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Q1	**Do you agree that distributors need to reform their prices? What is the reason for your answer?**	Agree. Our costs are mainly fixed but our revenues fluctuate significantly due to climatic conditions that influence the level of irrigation demand for energy.
Q2	**How important and urgent are the issues identified by the Authority?**	<u>Distributed Generation (DG) and Electric Vehicles (EV)</u> We have low penetration rates of both DG and EV on the network. The amount of DG being consumed on-site therefore displacing distributed volume is minimal at present. This would change if battery storage of DG became widespread, but the economics of such an installation are presently marginal at best. EV charging is presently not an issue. We are projecting only modest growth in numbers over the next year or two. The pricing matters are important, but the issues raised by the EA are not of an emergency nature. Congestion pricing concerns us, as in practice, it becomes an income stream that is not covering any real cost directly associated with the contingency. Furthermore, it basically comes down to a short run marginal price covering a long run marginal cost and it gives a signal to consumers where many consumers cannot respond to that signal. We are of the view that without real-time smart meter data congestion pricing will not be effective. Furthermore, congestion pricing assumes that traders will pass-through congestion signals. This might not necessary happen due to systems and processes not in place which could still cause investment in network capacity irrespective of congestion pricing.
Q3	**Do you agree with the proposed Distribution Pricing Principles?**	From NWL's perspective: • Subsidies will arise because of the LFC regulations, but we note clause (a)(i) only refers to "legislation". We assume that mean that the LFC is not a reason for cross-subsidisation. In NWL's case 32% of consumers are on the LFC. We note the EA's view that a capacity or demand charge are also variable in nature. If this is correct, then without smart meter data any demand related prices will be based on assumptions. The only other avenue we have is a contractual capacity charge. We are concerned about the legal compliance to the LFC regulations of replacing a kWh charge with an installed capacity charge. An industry legal opinion on this will be

		necessary. • NWL does not believe that location-specific prices are a sound way to charge in the Waitaki supply area. It will be not easy to justify to a consumer that even though he or she is located close to generation that they need to pay a lot more than a consumer on a similar price plan located in town. Furthermore, we are of the opinion that for regional growth reasons discriminating among consumers as a result of their location will not be in the region's best interest. We recognise the counter argument that a consumer hard-hit by a location price might decide to invest in off-grid technology as it becomes more economic which will save the need for network investment - especially if it is a small consumer. However, the price difference will be substantial, and it will mostly affect small consumers that will not be necessarily interested in off-grid solutions. NWL is supportive of equal treatment of users in its community.
Q4	**What, if any, changes would you recommend are made to the proposed Distribution Pricing Principles, and why?**	(a)(i) We note by removing reference to regulation, this states that Low Fixed User Charges (a regulation) can be resolved without subsidy. It also appears to elevate the pricing principles to above regulation in the legal hierarchy. We are of the opinion that it will always be necessary to comply with regulation. We are not sure the reference to regulation can be removed. (a)(iii) Further to the response in Q3 we do not agree with setting a principle on location-based pricing. Location close to or far away from a substation was not requested by any consumer, it is a result of choices made by the electricity industry, and any distance related costs should be averaged to supply all consumers with the service they requested. It is the fairest solution to consumers to average out most of the cost of an EDB to prevent discriminatory charges to consumers (too high or too low) because of historic and industry specific decisions to which the EDB had been locked into when providing a connection. We suggest rewording the principle to something that can be achieved. Reworked *(iii) being time and location-specific to the extent allowed for by the data available and circumstances* (b)(i) Minor change. At the moment it reads "that least … reflect the value that users derive…." *(i) where prices based on efficient incremental costs would under-recover allowed revenues, the shortfall should be made up by prices that least distort network use and/or best reflect the value that users derive from the network;* (b)(ii) Under a capped revenue model, if one consumer pays less, someone else will pay more. If prices are structured according to principle (a) then there should be nothing remaining to negotiate with regard to reflecting

		economic value. Unless of course, the consumer has something unusual in their consumption profile or use of the network that has not been catered for in standard pricing. Negotiation should be allowed for, but this ought to be the exception in our view. Reworked: *(ii) allowing for negotiation where standard pricing does not reflect the way a specific consumer places cost upon the network. Negotiated prices may be higher or lower than standard prices, and may be structured differently, once the individual circumstances have been factored in.* (c) Cannot guarantee transparency in a negotiated price. By its nature, negotiation will involve sharing of information in a commercial-in-confidence basis. Reworked: *The application of these principles should be transparent and predictable where they apply to published prices. Any prices negotiated for a specific consumer must adhere to the same principles unless there is agreement otherwise, with any exceptions and their reasons being recorded.* (d) What is "unreasonable"? A trader's point of difference might be to not install smart meters. This makes them acceptable to a portion of society that believes a smart meter is one surveillance step too far. Requiring smart meter data from this trader (e.g. peak demand) would be unreasonable as it would destroy their business point of difference. Principle (d) therefore requires us to either adopt a lowest common denominator approach or offer legacy plans. Reworked: *Price plans should not place unreasonable costs and requirements, including transaction costs, on retailers or other consumer agents. Each plan should be economically equivalent across those retailers and other consumer agents able and willing to provide the data required for that plan.* (e) "*Consumers should be able to know or predict prices*". We publish our prices on the website and print them in the newspaper, but this has no relationship to what will appear on the power bill of a consumer. However, we assume that this principle refers to the distribution price portion only. Reworked: *Prices that vary over time should be known or predictable in advance.* Tariffs Finally, we note the steps in Figure 5 use the word "tariff" in several places. The EA has elsewhere tried to expunge the word "tariff" from the industry because of negative connotations. Here, it is stating a process

		that explicitly uses it. We suggest replacing the term “tariff” with “price plan” throughout.
Q5	**What if any changes would you propose to the star-ratings to better reflect the relative efficiency of distribution prices?**	The rating mechanism could be seen to have the motive of “naming and shaming”. In NWL’s view all EDBs realise the importance of changes to price structures. However, it is not that simple to change price structures overnight. NWL is of the opinion that measuring EDBs through star-ratings will not be that meaningful except maybe to force EDBs that score poorly to move quickly in directions that might not be to the best interest of society in terms of transaction cost on pricing structures that are not durable. An alternative is for the EA to continue the current dialogue with distributors which we at NWL appreciate, to monitor progress on road maps, and to follow-up at a high level where there is no progress. In addition, support price structure alignment through continuous communication with consumer entities so that the message to consumers about price structure changes is consistent and persistent and not a surprise when EDBs make price structure changes.
Q6	**How long do you think distributors would reasonably need to introduce the different price structures discussed above**	We have modelled pricing under a scenario containing access, capacity and peak volume charges, with the latter assessed at reconciled balanced GXP volume levels because of the absence of detailed consumption data. We have moved some way towards an appropriate mix for capacity/volume charging for non-regulated consumers. The intention of this is to minimise the bill shock for affected customers as far as possible. In our case, we envisage a timeline of approximately five years over which to smooth capacity/volume charging to reduce bill shocks. The rate we can apply change to regulated consumers also depends on the fate of the LFC regulations. The reason why we consider this a roadblock is discussed below. We are aware of the EA’s opinion that the LFC regulations are not a hindrance. We also note that the recent MBIE review raised the possibility that the LFC regulations are not achieving what it was originally intended for.
Q7	**Can you illustrate how and to what extent the LFC regulation hinders price reform?**	There is one main hindrance, being the lack of definition of “variable”. The EA commentary on how it views “variable” is relatively untested. There is corporate risk in taking full reliance on this commentary, as such reliance would not provide a complete defence in Court. In the absence of a legal definition of “variable”, we have taken the view that common sense should prevail: *If the consumer can take an action that will reduce some aspect of their power bill, and the cost of taking that action is not out of proportion to the saving, then that aspect of the power bill is variable.* The savings referenced above must be for the consumer i.e. appear as a reduction in the power bill. The savings however will be passed to the retailer. There is an

		implicit assumption that the retailer will pass any reductions on to the consumer, but there is no ability to enforce this[1]. We know that all regulated plans in our area have a volume component, so the act by the consumer of decreasing volume (e.g. by turning off a switch) has a direct reduction in the power bill. Volume is clearly variable. If we defined a peak demand charge or a capacity charge as variable, it would be practical for the consumer to do something to reduce these. They could turn off a switch at peak times (provided that they knew when the peak times were) or they could arrange a lesser capacity. However, for these to be variable within the LFC context, the change has to have an effect on the power bill. It is not sufficient for us to reduce our charge and for this to benefit the shareholders of the retailer because the change is not passed through to the consumer. There must be a mechanism for the saving to reach the consumer and the saving must relate in proportion to the effort taken. Unless the consumer taking the action has a consequence of reduced power bills, the related price component is not variable. The only variable component we have at our disposal is volume. A final complication for LFC is the proposal in appendix D.7 to scale star ratings downwards if fixed revenue does not match fixed cost. LFC revenue cannot be defined as fixed (after the first 15c per day) by definition, meaning that a LFC capacity-based charge has to be "variable" or it is not allowed. We propose that a definition of "variable" needs to be included in the Regulations, with these then making it clear that in interposed arrangements this variability affects the pricing from distributor to retailer, and it is up to the retailer how this is presented (if at all) to the consumer.
Q9	**What, if any, would be better indicators of the efficiency of distribution prices, or the ambition of and progress being made by distributors on their price reforms?**	We do not think that a star-rating will add that much value except to put some EDBs in a bad light that may have legitimate reasons for not being at a point with their price structures as expected by the EA. We are of the opinion that the template road maps should provide a good indication of progress. The EA will be in a position to note where progress is lagging and to follow-up in those cases. There also should be recognition that regardless of how well distributors do at this, that the effect on consumer behaviour depends on the retailer. NWL has found the visit by Electricity Authority staff in February 2019 very useful. It was important for us to explain where we are at and what our challenges are. We also appreciated the input from the Electricity Authority. We are of the opinion that this is a good approach and that the Authority will quickly come to an informed view on the ambition of individual distributors to achieve appropriate pricing structures.

[1] MBIE Electricity Price Review 2018-2019 First Report page 39 references a similar situation "one distributor advised us that some retailers did not pass on an 8.8 per cent reduction in distribution charges that took effect from 1 April 2018, despite receiving more than three months' notice of the change"

Q10	**What assistance could the Authority (or other stakeholders) offer distributors in order to speed up the reform process, or help to remove or reduce barriers to distribution price reform?**	Resolve the inconsistency that the LFC regulations pose in terms of the use of fixed charges. Access to metering data. We understand the concerns from retailers around Privacy Act consideration. Clarification in the Code to define a set of data that must be made available by retailers to distributors where available, if requested and if required to support their published price plans, together with rules surrounding the Privacy Act and compensation, would be useful.