

Distribution Pricing Roadmap

November 2021



INTRODUCTION

Vector provides electricity lines services to customers via its electricity distribution network covering the Auckland region. Vector recovers the cost of providing electricity lines services to:

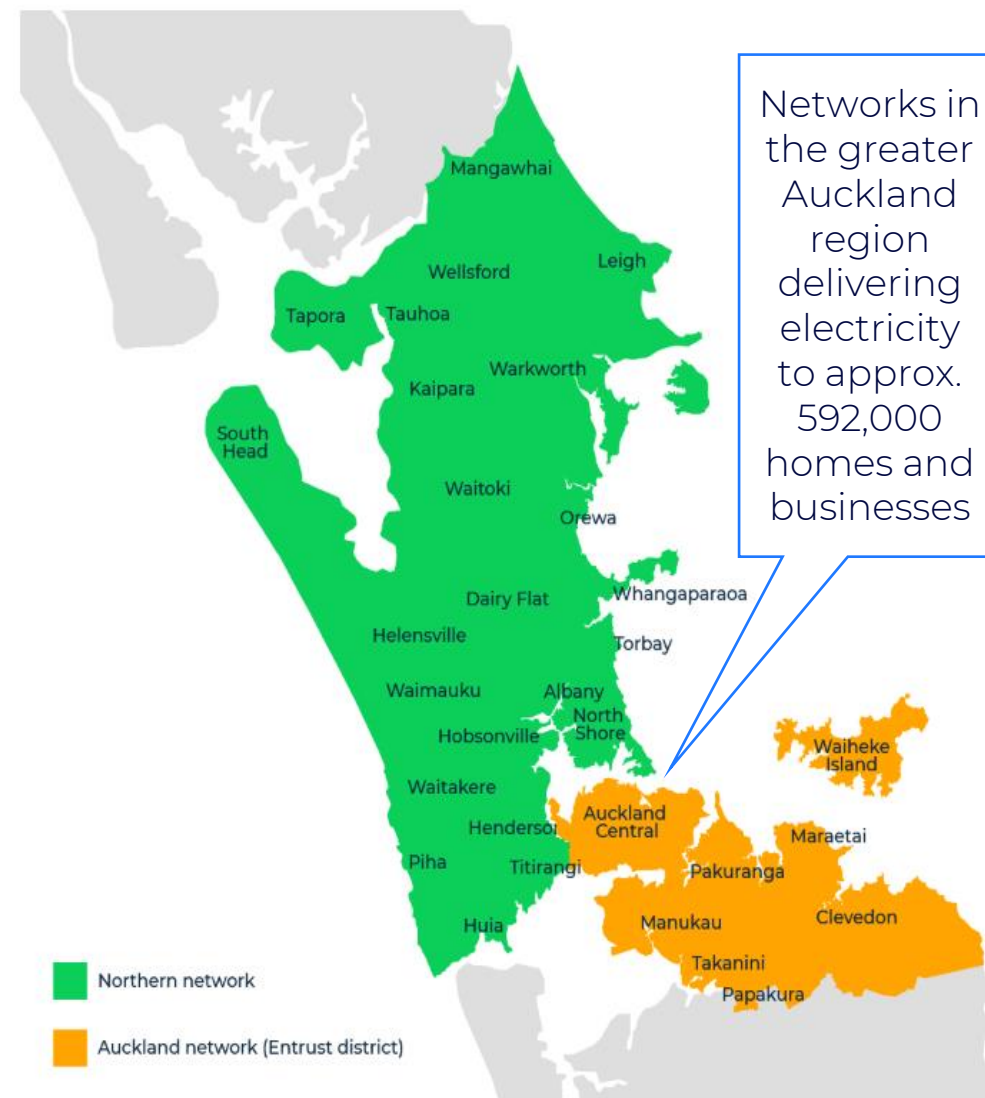
- existing customers through electricity distribution prices (lines charges), including published standard prices¹ and (in a limited number of circumstances) non-standard prices; and
- new or enhanced connections through capital contributions² (upfront one-off payment) as well as line charges.

Vector's asset management plan³ (AMP) sets out our view of the investments we believe will deliver the best outcomes given the uncertainty over future electricity demand.

¹ Pricing schedule available at <https://www.vector.co.nz/personal/electricity/about-our-network/pricing>

² Capital contribution policy available at <https://www.vector.co.nz/about-us/regulatory/disclosures-electricity/capital-contributions>

³ Asset management plan available at <https://www.vector.co.nz/about-us/regulatory/disclosures-electricity/asset-management-plan>



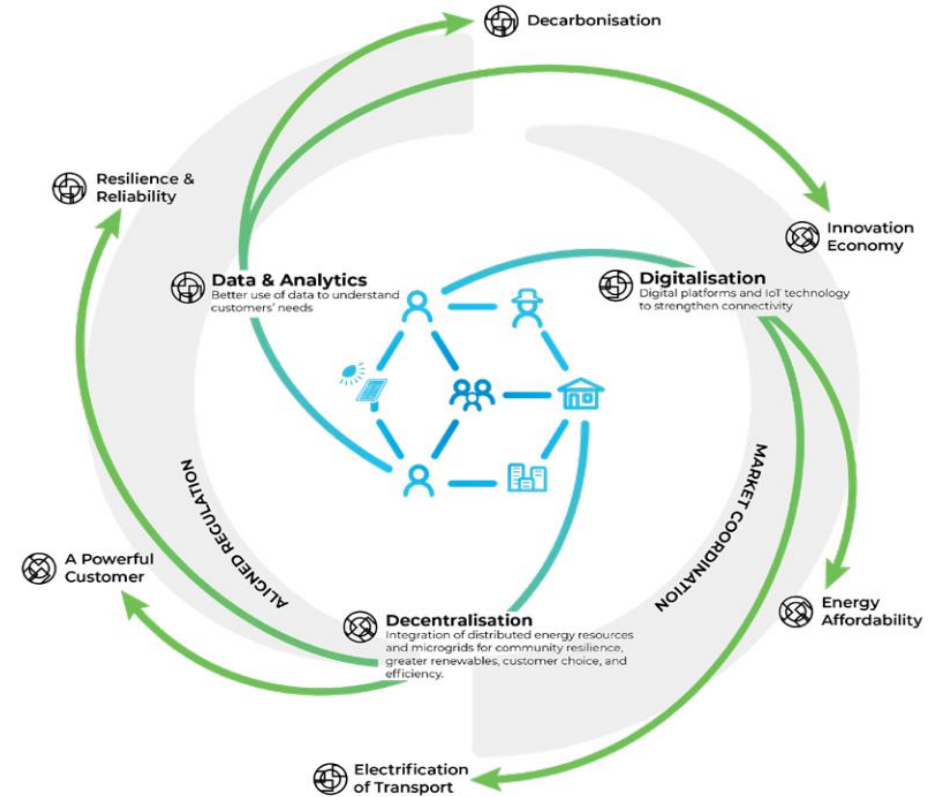
VECTOR'S SYMPHONY STRATEGY

Vector's Symphony Strategy is about creating a system for our customers that fits the future, delivering safe, cleaner, more reliable and affordable energy solutions that are developed with customers at the centre, and which helps us navigate future uncertainty.

Symphony is how we intend to transform the traditional poles and wires of the electricity networks serving the Auckland region into an intelligent energy system where customers have more choice and control.

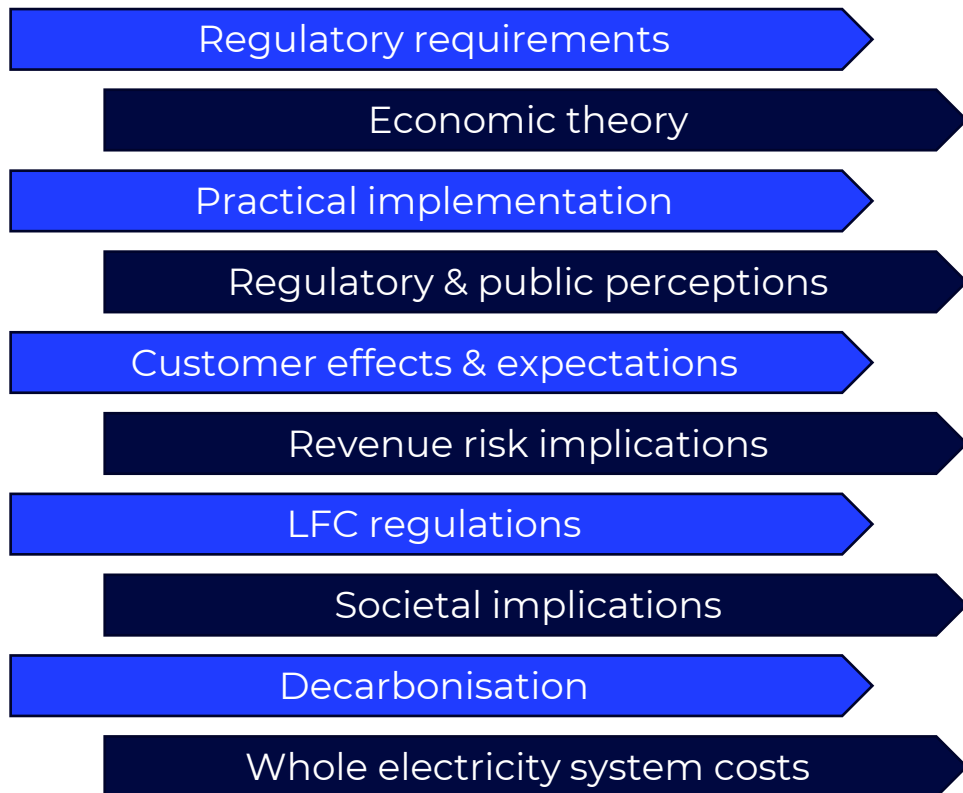
Supporting Symphony:

- Traditional assets
- New technology
- Digital assets
- Customer integration/choice and experiences
- Delivering value from data analytics
- Capital contributions
- Line charge prices



CUSTOMER-CENTRIC PRICING

Pricing is underpinned by consideration of:



Pricing structures need to satisfy customers and business needs:



Trade-offs between competing objectives:

- **Service based/cost reflectivity** – what is the customer purchasing, what drives Vector and customer investment?
- **Simplicity/acceptability** – could the customer understand the pricing, is it sufficiently predictable to be actionable?
- **Bill impact** – what are the customer-level drivers of their cost changes?

PRICING APPROACH



LOW FIXED CHARGE REGULATIONS

From 1 April 2022, power companies will begin a 5-year phase-out of low fixed charge tariff regulations. Removing these regulations will create a fairer, more equitable system.

<https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-consultations-and-reviews/electricity-price/phasing-out-low-fixed-charge-tariff-regulations/>

- Phasing-out the regulations will see the maximum low fixed charge increase gradually over 5 years until it is about the same as the standard fixed charge.
- Each year, the maximum low fixed charge will increase by 30 cents.
- The gradual increase will help minimise the impact of higher power bills on households paying the discounted low fixed charge.
- While the regulations set the maximum amount, power companies may choose to set lower rates for their low fixed charges.
- Vector will be sending out comms to our customers explaining the changes and to promote our hardship fund for those most impacted

2021/22 ROADMAP PROGRESS

Since our last roadmap we have:

- Engaged with retailers and other electricity industry participants on innovative pricing options
- Begun to obtain consumption and network data from retailers
- Started gathering cost and allocator inputs for review of Cost of Service Model
- Proposed to expand eligibility around controlled residential tariffs to include electric vehicles
- Proposed to transition to alignment between Auckland and Northern commercial tariffs
- Proposed new commercial tariffs for those that connect directly to Vector's zone substation and/or have paid for their connection assets to Vector's high voltage network
- Explored injection pricing to offset transmission line charges. Postponed due to uncertainty around TPM and how Vector will signal transmission price in the future
- Considered tariffs differentiating on data provision, but not pursued as consumption data is beginning to come in
- Updated capital contribution policy to include a development contribution towards the infrastructure that supports overall network growth
- Continued to integrate our learnings from our EV charging trial

See next slides for pricing reform out to 2023/24

November 2021 Roadmap

May 2021 Roadmap



PRICING TIMELINE

Roadmap	2019/20	2020/21	2021/22	2022/23	2023/24
Strategy					
Symphony Strategy for pricing		✓	✓	☐	☐
Capital contributions policy	✓		✓	☐	
LFC phase out			✓	☐	☐
Transmission Pricing Methodology				☐	☐
Government's decarbonisation objectives			✓	☐	☐
Allocations					
Cost of service model			✓	☐	☐
Alignment of tariff rates to cost allocation rates				☐	☐
EA's Practice Note approach				✓	☐
Regional pricing review				☐	☐
Pricing reform					
Mass market pricing reform	✓	✓	✓		
Peak time reward trial	✓				
EV charging trials		✓	✓	☐	
Pricing initiatives (see next slide)		✓	✓	☐	☐

PRICING TIMELINE (CONT.)

Roadmap	2019/20	2020/21	2021/22	2022/23	2023/24
Pricing initiatives					
Controlled residential tariffs			✓	☐	☐
Peak to off-peak differential and time periods for mass market tariffs				☐	☐
Pricing for private and public electric vehicles charging				☐	☐
Legacy pricing differences for commercial customers			✓	☐	☐
New commercial tariff for HV connections			✓	☐	☐
Embedded generation tariffs (distribution only)			✓	☐	☐
Tariffs differentiating on data provision			✓		
Interaction between power factor & injection				☐	☐
Pass through tariffs and structures			✓	☐	☐
Capacity constraint tariffs				☐	☐
Half hourly data distribution pricing equity analysis				☐	☐
Engagement					
Engagement with consumer representative bodies (Entrust, CAB)	✓	✓	✓	☐	☐
Continued dialogue with retailers on provision on consumption data	✓	✓	✓	☐	☐
Consumer insights into pricing part of our AMP disclosure process	✓	✓	✓	☐	☐
External factors					
Assess and review impacts of Covid-19 on pricing	✓	✓	✓	☐	☐