Overall Rating 2.5/5

Distribution pricing principles – Scorecard 2021: Vector

Summary

Current state ●●◐○○

Strategy ●●●○○

Outcomes ●●○○○

Histogram of scores

Status-detail

Circumstance ●●○○○
Principles ●●●○○

Strategy ●●●○○
Roadmap ●●●○○

Efficiency
Consumer impact ●●○○○   N/A
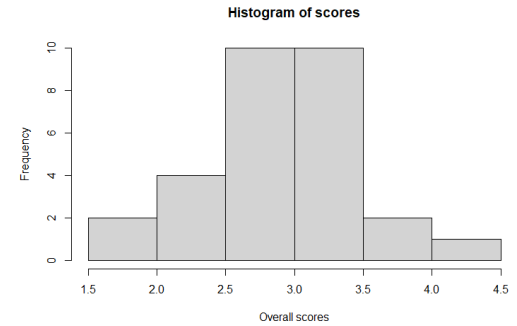
Current state
- Vector's methodology and roadmap are clear, but could be improved with information on network features and trends that are specifically relevant to pricing design. For example, can pricing help where parts of the network experience very high utilisation, or support new technology uptake?
- The pricing methodology would also benefit from a brief explanation why and how Vector's variable prices reflect the economic cost of network use, and its plans to ensure residual revenue recovery does not unduly influence consumer choices.

Strategy
- TOU pricing was made mandatory in 2020 for mass-market consumers following much analysis and consultation. Vector's approach now is to evolve pricing, including by increasing the share of revenue from fixed charges. Change is subject to LFC removal.
- Updated roadmap has a limited horizon but shows a busy programme for 2021/22, including review of cost of supply model, and investigation of various pricing innovations (including one to try overcome its concern about access to retailer data).

Outcome
- Vector's recent pricing changes is likely to have improved the efficiency of its pricing.
- But there is still a heavy reliance on variable charges (around two-thirds of revenue, for non-LFC consumers).

Key messages
- Vector has indicated it is comfortable that its pricing signals are about right, but it would be useful to see this assessment supported by analysis, and that otherwise any residual revenue is recovered in a least distorting manner.
- The Authority acknowledges that, in the May 2021 Roadmap, Vector indicates that they will do work this year on a number of areas that affect the efficiency of pricing, including:
  - review of peak to off-peak differentials and controlled load pricing
  - review the legacy pricing differences for commercial customers in the Auckland and Northern networks.

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

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