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Phasing-out low fixed charge tariff regulations

All households have to pay a daily fixed charge as part of their power bill. This goes towards covering the costs of distributing electricity and maintaining the national grid.

What's the problem?

Since 2004, power companies have been required to offer customers the option of a low-use electricity plan where the fixed charge is no more than 30 cents a day. This requirement was designed to help low-use, low-income households.

Houses have become a lot more energy efficient since then, and now about 68% of households can take advantage of the low fixed charge.

Households on standard-use plans face much higher daily fixed charges. These households tend to use more electricity. This can be because they have a large family, their home isn't well insulated, or they can't afford energy-efficient appliances or solar panels.

With more households now moving to low-use plans, it leaves fewer on standard-use plans to cover the costs of maintaining the grid.

Low-use plans also come with a higher rate for the actual power used.

This causes some people to under-heat their homes to save on power bills, which can harm their health and wellbeing.

New Zealand's electricity is largely generated from renewable sources, making electricity a better choice for the environment. Moving to more electric-powered technologies will reduce emissions and help achieve our climate change goals. But the low fixed charges discourage people from switching to electric vehicles or using electric forms of heating like heat pumps, while incentivising people to use gas or wood-fires in the home.

What's the solution?

The government is phasing-out the requirement to offer low fixed charges over the next five years. After this, power companies will no longer be required to offer a low fixed charge and can offer new pricing plans. However, some may voluntarily continue to offer some form of discounted daily fixed charge for low-use households.

People should shop around to find the best electricity plan for their household.

How will it affect households?

Removing the low fixed charge regulations will create a fairer, more equitable system.

It will also have longer-term benefits for all Kiwi households.

This is because once the regulations are removed, power companies will be able to more easily offer pricing plans that can help manage peak periods of electricity use. Power companies will then be able to avoid costly network upgrades, keeping overall prices lower for consumers.

During the phase-out, about 970,000 households (60%) should see lower power bills as the rate they pay for electricity used is expected to go down. This should include all households on standard-use plans and households on low-use plans using more than about 6500kWh of electricity a year.

About 690,000 households (40%) are expected to have higher power bills during the phase-out. These are households with low electricity use, including smaller households, energy-efficient households, and homes with solar panels. While the rate they pay for electricity used is expected to go down, their daily fixed charge may increase by up to 30 cents each year of the phase-out, until it is about the same rate as those on the standard-use plan.

How will the phase-out work?

From 1 April 2022, the maximum daily charge for those on a low-use power plan will go up by 30 cents. The maximum daily charge will increase by another 30 cents on 1 April each year until 2027. At this point, power companies will no longer be required to offer a discounted rate for low electricity users.

While there will no longer be a requirement for power companies to offer low-use plans some may choose to continue to do so.

Help for those who need it

Anyone struggling with their power bills or who has questions about their pricing plan is encouraged to contact their power company in the first instance. There may be a better pricing plan for you.

A power credits scheme is being set up to help support some low-use households during the phase-out. The details of this plan are still being developed, but it will operate in a similar way to the power credit scheme in 2020 to support households impacted by the COVID-19 pandemic.

More information will be available over the next couple of months on the MBIE website at: www.mbie.govt.nz/lowfixedcharges/support

There are also existing government programmes to help people with their energy bills:

The Winter Energy Payments is available to people receiving NZ Superannuation or a number of other benefits, to help with energy bills over winter.

<https://www.workandincome.govt.nz/products/a-z-benefits/winter-energy-payment.html>

The Warmer Kiwi Homes Programme covers 80% of the costs of ceiling and underfloor insulation and efficient heaters for eligible homeowners.

<https://tools.eeca.govt.nz/warmer-kiwi-homes-tool/>

For free budgeting advice, support and online resources, visit: <https://www.govt.nz/browse/family-and-whanau/financial-help-for-your-family/getting-help-budget/>

Electricity retailers following the Electricity Authority's voluntary Consumer Care Guidelines will proactively work with their customers facing payment difficulties to help them access and afford a constant supply of electricity to meet their household's needs.

Under these Guidelines, consumers can also nominate a support person to help them work through issues relating to their electricity supply with their retailer. Retailers should also make information easy to access and provide advice to help them make informed decisions about the best options to meet the needs of their household. All electricity retailers are expected to be following the guidelines by the end of the year at the latest.

Read more at: www.ea.govt.nz/consumers/what-are-my-rights-as-an-electricity-consumer/consumer-care-guidelines/

For more information visit
www.mbie.govt.nz/lowfixedcharges

