**Q & A: Why the Low Fixed Charge Regulations Must Go**

**What’s the problem?**

Some households are paying more for a connection to the electricity grid than other households. This imbalance could be corrected by the government revoking 2004 regulations which created and maintain what is a cross-subsidy. Cross subsidisation is the practice of charging higher prices to one group of consumers to subsidise lower prices for another group.

**Who is paying more than they should?**

In general, above-average consumers of electricity are paying more than the actual cost of their connection to the grid. In contrast, homes which use less electricity are contributing less than the actual cost of their connection.

**But shouldn’t higher users pay more?**

For electricity, yes. But they shouldn’t have to stump up more for their lines charge. Lines costs are largely fixed, meaning they do not vary depending on how much electricity is flowing through lines. All things being equal, a customer in any single town or city should be paying the same amount for their lines connection as their neighbour, regardless of energy consumption (measured in kilowatt hours).

**What regulation is causing the problem?**

The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004

**What do they do?**

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

**Is 30 cents a good deal?**

Exceptional. The actual cost of a connection to the grid varies from place to place, but a typical actual amount is $2.50 a day.

**Who can access the fixed charge?**

Domestic consumers of less than 8,000kWh (or 9,000kWh for consumers in the lower South Island).

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

The average electricity consumption of a New Zealand household in the year ending June 2017 was 7,120 kWh. The Electricity Networks Association estimates about 60 percent of households are eligible for the low- fixed charge, so the low-fixed charge is available to the majority of households.

**Again – what’s the problem?**

Lines companies require income to pay for new lines, or upgrade and repair existing lines. There are 152,000 km of lines in the distribution network. The amount that lines companies can recover is regulated by the Commerce Commission. If people are paying less than their share, then other households need to pay more, which creates the cross subsidy.

**How did the regulations come about?**

The regulations had two goals. The first was to encourage households to use less electricity, meaning decreased demand for new generation such as hydro schemes, which require rivers to be dammed. This was a noble goal in 2004, when electricity demand was rising by three percent a year. But new technology such as more efficient appliances, and better insultation, has resulted in total demand for electricity staying the same for the past 10 years, despite there being more people and homes. This means householders are on average using less electricity than they were.

A second goal was to help households on low incomes by reducing the lines component of their power bill. On average, the lines component makes up about 26 percent of a consumer’s total bill, the rest being generation, retailing, metering, and the cost of the high-voltage grid .

**Does it help people on lower incomes?**

Yes and no. There’s no doubt that some low-income households are low users. However, there are many households which use more than 8,000 kWh a year and which are on low incomes. These might be larger families living in homes with no other energy source (eg, gas, solar, open fire) and which are poorly insulated. These households are subsidising the lines connection charge of smaller households who live in modern homes which are well insulated and have modern appliances.

**What should happen?**

The low-fixed charge (LFC) regulations should be removed as a matter of priority, as they are causing outcomes which are directly contrary to the original intent.

The level of financial support given to households is inversely-proportional with the level of need. i.e. those whose energy needs are least get the most support, whereas those with high energy needs get an increase in costs. Low-fixed charges create an incentive for income-constrained households to under-heat their homes to save money.

**Is there a better way?**

One approach for delivering financial support is an energy-related income supplement. The Labour-New Zealand First coalition government announced a winter energy supplement of $450 for singles and $700 for couples who qualify – beneficiaries and superannuitants. Compared to the low fixed charge, the energy supplement is better targeted approach to helping those pay their power bill. Now that low-income households are being supported, and technology and better homes are reducing electricity demand, the low-fixed charges must be removed.

**Is this just a way for lines companies to make more money?**

No. Lines companies are natural monopolies and as such the total revenues they can earn are curbed by the Commerce Commission. Lines companies cannot make more money from the regulations being removed.

**Are there any other issues?**

Yes. Lines companies want to adjust the way they price for their service to reflect new technologies. The changes are motivated by the desire to firstly lessen peaks in demand so as to reduce the need for costly infrastructure upgrades, and secondly, to better align charging with true costs across all consumers. The low-fixed charges are an impediment to introducing these new pricing options.

Ends