

Report to the Utility Services Committee
from Murray Kennedy, Strategy and Asset Manager

Electricity Network Contract

1. Purpose

The purpose of this report is to obtain approval to enter into a contract for the supply of electricity line (network) services.

2. Background

This report could not be included with the other reports for the meeting due to a misunderstanding with UnitedNetworks.

In August last year the Utility Services Committee approved the acceptance of an electrical energy supply contract with TrustPower Ltd. Refer to report No PE 99.429.

The contract with TrustPower provides for the supply of electrical energy and line services, separately priced. TrustPower purchases the line services from UnitedNetworks at that company's published rates and then on charges the Council the same amount. Effectively there is no mark-up on line services from UnitedNetworks to TrustPower.

Our contract with TrustPower allows the Council to enter into its own contract with UnitedNetworks at any time during the contract period. In the latter part of last year UnitedNetworks indicated it was prepared to enter into contracts for line services with major users of electrical energy such as ourselves. Since then we have been negotiating with UnitedNetworks and have now reached agreement on the form of contract. Our legal advisors have checked it.

3. Line Services Contract

UnitedNetworks is a natural monopoly for line services and accordingly it publishes scheduled prices for various types of consumers, usually based on electrical demand.

The contract we are proposing with UnitedNetworks is based on paying their scheduled prices for the services we buy.

The reason for progressing a separate contract with United Networks is not financial, but operational. A contract for electrical energy is essentially a financial transaction. The only physical component being the electricity meters, when these are included in the contract. This can be contrasted with the line services agreement, which is largely paying the line services company for its investment and the maintenance of wires, cables, transformers, switch gear and associated electrical equipment. The lines company also purchases national grid services from Transpower.

It is the physical network which is likely to cause us problems; for example, during storms, flooding or an earthquake. Under these circumstances we need to keep in close contact with the lines company. The type of problem that can arise manifested itself in December last year with severe flooding in central Otago. There were problems with the lines but most electricity consumers, because they had a bundled contract, had to contact their energy supplier, whose call centre was in the North Island.

Minor planned and unplanned maintenance by the lines company can also impact on our operations. By forming a close working relationship with UnitedNetworks Staff we are able to respond in the best way to problems when they arise.

The contract term is for 5 years with provision for contract renewal. The annual payment to United Networks is expected to be approximately \$700,000/year.

4. Environment and Communications

There are no environmental or communications considerations.

5. Recommendations

(1) That the Utility Services Committee approves:

- (i) The acceptance of a UnitedNetworks Contract for line services.*
- (ii) The common seal of the Council is affixed to the Contract documents.*

Report prepared by:

Approved for submission:

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