NZIER INSIGHT

135-2026

NZIER PUBLIC GOOD PROGRAMME

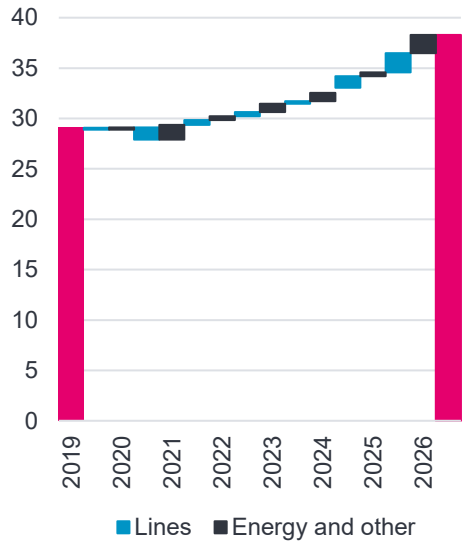
THINKING ABOUT AOTEAROA NEW ZEALAND'S FUTURE

Household electricity price outlook

Sharp rise over the past year

Households have seen electricity prices rise by 11 percent for the year ended March 2026, after three years of increases around 5 percent per year (MBIE 2026) – and are bracing for further increases.

Figure 1 Retail electricity prices c/kWh



Source: Ministry of Business, Innovation and Employment (MBIE) (2026)

In this Insight, we explain the drivers of electricity price rises, the policies used to encourage pricing that reflects competitive market outcomes and the near-term outlook for those drivers.

Key points

- **Electricity prices have risen sharply**, increasing 11% in the year to March 2026, but future increases are expected to moderate.
- **Network costs are becoming the main driver** of price increases over the next few years, while generation costs stabilise.
- **Transmission and distribution charges will continue rising,** reflecting higher operating costs and investment in network capacity.
- **Generation costs appear to have stabilised,** although dry periods may cause price spikes.
- **Keeping electricity affordable requires efficient investment in generation and networks** to meet growing demand.

While recent increases have been rapid, they will probably be more moderate over the next three to five years – but still above the expected rate of inflation.

The base driver of the increase will shift from generation costs to transmission and distribution costs. However, there are upside risks to generator prices in dry periods[1] when

[1] Below-average lake inflows that limit hydro generation are often described as 'dry-years' but in practice they can develop and resolve much more quickly. Lake levels can shift from high to low within as little as two months. The weather patterns that cause low lake inflows can be correlated with periods of low wind. This exacerbates the pressure on generation as wind generation is much lower than normal at the same time as hydro generation is constrained.

hydro lake levels are low, and there is an active debate about the most affordable solution to infrequent but prolonged dry periods.

Electricity costs are inherently volatile…

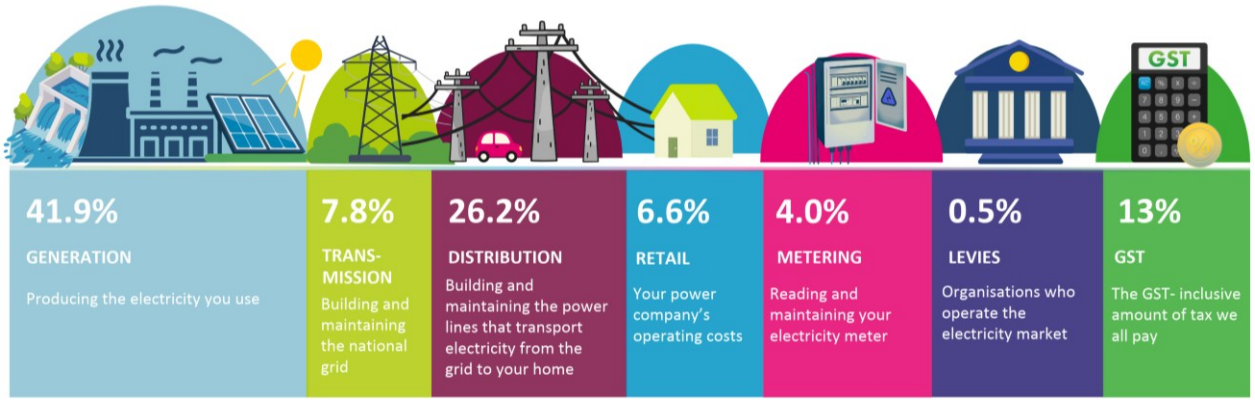
Like most goods, electricity has a supply chain comprising producers (generators[2]), transporters (Transpower and your local electricity distribution business (EDB)[3]) and retailers (usually one of the four largest generators). Unlike most goods, electricity must be produced and delivered in exactly the quantity demanded by consumers at the time they demand it. The assets used to generate and deliver electricity require a lot of investment, take a long time to build and last even longer. This mismatch between fluctuating demand and fixed capacity in the short term has two effects on electricity prices:

- When demand gets close to generation capacity, a small increase in demand can cause a large increase in price.
- Transpower and EDB networks' costs reflect a long history of past investment and a need for future investment to ensure peak demand can be met.

Retailers, Transpower and EDBs attempt to smooth price changes, but as shown in Figure 1 from 2022 to 2026, electricity prices increased sharply.

The Electricity Authority diagram in Figure 2 illustrates the nominal components of the household bill. However, the share of the bill allocated to each component varies over time and across data sources.[4] Our analysis combines several sources of data. We focus on the broad trends from those datasets rather than trying to reconcile the definitions and results.

Figure 2 Components of a household's electricity bill



Note: The numbers were altered to reflect the average from Electricity Authority Retail gross margin data over 2022 to 2025. EDB Information Disclosure data was used to allocate the category 'Distribution' between Transpower and EDBs.

Source: Electricity Authority 'Your power bill'. Downloaded from https://www.ea.govt.nz/your-power/bill/

2 The four largest generators are Contact Energy, Genesis Energy, Mercury Energy and Meridian Energy. Their combined share of both generation and the retail market exceeds 80 percent.

3 There are 29 EDBs. Of these, 16 EDBs are 'non-exempt' and have their prices set by the Commerce Commission at 5-year intervals. The remaining 13 are 'exempt' and able to make their own pricing decisions. All EDB have to meet the same information disclosure requirements which are set by the Commerce Commission.

4 The main reasons for this are differences in the definition of residential consumers, whether the source of the information is a survey or published financial data and adjustments made by the collector of the data to improve comparability.

What makes up household electricity costs?

Retail electricity costs include four main components: generation, transmission and distribution, metering, the retail margin and GST. Your retailer bundles these components into a single bill and settles with generators and EDBs.[5] The two main components are generation and transmission costs; each accounts for about 40 percent of your bill, but they are set quite differently. Metering is relatively stable. According to Electricity Authority data[6] retail margins for the large generators have fluctuated between 2 and 14 percent from 2022 to 2025. We focus the rest of our discussion on energy costs and Transpower and EDB costs.[7]

Generating energy

Energy generation prices charged by the four large generators to residential consumers are usually reset annually based on a combination of averages of past and future wholesale market[8] contract prices. Each generator uses a slightly different method, but in any given year annual prices are similar. The large generators' financial year end is 30 June.

Moving energy to where it is used

Transmission and distribution costs are set by the Commerce Commission at 5-year intervals for Transpower and 'non-exempt'[9] EDBs; 'exempt' EDBs set their own prices. The proportions of the retail bill for energy and the lines component vary over time because of different reset times and differences in underlying cost pressures. The Transpower and EDB charges are reset on 1 April.

What drove the recent increase?

The recent rise in retail electricity prices (2022 to 2026) has been driven by:

- Rises in the costs of generation due to changes in the cost of fuel over 2021 to 2025 and low hydro output in 2021, 2024 and the first six months of 2025. (The dry conditions were spectacularly reversed in the second half of 2025 and over 2026.)
- A spike in transmission and distribution charges over the past year as EDB allowable revenues were adjusted for operating cost increases and increased interest rates over the past 5 years and higher capital expenditure to increase network capacity to meet expected increased demand.[10]

Generation costs appear to have stabilised around 2025 levels. Future increases in electricity prices are expected to be driven by transmission and EDB charges, which are likely to be well above the expected rate of inflation over the next five years.

Transmission and Commerce Commission-regulated EDB maximum allowable revenue increases have been set for the next five years up to the year ending 31 March 2030, with

5 Transpower recovers its costs from EDBs, which pass them to retailers and then to customers.

6 See Electricity Authority 'Retail gross margin' at https://www.ea.govt.nz/data-and-insights/charts-and-dashboards/retail-gross-margin/ . Data downloaded from https://www.ea.govt.nz/data-and-insights/datasets/retail/retail-gross-margin/

7 Transpower and EDB costs are called 'Lines' in Figure 1 while energy costs are the main component of 'Energy and other'.

8 Price-setting in the wholesale electricity market is complex. Spot wholesale prices are set continuously in real time to allocate demand across the available generators. In parallel, generators and large electricity users also buy and sell long-term (up to five years) futures contracts. These contracts set a price for a standard quantity of electricity in the future. Effectively, the parties agree to pay or receive the difference between the agreed contract price and spot price for the dates and quantities specified in the contract. These futures contracts do not include a physical transfer of electricity.

9 The rationale for the Commerce Commission's setting of allowable revenue and its review of capital expenditure is that these entities are natural monopolies that are not accountable to electricity consumers. This level of regulation is not applied to 'community owned' EDBs as their incentives are set by the community. An EDB is 'community owned' as defined under section 54D of the Commerce Act 1986. The main requirements are that the EDB is owned by a community trust, and that more than 90 percent of the persons supplied by the EDB can vote in elections of trustees and benefit from distributions by the trust. Also, the EDB must have fewer than 150,000 installation control points – customer connections.

10 The Commerce Commission decisions smoothed the increase between 2025 and 2026, but it was still a step change.

projected increases over the period 2026 to 2030 of 35 percent and 45 percent, respectively. The resultant price increases may be smaller than these revenue increases if the volume of electricity supplied increases.[11]

The following sections provide a more detailed explanation of the recent history of wholesale energy generation costs and transmission and distribution costs as a whole.

Electricity generation costs

Electricity generation spot prices are set in real time based on the most expensive generation required at that time to meet demand.

When generation from hydro, geothermal, wind and solar[12] is not sufficient to meet demand, it is topped up by gas and coal-fired generation. Gas and coal fuel prices become a key factor in setting the spot wholesale price. In a dry year when hydro lakes are low, like 2025, wholesale prices tend to rise above the floor set by coal and gas fuel costs. Prolonged use of gas and coal-fired power also tends to increase contracted forward wholesale prices.

The four large generators base their annual price for generation sold to retailers on different combinations of average wholesale spot prices and forward contract prices.

The average electricity generation spot price in 2025 is about $0.14 to $0.16 per kWh compared with about $0.09 to $0.10 per kWh in 2021.

The increase was driven by:

- A steady increase in gas prices since 2018, first following a production outage and then in response to declining output. This ended the era of cheap thermal generation, which used to deliver average wholesale prices below $0.10 per kWh
- Increase in wind generation, which had an average long-term cost of electricity of about $0.10 to $0.12 per kWh plus the additional cost of firming.[13]

Wholesale spot prices are volatile. Since mid-2025, they have fallen from an average of about $0.17 per kWh to less than $0.08 per kWh (from about September 2025) as full lakes and strong winds have dominated the generation of electricity.

The generators' prediction for wholesale prices over the next two to three years is that they will stabilise around $0.12 to $0.14 per kWh.[14] The range of $0.12 to $0.14 per kWh is slightly below the average large generator electricity cost reported by the Electricity Authority for 2025. However, as we have not seen the data for 2026, it is not clear if this will lead to a reduction in generator costs for retailers.

Beyond the next two to three years, the key determinant of generation costs will be the need for and cost of new firming generation capacity that can be switched on at short notice and operated for sustained periods to cover shortfalls in hydro generation (during dry periods). In other words, whether firming costs will increase.

Both MBIE and the Electricity Authority are consulting on potential approaches to arranging this capacity – long duration firming. At present there is a range of views on whether separate capacity is required and if so, what form it should take, which stakeholders would be charged, and over what time period.

11 This effect is likely to be modest; energy delivered by EDBs increased by around 3 percent in total from 2021 to 2025.

12 At the time of writing, we estimate that capacity of about 630 MW (peak) is in place, with an annual output of about 940 GWh (about 2.1 percent of total net generation of 44,571 GWh in the year ended 30 June 2026).

13 Geothermal, wind and solar output cannot be varied to meet changes in demand. Accordingly, the increased use of this type of generation also increases the use of dispatchable generation – hydro if it is available and then thermal generation.

14 Based on comments in the Mercury, Genesis Energy, and Contact Energy annual results presentations for 2026.

Transmission and distribution

Transpower and your local EDB are responsible for carrying the electricity from large-scale generators to your house and for ensuring a reliable supply that meets your usage requirements (volume and time of use).

Transpower carries electricity from the generators to EDBs (and some large industrials) using very high voltage transmission lines (including the Cook Strait cable). EDBs operate in a defined geographical area and distribute electricity to industrial, commercial and residential customers within their area using a combination of high and low voltage lines.

Transpower charges are passed through to EDBs, who in turn pass them to electricity retailers who recover them from customers as part of the retail bill. The maximum allowable revenue for Transpower and 'non-exempt' EDBs is regulated by the Commerce Commission to ensure they earn a fair return on their assets and can cover the operating expenditure required to deliver a reliable service. In addition, the Commerce Commission sets how much they can invest in their asset base to maintain overall reliability of the network and meet growth in demand.

From 2020 to 2025, average Transpower costs passed through to EDB and EDB allowable revenue barely increased. A fall in interest rates (which determine the allowable rate of return on assets) offset inflation pressures on operating costs.

Transpower allowable revenue increased by 16 percent in 2026, and is projected to increase by 26 percent in 2027, followed by 5 percent per year from 2028 to 2030. After a 24 percent increase in 2026, EDBs' allowable revenue is forecast to increase by about 9 percent per year from 2027 to 2030. The increase in allowable revenue is only an approximate indicator of the increase in prices, as there may be growth in the energy consumed.

Issues for the regulators

Two regulators, the Electricity Authority and the Commerce Commission, scrutinise electricity prices, with oversight from MBIE. Both regulators are charged under their legislation with making decisions that are to the long-term benefit of consumers and ensuring the businesses they regulate deliver outcomes that would be expected in a competitive market.

Electricity Authority – generator prices

A key role for the Electricity Authority is ensuring that wholesale and retail electricity prices reflect the outcome that would be expected in competitive markets.

In its latest policy statement to the Electricity Authority, the Government has described what it wants from the electricity system (NZ Government 2026):

- *The Government therefore expects the electricity system to deliver reliable electricity at lowest possible cost to consumers. It should serve the interests of all electricity consumers, including through the provision of sufficient electricity infrastructure to ensure security of supply and avoid excessive prices*
- *This is best achieved by: … An efficient wholesale electricity market with many different wholesale buyers and sellers of electricity… Efficient transmission and distribution networks … Effectively competitive markets for electricity retail services.*

In parallel, the Commerce Commission has:

- Worked with the Electricity Authority to ensure generation costs and prices are set competitively and reflect efficient market outcomes
- Asked EDBs to work with it to achieve better outcomes for consumers by improving efficiency and network utilisation.

What will happen next?

As described above, the outlooks for the two main drivers of retail electricity prices are relatively stable in the short term:

- Settings are in place for increases in Transpower and EDB allowable revenue over the next five years that will increase retail prices, but at a much slower rate than recently, particularly if household demand for electricity starts to increase.
- In the absence of a prolonged dry period or further gas supply shocks, generator electricity costs should stabilise.

Conclusion and implications

As shown in Figure 1, retail electricity prices were driven up during 2022 to 2026 first by an increase in generation costs from 2020 to 2025 and then by a reset in Transpower and EDB charges. These upward pressures have weakened temporarily.

However, beyond the next two to three years, avoiding another round of sharp price increases is contingent on finding low-cost:

- solutions to the requirement for long-duration dry-period firming
- ways of increasing the capacity of the Transpower and EDB networks in line with growth in demand.

References

MBIE. 2026. Residential sales-based electricity cost data March year. https://www.mbie.govt.nz/assets/Data-Files/Energy/nz-energy-quarterly-and-energy-in-nz/qrss-june-2026.xlsx

NZ Government. 2026. Statement of Government Policy to the Electricity Authority under section 17 of the Electricity Industry Act 2010: New Zealand electricity industry. https://www.mbie.govt.nz/dmsdocument/32274-government-policy-statement-on-electricity-june-2026.

This Insight was written by Mike Hensen at NZIER, October 2026.

For further information, please contact Mike at mike.hensen@nzier.org.nz or 021 234 8630

How to cite this document:

Hensen, M. 2026. Household electricity price outlook. NZIER Insight 135-2026. Available at https://www.nzier.org.nz/publications/household-electricity-price-outlook-nzier-insight-135.

NZIER | (04) 472 1880 | econ@nzier.org.nz | PO Box 3479 Wellington

NZIER Insights are short notes designed to stimulate discussion on topical issues or to illustrate frameworks available for analysing economic problems. They are produced by NZIER as part of its self-funded Public Good Programme. The purpose of NZIER's Public Good Programme is to inform debate and educate on important economic and policy issues facing Aotearoa New Zealand. More information on NZIER's Public Good Programme can be found at https://www.nzier.org.nz/public-good. NZIER is an independent not-for-profit organisation founded in 1958 that uses applied economic analysis to provide business and policy advice to clients in the public and private sectors.

While NZIER will use all reasonable endeavours in undertaking contract research and producing reports to ensure the information is as accurate as practicable, the Institute, its contributors, employees, and Board shall not be liable (whether in contract, tort (including negligence), equity or on any other basis) for any loss or damage sustained by any person relying on such work, whatever the cause of such loss or damage.