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Report PE-01.700

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Report to Utility Services Committee
from Murray Kennedy, Strategy and Asset Manager

Pipeline Purchase

1. Purpose

To report on the negotiations for an option to purchase the Thorndon to Macalister Park Reservoir pipeline from Wellington City Council (WCC) and a one year lease.

2. Exclusion of the Public

Grounds for exclusion of the public under section 48 (1) of the Local Government Official Information and Meetings Act 1987 are:

That the public conduct of the whole or relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist, i.e.; commercial negotiations.

While the current commercial negotiations have been completed, another set of negotiations, as outlined later in the report, have started. These potentially involve the pipeline and the same reason for public exclusion still exists.

3. Background

Report PE00.280 of 9 May 2000, Attachment 1, outlined a proposal for a lease and a purchase option for a WCC pipeline which runs between Thorndon and Macalister Park Reservoir. It seemed that concluding negotiations was not high on the priority list of Wellington City staff and final agreement was not reached until 30 June 2001.

4. **Operation agreement**

The one year pipeline lease and the first right of refusal to purchase the pipeline have been included in an Operation Agreement. The details are the same as were outlined in Report PE00.280 with one exception. The WCC would not agree to the Wellington Regional Council (WRC) having an absolute right to purchase the pipeline. Instead, the WCC has granted an option to the WRC such that if any time before 30 June 2003 the WCC wishes to sell the pipeline, then the WRC has the first right of refusal. In the event a sale to the WRC proceeds, then the lease payment of \$330,000 will be offset against the purchase price.

At this stage there does not seem to be a willingness by WCC officers to consider a sale of the pipeline and it is unlikely the option will be given within the next two years.

5. **Wellington City Council System Control**

One of the reasons for entering into the pipeline lease was to enable the WRC to retain direct control of the water into the Macalister Park Reservoir and control other parts of the Wellington City system. Through this the wholesale water supply system can be operated more efficiently. Also, while the WRC has control of these facilities, it appears there is no need to consider a second reservoir at Ngauranga which is likely to cost in excess of \$6M.

The WCC had requested a five month extension to the Water Services Agreement for pipe maintenance work within Wellington City. This had been agreed to by the WRC. A commitment had also been made by WCC to enter into a long term contract for Engineering Consultancy Services related to some of their Capital works and a three year contract to operate the Wellington City system and maintain pumping stations and reservoir control equipment. The latter of these contracts ensures the Thorndon to Macalister Park pipeline and the Macalister Park Reservoir water levels remain under the control of the WRC.

Notwithstanding that the WCC has agreed to a three year system control contract and started paying the monthly amount, they sent a rather surprising letter on 5 September. It stated that from 1 December 2001, the WCC intends to control its own water supply system.

Implications of the contents of this letter are still being evaluated. The WCC has indicated it will work with the WRC to ensure the WRC has access to the information it requires, for example Macalister Park reservoir levels.

It would be prudent to ensure the WCC expression of co-operation is tied down in a detailed contract. Otherwise the WRC wholesale water supply cannot operate efficiently, driving us towards constructing the second Ngauranga reservoir.

Hence, although the pipeline lease documents are finalised, the long term arrangements for effective control of the pipeline have been withdrawn by the WCC. On this basis, a new long term contract for information and rationalisation of facilities should be in place before the pipeline lease sum is handed over.

Facilities rationalisation includes:

- Warwick Street Pump Station, the building is owned by the WCC but used by the WCC and WRC
- Thorndon to Ngauranga cast iron 525 pipeline, owned by WRC but used exclusively by WCC
- System telemetry repeater stations, some are owned by the WCC but used by the WRC
- Separation of system control hardware and software.

Wellington City's commitment to use of the Engineering Consultancy Group for some of their capital works projects is also uncertain and requires a better resolution.

In summary, the WCC change of mind is disappointing, particularly given their previous written commitments.

6. Recommendations

It is recommended that the committee:

- (1) *Receives the report and notes its contents.*
- (2) *Approves the fixing of the Council Seal to the Operational Agreement with the Wellington City Council. Subject to : facilities agreement and a long term system information contract being concluded with Wellington City Council to the satisfaction of the Divisional Manager, Utility Services Division.*

Report prepared by:

Approved for Submission

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Attachments

Attachment 1 : Report PE00.280