Notes to editors

Electricity Price Review

The Electricity Price Review (EPR) was established by the government in 2018 to investigate whether the electricity sector was delivering fair and equitable prices to consumers. The EPR's final report in 2019 found that the low fixed charge regulations are poorly targeted and result in a number of unintended consequences, such as shifting costs to households with low incomes and high electricity use. It recommended the low fixed charge tariff regulations should be phased-out over a period of five years.

What are fixed charges?

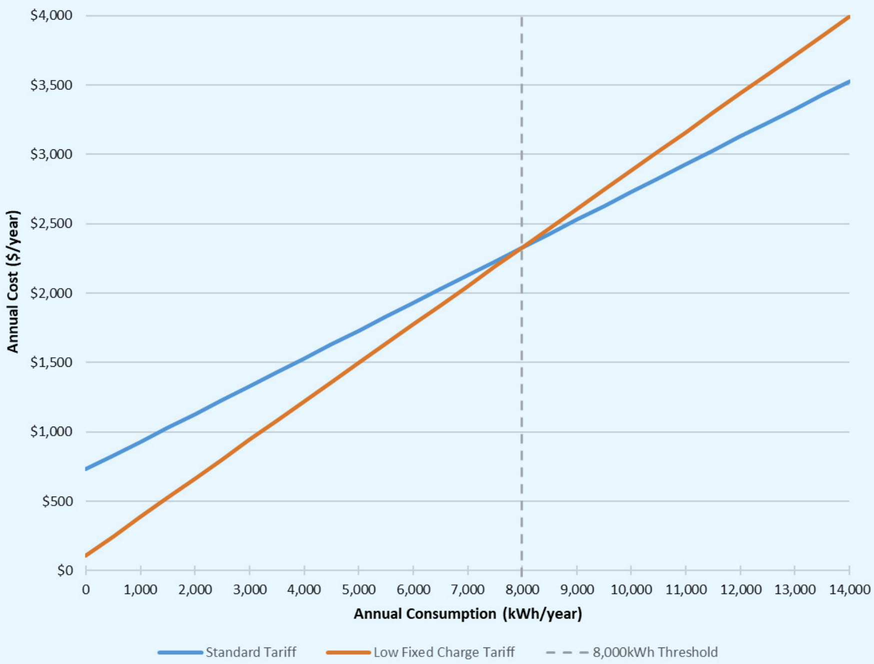
The fixed charge component is designed to cover the fixed costs (i.e. not dependent on how much electricity is used) associated with delivering electricity to households, such as the costs of maintaining and upgrading lines, as well as metering. This is charged at a flat daily rate.

What are the low fixed charge regulations?

The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 were introduced with the aim of making those who use less than the average amount of power (8,000kWh/year or 9,000kWh/year in the lower South Island) better off. They were introduced in response to concerns about the impact of rising power prices on low-income groups.

The regulations require that, for each standard residential tariff option they offer, retailers must also offer residential consumers a low fixed charge tariff equivalent that has a fixed charge component of no more than $0.30/day. To ensure that only those using less than the average amount of power could benefit from low fixed charge tariffs, the regulations set out that the variable charge (the unit cost of electricity used) should be set so that a household using 8,000kWh/year of power (or 9,000kWh/year in the lower South Island) would pay the same on a low fixed charge tariff as it would on a standard tariff. This means low fixed charge tariffs have a much higher variable charge than standard tariffs. This is demonstrated in the graph below.

COMPARISON BETWEEN ANNUAL BILLS OF STANDARD-USE AND LOW-USE PLANS



Graph based on MBIE analysis, costs are illustrative only.

Distribution pricing reform

The low fixed charge tariff regulations make it harder for the electricity sector to introduce new distribution pricing structures. Distribution pricing reform would allow for more cost-reflective pricing, such as Time of Use pricing, which would help efficiently manage the load on the network at peak times by discouraging non-essential electricity use when demand is high, such as winter evenings. Managing the load this way will help the sector avoid costly network upgrades to increase network capacity, in turn keeping down costs passed on to consumers. This will become increasingly important in the future as electricity demand grows. Cost-reflective pricing structures are already being introduced but the low fixed charge tariff regulations are limiting these efforts.

How will the phase-out work?

Under the current regulations the low fixed charge is capped at $0.30 a day.
From 1 April 2022, the maximum low fixed charge will increase by $0.30 on 1 April each year until 2027. At this point, the regulations will be removed and electricity retailers will no longer be required to offer a discounted rate for low electricity users, however they may choose to continue to do so.

Power credits scheme

Industry has committed $5 million for a power credit scheme to support households struggling with power bills adversely affected during the phase-out. Government is working with industry to develop the details of this scheme. The scheme is subject to assurance it will be compliant with competition law.

The power credits scheme will complement existing government initiatives to support low-income households keep warm and dry and lower their power bills.

Visit **www.mbie.govt.nz/lowfixedcharges/support** for more information.

Government support for reducing electricity costs

- **Winter Energy Payment** of between $20.46 and $31.82, each week, during the coldest months of the year to help New Zealanders meet increased winter heating costs.
- Budget 2021 - **main benefit rates to rise** by between $32 and $55, with a particular focus on ensuring New Zealanders can pay the power bill.
- Budget 2021 - **extension of Warmer Kiwi Homes** programme to provide an extra 47,700 insulation and heating retrofits for low-income homeowners.
- **$30 million to increasing the Healthy Homes Initiative**, which works to help vulnerable households achieve warmer, drier and healthier homes.
- Ministry of Social Development **special needs grants** to help with cost pressures.

Other government initiatives prompted by the Electricity Price Review include a $17 million four-year package including:

- the **Support for Energy Education in Communities (SEEC) Programme** providing households with specialist advice to achieve warmer homes and lower energy bills;
- the **development of an agreed definition of energy hardship and associated indicators**; and
- the establishment of **an Energy Hardship Expert Panel**, **Energy Hardship Reference Group** and the **Consumer Advocacy Council**.