

# Residential Consumer Pricing



This is one of series of fact sheets to inform pricing practioners within the electricity industry. It should be read alongside the ENA's pricing guideline for electricity distibutors.

**Consumers in the residential consumer group are identifiable by their use as a place of residence. Households have similar capacity requirements, a common load profile, and electric hot water load is often controllable by the distributor.**

A residential connection is a supply to a consumer connection primarily used as a private dwelling (i.e. a home) or intended for occupation principally as a place of residence.

## Classifying “residential” consumers

Distinguishing residential consumers and other consumers have become more challenging with the rise of the multiuse home.

Under the Residential Tenancies Act, 1986, residential connections exclude hospitals, hostels, hotels, communes, or other temporary accommodations. However, other connections are less obvious in their classification.

Below are examples of connections where distributors may need to apply a level of discretion when classifying a connection.

Circumstance	Discussion
Bed and Breakfast	It would not meet the definition of a residential connection and should not be included in a residential pricing group.
Holiday homes	It would not meet the definition of a residential connection and should not be included in a residential pricing group.
Airbnb and other occasional rentals	It might be included in a residential pricing group if the purpose of the connection remains primarily as a place of residence.
Mixed-use connections, e.g., businesses run from home	A distributor could assess the property's connection usage pattern and capacity requirements. Where the additional activity in the home does not result in a profile that is a material different from the profile of residential properties, it would be reasonable for the distributor to classify the connection as residential.
Water pumps or other ancillary facilities that support a residential connection	If a separate ICP, the connection does not meet the definition of a residential connection outlined above. The standard approach would be for a distributor not to classify the ancillary ICP as a residential connection. However, several retailers favour that these connections are included in the residential pricing group.

The residential group need not necessarily be applied as an absolute. It is appropriate that some discretion is applied when assigning connections to the residential group. The term 'principally' used in the Electricity Industry Act is subjective, leaving it largely up to the distributor to deem when a connection is and is not a domestic premise. In exercising discretion, distributors are mindful that a consumer can only have one principle place of residence under the Act.

## Low Fixed charges

Residential consumers are entitled to a Low Fixed Charge (LFC) pricing plan under the LFC Regulations.

Amongst other limitations, the LFCs limit distributors to charging only one prescribed fixed charge of no more than:

- \$0.30 from 1 April 2022
- \$0.45 from 1 April 2023
- \$0.60 from 1 April 2024
- \$0.75 from 1 April 2025
- \$0.90 from 1 April 2026

Consumers must pay the same on an LFC plan as they would on a standard plan, provided their annual consumption is less than 9,000 kWh in the lower south region or less than 8,000 kWh elsewhere in the country.

The LFCs are being phased out over five years and will be revoked on 1 April 2027.

## Setting residential prices

There are a variety of pricing approaches that distributors can apply when setting residential consumer charges.

Residential consumers can be charged as a single pricing group (where the LFCs apply to all residential consumers) or in residential connection sub-groups that reflect the different profiles of residential consumers (which would include an LFC price group).

Residential charges are generally made up of fixed and variable charges.

- **Fixed charges** do not vary based on the consumer's use or utilisation of their connection
- **Variable charges** vary and are intended to send the consumer a pricing signal of how their network use impacts the costs to serve their connection.

## Prices should strive to be cost-reflective

Irrelevant of what pricing approach the distributor chooses to apply, prices should strive to be cost reflective and adhere to the Electricity Authority's Pricing Principles and Distribution Pricing: Practice Note.

### Examples of Fixed Charges

**Daily fixed charge** – charge per day charge

**Installed capacity charge** – charge per installed kVA at the connection. The average residential connection is 15 kVA

### Examples of Variable Charges

**Consumption charge** – charge per kWh consumed

**Day/Night consumption charge** – charges that differentiate the consumers consumption during the day and consumption at night

**Time of use charges** – charge based on the times the consumer consumed against the network peaks, should and off-peak periods.

**Demand charge** – charge per kW of load utilised

