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Evolving multiple retailing and switching

2degrees welcomes the Electricity Authority (Authority) undertaking initiatives aimed at promoting competition and improved consumer choice. We appreciated the opportunity to discuss the Multiple Trading Relationships (MTRs) consultation with the Authority.

Responses to the consultation questions are included in the appendix.

Prioritisation and focus

We consider that the Authority is currently undertaking a significant programme of work and managing a number of complex market structure challenges.

In 2degrees' view, the Authority's focus ought to be on project prioritisation and delivering existing projects in a timely manner.

In our view, the Authority should prioritise the progressing the ECTF level playing field reforms, including reform to market-making arrangements.¹ We consider these aspects of regulatory reform are the most important from a public policy and competition perspective and should take precedence over other workstreams.

We strongly believe that the level playing field reforms have the potential to benefit all consumers through lower prices and increased choice, while the MTR proposals would be likely to only benefit a small minority of consumers (e.g. consumers with solar PV) for the foreseeable future.

Previous submissions are relevant

While it has been over 7 years since the Authority last specifically consulted on MTRs, we consider the previous submissions are still relevant and should be considered as part of the review. The submissions include commentary on potential costs (from both a distributor and retailer perspective), consumer preferences for bundled products (with MTRs travelling in the opposite direction), design options and the importance of quantified Cost Benefit Analysis.

Notably also, the previous consultation includes much more detailed commentary on the nature of the potential benefits from MTRs than the current consultation paper.

¹ See our response to Question 4 of the Urgent Code Amendment expiry consultation (<https://www.ea.govt.nz/documents/7120/2degrees.pdf>) and the earlier independent retailer submission we reference on how to reform market-making requirements ([https://www.ea.govt.nz/documents/1325/Haast - Commercial Market Making Code amendment - submission.pdf](https://www.ea.govt.nz/documents/1325/Haast_-_Commercial_Market_Making_Code_amendment_-_submission.pdf)).

More information would be useful

2degrees supported the Authority granting exemptions to enable a multiple trading trial led by Kainga Ora and Ara Ake,

The Authority noted it saw the trial *“as an opportunity to assess and learn more about this model of energy sharing using multiple trading relationships IERs alongside industry” and the lessons from the trial “could be used to develop a more enduring energy solution for New Zealanders and promote competition further in the electricity market”* and that it would collect data *“Throughout the trial ... to inform potential long-term Code amendments and we will monitor the impact of the trial on consumers and participants.”*²

Our understanding is that the Authority considers the trial to be a success but has provided no information on how well the trial went nor are any lessons learnt provided in the consultation paper.

Neither does the consultation provide information about international experience with MTRs and different types of MTR arrangements.

We consider that these are important aspects to consider and evaluate as part of determining whether the MTR proposals are well justified and/or in the long-term benefit of consumers.

In our view, absent this information, the consultation paper is not sufficient to establish that the “proposed changes would benefit consumers” or satisfy the Authority’s statutory objective.

Concluding remarks

We welcome and encourage the Authority to pursue policy initiatives aimed at promoting competition and consumer choice.

2degrees has long advocated that promotion of a stronger, more workably competitive electricity market should be a key priority for the Authority.

It may well be that MTRs are a useful reform particularly for consumers with solar/batteries/etc that would value being able to unbundle their generation (export of surplus electricity) from their consumption (import of electricity from the grid). 2degrees is supportive of removal of artificial barriers to competition created by regulation.

Unfortunately, we do not consider that the consultation provides the information needed to assess whether the benefits can be reasonably expected to outweigh the costs, either on qualitative or quantitative basis.

Furthermore, we do not wish for the Authority to be unnecessarily distracted at a time when fundamental level playing field reforms are being considered and should remain the Authority’s primary focus.

² <https://www.ea.govt.nz/code-and-compliance/exemptions/exemptions-to-enable-a-multiple-trading-trial/>

Appendix: Responses to consultation questions

Q3. Do you agree with the proposed solution? If not, what would you change and why?

2degrees considers that more information is needed to inform the policy development.

The Authority said it would “*monitor the impact of the trial on consumers and participants*.”³ This information is important for confirming MTRs should be adopted and would be to the long-term benefit of consumers. We consider the Authority should publish lessons learned and a summary of the benefits or challenges experienced with the trial.

We also consider that it would be useful to provide information about international experience with MTRs and different types of MTR arrangements; particularly noting the Authority has flagged future reform could include MTRs that split provision of retailing between different time-periods and different devices (e.g. batteries and air conditioning units) that consume electricity.

Q4. Do you agree with the benefits anticipated from the proposed solution? Are there other benefits you can anticipate or improvements to operational effectiveness and efficiency? Can you quantify these benefits?

It may well be that consumers would be able “*to take advantage of pricing and services*” from “*separate traders for distributed generation and consumption*” but this is more a description of the proposal than of the “*primary benefit*”.

The consultation does not include qualitative or quantitative assessment of the potential or expected benefits of MTRs. The previous MTR consultation included a much more detailed discussion on the nature of the potential benefits.

The consultation instead appears to treat as axiomatic that there would be “*significant benefits*” which for MTRs include: (a) “*reducing barriers to entry for new participants leading to increased competition*”, (b) “*increased value to consumers for their distributed generation*” and (c) “*laying the foundation for future stages of MTR*.”

While we agree there may be benefits of this nature, the consultation doesn’t aid establishment of whether they would be significant or could be expected to outweigh costs.

We do not consider the consultation has provided sound basis to form a view about whether the proposed Code amendment would be to the long-term benefit of consumers.

It is likely MTRs will be a niche market opportunity for the foreseeable future.

We do not want to downplay the potential value of MTRs but we similarly think ascribing a central role to MTRs as “*key to a consumer led future*” or something “*consumers will require*” [emphasis added] may overplay its value. The risk is this could divert Authority attention from reforms which could deliver more universal benefits and choice for all consumers.

Q5. Do you anticipate the proposed solution will introduce cost into your organisation, and if so, can you quantify this cost and/or provide a high-level description of the changes that need to be made?

Yes. The proposal has potential compounding compliance cost implications for 2degrees.

³ <https://www.ea.govt.nz/code-and-compliance/exemptions/exemptions-to-enable-a-multiple-trading-trial/>

According to our analysis of the proposal, the Code would require that each ICP have two trader codes registered – one for Generation and one for Consumption. Additionally, a unique set of electricity distribution charges and metering charges would need to be implemented when multiple retailers provide services at a single ICP.

From 2degrees' perspective this proposal is likely to introduce significant costs into our organisation as we would be required to implement new technical, operational and compliance processes into our retail business. By way of illustration, the types of changes necessary would include (but not be limited to):

- Technical modifications to our Energy Database and its Application Programme Interfaces (APIs), including updates to the installation structure, meter data structures, and registry API to incorporate the MTR concept. The switching process will also need to be updated to support a new file format with a generation trader field.
- Operationally, processes will be updated to accommodate MTR relationship changes, including plan qualification, revenue generation, read management, reconciliation, and reporting queries. Internal payment and invoice approvals processes would also be updated to handle necessary validations.

2degrees would expect this change to require an implementation programme of work to be created in addition to business-as-usual compliance and operational processes.

2degrees would urge the Authority to consider transitional and compliance cost implications of these changes, in light of other regulatory changes or reform that is currently underway; including for example: (i) electricity distribution businesses are already being asked/required to reform their distribution charges; (ii) the Authority proposing to mandate a particular form of time-of-use pricing methodology.

Q6. Do you agree options 2 and 3 are not preferred? If not, why not and how would you overcome the disadvantages?

Yes.

Q21 (7.4) Do you agree with the suggested implementation timeframes? If not, please state your preferred timeframes and give reasons for your preference

Submissions in response to the previous MTR consultation raised issues with the interaction of MTRs and the Low Fixed Charge (LFR) Regulations.⁴ This issues could be avoided if MTR arrangements are not introduced until 1 April 2027 when the LFR Regulations will be fully phased out.

Q22. Do you agree with the objectives of the proposed amendments for MTR? If not, why not?

2degrees supports the objective to “Promote consumer choice” and competition. This has been a core theme of our submissions to the Authority and latterly to the ECTF.

However, we do not believe that the current proposal is the most efficient way to promote choice or improve competition settings in the energy market.

⁴ e.g. Meridian, Multiple Trading Relationships, 27 February 2018.

Q24. Do you agree the benefits of the proposed amendment outweigh its costs?

No. See answer to Q26.

Q26. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

We do not consider that the consultation has established whether the MTR proposals would comply with section 32(1) of the Act or not. We support the ERANZ view that *"a thorough cost benefit analysis (CBA) needs to be applied to this MTR proposal to determine if the costs and risks of implementation outweigh the benefits to customers."*⁵

We also note the commentary from the AEMC when they reviewed whether to provide for MTRs:⁶

The Commission has determined that the proposed framework is unlikely to reduce the cost incurred by most consumers that wish to engage with multiple retailers. While a small number of customers may benefit, other customers that do not wish to engage with multiple retailers are likely to face increased electricity retail prices resulting from the costs retailers and distributors would incur by accommodating the proposed framework in their IT systems.

The consultation paper asserts that *"The proposed solutions are expected to provide significant benefits"* which for MTRs include: (a) *"reducing barriers to entry for new participants leading to increased competition"* (b) *"increased value to consumers for their distributed generation"* and (c) *"laying the foundation for future stages of MTR."*

As noted in relation to question 4, the consultation does not include any qualitative or quantitative assessment of the expected or potential benefits. It appears that the consultation paper treats it as axiomatic, or simply assumes, there would be *"significant benefits"*.

⁵ <https://www.eranz.org.nz/assets/documents/27.02.18+-+Multiple+Trading+Relationships+-+EA.pdf>

⁶ <https://www.aemc.gov.au/rule-changes/multiple-trading-relationships>