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What's been driving residential electricity price increases in New Zealand, and where are we heading?

With the increased political focus on electricity prices in New Zealand, we've done some analysis to 'lift the hood' to see what's been driving recent increases in residential electricity prices, and where they could be heading in the next few years.

Figure 1 shows that the average residential electricity price nationwide was gradually falling in real terms (ie, lagging inflation) until 2025. More recently residential retail prices have started to rise, and we project they will continue to rise for another year-and-a-half before flattening off and then falling again.[1]

Figure 1: Average New Zealand household electricity prices started rising in 2025

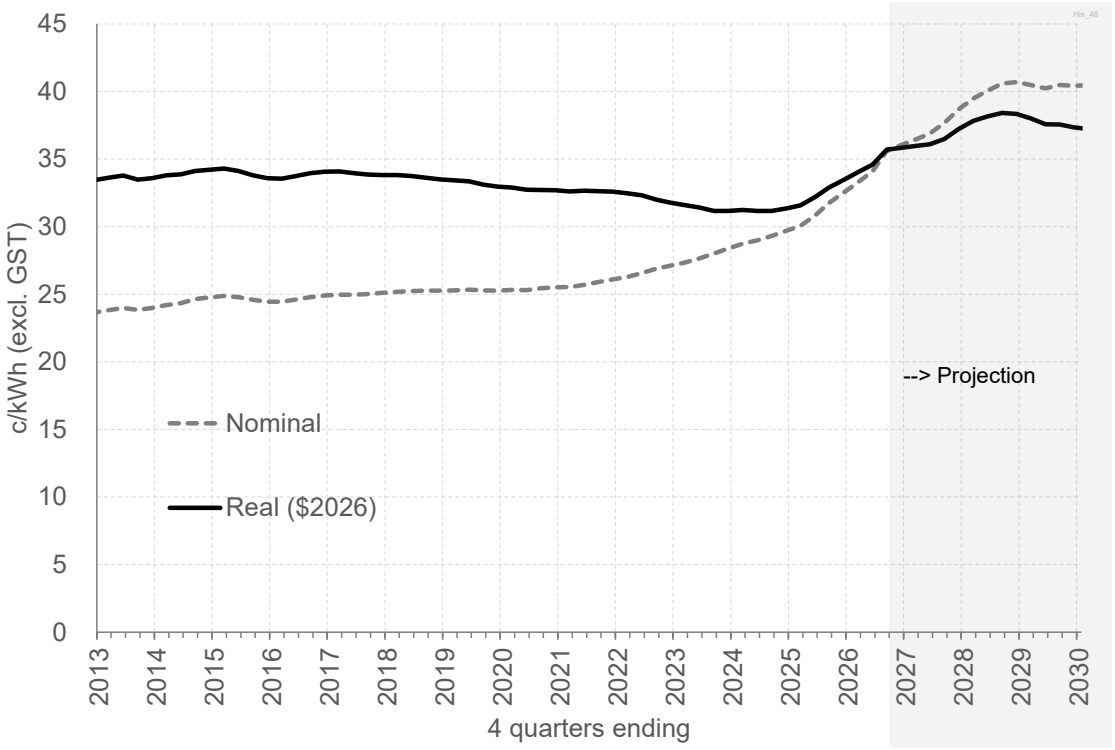


Figure 2 unpacks the drivers of these historical and projected retail price movements.

First, we subtract **lines charges**[2] from the total historical prices reported by the Ministry of Business, Innovation and Employment (MBIE).

Lines charges fell in real terms from 2020 to 2025 due to low global interest rates flowing through to the Commerce Commission's "DPP3" price control settings for the electricity distributors that it regulates. However, the current "DPP4" price control period (from 2025 to

[1] Our projections are based on current electricity futures prices in the wholesale market, and Commerce Commission forecasts for the lines component of the average household's electricity bill.
[2] The lines charge is the part of a residential consumer's bill covering the cost of building, maintaining and operating electricity networks – both the high voltage national transmission grid and lower voltage regional distribution networks.

2030) reflects higher interest rates and increased network investment, which the Commerce Commission expects to drive lines charges up year-on-year.

Next, we subtract our estimate of **wholesale energy costs** – the costs retailers face buying power from the wholesale electricity market to on sell to their customers. To do this, we have used electricity futures market data to estimate what it would have cost to serve a residential demand shape using a rolling 3-year hedging strategy. In simple terms, we assume a retailer has hedged 1/3 of their volume three years out, 1/3 two years out, and 1/3 one year out. This is a prudent risk management approach for retailing in New Zealand's hydro-influenced system. We also adjust for distribution network losses.

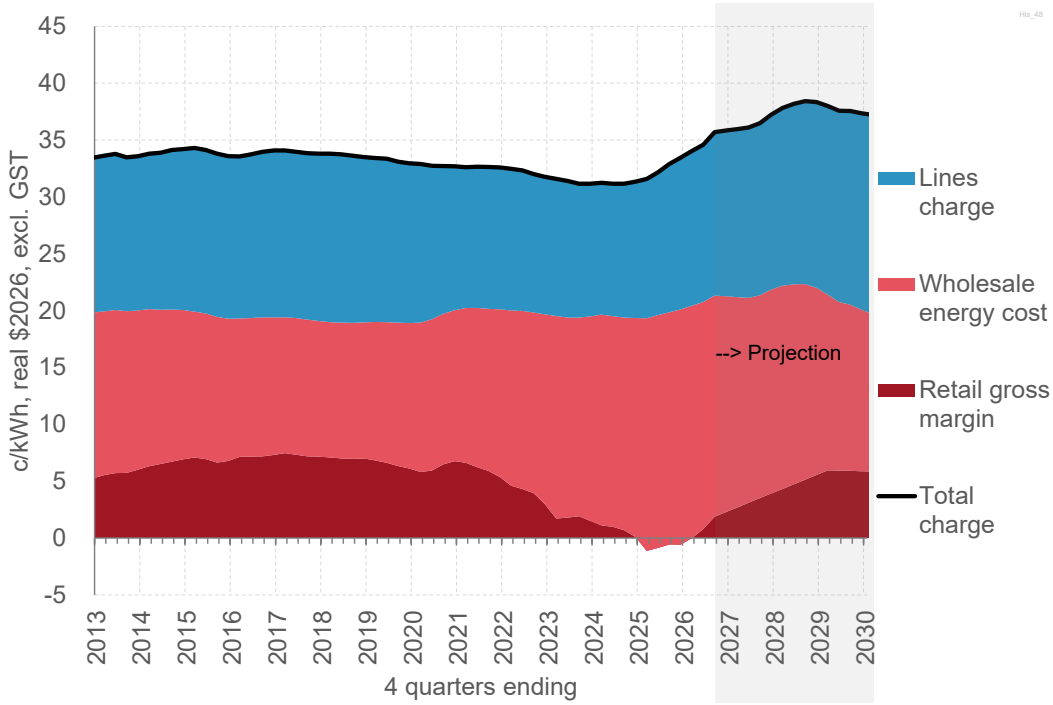
Our estimated wholesale energy costs declined until 2019, before climbing to a new peak in early 2026 of around 20c per kWh. This reflected a tightening of generation supply and an increase in generation costs explained in large part by:

- unforeseen problems with the gas market causing increased fuel costs and reduced fuel supplies for gas power generators, compounded by
- uncertainty over whether New Zealand's Aluminium Smelter (the country's largest electricity user by far) would exit at the end of 2024, which discouraged investment in new power generation.

Both the tightness of generation supply and rising generation costs have since been improved through a surge in renewable generation investment that has displaced high-cost gas and brought supply back into balance with demand (for now).

Having subtracted lines and energy costs from the total retail price, we are left with an estimate of electricity retailers' **gross margin**.

Figure 2: Retail gross margin has been severely compressed



The gross margin covers the balance of an electricity retailer's cost-to-serve (billing, payments, marketing, etc) as well as metering and retail profits (ie, return on retailers' cost of capital).

From our analysis, it appears gross margins were relatively stable through to 2022, before becoming severely compressed for several years. This reflects wholesale energy costs rising more quickly than retail prices through this period. More recently, gross margins have started to recover as wholesale energy costs have started to ease.

Looking forward, our projection continues the 3-year rolling hedge strategy using current forward prices in the electricity futures market and assumes retail gross margins fully recover by 2029 – ie, so that prices cover retail costs and earn the levels of profit seen during the relatively stable pricing period in the middle of the last decade.

Since electricity futures prices have declined, we project falling wholesale energy costs. This supports retail margin recovery and enables the energy component of retail prices to flatten off before easing back to historical levels from 2030.

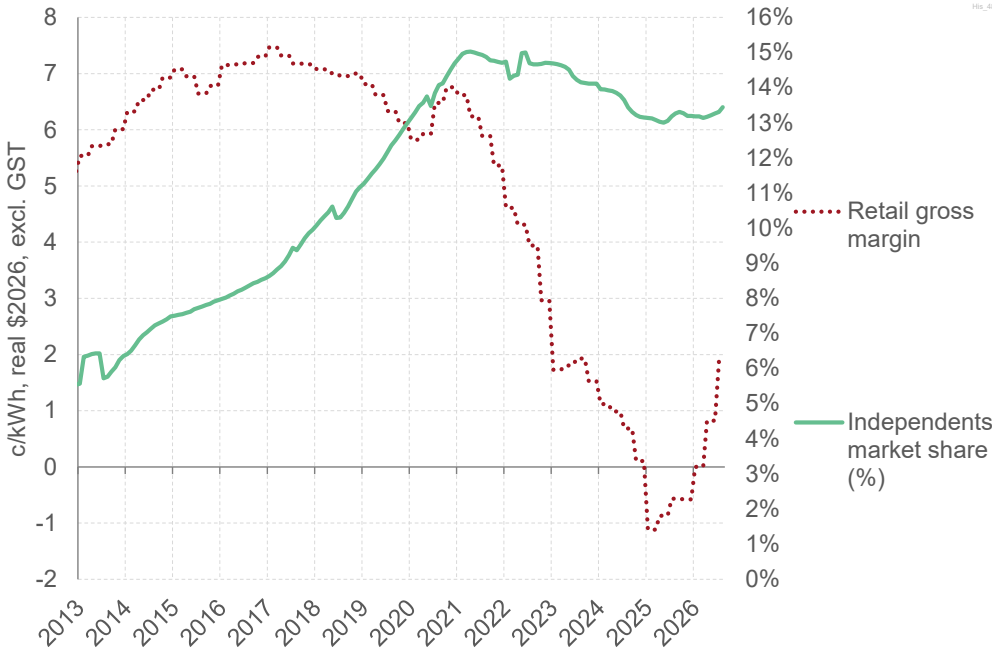
Good for consumers, but not so good for retail competition?

Our analysis indicates electricity retailers shielded households from the transitory surge in wholesale prices over the last four years – absorbing cost pressures by compressing gross margin.[3]

While this is good for households, it does not provide good conditions for retail competition. Retail appears to have been a loss-making business for the much of the last five years.

Figure 3 puts together our retail gross margin analysis and the market share of independent retailers. In other words, we exclude New Zealand's large incumbent generator-retailers –Contact Energy, Genesis Energy, Mercury NZ, Meridian Energy and TrustPower.[4]

Figure 3: Retail gross margin and independent retailers' market share



[3] For vertically integrated suppliers, compressed retail gross margin may be offset by expanded generation gross margin – though this depends on each supplier's portfolio and on system conditions.
[4] Note that TrustPower's retail base was purchased by Mercury in May 2022.

Up until 2021, retail appears to have been a profitable business that supported new retailer entry and growth. As gross margins compressed, independent retailers stopped acquiring new customers and lost market share.

Now, retailers can hedge new retail volumes at a cost that would support competitive retail prices and recovery of retail costs. As a result, it appears that retail competition is starting to respond.

What might the future hold?

If you are interested in how consumer electricity prices might move over the longer term (even over the next couple of decades, not just the next couple of years) for households, commercial, and/or industrial consumers – talk to us.

We can provide such analyses at a national or regional distribution network level, thanks to Concept's suite of electricity market models that project:

- Consumer demand split by consumer group (residential, commercial, different types of industrial, etc.), and end-use (space & water heating, industrial process heat, lighting, refrigeration, EVs, etc.)
- generation development and resulting wholesale electricity prices
- network investment (both growth related, as well as replacement & renewal and other costs), network cost-recovery and cost allocation, and associated network prices – all the above differentiating between transmission and distribution
- retail cost-to-serve and metering costs, and associated prices.

Our models can examine scenarios for:

- factors driving costs, such as demand growth, the 'smartness' of such growth in terms of contribution to peak demand, and the costs of key factor inputs including technology costs (eg, wind, solar, batteries) and fuel and carbon prices.
- different approaches for network cost allocation between consumer groups – both for distribution and transmission