



PUBLIC EXCLUDED

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Committee Utility Services
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Electricity Purchasing Strategy

1. Purpose

To update the Committee on investigations into purchasing electricity linked to a sustainable energy development in the Wellington Region.

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. Introduction

Greater Wellington Water purchases approximately 20 million kilowatt hours of electricity a year for use in the water treatment plants and the main pumping stations. This makes it one of the larger electricity consumers in the Wellington area. Electricity has been obtained for some time through a tender process with three year contracts. Genesis Power is the current contractor for the supply, including the Regional Council Centre, and their contract runs to the end of September 2005. The annual energy cost is approximately \$1.2M.

Network services are contracted separately with Vector. As Vector is a natural monopoly its charges to Greater Wellington Water are the same as Vector's other customers pay in similar circumstances. The network contract does not have an end date but may be terminated by either party upon giving notice. Network services cost about \$1M a year.

In addition, there are many minor sites where the energy and network charges are bundled and paid to the energy provider.

Nearly two years ago, it was noted that Genesis Energy was considering doubling the size of its Hau Nui wind farm near Martinborough, but they made a decision to defer the project because it was not quite economic.

4. Proposal

As part of Greater Wellington Water's sustainability drive, an approach was made to Genesis Energy in 2002 to see if a premium was paid for the electricity in the early years of the extended Hau Nui development, would the company discount the price several years out. The objective being to offer the company the opportunity to start the development and at the same time give Greater Wellington Water price stability for its electricity purchases through a very long-term contract.

The idea of supporting the expansion of the wind generation development in the Wellington area was canvassed at the Utility Services Committee LTCCP presentation in February 2003. There was no objection from the customers when the issue was raised with them. In the 2003/04 financial year, a premium of \$100,000 was added to the electricity budget in the expectation of concluding an agreement.

While Genesis Power accepted the proposal in principle, they deferred negotiations to concentrate on a 48 megawatt expansion at the Huntly Power Station. A tender for the supply of the additional wind turbines for Hau Nui has only recently been accepted. Genesis has now indicated it would like to discuss a long-term energy contract.

5. Discussion

There has been a change in circumstances since the "green energy" project was raised with Genesis Power in that the Government is offering carbon credits for new renewable generation, in order to make marginal projects economic. On 23 February this year, the Government announced that Genesis Power had been awarded carbon credits to enable 16 new wind turbines to be built at the Hau Nui wind farm. This means that the project must now be economic without the up front support from this Council.

The original objective was to support a green energy project that would not have been economic on a strictly commercial basis. This situation has now changed and Genesis is to proceed with the Hau Nui expansion. Also, in the intervening period, Meridian Energy and TrustPower have started constructing new wind turbines in the Manawatu area.

With an annual cost of electrical energy of approximately \$1.2M, a commitment for a five or seven year contract comes to a substantial sum. There would seem to be a difficulty in negotiating with Genesis on a commercial basis without testing the market for the supply of green energy. An additional factor is the possibility of the Council offering some of its land for wind energy development within the next year or so.

There are a number of options available to the Greater Wellington Water, broadly these are as follows:

1. Negotiate a contract with Genesis Power for five or seven years, commercially linked to its Hau Nui wind farm development on the basis that this is the only form of new “green energy” currently available within the Wellington Region.
2. Put the possible purchase of “green energy” on hold until June 2005 when tenders would normally be called for a new electricity supply contract to start on 1 October 2005.
3. Review the situation in May 2005 when it should be known when the first of the sites that the Council may offer for wind farm development could be available to the electricity industry. In seeking development proposals, the Council could offer its own electricity contract to the developer. This would possibly mean calling tenders for an interim supply contract from 1 October 2005 until a new wind farm is operating.

6. Conclusions

Because of the changed circumstances, it would seem to be difficult to proceed with the original green power concept linked to the Genesis expansion of its Hau Nui wind farm without being subject to criticism by other energy providers. It is likely the Council can obtain maximum publicity from the third option.

7. Financial

The budget for the 2003/4 financial year includes an extra \$100,000 for electricity purchases linked to a renewable energy contract. To some extent, including this additional \$100,000 has been fortuitous as the energy and network account is slightly over budget for the year to date. The reason for this is the substantial amount of energy used following the possum killing operation in the Hutt catchment. The catchment had to be closed for an excessive time and lake water used because of lack of rain to neutralise the bait.

8. Communications

Because of the commercial nature of the investigations and future decisions about whether or not the Council will make some of its land available for wind energy development, communications opportunities regarding green energy are probably best left to May 2005 or later.

9. Recommendations

It is recommended that the Committee:

- 1. receive the report and note its contents.*
- 2. agree to the situation being reviewed in May 2005.*

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Public excluded