

Report No. PE-99.429

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Report to the Policy and Finance 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

In November 1998 the Utility Services Committee approved a one-year electricity contract for the Water Group's energy supply. Subsequent to this, supply to the Regional Council Centre was included at the same unit rates. It was indicated to the Utility Services Committee at that time that tenders would be called for a new contract to start on 1 October 1999.

A year ago there was considerable uncertainty in the electricity market as a result of Government reforms. Since then, the power companies have elected to be an energy company or a network company. ECNZ was being split into three companies on 1 April 1999, this followed the earlier separation of Contact Energy. The electricity market is now much more stable with six major energy companies emerging together with some minor participants.

4. **Energy Tender Process**

Following a publicly notified registration process, tender documents were issued to the six main energy companies. None of the minor companies registered.

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

To assist tenderers to determine the size of the contract the number of kWh required for each time zone was estimated and issued with the tender documents for each site. There are 16 Water Group sites plus the Regional Council Centre. Annual consumption has been estimated at 20 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.

Tenders were invited for a three-year contract period for several reasons. The meters owned by our present supplier, TransAlta, do not now comply with the latest industry standard. The costs of changing the meters are ideally spread over a reasonable time frame. Pricing stability was expected, this is confirmed by the minor differences in tender prices over the three years of the contract period. Costs are also incurred by the Water Group in running the tender process.

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 Evaluations**

Five tenders were required. 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. Appendix 1 provides the details.

TrustPower

TrustPower is a public listed company based in Tauranga. Its market capitalisation at 23 July was \$631M, supported by shareholder funds of \$458M. The company has about 12 percent of the retail energy market.

It is the lowest tender when energy and fixed charges are taken into account. When energy only is considered it is slightly dearer than Meridian Energy. TrustPower has offered fixed prices for the first two years and a capped price for the third year. This means that if energy prices fall in the third year the advantage is passed onto the WRC. The Account Manager proposed by TrustPower is well known to us, having previously worked for TransAlta.

Meridian Energy

As one of the companies split from ECNZ it started operating on 1 April this year. It is the largest generator in New Zealand with 30 percent of the capacity. However, the company has less than 3 percent of the retail market at present. Meridian is the second lowest tenderer.

Genesis Energy

Another of the baby ECNZ's. It has about 18 percent of the generation market and 10 percent of the retail market.

TransAlta

TransAlta is our present supplier. Account management over the last year has been poor. Fortunately they are the fourth lowest tenderer.

Contact Energy

The company asked a number of questions during the tender period and visited most of the sites. They gave every indication of aggressively seeking the contract. Their position of highest tenderer was therefore a little surprising.

TrustPower's total for the first year of the contract is \$820,160. This can be compared with \$701,348 for 1998/99 using TransAlta's present contract prices. Hence, the increase between 1998/99 and 1999/2000 is 17 percent. Prices though are not as high as they were two years ago when the equivalent annual cost was \$923,298.

The Water Group has a number of projects underway to improve efficiency and reduce energy costs. These include a system optimisation project that will make better use of our customer's reservoir storage. There will be a slight shift to pumping in off peak periods to use lower priced power. Some energy savings are expected from an optimisation project for the Te Marua and Wainuiomata Water Treatment Plants. Power factor correction equipment will shortly be installed at the Te Marua pump station to reduce energy usage.

Appendix 2 shows the prices for the Regional Council Centre. TrustPower's unit prices result in the lowest overall cost. Details for the Regional Council Centre will be reported separately to the Directors of Pringle House Ltd. Two further monthly electricity accounts have been received for the Regional Council Centre since the tender was prepared. On this basis the annual consumption for the Centre has been underestimated. This though does not impact on the tender recommendation.

6. Next Steps

If the recommendation is approved, then the next step is to formalise the contract documentation. This will be based on TrustPower'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 and Finance Committee recommends to Council that:

- (i) The unit rates offered by TrustPower 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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Recommendations endorsed by:

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- Appendices:
- 1. Energy Tender Comparison: All Sites
 - 2. Regional Council Centre Prices