17 September 2026

OPEN LETTER TO DISTRIBUTORS

Application of the distribution pricing principles to the final stage of the Low Fixed Charge phase-out

Background

The Low Fixed Charge (LFC) Regulations will be removed on 1 April 2027. From this date, your business will no longer be required to offer a LFC tariff. This completes a five-year phase-out established by the Government in 2021.

Under the phase-out, the maximum low fixed charge increased from $0.30 per day in 2021 to $1.80 per day on 1 April 2026, excluding GST. The five-year phase out was intended to provide time for distributors and retailers to transition away from LFC tariffs, minimising the risk of 'price shock' for consumers. However, some distributors may still have material differences between their LFC tariffs and equivalent standard tariffs.

As distributors finalise their 2027/28 pricing methodologies and prices, some will be considering how to manage the last step in the phase-out. In some circumstances, moving immediately to fully rebalanced tariffs could result in significant bill increases for some customers. We understand distributors are considering how best to manage these impacts, while continuing to make progress towards more cost-reflective pricing.

This letter sets out our guidance on how the Authority expects the distribution pricing principles to be applied at this final stage of the phase-out with a particular focus on consumer impacts.

Applying the distribution pricing principles

The first three of the Authority's 2019 distribution pricing principles provide that:

- prices should signal economic costs,
- any resulting revenue shortfall should be recovered in the least distorting way, and
- prices remain responsive to end users' requirements and circumstances.

The fourth principle requires that: 'development of prices be transparent and have regard to transaction costs, consumer impacts and uptake incentives'. As the LFC regulations are removed, this fourth principle is directly relevant to how distributors set fixed charges and design tariffs for customers previously on a low fixed charge tariff.

1 **Consumer impact should be managed and balanced against the other principles**

Consumer impacts are an important consideration for distributors in the development of prices, alongside other principles and considerations in the framework. Consideration of consumer impacts are particularly relevant when determining the pace and sequencing of pricing changes associated with the final stage of the LFC phase-out due to the potential for consumer bill shock if the fixed charge component of an affected consumer's bill rises sharply.

Where distributors consider significant consumer impacts could arise from a particular pricing approach, it may be reasonable to consider alternative transition pathways that continue to make progress towards more cost-reflective pricing while managing those impacts. The Authority wishes to make it clear that it is not necessary for all rebalancing to occur in a single step, in order to be consistent with the pricing principles.

Consideration of consumer impacts is not, however, a basis for indefinitely deferring cost-reflective pricing, nor for reintroducing the cross-subsidies the phase-out is designed to remove. Consumer impacts sit alongside, and must be balanced against, the other distribution pricing principles, including that prices signal economic costs, are subsidy-free, and do not needlessly distort network use.

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There is no expectation of an immediate and full adjustment on 1 April 2027, but transparency is required

Where distributors adopt a pricing transition, the Authority expects the rationale for this transition approach will be fully articulated and justified in distributors' annual pricing methodologies, including how consumer impacts have been considered alongside the other distribution pricing principles.

Distributors should also set out how their approach continues to progress towards cost-reflective pricing and when they expect any legacy LFC tariff will be finally phased out. Where distributors can clearly describe and justify their approach, including how consumer impacts have been balanced against the other distribution pricing principles, the Authority will take this into account in any assessment of pricing approaches, including pricing scorecards. Managing consumer impacts to avoid price shocks due to the LFC phase out in 2027 will not be treated as bad pricing practice in any future scorecard reviews.

Prompt and open engagement with retailers on how the LFC phase-out is being approached is important to allow retailers opportunity to engage with distributors and anticipate how their own pricing can support consumer price shock.

Distribution pricing reform towards cost-reflective and consumer-responsive tariffs

The final phase out of the LFC Regulations represents an important step towards more cost-reflective and consumer-responsive distribution pricing. While there is no expectation of an immediate and full adjustment on 1 April 2027, the Authority expects distributors to continue to demonstrate genuine progress towards more cost-reflective, innovative and consumer-responsive tariffs. Cost-reflective pricing has benefits for individual consumers, who can lower their electricity bill through more flexible electricity use. It can also benefit all consumers by reducing the need for future network investment, saving costs that would otherwise be passed on to consumers. Where distributors adopt a transition approach for existing LFC tariffs, they should be able to demonstrate how that approach fits within a longer-term pathway towards these outcomes.

Next steps

We expect distributors to have regard to this guidance when preparing their pricing methodologies for the pricing year beginning 1 April 2027, and to be able to explain how consumer impacts have been considered and balanced against the other distribution pricing principles and distribution pricing innovation.

We invite distributors to engage with the Authority if they would like to discuss the application of this guidance to their circumstances. We will continue to engage with the sector as the final stage of the phase-out approaches.

We welcome any questions or comments on this guidance. We intend to publish this letter and guidance on our website on 22 September 2026.

Yours sincerely

John Harbord, Chair
Electricity Authority Te Mana Hiko