REMOVING THE LOW FIXED CHARGE

In April 2022, the way your electricity bill is calculated was changed to make pricing fairer for households.

The change affects New Zealanders on a low fixed tariff (or low fixed charge), but also impacts those on standard use charges.

HERE'S HOW

GOOD INTENTIONS

Right back in 2004, a regulation was introduced aimed at reducing bills for households with low electricity consumption. The regulation encouraged lower electricity usage by giving a cheaper daily fixed charge rate to low users - households using under 8,000 kwh of electricity each year, or 9,000 kwh in some areas of the South Island. It was called the Low-fixed Charge Tariff Option for Domestic Consumers (or low fixed charge) and applied to about 50% of New Zealand households.

The fixed charge is the amount you pay towards the cost of connecting your home to the grid - it makes up about 15% of a typical bill.

This 2004 regulation set the daily fixed charge at an artificially low rate for lower users, well below the actual cost of keeping homes connected to the grid. This meant that everyone else had to pay more to cover the real costs.

Fair? Well not really.

UNINTENDED CONSEQUENCES

The big winners were small households using low amounts of electricity who enjoyed an artificially low fixed charge. Many of these households were low users because they could afford to install energy-saving measures like insulation, double glazing or solar panels - so they had lower electricity bills and a warmer, drier home.

Meanwhile, large households with higher energy needs, paid a higher variable rate, subsidising those on the low fixed charge.

Many of these were low-income households, living in large, damp, and often draughty homes that needed a lot of power to keep the whānau warm and the house dry.

An independent panel of experts reviewed New Zealand's electricity market. In their report, the 2019 Electricity Price Review they recommended removing the low fixed charge, saying it had the "unintended consequence of poorly heated homes and poor health".

The government accepted this advice, but rather than ditch the regulation overnight opted to phase it out over five years. This started on 1 April 2022.

The phase-out plan included a $5 million scheme funded jointly by electricity retailers and distributors to support eligible customers affected by the change.

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BALANCING ACT

As mentioned earlier, keeping the fixed charge artificially low resulted in a higher charge for some customers, meaning not everyone was treated the same.

The 2022 change in regulation is designed to correct this – the fixed charge will go up, but this will be offset by a fall in the variable charge.

Crucially, everyone will be treated equally and there will be support during the phase-out for those who need it.

The low fixed charge was
30 cents a day
when the phase-out began in 2022

and will increase by up to 30 cents a year
until it reaches a maximum
$1.80 a day in 2026,
before it's removed altogether in 2027.

SIGNIFICANT BENEFITS

Assessing the impact of the first year of the low-fixed user charge phase-out isn't easy because a range of factors are affecting electricity pricing, including high inflation, and fluctuating wholesale costs.

But Concept Consulting crunched the numbers in April 2023, 12 months after the phase-out began, and concluded: "This re-balancing of fixed and variable charges to be more cost-reflective will deliver significant benefits" for consumers.

It found that while the fixed charge was increasing, the average variable charge was reducing as intended.

Also, concerns that the regulatory change would result in increased electricity retailer margins proved unfounded. In fact, retailer margins decreased in the first year of the phase-out (2022-2023).

While this analysis only covered the first year of the five-year phase-out, it appears that the removal of the low-fixed user charge is achieving its goal of delivering fairer outcomes for all consumers.

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