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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In Confidence

Office of the Minister of Energy and Resources

Chair, Cabinet Economic Development Committee

PHASE-OUT OF THE LOW FIXED CHARGE TARIFF REGULATIONS

Proposal

1 This paper presents a recommendation to Cabinet on a phase-out mechanism for the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (the LFC regulations), as recommended by the Electricity Price Review 2019 (the EPR).

2 I propose that Cabinet accepts the recommended option of removing the LFC regulations through a five-year phase-out, as recommended by the EPR. During this phase-out period, the fixed charge component of the low fixed charge (LFC) tariff will be gradually raised by $0.30 each year for five years. After this period, on 1 April 2027, the LFC regulations will be revoked.

Relation to Government Priorities

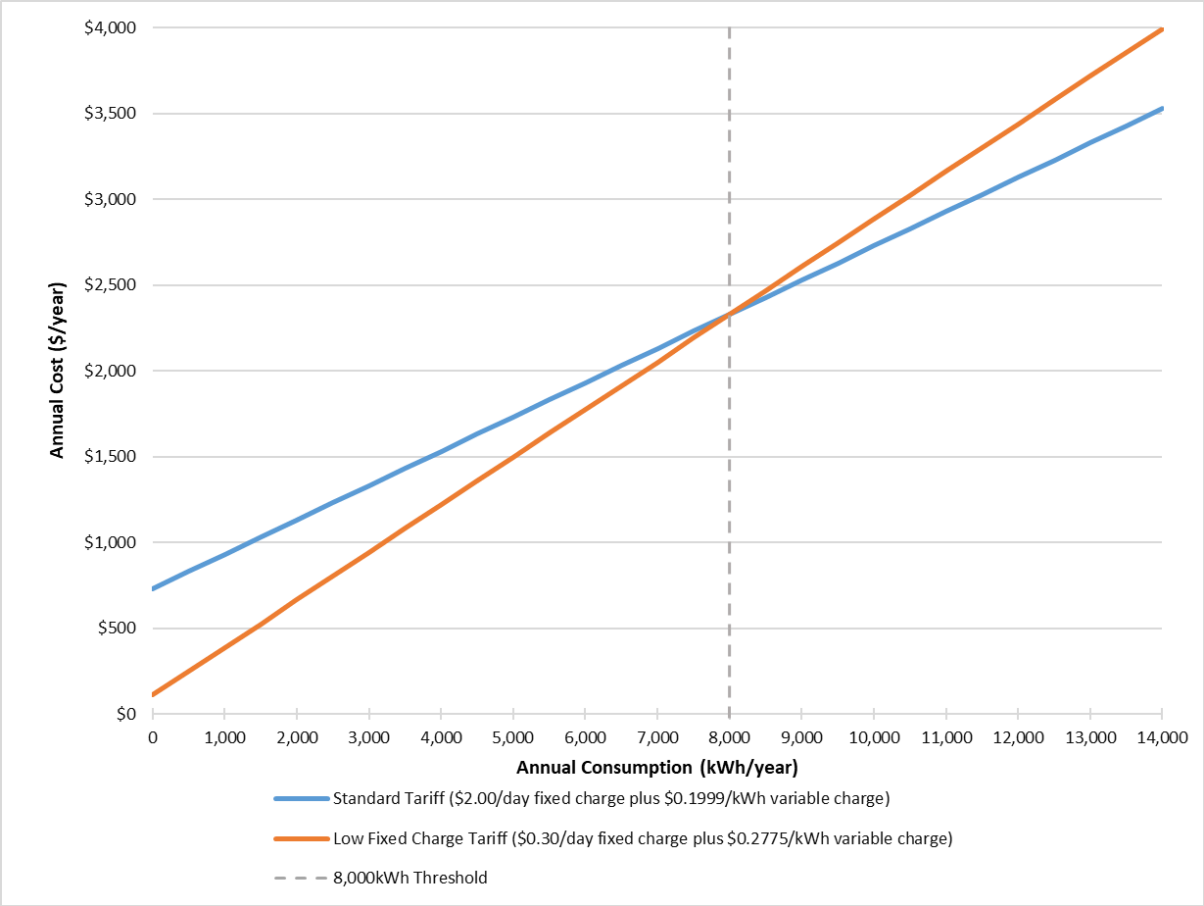
3 This proposal relates to the government's commitment to continue to implement the recommendations following the EPR, as outlined in Labour's Election Manifesto 2020.

Executive Summary

4 The LFC regulations were introduced in 2004 with the aim of making those who use less than the average amount of power (i.e. 8,000kWh/year or 9,000kWh/year in the lower South Island) better off. They were introduced in response to concerns about the impact of rising power prices on low income groups.

5 The regulations require that, for each standard residential tariff option they offer, retailers must also offer residential consumers a low fixed charge tariff equivalent that has a fixed charge component of no more than $0.30/day. To ensure that only those using less than the average amount of power could benefit from LFC tariffs, the regulations set out that the variable charge (i.e. the unit cost of electricity used) should be set so that a household using exactly the average amount of power would pay the same on a LFC tariff as it would on a standard tariff. This means low fixed charge tariffs have a much higher variable charge than standard tariffs. This is demonstrated in Figure 1 below and outlined in more detail in **Annex One** and **Annex Two**.

Figure 1: *Comparison between a standard tariff and a LFC tariff*



6 In 2019, the EPR recommended that the LFC regulations should be removed. Building on the findings of the EPR and supported by extensive stakeholder engagement and additional analysis, I recommend that the LFC regulations should be removed as they:

- limit options for distribution pricing reform;
- distort consumers' investment decisions; and
- have unintended welfare consequences, particularly for low-income households that are low electricity users.

7 I propose that the LFC regulations be phased out over a five-year period, by raising the fixed charge component by $0.30 each year from 1 April 2022, and then revoking the LFC regulations on 1 April 2027. This option is considered to strike a suitable balance between addressing the ongoing harm from the LFC regulations while limiting electricity bill increases during the phase out.

8 This proposal will remove regulations which were found to create barriers to much-needed electricity pricing reform and were harmful, including for vulnerable users. It will not remove the ability or incentive for the electricity industry to continue to offer tariffs which have low fixed charges.

9 Revoking the LFC regulations is expected to result in lower annual electricity bills for all households currently on standard tariffs and households on all LFC

tariffs which use over ~6,500kWh/year. The number of households affected is approximately 970,000 households (60 per cent of households in New Zealand) and includes around 270,000 households from areas of high deprivation.

10 However, households on LFC tariffs with electricity use below ~6,500kWh/year could face higher annual electricity bills to varying degrees dependent on their electricity use as a result of revoking the LFC regulations. There are approximately 690,000 households (40 per cent of households in New Zealand) in this category, including around 235,000 households from areas of high deprivation.

11 In order to support low-income, low-use, households through the phase-out, electricity distribution businesses and the major retailers have agreed to fund a $5 million “power credits” scheme. This scheme will complement the various Government initiatives underway to improve energy hardship in New Zealand.

12 Additionally, I propose that the phase-out mechanism should be reviewed in late 2023 to determine whether it is resulting in adverse outcomes for low-income, low-use, households and whether additional support measures may be necessary.

Background

13 A comprehensive background on the history of the LFC regulations and how the tariffs work are given in **Annex One** and **Annex Two** respectively.

Electricity Price Review findings and recommendation

14 In the context of rising residential electricity bills over several decades, I established the EPR in 2018 to examine the electricity sector. I tasked the EPR with investigating whether the electricity sector is delivering fair and equitable prices to consumers and whether the electricity market and the regulatory framework are appropriate. The EPR’s final report was published in October 2019 along with the government response.

15 The EPR recommended phasing out the LFC regulations. The LFC regulations were initially intended to encourage energy conservation and to assist households with low electricity use. The EPR found that the LFC regulations are poorly targeted and also have a number of unintended consequences, such as:

- helping only some households while pushing others into greater energy hardship – the EPR estimated that almost half of consumers in the most deprived areas pay higher bills because of the regulations;
- promoting inefficient choices for the adoption and use of new technologies (such as domestic rooftop solar generation and electric vehicles) and for electrifying the economy; and

- increasing pricing complexity and confusion, making it harder for consumers to shop around for the right electricity plan, hampering retail competition and likely raising average bills for consumers.

16 The EPR concluded that removing the LFC regulations should lead to lower household electricity bills on average, although very low-use households are likely to face increased bills.

Cabinet consideration in December 2019

17 I reported to Cabinet in December 2019 that I supported the EPR recommendation to phase-out the LFC regulations. However, I also noted the potential for removing these regulations to lead to increased electricity costs for households that use little electricity, including some already in energy hardship. I therefore recommended, and Cabinet agreed, that the removal of these regulations should not be completed in advance of measures being put in place to reduce energy hardship and to help non-switching customers to find better tariff plans [CAB-19-MIN-0675 refers].

18 My officials have been engaging with representatives of parties most likely to be affected by a phase-out to better understand the likely impacts and to design a phase-out mechanism that balances ensuring a just transition with taking meaningful steps to reduce the harm the LFC regulations create. The outcomes from this engagement, in addition to supplementary analysis, have helped develop the options proposed in this paper.

Analysis of the Impacts of Low Fixed Charge Tariffs

19 While due regard was given to the findings of the EPR, I considered it prudent for my officials to conduct further analysis and additional stakeholder engagement to determine the impacts of the LFC tariffs. This confirmed the finding that the LFC regulations result in unintended, adverse outcomes. I am therefore recommending that the LFC regulations should be removed.

20 As electricity usage is a poor indicator of socio-economic status, the LFC regulations result in a poorly targeted tool which helps some vulnerable households while pushing others, such as those with large families and/or poorly insulated homes, into greater hardship. Similarly, there are many wealthy households that are benefitting from the LFC tariffs and whose network costs are being subsidised by other, less affluent, households.

21 The LFC tariffs limit the ability of distributors to efficiently recover the costs of running the network. When the LFC regulations were first introduced in 2004, they were supposed to benefit households with electricity consumption below 8,000kWh/year, which was the average consumption at the time. As households have become more energy efficient since 2004 almost 70 per cent of households in New Zealand could now benefit from LFC tariffs. As a result of this, a progressively smaller proportion of standard users subsidise the network costs of an increasing number of households on LFC tariffs.

22 Additionally, the LFC regulations are a well-recognised barrier to distribution pricing reform, as noted in the Electricity Authority's letter in **Annex Three**. As the economy becomes increasingly electrified, cost-reflective price signals that enable networks to effectively manage peak demand will be crucial. This will help ensure that the transition to net-zero is least-cost for consumers as well as avoiding costly over-investment by distributors on network upgrades. While industry has already started introducing some cost-reflective tariffs, such as time-of-use pricing, the requirements under the LFC regulations to make LFC tariff options available are acting as a handbrake to these much-needed reforms.

23 The LFC tariffs distort consumers' electricity consumption decisions. Households on LFC tariffs face considerably higher variable charges (i.e. the cost per unit of electricity used) than households on standard tariffs. Essentially this is an incentive to reduce electricity consumption, which can result in households under-heating their homes, leading to adverse health and well-being outcomes. Incentives to reduce electricity consumption can be positive but should be achieved through encouraging increased uptake of more energy-efficient appliances or through education programmes focused on efficient energy use rather than disincentivising electricity use.

24 The LFC tariffs distort consumers' investment decisions, in particular, by disincentivising uptake in electric vehicles (EVs) and over-incentivising investment in solar panels. As outlined above, LFC tariffs create an incentive to reduce electricity consumption. This is a barrier to the uptake of EVs which is at odds with the Government's objective of decarbonising the transport sector. It also encourages consumers to invest in distributed generation, such as small-scale rooftop solar, to reduce their consumption. Households which can afford this are likely to be more affluent which means lower-income households may be being unfairly penalised for not being able to afford such investment to reduce, or offset, their consumption.

25 The LFC regulations also result in more complexity for distributors and retailers. The requirement to offer consumers a low fixed charge equivalent of each standard tariff they offer results in more complex pricing plans, increasing costs for retailers and distributors which are inevitably passed through to consumers. The requirement can also inhibit tariff innovation, resulting in reduced customer choice. Retailers are also required to promote LFC tariffs to their consumers each year increasing their administrative costs.

26 Despite retailers' efforts, there is considerable confusion for consumers caused by the LFC regulations. Over 120,000 households across New Zealand mistakenly choose to be on LFC tariffs despite being high-use households. Of these, around 45,000 use over 10,000kWh/year, significantly more than the 8,000kWh/year threshold,[1] resulting in these households paying potentially over $200/year more than they should for their electricity.

[1] The threshold for consumers in the Lower South region is 9,000kWh/year. See definition of "average consumer" in s4 of the LFC regulations.

Views from Parties Most Likely to be Affected by the Phase-Out

27 As directed by Cabinet [CAB-19-MIN-0675 refers], my officials canvassed the views of a large range of stakeholders representing those that are likely to be affected by the phase-out. The purpose was to better understand the likely impacts, and to design a phase-out mechanism that balances ensuring a just transition with taking meaningful steps to reduce the harm the LFC regulations create. Overall, 16 organisations were involved in targeted engagement sessions including consumer advocates, technology providers, electricity sector participants and organisations and the Electricity Authority.

28 Most, but not all, stakeholders agreed with MBIE's characterisation of the issues and the EPR recommendation that the LFC regulations should be removed. The most common concern raised related to vulnerable consumers who may be adversely impacted by a phase-out of the LFC regulations (i.e. low-income, low-use households). Grey Power raised concerns that changes to the LFC regulations could lead to some superannuitants facing higher costs, leading them to use less electricity, especially over winter.

29 Market participants and industry bodies overwhelmingly supported the removal of the LFC regulations and have committed to helping ensure the removal is implemented with as little disruption to consumer electricity use and investment as possible. The Electricity Authority is also supportive of the removal of these regulations through a five-year phase-out, although has noted that it considers a faster phase-out would be more desirable. A letter from the Authority is attached as **Annex Three**.

Recommended LFC Phase-Out and Potential Impacts

30 Taking stakeholders' views into consideration alongside the supporting analysis, I recommend that the LFC regulations should be phased out over a five-year period by raising the fixed charge component of LFC tariffs by $0.30 each year for five years, from 1 April 2022, and revoking the LFC regulations on 1 April 2027.

31 The fixed charge component of LFC tariffs is currently capped by the LFC regulations at $0.30/day. An average market rate for the fixed charge component of standard tariffs is considered by MBIE to be approximately $2.00/day. The recommended approach would see a very gradual rise in the fixed charge component of LFC tariffs by $0.30 each year to bring the regulated fixed charge in the final year to $1.80/day. The regulations would then be revoked from 1 April 2027. The annual increases would be as follows:

- **Year 1 (1 April 2022):** increase by $0.30 from $0.30/day to $0.60/day.
- **Year 2 (1 April 2023):** increase by $0.30 from $0.60/day to $0.90/day.
- **Year 3 (1 April 2024):** increase by $0.30 from $0.90/day to $1.20/day.
- **Year 4 (1 April 2025):** increase by $0.30 from $1.20/day to $1.50/day.

- **Year 5 (1 April 2026):** increase by $0.30 from $1.50/day to $1.80/day.
- **From 1 April 2027:** the regulations are revoked and the market will set the fixed charge.

32 The current maximum fixed charge for households on LFC tariffs, of $0.30/day, is split evenly between retailers and distributors (i.e. the maximum fixed charge allowed, under the regulations, by retailers is $0.15/day and the maximum allowed by distributors is $0.15/day). This even split will be retained during each year of the transition, with retailers and distributors each only allowed to charge a maximum of 50 per cent of the new price cap each year.

33 While a five-year phase-out will help limit the potential bill impacts for low-use consumers, I am still concerned about the possibility for low-income, low-use households to be adversely affected by the phase-out. To help support these households through the transition, industry[2] has agreed to voluntarily establish a $5 million "power credits" scheme. The detailed design of this scheme still needs to be confirmed, however, it will operate in a similar manner to the $1.2 million power credits scheme recently delivered by the Energy Retailers' Association (ERANZ) which aimed to support 10,000 households that had been affected by COVID-19 through the provision of $120 credits.

34 While there has been high-level agreement from the major retailers and electricity distribution businesses to provide $5 million towards this power credits scheme, this funding is subject to assurance that the scheme will be compliant with competition law.

35 The smaller retailers, Electric Kiwi, Flick Electric, OurPower, Pulse and Vocus, have been approached to be part of the power credits scheme. These retailers have chosen not to join the power credits scheme as they consider it will ultimately end up being paid for by consumers through higher prices or other fees retailers charge. They argue that an effective way to support low-income, low-use households through the transition would be for the government to make additional funds available through the existing, well-established and understood, welfare mechanisms.

Potential impacts

36 Any increases in the fixed charge component of LFC tariffs should result in decreases in the variable components of both LFC and standard tariffs. This is due to the continuing requirement for annual electricity bills for LFC and standard tariffs to be equal at a consumption level of 8,000kWh/year[3] and an assumption that any proposed change to tariff structures would be revenue neutral.[4] Because of this, the recommended phase-out option could result in lower annual electricity bills for all households on standard tariffs and for

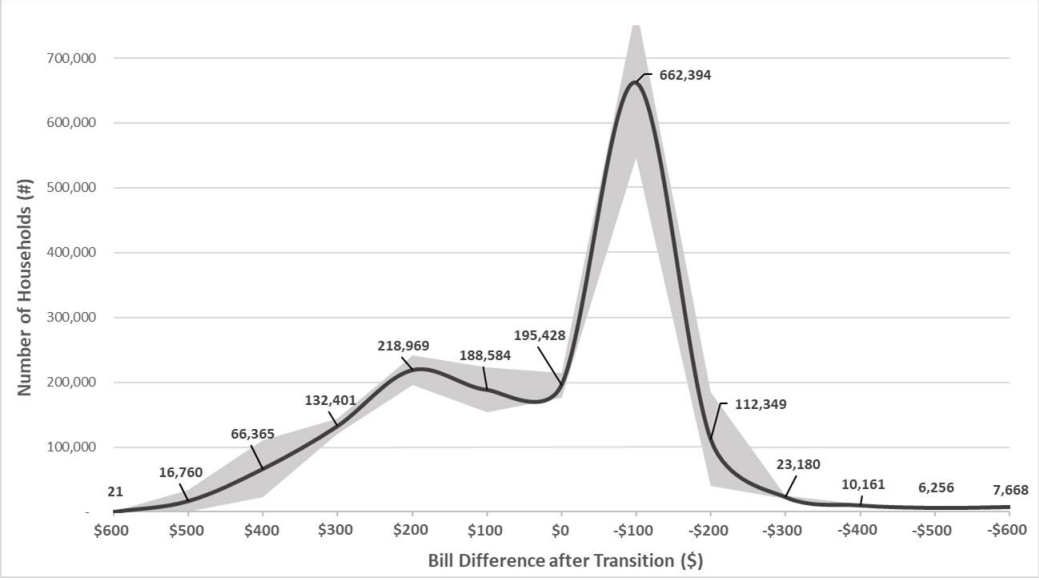
[2] This scheme will be funded over five years by $0.5 million per year from electricity distribution businesses and $0.5 million per year from the major retailers for a total of $2.5 million each.
[3] 9,000kWh/year in the lower South Island.
[4] This is explained in more detail below in Annex Two and in the Regulatory Impact Statement on pages 2 - 3 and 9 - 11.

households currently on LFC tariffs with consumption above 6,500kWh/year. Analysis shows that around 60 per cent of households (approx. 970,000) in New Zealand could benefit from removing LFC tariffs. This includes approximately 270,000 households in areas of high deprivation[5]. While the vast majority of these (approx. 815,000) could see their bill decrease by up to $200 by the end of the transition, some could see larger decreases as shown below in Figure 2.

37 However, up to 40 per cent of households (approx. 690,000) could face higher electricity bills as a result of removing the LFC regulations, including approximately 235,000 households from areas of high deprivation. Roughly half of these households (approx. 340,000) could see relatively small increases of less than $40 per year, or $166 to $226 by the end of the transition. Of the remaining households, roughly 210,000 could face bill increases of less than $62 per year, or $261 to $352 by the end of the transition. The total annual increase for all these households (approx. 550,000) households or almost 80 per cent of all households facing increased bills, would represent an increase of less than 6 per cent on their previous annual power bill.

38 The remaining 140,000 households could see higher bill increases, which can be seen in Figure 2 below. These households have extremely low electricity use (i.e. less than 3,000kWh/year). This has led some stakeholders to question whether some of these households may be holiday homes. Under the current LFC regulations, holiday homes are excluded from being on LFC tariffs, however, in practice, it is very difficult to assess compliance.

Figure 2: *Analysis of Annual Household Electricity Bill Impact at End of Transition*



39 There is a high degree of uncertainty over how distributors and retailers will choose to structure their tariffs once the LFC regulations begin to be phased-out. Removing the regulations will not remove the ability or incentive for industry to continue to offer tariff options with relatively low fixed charges –

[5] Determined using University of Otago's "New Zealand Deprivation Index'.

which some consumers clearly value – and some distributors and retailers may choose not to raise their fixed charges in line with the maximum allowed during the phase-out. However, to ensure Cabinet is fully aware of the range of potential bill impacts, MBIE has taken quite a conservative approach in its modelling which represents the higher end of potential bill impacts. Industry stakeholders, on the other hand, have put forward their own analysis which they claim represents the average market rate. Figure 2 above draws on both of these approaches to provide a fuller range of outcomes.

Support measures to mitigate the impact

40 Some measures to help support this group of low-income, low-use households are already in place, and others are planned to be implemented ahead of the transition. Measures include Government initiatives such as:

- the Winter Energy Payment which provides beneficiaries with an extra payment to help with the cost of heating their home over the winter months;
- defining and measuring energy hardship to enable better measurement and monitoring of energy hardship levels;
- 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; and
- continuing the 'Support for Energy Education in Communities' (SEEC) programme, which has been allocated $6.65 million 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.

41 There are also industry-led initiatives which will provide support to low-income, low-use households through the transition. This includes:

- a $5 million power credits scheme outlined above (para. 33);
- ERANZ' in-home energy coaching service, *Energy Mate*, which helps households in need manage their energy use efficiently and keep their homes warm; and
- ERANZ' undertaking that its members will implement a range of measures to help consumers understand and navigate any price changes associated with a phase-out of LFCs (**Annex Four**).

42 Additionally, the Electricity Authority has recently refreshed and strengthened existing voluntary guidelines that promote effective interactions between

retailers and vulnerable households that experience bill payment difficulties. Following formal consultation in late 2020, the Authority's new *Consumer Care Guidelines* came into effect from 1 July 2021. They guide retailers in adopting behaviours and processes that foster positive relationships with all domestic consumers (not just the vulnerable and medically dependent). The new guidelines are aimed at helping consumers maximise their potential to access and afford a constant electricity supply suitable for their needs, and minimising harm caused by insufficient access to electricity, or by payment difficulties. This is the first step towards addressing the EPR recommendation that there be mandatory minimum standards for vulnerable and medically dependent consumers.

43 Considering the uncertainty about how industry will choose to structure the proposed changes, I believe that there should be a midpoint review of the impacts of the phase-out mechanism to determine its effects, especially on low-income, low-use households. This review would be completed in late 2023. Having a review at this point may benefit from the work of the, soon-to-be-established, Energy Hardship Expert Panel, which may have considered the impact of the phase-out mechanism during the course of its work. Additionally, my officials will monitor the market to observe how industry has structured the proposed changes and will report annually.

Other options considered

44 The recommended phase-out period of five years is preferred to other options, such as a shorter phase-out or a more targeted approach to support only low-income, low-use households. These other options were found to either result in much larger annual bill increases or would be unnecessarily complex and costly.

Implementation

45 As required under s113(4)(b) of the Electricity Industry Act 2010, before recommending an Order in Council under s113, I must obtain and consider advice from the Authority on the impact of the proposed Order in Council on the promotion of competition in, the reliable supply by, and the efficient operation of, the electricity industry.

46 The Authority has already outlined its support for the policy proposal of a five-year phase-out of the LFC regulations, as outlined in **Annex Three**. I will consult further with the Authority for their advice on the impact of the proposed Order in Council before returning to Cabinet Legislation Committee.

Financial Implications

47 There are no financial implications associated with this proposal.

Legislative Implications

48 The proposal in this paper would have legislative implications, from 1 April 2022. This is in the form of amendments to the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.

49 In addition, these amendments will ultimately result in revocation of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004, following the five-year phase-out period, with a revocation date of 1 April 2027.

Impact Analysis

Regulatory Impact Statement

50 A Regulatory Impact Statement has been prepared and is attached to this paper as **Annex Five**.

51 MBIE's Regulatory Impact Analysis Review Panel has reviewed the attached Impact Statement prepared by MBIE. The Panel considers that the information and analysis summarised in the Impact Summary meets the criteria necessary for Ministers to make informed decisions on the proposals in this paper.

Climate Implications of Policy Assessment

52 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal package as the threshold for significance is met.

53 This proposal is likely to result in a total cumulative reduction of approximately 8 million tonnes of carbon dioxide equivalent ($MtCO_2$-e) by 2050.

54 A significant portion of this impact (around 6.8 $MtCO_2$-e) is due to a greater projected uptake of EVs if the LFC regulations are removed due to households facing lower variable charges. High variable charges are a well-recognised barrier to the uptake of EVs as they can discourage electricity use. An additional net reduction of 1.2 $MtCO_2$-e from changes in energy usage is likely to occur, mostly due to a greater uptake of electric forms of home heating over gas/LPG.

55 The CIPA team has reviewed the calculation of estimates for this proposal and considers the estimates to follow good practice and use reasonable assumptions. The Disclosure Sheet is attached as **Annex Six**.

Population Implications

56 Analysis shows that there are approximately 235,000 households from deciles 8 – 10 on the deprivation index that are on LFC tariffs and have consumption

below ~6,500kWh/year. These households will be particularly adversely impacted by changes to the LFC regulations.

57 The vast majority of these households are in the Auckland region. Other regions with relatively high numbers of these households are the Waikato, Manawatū-Whanganui, Northland, Wellington, and Taranaki regions.

58 Conversely, there are approximately 270,000 households from areas of high deprivation that could benefit from the removal of the LFC regulations.

Human Rights

59 This paper is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

60 There was an extensive programme of consultation undertaken during the EPR which identified the issues with LFC tariffs and recommended that they should be removed. As noted previously, I supported the recommendation to phase-out the LFC regulations, however I was aware of the potential for it to increase costs for households that use little electricity, including some in energy hardship. As outlined above, my officials have engaged with parties most likely to be affected by the phase-out to better understand the likely impacts and to design a phase-out mechanism that balances ensuring a just transition with taking meaningful steps to reduce the harm the LFC regulations create.

61 Under section 113(4) of the Electricity Industry Act 2010, before I recommend an Order in Council to repeal the LFC regulations I am required to consult with the Minister of Consumer Affairs and obtain and consider advice from the Electricity Authority.

62 The Minister of Consumer Affairs has been consulted and no concerns were raised.

63 I am also required to obtain and consider advice from the Authority on the impact of the proposed Order in Council on the promotion of competition in, the reliable supply by, and the efficient operation of, the electricity industry. This will be started once Cabinet has made its decisions and will be finalised once the proposed regulatory changes are drafted. The Authority has considered the impact of the policy recommendations on the promotion of competition in, the reliable supply by, and the efficient operation of, the electricity industry and has indicated its support for the proposals in the letter attached as **Annex Three**.

64 The following agencies were also consulted in the development of this paper: Department of the Prime Minister and Cabinet; Electricity Authority; Energy Efficiency and Conservation Authority; Ministry for the Environment; Ministry of Business, Innovation and Employment; Ministry of Health; Ministry of

Housing and Urban Development; Ministry of Social Development; Ministry of Transport; and The Treasury.

Communications

65 As noted in ERANZ' letter (**Annex Four**), a key element of phasing out LFCs will be effectively communicating the change to consumers. To minimise adverse impacts on consumers, it is important that electricity retailers are proactive in helping consumers understand these changes. ERANZ has proposed a number of voluntary initiatives that industry[6] could undertake to assist consumers, such as:

- a social media campaign informing the public of the LFC phase-out;
- writing a letter to each of their customers estimated to experience price rises due to the LFC phase-out and provide additional information about how to re-evaluate the plan they are on and where to find budgeting support if required; and
- working alongside consumer groups, like FinCap and Consumer NZ, so they can proactively provide advice to consumers on how to navigate any changes.

66 My officials will continue to work closely with industry groups, including independent retailers, to develop a set of voluntary minimum standards, based on actions suggested in **Annex Four**, which will help assist consumers in managing the transition.

67 My officials will also develop a communication strategy for my Department to proactively signal upcoming changes. An important focus of this work will be ensuring that this is carefully targeted to ensure that the most vulnerable low-income, low-use households, including the elderly and disabled people, understand where they can access additional support.

Proactive Release

68 The Cabinet papers, Cabinet committee papers and minutes associated with these proposed amendments will be published online within 30 business days of final decisions being taken by Cabinet.

Recommendations

69 The Minister of Energy and Resources recommends that the Committee:

1 **note** that in December 2019, Cabinet agreed that officials should engage with parties most likely to be affected by the phase-out to help the development of

[6] This applies to ERANZ members only. ERANZ represents larger retailers, which supply electricity to approximately 92 per cent of households in New Zealand. There are a number of smaller retailers that are not represented by ERANZ.

a more robust and fair approach to phasing out the regulations [CAB-19-MIN-0675 refers].

2 **note** that my officials completed a programme of engagement with representatives of parties most likely to be affected by the phase-out of the LFC regulations, and the outcomes of that engagement have informed the recommendations included in this paper.

3 **agree** that the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (the LFC regulations) should be phased out through a five-year transition under the following configuration:

3.1 in the first year, from 1 April 2022, the maximum charge of $0.30/day for the fixed component of LFC tariffs will be raised by $0.30, to $0.60/day;

3.2 in the second year, from 1 April 2023, the maximum charge of $0.60/day for the fixed component of LFC tariffs will be raised by $0.30, to $0.90/day;

3.3 in the third year, from 1 April 2024, the maximum charge of $0.90/day for the fixed component of LFC tariffs will be raised by $0.30, to $1.20/day;

3.4 in the fourth year, from 1 April 2025, the maximum charge of $1.20/day for the fixed component of LFC tariffs will be raised by $0.30, to $1.50/day;

3.5 in the fifth year, from 1 April 2026, the maximum charge of $1.50/day for the fixed component of LFC tariffs will be raised by $0.30, to $1.80/day; and

3.6 at the end of the phase-out, from 1 April 2027, the LFC regulations will be revoked, allowing for a market-determined adjustment of fixed charges.

4 **note** that during the phase out period the existing split between the maximum fixed charge for distributors and retailers will be retained, so that the maximum fixed charge for distributors remains at 50 per cent of the maximum fixed charge for retailers.

5 **invite** the Minister of Energy and Resources to issue drafting instructions to the Parliamentary Counsel Office to give effect to Recommendation 3.

6 **authorise** the Minister of Energy and Resources to make decisions on any further details or matters that arise in the implementation of the proposals in this Cabinet paper, including on any minor and technical issues that may arise in the drafting process.

7 **note** that approximately 60 per cent of households (970,000) in New Zealand could experience lower annual electricity bills as a result of the removal of the LFC regulations.

8 **note** that approximately 16 per cent of households (270,000) are low-income households that could benefit, in some cases significantly, by the removal of the LFC regulations.

9 **note** that approximately 40 per cent of households (~690,000) could face an increase in their electricity bill in one or more years of the five year phase-out period.

10 **note** that approximately 14 per cent of households (~ 235,000) are low-income, low-use households currently on LFC tariffs and these could be particularly adversely affected by the removal of the LFC regulations.

11 **note** that electricity distribution businesses and the major retailers have agreed to fund a $5 million “power credits” scheme to support low-income, low-use households through the phase-out.

12 **note** that funding from electricity distribution businesses and the major retailers for the power credits scheme is subject to assurance that the scheme will be compliant with competition law.

13 **agree** that there should be a review on the progress of the LFC phase-out in late 2023 to determine whether the phase-out mechanism is resulting in any adverse impacts for low-income households and whether additional support measures may be necessary.

14 **agree** that MBIE should report to the Minister of Energy and Resources annually on any notable changes to fixed charges observed in the market as a result of the phase-out mechanism.

Authorised for lodgement

Hon. Dr. Megan Woods

Minister of Energy and Resources

Annex One: History of the Low Fixed Charge Tariff Regulations

1 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.[1] 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. Many domestic consumers felt frustrated and powerless, faced with billing and switching difficulties and rising fixed charges, which were viewed as hurting the most vulnerable members of society.

2 The Caygill Inquiry delivered its final report in June 2000 which made 53 recommendations on all aspects of the industry. The recommendations in the report were all implemented either directly or with slight modifications in the government's Power Package released on 3 October 2000.[2] The Power Package was a strategic and comprehensive approach to improve and stabilise the electricity industry with two main aims:

- to deliver fairness to all consumers, particularly small consumers; and
- to promote environmental sustainability and energy efficiency.

3 Following the release of the government's Power Package which identified fixed charges as a great source of discontent to electricity consumers, in December 2000 the government released a Government Policy Statement (GPS) on the further development of New Zealand's electricity industry. Its objective was to ensure that electricity was delivered in an efficient, fair, reliable and environmentally sustainable manner to all consumers.[3] It 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 (i.e. consuming 8,000kWh/year). This resulted in a $0.30/day (excl. GST) charge.

4 Offering a tariff with a low fixed charge was to deliver a fair choice to the most vulnerable members of society, especially the elderly on low fixed incomes, and to encourage energy conservation. Additionally it would provide small consumers with lower fixed charges and higher variable charges so they would have greater controls over their bills and an increased incentive for energy conservation which, at the time, was assumed to result in environmental benefits.[4] There was an assumption at this stage that low use

[1] Minister of Energy, Pete Hodgson, *'Ministerial Inquiry into the Electricity Industry'* (3 Feb 2000), available at: https://www.beehive.govt.nz/release/ministerial-inquiry-electricity-industry
[2] Minister of Energy, Pete Hodgson, *'The Power Package'* (15 Dec 2000), available at: https://www.beehive.govt.nz/speech/power-package
[3] Minister of Energy, Pete Hodgson, *'Final Version of Electricity Policy Statement Released'* (7 Dec 2000), available at: www.beehive.govt.nz/release/final-version-electricity-policy-statement-released
[4] Minister of Energy, Pete Hodgson, *'The Power Package'* (15 Dec 2000), available at: https://www.beehive.govt.nz/speech/power-package

consumers tended to have low incomes. The policy also provided for an even 50:50 split in the charge between retailers and distributors.

5 The approach of the government of the time was to deliberately put pressure on retailers to effect change but to stop short of regulation. It was believed that the self-regulatory framework which was employed would provide the flexibility for the industry to keep up with future changes and advances in technology. However, a clear challenge was laid down for industry to show that regulation was not necessary to achieve the results New Zealanders needed. The key message from government was that "government favours industry solutions where possible and regulatory solutions where necessary" and that it was watching closely.[5]

6 After three years of trialling a voluntary approach it was clear that full compliance would not be achieved. While there was a significant degree of compliance with the low fixed charge tariff policy from all electricity distributors and most of the five major retailers, two retailers (Mighty River Power and Genesis Energy) representing about 40 per cent of domestic consumers, had not made available a low fixed charge tariff option to their consumers. Additionally, there were calls for intervention on rising electricity bills from the Consumers' Institute and other bodies. Therefore, it was decided that, to achieve the availability of a low fixed charge tariff option for all domestic consumers, regulation under section 172(b) of the Electricity Act 1992 would be necessary [CBC (04) 43 refers].

7 The Minister of Energy, Hon Pete Hodgson, introduced the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 (the LFC regulations), outlining 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 better off. In particular, the regulations were designed to "help older New Zealanders on fixed incomes who are typically frugal users of power".[6]

8 The LFC regulations required that retailers offered residential consumers a low fixed charge tariff equivalent for each standard residential tariff option they offered 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;

[5] Minister of Energy, Pete Hodgson, *'The Power Package'* (15 Dec 2000), available at: https://www.beehive.govt.nz/speech/power-package
[6] 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

- 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 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 must offer low fixed charge distributor tariff options (to retailers or direct to consumers) at a maximum of $0.15/day.

9 By 2007, a common criticism of the LFC regulations was that they used a national universal standard of 8,000kWh across the whole country rather than accounting for regional consumption levels. This criticism arose from an observable inconsistency in take-up rates of LFC tariffs in the lower South Island, as can be seen in Figure 1 below. The government of the time noted that the disparate coverage nationwide was inconsistent with the original policy intent to benefit low income consumers with less than average consumption.

Figure 1: *Regional Uptake Rates of LFC Tariffs in New Zealand, 2006*[7]

Region[8]	No. of Domestic Consumers	No. of Consumers on LFC Tariffs	LFC Uptake (%)	Average Consumption (kWh)
Upper North	594,683	311,270	52.3%	7,717
Central	753,631	226,958	30.1%	7,076
Middle South	181,190	36,480	20.1%	8,758
Lower South	145,426	13,362	9.2%	8,923

10 The regional differences in the uptake of LFC tariffs were explained through the warmer upper North Island climate lowering electricity consumption for heating and the colder South Island temperatures resulting in more consumers having higher consumption levels and being ineligible for an LFC tariff. Additionally, LFC tariffs were particularly attractive to duel fuel

[7] Cabinet Economic Development Committee, (2007) *'Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004: Proposed Amendments'* [EDC (07) 112]

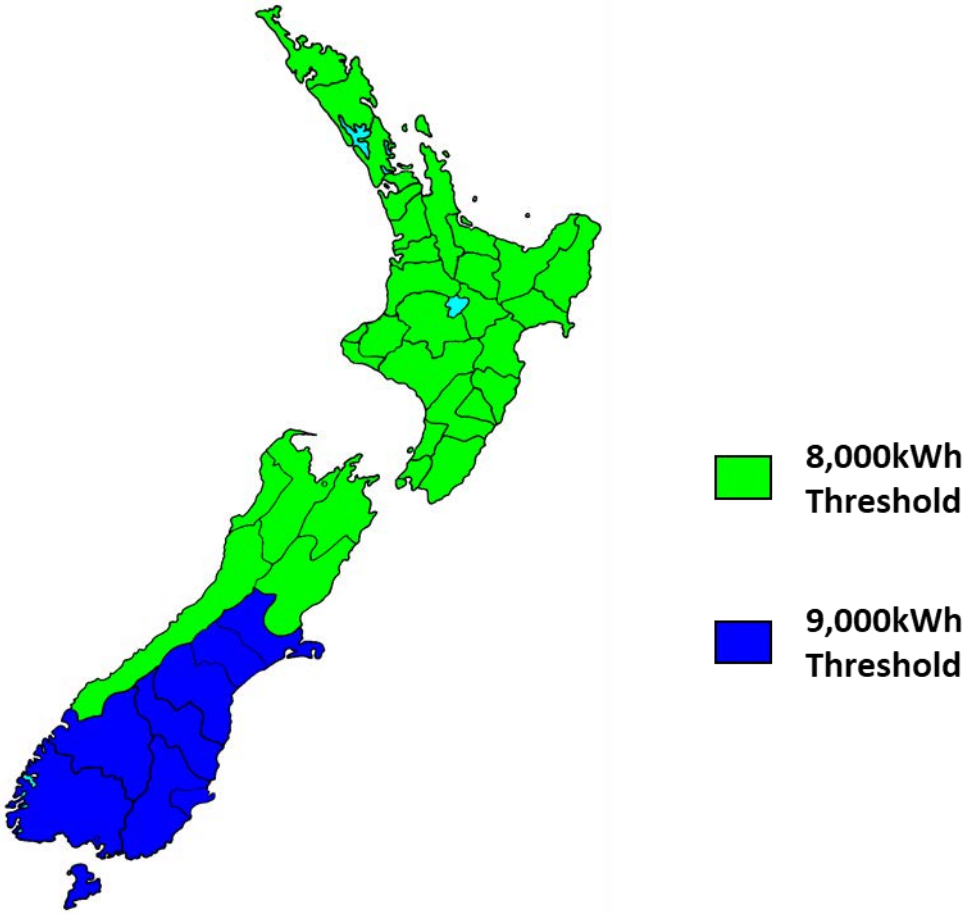
[8] To assist in the comparison of figures against regional statistics, the figures presented in the Cabinet paper were aggregated into four regions. These were:

- **Upper North:** Auckland and north of Auckland.
- **Central:** the remainder of the North Island and Buller/West Coast, Nelson, Marlborough and North Canterbury (as these areas all have similar climates).
- **Middle South:** Christchurch, Ashburton and Timaru.
- **Lower South:** south of Network Waitaki River.

consumers, which were more likely to be in the North Island given the lack of access to reticulated gas in the South Island.

11 To rectify this problem, the Minister of Energy at the time, Hon David Parker, proposed establishing a single lower South Island zone with a threshold of 9,000kWh/year, consisting of the geographic area from Christchurch southward but excluding the West Coast. The boundaries of the zone were determined using existing distribution network boundaries, to limit business compliance costs as these boundaries generally reflected retailer billing systems. Figure 2 below illustrates where the new boundaries would be located.

Figure 2: *Regional Boundaries for LFC Thresholds*



12 In July 2007, Cabinet agreed that the LFC regulations should be amended to allow for differences in average consumption levels in difference regions [CAB Min (07) 23/4A refers].

13 In 2015, the Electricity Authority requested the Retail Advisory Group (RAG) investigate the competition, reliability and efficiency effects of the LFC regulations. This was due to industry participants and consumer representatives highlighting their concerns with the adverse effects of the regulations. The RAG research paper found that the regulations:

- distort consumers electricity use as they face tariffs that do not reflect the costs of the electricity that they are using;

- distorts consumers' investment decisions, encouraging them to invest in solar photovoltaics and other substitutes for distributed electricity even when they are relatively expensive compared to distributed electricity; and

- increase operating costs by imposing a range of compliance costs on distributors and retailers that raise the costs of service to consumers.

14 In 2017, David Caygill, who headed the ministerial inquiry that recommended bringing in low fixed charge tariffs and who, at the time, was chair of the BusinessNZ Energy Council, 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."[9]

[9] 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

Annex Two: How the Low Fixed Charge Tariff Works

1 Electricity tariffs in New Zealand generally comprise of two key components – a fixed charge and a variable charge.[1]

2 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).

3 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. Prices are 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.

4 The distribution charge is passed on to consumers by their retailer who adds on its own fixed charge. The average market-rate for fixed charges is assumed by MBIE to be around $2.00/day (i.e. $1.00/day for the distributor and $1.00/day for the retailer). Retailers generally operate nationally and want to keep their fixed charges consistent nationally, However, they face significantly different distribution charges in each region they operate, meaning that in some regions they can recover a higher proportion of the fixed charge than in others. By contrast, the LFC regulations specify[2] that a retailer must not charge more than $0.30/day (excl. GST), of which no more than $0.15/day (excl. GST) can be the distribution charge.

5 The result of all this is that while the fixed charge for an average standard tariff could be around $730/year (i.e. $2.00*365, excl. GST), the fixed charge for a low fixed charge tariff is $109.50/year (i.e. $0.30*365, excl. GST).

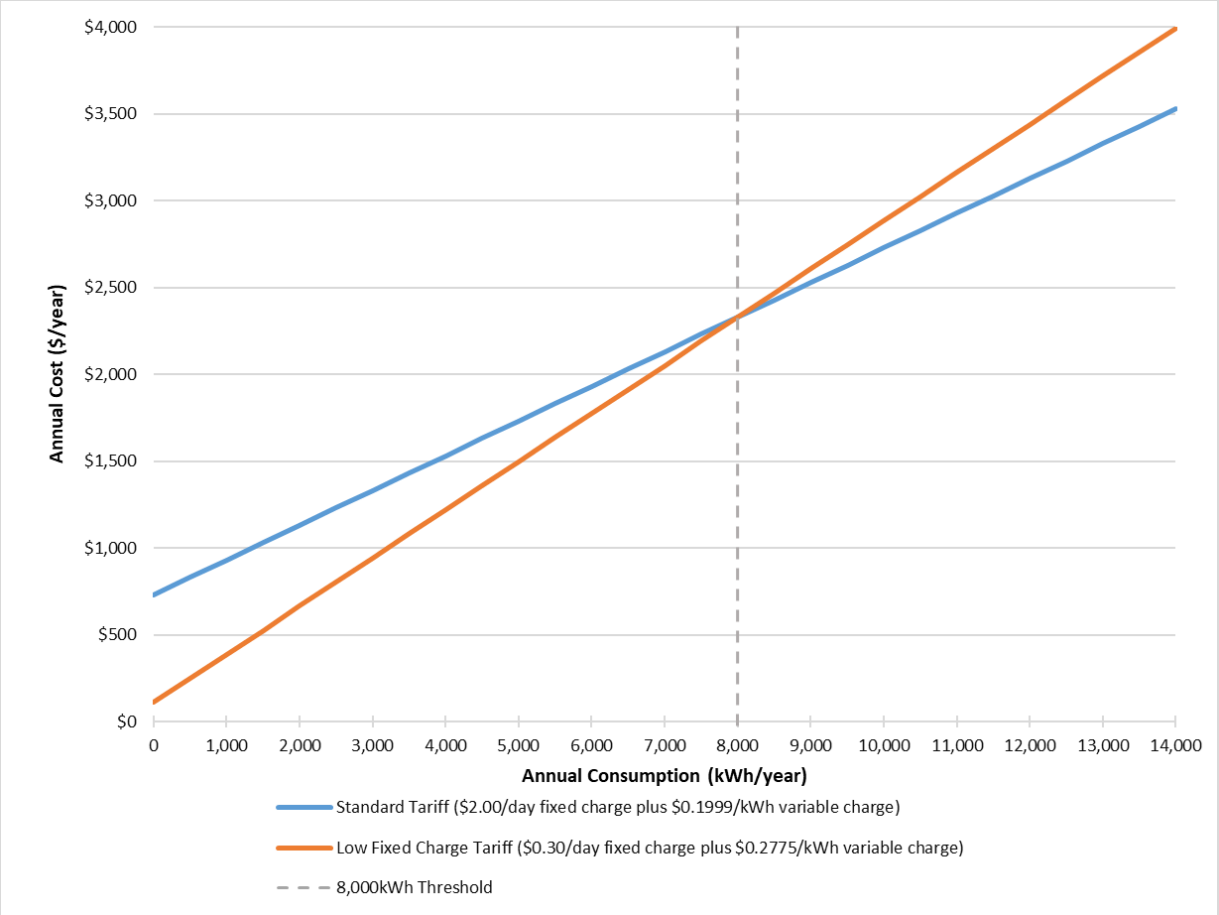
6 The other key component of an electricity tariff is the variable charge. This is charged at cents per kilowatt hour (e.g. $0.2145/kWh). The variable charge is dependent upon a household's electricity consumption, so the more electricity a household uses the higher their monthly bill will be.

7 The defining feature of the LFC regulations, as set out in section 9 of the regulations, is the requirement that the variable charge of an LFC tariff must be such that the average consumer[3] would pay no more in total per year on the LFC tariff than they would on the equivalent standard tariff. The result of this feature is that, because a LFC tariff has a lower fixed charge component (which could be considered a sunk cost before a household has consumed any electricity at all) and the requirement for the LFC tariff to always be cheaper than the equivalent standard tariff up to 8,000kWh (or 9,000kWh in

[1] There can be other components such as metering, levies, etc. Some retailers choose to list these components separately while others bundle them together.
[2] See sections 8 and 14 of the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004
[3] "Average" being defined by the regulations as a consumer who uses 9,000kWh/year in the lower South Island and 8,000kWh/year anywhere else in New Zealand.

the lower South Island), the LFC tariff has a higher variable charge than the standard tariff. A visualisation of this feature is presented in Figure 1 below.

Figure 1: *Comparison between a standard tariff and a low fixed charge tariff*



8 As can be seen in Figure 1, the LFC tariff starts much lower than the standard tariff, at $109.50 and $730 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 actually quite significant – the variable charge on the LFC tariff can be over 33 per cent more expensive than the standard tariff.

9 A higher variable charge discourages electricity use for households on LFC tariffs as they can pay 30 per cent more per unit of electricity they use. This is why some groups believe it would be more accurate to call LFC tariffs "high variable charge tariffs" rather than "low fixed charge tariffs".[4]

[4] ENA, (2020), *'National's Commitment to Abolish Low Fixed Charge Welcomed'*, available at: https://www.ena.org.nz/news-and-events/news/

Annex Three: Letter from the Electricity Authority

14 July 2021

Justine Cannon
Manager, Energy Markets Policy
Ministry of Business, Innovation and Employment (MBIE)
WELLINGTON

Dear Justine

Phase-out of the Low Fixed Charge (LFC) Regulations

Thank you for sharing with us MBIE's updated draft Cabinet paper on the recommended phase-out of the LFC Regulations.[1]

The Authority supports the recommendation to phase out the LFC Regulations. While the alternative option (reducing the defined average consumption threshold) would reduce to some extent the level of distortion to electricity use and investment caused by the Regulations, MBIE's preferred option (removal of the Regulations) is superior from our perspective as it will:

- facilitate further distribution pricing reform with the potential to bring significant long-term benefits for consumers[2]
- remove distortions to consumers' use of electricity caused by the Regulations (e.g. the high variable charges resulting from the Regulations may inefficiently discourage consumers from using electric heating in their homes during winter)
- promote transition to a low-emissions economy at least cost to consumers by removing distortions to consumers' investment decisions (e.g. electric vehicles and solar panels)
- reduce compliance costs for retailers and for distributors.

Given these impacts, the Authority supports MBIE's recommendation to phase out the LFC Regulations through a five-year transition. While we would also have supported the immediate removal of the Regulations or a relatively brief phase-out period, we understand that the purpose of the five-year phase-out is to strike a

[1] The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004.
[2] As the Authority has noted in the past, there is scope for some limited distribution pricing reform with the LFC Regulations in place. However, the LFC Regulations are a barrier to more comprehensive reform and are perceived by distributors to be a significant impediment.

balance between encouraging distribution pricing reform while limiting the rate of electricity bill increases.

Thank you for your engagement with the Authority on the proposed phase-out of the LFC Regulations. I note your proposal that the phase-out mechanism be reviewed in late 2023 to determine whether it is resulting in adverse outcomes for low-income, low-use households and whether additional support measures may be necessary. When the time comes, please let me know if the Authority can provide any assistance to inform your thinking on this matter.

Yours sincerely

Sarah Gillies

Acting Chief Executive

Annex Four: Letter from the Electricity Retailers Association NZ

19 July 2021

Hon Dr Megan Woods
Minister of Energy and Resources
Parliament Buildings
Wellington

Dear Minister

Low fixed charge reform

Thank you for your time recently discussing reform of the Government's low fixed charge regulations. As you know, retailers are very keen to see these regulations removed.

The existing Government-imposed regulations are not fit for purpose and penalise low income households who live in poor quality housing. They disadvantage families who can least afford it by forcing them to subsidise the electricity of Kiwis that live in modern, well insulated homes that don't require as much power to heat.

By providing a regulatory and financial incentive for households to use less electricity, the current rules run counter to moves to support wellbeing by having a warm, dry home. They also serve as a disincentive for households to transition from fossil fuels to electric power for things like running their vehicle and heating their homes.

ERANZ is therefore strongly supportive of your moves to progress this improvement to New Zealand's regulatory settings.

Managing the transition

Although ERANZ would prefer a faster transition to realise the benefits for consumers faster, we are comfortable with the five year stepped process you are proposing. The majority of households will be better off as a result of these reforms, but there are some low-income, low-use households that will be negatively affected – a slower transition will support these households through the change.

A key element of successfully retiring the regulations will be in communicating the change to consumers. Retailers are committed to supporting those households who may see a price increase by clearly explaining the price changes and offering additional budgeting advice should they need it. Actions the sector is considering to achieve this include:

1. A social media campaign informing the public of the low fixed charge phase-out, how it affects consumers, and steps to get informed – for example, Powerswitch promotion, links to general information on MBIE website, etc.
2. Electricity retailers writing a letter to each of their customers with price change information and pointing to generic low fixed charge phase-out information on the MBIE website.
3. Electricity retailers writing a letter to each of their customers estimated to experience price rises due to the phase-out and providing additional information about how to re-evaluate the plan they are on and where to find budgeting support if required.
4. Electricity retailers training their customer service teams on the changes, in particular, how to support the most affected families who may be at risk of hardship. Further, 'low fixed charge specialists' within customer service teams could provide further levels of assistance where required.
5. ERANZ working with ENA to send proactive information to FinCap so they can disseminate among their nationwide budgeting advice networks.
6. ERANZ working with ENA to send proactive information to Consumer NZ so they can place guidance information on their Powerswitch website.
7. ERANZ training EnergyMate coaches conducting in-home visits so they can identify consumers likely to experience price rises and provide them with appropriate support and advice.

Power credits to support the transition

You have asked whether retailers would also be willing to establish a Power Credits programme to support the transition, similar to ERANZ's Covid-19 Power Credits programme.

In ERANZ's view the steps set out above – a slower, five year transition and significant programme of communication and support for affected customers – are sufficient to support customers through the change.

However, ERANZ members are willing to establish such a programme and contribute $2.5 million to it across the five year transition in order to ensure the removal of the low fixed charge regulation and to provide additional assistance to those low-income households that are most negatively affected by the change. This contribution is contingent on an identical contribution from lines companies, and is also subject to receiving competition law advice and (if advisable) feedback and/or approval from the Commerce Commission.

As you and I have discussed, ERANZ is strongly of the view that Government should also contribute to such a programme, not only because Government regulations are

driving the change, but also because it ensures the programme is demonstrably an industry-Government partnership, rather than just an industry solution.

To achieve full coverage of impacted customers and to create parity with ERANZ's smaller retailers, I also believe it is important that independent retailers participate in, and contribute to, the programme.

While there has been preliminary discussion with ENA and FinCap, we have not had the opportunity to sit down and discuss the design of the programme. This will need to be worked through over the coming months, but I expect that the programme would be similar to the Covid-19 Power Credits programme ERANZ ran in 2020.

The Association would expect that a governance board will be established with representatives from retailers, lines companies and budgeting services to oversee design and implementation of the programme. Should the Government contribute funding to the programme they could also participate in the programme governance. While detailed design of the programme is still to come, ERANZ would make the following initial points about the design:

- A key feature of the programme is that credits would be accessed via financial mentors based in local financial capability and budgeting services. Retailer and lines companies would not allocate credits themselves, but could put customers in touch with their local budgeting service to access a credit.

- Budgeting services and financial mentors would be allocated a certain number of credits each to ensure a fair spread across New Zealand. Using budgeting services to allocate credits helps ensure they are targeted to households at greatest risk of energy hardship.

- ERANZ found that the benefits of the Covid-19 Power Credits were not limited to a one-off reduction in a household's power bill – rather the credits served as a tool to encourage customers in need to engage in and access wider budgeting and financial support.

- To access a power credit customers would need to meet certain criteria – including being on a low user plan and identified by their local budgeting service as being at risk of energy hardship.

- The number and value of credits is something that would need to be worked through in the design of the programme. To give a sense of scale a $5 million programme over five years could allow for around 50,000 credits. Should the Government contribute a further $2.5 million, this would allow the number and/or value of credits to be increased.

- The governance board would determine external communications about the programme. For the Covid-19 Power Credits, public communications were limited to allow budgeting services to allocate credits to households in greatest need. I expect a similar approach would be taken in this instance.

It is worth reiterating that ERANZ members' participation in the programme is subject to receiving competition law advice on the detailed design of the programme and, if advisable, feedback and/or approval from the Commerce Commission. I will be in touch again to confirm once the details of the programme have been worked up and ERANZ has received further legal advice.

I hope this information is helpful. I am very happy to have further discussions about the proposed changes, both as you develop a paper to take to Cabinet in August and as the details of the Power Credits programme are developed.

Ngā mihi nui,

Anna Kominik
Independent Chair
Electricity Retailers' Association

Annex Six: Climate Implications of Policy Assessment – Disclosure Sheet

This disclosure sheet provides the responsible department's best estimate of the greenhouse gas emissions impacts for New Zealand that would arise from the implementation of the policy proposal or option described below. It has been prepared to help inform Cabinet decisions about this policy. It is broken down by periods that align with New Zealand's future emissions budgets.

Section 1: General information

General information	
Name/title of policy proposal or policy option:	Phase out of low fixed charge tariff regulations
Agency responsible for the Cabinet paper:	Ministry of Business, Innovation & Employment
Date finalised:	29 December 2020
Short description of the policy proposal:	This disclosure sheet assesses the greenhouse gas emissions impacts for New Zealand of the proposal to remove the Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004. The regulations were originally implemented to assist low-use households with their electricity network costs and to encourage energy conservation. However, the Electricity Price Review recommended removing these regulations as they have a number of unintended consequences such as distorting price signals, resulting in overinvestment in solar and disincentivising uptake in electric vehicles. In addition, as the regulations promote energy conservation as opposed to energy efficiency they are also not well suited to New Zealand's net zero objective.

Section 2: Greenhouse gas emission impacts

Sector & source	Changes in greenhouse gas emissions in thousands of tonnes of carbon dioxide equivalent ($ktCO_2$-e)						
	2021–25	**2026–30**	**2031–35**	**2036–40**	**2041–45**	**2046–50**	**Cumulative impact**
Electricity	37	-90	-168	-253	-327	-409	-1,210
– *Electricity conservation*	*4*	*11*	*18*	*26*	*33*	*40*	*132*
– *Rooftop solar*	*27*	*0*	*-7*	*-15*	*-14*	*-18*	*-26*
– *Space heating*	*6*	*-101*	*-179*	*-264*	*-346*	*-431*	*-1,316*
Transport	-176	-352	-629.5	-1,259	-1,888.5	-2,518	-6,823
Industry	0	0	0	0	0	0	0
Waste	0	0	0	0	0	0	0
Agriculture	0	0	0	0	0	0	0
Land use, land use change and forestry	0	0	0	0	0	0	0
Total	-139	-442	-797.5	-1,512	-2,215.5	-2,927	-8,033

Section 3: Additional information

Additional information

The emissions impact as a result of removing the low fixed charge (LFC) tariff regulations were modelled by Concept Consulting as part of a wider package of analysis which evaluated the likely outcomes of continuing with the current LFC regulations compared to their removal. A number of assumptions were made in this analysis to arrive at the emissions savings outlined above.

- **Uptake in Electric Vehicles (EVs):** the modelling suggests greater uptake of EVs if the LFC regulations are removed due to households facing lower variable charges (in some cases significantly lower) therefore removing the incentive to conserve electricity – a barrier to the uptake of EVs. The model assumes EV uptake will rise to 1.577/household by 2050 with the removal of the LFC regulations compared to a lower uptake of 1.518/household if the LFC regulations remain.

Additional information

- **Heating:** model assumes slightly greater uptake in electric forms of heating out to 2050 as a result of the removal of the LFC regulations. This is largely driven by electric forms of heating becoming more economically attractive compared to gas/LPG, especially for new builds. The proportion of households with gas/LPG heating is assumed to stay constant, at 23.8% of households, if the LFC regulations remain. This proportion drops to 20.5% of households with gas/LPG heating by 2050 if the LFC regulations are removed.
- **Rooftop solar:** the analysis assumes that if the LFC regulations are retained there will be an increase in the proportion of households investing in rooftop solar due to the existing distortion of incentives resulting in 13.74% of households with solar by 2050. This compares to 8.09% of households with solar by 2050 if the LFC regulations are removed, which assumes a steady continuation of the current rate of uptake of solar. A higher uptake in rooftop solar will result in a small increase in emissions because, although it displaces fossil generation in the early years, in later years it is displacing utility-scale renewable generation that would otherwise be built to meet demand growth. Because rooftop solar has a much more extreme summer/winter demand profile, it gives rise to a greater requirement for fossil generation to perform winter peaking than would occur with this utility-scale renewable generation.
- **Energy conservation:** removing the LFC regulations will lead to an increase in residential demand due to the lower variable charge domestic users will face. The analysis suggests that residential demand will grow to 14.5TWh/year by 2050 with the LFC regulations compared to 14.8TWh/year by 2050 if the regulations were removed. This will cause a slight rise in emissions if the LFC regulations were removed.

Section 4: Quality assurance

Quality assurance

The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that the CIPA requirements apply to this proposal package as the threshold for significance is met.

This proposal is likely to result in a total cumulative reduction of approximately 8 million tonnes of carbon dioxide equivalent (Mt CO_2-e) by 2050.

A significant portion of this impact (around 6.8 Mt CO_2-e) is due to a greater projected uptake of EVs if the LFC regulations are removed due to households facing lower variable charges. High variable charges are a well-recognised barrier to the uptake of EVs as they can discourage electricity use. An additional net reduction of 1.2 Mt CO_2-e from changes in energy usage is likely to occur, mostly due to a greater uptake of electric forms of home heating over gas/LPG.

The CIPA team have reviewed the calculation of estimates for this proposal and consider the estimates to follow good practice and use reasonable assumptions.