

**Mayor and Councillors
COUNCIL**

24 JANUARY 2013

Meeting Status: **Public Excluded**

Purpose of Report: For Decision

ELECTRICITY SUPPLY CONTRACT RENEWALS

PUBLIC EXCLUDED SESSION

1 The reason for this report being considered in Public Excluded is:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Grounds under Section 48(1) for the passing of this resolution
To present the recommendation to approve the signing of a new electricity supply contract.	Section 7(2)(b)(ii)—to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	48(1)(a): that the public conduct of the whole or the 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.

PURPOSE OF REPORT

- 2 Approval is sought to enter into a contract for the supply of electricity for its sites that have 'time of use' electricity meters. The current supply contract expires on 31st January 2013 and the value of the new contract exceeds the Chief Executive's financial delegation.
- 3 This paper also informs Council of the outcome of the tender for electricity supply to Council sites with 'non-half hourly' meters.

SIGNIFICANCE OF DECISION

This report does not trigger the Council's Significance Policy.

BACKGROUND

- 4 The Council's contracts for electricity supply expire on 31 January 2013. The annual value of the two contracts – one with Contact Energy for 'time of use' (TOU) metered sites and the other with Genesis Energy for the remaining sites (non-half hourly metered or NHH) – was \$1.86M in 2011-12.
- 5 TOU sites are those that are sufficiently large users to trigger a requirement of electricity suppliers for detailed energy use information, gathered using a TOU meter. The TOU meters record the electricity use of a site in half hour blocks, allowing complex pricing schemes to be used. These schemes generally result in

lower costs for users, and give an incentive to the user to shift consumption away from peak periods. TOU electricity unit prices vary by time of day, weekday/weekend and by month. TOU meters transmit their data to the retailer so do not require manual readings.

- 6 NHH sites are generally smaller electricity users that only warrant more basic metering. However, some electricity retailers including Genesis are now installing 'advanced' meters at NHH sites, which essentially function like TOU meters. Such sites are still treated as NHH at present as the pricing schemes currently offered with advanced meters are very basic.
- 7 In May 2012 the Council joined the All of Government Electricity Procurement Group organised by the Ministry of Business Innovation and Employment (MBIE) to secure new electricity supply contracts. The CE signed the Memorandum of Understanding with MBIE on 1 June. MBIE included the Council's electricity demand in the second tranche of organisations tendering their supplies.
- 8 Other Councils that are part of the buying group include Wellington City, Upper Hutt and Auckland, as well as central government departments and agencies. The involvement of local authorities in the buying group was at their own discretion.
- 9 The results of the tender and the recommendations of MBIE were received by Council in early September. The recommendations were:
 - Time of use (TOU): Contact Energy, expiry 31 January 2016 (36 Months)
 - Non half-hourly (NHH): Genesis Energy, expiry 31 July 2014 (17 Months)
- 10 These were judged the lowest priced offers for the Council individually and the buying group overall.
- 11 It should be noted that subsequent to discussions with Genesis, they extended the term of their contract offer for NHH supply to 31 January 2015 (24 months).
- 12 The Coastlands Aquatic Centre and refurbished Civic Building were not able to be tendered as part of the All of Government process as their electricity supplies did not exist to the time of the tender, and hence were not part of the pricing analysis. However they have been added to the contracts subsequently. The Coastlands Aquatic Centre will be TOU metered and the Civic Building will be classed as NHH, although it will have an 'advanced' meter.
- 13 As the Council is part of the buying group, the Council does not have the option to take any of the other offers tendered as part of this process. It can choose to accept MBIE's recommendations and sign 'pricing supplements' (which form the contract in conjunction with the standard terms negotiated for the buying group by MBIE) with Contact and Genesis, or it can choose to leave the buying group altogether and make its own arrangements for electricity supply. The pricing offers made by the electricity retailers to the buying group are likely to be withdrawn if too many organisations opt out.

CONSIDERATIONS

Financial Considerations

Time of use

- 14 The Council has until recently had only four TOU supplies: Paraparaumu Waste Water Treatment Plant, the Waikanae Water Treatment Plant, the Tasman Bore in Ōtaki, and Council-operated streetlights. The Coastlands Aquatic Centre has recently become the Council's fifth TOU-metered site.
- 15 Five offers were obtained for the supply of TOU electricity by MBIE, who used Council's TOU consumption data of the four pre-existing sites to calculate the total cost to Council of these offers, assuming their consumption does not change. The results are in Table 1.

Contact 3YR	Meridian 3YR	TrustPower 3YR	TrustPower 5YR	Genesis 3YR	Mercury 3YR	Genesis 5YR
\$1,196,637	\$1,240,119	\$1,290,910	\$1,308,338	\$1,373,429	\$1,380,387	\$1,400,989

Table 1: Estimated average annual contract cost of TOU electricity supply offers tendered (including estimated third party charges and rebates)

- 16 Contact Energy made the best offer. The offers themselves did not include 3rd party costs. These were calculated to work out the total cost of TOU electricity to Council, and this was compared to the electricity cost for these sites in the 2011-12 financial year. This showed that the annual average cost of the new contract is 6.7% lower than in 2011-12, a saving of \$85,300 per year, assuming total electricity consumption is the same. The term of the contract is 36 months, meaning the value of the contract excluding the Coastlands Aquatic Centre is approximately \$3.59M, including third party charges and rebates passed through by the electricity retailer.
- 17 Because Council does not yet have any historical electricity consumption data for the Coastlands Aquatic Centre, only a basic cost estimate is possible, based on the average TOU electricity price offered by Contact and total annual consumption of the site projected by the design consultants. Using these it is estimated that the annual electricity cost for the Coastlands Aquatic Centre will be \$205,000.

Non-half hourly

- 18 All electricity supplies that are not TOU metered are classed as NHH. The Council currently has 247 of these NHH supplies. Thirty two of the larger NHH sites are on the 'Triple Saver' tariff, which means there are three different variable rate tariffs for different periods of the day. Nearly all of the remaining sites are on the 'Anytime' tariff, which has a single variable price that applies at all times. There is also a daily fixed charge for all NHH sites.
- 19 MBIE obtained four offers of NHH supply. The analysis carried out by MBIE did not account for the fact many Council sites were on 'triple saver' pricing and did not include the effect of cheaper tariffs available to us during night and off-peak periods. Analysis by Council staff confirmed MBIE's conclusions and recommendation were still correct and provided a more accurate estimate of budget impact. This is shown in Table 2.

Genesis	Trustpower	Meridian	Contact
\$630,908	\$766,631	\$833,675	\$1,056,260

Table 2: Estimated annual cost of NHH electricity supply offers (including estimated third party charges and rebates)

- 20 The overall increase in costs is 8.4% for the same set of sites under the new contract compared to 2011-12 costs, assuming their electricity consumption stays the same. The term of the contract is 24 months, meaning the total value of this contract is approximately \$1.26M, including third party charges and rebates passed through by the electricity retailer.
- 21 These costs exclude the refurbished Civic Building's electricity needs. Using detailed electricity data collected from the old civic building and designer's estimates of the refurbished building's total electricity use, the estimated annual electricity cost of this site under the new Genesis pricing is \$50,000.

Combined change in costs resulting from contract offers

- 22 The overall change in average annual electricity costs of both the NHH and TOU sites under the recommended pricing offers compared to the electricity costs of the same set of sites in the 2011-12 financial year is estimated to be a 1.9% reduction, equal to a \$36,315 p.a. saving, assuming the electricity consumption of those sites does not change compared to 2011-12. See Table 3 below. The combined value of both contracts over their full terms is \$4.85M, excluding the Coastlands Aquatic Centre and Civic Building. Including the estimated costs at these sites the combined value of the contracts over their terms is \$5.57M.

	2011-12	MBIE recommendation	change	% change
NHH	\$ 581,948	\$ 630,908	\$ 48,960	8.4%
TOU	\$ 1,281,913	\$ 1,196,637	-\$ 85,275	-6.7%
Total	\$ 1,863,861	\$ 1,827,545	-\$ 36,315	-1.9%

Table 3: Average estimated annual electricity costs for the tendered sites resulting from accepting the new contracts recommended by MBIE, compared to the same set of sites' actual costs in the 2011-12 financial year.

- 23 Provisions in the 2012-13 Annual Plan and 2013-14 draft Annual Plan allow for an increase in electricity costs resulting from new supply contracts and the new Coastlands Aquatic Centre. The budget impact of the new pricing will be analysed as part of Annual Plan revision and approval processes.

Non-price attributes of the offers

- 24 Non-price attributes of the electricity retailers' services were assessed by MBIE at the outset of the All of Government electricity buying initiative. Levels of service and contract terms were negotiated with all the participating retailers by MBIE on behalf of all the participating agencies. Therefore non-price attributes have little bearing on MBIE's recommendation. Also as explained earlier, the Council cannot select suppliers contrary to the recommendations without exiting the buying group altogether.

- 25 In the case of Council, Contact and Genesis are its incumbent suppliers for TOU and NHH electricity respectively, and they are providing an acceptable level of service in terms of account management, billing and data services.

Legal Considerations

- 26 Both pricing supplements and the standard terms that accompany them have been examined by the Council's legal advisor. There were no legal issues identified.

Delegation

- 27 As the value of the NHH contract is within the CE's financial delegation of \$2.2M for any one contract, this pricing supplement will be signed. The TOU contract value exceeds the CE's delegation and Council's approval is required to proceed.
- 28 Council has the authority to consider this report.

Consultation

- 29 No consultation with third parties has been carried out.

Publicity Considerations

- 30 A press release on this matter will be issued.

RECOMMENDATIONS

- 31 That Council approve the signing of the pricing supplement with Contact Energy for supply of electricity to the Council's 'Time of Use' metered sites, for the term 1 February 2013 to 31 January 2016.
- 32 That the Council note the outcome of the tender for electricity supply to Council's 'Non Half Hourly' metered sites for the term 1 February 2013 to 31 January 2015.
- 33 That Council approves the release of report SP-12-754 and the resolutions from public excluded session.

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