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Committee Policy, Finance and Strategy
Author Murray Kennedy Project Manager Renewable Energy

Puketiro wind farm development: commercial issues

1. Purpose

To advise the Committee of a number of commercial issues to be resolved if the Puketiro wind farm development is to proceed.

2. Significance of the decision

The matters for decision 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*.

3. 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.

4. Background

The Council decided at its meeting on 2 May that if it proceeds with a wind energy development at Puketiro, it would not invest in the development but restrict its role to making land available.

At the same meeting this report is being considered, the Council will also consider a report on the public consultation process and a report indicating how the project could proceed.

There are several commercial aspects to the project, these are outlined in this report.

5. Selecting a wind energy developer

There are a number of factors for the Council to consider when selecting a wind energy developer, these include:

- Experience in developing wind farms, either in New Zealand or other countries, or development of capital intensive electricity infrastructure. For example, geothermal generation.
- Experience in engaging with the public and various stakeholders prior to and during the construction of a major energy project.
- The number of staff with management and technical skills to drive a wind energy project.
- The financial resources as a 40-80 MW wind farm at Puketiro is likely to cost \$80 – 160M.
- A commitment to build the project in a reasonable timeframe. This is to avoid a company sitting on an option to develop the site but doing nothing. Or, obtaining a resource consent and then selling the project.
- Experience in working with a local authority would be an advantage.
- A commitment to source products and services locally where these are available and cost competitive.

Essentially, the Council's developer should be a very reputable company with a good track record. This may not necessarily be the company that offers the Council the most money.

6. Financial returns to the Council

Effectively, the Council is making land available to the developer. The land is special in that it enables the developer to access a wind energy resource. The value of the land is therefore greater than it would be just for plantation forestry or grazing purposes.

There are several possible ways for the Council to charge for the land, these include:

- Fixed fee, effectively a lease
- Fixed fee based on the installed capacity of the wind turbines, calculated in \$/Megawatt (MW)/year
- Variable fee related to the wholesale price of electricity for each half hour times the number of MWh sold in each half hour
- A combination method.

Each method will give a slightly different result but the general expectation should be about \$3000 a year for each MW of installed capacity.

A variable fee, as outlined in the third bullet point, is suggested. It has the advantage of being linked to the spot price of electricity. Even though the spot price of electricity varies quite considerably, there is an expectation by the Ministry of Economic Development of a continued rise in electricity prices (in real dollars). If this occurs, then the formula for obtaining the Council's income does not need to be adjusted over the 20-25 year life of the wind turbines. The day to day income may vary but from year to year the long-term trend is expected to be upward.

Whereas, the income derived under the first two bullet points is likely to require adjustment from time to time. There may well be limited market information available to assist in income adjustment negotiations. Hence, an arbitration process could result.

Information on the New Zealand Wind Energy Association website suggests landowners can expect between one and two percent of the wholesale power revenue as a royalty. It is suggested the Council charges 1.5%.

If 1.5% royalty is the only charge payable by a developer, then it is not practical to decide, on a financial basis, which is the best developer to choose. A decision can only be made on a qualitative basis which is not particularly satisfactory for such a major decision. In order to overcome this, developers could be requested to tender an up-front fee (Proposer's fee) payable when the first wind turbine starts generating.

A developer then has to calculate all the costs for a wind farm, including the 1.5% power royalty payable to the Council and the expected income from the wind farm. The difference, assuming it is positive, would normally go to shareholders of the development company. In this case, the developer is being asked how much of the 'profit' they will pay the Council as a one-off fee.

The above is a summary of a more complex process but it outlines how a developer can be chosen on financial grounds, provided they can meet the Council's qualitative criteria, such as experience in power developments.

In the event that potential developers judge the development to be financially marginal, then the tendered Proposer's fee may be minimal.

7. Selection process

A request for proposal document is sent to interested parties as a result of public advertisements. Companies submit information that allows an evaluation to be carried out against criteria similar to those outlined in section 5. A weighted attributes process would be used based on the Transit New Zealand model. Any company that did not acquire a score of at least 35 out of 100 for each attribute is automatically disqualified.

Those companies that qualify are ranked in order and then all acceptable companies are invited to proceed to the next stage with a cut-off number of seven.

The second part of the process is for the Council to issue tender documents to all those on the qualifying list, and this is made public. Companies then have about three months to prepare a tender. The preferred tenderer being the company that tenders the highest Proposer's fee.

7.1 Discussion

Several of the major electricity generation companies were consulted about the selection process and are comfortable with it. Apparently, the cost of preparing a tender response is in the order of \$50,000 to \$100,000. This is because to work out the Proposer's fee, a tenderer has to calculate the life cycle costs for the wind energy development and the revenue. Only then will they know what the excess is in order to calculate how much they will share with the Council.

8. Easement over Council land

A developer spending \$80M or more will require surety so they can be confident they will receive a return on their investment for the project's economic life.

Councillors will recall that the Wellington Regional Council (Water Board Functions) Act was passed in March this year so the Council could offer long-term surety to a wind energy developer.

A developer can obtain a surety by the registration of an easement over Council land to protect its wind energy investment. An issue is should the easement be in perpetuity or for a fixed term?

The life of a wind turbine at Puketiro is governed to some extent by the characteristics of the wind. To determine the life requires analysis by a wind turbine manufacturer. However, the economic life is likely to be between 18 and 25 years.

Offering a 50 year easement allows for two full life cycles and this is suggested rather than a lease in perpetuity. It also allows the Council to reconcile the possible, but very remote need, to use the land for water collection purposes in a way that is not compatible with wind energy production. So far nothing has eventuated that would prevent the Puketiro catchment from being used for water collection purposes and wind energy generation. It should be noted that the Puketiro catchment is not one of the three water catchments currently being considered for a major water storage dam.

Allowing a 50 year easement is very low risk from a water collection perspective.

9. Neighbouring property owners

9.1 Wind turbine sites

There are a number of fixed or near fixed costs in establishing a wind farm at Puketiro. These include the access road and obtaining resource consents. With regard to the latter, market place information suggests it costs \$0.75 – \$1.5M to obtain resource consents and double this amount if the matter goes to the Environment Court.

A preliminary site assessment shows 56 No. 1.75 Megawatt (MW) turbines could be situated on GWRC land and the land of three neighbours, this gives a total of 98 MW. Allowing for possible landscape issues and only two of the three neighbours being part of the project then the maximum size would be about 80 MW. At present, all three neighbours have shown an interest in the project.

GWRC land can hold about 30 wind turbines (52.5 MW) but other considerations could reduce this to say 40 MW.

It is apparent then, that extending the scope of the wind farm by incorporating neighbouring properties will result in a much more financially viable project.

This in turn leads to a higher Proposer's fee. As part of the negotiations with the neighbours, they have an expectation of receiving some of the Proposer's fee.

Neighbouring property owners will enter into agreements with the Council so the Council can offer the land on their behalf. The Council would absolve itself from any of the neighbour's actions so it does not take on any liability.

Once a developer is chosen, then the developer will enter into separate agreements with the neighbours for wind farm development on their respective lands.

9.2 Site access

The preferred access route is from the Paekakariki Hill Road through two adjoining private properties about 1km to the south of Battle Hill Farm Forest Park. Negotiations with the landowners have reached a point where a non-binding Memorandum of Understanding is being drafted. This will allow the granting of easements to the Council at a cost of about \$100,000 and up to \$30,000 for sundries, such as payment for trees to be removed. These costs will be paid for by the developer even though the easement will be in the name of the Council. The final binding agreement will need to be approved by the Council. The easement will also provide GWRC logging trucks with a much more direct access to the Puketiro forest, resulting in a considerable saving in time over the Upper Hutt route. Constructing the access road will be the responsibility of the wind farm developer.

Transit New Zealand has a designation over one of the properties for a future motorway. Technical discussions have started with Transit about the wind farm access.

9.3 Transit land

Transit New Zealand purchased a property about 1km to the north of Battle Hill Farm Forest Park. The eastern boundary is on the ridge and borders GWRC land for about 1.5km where wind turbines could possibly be positioned. The Transit land has pine trees growing on it up to the eastern boundary. As these would detract from the wind turbine performance, options are being canvassed with Transit at present.

10. Recommendations

That the Committee:

1. **Receive** the report.
2. **Note** that negotiations are well advanced with adjacent landowners to become part of the wind farm project.
3. **Note** that it is reasonably likely an easement agreement for access over private land will be referred to Council for approval in due course.

Report prepared by:

Report approved by:

Murray Kennedy
Project Manager
Renewable Energy

David Benham
Chief Executive

Barry Turfrey
Chief Financial Officer