



Report PE05.366
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Committee Policy, Finance and Strategy
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Electricity Tenders for Water Supply and the Regional Council Centre

1. Purpose

To obtain approval to enter into a four 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. Significance of the decision

The matters in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

4. Introduction

Tenders were called for a new electricity contract and the Policy, Finance and Strategy Committee was asked to approve Meridian Energy's tender in principle with the Chief Executive signing off on the contract once negotiations were completed. A copy of the tender report PE05.320 is Attachment 1.

Following the Committee meeting, negotiations were entered into with Meridian Energy to complete the contract. It became quickly apparent that although Meridian Energy had tendered on the basis of a different price for each four hour time block, they had intended that the costing analysis would be carried out on a half hour time block. Managing the water supply system on a half hour time basis for electrical energy would be extremely time consuming

and very difficult. For example, a 600 kW pump motor may or may not start within a particular half hour period. Whereas, there is greater certainty of pumping when viewed on a four hour basis.

To compensate for this problem, Meridian Energy then offered a 5% discount on their tender price for their other option of variable volume but with fixed prices. Deducting 5% from their alternative that was not detailed in report PE05.320, meant that their new tender price was just under that of Contact Energy's.

Officers are uncomfortable with one tenderer altering their price without giving the opportunity to other tenderers to also reconsider their prices.

Accordingly, all tenders have been declined and the contract re-tendered to Genesis Energy, Contact Energy and Meridian Energy. Because Mercury Energy only tendered spot prices plus a fee, their tender has been declined and they have not been asked to re-tender.

It has also been made clear to the three tenderers the Council only wishes to receive tenders that comply with the tender documents. This implies a variable volume fixed price tender.

5. Tenders

Three tenders have been received. The details are as follows:

5.1 Genesis Energy

	Energy	Metering
Option 1		
Year 1	1,402,174	25,920
Year 2	1,480,021	25,920
Year 3	1,531,223	25,920
Year 4	1,563,567	25,920
	5,976,958	103,680
		6,080,638
Option 2		
Year 1	1,419,997	25,920
Year 2	1,497,882	25,920
Year 3	1,549,314	25,920
Year 4	1,581,373	25,920
	6,048,566	103,680
		6,152,246

5.2 Contact Energy

Year 1	1,591,495	31,690.20
Year 2	1,696,674	31,690.20
Year 3	1,758,722	31,690.20
Year 4	1,811,617	31,690.20
	6,858,508	126,760.80
		6,985,268.80
Less 10% on time payment discount		698,526.80
		6,286,742.00

5.3 Meridian Energy

Year 1	1,479,172	38,756.16
Year 2	1,479,172	38,756.16
Year 3	1,490,368	38,756.16
Year 4	1,535,214	38,756.16
	5,983,926	155,024.64
		6,138,950.64

6. Discussion

6.1 Genesis Energy

Genesis Energy is the current energy supplier and has provided a satisfactory service over the last three years. Their second pricing option is based on higher day time prices and lower night time prices than the first option. The intention being to give GWW a greater incentive for night time production of water. It appears though that this may not offer cost savings. The slight reservation is because the system optimiser would respond to the prices but there is no way of knowing what the change might be.

The first option offered by Genesis is preferred. Genesis has reduced its tender prices compared with the tender submitted two months ago.

Genesis Energy has indicated that the impact of the carbon tax, if introduced from 1 April 2007, would result in a price increase. Based on the 6% indicated by Contact Energy, this amounts to approximately \$226,000. The percentage could vary slightly if Genesis Energy has a different energy generation source mix than Contact Energy.

6.2 Contact Energy

Contact Energy has increased its tender amount slightly over the four year period compared with their earlier tender. This increase is partly accounted for by a carbon tax to be introduced on 1 April 2007. Verbally Contact Energy has indicated this adds about 6% to the price and applies for 2½ years of the four year contract. The contract tender carbon tax amount then is approximately \$265,000.

6.3 Meridian Energy

The tender from Meridian Energy is similar to the tender they offered two months ago, though they have confirmed their monthly metering charges.

Meridian has also verbally confirmed that their prices will not change if a carbon tax is introduced. A clause to this effect will be written into the contract.

7. Analysis

There is now a substantial gulf between the Genesis and Meridian tenders and the Contact Energy tender because Contact Energy has included a carbon tax. Genesis Energy is the current supplier and their tender is approximately \$58,000 less than the Meridian tender over the four year period. Their contract performance has ranged from average to good over the last 3 years. Most of the problems have related to billing data and the time taken to resolve any problems. Notwithstanding this point, some problems would be expected whoever is the supplier. If a carbon tax is applied, then the situation changes with Meridian being cheaper over the four year period.

7.1 Carbon tax

The present government, if re-elected, will introduce a carbon tax of \$15 a tonne from 1 April 2007. This is an input tax and would apply at the point of sale from coal mines, gas wells or at the arrival wharf for imported hydrocarbon products. The National Party, if it forms a government, has indicated it would not introduce a carbon tax.

As the table below shows, the preferred tenderer differs if there is or is not a carbon tax.

Company	Price as tendered	Possible carbon tax impact	Total with carbon tax
Genesis (option 1)	\$6,080,638	\$265,000	\$6,345,638
Meridian	\$6,138,950	nil	\$6,138,950
Contact Energy	\$6,286,742 (\$6,021,000 approx without the carbon tax)	(included) estimated at \$265,000	\$6,286,742

Various outcomes are possible.

- (a) If the Genesis Energy tender is accepted and there is no carbon tax, then this is the second best outcome. If the Genesis energy tender is accepted and a carbon tax is introduced, then a premium of \$207,000 has been paid above the Meridian price.
- (b) If the Meridian tender is accepted and there is a carbon tax, then this is the best option. Without a carbon tax, then the Meridian price is a premium of about \$58,000 over the Genesis price and \$117,000 over the Contact Energy price. These premiums are the total amounts for the four year contract.
- (c) Contact Energy has included a carbon tax of 6% in its price but not specifically indicated the reduction if a tax is not introduced. This has been estimated at \$265,000. Deducting this from the tendered price gives approximately \$6,021,000. This is the best outcome if there is no carbon tax.

Meridian Energy's price will not change if a carbon tax is introduced. If a tax is introduced, then Meridian's price is the best. If a tax is not introduced, then a premium of \$58,000 is paid to accept Meridian's price over the Genesis price and a \$117,000 premium over Contact's price.

Our recommendation is to proceed to finalise the contract with Meridian. Meridian is the only offer to provide certainty as to what they would charge with respect to carbon tax. The other tenderers cannot give us a firm figure and we are only able to base our analysis on estimates for Genesis and Contact. In essence, by going with Meridian, we are paying about \$30,000 per annum for certainty. Our view is that there is greater uncertainty in respect of what the carbon tax is for both Genesis and Contact than we would gain by electing either of those tenderers. In fact the tax may be higher than estimated. Meridian, because of the nature of its generation, will not have a carbon tax liability.

7.2 Regional Council Centre

About 5 percent of the contract volume is for the Regional Council Centre. Pringle House Ltd will be invited to endorse the Council's decision on the energy contract.

8. Financial

The wholesale water supply budget makes allowance each year for the expected energy costs.

9. Recommendation

That the Committee recommends that Council:

- (1) **Accept** in principle the Meridian Energy tender.
- (2) **Delegate** to the Chief Executive for signing off on the contract once negotiations are completed with Meridian Energy.

Report prepared by:

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Attachment 1: Report 05.320 Electricity Tenders for Water Supply and the Regional Council Centre

Disclosure: A person associated with the writer holds financial instruments in a company associated with Contact Energy.