

Electricity (Disconnection and Low Fixed Charges) Amendment Bill

Government Bill

As reported from the Commerce Committee

Commentary

Recommendation

The Commerce Committee has examined the Electricity (Disconnection and Low Fixed Charges) Amendment Bill and recommends that it be passed with the amendments shown.

Introduction

The bill seeks to enhance the regulation-making powers in the Electricity Act 1992 in relation to low fixed charge tariff options and the disconnection of electricity for domestic consumers.

Minor amendments

We recommend minor amendments to the definition of “low-use consumer” in clause 4.

The rest of this commentary focuses on the main issues that were discussed during the hearing of evidence and consideration but did not lead to any amendment.

Low fixed charge tariff

The Electricity (Low Fixed Charge Tariff Option for Domestic Consumers) Regulations 2004 require networks and retailers to provide a low fixed charge tariff option to domestic consumers who

consume less than 8,000kWh per annum of electricity at their primary dwelling. The bill proposes to alter this requirement by amending section 172B of the Electricity Act. As a result of the amendment, the definition of “low-use consumer” would be provided in regulations, so that different regions might have different thresholds, rather than a nationwide threshold of 8,000kWh per annum. We expect that people who qualify as “low-use consumers” under the current section 172B of the Electricity Act will continue to do so after the enactment of this bill.

Progressive pricing

Some submitters said that they would prefer progressive pricing to low fixed charge tariffs. This would mean that an electricity retailer would be required to charge the domestic consumer at a rate lower than the standard price for a specified portion of the consumer’s annual electricity consumption.

However, we disagree with this view for the following reasons. First, designing a progressive pricing scheme is complex, and raises issues such as how to prevent retailers from raising other prices to recover the loss of revenue resulting from the restriction. Secondly, a progressive pricing scheme might encourage retailers to actively seek to shed smaller consumers to minimise loss. Thirdly, progressive pricing tends to distort marginal cost price signals, resulting in less efficient consumption and investment decisions. We consider that progressive pricing is unlikely to provide a substantial improvement on current policies.

Target of low fixed charge tariff

We noted the submitters’ concern that the low fixed charge tariff does not benefit large low-income households but does benefit small well-off low-use households. However, we recommend retaining the low fixed charge tariff, as we consider that large low-income households are targeted through the Government’s energy efficiency programmes.

Boundaries of areas with different thresholds for qualifying as “low-use consumer”

The proposed new section 172B(3)(ab) of the Electricity Act (clause 4) provides that the definition of “low-use consumer” may vary according to the particular area of New Zealand in which the consumer’s domestic premises are situated.

We heard an argument that the network boundaries of lines companies should be used to demarcate geographic areas for the purpose of prescribing qualifying thresholds for “low-use consumers”. Although we agree that network boundaries may be appropriate, the lack of precise geographic definition of network boundaries may mean that local body boundaries would be used instead. We note that the Ministry of Economic Development is consulting on this issue. This definition will be provided in the regulations, and is not part of the bill.

Scope of regulation-making powers for disconnection

In response to concerns about the disconnection practices of electricity retailers, the Electricity Commission has developed new guidelines for disconnections because of non-payment. Clause 5 of the bill is designed to ensure that the Government can regulate the content of the guidelines.

We are aware of concern about the scope of the regulation-making power under proposed section 172D(1)(22A) of the Electricity Act (clause 5(1)). This clause would allow regulations to be made setting the terms and conditions on which electricity retailers must provide domestic consumers with billing and payment options. It was suggested that this regulation-making power would be too wide and should apply to vulnerable consumers only, not all domestic consumers.

However, we recommend no change to this regulation-making power. In our view, it should be reasonably broad to ensure it would prove sufficient if used. We note that regulations made under clause 5(1) may be narrower in scope, and are subject to the conditions and process set out in sections 172E and 172F of the Electricity Act.

Appendix

Committee process

The Electricity (Disconnection and Low Fixed Charges) Amendment Bill was referred to the committee on 7 August 2007. The closing date for submissions was 21 September 2007. We received and considered 11 submissions from interested groups and individuals. We heard four submissions.

We received advice from the Ministry of Economic Development.

Committee membership

Gerry Brownlee (Chairperson)

Gordon Copeland (Deputy Chairperson)

Dave Hereora

Hon Darren Hughes (from 7 November 2007)

Hon Shane Jones (until 7 November 2007)

Hon Luamanuvao Winnie Laban

Simon Power

Hon Maryan Street (until 7 November 2007)

Hon Paul Swain (from 7 November 2007)

Lindsay Tisch

Dr Richard Worth

Electricity (Disconnection and Low
Fixed Charges) Amendment

Key to symbols used in reprinted bill

As reported from a select committee

(Subject to this Act.)

Words struck out unanimously

Subject to this Act,

Words inserted unanimously

Hon David Parker

Electricity (Disconnection and Low Fixed Charges) Amendment Bill

Government Bill

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The Parliament of New Zealand enacts as follows:

1 Title

This Act is the Electricity (Disconnection and Low Fixed Charges) Amendment Act **2007**.

2 Commencement

This Act comes into force on the day after the date on which it receives the Royal assent. 5

3 Principal Act amended

This Act amends the Electricity Act 1992.

4 Low fixed charge tariff option for domestic consumers

(1) Section 172B(2) is amended by repealing the definition of **low-use consumer** and substituting the following definition: 10

“**low-use consumer** means a domestic consumer (*who has an electricity-use profile*) of a type specified in the regulations.”

(2) Section 172B(3) is amended by inserting the following paragraph after paragraph (a): 15

“(ab) specifying which domestic consumers (*have an electricity-use profile that makes them*) are low-use consumers (these types of consumer may, for example, vary according to the particular area of New Zealand in which the domestic premises are situated, or according 20

- to whether the domestic premises are the domestic consumer's principal place of residence):”.
- (3) Section 172B(3) is amended by repealing paragraph (e) and substituting the following paragraph:
- “(e) specifying criteria for the Minister to exempt electricity providers, or electricity providers in relation to particular areas, from the application of the regulations if, in the opinion of the Minister,—
- “(i) the electricity providers materially comply with the objective of this section; or
- “(ii) the electricity providers would incur a significant or unreasonable cost to comply with the regulations.”
- 5 Electricity governance regulations**
- (1) Section 172D(1) is amended by inserting the following paragraphs after paragraph (22):
- “(22A) providing for the terms and conditions on which electricity retailers must provide domestic consumers with billing and payment options (for example, smoothed payments and redirection of income):
- “(22B) providing for the terms and conditions on which electricity retailers must provide domestic consumers with information about overdue accounts and disconnection processes:”.
- (2) Section 172D(1) is amended by inserting the following paragraph after paragraph (24):
- “(24A) providing for electricity retailers to proactively provide information about a particular domestic consumer or a particular domestic consumer's account—
- “(a) to the consumer; and
- “(b) with the consumer's authorisation, to Government agencies:”.

- (3) Section 172D(1) is amended by inserting the following paragraphs after paragraph (25):
- “(25A) providing for the terms and conditions on which electricity retailers may and may not disconnect prescribed classes of domestic consumers: 5
 - “(25B) providing for the terms and conditions on which electricity retailers must reconnect a domestic consumer’s electricity after a disconnection:
 - “(25C) providing for the terms and conditions for the supply of electricity or line function services to domestic consumers by electricity retailers or electricity distributors:”. 10
- (4) Section 172D is amended by inserting the following subsection after subsection (3):
- “(3A) **Subsection (1)(24A)** does not override the Privacy Act 1993.” 15

Legislative history

18 July 2007
7 August 2007

Introduction (Bill 135-1)
First reading and referral to Commerce Committee
