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Report to the Policy, Finance and Strategy Committee  
from Murray Kennedy, Strategy and Asset Manager

## **Energy Contract**

### **1. Purpose**

To obtain approval to enter into a three-year contract for the supply of electrical energy.

### **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.*

### **3. Background**

Three years ago, the Council approved acceptance of an electricity contract with TrustPower Ltd. This contract expires on 30 September 2002.

### **4. Energy Tender Process**

Following a publicly notified registration process, tender documents for a three-year contract were issued to four major energy companies. One minor company expressed an interest but did not take the process further when asked about the possibility of a bond.

Essentially the tender was for a series of unit rates expressed in cents per kilowatt hour (kWh). These are by hour of the day, by week day or weekend day, and by month. Each period is called a time zone and is of four hours duration.

To assist tenderers to determine the size of the contract, the number of kWh required for each time zone was estimated based on historical usage data for each site and issued with the tender documents. There are 16 Water Group sites plus the Regional Council Centre. Annual consumption of the 17 sites has been estimated at 19.8 million kWh.

Although there are many other Wellington Regional Council (WRC) sites that consume electricity, none are of sufficient size to warrant the cost of half-hour recording meters, as required for the 17 sites in the contract. Additional metering costs of the order of \$1,000 a year for minor WRC sites would exceed the benefits from purchasing lower cost electrical energy.

Tenders were invited for a three-year contract period. This provides a balance between the costs of running a tender process and setting up a new contract, and the uncertainty for energy prices in the future. An alternative of a seven-year contract linked to a new renewable energy source was offered but no prices were received. Genesis Power indicated that it expects to expand its Hau Nui wind farm near Martinborough but has not yet made a commitment to do so.

In addition to the unit energy rates, tenders were invited to tender a fixed monthly charge for each site. This is to cover the cost of the meter and meter reading, monthly account preparation and monthly reports and any other charges of a fixed nature.

## 5. **Tender Evaluation**

Two tenders were received, one from Genesis Power and the other from Contact Energy. Unit rates were then applied to the kWh quantities specified in the tender. These amounts, together with the fixed charges, give a total estimated amount for the three-year contract term. Attachment 1 provides the details.

TrustPower, the Council's present energy supplier for the contracted sites, did not tender. Three years ago, five tenders were received.

### **Genesis Power Ltd**

Genesis Power Ltd is a State Owned Enterprise. It owns a number of generation plants including; Huntly Power Station, the Tongariro hydro power scheme and the Hau Nui wind farm near Martinborough.

### **Contact Energy Ltd**

Contact Energy is listed on the New Zealand Stock Exchange. It owns nine power stations in New Zealand including Clyde, Roxburgh, New Plymouth and Otahuhu.

### **TrustPower Ltd**

The company indicated it would like to continue its relationship with the Council. However, the company's residential customer base exceeds its own generation capacity. This means it purchases energy from other generators. By the time tenders

closed, it had not been able to secure sufficient energy to cover the Regional Council's requirements for the next three years.

### 5.1 **Tender Comparison**

Contact Energy submitted a tender that, under some circumstances, would be considered to be non-conforming. However, with there only being two tenders, it was decided to persevere with a rather unsatisfactory tender presentation. For example, a total of just over 7,300 tender prices in cents per kilowatt hour are required for the three year period. Tenderers were requested to submit these on a computer disk in a pre-determined format for ease of comparison purposes. Contact Energy decided not to do so but submitted a hard copy in a different format. Also, for the fixed meter charges, a monthly charge was requested, whereas Contact Energy provided a daily charge. The prices submitted by Contact Energy include a 10% prompt payment discount. This discount has been deducted for comparison purposes in Attachment 1, but it is not known with what rigour Contact would enforce the prompt payment condition. Generally, it is expected the Council would meet their payment date and therefore receive the prompt payment discount, but there may be occasions during the three-year period where this does not occur for various reasons. The difference between the two tenders in Attachment 1 therefore represents the best case from Contact Energy's point of view.

Genesis Power submitted a conforming tender with one exception. The offer is conditional upon the management of Genesis Power approving and authorising the company to enter into a contract with the Wellington Regional Council, before doing so it would undertake a credit check. It was indicated to Genesis Power that this condition was not acceptable. They have since obtained authority from their management to enter into a contract and have now removed the condition.

The increase in energy costs between the last year of the current contract, that ends on 30 September 2002, and the first year of the new contract, that will begin on 1 October 2002, is 33%. Based on market information, a 40% annual increase in prices had been allowed for in the Water Group's budget for 9 months of the Council's next financial year. On this basis, the prices received from Genesis Power are very competitive.

During the three year period, the minimum power price is 2.51 cents per kilowatt hour and the maximum is 11.44 cents/kWh. The weighted average price in the first year of the new contract is 5.55 cents/kWh, rising to 6.04 cents/kWh in year three. Recent information suggests that the long run marginal cost of new power generation is 5 to 6 cents/kWh, depending on gas price assumptions. On this basis, a substantial rise in energy prices in three years time seems unlikely.

In addition to the energy contract, network services are purchased from UnitedNetworks Limited through a separate contract, at a cost of about \$900,000 a year. Total energy costs for a full year will exceed \$2M from 1 October 2002.

Attachment 1 includes the prices for the Regional Council Centre. Details will be reported separately to the Directors of Pringle House Ltd.

## 6. Next Steps

If the recommendation is approved, then the next step is to formalise the contract documentation. This will be based on Genesis Power's standard contract documents and include schedules containing the specifics for this contract. The final step is for our legal advisors to check the completed documentation.

Completion of the contract process would be reported through the Utility Services Committee.

## 7. Recommendations

*That the Policy, Finance and Strategy Committee recommends to Council that:*

- (i) The unit rates offered by Genesis Power Ltd for the supply of electrical energy for a three-year period are accepted.*
- (ii) The Common Seal of the Council is affixed to the contract documents.*

Report prepared by:

Approved for submission by:

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Disclosure: Neither of the signatories to the report of associated persons hold shares in Contact Energy.

### Attachments

Attachment 1: Energy Tender Comparison: All Sites

Attachment 2: Regional Council Centre Prices