

Vector – Distribution pricing scorecard 2023

Overall score: 3.9/5



Current state:

Vector’s pricing approach and roadmap are well-defined. Its pricing design could benefit from further incorporating information on the network’s characteristics and circumstances. To improve its pricing methodology, Vector could explain the reasons and methods behind its variable pricing and outline how it intends to ensure that residual revenue recovery does not unduly impact customer decisions.

Strategy

Vector is developing a pricing strategy to create more cost-reflective price signals. The updated roadmap clearly outlines activities and timeframes. The Authority welcomes the progress and looks forward to seeing the results and how it links to the overall strategy. The Authority recognises that the previous roadmap was relatively ambitious and that most of the proposed actions have been achieved.

Key messages

The Authority acknowledges that Vector has reduced demand charges. We expect Vector will continue doing so in preference to reducing its capacity charge. We welcome the low off-peak charge.

The Authority is concerned about the method Vector uses to pass through transmission charges as it could create inefficient incentives, due to the transmission charge being allocated based on customer share of GXP energy. We look forward to engaging further on this topic.

We would encourage Vector to re-introduce a more substantial load control discount for its customers that is linked to the estimated cost consequences of their peak usage of the network.

Vector could improve its pricing methodology by providing additional information regarding the subsidy-free range, with detailed calculations of incremental and stand-alone costs. Vector has a sizable minority of its mass market residential customers still on a standard residential tariff, and not on a TOU tariff.

Outcomes:

The price differential between uncontrolled and controlled tariffs has reduced, and is significantly lower than the differential between peak and off-peak rates. This may result in inefficient price signals. Load control can act as an efficient alternative to network investment, with prices appropriately reflecting a different network service standard. Price differentials should be clearly linked to the estimated cost of usage. This would be consistent with the distribution pricing principles. By this measure, Vector’s load control discount appears likely to be too low.

We observe that Vector is recovering under 1% of its revenue through AMD charges, which is appropriate. We appreciate the increasing percentage of ICPs assigned to TOU pricing.

Although the methodology mentions some consumer impacts of the new pricing, those impacts need to be clearly identified and a discussion of their management would be useful.

Regarding the five specific expectations of progress shared in September 2022 in the Open Letter:

- Focus area 1: Future network congestion: Vector is actively considering the impact of future electrification in its network. Currently it is dealing with congestion through a separate DER tariff, peak vs off-peak band and setting TOU prices based on LRMC.
- Focus Area 2: First mover disadvantage: the FMD issue is mentioned in the recently updated roadmap.
- Focus Area 3: Transmission charge pass-through: Vector’s approach to pass-through is inconsistent with Authority guidance because transmission charges are recovered via a distribution charge that varies depending on the extent of the customer’s energy use. Such an approach could create inefficient incentives for customers. The Authority acknowledges the willingness of Vector to make a transition towards passing those charges through in a fixed manner.
- Focus Area 4: Phase-out of low fixed charge regulations: Price methodology follows guidance for the phase-out of the LFC tariff.
- Focus Area 5: Recovery of fixed costs: Although there is a heavy presence of demand charges, the Authority recognizes that they have been halved. The use of fixed charges, in general, has increased. Rollout of TOU prices provide incentives for off-peak usage.