

Overall Rating 2.5/5

## Distribution pricing principles - Scorecard 2020: Vector

### Summary

Current State



Strategy



Outcomes



### Status - detail

Circumstance



Principles



Strategy



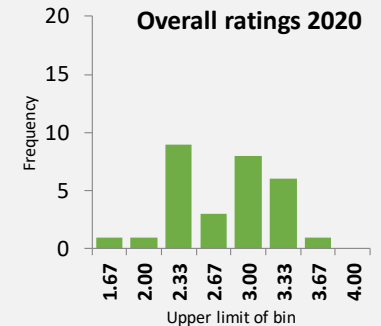
Roadmap



Efficiency



Consumer impact



### Current State

- Methodology would benefit from more information on network features and trends that are relevant to pricing design - for example, the extent that parts of the network experience very high utilisation, or new technology uptake.
- Pricing methodology is simple given size of and variation within the network; could expand on whether the resulting efficiency costs, if any, are reasonable.

### Strategy

- TOU pricing is now mandatory for mass-market consumers – first significant (outward) change to pricing from roadmap process.
- Does not have formal pricing strategy but seeks to evolve pricing, including by increasing the share of revenue from fixed charges, and while minimising rate shock (fair and tolerable) and risk to revenue recovery.
- Roadmap is non-committal, with further changes subject to LFC regulations.

### Outcomes

- The move to TOU pricing is possibly an improvement to pricing efficiency.
- Not clear that pricing for revenue recovery is 'as least distortionary as possible', given the ongoing heavy reliance on c/kWh pricing as a proportion of revenue.
- Much analysis and consultation on price structure, and paid attention to bill shock and changes being 'fair and tolerable'.

### Key messages

- To be congratulated for a clear and concise presentation of pricing methodology. The background work and testing completed as input into pricing strategy is also noted.
- Vector has raised access to retailer data as an ongoing issue. The Code was amended in July to include a default data template to give distributors access to historical consumption data on reasonable terms, and provide a standardised process of data exchange.
- As noted last year, the pricing methodology could explain whether the peak price signal – or ratio to off-peak prices – is efficient given: Vector's strategic intent for TOU pricing; its controlled load pricing; Vector's capital contributions policy; and localised capacity constraints:
  - Do peak rates reflect economic costs of network use?
  - If the role of c/kWh charges is mainly to recover revenue (given the constraints of LFC regulations), what might that mean for variable price ratios that are least distorting?

For scoring, see practice note and methodology at <https://www.ea.govt.nz/operations/distribution/pricing/>