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Dear Carl

RE: 26 MARCH 2011 EVENT

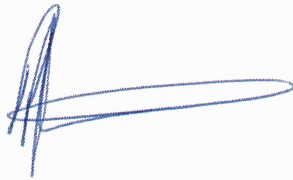
In response to the draft decision on the alleged undesirable trading situation on 26 March 2011, King Country Energy (KCE) makes the following submission to the Electricity Authority (EA).

1. KCE is a retailer / generator with annual sales of 240 GWh and annual generation output of 125 GWh all from hydro stations with limited storage.
2. KCE's risk management approach to its long retail position is to close out the majority of its dry year exposure by acquiring hedge contracts from other generators. Due to KCE's customer demand profile and generation hydrology there are periods during the year where KCE is either in a net long or short position.
3. KCE has for a number of years bought hedge contracts from other generators at a premium to spot price forecasts and to the wholesale prices our retail competitor's use for pricing to their customers. This is evidenced by a number of examples where KCE has responded to a customer contract tender, with KCE using its average wholesale electricity hedge cost as a basis to quoting to a customer, only to lose the tender to a competitor (at times the same companies that provide hedging to KCE), at a price up to 15% lower than the KCE wholesale electricity hedge cost.
4. KCE views this premium as the necessary cost of eliminating the majority of its risk to spot exposure. Although our wholesale cost of supply is generally higher than our hedge provider's equivalent cost of supply, KCE is able to provide retail pricing certainty to our customers and margin certainty to our shareholders.
5. KCE's Generation station operators actively manage water and storage within our schemes to respond to spot price signals and generally our portfolio is able to outperform the average spot price at our pricing nodes. KCE sees this premium as one way of partially recovering the premium we pay for electricity hedges.

6. The prices experienced on 26 March led KCE operators to respond quickly and start generation in a weekend period, which is generally used for restoring storage levels. As with most intramonth periods, on the day KCE was unaware of whether it was short or long, this information is not confirmed until the Reconciliation Manager monthly file is received on the 15th day of the following month. KCE is fully aware of the potential costs of this exposure and expects to be rewarded accordingly when we manage our assets in response to pricing signals.
7. KCE does not monitor specific constraint conditions and unlike other generators, KCE was not aware of any of the pricing bid schedules in the days before or on 26 March, nor was KCE offered any product which would allow us to mitigate or maximise our position.
8. KCE does not offer or encourage products to any of our customers which expose them to the wholesale electricity spot price. We believe the obvious volatility in the spot market of the past 15 years is proof in itself that unless a customer has sophisticated systems to monitor and an ability to shed demand, or switch to alternative supply at short notice, that customer should not be exposed to spot prices.
9. We are aware that some retailers offer variable spot exposure arrangements. It is apparent from the UTS submissions that these arrangements have been entered into by a number of organisations that might not have good reason to monitor their risks or even an ability to drop much load when prices are high such as 26 March. As a retailer we wouldn't encourage our customers to expose themselves to spot because of the risks and we wonder whether these organisations truly understood their risks. Whatever the answer is we do not see it as the EA's role to bail them out in this case.
10. We understand the reasons that the EA has put forward in the draft decision, however we disagree with the reset of 26 March period 22 to 35 prices for the following reasons:
 - a. Unlike smaller players and most customers, the major generator retailers involved all monitor the market and manage their risk 24/7. The EA has determined Genesis has not breached the rules so it escapes us why the rest of us shouldn't live with the consequences (positive or negative).
 - b. Given that no party has been found in breach of the rules the EA has the option of leaving prices unchanged. As discussed above KCE has done the right thing in terms of risk management and is astounded that having done so during this incidence the EA would come along and retrospectively change the price outcome.
 - c. The EA proposes to reset the 26 March prices to between \$1500 and \$3000, however bases these prices on a conceptual approach. Whirinaki offers a standby capacity price of \$5000 and has done so since 1 March 2010. This is an important price signal and many other generation units have been priced around that price so that seems a more logical price to choose than the prices nominated.
 - d. We are an advocate of Huntly remaining in the system to provide peak support and we support pricing outcomes that encourage that. We are concerned that the EA's proposed approach will make it more likely that Huntly units are decommissioned to everyone's detriment in the longer term.

- e. By the EA's own admission the 26 March event eroded confidence in the industry. While resetting prices will diffuse the commercial consequences of the event for some it may make investors nervous that high prices are not achievable in the future and the regulator, having intervened once, might intervene again.
11. KCE has an active and effective risk management framework for dealing with its exposure to the wholesale electricity market and is being severely penalised by the reset of 26 March prices. The 26 March event highlights a number of parties (both customers and market participants) have not implemented effective risk management strategies or have made poor decisions. The outcome of the EA draft decision endorses those decisions and penalises those parties who manage these risks effectively.

Yours sincerely



Rob Foster
CHIEF EXECUTIVE OFFICER