

DISTRIBUTION PRICING ROADMAP

1 OCTOBER 2018



CUSTOMER LED NEW ENERGY FUTURE

New breed of customer – new technology unlocks:

- New behaviours
- Need for new options
- Demand for increased resilience, lower costs and a reduction in carbon



Vector is enabling this new future:

- Data analytics
- Battery storage
- Peer-to-peer trading
- Integration of consumer-owned distributed generation
- Managed smart EV charging
- Smart load control
- New pricing

MOMENTUM FOR CHANGE IS BUILDING IN THE INDUSTRY

"Restructuring distribution prices could be justified on the grounds of fairness, efficiency and better reflection of costs, but it would come with challenges"

EPR Initial Report, Oct 2018

"Participants in the electricity sector have been highlighting their ongoing concerns on the [low user] regulations and the review is an opportunity to assess their role in the wider context of supporting New Zealanders to afford their energy bills."

Megan Woods, Mar 2018



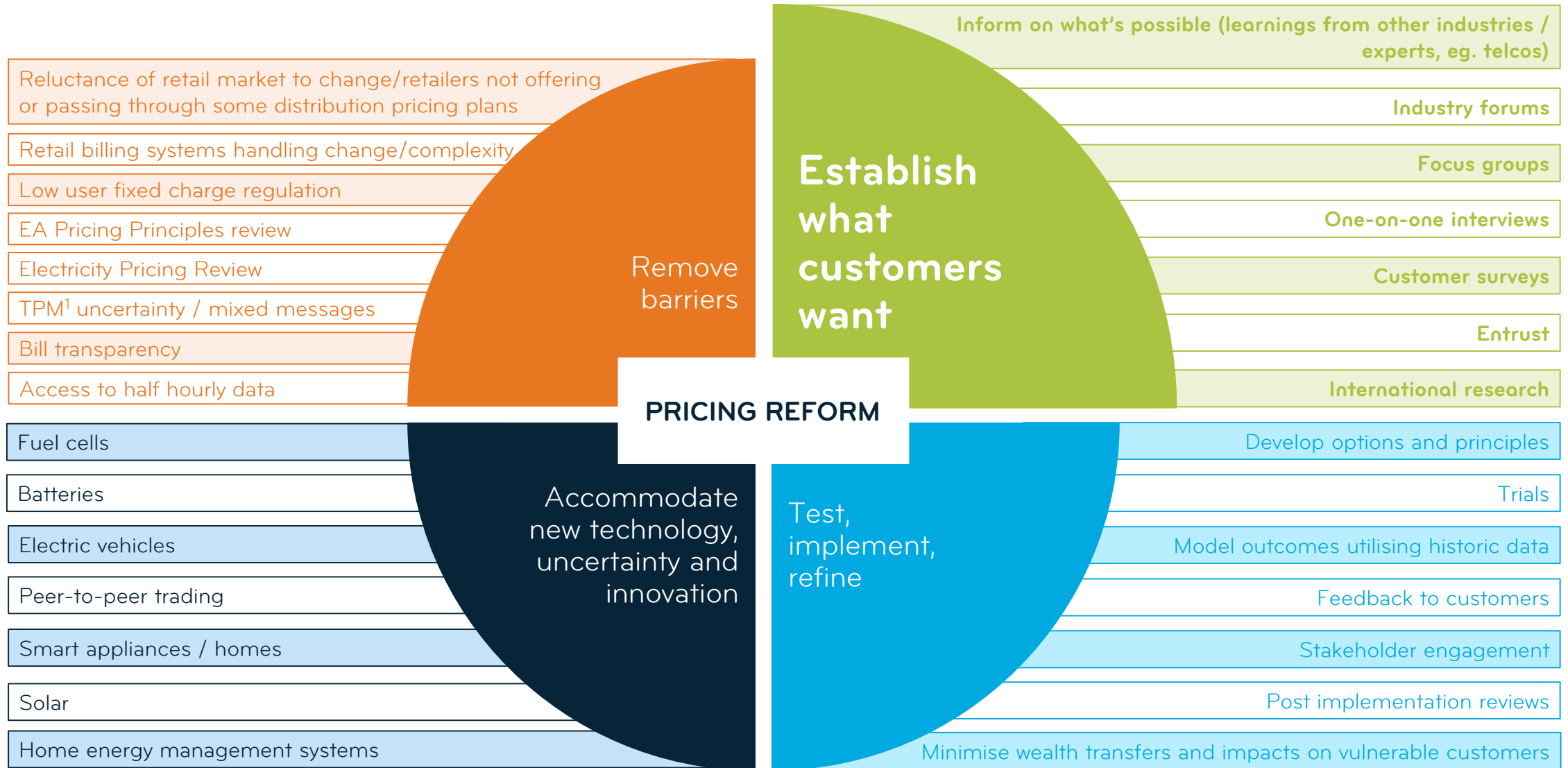
"Distributors need to act [on pricing] with ambition and some urgency"

Electricity Authority, Oct 2018

"...we suggest the Commerce Commission could be charged with consulting on the future state of the distribution business model.."

Transpower, Oct 2018

THERE'S SIGNIFICANT COMPLEXITY IN IMPLEMENTING NEW PRICING MODELS



¹ Transmission Pricing Methodology

CUSTOMER NEEDS TO BE AT THE CENTRE

Pricing structures need to satisfy customers rather than textbook economic theory

With the customer:

- Explain simply
- Get input
- Design around what customers value
- Test / trial
- Manage impacts



WHAT OUR CUSTOMERS TELL US THEY VALUE



SIMPLICITY



CHOICE



SUSTAINABILITY



IMMEDIACY



RESILIENCE



WHAT OUR CUSTOMERS TOLD US ON PRICING


Key findings:

- They want options
- They briefly engage with electricity bill / pricing
- Have interest in new pricing plans
- Want control
- Like rewards not penalties
- Are interested in new technologies

Innovative Pricing Options:

TIME OF USE

Pay more during peak periods / less during off-peak

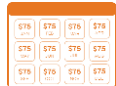


30%

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



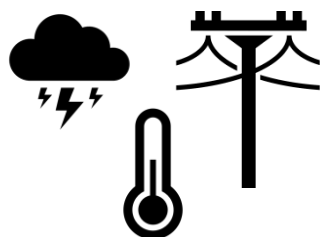
32%

Preferred by 32% of customers
MOST POPULAR OPTION

A TRIAL FOR PEAK TIME REBATES IS PLANNED FOR AUTUMN 2019



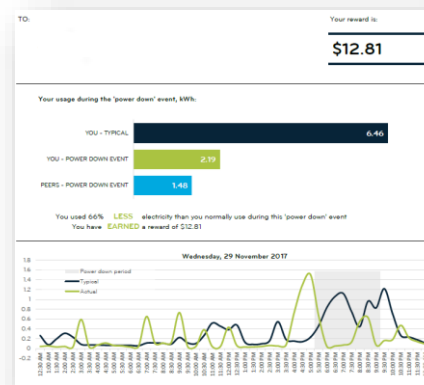
Customers invited to participate



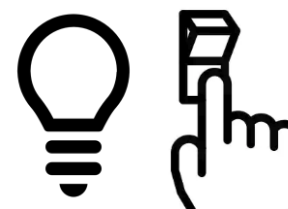
Peak-time event called



Customer notified



Customers receive rebate and performance feedback

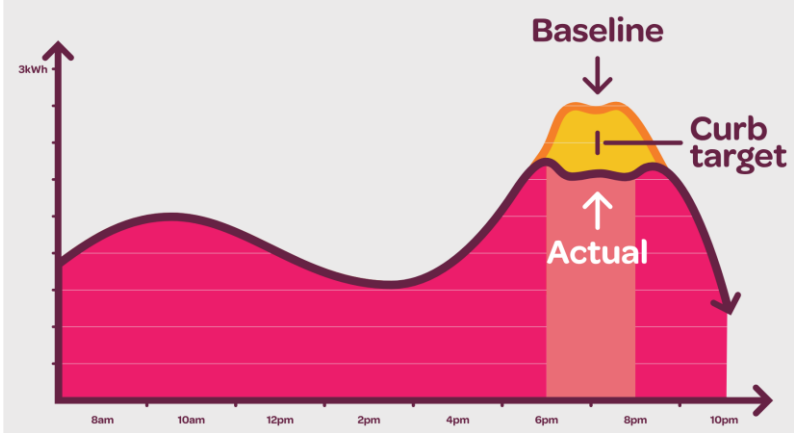


Power usage reduced

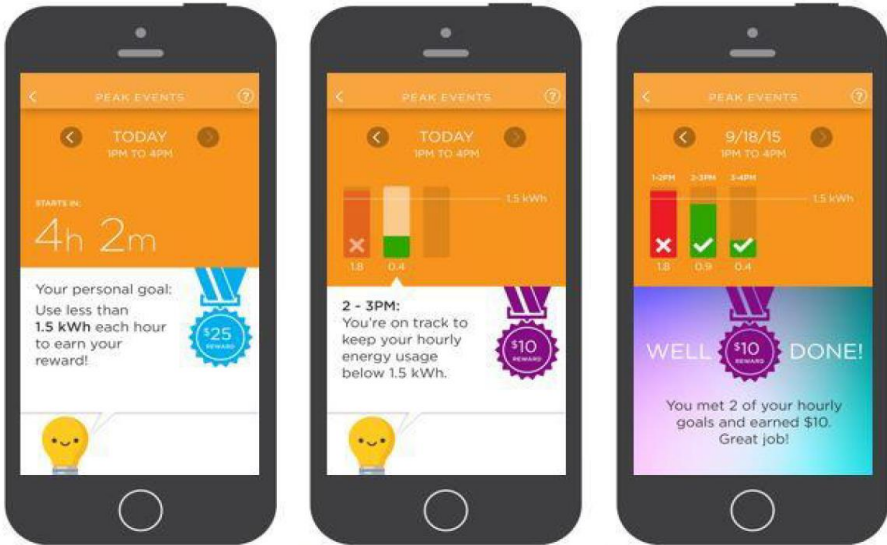
OUR NEIGHBOURS ARE DOING IT



Curb Your Power is Powershop's demand response[?] program, where Powershop customers can help reduce demand on the grid by curbing their power usage at certain peak demand times.



ACTIONDR: HOW IT WORKS



- Email & in-app notifications
- Countdown timer
- Goal setting
- Real-time feedback (HAN)
- Dynamic rewards based on event performance
- Real-time award confirmation (HAN)
- Historical context & event tracking

CUSTOMER-LED FUTURE PRICING APPROACH

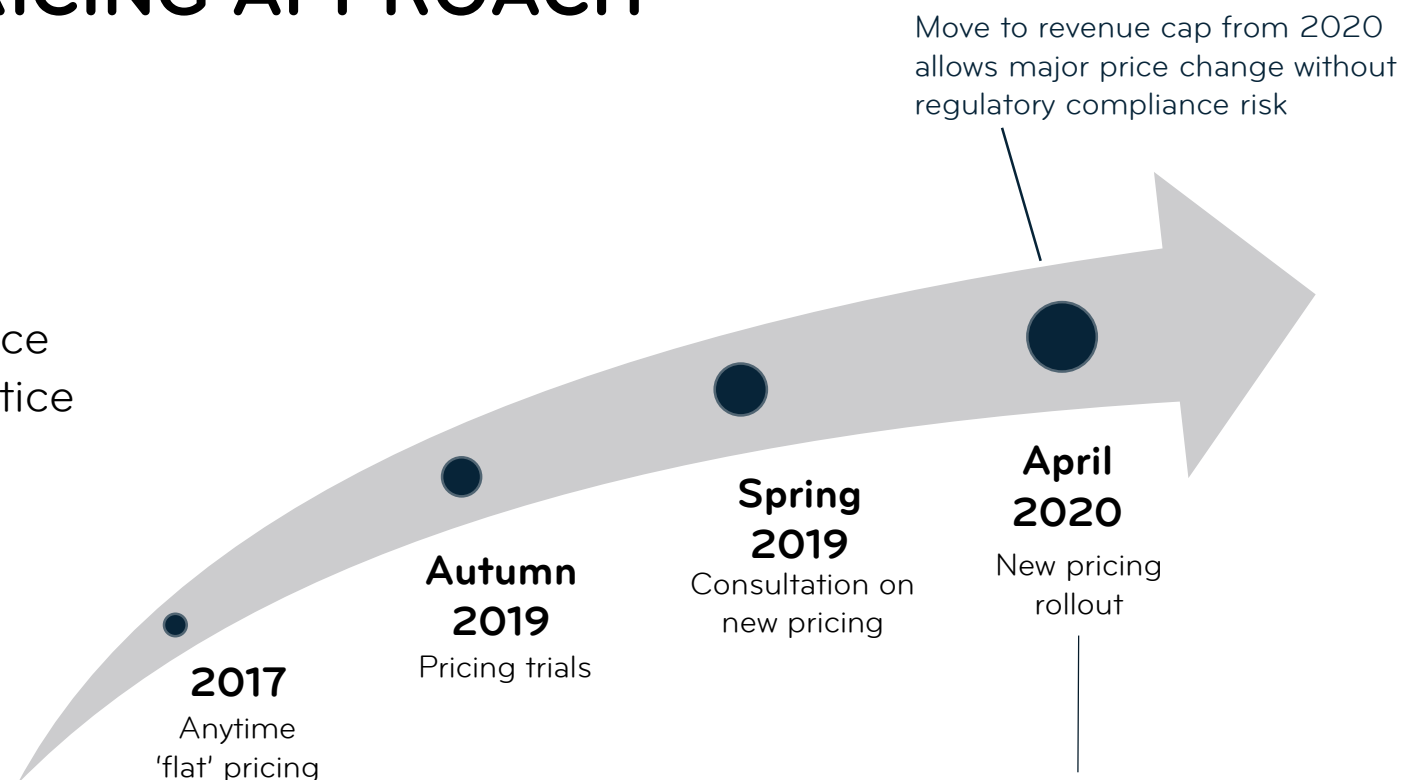
Our pricing reform journey is customer-led





Brattle Group engaged to provide expert advice and an international perspective on best practice

Partnering with retailers where possible

Participation in wider industry debate on pricing reform

Trialling important in ensuring new pricing meets customer expectations



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	✓✓✓	✓✓✓	✓✓	✓✓