



Unleashing New Zealand Power

A two-step plan to fix the energy market and drive transformative economic growth.

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Foreword



New Zealand has a once-in-a-generation opportunity to turn today's energy crisis into a global competitive advantage.

We have world-class renewable resources. We have iwi groups, KiwiSaver funds and international capital ready to invest. Modelling by Transpower shows that adding 20 terawatt-hours of new renewable generation would push wholesale electricity prices below \$120 per megawatt-hour and deliver more than \$30 billion in GDP growth: new industries, new jobs, higher wages and a fundamentally stronger economy. That prize is real and within reach.

What is also real is that our electricity market is structurally designed to prevent it from happening. The incentives that it sends to the four gentailers (who together control around 85% of both the generation and retail markets) lead to precisely the market outcome we wish to avoid: scarce supply and high prices. The fact is that what is best for gentailer commercial returns is in direct opposition to what is best for the New Zealand economy as a whole. We should not ask or expect the incumbents to deliver a market that allows New Zealand to realise its economic potential because it is not commercially rational for them to do so.

Efforts by the Government to level the playing field in the energy sector – including, most recently, requiring gentailers to treat competing retailers the same way they treat their own retail arms when supplying hedge contracts – are pointed in the right direction, but in our view will not have a meaningful impact. They impose a conduct rule, but do not change the underlying issues that drive and enable anti-competitive discrimination in the first place. Compliance will be hard to monitor and easy to satisfy on paper; it will remain too easy for gentailers to find non-price ways to favour the in-house retail arm. Without addressing gentailer incentives – in this case, the incentive not to strengthen retail competitors – little will change.

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Foreword *continued*



We are advocating for two changes to our market settings that together break the incentive cycle and unleash the investment New Zealand needs:

LTESAs for generation

Long-Term Energy Supply Agreements for generation, to give independent generators the revenue certainty to build, and thus drive the large-scale development of renewables that is required (with the net effect being lower power prices due to supply increases);

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Operational separation of gentailers

Operational separation of the four gentailers, to open the contracts market so that independent retailers can compete on equal terms.

The solution is targeted, pragmatic and already part of the mix elsewhere in the world.

This paper has been developed by the Auckland Business Chamber in conjunction with Northern Infrastructure Forum, as part of an ongoing campaign to reform the energy market, and drive affordable, abundant energy for businesses and households.

It sets out the case and the plan for change, and lays down a challenge to every political party that says it cares about economic growth.

The opportunity is here, the solution is clear, and the only question is whether our leaders have the will to act.



Simon Bridges

Chief Executive
Auckland Business Chamber



The \$30 billion opportunity

New Zealand's electricity system is at a structural turning point. The combination of abundant renewable resources, a committed national electrification agenda and strong demand growth from industrial, transport and digital sectors creates the conditions for a generational economic transformation. But this transformation will only happen if wholesale electricity prices fall to and crucially, remain at, levels that make large-scale electrification commercially viable.

Transpower's "Made in Aotearoa" scenario models sustained wholesale prices at or below \$120 per megawatt-hour as the threshold at which industrial electrification becomes broadly competitive, green hydrogen and e-methanol production become viable at scale, and data centre and high-performance computing investment is attracted to New Zealand.

The GDP uplift modelled under this scenario exceeds \$30 billion over Transpower's baseline. This represents a structural shift in New Zealand's economic base toward high-value, low-emissions industries that are only feasible with access to reliable, low-cost electricity. Cutting wholesale input costs to \$120 per megawatt-hour creates savings of approximately \$250 per year for the average household. That is an annual economic boost of half a billion dollars before considering the broader economic benefits of lower input costs.

Forward prices have fallen this year, and the transformative price threshold is within the visible horizon of the existing gentailer investment pipeline. But that pipeline is finite. Once it has been absorbed and the investment queue thins, the structural conditions that have historically supported elevated prices will reassert themselves.

Furthermore, the pipeline falls well short of the 20 terrawatt-hour target: while the gentailers reportedly have consented projects capable of bringing on close to 100 terawatt-hours of new generation capacity, what is actually committed to be built only amounts to around five terawatt-hours.



The incentive problem holding it back

At its core, the problem is one of incentives: the incentive structure of the existing market misaligns what is commercially rational for the gentailers with what is economically optimal for the country.

The status-quo incentive is to protect scarcity rents

Gentailers control 85% of generation and 95% of all firming capacity. With a portfolio of depreciated generation assets, the rational commercial strategy is to build just enough to keep prices at or around the cost of new entry and to avert a security crisis, but no more. Further increases to supply would push wholesale prices down and reduce the value of every megawatt-hour already being produced. Asking the status quo to deliver energy abundance goes against commercial logic and fiduciary duty to shareholders.

The evidence is clearly visible in the numbers. Notwithstanding this year's lull, futures prices have consistently exceeded the long-run cost of new supply since 2019, meaning that the market has continued to anticipate scarcity. Over the same period, on the back of scarcity rents, gentailers have paid out significantly more in dividends than they have invested in new generation. Meanwhile, Transpower's analysis shows that even if everything committed and consented is built on time in the next five years, security margins will remain on the brink.

Market incentives are a function of market structure, with the key elements being horizontal concentration in the generation market and the gentailers' vertically integrated model (where the generation arm and the retail arm act as a single integrated business). Each of these results in a critical barrier to the development of an affordable, abundant energy supply.



Barrier one: The firming bottleneck

To be financeable, new generation projects need a long-term off-take agreement that delivers a reasonable return on investment. The intermittency of renewable generation means that the agreement needs to be paired with firming – that is to say, a back-up supply of dispatchable generation (thermal, hydro, or large-scale batteries). Depending on the nature of the agreement, firming is provided by either the buyer or the seller.

Almost all of New Zealand's firming capacity sits within the portfolios of the four gentailers. Consequently, while gentailers can self-firm against existing fully depreciated hydro and thermal assets, independent developers with no existing fleet must instead seek a firming contract with a gentailer (other technologies that could offer firmed products, such as large-scale battery systems, do not yet have business cases – market rules and conditions do not allow them to be readily investable). Likewise, where it is the independent retailer that is required to provide firming, the only path is through the gentailers.

Given the incentives at play, the logical commercial response of the gentailer is to decline or delay access to firming (or price it at a level that makes the independent's project uneconomic). The result: proposed projects stall; commercially rational scarcity is preserved.



Barrier two: The illiquid contracts market

A vertically integrated gentailer does not need to buy or sell hedging contracts in the open market. It manages its price risk internally, between its own generation and retail businesses, at opaque internal rates that are never tested in the market. This removes the vast majority of hedging volume from the visible contract market.

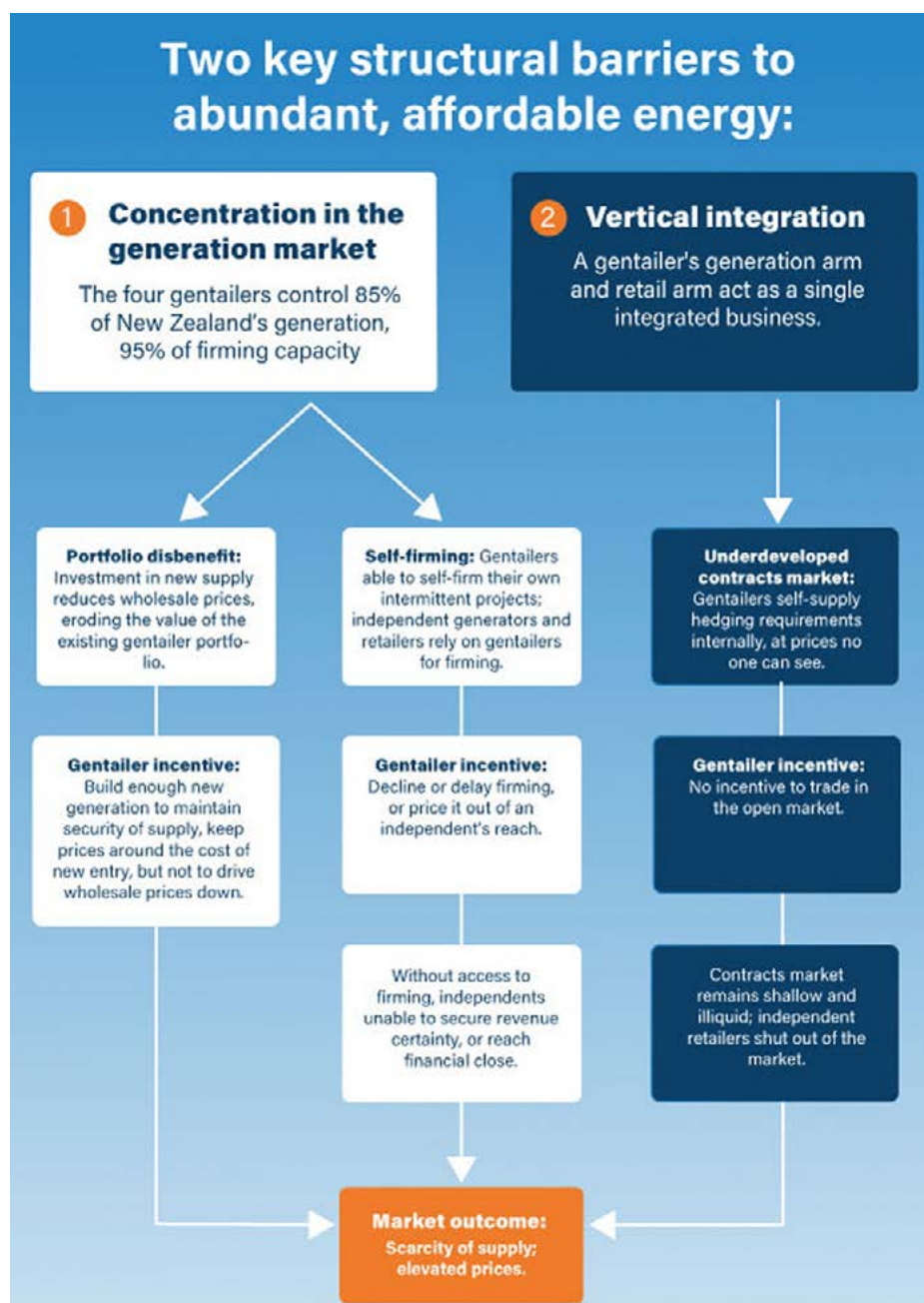
The result? A market that is too shallow and too illiquid for independent retailers to participate in effectively. Spot exposure cannot be hedged efficiently. New investment does not flow. The status quo incentive is to keep markets small, and vertical integration is the mechanism that achieves it.

The real-world consequences are already clearly visible. High contract prices are driving deindustrialisation and stalling the electrification of existing industry. This is not a future risk – it is happening now.



The structural problem laid bare

The graphic below maps out the two structural problems highlighted in this paper, illustrating how they shape gentailer incentives and, ultimately, market outcomes.





The two-step solution

The good news is that this problem has a clear diagnosis and a proven fix. Two targeted changes to our market settings, delivered in tandem, can break the incentive cycle and unlock the investment New Zealand needs.

1: Long-Term Energy Supply Agreements (LTESAs) for Generation

A revenue support mechanism (repayable to the Government), to improve the bankability of new generation, while preserving incentives to contract and trade in the market.

Based on similar approaches in Australia, the New Zealand LTESA is a long-term contract between a new-generation project and a Crown-backed counterparty.

Over a term of up to 20 years, the project holds the option to enter one-year swaps for all or part of its contracted generation. Each year, the project can fully exercise, partially exercise or not exercise its option.

The LTESA provides a price backstop for the generator:

- when wholesale prices are below the project's competitively bid fixed price, the Crown-backed counterparty pays the difference;
- when wholesale prices are above the fixed price, the project pays the difference to the Crown-backed counterparty; and
- when the option is not exercised, the project remains exposed to market prices and is able to contract with private off-takers.

This is not a subsidy, nor a case of corporate welfare.

The LTESA provides protection against unexpectedly low electricity prices. It does not pay the project's construction costs or guarantee generation off-take volumes. The project is required to repay the Crown-backed counterparty for any net support received.

The scheme's value comes from giving lenders and investors a long-dated, creditworthy price floor for a contracted share of actual generation, while allowing the project to use other arrangements (PPAs, hedge markets or merchant exposure) where they offer better value.

LTESAs are awarded through regular competitive tenders, with the tender plan based on the most ambitious System Operator demand-growth forecast – that is to say, a high-growth strategy built on nationwide electrification, expanded manufacturing activity and greentech investment.

A project is selected only where it is judged to be in the long-term financial interests of energy consumers – the decision is not simply based on the lowest fixed price.



2: Operational Separation

Separate the generation and retail functions of the gentailers in order to open and intensify competition in contract markets.

Operational separation requires each gentailer to operate its generation and retail businesses as legally distinct entities, with separate boards, management and commercial decision-making. Critically, all trades between the generation arm and the retail arm must happen at observable, arm's-length market prices on the same terms available to any other buyer or seller.

This is not a structural break-up

There are no forced asset sales. It simply means the internal deal-making that currently keeps the contracts market illiquid is replaced by real market trading that any participant can access on equal terms.

The process is not theoretically complex – it is a question of political will.

Why both steps are needed and why together they work

The independent generator has revenue certainty through the LTESA, reducing dependence on expensive or withheld firming. The contracts market opens through operational separation, giving independent retailers the tools to compete. More independent investment flows. Supply increases. Wholesale prices fall toward or below \$120 per megawatt-hour. The \$30 billion opportunity becomes real.



We have done this before

New Zealand already has a highly successful blueprint for this exact intervention. The structural separation of Telecom broke a defensive monopoly, defied intense industry pushback, and delivered massive gains in service and pricing for everyday Kiwis. There is no logical reason the same bold response cannot work for energy.

The political challenge

We are calling on all political parties to adopt these two reforms as policy. Not as a discussion document; not as something to consult on for another two years; but as part of a clear commitment to act. To assist the policy development process, we have attached a playbook setting out the steps required to put LTESAs and operational separation into place.

New Zealand cannot wait. Without access to abundant, affordable energy, more and more businesses across the country will be forced to cut back production or shut their doors, the cost-of-living struggle will deepen for households, and the chance to attract investment into data and greentech infrastructure will pass us by. The time for incremental adjustments has passed. The question for every party standing for election in 2026 is simple: do you believe New Zealand's prosperity and living standards matter enough to fix the problems that hold them back?.

Appendix



Gentailers will tell you it is all too hard. Here is a playbook that would see both steps in our plan executed within a year.

The Long-Term Energy Supply Agreement (LTESA) playbook

What problem does it solve?

An independent generator has a renewable energy project ready to build. The economics are sound at today's wholesale electricity prices, but revenue streams are volatile. A project that generates energy only when the wind blows or the sun shines cannot reliably service debt, unless its revenue profile is smoothed. In most cases, this will require a firming contract, arranged by either the generator or the retailer. Where gentailers constrain access to firming – as they are incentivised to do in the current market – the project cannot achieve the revenue certainty required to reach financial close.

The LTESA provides an alternative mechanism to achieve revenue certainty (meaning an imperfect firming arrangement can be accommodated), without picking winners or locking in any particular price for consumers.

At the same time as having access to a price backstop, the project remains free to use PPAs, private hedges or merchant exposure when those alternatives are preferable.

Step 1: Crown-backed entity develops rolling tender plan, based on supply gap

The Crown-backed counterparty prepares a 20-year electricity-infrastructure development pathway and publishes a rolling 10-year tender plan, updated at least every two years.

The pathway is based on what is required to achieve Transpower's "Made in Aotearoa" scenario, adding 20 terrawatt-hours of new renewable generation. It is informed by Transpower's demand and security-of-supply forecasts, transmission constraints, expected electrification, retirement and entry of generation, the development pipeline and the expected costs and benefits to electricity consumers.

Tenders are scheduled against that published pathway rather than being triggered only when a near-term supply shortage has emerged. This provides developers, investors, supply chains and network planners with advance visibility of the likely timing and scale of procurement.



Step 2: A competitive, value-for-money tender is conducted

The Crown-backed counterparty invites eligible projects to bid for LTESAs. Eligibility is based on published criteria covering matters such as new or incremental renewable generation, project scale, planning and connection progress, deliverability and the ability to achieve financial close.

Each bid specifies the commercial support required by the project, including:

- the fixed price applying during exercised swap periods;
- a separate repayment threshold price;
- the proportion of project generation to be contracted;
- any option periods the project proposes to exclude;
- the proposed commercial-operations date; and
- any proposed schedule of fixed prices for different option periods.

Projects are not ranked solely by the lowest fixed price – they must be considered to be in the long-term financial interests of electricity consumers. The Crown-backed counterparty assesses forecast net scheme costs and wholesale-market benefits, system benefits, project deliverability, financing capability, contractual risk allocation and social and community value.

Step 3: The project enters the contract package and builds

A successful project enters three principal documents:

1. A Project Development Agreement, setting out the obligations and milestones for financial close, construction, commissioning, securities and agreed community or social-value commitments;
2. The LTESA, setting out the option, swap, settlement, repayment and operational arrangements; and
3. A tripartite deed with the project's financiers, providing appropriate lender step-in and cure rights.

The long-term option, creditworthy counterparty and standardised contract package provide lenders and investors with greater confidence in the project's downside protection. The developer remains responsible for delivering, financing, constructing and operating the project.



Step 4: The project decides annually whether to exercise

From the first option date, the project has up to 20 years of annual options to enter one-year cash-settled swaps. For each swap period, it may:

- exercise for all of the available contracted proportion;
- exercise for only part of that proportion; or
- not exercise and remain merchant-exposed or rely on private contracting.

This optionality allows the LTESA to operate as a financial backstop rather than displacing private PPAs and hedge-market activity.

Step 5: Exercised swaps settle against actual generation

During an exercised swap period, settlement occurs monthly against the nominated share of actual sent-out generation, adjusted for applicable electrical losses.

If the wholesale price is below the fixed price, the Crown-backed counterparty (via a scheme financial vehicle) pays the project. If the wholesale price is above the fixed price, the project pays the counterparty.

Consumer exposure is controlled through detailed contractual protections, including an annual payment cap, a zero floor for the wholesale price during negative-price intervals, minimum-generation and shortfall provisions, and specified treatment of environmental attributes and other generation or capacity-related products.

In a non-exercise period, the project ordinarily retains its market revenue. However, where the project has previously received net support and its dispatch-weighted market price exceeds the repayment threshold price, a prescribed share of the excess revenue is returned to the scheme financial vehicle. The repayment is capped at the project's historical cumulative net support, so the mechanism recycles prior support rather than imposing an unlimited windfall tax.



Step 6: A dedicated vehicle manages funding and consumer protection

The LTESA counterparty is a dedicated Crown-backed counterparty, separate from the System Operator. It establishes and administers a ring-fenced electricity infrastructure fund through which LTESA payments and receipts are managed.

The Crown-backed entity has a statutory right to recover forecast net scheme costs through a regulated contribution mechanism applied through electricity distributors and network charges. Payments received from projects are returned to the fund and reduce future scheme funding requirements.

An independent regulator approves the risk-management framework, determines or reviews the annual contribution requirement and monitors the financial position of the fund. The Crown-backed entity and regulator publish tender outcomes, expected and actual consumer costs, market benefits and contract performance. Independent performance audits provide additional oversight.

Key design features for New Zealand:

- Product: an LTESA for new generation, with separate products to be developed for long-duration storage or firming infrastructure.
- Planning and procurement: an independent Crown-backed entity operating under a 20-year development pathway and rolling 10-year tender plan.
- Counterparty: a dedicated Crown-backed counterparty, not Transpower as the System Operator.
- Term: up to 20 years of annual options to enter one-year swap periods.
- Bid variables: fixed price, repayment threshold price, contracted proportion, excluded option periods and commercial-operations date.
- Settlement: monthly, generation-following settlement against actual sent-out generation.
- Eligibility: eligible new or incremental generation under published criteria.
- Monitoring: published tender results, annual financial and performance reporting, and independent regulatory audit.



The operational separation playbook

What problem does it solve?

Currently, a gentailer's generation arm and retail arm operate as one integrated business. The generation arm does not need to offer hedging contracts to the open market because it supplies its retail arm internally at prices no one can see. This keeps the contracts market shallow and illiquid, which shuts out independent retailers. Operational separation changes the rules so that all trading must happen in the open market on equal terms for everyone.

Step 1: Create two legal entities under a common owner

Each gentailer establishes a GenCo (generation business) and a RetailCo (retail business) as legally distinct subsidiaries under a HoldCo parent. Assets and liabilities are clearly assigned. Generation assets, generation debt and generation employees belong to GenCo. Retail customers, retail contracts and retail operations belong to RetailCo. The HoldCo retains ownership of both. No forced sale of assets is required.

Step 2: Put strong, independent governance in place

Separation only works if the two subsidiaries are genuinely run on an independent basis. GenCo and RetailCo each have their own boards, with a majority of independent directors and no director overlap between the two. HoldCo decides group-level matters such as capital allocation and dividend policy, but is explicitly prohibited from setting electricity prices, hedge terms or commercial strategy for either subsidiary. Each subsidiary has its own Chief Executive, Chief Financial Officer and commercial team. Generation trading decisions are made entirely separately from retail pricing decisions. Back-office functions such as HR, IT infrastructure, legal and payroll may be shared under formal arm's-length service agreements lodged with the Electricity Authority.

Step 3: Internal trading is replaced by open-market trading

This is the most important operational change. RetailCo publishes its hedging requirements to the market. GenCo may bid to supply them, but only on exactly the same terms it offers any other buyer. RetailCo is free to buy from any generator. GenCo is free to sell to any retailer. Both are required to transact at observable market prices. All inter-entity transactions are subject to an annual independent audit, with results published and reported to the Electricity Authority.



Step 4: The contracts market deepens

Because GenCo must now offer its hedging capacity to the open market on equal terms, the volume of hedge contracts available to independent retailers increases. The market becomes deeper, more liquid and more transparent. Independent retailers can hedge their spot exposure efficiently and compete on equal footing with the gentailers' own retail arms. A deeper, more transparent market is also a precondition for any future extension of this mechanism to cover firming products for generators directly, though that extension is not part of the current design (and would not be achieved via operational separation alone).

Step 5: Enforcement and escalation

The Electricity Authority monitors compliance. If the contracts market does not deepen materially within three years of operational separation coming into force, the Authority escalates to a review of whether stronger structural intervention (potentially full ownership separation) is required. This escalation pathway matters. It signals to gentailers that operational separation is not a permanent safe harbour from stronger action, and strengthens the incentive to comply in substance rather than in form only.

What this is not:

Operational separation is not the forced break-up or sale of gentailer assets.

It is not price regulation or a government takeover of energy pricing. It is not a new bureaucracy. It operates within the existing Electricity Authority framework with targeted additional resourcing.



A voice for Upper North Island
infrastructure