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## **MTRs, decentralisation and supply diversification**

SUPA Energy (SUPA) believes that Multiple Trading Relationships (MTRs) should be addressed under the auspices of the broader move to a more “decentralised” electricity system, consistent with points raised in the Authority’s recent green paper and submissions. If we want greater choice and competition, for the long-term benefit of consumers, we need to be thinking about the barriers to competition for both traditional generators and retailers and also from alternative and disruptive supply options.

Disruptive new technologies are providing consumers with more and more choice, and mean that consumers are less beholden to traditional forms of electricity supply. That is patently a good thing for the electricity industry and consumers.

The low level of solar uptake in NZ (3.15%) at present reflects the potentially transformative opportunities available in the electricity market if regulatory and market impediments to competition are removed.

SUPA urges the Authority to advance MTR as far as practically possible to avoid minimal benefits from partial implementation ultimately hindering investment in innovation. Given that retail margins are slim to non-existent in some segments, the Authority should be realistic about expectations of innovation and competition in a subsegment of that available value. SUPA encourages industry participants to work constructively with the Electricity Authority to consider the most practical and efficient approach to MTRs and to minimise the need for complex rules.

### **Consideration of MTRs and other initiatives to remove barriers to competition from DER should be undertaken within the Authority’s decentralisation framework**

Terms like “decentralisation” and “democratisation” can have different meaning and connotations for different stakeholders and interests. At SUPA we don’t think of these concepts in binary terms or as a contest or choice between an entirely centralised versus decentralised dichotomy.<sup>1</sup>

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<sup>1</sup> A number of the Decentralisation submissions expressed similar sentiment e.g. ENA.

Energy Resources Aotearoa helpfully uses the term “augmentation” to which we would add supply ‘diversity’ and – analogous to the impact of mobile phones on fixed line services – ‘displacement’ of traditional sources of electricity supply by non-traditional supply options. The emergence of the likes of Uber and AirBnB do not necessarily mean traditional taxi services or hotel/motels will disappear but it has forced them to adapt and become more customer focused.

We agree with Transpower’s observations about the importance of diversity: “As intermittent resources increase as a proportion of New Zealand’s energy mix, we will need more diversity of supply and storage – in type, location, and size. This will improve consumer affordability and the resilience of the electricity system. Our Whakamana i Te Mauri Hiko work showed that DER would be a significant contributor to this. However, it is not an either/or situation; we need a combination of higher DER penetration and large-scale generation to grow the economy and deliver consumers the best long-term outcomes.”

Less helpfully the undercurrent of the incumbent gentailers’ club, EGRANZ, submissions is on protecting traditional market structures and how decentralisation should fit within that. This is the opposite of how we should be looking at NZ’s energy future. The focus needs to be on disrupting the status quo and how existing traditional supply needs to adjust to fit within a more decentralised dichotomy. The incumbent protectionist positioning is perhaps most obvious in Genesis’ submission where they question the efficacy of diffuse energy ownership and question whether it is the “best model”.

Decentralisation and democratisation should be seen in terms of greater choice for consumers and non-traditional forms of competition (not just generator versus generator or retailer versus retailer). Disruptive competition can ‘democratise’ electricity supply by enabling a large number of smaller, localised distributed energy resources (DER), such as solar and batteries to cut across and compete against the traditional, centralised supply chain.

### **The electricity market needs to shift away from reliance on centralised oligopoly supply**

It is clear a central part of the problem the electricity industry faces today is that we are too beholden on a small number of incumbent suppliers to ensure investment keeps pace with increases in electricity demand. This form of centralised supply in an oligopolistic market has made the electricity industry vulnerable to the commercial drivers of suppliers with significant or substantial market power. Concept Consulting has detailed how this has resulted in ‘cannibalisation’ issues. Incumbent generators may not invest as much as they would in a workably competitive market because it would result in lower prices for their existing generation portfolio. The outcome has been prices that are too high for too long,

and year-on-year risk that supply will not be able to meet demand in winter. This is harmful to consumers and NZ Inc and to the reputation of the electricity market.

### **What a level playing field looks like**

SUPA agrees with Transpower that “Making sure the market settings are right to deliver the most affordable transition is critical. These settings should remove barriers to efficient investment, which should include encouraging market-based revenue streams to DER owners where they add value in addition to self-consumption. These settings should be universal and at the household, commercial, and industrial levels, whether the DER is small, large-scale, or large-scale ‘centrally’ connected generation.”

Market and regulatory settings need to place DER, including solar PV and batteries, on an equal footing with large-scale generation and generators.

### **There is no single ‘silver bullet’**

The electricity market needs to undergo a number of potential reforms. This may include things like RMA reform and regulation of the hedge market, to make it easier for traditional forms of generation and retail competition, particularly from independent suppliers. It also needs to include changes to facilitate a diverse range of non-traditional forms of supply, including reforms aimed at ensuring dynamically efficient network and energy pricing signals,<sup>2</sup> ensuring spot prices aren’t constrained by regulation (including enabling negative spot prices which will enhance the value of batteries) and things like the MTR reforms the Authority is proposing.

Care is needed not to just think about different reform initiatives in silos. It would be most useful for the Authority to talk more about how different reforms can fit together in a complementary way to help deliver more choice, more competition, more diversity and a more decentralised electricity market.

We urge the Authority to try to build industry consensus/broad support<sup>3</sup> where it can or, at the very least, to make sure its reforms are well justified and backed with evidence. In relation to MTRs, for example, there is NZ experience with the Are Ake trial and international precedent the Authority should draw on to help demonstrate the benefits that can be reasonably expected from the proposed reforms.

### **Concluding remarks**

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<sup>2</sup> We welcome Transpower’s recognition of the benefit of providing payments to DER owners to defer or avoids adding capacity to the national grid. SUPA is fully supportive of re-introduction of peak transmission charges. This would be a welcome change which would help align distribution and transmission pricing so they are providing consistent and complementary pricing signals.

<sup>3</sup> Inevitably, Electricity Authority proposals will be subjected to criticism from vested interests even where the reforms are well justified or commonplace internationally so consensus won’t always be possible or realistic.

SUPA welcomes the opportunity to engage with the Electricity Authority on the future of the energy sector. We look forward to engaging further as the Authority progresses MTRs and other matters designed to promote competition and choice and facilitate the energy transition to more decentralised and diversified supply chains.

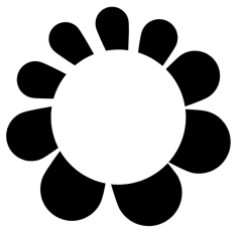
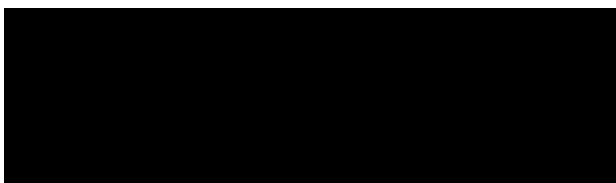
As a supplier of solar solutions which turns large buildings into energy generation hosts that share power locally, SUPA's activities are at the heart of decentralised solutions and the competition and choice the Authority is seeking from non-traditional supply sources.

The Authority has an important facilitative role in New Zealand's energy future. As industry regulator, the Authority should make sure market rules and vested interests don't impede competition from non-traditional sources.

A highly competitive market that doesn't rely on a small number of large, incumbent players is key to successful, affordable electrification. Markets work best when there are a large number of suppliers – with different business models and different product and services offerings – with competing views on what consumers want and need. It is important that we don't just think of competition as being between generators or between retailers but also from suppliers that can cut across traditional supply chains.

A strong focus for the Electricity Authority, as industry regulator, should be on removing barriers to competition from both traditional supply and from non-traditional sources. MTRs may be part of the mix but should be seen within the context of a market which will need a suite of changes and reforms if we are going to have a smooth and just transition which delivers benefits for ALL consumers.

Yours sincerely,



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