, as well as responding to the other challenges in the area.

These two examples are around network resilience, and in particular resilience to the impacts of climate change. Another part of our climate change work is to reduce our carbon emissions against our science aligned target, and I'm pleased to report that we've seen continued progress against plans we set in prior years to achieve cost-efficient reductions.

As a result, we achieved a greenhouse gas emissions reduction of 38% against our FY2020 baseline. This is largely through a reduction in natural gas fugitive emissions, which we have been able to influence through our proactive detection programme involving specialised trucks to 'sniff' small gas leaks. We've increased the frequency of routine surveys this year, which has led to leaks being found and fixed more quickly, reducing our emissions as well as continuing to drive safety benefits.

We've continued to be innovative in how we think about the challenges we're facing in the energy transition, and how we can deliver the best outcomes for our customers and shareholders.

We've extended our strategic alliance with Amazon Web Services, with whom we co-developed Diverge. Diverge is an energy data platform that breaks down data siloes and unlocks access to energy data, enabling insights and analytics that are vital to meeting new energy challenges. Diverge is currently used by Vector, as well as Bluecurrent, and is under active consideration by other, offshore utilities.

We've extended our contribution to the project being run by Google X, known as Tapestry. In this project we're one of a select group of global partners collaborating on next generation platforms for network management. These tools include 'GridAware', which uses new technology including drones, machine learning and modern AI processes to survey and guide maintenance of the network. And the 'Grid Planning Tool', which creates robust network simulations that incorporate optimised solutions for new technology and the growth of customer-owned devices like batteries and EV chargers, to ensure an efficient network, as well as efficient capital deployment.

Bluecurrent is a recent example of successful innovation. We had the foresight more than 15 years ago to see the role of data, and efficient data processing in the energy sector with smart meters as the key enabler. As you know, the successful sale last year further reinforced the need and desirability of the services offered through Bluecurrent.

Our investment in Bluecurrent has performed in line with expectations, and we're benefiting from the complementary skills, common objectives and strong alignment of purpose we identified when selecting QIC as a joint venture partner.

I want to highlight where to look in our annual report to see the impact of our investment in Bluecurrent, since this is a significant investment for Vector.

This financial recognition is governed by our alignment with New Zealand Generally Accepted Accounting Practise.

Firstly, our 50% share of Bluecurrent's net profit is reported as a single line in the Profit and Loss under 'Share of net profit or loss in Joint Ventures'. In FY24 our share of their net loss was minus -$24.9 million. This net loss is a result of interest costs on debt to fund installation of new meters, depreciation of meter assets and amortisation of intangible assets attributed to customer contracts.

Second, is the cash we have received as a return on this investment. These cash payments to Vector show in the cashflow statement as part of 'Interest received' and 'Repayments of loans advanced'. In relation to their FY24 performance we have received a total of $50.5m in cash distributions.

We've made good progress on our smart meter data programme, which makes use of the data we receive from some of the smart meters installed on our network.

With this data we are developing innovative ways to benefit our customers. These include monitoring the adoption of EVs through our 'EV tracker'. This looks at where EVs are appearing at a suburb level, helping us analyse and plan for the network impact of EV growth. This is what you can see on screen, with the different colour dots representing denser EV adoption.

Through this tracker we've identified that it's not just single EVs we need to look out for, there are now more than 150 households around Auckland with two EVs. The charging requirements for EVs can significantly impact demand on the local low voltage network, making this sort of analysis even more important so we can see the potential for constraints before they happen, and ideally be able to orchestrate charging so that it doesn't cause an issue.

In closing, I'll talk about the year ahead and the energy sector more broadly.

We expect Auckland electricity network connection growth to slow over the next year to around 12,000 new connections, on top of the existing 624,000 connections. This reflects a reduction in connection requests over the past 6 months, and the broader economic slowdown. Gas connection growth is uncertain, partly because of the uncertainty of future natural gas availability.

On 26 July, which is after balance date for our financial results, we announced the conditional sale for $150 million of Vector Ongas, and our shareholding in Liquigas. The carrying value of the Ongas and Liquigas disposal group, as at 30 June, was $136 million. We and Elgas are seeking to satisfy the sale conditions and expect this could take 4-6 months.

Both Doug and I have signalled the importance of the Commerce Commission's decision on the next default price-quality path, DPP4, which is due in November. We'll provide guidance for FY25 in February, after we've received this decision.

There has been a lot of commentary over recent weeks on high energy prices and lack of generation to supply the energy market. Our long-held view is that the energy system is going through a significant transition with the need for more capacity, changing customer needs, new technology, and climate change.

We’ve long called for an energy strategy that takes a whole of system approach, rather than piecemeal approach. This is because no part of the system can operate in isolation anymore, to deliver secure, reliable, affordable energy to meet consumer needs now and into the future.

The industry changes made in the late 1990s, known as the ‘Bradford reforms’, might have been right for their time, but we believe this is no longer the case in a rapidly changing world. New Zealand urgently needs an energy strategy to inform policy and regulatory settings and enable the industry to effectively manage the energy transition. Given what we’ve seen recently with the closure of several businesses as a result of high energy prices, it’s not clear what else would need to happen before we see action from the government to drive meaningful change.

Finally, I’d like to thank all our staff, Field Service Providers and Telnet, for their huge efforts every day to deliver for our customers, and to Doug and the board for their support and challenge.

Thank you.

ENDS

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About Vector

Vector is an innovative New Zealand energy and digital solutions company, which runs a portfolio of businesses delivering energy, technology and communication services to more than 620,000 residential and commercial customers across New Zealand. Vector has a leading role in creating a new energy future through its Symphony strategy which puts customers at the heart of the energy system. Vector is listed on the New Zealand Stock Exchange with ticker symbol VCT. Our majority shareholder, with voting rights of 75.1%, is Entrust. For further information, visit www.vector.co.nz