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Electricity Price Review
Secretariat, Ministry of Business, Innovation and Employment
P O Box 1473
Wellington 6140

Dear Advisory Panel

This is K Powers' Submission for Electricity Review Committee

Background

I Eddie Hiestand have been a Director of Karapiro Power Ltd and K Power Ltd for the last 14 years Karapiro Power Ltd is our purchasing arm for electricity and K Power is our retail arm. We are a very very small Retail Power Company. We are not in the Mass Markets as such. We look after Customer Networks only and within the Electricity Commission Rules are defined as a Retailer and have to abide by their and Government rules. Karapiro Power Ltd or K Power Ltd do not have "any" Generating Capacity of electricity. At present we purchase two thirds of our electricity on contract from an Electricity Generator and the other third is purchased on the Spot Market.

Submission

I prefer not to answer your Questionnaire but will give you an overview of my take of the Electricity situation In New Zealand.

We have a situation that all the large Electricity Retailers (Trust Power, Mercury, Contact, Genesis, and Meridian.) They all have generation capacity plus a Retail arm. (Vertical Integration.) The big Electricity Retailers who have generation capacity cannot lose. When the Spot Market for electricity is high they make more money from their generation arm and when spot prices are low they make more money on the retail side of their operation. It is self balancing for them. Over the last few years we have seen a number of new retailers enter the market. To my knowledge not one of these new entrants has any generation capacity and purchases their electricity from the Spot Market. My take is that most of these new retailers will fall by the wayside overtime. Some will amalgamate but will still find it difficult to survive.

Example

As I said earlier Karapiro Power Ltd buys one third of its electricity on the Spot Market and when spot prices were very high 13.41 cent per kWh average for the month of December 2017 and January 2018 spot prices was 13.79 cents per kWh average. For each of these two months Karapiro Power Ltd lost money on that side of the equation. (Spot Market purchase of electricity was more

than what was billed out to Customers.) No new retailer can handle that sort of fluctuation long term.

There also seems to be an assumption that we need more Retailers to control prices which is a fallacy and has very little to do with retail price to the end user. There will always be a certain amount of competition between the Big Five Retailers and Generators if no one else was on the scene.

Overview

Many years ago when the Ministry of works was in control of electricity for the Government and the People in New Zealand they used to plan well ahead some ten years or more, for what electricity was required and in the future built Dams for Electricity Generation in foresight and it worked very well. What we have seen in the previous ten years is electricity consumption has been stagnant. One of the main reasons for this was that most of New Zealand Manufacturers have moved offshore to China so less electricity was used in this field. In the last five to six years electricity consumption has started to increase again mainly because the population is increasing by about 160,000 plus per year and electricity consumption will increase a lot more with the advent of electric vehicles that will come on stream. Nobody does any more long term planning for what is going to happen as electricity usage goes up. (More electricity will be needed to be generated from Gas and Coal at Huntley) hence Spot Prices will go up and electricity price to the Consumer will go up also. It is true to say that we may not need to plan ten years ahead unless we want to build a Dam for Hydropower Generation which takes a long time to construct. Wind Power can be brought on stream a lot quicker even though it is not very efficient system for electricity generation. Only the Big Boys can afford any of these new electricity generating sources. We are a very small country with a small population and there are certain infrastructures that should have been kept in Government control such as the total Electricity Configuration within New Zealand. Unfortunately we have had Governments that believed the Free Market will solve everything. But this is also a fallacy as we have seen with the Railways which were sold off and allowed to be run down by Private Enterprise then the Government buys it back and has to spend Billions to upgrade it to make it viable.

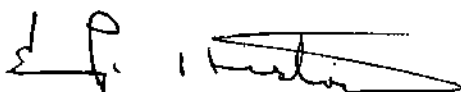
As for now with our electricity infrastructure system we have a mixture of:-

- 1 Free Market Enterprise. The Generation and Retail side are Free Market.
- 2 Transmission and Distribution. These are Monopoly's.

To solve the problem we need to keep electricity prices as stable and cost-effective as possible long term, hence keeping Spot Prices as low as possible. More electricity generation is needed whether it is Hydro, Geo Thermal or Wind. Under the present structure that we have with the electricity set up configuration I don't know how this is going to happen if at all

Good Luck Advisor Panel Members with your recommendation for the future.

Yours truly



Karapiro Limited
Eddie Hiestand
Director