MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Dr Megan Woods	**Portfolio**	Energy and Resources
Title of Cabinet paper	Phase-out of the low fixed charge tariff regulations	**Date to be published**	28 October 2021

List of documents that have been proactively released		
Date	**Title**	**Author**
September 2021	Phase-out of the low fixed charge tariff regulations	Office of the Minister of Energy and Resources
1 September 2021	Phase-out of the Low Fixed Charge Tariff Regulations CBC-21-MIN-0083	Cabinet Office
September 2021	Regulatory Impact Assessment: Phase-out of the Electricity Low Fixed Charge Tariff Regulations	MBIE

Information redacted **YES / NO**

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Coversheet: Phase Out of the Electricity Low Fixed Charge Tariff Regulations

Advising Agencies:	Ministry of Business, Innovation and Employment (MBIE)
Decision Sought:	Cabinet agreement to phase out low fixed charge tariff regulations over a three year period
Proposing Ministers:	Minister of Energy and Resources

Section A: Summary of Problem and Proposed Approach

Problem Definition: What problem or opportunity does this proposal seek to address? Why is Government intervention required?

The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 were intended to assist low-use households with their electricity costs and to encourage consumers to conserve electricity.

In 2019, the Electricity Price Review (EPR) recommended that the regulations should be removed. Building on the findings of the EPR and supported by extensive stakeholder engagement and additional analysis, MBIE proposes that the regulations should be removed as they:

- limit options for distribution pricing reform as they constrain the ability of distributors to rebalance their tariffs to be more cost-reflective and bring significant long-term benefits for consumers;
- distort consumers' investment decisions, in particular leading to under-investment in electric vehicles and over-investment in solar panels, creating a barrier to an efficient transition to a low-emissions economy; and
- have unintended welfare consequences, particularly for low-income households that are low electricity users, as the high variable charge component of low-use tariffs can discourage the adequate heating of homes during winter.

Summary of Preferred Option or Conclusion (if no preferred option)

How will the agency's preferred approach work to bring about the desired change? Why is this the preferred option? Why is it feasible? Is the preferred approach likely to be reflected in the Cabinet paper?

MBIE's preferred option is to remove the low fixed charge (LFC) tariff regulations. This option is preferred over other approaches, which include maintaining or modifying the regulations, as they prolong a situation in which benefits to low-use consumers are largely offset by continued detrimental impacts on other consumers. Other environmental and economic disadvantages could also be avoided.

MBIE recommends that the regulations are removed through a phase out to be completed over a period of five years starting from 1 April 2022, as suggested by the EPR. Phasing out the regulations over a five-year period strikes a good balance between encouraging electricity pricing reform while limiting any potential bill impacts on low-use households. Additionally, a $5 million "Power Credits" scheme, funded by electricity distribution

businesses and the major retailers, will be implemented alongside the five-year phase-out to further support low-income, low-use households which may be adversely impacted.

The preferred option will be consistent with the option recommended in the forthcoming Cabinet paper.

Section B: Summary of Benefits and Costs

Who will be the main expected beneficiaries and what is the nature of the expected benefit?

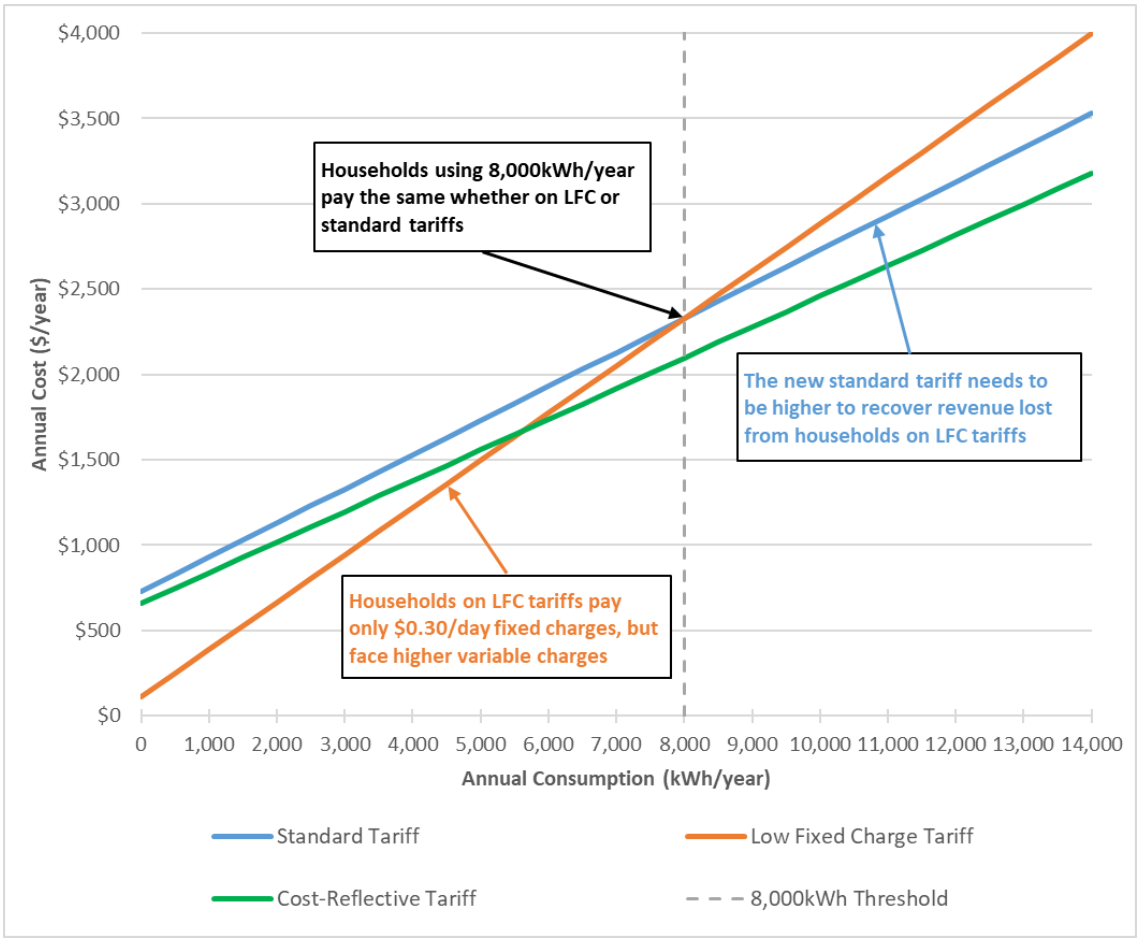
The main monetary benefit is expected to fall on all households currently on standard tariffs and households on LFC tariffs which use over ~6,500kWh/year of electricity – which makes up approximately 970,000 households or almost 60 per cent of all households in New Zealand. This figure includes roughly 270,000 households from areas of high deprivation. This is due to the fact the LFC operates as a cross-subsidy with standard tariff households subsidising the network costs of households on LFC tariffs.

The regulations require that retailers offer residential consumers a low fixed charge tariff equivalent for each standard residential tariff option they offer with a fixed charge component of no more than $0.30/day (excluding GST). The result of under-recovering network and other fixed costs from households on LFC tariffs is that retailers need to recover these costs from households not on LFC tariffs, artificially increasing costs for them. This is demonstrated in Figure 1 below. A detailed explanation of what low fixed charge tariffs are and how they work is outlined on page 10.

As outlined in Figure 1, in the absence of the LFC regulations all households in New Zealand would be on a more cost-reflective tariff, represented by the green line. The regulations introduced the need for retailers to offer a LFC equivalent of this tariff, as represented by the orange line. Households on this tariff pay a lower daily fixed charge but face a higher variable charge so that higher use households, using above 8,000kWh/year, would not benefit from being on an LFC tariff. Because retailers are now under-recovering fixed network costs from households on the new LFC tariff they need to increase the cost of the standard tariff, represented by the blue line in Figure 1. The increased costs households pay on the new standard tariff (red) subsidises the network costs of households on LFC tariffs. It was estimated that the total subsidy transfer is around $170 million per year.[1]

[1] Concept Consulting, (2017) 'The Low-Fixed Charge Regulations: History, Impact, Alternatives – Presentation to the Productivity Commission', p. 36

Figure 1: *Illustrative Effect of Introducing a Low Fixed Charge Tariff Option*



Source: *Concept Consulting, 2017*

There will also be a long-term monetary benefit for all consumers in removing the LFC regulations by allowing the industry to more easily adopt cost reflective pricing. Consumers will be given greater incentives to save power through demand response, shift to low emissions technology and invest in flexible storage technology. Wind and solar generation is intermittent and cannot be scheduled. Flexibility of demand achieved through changing usage patterns or investment in flexible storage technology such as batteries can help balance supply and demand, and supports increased investment in intermittent renewable generation. It can also provide incentives to shift new demand, such as electric vehicle (EV) charging, to off peak periods which could reduce network and generation costs, and emissions associated with meeting daily peaks in demand through fossil fuel generation.

The main non-monetary benefit in removing the LFC regulations will be the reduced pricing complexity faced by consumers. A large number of consumers find the LFC arrangements confusing, with some opting for the appeal of a 'low' tariff even when it leads to overall higher costs of use. Analysis shows that, despite the need for retailers to provide advice on whether or not an LFC tariff is suitable, a considerable number of consumers are presently on the wrong plan. Removing these regulations will make it easier for consumers to compare tariffs, helping them to choose the right plan for their electricity needs. Reduced complexity will also lower retail administration costs.

Another key non-monetary benefit of phasing out the LFC regulations is environmental. The current regulations aim to promote conservation of electricity, which is incentivised by the

high variable charge component of LFC tariffs for low users. This conservation objective is no longer consistent with the government's objective of net zero emissions by 2050, which will require increased electrification for sectors such as transport and household heating. Removing the LFC regulations will help incentivise greater uptake of electric vehicles and electric forms of heating, which is estimated to result in an emissions saving of ~8MtCO_2 out to 2050, which is the equivalent of removing almost 70,000 petrol cars from New Zealand roads each year.

Where will the costs fall?

Monetised and non-monetised costs; for example to local government or regulated parties

The main monetary cost of the removal of the LFC regulations is expected to fall on households currently on LFC tariffs using less than ~6,500kWh/year, which makes up approximately 690,000 households or 40 per cent of all households in New Zealand.

MBIE believes that no socio-economic group or groups in particular will disproportionally bear the costs of unwinding the cross subsidy. While there may be a common misconception that there is a link between low income and low electricity use the evidence shows the income level is not a good indicator of electricity use.[2] This means that it can be expected for an approximately equal proportion of high- and low-decile households, working households, pensioners, students, households with no children, households with children, homeowners and renters to be in the low-use bands which currently receive the subsidy. Similarly, equal proportions of these groups can be found in the higher-use bands which will benefit from the phase out of the LFC regulations.

These findings are supported in a 2017 study by Concept Consulting that estimated that just over half of low-income households are also low-use households and benefit from the LFC by, on average, approximately $220/year.[3] The same study showed a similar percentage of high-income, low-use households enjoy a cross subsidy of about $200/year.

Feedback from distributors during stakeholder engagement sessions also questioned whether a proportion of the households with very low electricity use are actually holiday homes, which the regulations exclude from being on LFC tariffs. Monitoring of whether a home is genuinely a primary place of residence or a holiday home is extremely difficult for retailers so it is possible a proportion of these homes with very low electricity use should not be on LFC tariffs.

However, this change will result in some winners and some losers and removing the regulations will make some households worse off. As electricity consumption is not a good indicator of socioeconomic status, all demographic groups should be similarly represented in this group of households facing price increases. Analysis shows that, out of the 690,000 households expected to face a bill increase, there are approximately 235,000 households from areas of high deprivation.[4] The vast majority of these households are in the Auckland region along with the Waikato, Manawatū-Whanganui, Northland, Wellington, and Taranaki regions.

[2] Electricity Price Review, (2018) '*Initial Analysis of Retail Billing Data*', p. 20.
[3] Concept Consulting, (2017) '*The Low-Fixed Charge Regulations: History, Impact, Alternatives – Presentation to the Productivity Commission'*, p. 27.
[4] This figure is the number of households currently on LFC tariffs with consumption less than 6,500kWh/year in SA1s areas that are in Decile 8 – 10 categories on the Deprivation Index.

Distributors and retailers will face compliance costs associated with changes to their tariff structures as a result of removal of the LFC regulations. These compliance costs include a requirement to notify their consumers of these changes.

In terms of non-monetary costs, removal of the regulations will result in increased complexity and confusion for many consumers currently on LFC tariffs, especially for consumers who are not engaged with the electricity market. This confusion could last for the duration of the phase out.

What are the likely risks and unintended impacts? How significant are they and how will they be minimised or mitigated?

The main risk from removing the regulations is that some low-use households that are also in energy hardship will incur higher electricity bills, further exacerbating their energy hardship. As noted above, just over half of low-income households benefit from lower bills, by about $220/year, which could be material for households in hardship. This will be mitigated through the establishment of an, industry-funded, Power Credits scheme, which will provide a measure of support to low-income households adversely impacted by the phase-out.

There is also some uncertainty around the impact to standard tariffs as the LFC regulations are removed. With about 60 different distributors and retailers operating in the market and around 14,000 electricity tariffs on offer in New Zealand it would not be possible to understand with certainty the impact of removing the LFC regulations on all of these tariff options. While the risks of any significant unintended impacts is considered unlikely, MBIE will monitor changes to all publicly available tariff options and report to the Minister annually on any notable changes. There will be a midpoint review of phase-out in late-2023 and, at this point, any unintended impacts will be evaluated.

It is also unclear how retailers and distributors will pass the proposed changes through to consumers. Under the proposed phase-out mechanism, retailers will be allowed to increase the amount households on LFC tariffs will pay for their fixed charges by a set amount each year. However, retailers may choose not to pass through increased fixed charges immediately, possibly preferring instead to keep LFC tariffs as they are for now and bundle changes to LFC tariffs in with other changes they would like to implement to help better manage pricing changes for their consumers. It is not considered likely that this will have any adverse impact and may actually benefit consumers as it will reduce the complexity from annual pricing changes.

To address uncertainty about how the market will unwind the subsidy, it is proposed that removal of the LFC be phased over a period of five years. This will help limit any potential price increase for consumers, especially for low-income households.

In addition to the phase out, the government already has some policies in place or is progressing other policies and complementary measures which will alleviate energy hardship and improve retail competition, such as:

- defining and measuring energy hardship, with a dedicated work programme and funding to reduce it;

- establishing an ‘Energy Hardship Expert Panel’ which will provide impartial, evidence-based, expert advice and will recommend policy priorities and actions to alleviate energy hardship in New Zealand;
- extending the Warmer Kiwi Homes programme to help more people install insulation and heating retrofits;
- continuing the ‘Support for Energy Education in Communities’ (SEEC) programme has been allocated $6.65million, over the next three years, to help build and expand the network of support services that can provide targeted, specialist energy advice to achieve warmer homes, and education and information on smart energy use that leads to lower energy bills; and
- promoting awareness of the impacts of the proposed changes through a strategic communications package.

These mitigation measures from the government will be supported by measures put in place by industry, including:

- the Electricity Authority’s new ‘Customer Care Guidelines’ which will help ensure that electricity retailers can deliver a consistent and supportive standard of care to consumers and, in particular, vulnerable and medically dependant consumers; and
- the Energy Retailers Association NZ in-home energy coaching service, *Energy Mate*, which helps households in need manage their energy use and keep their homes warm.

Section C: Evidence Certainty and Quality Assurance

Agency rating of evidence certainty?
As part of the EPR, there was extensive stakeholder engagement that ensured the views and opinions of industry, consumer representative groups and technology advocates were considered thoroughly. Recommendations made were supported with evidence and extensive analysis. Further analysis, to support the development of phase out options, was commissioned by MBIE to support its work in determining the options in this Regulatory Impact Statement. This included analysis provided by an independent energy market consultant and industry associations, the Electricity Networks Authority and Electricity Retailers Association of New Zealand. MBIE is satisfied that sufficient independent evidence was sought and used to support the proposals.

To be completed by quality assurers:

Quality Assurance Reviewing Agency:
Quality Assurance Assessment:

Reviewer Comments and Recommendations:

Impact Statement: Phase Out the Electricity Low Fixed Charge Tariff Regulations

Section 1: General Information

1.1 Purpose

MBIE is solely responsible for the analysis and advice set out in this Regulatory Impact Statement, except as otherwise explicitly indicated. This analysis and advice was produced for the purpose of informing policy decisions to be taken by Cabinet.

1.2 Key Limitations or Constraints on Analysis

MBIE analysis considered multiple options to phase out the LFC and alternative forms of the LFC. Analysis was carried out on each option to consider the costs to households with different levels of demand. This analysis relied on a data set of annual electricity usage of New Zealand households supplied by the Electricity Authority. This aggregated data was supplied at Statistical Area 1 (SA1) level and grouped into 1,000kWh consumption bands.

It is not possible to model scenarios for every potential tariff structure, given that there are approximately 14,000 different tariff options in the market. To demonstrate the potential pricing impacts on households, an illustrative tariff model was developed based on the average residential electricity price in 2020 from MBIE's Annual Residential Electricity Costs report.[5] This model has been used to provide an insight into the potential financial impacts of different proposed intervention options for all New Zealand households. However, retailers can package changes to their tariffs in any way they choose. This means that some may choose to pass through increases to the fixed charges each year along with associated impacts on variable charges as the model demonstrates or they may choose to make no changes during the phase-out to limit the complexity and confusion for consumers and instead restructure their tariffs at the end of the phase-out period. Some retailers may even choose to make no changes.

There was limited evidence of how household consumption would be effected by changes to the LFC regulations over the short term so the modelling assumes that household consumption is unchanged under all of the options explored. For the analysis of alternative forms of the LFC (Option 3a and 3b) assumptions were made about the proportion of households that choose to be on the LFC under the alternative form. There was limited evidence on how consumers would respond to this option so these assumptions had high uncertainty.

Concept Consulting[6] and MBIE have carried out analysis which demonstrates the problems created by the LFC. Evidence included the relationship between household income and household electricity usage, which was used to assess fairness and equity problems, that occurred due to allocation of the cross subsidy created by the LFC.

[5] Ministry of Business, Innovation and Employment, (2020), '*Sales-based Electricity Costs – Report for September 2020*', available at: https://www.mbie.govt.nz/building-and-energy/energy-and-natural-resources/energy-statistics-and-modelling/energy-statistics/energy-prices/electricity-cost-and-price-monitoring/, accessed: 18 December 2020.

[6] Concept Consulting, (2017) '*The Low-Fixed Charge Regulations: History, Impact, Alternatives – Presentation to the Productivity Commission*'; and
Concept Consulting, (2020) '*Quantifying the LFC Counterfactual*'

Analysis of welfare impacts relating to income and affordability of household solar PV for customers on the LFC tariff was carried out. Barriers to EV uptake and forgone emissions reductions due to the LFC were analysed by Concept. Evidence included economics of EV investment with and without the LFC charge and assumptions of future EV costs and uptake rates.

While analysis shows that removing barriers or artificial incentives to technology uptake will have an impact on household consumption, the effects of this will be seen in the long-term rather than in the short-term. As there is considerable uncertainty about how industry will choose to implement changes to the LFC regulations, the modelling could not take into account changes to consumption over the phase-out period.

1.3 Responsible Manager (signature and date):

Justine Cannon

Manager, Energy Markets Policy

Energy and Resource Markets Branch

Ministry of Business, Innovation and Employment

06 July 2021

Section 2: Problem Definition and Objectives

2.1 What is the context within which action is proposed?

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. It also considered whether the electricity market and the regulatory framework would continue to be appropriate in the future, particularly with the emergence of new technologies and the goal of moving to a low emissions economy.

The review recommended the government phase out the Low Fixed Charge (LFC) tariff regulations as they exacerbate already inefficient price signals for residential consumers and shift network costs to households with high electricity use. The phase out would be over five years during which the maximum fixed charge component of the low-use tariffs would be gradually increased and then removed. Though retailers would then no longer be required to offer consumers an option of a low-use tariff, they would be free to do so, as part of their pricing strategy.

In December 2019, the Minister for Energy and Resources, Hon. Dr. Megan Woods, advised Cabinet [DEV-19-SUB-0325 refers] she intended to further engage with parties most likely to be affected by the phase out. Further to this, the Minister advised Cabinet that the phase out should not be completed in advance of measures being put in place to reduce energy hardship and to help non-switching consumers to find better deals. This included other EPR recommendations, such as the establishment of the Energy Hardship Group and Consumer Advocacy Council.

How the Low Fixed Charge Tariffs Work

Electricity tariffs in New Zealand generally comprise of two components – a fixed charge and a variable charge. 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 (e.g. $2.00/day). The variable charge covers the costs of electricity generation and is dependent upon a households electricity consumption so the more electricity a household uses the higher their monthly variable charge will be. This is charged at cents per kilowatt hour (e.g. $0.2145/kWh).

The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (the LFC regulations) were introduced following calls for intervention on rising electricity prices from the Consumers' Institute and other bodies. The government was concerned about the impact of rising electricity prices on low income groups and felt that some companies had been slow to publicise their low fixed charge tariff option which had resulted in the slow uptake of it. The Minister of Energy, Hon Pete Hodgson, outlined that the regulations would require electricity retailers to offer a tariff with a low fixed charge with the aim of making consumers who use less than the average 8,000kWh/year (or, from 2008, 9,000kWh/year in parts of the lower South Island[7]) better off. In particular, the

[7] The regulations, introduced in 2004, originally required electricity networks and retailers make available a low fixed charge tariff option to all residential consumers who have consumption rates at their primary dwelling of less than 8,000 kilowatts per annum. In 2008 the regulations were amended to increase this threshold to 9,000 kilowatts per annum in the lower South Island due to inequality in the uptake rates by South Island residents compared to north of Auckland residents (9 per cent versus

regulations were designed to "help older New Zealanders on fixed incomes who are typically frugal users of power".[8]

The LFC regulations required that retailers offered residential consumers a low fixed charge tariff equivalent for each standard residential tariff option they offer with a fixed charge component of no more than $0.30/day (excluding GST but after any prompt payment discount is subtracted). The tariff options also needed to include the following features:

- domestic consumers consuming less than 8,000kWh/year must pay less on a low fixed charge tariff option than on any corresponding tariff option;
- the low fixed charge tariff options must be advertised at the same time and manner as other tariffs;
- the retailer must inform domestic consumers at least annually whether they would benefit from switching to a low fixed charge tariff;
- the low fixed charge tariff option would only be available for premises that were the principle place of residence of a domestic consumers;
- all retailers must make the tariffs genuinely available, irrespective of the usage and/or meter configuration of the consumer; and
- all distribution companies to offer low fixed charge distributor tariff options (to retailers or direct to consumers) at a maximum of $0.15/day.

The fixed charge a household faces is split between the retailer the consumer chooses and the distribution company in the region the house is located. The price is determined by the regional distribution companies and vary from region to region. Prices distributors charge can vary from ~$0.15/day to ~$2.00/day, with their average price across New Zealand in 2020 at roughly ~$1.00/day.

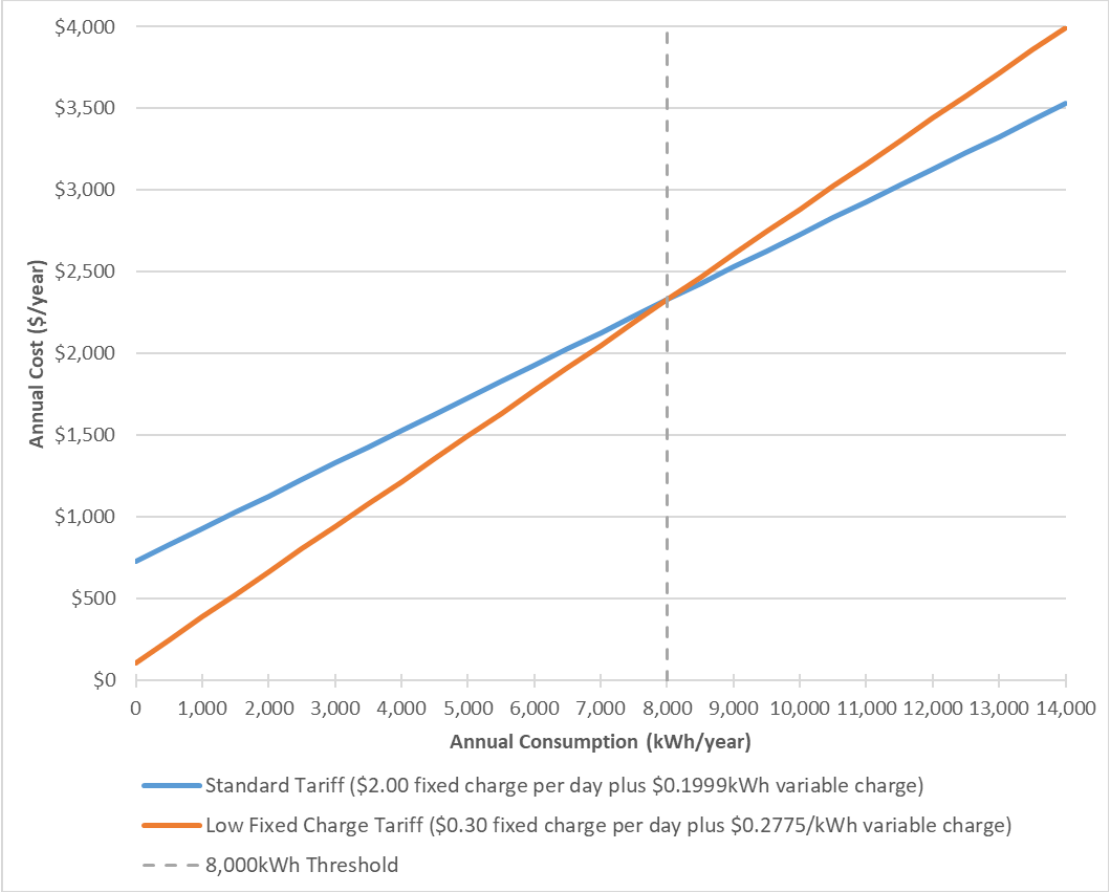
The distribution charge is passed on to consumers by their retailer who add on their own fixed charge price. An average fixed charge is considered to be around $2.00/day (i.e. $1.00/day for the distributor and $1.00/day for the retailer). However, retailers, who generally operate nationally, face significantly varying distribution charges in each region they operate. It is assumed retailers want to keep fixed charges national consistent, which means in some regions they can get a higher proportion of the fixed charge they pass on to consumers than in other regions. By contrast, in the LFC regulations it is set out that a retailer must not charge more than $0.30/day (excluding GST), of which no more than $0.15/day (excluding GST) can be the distribution charge.

For residential consumers who use less than the 8,000/9,000kWh annual threshold, the LFC tariff is cheaper overall than what they would pay on a standard tariff. However, for the policy to work it requires the low fixed component of the LFC tariff to be combined with a relatively high variable charge. As illustrated in Figure 2 below, this allows for a cross-over point that marks the threshold for defining what is 'low use'.

52 per cent respectively). This was due, in part, to the colder weather in these regions necessitating the need for increased electricity use for heating, therefore increasing the average residential consumption level for electricity in the lower South Island.

[8] Minister of Energy, Pete Hodgson, *'Hodgson to Introduce Targeted Relief on Electricity Bills'* (9 Jul 2004), available at: www.beehive.govt.nz/release/hodgson-introduce-targeted-relief-electricity-bills

Figure 2: *Comparison between standard tariff and low fixed charge tariff*



Source: *MBIE Analysis*

As shown in Figure 2, the LFC tariff starts much lower than the standard tariff, at $109.50 (i.e. $0.30*365 days) and $730 (i.e. ($2.00*365 days) respectively, but because the 'pivot point' or 'threshold' (the level of electricity consumption where the LFC tariff no longer needs to be less expensive than the standard tariff) is set in regulation at 8,000kWh (9,000kWh in the lower South Island) it means the variable charge component of the LFC tariff must be set at a higher rate than the standard tariff. In the example above, the difference between the two variable charges is quite significant – the variable charge on the LFC tariff can be over 30 per cent more expensive than the standard tariff.

Retailers must advertise an LFC tariff at the same time and in the same manner as it advertises any market-based tariffs. The regulations also require retailers to promote LFC tariffs to each consumer at least once every twelve months.

As highlighted in Figure 2, the lower network cost recovery from households on LFC tariffs means that these costs need to be recovered elsewhere. The outcome of this is that all households on standard tariffs face higher electricity costs.

Overview of Findings from the Electricity Price Review (EPR)

The analysis completed for the EPR highlighted the unintended consequences of the LFC regulations. In particular, the EPR found that:

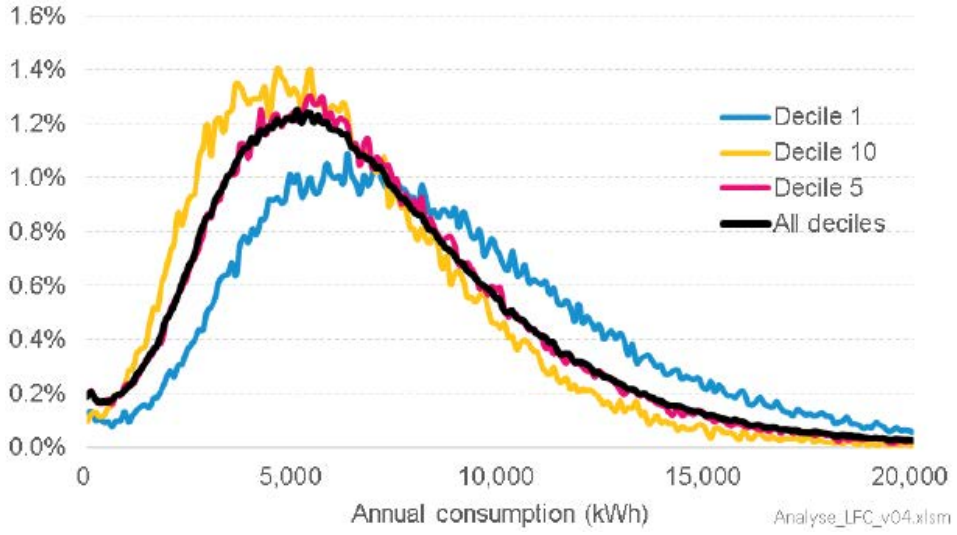
- almost half of households in the most deprived areas are paying higher prices because of LFC regulations;

- low-income higher-use households are subsidising high-income households who can afford to reduce their electricity use through installing energy conservation measures, such as better insulation and double glazing;
- costs are being artificially shifted to households with higher usage which may incentivise households with high electricity use to under-heat their homes, leading to adverse health and well-being outcomes; and
- LFCs increase pricing complexity and confusion, hampering retail competition and likely raising average prices for consumers.

The EPR also drew attention to the significant proportion of households who are now under the threshold to benefit from the LFC. One of the original objectives of the regulations was to provide targeted assistance to 'low-use' households. However, average household electricity consumption has fallen since the regulations were first introduced in 2004, from approximately 8,000kWh to 7,150kWh.[9] As a result, LFC plans are increasingly taken up by households that consume above the average household electricity use (but remain below the threshold). Almost 70 per cent of electricity consumers in New Zealand now use less than the 8,000kWh threshold (9,000kWh for the lower South Island) for LFCs.

As shown in Figure 3, a household's electricity consumption is not a good indicator of deprivation. Decile 1 households tend to have higher electricity consumption than more deprived households, but there is still a significant number of more deprived households which have high electricity use and are paying higher electricity bills as a result of the LFC cross subsidy.

Figure 3: *Distribution of annual usage by consumers*



Source: *Electricity Price Review: Initial Analysis of Retail Billing Data, October 2018*

The EPR also found evidence of significant consumer confusion around the structure of tariffs, as demonstrated by the sizeable proportion of consumers on the 'wrong' type of plan. Consumers are considered to be on the 'wrong' plan when they pay more for the amount of electricity they have used over a year than they would have on a market-based tariff. Due to issues with consumer engagement, this problem is unlikely to be fully addressed by requiring retailers to better educate consumers about tariff plans. Similarly,

[9] Ministry of Business, Innovation & Employment (2020), *Data Tables for Electricity,* available at: www.mbie.govt.nz/assets/Data-Files/Energy/nz-energy-quarterly-and-energy-in-nz/Electricity.xlsx, accessed: 20 Aug 2020.

requiring retailers to ensure that all consumers are on the 'correct' plan is unlikely to solve this problem, and it could create additional problems if a household's use changed dramatically during a year.

Analysis conducted as part of the EPR showed that around 23 per cent[10] of households were on a standard tariff option[11] but had an annual electricity usage well below the LFC fixed charge threshold of 8,000kWh. In particular, the analysis highlights that 17 per cent of decile 10 households are low-use households on a standard tariff. A similar, although smaller scale, trend can be seen on the other end of the spectrum, with some relatively high-use households on LFC tariffs.

MBIE Analysis of the Impacts of Low Fixed Charge Tariffs

While the level of consultation and analysis conducted throughout the EPR to arrive at its final recommendations were comprehensive, it was necessary for MBIE to conduct its own analysis and stakeholder engagement to develop a well-evidenced position from which to make a policy recommendation. To support MBIE's policy development, data and analysis were provided by Concept Consulting, the Electricity Authority and the Electricity Networks Association. A programme of engagement with parties likely to be affected by changes to the LFC regulations was also conducted.

Informed by the engagement and analysis conducted, the policy team in MBIE arrived at a view that the LFC regulations resulted in multiple, unintended, adverse outcomes. The findings of particular concern to MBIE are discussed below.

Distribution Tariff Reform

The costs of running an electricity distribution network are largely fixed, reflecting the capital equipment of lines and sub-stations that are used to provide distribution. These costs arise irrespective of whether a high or low volume of electricity is provided over the network. Distributors recover most of their costs through a flat rate charge (cents/kWh) which does not reflect the economic costs of providing network services.

The Electricity Authority's 2019 Distribution Pricing Principles outlines that prices are to signal the economic costs of service provision, including reflecting the impacts of network use on economic costs. For consistency with this principle, per-kWh variable charges need to reduce. The Pricing Principles also outline that where prices which signal economic costs would under-recover target revenues, the shortfall should be made up by prices that least distort network use.

For consistency with this principle, ideally fixed charges should rise. However, the LFC regulations have been identified by distributors as a roadblock that limits their options to rebalance their tariffs by reducing variable usage charges and raising fixed charges.

Electrification of the economy will also have significant implications for the electricity sector and will require a significant shift in consumer behaviour. Strong, cost-reflective price signals that enable networks to effectively manage peak capacity will be crucial in ensuring the transition is least-cost for consumers and avoiding costly over-investment by distributors on network upgrades to safely manage higher peak demand. Implementing

[10] Average proportion of household with consumption below 8,000kWh on the standard tariff based on a consumption weighted average.
[11] Electricity Price Review, (2018) '*Initial Analysis of Retail Billing Data*', p. 23

cost-reflective time-of-use pricing is a more economical way of managing load on the network. It incentivises electricity users to shift non-essential electricity use to times where it is cheaper (i.e. non-peak times), which reduces peak demand.

The industry is already rolling out new tariffs such as time of use and demand pricing, however, the LFC regulations are acting as a handbrake to this tariff reform.

Distortion of Consumer Incentives

Analysis commissioned by MBIE shows that the LFC regulations have significant impacts on the uptake of various technologies.[12] They can create incentives that distort investment away from development of the lowest cost, most socially efficient generation technologies.

The LFC regulations can disincentivise consumers from investing in electric vehicles (EVs). The analysis estimates that the rate of EV uptake per household would rise from 0.19 to 0.21 if the LFCs were removed. This is because households on low fixed charge tariffs (approximately 55 per cent of all households) face high variable charges, which discourages electricity consumption. The result is that households on LFC tariffs will face disproportionally higher electricity costs by charging EVs at home than households on standard tariffs, thereby discouraging the uptake of EVs.

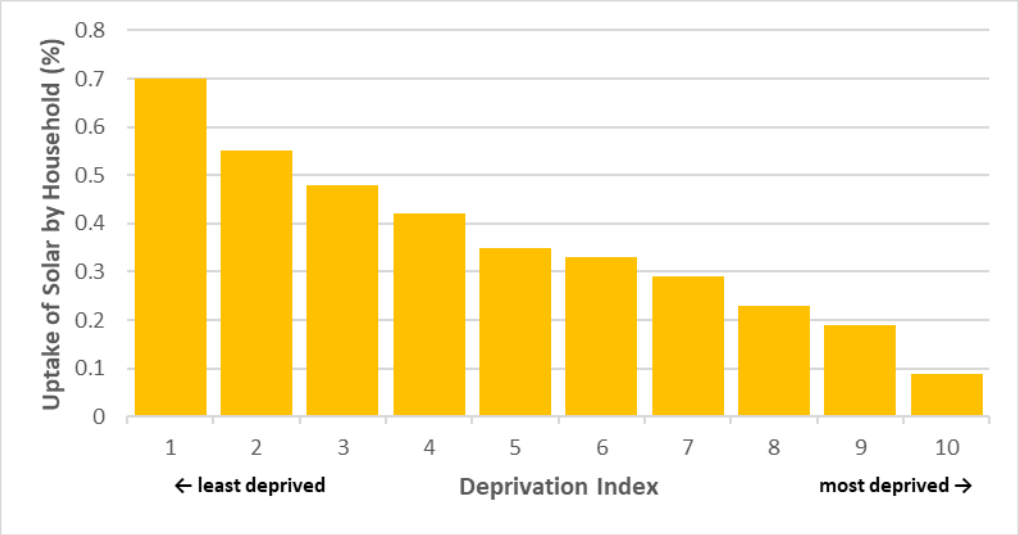
In New Zealand, nearly 20 per cent of emissions come from road transport, and this sector has been identified as a key area to reduce emissions if New Zealand is to meet its climate change objectives.[13] The predicted brake on the uptake of EVs would result in an additional ~7MtCO_2 by 2050, according to the analysis.[14]

The distortionary effects of the LFC regulations can potentially create incentives to pursue residential solar generation to avoid high variable charges, even though other forms of grid-scale renewable generation may be more cost-effective. Households which can afford to install rooftop solar (generally more affluent) can reduce their electricity consumption and then benefit by switching to the LFC tariff. This raises concerns about the distributional

[12]Concept Consulting, (2020) *'Quantifying the LFC Counterfactual'*, p. 9
[13]Ministry of Business, Innovation & Employment, (2019) *'Electricity Demand and Generation Scenarios: Scenario and Results Summary'*, p. 6
[14]Concept Consulting, (2020) *'Quantifying the LFC Counterfactual'*, p. 10

impact of LFCs, as this situation leads to a situation where network costs are shifted to low-income households.

Figure 4: *Installation of Solar Panels by Household Income*



Source: *Electricity Authority*

As shown in Figure 4[15], lower income households are significantly less likely to install solar. The higher solar uptake rates for more affluent households' results in under-recovered network and retail costs being shifted onto more deprived households through higher tariffs.

While the uptake in residential solar should not be discouraged, the LFC is creating an inefficient price signal. In New Zealand, residential solar is less economic than other forms of renewable generation such as hydro, geothermal, wind and biomass. Distorting LFC tariffs can undermine the commercial viability of utility-scale renewable generation that would otherwise be built to meet growth in demand. Also, due to the intermittency of supply from solar, additional fossil fuel electricity generation or other costly forms of supply flexibility will be needed to meet winter peak demand. This might not be required for other forms of renewable generation. Retaining the LFC would result in a rise in households installing solar, moving from 3.7 per cent to 4.9 per cent by 2030. This could result in a slight increase in carbon emissions due to the fossil generation which will be necessary to dispatch to meet winter demand.[16]

Retaining the LFC will likely discourage homeowners from moving away from gas or LPG to electric forms of heating in their homes. Due to the relatively high variable charge, the number of households using gas to heat their homes is assumed to remain constant (at 23.8 per cent) with the retention of the LFCs. If the regulations were removed, it is expected that there would be a greater shift towards using electricity to heat homes. It is predicted that the proportion of homes using gas as their primary source of heat would drop to 22.7 per cent by 2030, resulting in a reduction in carbon emissions of ~1.5MtCO_2 by 2050.

Welfare of Low-Income Households

The defining feature of the LFC regulations is the high variable component. In order to accommodate a low fixed charge component while ensuring the threshold price of the low fixed charge tariff is equal to the standard tariff (as demonstrated in Figure 2 above), it is

necessary to have a higher variable component. The difference between the variable component of a LFC and standard tariff can be significant. If a standard tariff has a fixed component of $2.00/day and a variable component of $0.1999/kWh, then the equivalent LFC tariff with a $0.30/day fixed component would have a variable component of $0.2775/kWh, meaning that households on LFC tariffs face variable charges over 35 per cent higher than households on standard tariffs.

The high variable charge feature can disincentivise electricity use. As demonstrated in Figure 3, a household's electricity consumption is not a good indicator of their socioeconomic status. Households across consumption bands are as likely to be less deprived as more deprived. However, affluent households are more likely to take advantage of energy conservation measures to reduce their electricity consumption, while households in more deprived areas are likely to be less able to reduce their consumption. This could lead to more deprived households to under-heat their homes, which can lead to cold, damp houses and poor long-term health outcomes.

It is important that low-use households are not wrongly conflated with lower-income households. While the LFC tariffs do help some low-income households, households with larger families in poorly insulated homes may find it difficult to reduce their electricity usage to take advantage of the LFC tariff. As a result of being unable to afford energy conservation measures, low-income households face higher charges than would otherwise be the case, absent of the LFC tariff.

Complexity for Retailers and Distributors

The requirement for all retailers to offer consumers both a standard and low fixed charge option for each tariff results in more complex pricing plans, increasing costs for retailers and distributors which are inevitably passed through to consumer prices. Pricing complexity also makes it more difficult for consumers to understand the options that are available. This results in a considerable administrative burden for the industry, driving up costs. There are roughly 14,000 tariff options currently available in the New Zealand electricity market. It is likely that the removal of the LFC regulations would dramatically reduce the number of tariffs available.

Retailers are required to promote LFC tariffs to their consumers each year, increasing their administrative costs. The LFC tariffs are also only available to primary residences, and retailers must determine whether or not a household is a primary residence. This is a difficult condition for retailers to monitor and, according to some stakeholders many non-primary residences are currently on LFC tariffs.

Confusion for Consumers

As shown in the supporting analysis for the EPR, there are a considerable number of higher-use households that are on the LFC tariff.[17] This suggests that it is difficult for some consumers to determine if they are low or high users, or there is confusion about how the low fixed charge tariff works. Data supplied by the Electricity Authority shows that, in 2020, over 120,000 households on LFC tariffs used more than their regional threshold. More

[15] Electricity Authority, (2015) '*Consultation Paper: Implications of Evolving Technologies for Pricing of Distribution Services'*, p. 42

[16] This is based on the assumption that fossil generation will remain the lowest cost means to meet winter peak demand and provide firm capacity during periods of low solar output.

[17] Electricity Price Review (2018) *'Initial Analysis of Retail Billing Data'*, p. 23

than one in eight households on LFC tariffs are paying more for their electricity than they should. While the majority of these are only slightly over the threshold and are paying relatively modest amounts more than they should, over 45,000 households are significantly over the thresholds (consuming over >10,000kWh/year) and are paying well over $200/year more than they should for their electricity.

Increasing Proportion of Households on LFC Tariffs

When the regulations were first introduced in 2004, the average level of household consumption was around 8,000 kWh per annum. Over the last decade in particular, the average level of household consumption has fallen. Based on 2020 data, 67.9 cent of households could now benefit from being on an LFC tariff.

As shown in the table below, 58.6 per cent of households were actually on an LFC tariff in 2020 compared to just 37.3 per cent in 2006 and 48.7 per cent in 2014.

Table 1: *Comparison of Households on LFC Tariffs*

Zone	Proportion of Residential Households on LFC Tariffs (%)		
	2006	2014	2020
Upper North	52.3%	53.6%	62.4%
Central	35.0%	50.0%	58.7%
Middle South	20.1%	39.4%	53.5%
Lower South	9.2%	35.3%	48.8%
National Total	37.3%	48.7%	58.6%

The increasing proportion of households that are on LFC tariffs is resulting in a greater cross-subsidisation. The impact of this is that electricity bills for standard users will continue to rise to recover this shortfall in network costs. Removal of the LFC regulations will result in a reduction in electricity bills for standard users at any level of consumption.

Energy Conservation

While LFCs may result in a reduction in demand, as outlined above energy conservation should not in itself be a goal. If the LFCs were retained, New Zealand would theoretically see larger decrease in demand out to 2030 than if the LFCs were phased out. Keeping LFCs would result in a 3.1 per cent drop in demand by 2030, versus a 2.5 per cent drop in demand if the LFCs were removed. The EPR made several recommendations that would result in more effective and less distortionary ways to promote energy efficiency.[18] These recommendations would help continue the trend of declining electricity demand in New Zealand, while encouraging more effective and efficient use of electricity to deliver better outcomes for all New Zealanders.

As mentioned previously, energy conservation is no longer a policy objective and is inconsistent with New Zealand's move to decarbonise and transition to a zero carbon economy. Electrification of heat and transport will be central to New Zealand's efforts to

[18] Such recommendations include:
- B3: Establish a network of community-level support services to help consumers in energy hardship; and
- B4: Set up a fund to help households in energy hardship become more energy efficient.

meet its climate change objectives. The low fixed charge tariffs are a barrier to this objective by, for example, distorting consumers' incentives against the uptake of electric vehicles.

2.2 What regulatory system(s) are already in place?

In February 2000 the then Minister of Energy, Hon Pete Hodgson, announced a ministerial inquiry into the electricity industry which was to be headed by former government minister David Caygill. The inquiry was ordered in the context of public concern in relation the rising cost of electricity to domestic consumers as a result of the corporatisation of electricity distribution companies and the removal of their previously exclusive franchise areas. The Caygill Inquiry delivered its final report in June 2000 which made 53 recommendations, which were implemented in the government's Power Package, released on 3 October 2000.

Following this, the government released a Government Policy Statement in December 2000 which included a policy for all retailers to voluntarily offer at least one tariff to domestic consumers with a fixed charge of no more than ten per cent of the bill of the average domestic consumer. After three years of trialling a voluntary approach it was clear that full compliance would not be achieved, and in 2004 the government introduced the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. According to parliamentary debates, the regulations were introduced to provide low-use consumers with a tariff option that was "more equitable" for low energy usage and compatible with the energy efficiency objectives of the government of the day.[19]

In 2017, David Caygill, the chair of the BusinessNZ Energy Council, who was the head of the ministerial inquiry that had recommended bringing in low fixed charge tariffs, said of the low fixed charge tariffs that "they were brought in some years ago ostensibly for equity reasons but they have never really worked that well".[20] MBIE is of a similar view that the LFC regulations are badly targeted and no longer fit-for-purpose with the government's decarbonisation agenda and its current approach to promoting energy efficiency and reducing energy hardship.

Government intervention is necessary so that the LFC regulations can be removed. This result cannot be achieved without government intervention.

2.3 What is the policy problem or opportunity?

The policy problem has been detailed in Section 2.1. There is an opportunity, through removing the regulations, to remove a disincentive on increased electricity use. This is expected to help encourage greater uptake of EVs as well as help for larger, lower-income families struggling to afford to adequately heat their homes, leading to better health outcomes. It will also remove a noted inhibitor of distribution tariff reform which will help New Zealand move towards more cost-reflective pricing.

[19] New Zealand Parliament, (2008) *19 March Debate*, (Vol:646; Page:15113), available at: http://www.parliament.nz/en-nz/pb/debates/debates/speeches/48HansS_20080319_00001656/hughes-darren-electricity-disconnection-and-low-fixed

[20] Edmunds, S. (2017, Dec 19) *'Low-User Electricity Tariff has Never Really Worked That Well'*, Stuff, available at: https://www.stuff.co.nz/business/99974108/technology-transforming-electricity-sector--but-is-it-a-good-deal-for-everyone

2.4 What do stakeholders think about the problem?

The EPR undertook substantial consultation on this recommendation, which helped inform the options proposed in this RIA. Further information on this engagement can be found on the MBIE website available here.

There was strong agreement from electricity industry stakeholders that the regulations are no longer fit for purpose and should be removed immediately or phased out. The Electricity Network Association, which represents electricity distributors, believes that addressing the regulations is the most significant issue facing its members and the electricity sector in general. This comment reflects the concern around industry's ability to adopt and prepare for new technologies, as discussed earlier. Other submitters, including generators, retailers, regulators and consumers, supported phasing out the regulations.

A large number of stakeholders also commented that the issue of energy hardship is more related to poverty and hardship in a general sense, rather than a failure of the electricity sector. Therefore interventions and regulation to address hardship should not fall on the electricity sector, but rather are better addressed through the social welfare system.

A relatively small number of other submitters, including Grey Power and the Salvation Army, said removing the regulations could worsen energy hardship for some low-use households. They wanted any phase-out delayed until it was clear how these households could be supported.

Other submitters, including some representing providers of household solar PV systems, said the regulations encouraged energy conservation by rewarding households that installed solar panels, insulation and non-electric forms of heating.

MBIE Engagement on Preferred Options

Following the development of a preferred option, the Energy Markets Policy team in MBIE canvassed a large range of stakeholders for their views on MBIE's approach, characterisation of the issues, suggested option and understanding of the resulting impact. This engagement included meeting with:

- Consumer NZ
- Electra
- Electricity Authority
- Electricity Retailers Association NZ
- Grey Power
- Innovation & Participation Advisory Group
- The Lines Company
- Drive Electric
- Electric Kiwi
- Electricity Networks Association
- FinCap
- Independent Retailers Group
- Solar City
- Wellington Electricity

The team also met with a number of independent advocates not included in the list above.

The engagement sessions were broadly positive and the feedback was very informative in helping MBIE further develop its position. Stakeholders acknowledged the problems with the existing LFC regulations and were largely supportive of the preliminary option proposed and supporting rationale, although some would have preferred if the LFC regulations were removed faster. Discussions mainly focused around transitional measures that could be implemented alongside the phase out to provide targeted support

and information to households adversely affected by the removal of the regulations. There were some concerns raised around the implications for certain technologies, particularly solar.

MBIE also engaged with the Electricity Authority, given its role in enforcing LFC regulations and the implications for its distribution pricing principles project. MBIE's preferred option was considered at the Electricity Authority's Board meeting in November. The Board supported MBIE's preferred option of removing the LFC regulations through a phase-out period of three years. Their view was that an extended phase out would be unnecessary as distributors and retailers are aware of the importance of moderating pricing changes through time to avoid bill shock, consumer impacts and reputational costs to their organisations.

2.5 What are the objectives sought in relation to the identified problem?

The main objectives of any proposed changes to the LFC regulations are to:

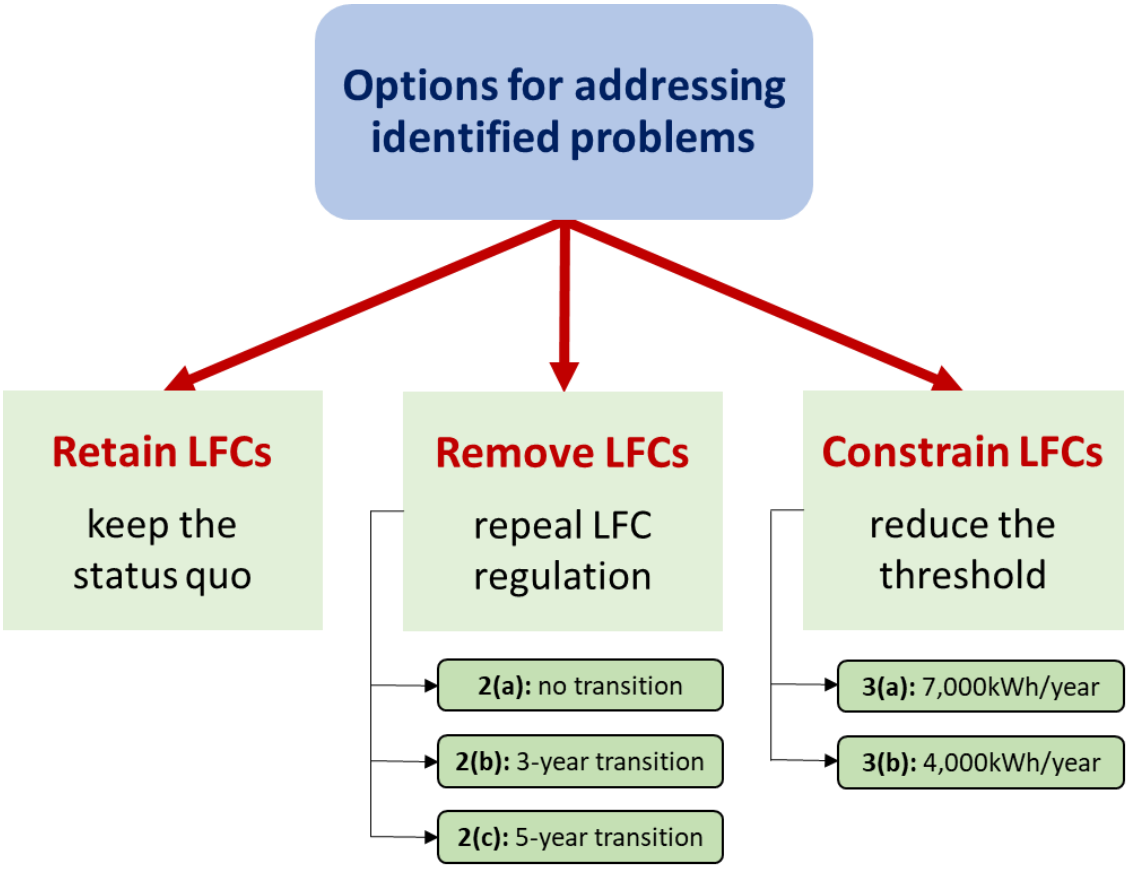
- limit barriers to distribution tariff reform;
- help enable a more equitable electricity market particularly for vulnerable consumers;
- limit any unintended price distortions for consumers which could result in artificial incentives to over- or under-invest in particular technologies;
- reduce the levels of complexity and confusion in the electricity market for both consumers and industry; and
- support the government's objective of achieving net-zero emissions by 2050.

Section 3: Option Identification

3.1 What options are available to address the problem?

MBIE considers that there are three broad options to consider to address the problems identified in Section Two. Some of these options have supplementary, or tier two, policy choices which further determine the scale and timeframe of how these options can be implemented. The options are outlined in Figure 5.

Figure 5: *LFC Decision Tree*



To ensure consistency in the comparison of options considered below, three 'representative households' were selected. These households, which have differing amounts of electricity use, represent a low-, average- and higher-use household.

- a **'low-use' household** is a household which uses 3,000kWh/year;
- a **'higher-use' household** is a household which uses 10,000kWh/year; and
- an **average-use household**, is a household which uses 7,150kWh/year.[21]

The range of households between 3,000kWh/year and 10,000kWh/year represents 75 per cent of all households in New Zealand so can be considered good bellwethers. Where possible, in the analysis of options considered below these 'representative households"' will be used to contrast the impact of each option on household electricity bills.

[21] Ministry of Business, Innovation & Employment (2020), *Data Tables for Electricity,* available at: www.mbie.govt.nz/assets/Data-Files/Energy/nz-energy-quarterly-and-energy-in-nz/Electricity.xlsx, accessed: 14 Sep 2020.

Option 1: Retain the LFC Regulations (Status Quo)

Under this option no changes would be made to the current regulatory regime. The harm created by the LFC regulations for those in energy hardship would need to be mitigated by non-regulatory changes instead. Examples of this include other recommendations made the EPR such as: establishing a consumer advocacy council; establishing a network of community-level support services to help consumers in energy hardship; or setting up a fund to help households in energy hardship become more energy efficient.

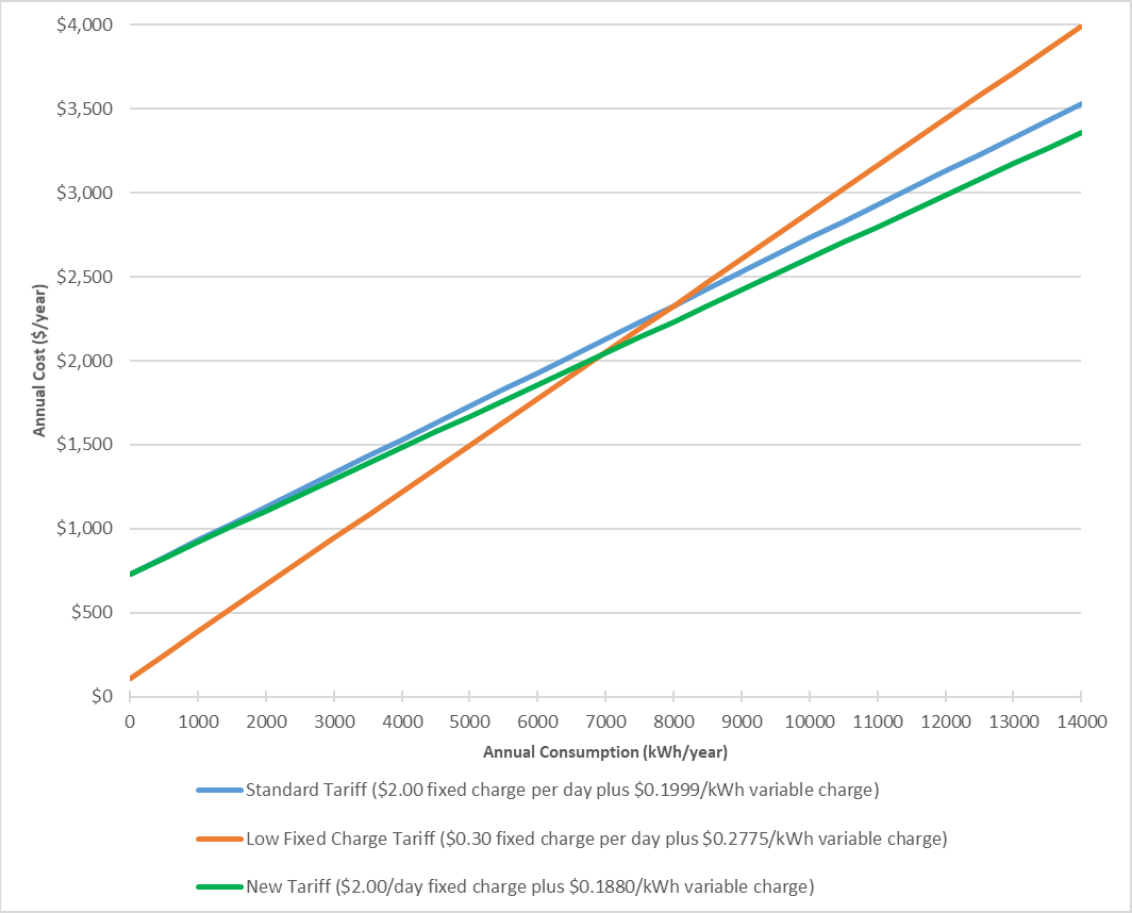
While these changes would clearly help reduce the levels of energy hardship in New Zealand, the LFC regulations would still have starkly contrasting effects on different groups of low income users. As considered in the EPR's Final Report, an argument could be made to wait for the consumer advocacy council or the cross-sector energy hardship group (another EPR recommendation) to consider what alternative non-regulatory options could be implemented to mitigate the unintended consequences of LFCs. However, it is likely that these groups would still recommend for the regulations to be removed and this approach would result in needless delays. It is also unlikely that anything could be done to mitigate the distortionary impacts on solar and EV uptake.

Option 2: Remove the LFC Regulations

The second option considered was to remove the LFC regulations, as recommended by the EPR. Under this option, it is assumed that once the LFC regulations are removed all households previously on LFC tariffs would be moved onto standard tariffs – although some distributors and retailers may voluntarily choose to continue offering LFC tariffs. This means the fixed charge component of households previously on LFC tariffs would rise from $0.30/day ($109.50/year) to the market rate, assumed to be $2.00/day ($730/year). However, as it is assumed that the removal of LFC tariffs would be revenue neutral, the increase in recovery of network costs would precipitate a reduction in the variable charge. This is illustrated in Figure 6 below.

Under this option, households on LFC tariffs using more than ~6,500kWh/year (approx. 280,000 households) and all households on standard tariffs (approx. 690,000 households) would see cheaper bills. Due to the reduction in the variable charge, it is assumed that only households on LFC tariffs with use below ~6,500kWh/year would see price increases (i.e. at the intersection between the LFC and new tariffs in Figure 6). Analysis shows that there are slightly over 690,000 households (40 per cent of all households) in this category.

Figure 6: *Option 2 - Remove the LFC Regulations*



Source: *MBIE Analysis*

One of the key benefits of this option is that it would better enable more cost-reflective pricing. The high variable charge would be removed, thereby removing distortive price signals for technology options and disincentives for adequately heating homes, particularly for larger, lower-income families. Additionally, as demonstrated in Figure 1, all households on a standard tariff would benefit from cheaper electricity bills as network costs would be recovered more evenly.

Removing the LFC regulations would better enable tariff innovation – making the introduction of time-of-use pricing easier for distributors. The current regulations were identified as a key inhibitor of this during stakeholder engagement. As noted above in Section 2.1, moving to tariffs which reflect the actual costs faced by the system would have positive implications not only in terms of reducing inefficient over-investment by industry but also in helping reduce peak demand.

This option would also help bring the electricity market closer to the government's current policy objectives. When the LFC regulations were introduced back in 2004, the focus was on energy conservation – reducing the amount of electricity each household uses. In order to meet the government's climate change objects and emissions budgets, encouraging the efficient use of energy will be vital. Removing the regulations and high variable charges would help achieve this aim.

However, as outlined above, this change will result in some winners and some losers and removing the regulations will make some households worse off. As electricity consumption is not a good indicator of socioeconomic status, all demographic groups should be similarly

represented in the group of households facing price increases. Analysis shows that there are approximately 235,000 households from decile 8 – 10 on the Deprivation Index in this category.[22] The vast majority of these households are in the Auckland region along with the Waikato, Manawatū-Whanganui, Northland, Wellington, and Taranaki regions.

Transition Options for the Removal of the LFC Regulations

If it is found that the ongoing harm caused by the existing LFC regulations is best addressed by their removal then there are a number of second tier policy decisions on how best to achieve this. Three options have been identified to manage this transition. These are:

- **Option 2(a):** No transition
- **Option 2(b):** Three-year transition
- **Option 2(c):** Five-year transition

Stakeholders have highlighted the benefits of aligning any changes with the electricity pricing year, which typically beings on 1 April each year. Therefore, it would be necessary to implement the changes required to the regulations by mid-2021, so retailers and distributors can develop and signal the relevant price changes well ahead of implementing them from 1 April 2022.

As was noted previously, MBIE analysis assumes that the fixed charge component would rise to $2.00/day after the regulations are removed. For options 2(b) and 2(c), the transition increases the fixed charge components by set amounts for three and five years respectively to bring the fixed charge component relatively close to the market rate so that there is a final, similarly sized, market correction in the final year of the transition during which the LFC regulations will be removed.

Option 2(a): No Transition

Under this option the regulations would be removed on 1 April 2022 and industry would be free to structure their tariffs in whatever way they would like - the market would decide how to manage the transition off the LFC tariffs. There is uncertainty about how industry would pass through the pricing changes to consumers. Competition law prohibits coordination by market participants on pricing. Due to this it is likely that there would be variances in the approaches taken. Some might choose to immediately increase all fixed charge components to $2.00/day, while others may choose to bundle up LFC changes with other planned pricing changes to limit impacts on consumers. Some may even choose to continue to offer LFC tariffs.

A key benefit of this approach is that it would immediately remove a well-recognised barrier to tariff reform, allowing the market to move to more-cost reflective pricing sooner and more easily. A one-off change, instead of a multi-year approach suggested below, would limit the complexity and confusion for consumers. It would allow for a more effective communications campaign to help increase consumers awareness of the upcoming changes.

However, this option also has many inherent uncertainties regarding the protection of vulnerable consumers and others who are currently harmed by the regulations.

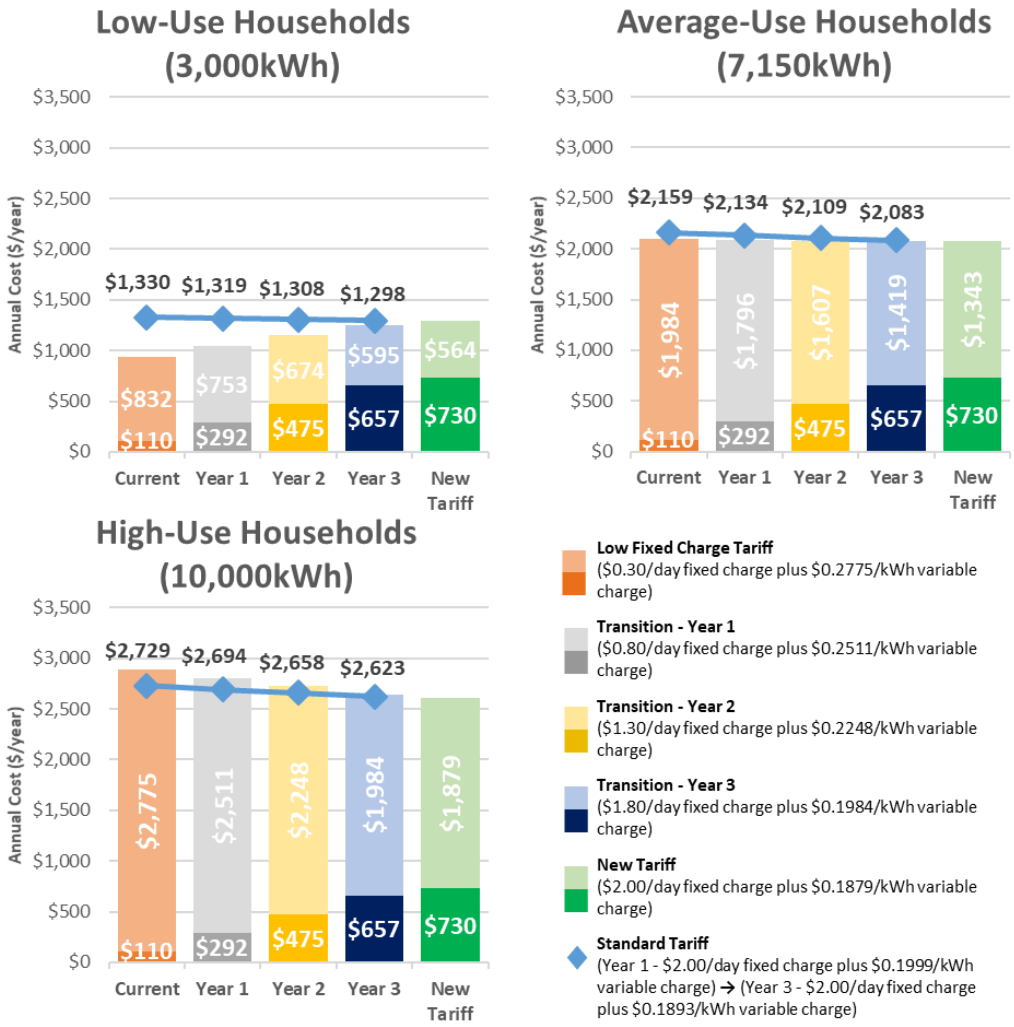
[22] This figure is the number of households currently on LFC tariffs with consumption less than 6,000kWh/year in SA1s areas that are in Decile 8 – 10 categories on the Deprivation Index.

Option 2(b): Three-year Transition

Under this option the fixed charge component of the LFC tariff will be raised by $0.50 each year for the three years of the transition. This will result in a fixed charge of $1.80/day during the third year of the transition. After this point, on 1 April 2025, the regulations would be removed and the industry will determine the final adjustment necessary to bring both tariffs, LFC and standard, together to a cost-reflective rate.

The impact of this option on a household's electricity bill would vary depending on that individual household's level of use. Based on MBIE's analysis, the impact on representative households using 3,000kWh, 7,150kWh and 10,000kWh each year representing low-, average and higher-use households respectively is provided below, which can be seen in Figure 7, with further analysis provided in Table 2.

Figure 7: *Option 2(b) - Three-year Transition*



Source: *MBIE Analysis*

The analysis presented above in Figure 7 represents MBIE's assessment of the potential impact (i.e. the market rate for fixed charges will be $2.00/day by the end of the transition). As can be seen above, while fixed charges (represented by the solid colours) do increase for each representative household, the variable charges (represented by the faded colours) reduce significantly. In the example above, variable charges reduce from $0.2775/kWh to

$0.1879/kWh by the end of the phase-out. Households on standard tariffs, at all levels of consumption, will also see their variable charges decrease, saving over $0.01/kWh when the regulations are removed.

However, MBIE has presented quite a conservative assessment and it has been challenged by industry. During discussions with industry, they challenged MBIE's assumed standard fixed charge, as they felt it was too high, and argued that fixed charges on standard tariffs will likely decrease throughout the phase-out instead of staying fixed. Industry proposed that MBIE should consider that the current market rate for fixed charges on standard tariffs is $1.72/day and that, through the phase-out, this will drop to $1.57/day.

Table 2 below presents both MBIE's and industry's impact assessments together as a range.

Table 2: *Annual Difference to Electricity Bills for Households on LFC Tariffs under Option 2(b)*

Level	Households[23]	Year 1	Year 2	Year 3	Total[24]
Low	292,111 (17.6%)	$86 - $103 (9 - 11%)	$89 - $103 (9% - 10%)	$86 - $103 (8% - 9%)	$261 - $352 (28% -37%)
Average	343,027 (20.6%)	$7 - $8 (0%)	$4 - $7 (0%)	$6 - $8 (0%)	$20 (1%)
High	231,393 (13.9%)	$72 - $81 (3%)	$68 - $81 (2% - 3%)	$72 - $81 (3%)	$212 - $276 (7% - 9%)

As shown in both Figure 7 and Table 2, the representative lower-use household could face bill increases of between 8 to 11 per cent per annum. Households with higher use would face lower increases while households below 3,000kWh/year would face higher increases.

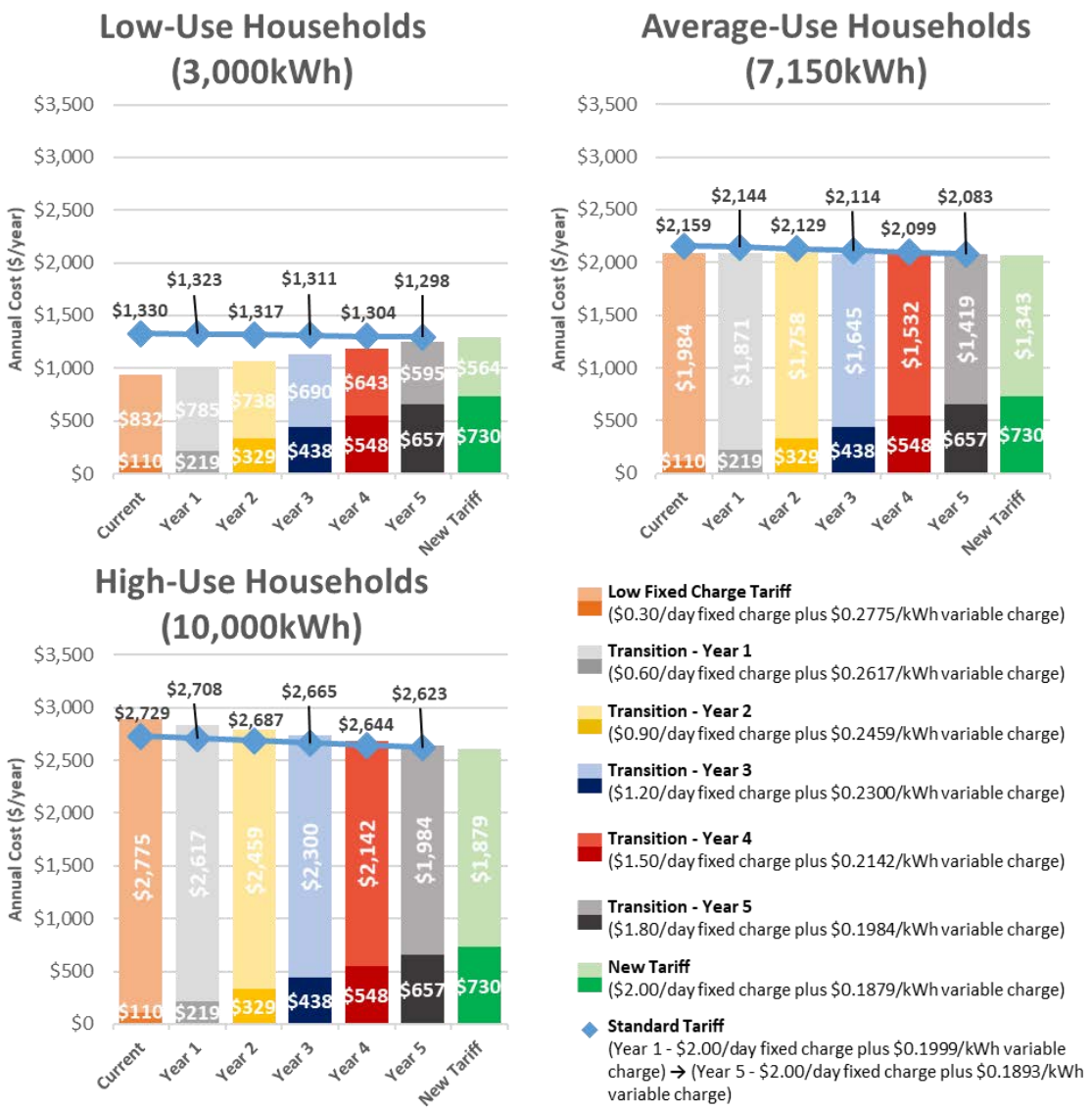
Option 2(c): Five-year Transition

Under this option the fixed charge component of the LFC tariff will be raised by $0.30 each year for five years over the transition. This will result in a fixed charge being raised to $1.80/day by the fifth year of the transition. In the following year, on 1 April 2027, the regulations would be removed and the industry will determine the final adjustment necessary to bring both tariffs, LFC and standard, together to a cost-reflective rate.

The impact of this option on a household's electricity bill would vary depending on that individual household's level of use. Based on MBIE's analysis, the impact on representative households using 3,000kWh, 7,150kWh and 10,000kWh each year representing low-, average and higher-use households respectively is provided in Figure 8 and Table 3 below.

[23] These figures represent households currently on LFC tariffs in the consumption band from 2,000 – 4,000kWh for 'Low', 7,000 – 9,000kWh for 'Average' and 9,000 - 11,000kWh for 'High'. The percentages are as a proportion of national households.
[24] This total figure includes an additional small adjustment between Year 3 and the New Tariff not shown in the table.

Figure 8: *Option 2(C) - Five Year Transition*



[Solid colours represent fixed charges while faded colours represent variable charges]

Source: MBIE Analysis

As was done for Option 2(b), the graphs above represents MBIE's assessment of the potential impact (i.e. the market rate for fixed charges will be $2.00/day by the end of the transition). The starting point (orange) and end point (green) are exactly the same as was presented in Option 2(b), however, there are more steps involved and so the annual bill impact for households is lower.

Again, as above in Option 2(b), Table 3 below shows the impact of both MBIE's and industry's models. The difference between the two models remains that MBIE considered the market rate for fixed charges is $2.00/day and that this will remain constant throughout the phase-out, while industry suggested that the market rate for fixed charges is $1.72/day and this will decrease to $1.57 over the course of the phase-out. As there are more step changes in this option, there is less divergence observed between MBIE's and industry's models, except for the final year of the transition.

Table 3: *Annual Difference to Electricity Bills for Households on LFC Tariffs under Option 2(c)*

Level	Households	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Low	292,111 (17.6%)	$62 (6%)	$62 (6%)	$62 (6%)	$62 (6%)	$14 - $62 (1% - 6%)	$261 - $352 (37%)
Average	343,027 (20.6%)	$4 (0%)	$4 (0%)	$4 (0%)	$4 (0%)	$2 - $4 (0%)	$20 (1%)
High	231,393 (13.9%)	$49 (2%)	$49 (2%)	$49 (2%)	$49 (2%)	$13 - $49 (2%)	$212 - $276 (10%)

As shown in Figure 8 and Table 3, the representative lower-use household would face annual bill increases of six per cent of their current electricity bill. While a minority of households, all with consumption below 3,000kWh/year, would face higher increases, households with consumption up to about 6,500kWh/year would face proportionally smaller increases. Households above approximately 6,500kWh/year would start to see bill decreases, with high-use households on LFC tariffs (10,000kWh/year) saving over $250 off their electricity bills by the end of the transition.

Option 3: Reduce the Scope of the LFC Regulations

The final option considered is a reduction in the scope of the LFC regulations. When the regulations were first developed, the pivot point of 8,000kWh was the average electricity consumption of households in New Zealand. Since 2004, that average has fallen to 7,150kWh. MBIE, therefore, considered resetting this pivot point to 7,000kWh to be closer to the average household usage. Additionally, MBIE considered an option where the threshold was set at a level which encompassed a more stringent definition of 'low users'. Instead of setting the threshold at a level that captures 50 per cent of the households in New Zealand, MBIE considered setting a threshold which captures approximately 25 per cent of households. A threshold of 4,000kWh/year was considered a reasonable match for this definition of a low-use household.

One of the main concerns with the existing LFC regulations is the under recovery of network costs from households on LFC tariffs. To address this reduction in the threshold it will be introduced alongside a one-off increase in the fixed charge component. It is proposed that the fixed charge should be increased by $0.50, bringing the daily fixed charge to $0.80/day for households on LFC tariffs.

It should be noted that these proposals are for the existing thresholds in the North Island and upper and central South Islands – which have an existing threshold of 8,000kWh/year. Although not discussed in detail below, this option would retain the existing threshold differential, acknowledging the trend for higher consumption in the lower South Island.

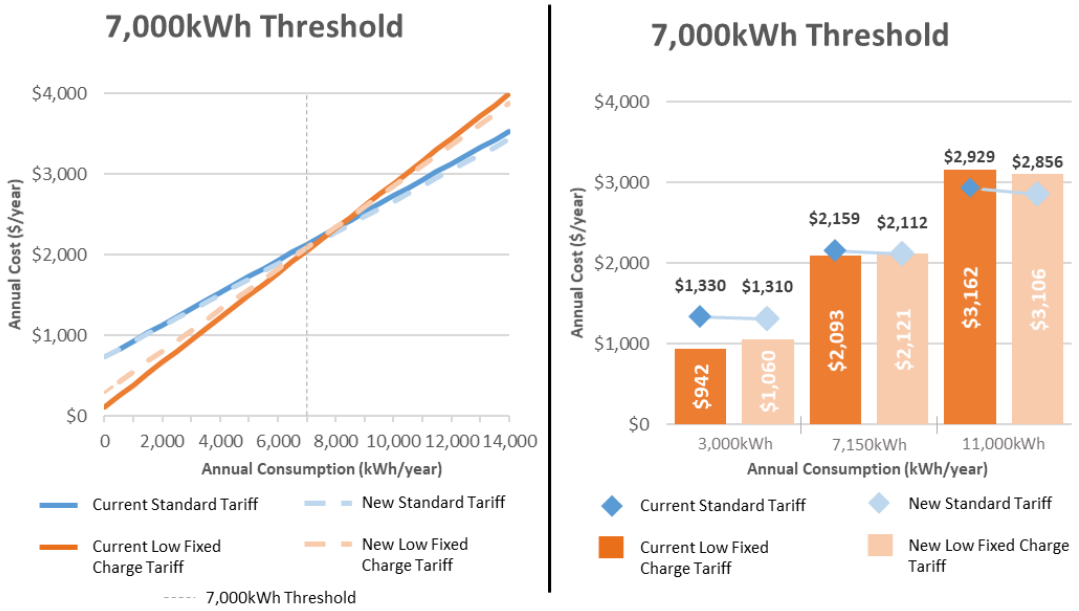
To address the distortive incentives currently experienced through the regulations, this option would not allow households which install distributed energy resources, such as solar, to choose this tariff. The regulations would allow households with existing distributed energy resources installed to be exempt from this disqualification and be able to choose this tariff.

Option 3(a): Threshold change to 7,000kWh/year and $0.50 fixed charge increase

This pathway under Option 3 considers a one-time threshold change to bring it back in line with average consumption in New Zealand. This would reduce the proportion of households in New Zealand that could currently benefit from LFC tariffs from almost 70 per cent to just below 60 per cent. It also proposes a one-off fixed charge increase of $0.50.

Figure 9 shows how these proposed changes would compare to the current standard and low fixed charge tariffs.

Figure 9: *Option 3(a) - Threshold Change to 7,000kWh and $0.50 Fixed Charge Increase*



Source: *MBIE Analysis*

As shown in Figure 9 there would be minimal reductions in annual bills for households on standard tariffs (solid blue line to light blue dash) and a slight increase in bills for households on LFC tariffs (solid orange line to light orange dash). The high variable charge feature would be retained despite an increase in the fixed charge component. Due to the increase in the fixed charge component of the LFC tariff, the variable charge would decrease from $0.2775/kWh to $0.2558/kWh. By comparison, under Option 2 the variable charge component would drop to $0.1879/kWh by the end of the transition.

The impact of this option on a household's electricity bill would vary depending on the individual household's consumption of electricity. Similar to the analysis given under Option 2, the impact on representative households using low (3,000kWh), average (7,150kWh) and high (10,000kWh) levels each year respectively is outlined in the bar chart above in Figure 9.

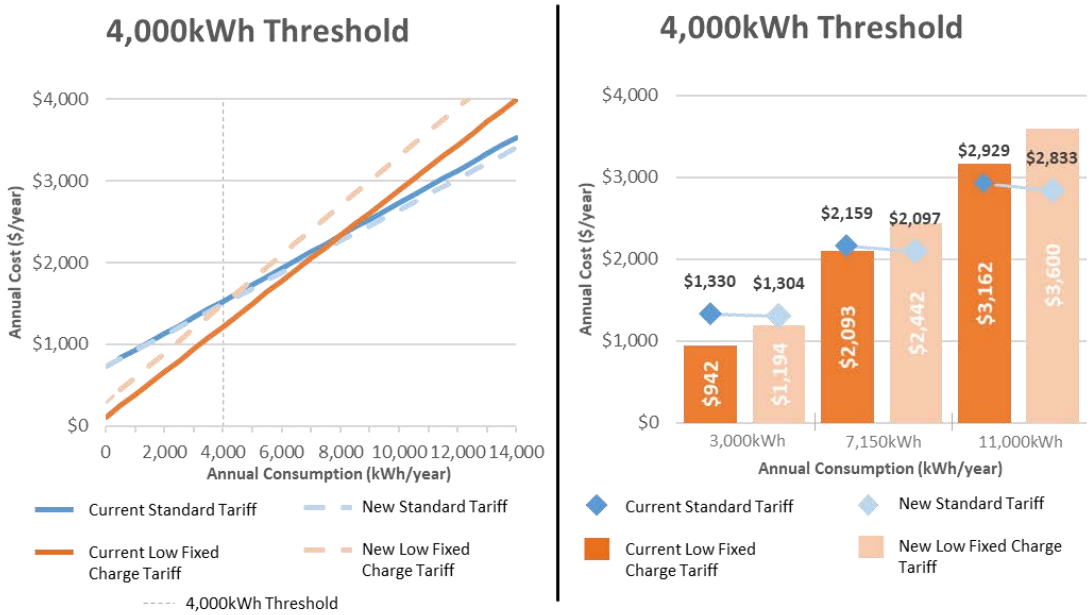
A representative low-use household on an LFC tariff using 3,000kWh/year would see a one-time increase of $118 (twelve per cent) in their electricity bills. As can be seen in the line chart, there is a point around 8,00kWh where, for households on LFC tariffs, their annual electricity bill would be cheaper. While there isn't a significant saving for average-use households, higher-use households would see annual bill savings of $56/year (two per cent). Households on standard tariffs at all levels of consumption would see a very small (two to three per cent) decrease in their electricity bill.

Option 3(b): Threshold change to 4,000kWh/year and $0.50 fixed charge increase

This pathway under Option 3 considers a one-time threshold change in order to reduce the proportion of households that can benefit from the regulations – targeting households which genuinely have low-use as opposed to the original regulations which allowed average-use households to benefit. This would reduce the proportion of households in New Zealand that could currently benefit from LFC tariffs from almost 70 per cent to just approximately 25 per cent. It also proposes a one-time-only fixed charge increase of $0.50.

Figure 10 below, shows how these proposed changes would compare to the current standard and low fixed charge tariffs.

Figure 10: *Option 3(b) - Threshold Change to 4,000kWh and $0.50 Fixed Charge Increase*



Source: *MBIE Analysis*

As shown in Figure 10 the new threshold of 4,000kWh results in increased prices at every consumption level for households on LFC tariffs but also results relatively significant savings for households on standard tariffs. This change is due to the need for both LFC and standard tariffs to be equal at the new 4,000kWh threshold, given the assumption that these changes would remain revenue neutral for retailers. While the fixed charge of the LFC increases to $0.80/day, there is also an increase in the variable charge which moves up to $0.3007/kWh. The variable charge for the standard tariff falls slightly, moving from $0.1999/kWh to $0.1912/kWh.

A representative low-use household, using 3,000kWh/year would see a one-time increase of $252 (27 per cent) in their electricity bills, while an average-use and higher-use households would see $349 (17 per cent) and $438 (14 per cent) increases respectively. Households on standard tariffs would again see electricity bill decreases of around two to three per cent.

3.2 What criteria, in addition to monetary costs and benefits have been used to assess the likely impacts of the options under consideration?

The criteria that have been used to assess the options under consideration are:

- **Policy Effectiveness:** does the option meet either original and current policy objectives – i.e. do any of the options considered meet the original objectives to assist low-use households and promote energy conservation, or newer policy objectives such as net zero emissions;
- **Efficiency:** does the option minimise the risk of unintended consequences, both current and potential, and achieve better allocative, technical and dynamic efficiency;
- **Durability:** is the option suitably future focused – i.e. how would it cope with future changes; and
- **Equity:** will the option affects people in similar circumstances in similar ways.

3.3 What other options have been ruled out of scope, or not considered, and why?

Many different options were considered, and analysed, by MBIE during the policy development process. Some additional options were also suggested by stakeholders during MBIE's engagement. These are briefly outlined below.

Transitional Tariff for Community Services Card holders

MBIE explored a Transitional Tariff option, under which the LFC regulations would be amended to require each retailer and distributor to offer only one Transitional Tariff to eligible households currently on a LFC tariff. To be eligible a household would need to have at least one Community Services Card (CSC) holder permanently living at the address. This Transitional Tariff would have the effect of slowly moving them towards a market-rate fixed charge over five years.

A challenge with this option is that the use of CSC is regulated by the Health Entitlement Cards Regulations 1993, which places strict limits on who can request to see a CSC. This regulation would need to be amended if the CSC is to be used to determine eligibility for a Transitional Tariff. The time it would take to change the regulations and then create an Application Programming Interface (API), to provide a verification database for retailers, which is estimated to take up to nine months, would pose a significant risk to our target timetable of 1 April 2022.

Under the Transitional Tariff option, the LFC regulations would cease to be in effect from 1 April 2022. As a result, all ineligible households (i.e. non-CSC holders) currently on a LFC tariff could be moved to other tariffs by their retailers. MBIE considered that enabling the industry to rapidly transition non-CSC householders to other tariffs would have the desirable effect of enabling faster distribution tariff reform in the industry. However, it was indicated that retailers would proactively manage the transition for non-CSC households to limit bill impacts, and this could, in practice limit the speed of tariff reform to some extent.

Discussions with industry experts did not identify a suitable option that would enable a slow phase-out for CSC holders and a quicker phase-out for non-CSC households. The most straightforward option is to have the same regulated rate of transition for CSC and

non-CSC households, which effectively means there would be no benefit from using CSC as an eligibility criterion for the phase out. It was also noted that some households in energy hardship may not be eligible for a CSC, and could therefore experience larger bill increases if not subject to the same phase-out as CSC households.

Increase fixed charge in-line with inflation

The fixed charge component of the LFC tariff has remained unchanged since it was first introduced in 2004. Under this option the fixed charge would be increased to a level that is consistent with the level of inflation. This option was considered out of scope as it would result in only very slight changes and would not address the distortionary incentives of the current regulations.

A one-time decrease in the threshold only

An option where the threshold would be reduced to a lower threshold, similar to Option 3, however with including the supplementary fixed charge component increase was also considered. Various levels for the threshold were considered such as; 7,000kWh; 6,000kWh; 5,000kWh; and 4,000kWh. This option was not proposed as, because the fixed charge remained the same but the threshold was lower, it resulted in increases in the variable charge for the LFC tariff making electricity bills more expensive for all users on LFC tariffs.

Keeping LFCs but removing the threshold so it's available to all

A stakeholder suggested that the threshold for LFCs should be removed altogether so that households that struggle with their electricity bill could choose to be on a tariff with a low fixed charge regardless of their electricity consumption and it would be less expensive than the equivalent standard tariff. This would require a regulatory intervention to change the current regulations. It was considered out of scope as it would provide no disincentive for any household, consuming any amount of electricity, to not be on the new LFC tariff; i.e. it is not clear why a household would chose to be on a standard tariff if the LFC tariff was always cheaper.

Section 4: Impact Analysis

Marginal impact: How does each of the options identified in section 3.1 compare with taking no action under each of the criteria set out in section 3.2?

<table>
<tr><th>Criteria</th><th>Option 1:
Status Quo</th><th>Option 2(a):
No Transition</th><th>Option 2(b):
Three Year Transition</th><th>Option 2(c):
Five Year Transition</th><th>Option 3(a):
7,000kWh Threshold</th><th>Option 3(b):
4,000kWh Threshold</th></tr>
<tr><td rowspan="2">Policy Effectiveness</td><td rowspan="2">0</td><td colspan="3" rowspan="2">++ encourages energy efficiency rather than energy conservation
++ reduces carbon emissions by ~8MtCO_2, helping achieve New Zealand’s climate ambitions
++ allows welfare objectives to be met more effectively through other means</td><td colspan="2">0 maintains energy conservation as a primary objective
- hampers efforts to decarbonise</td></tr>
<tr><td>0 slightly better targets low-use households</td><td>+ more effectively targets low-use households</td></tr>
<tr><td rowspan="2">Efficiency</td><td rowspan="2">0</td><td colspan="3">++ removes inefficient price signals
++ removes cross subsidy
++ encourages efficient uptake of technology</td><td colspan="2">0 maintains cross subsidy
- increases confusion and complexity</td></tr>
<tr><td>++ removes complexity and confusion</td><td>+ removes complexity and confusion</td><td>0 complexity maintained for longer</td><td>0 maintains inefficient price signals</td><td>- - increases inefficient price signals</td></tr>
<tr><td>Durability</td><td>0</td><td colspan="2">++ much better enabling of tariff reform</td><td>+ still enables tariff reform</td><td colspan="2">- continues and possibly further inhibits tariff reform
0 continues limitation of price signals to further enable decarbonisation</td></tr>
<tr><td>Equity</td><td>0</td><td>- - could significantly harm low-income high-use households in short-term</td><td>++ all high-use households will be better off
0 low-use low-income households could face bill shocks</td><td>++ all high-use households will be better off
++ limits steep price increases for low-income low-use households</td><td>0 minimal change</td><td>- - could significantly harm low-income high-use households</td></tr>
</table>

Overall Assessment	**0**	**+**	**++**	**++**	**0**	**- -**

Key:

++ much better than doing nothing/the status quo

+ better than doing nothing/the status quo

0 about the same as doing nothing/the status quo

- worse than doing nothing/the status quo

- - much worse than doing nothing/the status quo

Section 5: Conclusions

5.1 What option, or combination of options is likely to best address the problem, meet the policy objectives and deliver the highest net benefits?

The analysis conducted by MBIE, outlined in detail above, has shown that the LFC regulations have a number of harmful consequences and are no longer fit for purpose. In particular, they distort consumers' investment decisions, limit options for distribution tariff reform and have a number of unintended welfare consequences.

The objectives MBIE aimed to achieve to resolve the issues with LFCs, as set out in Section 2.5, helped guide our development of options. While a variety of options were originally considered through a process of policy development, MBIE eventually settled on three broad options: Retain; Remove; and Constrain. Some of these options had supplementary policy choices which further determined the scale and timeframe of how these options could have been implemented.

MBIE's preliminary thinking on LFCs and these options were presented to a wide range of stakeholders in a number of engagement sessions. In these sessions there was general, but not unanimous, agreements with MBIE's view that the LFCs are no longer fit for purpose. Many of the stakeholders agreed with the removal of the LFC regulations, however, they were strongly concerned with the potential impact on vulnerable consumers. Some stakeholders did not agree that the LFC regulations should be removed. Industry stakeholders heavily favoured the removal of the regulations as quickly as possible, with the key reason being the barrier they cause for tariff reform.

Taking stakeholder feedback on board alongside the supporting analysis, MBIE recommends that the LFC regulations should be phased out over a five year transitional period by raising the fixed charge component by $0.30 each year for five years from 1 April 2022 and removing the regulations on 1 April 2027 – as proposed in Option 2(c).

Option 2(c) is the preferred option as it most adequately addresses the issues identified with the regulations and strikes a good balance between limiting electricity bill increases for low-use households while removing well recognised barriers to tariff reform. A five-year phase-out was supported by the majority of stakeholders during consultation, although it should be noted that some originally had a preference for a shorter phase-out period. It is preferred to Option 2(a) and Option 2(b), no transition and three-year phase-out respectively, as there are concerns with the potential size of bill increases which could be passed through to consumers.

In addition to a five-year phase-out, which will limit the size of any bill impacts for low-use consumers, there is also an agreement, in principle, with Electricity Networks Association (ENA) and Electricity Retailers' Association New Zealand (ERANZ) to voluntarily establish a "Power Credits" scheme. This scheme would operate similarly to the power credits scheme recently delivered by ERANZ which aimed to support 10,000 households that had been affected by COVID-19 through the provision of $120 credits. While the exact design of the scheme is still under discussion, there has been a high-level agreement by ENA and ERANZ to contribute a total of $5 million over a period of a period of five years to support low-income, low-use, households who already struggle with their power bills and may be adversely affected by the phase-out of the LFC regulations.

Option 2(c) will also allow enough time for complementary measures, some of which are outlined on page 5 above, to be put in place to help support vulnerable consumers through this transition. Some of the complementary measures that could help support the transition, such as the Warmer Kiwi Homes programme and Healthy Homes Initiative, are already established. Other measures, such as defining and measuring energy hardship (an EPR recommendation), are currently being developed with the aim of completing this work before changes to LFC tariffs commence. One of the key initiatives to help support those affected by the proposed changes to the LFC regulations will be a strong communications campaign by the electricity retailers. MBIE will continue to work closely with the Energy Retailers Association NZ to ensure that consumers are fully aware and understand the changes to their tariffs.

Ultimately, it was considered that Option 1 did not offer satisfactory outcomes and would actually reduce the effectiveness of further efforts to reduce energy hardship. Additionally this option would not meet the recommendations of the EPR.

The paths considered under Option 3 do not address the issues identified with LFCs and would not meet the outcome envisioned in the EPR's recommendation. It is considered likely that if Option 3 was implemented that further government intervention would be necessary at some point in the future to address similar concerns as raised here.

5.2 What other impacts is this approach likely to have?

The key impacts are addressed in the assessment.

5.3 Summary table of costs and benefits of the preferred approach

Affected parties	**Comment**: *nature of cost or benefit (eg ongoing, one-off), evidence and assumption (eg compliance rates), risks*	Impact	Evidence certainty
Additional costs of proposed approach compared to taking no action			
Regulated parties	Short to medium term cost of advising customers of price changes and fielding inquires	Low	Medium
Regulators	The Electricity Authority may incur some administrative costs associated with amending its compliance regime for the regulations	Low	Medium
Wider government	Costs associated with process of developing, finalising and implementing amended Regulations	Low	Medium
Consumers	The regulations create a cross subsidy estimated at $170m per annum, from higher use to lower use residential consumers. Those low-use consumers on LFC tariffs will face higher bills from the progressive removal of the cross subsidy. Some of these consumers will be in energy hardship - about 55 per cent of low decile consumers enjoy lower bills of around $220 per year due to the Regulations. Others are some of the wealthiest consumers, enjoying a cross subsidy of about $200 per year. (Concept presentation to Productivity Commission, 2017). The nature and extent of the impact for consumers depends on their individual circumstances, their pricing plan and the approach retailers and distributors take when adjusting their tariffs to reflect the phasing out of the Regulations.	Medium	Medium
Total Monetised Cost	Approximately 690,000 households are expected to face increased annual electricity bills to varying degrees dependent on consumption. Of these, 235,000 are from areas of high deprivation and may be particularly effected.	Medium	Medium
Non-monetised costs	N/A	N/A	N/A

Expected benefits of proposed approach compared to taking no action			
Regulated parties	Reduced costs during the phase out period due to the more principles-based approach to determining compliance with the regulations. Reduced costs in the long run from no longer being required to offer LFC tariffs and maintain compliance with the regulations.	Low	High
Regulators	Possibly reduced on-going compliance costs of monitoring of the regulations by the Electricity Authority due to the more principles-based approach.	Low	Medium
Wider government	N/A	N/A	N/A
Consumers	Higher-use consumers will benefit from the removal of the cross subsidy (estimated at $170 per year). Some of these consumers will be in energy hardship - about 45 per cent of low decile consumers suffer higher bills of around $180 per year due to the Regulations. Consumers will benefit from less confusion as the number of tariffs offered will be reduced by half. The nature and extent of the impact for consumers depends on their individual circumstances, their pricing plan and the approach retailers and distributors take to adjusting their tariffs to reflect the phasing out of the regulations. Longer term benefits will result from more cost-reflective pricing, more efficient price signals and enhanced retail competition.	Medium	Medium
Total Monetised Benefit	Approximately 970,000 households are expected to face lower annual electricity bills to varying degrees dependent on consumption. Of these, 270,000 are from areas of high deprivation.	Medium	Medium
Non-monetised benefits	N/A	N/A	N/A

Section 6: Implementation and Operation

6.1 How will the new arrangements work in practice?

The government would make this change by amending regulations made under the Electricity Industry Act 2010. MBIE is the responsible government entity for the regulations.

During consultation with industry it was highlighted that it would be opportune to align the phase out of LFCs with the electricity pricing year, which typically beings on 1 April each year. Therefore, it would be necessary to implement the changes required to the regulations at least six to nine months before the start of the electricity pricing year, so retailers and distributors can develop and signal the relevant price changes well ahead of implementing them from 1 April 2022.

Any delay runs the risk that there will not be sufficient time for industry to prepare for these changes and the start of the phase out of LFCs could be delayed until April 2023. Any delay in implementing this EPR recommendation will prolong the harm that these regulations create.

The Electricity Authority will be made aware of the phase out, as it is responsible for monitoring the compliance with the regulations, and it also relates to its electricity distribution pricing reform programme. The Energy Efficiency and Conservation Agency will also be advised, given its interests in the electricity sector and energy efficiency, along with other social agencies and consumer groups given the potential for adverse impacts for some consumers.

6.2 What are the implementation risks?

The implementation of this proposal is relatively straight forward, as described above. However, in amending the LFC regulations there is a risk of creating inadvertent loopholes, unnecessary constraints, or unintended consequences. Before finalising the amended regulations MBIE will engage with stakeholders to stress-test the intended phase-out approach, and will consult on an exposure draft of the amended regulations before they are finalised and implemented. MBIE will also engage with the Electricity Authority regarding it being given discretion to take a more principles-based approach to determining compliance.

Before commencing the phase out, industry will also require a year to provide sufficient notification of their future pricing to their consumers. The phase out will also provide an opportunity for industry to correct the fixed charge component to the appropriate market rate in the year following the revocation of the regulations. With these requirements in mind, a five year phase out will result in the regulations being fully removed in 2027. The market can then set the appropriate price.

This change will have to be well managed by retailers in terms of their communications with their customers. This will take place annually when retailers change their tariffs, which is typically on 1 April. However there is a risk that consumers will not be aware and are caught “off guard” and confused by the changes. The major retailers, through ERANZ, have committed to actively promoting the changes taking place which should help mitigate this risk. Other non-government organisations, like as FinCap, the Salvation Army and other consumer groups will be encouraged to promote understanding of the proposed changes.

Section 7: Monitoring, Evaluation and Review

7.1 How will the impact of the new arrangements be monitored?

Changes to fixed charges will be continually monitored and an annual report will be provided to the Minister of Energy and Resources shortly after the start of the electricity pricing year in April each year. The regulations currently require both distributors and retailers to inform the Electricity Authority of their tariff charges to ensure compliance with the regulations. MBIE will explore with the Electricity Authority whether it is possible for this information to be used for monitoring purposed. However, if this is not possible, information on tariff rates are publicly available and MBIE will be able to monitor changes.

This monitoring will help pick up any price shifts over time as the regulations are phased out. Although it may be difficult to identify the exact impact of the phase out given the various other factors which influence electricity prices.

7.2 When and how will the new arrangements be reviewed?

It has been proposed to conduct a review of the phase-out at the halfway point, in late 2023, to establish whether the phase-out is resulting in adverse impacts for low-income households and whether additional support measures may be necessary at this stage.

The Energy Hardship Expert Panel will shortly be appointed. The role of this panel will be to provide independent advice on policy priorities and actions to alleviate energy hardship in New Zealand. It’s reasonable to expect that the panel’s consideration of possible initiatives to alleviate energy hardship generally might also encompass those materially adversely affected by LFC phase-out.