



Gentailer separation

**Summary of findings
from the independent review
of the evidence and key
considerations**

September 2026



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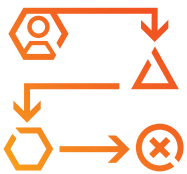
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At a glance

Concerns with vertical integration and the potential benefits and costs of separation are well documented in international and New Zealand energy market reviews. While there are common concerns and risks highlighted with the gentailer model, evidence of the net benefits of corporate separation and jurisdictions choosing this path are limited. Available evidence provides clearer support for targeted remedies that directly address identified market problems.



Vertical integration is an efficient risk management response and common structure in similar electricity markets to New Zealand.



Hedge market liquidity, product availability and competition are leading market concerns with the gentailer model cited internationally and in New Zealand.



Conduct regulation is used in some markets to alleviate concerns over fair competition while retaining the benefits of vertical integration.



New Zealand is aligned with international practice from observed similar markets of favouring proportionate interventions over more intrusive forms of separation.



Corporate separation is expected to involve significant cost and time to implement, with additional potential risks on investment and credit position of retailers also important to consider.



Targeted intervention measures show stronger evidence of delivering better outcomes across the Energy Trilemma than more intrusive forms of separation.

Background to the work

This paper summarises PwC’s independent review of the evidence from New Zealand and similar overseas markets on the case for, and potential implications of, further separating generation and retail activities within New Zealand’s four gentailers.

Purpose and scope

This report presents an independent review of the evidence for, and implications of, further separation of electricity generation and retail activities within New Zealand’s four largest power companies – commonly referred to as the ‘gentailers’.

To inform dialogue on this topic, the four gentailers have commissioned PwC to undertake an independent review of:

- Available literature and evidence on the separation of retail and generation activities in New Zealand and relevant overseas markets.
- The practical implementation considerations and market implications of further separation of the four gentailers.

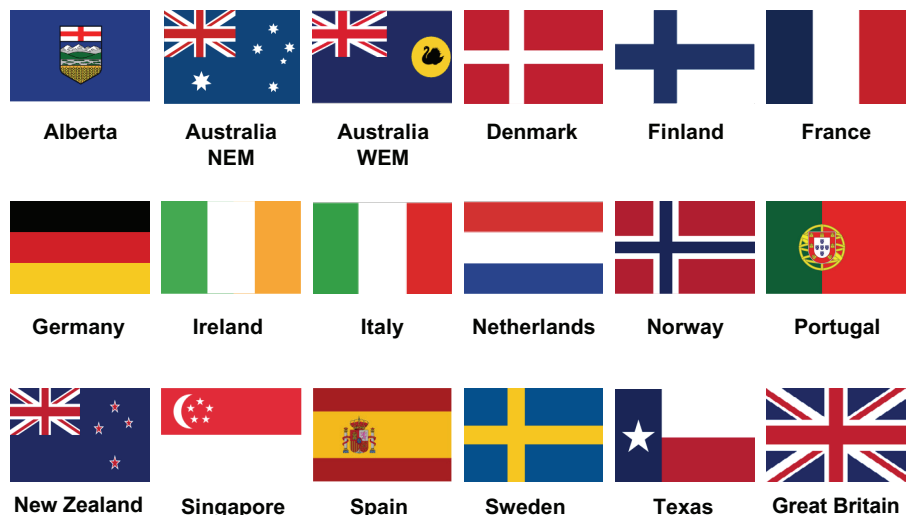
The purpose of the review is to provide a broad base of evidence, analysis, and insights to support further dialogue on the merits and drawbacks of a spectrum of separation measures.

What markets have we sought evidence from?

17 comparable jurisdictions were shortlisted in our assessment, with markets selected based on four criteria:

- The presence of private commercial suppliers.
- An independent competitive retail market.
- Active wholesale electricity markets.
- A developed economy.

Applying this approach produced a shortlist of relevant jurisdictions (see below) across Great Britain, Ireland, Australia, North America, Singapore, and European markets.



International experience reveals that ‘separation’ is not a single measure but a spectrum of policy and regulatory tools that can be applied, each with different requirements on industry participants.

	Separation option	Definition	Highest form of separation in each jurisdiction
Least Extent of separation required Highest	1 No separation requirements	No specific structural or regulatory limitations on owning or operating retail and generation.	Denmark, Sweden, Norway, Finland
	2 Regulatory transparency & behavioural obligations	Regulatory measures provide transparency over margins and pricing and incentivise behaviours that support fair competition. Typical measures include reporting, market making obligations, conduct rules, and regulatory contracts.	New Zealand ^[1] , Australia (NEM) ^[2] , Western Australia WEM (post-2014), Germany, Netherlands, Singapore, Alberta, France, Portugal, Spain, Italy
	3 Accounting separation	Generation and retail activities are ring-fenced in the accounts of a single legal entity. Separate published financial statements with distinct profit-and-loss statements and allocations of shared services and assets to highlight business unit cross-subsidisation and margins.	Great Britain
	4 Functional separation	Generation and retail activities sit within a single legal entity but are operated as distinct arm's-length business units. Ring-fencing arrangements, information barriers, and separate systems and management reporting are used to limit the flow of competitively sensitive information between the two activities. Incorporates features from 2 and 3.	Ireland
	5 Legal separation	Generation and retail activities moved into separate legal entities, each with its own governance and management. All commercial dealings must be on arm's-length commercial terms. Both entities can be subsidiaries of a commonly owned holding company so a natural hedge can be maintained at a shareholder level.	Texas Australia WEM (2006–14)
	6 Ownership separation	Generation and retail activities are undertaken by separate legal entities with no common ownership. There may also be legislative restrictions on ongoing permissible financial, managerial, or operational relationships.	No examples

[2] Australian power companies may be voluntarily legally separated, but there is no mandatory obligation. There are also observations of voluntary separation in European markets, and in New Zealand Trustpower/Manawa voluntarily separated in 2022 via the sale of its retail business to Mercury.



Key considerations for and against separation

International evidence highlights market power and competition risks associated with vertically integrated structures, but also material costs, market fragility and risks associated with separation. This has generally led regulators to favour targeted interventions over separation.



Key concerns with vertical integration

Across the jurisdictions, regulatory attention clusters around four recurring market concerns:

- Market power and restriction of competition.
- Availability of liquid wholesale and hedging products.
- Discrimination against independent retailers.
- Capture of market rents during times of shocks.



Key concerns with separation

Counter concerns around higher market costs, risks and increased market fragility have been weighed by regulators internationally:

- Loss of the natural hedge.
- Costs of separation.
- Risk to investment and security of supply.
- Market fragility during shocks and scarcity.
- Risk to the energy transition and unintended market outcomes.

Summary of New Zealand market review findings on gentailer separation

New Zealand market reviews have considered gentailer separation and have concluded that more intrusive forms of separation are not recommended, instead preferring more targeted measures.

NZ reviews highlight gentailer market power risk but find no evidence of anti-competitive behaviour

The Commerce Commission investigated gentailer market power in 2009. It concluded that each periodically exercised wholesale market power but no anti-competitive purpose or breach of competition law was found.

“The Commission considers that each of the four largest gentailers – Contact, Genesis, Meridian and Mighty River Power – is likely to have held substantial market power on a recurring basis, particularly during dry years... The Commission has found no evidence of an anti-competitive purpose... This behaviour does not meet the criteria of ‘taking advantage’ of market power for a proscribed purpose, namely the hindering or deterring of competitors, under section 36 of the Act, and is therefore not a breach.”³

The Electricity Authority (EA) 2025 Level Playing Field market review made a similar conclusion:

“...no evidence has been provided that causes us to definitively conclude that the exercise of market power to reduce competition is occurring. However, the risk that market power is being exercised remains clear.”⁴

³ Commerce Commission. (2009, May 21), Media release.

⁴ Electricity Authority. (2025b, February 27), ‘Reviewing risk management options for electricity retailers – Update paper following submissions’, Para. 6.27

⁵ Electricity Price Review (2019, May 21), ‘Hikohiko te uira: Final report’, p. 41

⁶ Market Development Advisory Group (2023, December 11), ‘Price discovery in a renewables-based electricity system: Final recommendations paper 2023’, Para D.53.

⁷ Frontier Economics (2025, May 23), ‘Review of electricity market performance: Final report to ministers & MBIE’, P. 6

⁸ Electricity Authority (2026d, May 26), Non-discrimination obligations: Code amendment: Decision paper’, Para. 5.35

Targeted measures have continually been favoured over more intrusive forms of separation

2019 Electricity Pricing Review (EPR): “We do not favour the option of forcibly separating the generating and retailing activities of vertically integrated businesses. We consider the benefits of vertical integration outweigh the costs, even after the costs of promoting competition in a vertically integrated industry are included. Forced separation would also be disruptive, undermine investor confidence and stall or delay the huge amount of generation investment.”⁵

The 2023 MDAG review: “We have also considered whether a retail-generation split would improve competition for flexible supply. The short answer is no, because the source of the market power (i.e. a concentration of ownership for flexible supply assets) would be unchanged by such a split.”⁶

MDAG recommended a specific form of virtual disaggregation (i.e. requiring a portion of flexible supply to be offered to market on regulated terms) but only as an escalation mechanism. The EA later abandoned plans for a formal escalation pathway (that may have considered separation), as part of its 2026 Non-Discrimination Obligations decision.

The 2025 Frontier report concluded that scarce fuel and firm generation capacity, rather than gentailer structures, drove stressed-market outcomes: “the proposals for non-discrimination of contracts and virtual disaggregation of the gentailers should not be adopted as these options will not resolve the underlying issue in the market.”⁷

The EA’s 2025 Level Playing Field review considered but did not recommend accounting or legal separation: “We are not persuaded that more significant interventions can be justified on the basis of the evidence of the problem definition:

- Corporate separation would represent a significant shift in operating model and would likely require primary legislation. It also represents the most expensive option, requiring structural change to gentailers’ businesses. This would result in the loss of the existing efficiencies associated with vertical integration (e.g. resources, systems and risk management)...
- While accounting separation would improve transparency, we do not consider that the introduction of accounting separation would be justified at this time, given the potentially significant costs and difficulties involved. The incremental benefit of transparency beyond the RPCA would not justify this intervention.”⁸

Non-Discrimination Obligations were instead introduced as a ‘low-cost’ and ‘targeted’ response, requiring gentailers to supply risk management contracts on a non-discriminatory basis to standalone retailers.

Summary of overseas evidence on generation-retail separation

While market power concerns remain, vertical integration is not considered anti-competitive in itself, and generation-retail separation alone does not resolve hedge liquidity, fair access or market resilience concerns.



Market power and restriction of competition

International evidence highlights scrutiny over market power and conduct, but vertical integration itself is not always seen as inherently anti-competitive. For example:

- EU competition law cases against E.ON in Germany and EDP in Portugal identified market power and competition risk. E.ON voluntarily split and EDP's merger application was declined.
- In Australia, the ACCC opposed AGL's acquisition of Macquarie Generation over concerns that it could reduce hedge-market liquidity and weaken retail competition. The acquisition was nevertheless authorised, finding that public benefits outweighed likely detriments.⁵¹
- The UK Competition and Markets Authority (CMA) reached a different overall conclusion in Great Britain. After an extensive investigation, it found that vertical integration itself did not have an adverse effect on competition.

Wholesale and forward-market depth

Independent retailers require fair access to wholesale supply and risk-management contracts, including from large competitors. These products must be available in sufficient volumes and on workable terms to support retail entry, competition and growth. Separation does not solve this challenge, which arises even in markets where legal and functional separation are present (e.g. Texas, Australia and Ireland).

Regulators have generally sought enhanced market and consumer outcomes through targeted pro-competitive measures (e.g. contract-access obligations, mandated trading, transparency rules and conduct controls) over more intrusive forms of separation. For example:

- In Great Britain, Secure and Promote rules required designated firms to quote standard baseload and peak-load products.
- Ireland's Directed Contracts, France's ARENH regime and Alberta's PPAs similarly release

incumbent generation output to competing suppliers without changing ownership.

- Texas implemented multiple measures alongside legal separation, with constant refinement to better address wholesale market concerns as they arose.

Fair access to wholesale products

Vertical integration may lead to a perception that a firm will favour its own retail business over its competitors. Jurisdictions have addressed this risk through transparency and conduct measures that limit the ability of dominant firms to transfer advantages between generation and retail. These include non-discrimination rules, accounting separation, information barriers, operational

ring-fencing and arm's-length transaction requirements.

Key evidence includes:

- Great Britain's generation accounting separation rules.
- Ireland's ring-fencing arrangements.
- Western Australia's post re-merger rules.

Fragility during shocks and scarcity

Standalone retailers can become vulnerable when wholesale prices spike, hedge supply tightens, collateral calls rise or counterparties withdraw. Evidence points to higher failure rates and limits on entry and expansion during these times. Vertical integration can strengthen both firm-level and market resilience due to the natural hedge, but does not guarantee consumer protection or physical supply of energy.

Experience in Great Britain, France and Australia during periods of market stress, including the 2022 energy crisis, demonstrates how under-capitalisation and insufficient hedging can contribute to the failure of standalone retailers, resulting in forced customer transfers and wider market costs. Vertically integrated businesses were generally less exposed to these risks. New Zealand has its own notable example of this in the failure of On-Energy in 2001 due to wholesale market stress.

Independent retailer resilience is affected by a range of factors, including prudential standards, hedge liquidity, fallback supply arrangements, fuel and capacity security, consumer protections as well as their own hedging and commercial structure decisions.



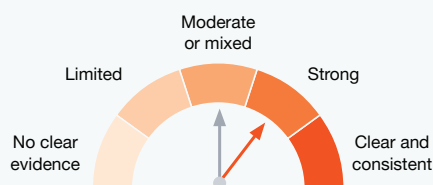
Summary of evidence against the Energy Trilemma outcomes

Available evidence shows targeted regulatory measures provide more conclusive net benefits than more intrusive forms of separation.

Evidence based assessment

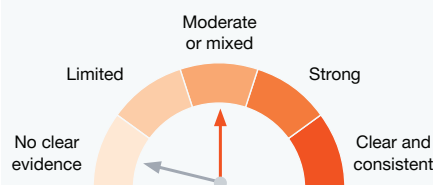
→ Corporate separation → Less intrusive or targeted regulation/separation options^[1]

Affordability



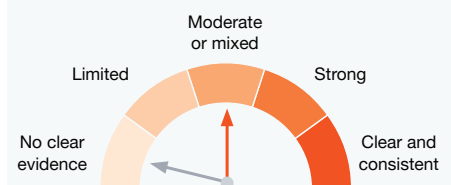
Evidence indicates that further separation could improve hedge transparency, retail competition and arm's-length wholesale dealing, although direct evidence of flow-through impacts to consumer prices is limited. In Texas, legal separation supported by targeted regulatory measures have been in place for over 25 years, but the evidence is inconclusive on its impact on consumer prices. In choosing not to pursue higher forms of separation, many jurisdictions noted risks to affordability from removing the natural hedge, raising collateral and funding costs, and increasing exposure to wholesale price shocks. Targeted measures, such as improved hedge access, market-making, switching tools, market-power remedies and better flexibility-market settings, have been used more commonly to target areas of concern, and improve access and conduct while retaining integration benefits.

Security of supply



Separation could improve transparency, arm's-length access to firming and shaped products, and opportunities for independent investment and flexibility services. However, there is no clear evidence it increases physical firming capacity or dry-year resilience, potentially adding transition uncertainty, weakening retailer credit and reducing the pool of investment-grade counterparties. Targeted measures have been used offshore to more directly address resilience improvements in markets with vertical integration.

Sustainability



Separation could improve arm's-length access to offtake and PPAs for independent renewable developers and reduce concerns of gentailers favouring their own projects. However, the reviewed evidence does not establish that separation accelerates renewable investment. Transition uncertainty and greater reliance on external firming and offtake may delay projects given New Zealand's lower secondary market liquidity. Overseas markets, including Texas which has enforced legal separation, have focused on targeted liquidity reforms to improve hedge market and PPA access and targeted incentives to meet sustainability goals.

Practical implementation considerations of corporate separation

Corporate separation of New Zealand's gentailers is expected to be complex, costly, and take time to implement.

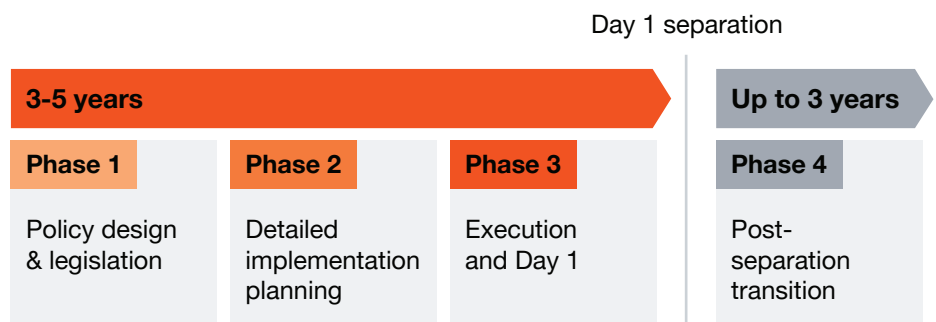
There are a number of practical implications to be aware of when considering corporate separation of the gentailers.

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|----------|---|--|
| 1 | Regulation and market design | Corporate separation would likely require primary legislation and supporting regulatory refinements to govern the new generation and retail business structures (GenCo and RetailCo respectively). |
| 2 | New organisation design and readiness | Establishing clear delineation for the new RetailCo and GenCo businesses, path to separation and ensuring organisations are ready to operate independently (likely with transitional services) from day 1. This is not as clear as may be assumed, as lines between retail and generation are becoming increasingly blurred with the move to greater distributed generation and responsive demand. Market rules would also need to be in place for other generators and retailers, including restrictions on those businesses entering retail and generation markets respectively. |
| 3 | Establishing new hedging arrangements | A complex task to ensure appropriate risk management and market settings from day 1. |
| 4 | RetailCo financeability and capital requirements | Standalone RetailCos could require more liquidity, capital and collateral to support its market and contractual obligations, given large contract positions, potential market exposures and small asset backing. |

High level estimates are provided overleaf for ownership separation. These exclude the costs of the loss of the natural hedge, increased regulatory monitoring and compliance activities.



High level timeline to separation



High-level estimates are provided opposite for ownership separation. These exclude the costs of the loss of the natural hedge, increased regulatory monitoring and compliance activities. Estimates for other separation options are provided in the full independent review report. These estimates are subject to change depending on many factors, including actual design of any separation and detailed due diligence of the gentailers.

One-off costs

\$460m to \$940m

Estimated one-off cost to separate all four gentailer businesses (note: this does not consider costs to entities outside Contact Energy, Genesis Energy, Meridian Energy and Mercury NZ if they were also required to separate).

Loss of integration benefits

\$112m to \$160m p.a.

Increased operating costs if separated businesses continue post separation in similar manner (e.g. are not merged, acquired or operating model changed). This excludes any ongoing costs resulting from loss of the natural hedge or financeability and capital implications.



Thank you