

CONFIDENTIAL MEMORANDUM

TO: Council

MEETING DATE: 7 September 2022

TITLE: All of Government Electricity Tranche 19

PRESENTED BY: Rob Webber, Procurement Manager

APPROVED BY: Cameron McKay, Chief Financial Officer

It is recommended that this report be considered with the public excluded, as permitted by the Local Government Official Information and Meetings Act 1987 under clause:

s7(2)(b)(ii) Third Party Commercial - The withholding of the information is necessary 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

s7(2)(h) Commercial Activities - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities

RECOMMENDATION FOR PUBLIC RELEASE

Release a redacted report when the contract is signed.

RECOMMENDATIONS TO COUNCIL

1. That Council approve signing a contract with Mercury Energy for Time of Use for a duration of 45 months at a forecasted charge of \$6.8 million.
 2. That Council approve signing a contract with Mercury Energy for Time of Use (Distributed Unmetered) for a duration of 45 months at a forecasted charge of \$2.2 million.
 3. That Council approve signing a contract with Meridian for Non-Half Hour for a duration of 45 months at a forecasted charge of \$1.4 million.
 4. That Council release the report and decision when the contract is signed.
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1. ISSUE

- 1.1 Palmerston North City Council (PNCC) electricity is provided by Meridian through the All of Government (AoG) Tranche 12.

1.2 This agreement expires on 30 September 2022

2. BACKGROUND

2.1 Electricity is one of PNCC's highest annual operating costs. The current annual electricity usage is approximately 11.6 million kilowatt hours (kWh). This has decreased from over 14 million kWh when PNCC signed up to Tranche 12 in 2019.

2.2 With the approaching expiry of the current agreement, the Ministry of Business, Innovation and Employment (MBIE) went to market on behalf of several Government agencies and local councils to tender for electricity.

2.3 MBIE presented their recommendation to PNCC on Tuesday 24 May 2022. MBIE recommended progressing with two providers (Mercury and Meridian) as this represented the best value for money for PNCC. PNCC were required to provide confirmation of how they intended to proceed by 27 May, to lock in the pricing offered.

2.4 Dialogue between PNCC and MBIE allowed for this confirmation to be in the form of a Letter of Intent, noting that both parties would work to a successful contract and not locking either party in.

2.5 The MBIE recommendations are located at Attachment 1, 2, 3.

3. ENVIRONMENTAL CONSIDERATIONS

3.1 PNCC strategic direction under Goal 4, is to be an eco-city fostering sustainable practises and behaviours. Both Meridian and Mercury electricity generation is 100% renewable¹.

3.2 Both Meridian and Mercury have published climate action plans detailing their processes and practises to support the environment².

4. REGIONAL ECONOMIC CONSIDERATIONS

4.1 Meridian has a regional windfarm generation presence at Te Āpiti, while Mercury is currently building the Turitea Wind Farm.

5. LEGAL CONSIDERATIONS

5.1 Prior to signing the contracts with Meridian and Mercury, they will be reviewed and endorsed by PNCC Legal Counsel to confirm they are appropriate.

¹ Windfarms, Geothermal and Hydroelectric.

² Mercury - [0053_mer_climate_change_impact_2pp \(mercury.co.nz\)](https://www.mercury.co.nz/0053_mer_climate_change_impact_2pp) / Meridian - [Meridian-Climate-Action-Plan.pdf \(meridianenergy.co.nz\)](https://www.meridianenergy.co.nz/Climate-Action-Plan.pdf)

6. FINANCIAL CONDERATIONS

6.1 During Financial Year 2020/2021, PNCC spent \$2,083,903 on electricity and during Financial Year 2021/2022, PNCC spent \$2,042,073 on electricity. Table 2 illustrates the forecast annual charges under the new contacts.

Table 2 – Forecast annual charges against connection and cumulative cost

| | Year 1 | Year 2 | Year 3 | Year 4 (9 months) | Total Years 1-4 |
|------------------------|---------------|---------------|---------------|--------------------------|------------------------|
| ToU DUML | \$579,532 | \$589,724 | \$600,425 | \$416,854 | \$2,186,535 |
| ToU | \$1,780,123 | \$1,807,321 | \$1,835,879 | \$1,371,558 | \$6,794,880 |
| NHH | \$372,615 | \$372,615 | \$372,615 | \$279,461 | \$1,397,306 |
| Total forecast Charges | \$2,732,270 | \$2,769,659 | \$2,808,918 | \$2,067,873 | \$10,378,721 |

6.2 The figures that MBIE provided within their recommendations, only account for the energy component of the TOU and street lighting (DUML) charges. The forecasted figures above, include the estimated network charges for both of these, based on the last 12 months and assumed inflation year on year.

6.3 Note that these figures do not include the AoG fees which are estimated at \$26K over the term of the contract.

6.4 Note that the 9-month term in Year 4 is to align PNCC with the expiry dates of government agencies and local authorities within the central north island, so that if MBIE were to procure for us in the future, they are better able to take advantage of aggregate volumes and efficiencies in process.

6.5 PNCC has budgeted the following in 2022/23/24.

| FY | Budget |
|-----------|---------------|
| 2022/23 | \$2,436,025 |
| 2023/24 | \$2,414,706 |
| 2024/25 | \$2,453,812 |
| 2025/26 | \$2,529,181 |

7. NEXT STEPS

7.1 Once Council approve entering the contracts, these will be executed through the Chief Executive.

8. COMPLIANCE AND ADMINISTRATION

| | |
|--|---|
| Does the Council have delegated authority to decide? | Yes |
| Are the decisions significant? | Yes |
| If they are significant do they affect land or a body of water? | No |
| Can this decision only be made through a 10 Year Plan? | No |
| Does this decision require consultation through the Special Consultative procedure? | No |
| Is there funding in the current Annual Plan for these actions? | No |
| Are the recommendations inconsistent with any of Council's policies or plans? | No |
| The recommendations contribute to Goal 5: A Driven & Enabling Council | |
| The recommendations contribute to the achievement of action/actions in Governance and Active Citizenship | |
| The action is: To assist in good governance and decision making. | |
| Contribution to strategic direction and to social, economic, environmental and cultural well-being | This report contributes to sound decision making for significant operating costs. |

ATTACHMENTS

1. NHH Recommendation Report
2. ToU DUML Recommendation Report
3. ToU Recommendation Report