What's the problem?

Some households are paying more for a connection to the electricity network than other households. Households who use more power are, in effect, cross-subsidising households that use less power. Those paying higher charges include larger families and vulnerable consumers who live in uninsulated homes and can't afford energy efficient appliances or technologies. This can:

Create an undesirable incentive for income-constrained households to under-heat their homes to save money, which can have knock-on health and education issues, especially for children;

Increasingly favour wealthier consumers over the longer-term as they can afford the capital investment in solar, efficient lights, insulation and the like. This will increase the cost-shifting from wealthy consumers to less-wealthy consumers;

Frustrate the uptake of the electric vehicles which is arguably the best opportunity to de-carbonise our economy;

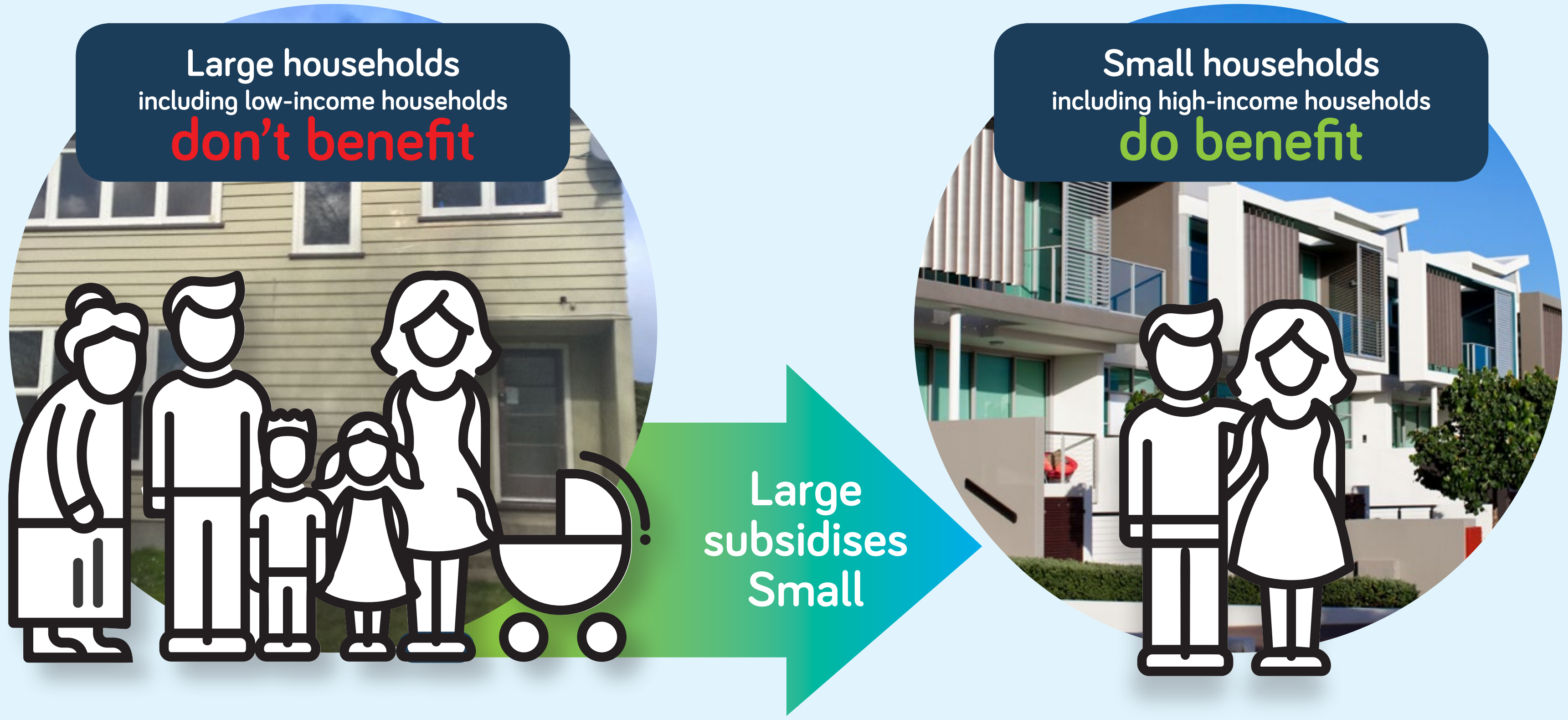
Give an unintended cost advantage to dual fuel customers (eg. gas) – which runs against the drive to increase the renewable energy profile in New Zealand; and

Increase the complexity of tariffs and double the number of tariffs on offer, increasing costs for retailers and ultimately consumers, as well as making it more difficult to understand electricity pricing.

These problems are being caused by regulations called the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. Commonly known as the *low fixed charge.*

The electricity sector is united in asking the Government to remove the low fixed charge regulations.

Who benefits from the low fixed charge?



Large household

typically around $2.00 per day

Standard daily fixed charge
For usage of more than 8,000 kWh per year

Meets around 33% of network costs

Small household

30c per day

Low daily fixed charge
For usage of less than 8,000 kWh per year

Meets only 5% of network costs

What do the Low Fixed Charge regulations do?

They require retailers to offer domestic consumers low daily fixed charge tariff options of no more than 30c per day (excluding GST).

Who is eligible?

Any residential consumer at their principle place of residence can choose a low fixed charge option. It is aimed at residential consumers using less than 8,000kWh per year (or 9,000kWh per year for consumers in the lower South Island), but anyone can choose to be on the low fixed charge (although it might not always be the best deal for them).

But surely only a minority of households use less than 8,000 kWh a year?

With average household consumption in 2017 being just over 7,000 kWh, approximately 60 percent of households meet the eligibility criteria for the low fixed charge, meaning the majority of households fit within the definition.

What problems do they create?

Some households are paying more for a connection to the electricity network than other households. Households who use more power are, in effect, cross-subsidising households that use less power. Those paying higher charges include families and vulnerable consumers who live in uninsulated homes and can't afford energy efficient appliances or technologies.

This can favour wealthier consumers who can afford to invest in solar panels, efficient lights, insulation and the like. This will increase the cost-shifting from wealthy consumers to less-wealthy consumers.

If some customers pay less than their share of network costs, then other households need to pay more.

But shouldn't higher users pay more?

Yes and no. There is a fixed cost for the infrastructure of the network that doesn't change. Grid connection or lines costs are largely fixed, meaning they do not vary depending on how much electricity is flowing through lines. That cost is the same whether you are a high user or a low user. All things being equal, a customer in any single town or city should be paying the same amount for their lines connection as their neighbour, regardless of energy consumption (measured in kilowatt hours).

Because the low fixed charge introduces a cross-subsidy between customers, a 'good deal' for some customers becomes a 'bad deal' for other customers. It is unfair and inequitable.

Does the low fixed charge cover fixed costs?

The low fixed charge limits the ability to use fixed daily charges to recover fixed costs.

In reality, the actual fixed costs of the infrastructure can be over $2.00 per day for typical residential users – the low fixed charge regulations mean that users who qualify cannot be charged more than 30 cents per day to cover these costs (15 cents of which goes to the lines company and 15 cents to the retailer). The 15 cents per day of the fixed charge that goes to the lines company contributes less than five percent to the actual cost of providing and maintaining the local lines network for that customer.

Does it help people on lower incomes?

Yes and no. Some low-income households are low users of electricity. However, there are many low-income households that use more than 8,000 kWh a year. These include larger families living in homes with no other energy source (eg, gas, solar, wood-burners) and which are poorly insulated.

These households are worse off, as they are subsidising the electricity supply costs of smaller families who live in well-insulated modern homes with energy-efficient modern appliances.