

PLAN FOR CUSTOMER-LED PRICING

Vector is helping to create a new energy future, in which pricing plays an important role. Vector is engaging with customers to ensure we deliver the pricing plans they want.

There is a risk that changes to pricing structures will satisfy economic theory but not customers (e.g. complexity vs simplicity, variability vs predictability).

Vector's pricing reform process is underpinned by extensive customer engagement, including consultation with our 75% customer trust owner, Entrust.

Our plan is a living document and will evolve over time as we learn from our customers.



WE HAVE COMPLETED OUR FIRST PHASE OF ENGAGEMENT

We undertook a focus group on pricing with our Customer Advisory Board (CAB) and a customer pricing engagement survey

Key findings from this work included:

- Customer preferences are varied (i.e. they want choice)
- Many customers are engaged with electricity pricing, albeit briefly
- 80% of customers preferred new pricing plan concepts over current pricing
- Real interest from customers in the potential for technology to help manage energy needs

As part of the customer survey, we also sought feedback on three options for innovative pricing:

TIME OF USE 

Pay more during peak periods / less during off-peak

Preferred by 30% of customers

BUNDLE OF ENERGY 

Pick a bundle with an included usage allowance that suits electricity needs

20%

Preferred by 20% of customers

PEAK TIME REBATE 

Money back if customers reduce usage when notified that network is busy

32%

Preferred by 32% of customers
MOST POPULAR OPTION

A TRIAL FOR PEAK TIME REBATES IS NOW IN DEVELOPMENT

'Peak-time rebate' (PTR) was the most popular of the three pricing models we presented in our customer survey

Customers receive advance notification of peak-time events at times of network stress (e.g. cold winter evenings)

Customers get a rebate on their bill if they reduce usage during peak events relative to an estimated baseline and/or peer group

We are partnering with Mercury to undertake a PTR market trial with ~500 customers

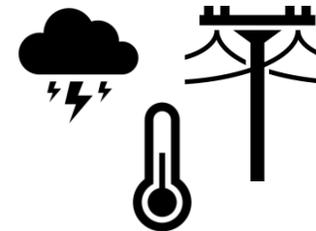
If the trial is successful we will look to roll out PTR more widely



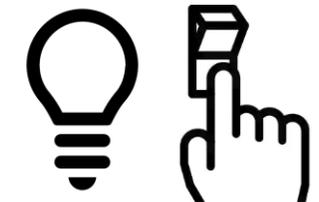
Customers invited to participate



Customers receive rebate and performance feedback



Peak-time event called

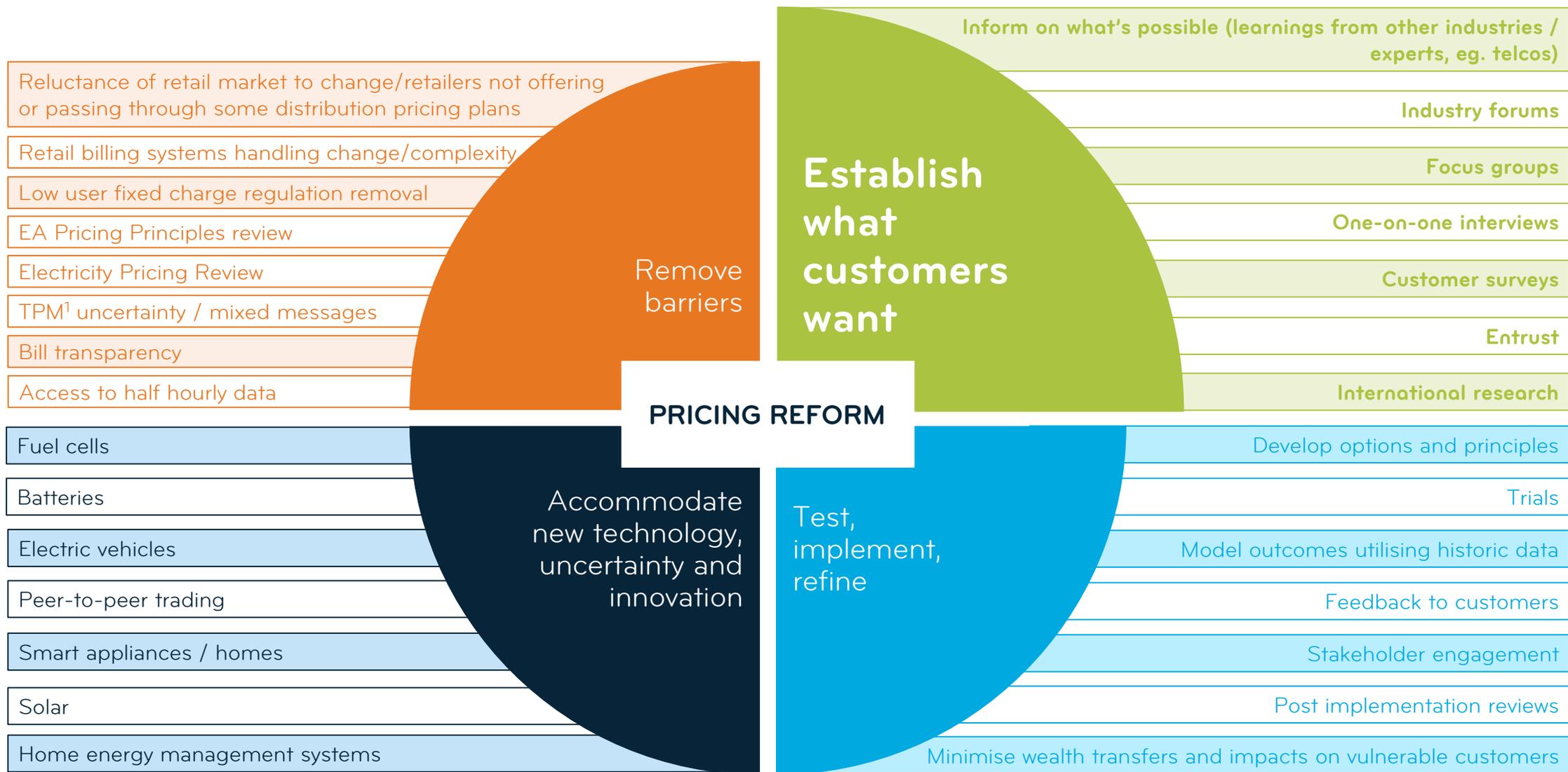


Power usage reduced



Customer notified

THERE'S SIGNIFICANT COMPLEXITY IN IMPLEMENTING NEW PRICING MODELS



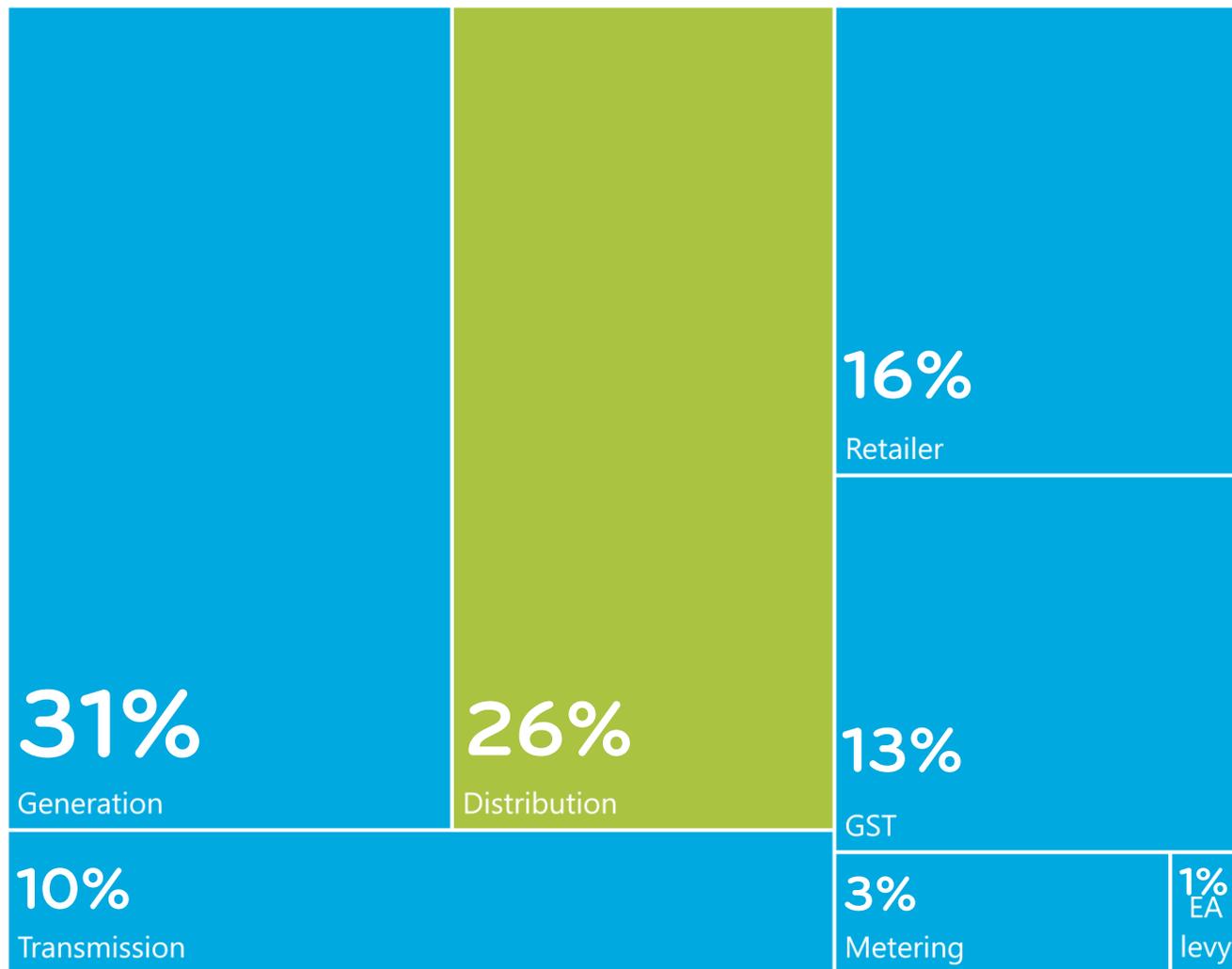
¹ Transmission Pricing Methodology

BILL BREAKDOWN

Distribution pricing makes up a relatively small portion of a customer's total electricity bill – around one-quarter. In Auckland, that's about \$39/month.

The Electricity Authority has placed much attention on distribution pricing reform but it is important to recognise the limited extent to which reform of a quarter of the bill (on its own) can benefit customers.

Breakdown of typical NZ residential electricity bill



Source: Electricity Authority

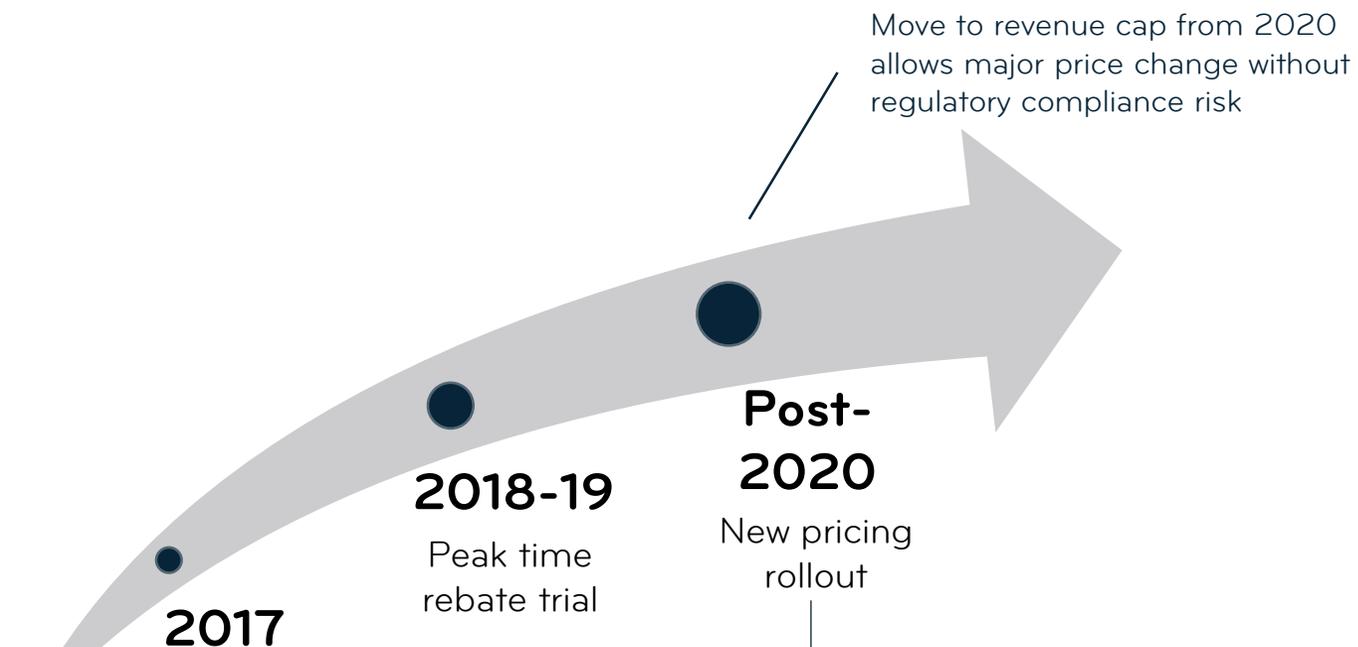
CUSTOMER-LED FUTURE PRICING APPROACH

Our pricing reform journey will be customer-led

We have also commissioned international consultants The Brattle Group to provide expert advice on pricing methodologies

Peak time rebate enables customers to engage on energy use, using incentives rather than penalties to encourage response

In the future, as the industry works towards removing barriers to major price reform, we will look to test **new pricing models**. These could include time of use, or charges based on peak demand or capacity.



Brattle base pricing options	Vector scorecard			
	Consumer friendly	LFC regulations	Cost reflective	Billing complexity
 1 DEMAND	✓	✓✓✓	✓✓✓	✓✓
 2 CAPACITY	✓✓	✓	✓✓✓	✓✓
 3 TIME OF USE	✓✓	✓✓✓	✓	✓✓✓
 4 PEAK TIME REBATE	✓✓✓	✓✓✓	✓✓	✓✓