

Carbon News 4 June 2026

## Renewables alone won't fix 'broken' electricity prices

Today 12:00pm



Image: [Depositphotos](#)

COMMENT: While many people agree the electricity market is broken, simply adding more renewables to a broken system isn't the fix we need, writes Geoff Bertram.

Most people seem to expect that just investing in more renewable generation will bring prices down for ordinary consumers. But what most people don't realise, I suspect, is that having more renewables pushed into a broken market by the gentailer 'cartel' that currently dominates that market will keep prices up, not down.

As the gentailers trumpet their sudden surge of new investment in wind, solar, geothermal and batteries (investment that they withheld for a crucial decade while other countries like Australia and China raced ahead) it's important to focus on two key pieces of the existing market structure.

The first is the way the wholesale price (and hence the retail price paid by consumers) is set by the cost of non-renewable generation – that is, the cost of running Huntly on fossil fuels. Every chunk of new renewable generation installed by the gentailers gets priced to parity with Huntly, including the NZ ETS carbon price, which goes as pure windfall profit on the gentailers' hydro and geothermal assets.

Even if the actual cost of new renewable supply is half the cost of Huntly's coal-fired generation, it is priced the same and the gentailers pocket the difference as excess profit.

So long as the gentailers can keep Huntly locked onto the margin of the wholesale market, they can expand their renewable portfolios with no pass-through to lower prices. Cut-price side deals for aluminium potlines and data centres help to keep the market tight and so prevent Huntly from falling off the margin.

Last year, Frontier Economics recommended simply taking Huntly off the margin by nationalising it and pricing its services separately.

That would certainly change the game. Otherwise, it is only renewables owned and operated by independent parties, sold directly into the retail market at prices that reflect the true cost of off-grid renewable energy, that can undercut Huntly and so bring prices down.

The second key piece of the broken market is the way the lines companies – both the grid operator Transpower and the local distribution networks – are able to have their high prices and asset values approved by the Commerce Commission and then passed through to consumers as fixed charges. That kills off most of the gains consumers could get from conserving energy, and slashes the rate of return on investment in rooftop solar.

The last Labour Government, notoriously, approved increases in the fixed charges imposed on the poorest households, and the resulting budget squeeze is driving many of those households to the wall.

In the 1990s, the endlessly-repeated slogan to justify construction of a high-priced electricity market was “economic efficiency”. The idea was that the competitive market price of any good or service should be equal to the long-run marginal cost of supply, and so long as marginal cost was rising over time, this was the cover story for rising prices. But the long run marginal cost is now falling over time as solar, wind and batteries come into their own, which means that the “competitive price” is also falling. That exposes the gold-plated profits and asset values of today's gentailers and lines businesses to the prospect of write-downs on their long-lived fixed assets such as dams and transmission lines.

To prevent this, the gentailers and lines businesses will have to block the competitive process from operating. Those incumbent corporates, and their captured “regulators”, are therefore incentivised to:

- slow-walk “competition for the market” from rooftop solar and other independent supply;

- maximise the amount of revenue stripped from retail customers via fixed charges;
- maintain the prevailing spectrum of retail prices with household consumers paying nearly twice as much as industry and commerce; and
- keep control of the system far away from local communities, in the hands of the national grid operator.

Fixing the broken market will require a lot of distributed renewables. The crucial requirement is that those renewables are not controlled by the cartel, and are priced through to retail at their true cost. Rooftop solar owned by households and local businesses, plus solar and wind generation owned by farmers and iwi, plus maybe some independently-built offshore wind, hold the key to cheaper electricity – but to realise the benefit of that new technology, the local market will have to be rebuilt on a new basis, with the market power of the grid and the gentailers broken.

Technological change has come full circle in electricity, from the giant centralised grid-connected dams and Huntlys of the mid-twentieth century to a new era in which smaller – and decentralised – is beautiful. The market structure needs to change accordingly. This could, in fact, be the moment to revive Gordon Coates's 1918 model of non-profit electric power boards at local community level, with an integrated mandate to operate local lines and coordinate supply into a local retail market in which distributed generation would compete on the merits against centrally-supplied electricity delivered off the grid.

In turn that would imply reinventing another feature of the pre-1986 New Zealand electricity industry: a “bulk supply tariff” to recover the full wholesale supply cost of electricity coming off the grid, as a variable charge per kilowatt-hour rather than a fixed pass-through impost on consumer bills.

A more brutally disruptive way for ordinary consumers to regain control of their electricity supply and cost would be to turn away from grid supply altogether and set up self-sufficient energy communities, with their own generation, batteries, and local system operators.

If the market power of the cartel cannot be broken, that may in fact be the only practical way to prevent the benefits of technological progress from being captured as excess profits by the big corporate interests that currently stand between ordinary New Zealanders and a future of affordable power.

But we deserve better, and some commonsense from policymakers could surely deliver something better.

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