

2. AGREEMENT FOR ELECTRICITY SUPPLY

Officer responsible Corporate Services Manager	Author Ria Holly, DDI 371-1794
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The purpose of this report is to seek approval to extend the existing agreement with Meridian Energy Limited or to call new tenders for the purchase of the Council's electricity requirements.

The Council at its July 1999 meeting authorised the Corporate Services Manager to enter into a contract for 12 months with a right of renewal at the sole discretion of the Council for a further two periods of 12 months with Meridian Energy Limited, the lowest complying tenderer at that time. The Council, at its April 2000 and April 2001 meetings, authorised the Corporate Services Manager to renew the contract for a further period of 12 months in both instances.

The agreement commenced in August 1999 and had maximum prices fixed for 12 month periods for most categories of supply. The agreement is due to expire on 31 July 2002 and requires Meridian Energy Limited to submit their pricing for an extended term at least four months prior to the expiry date. This allows the Council time to consider renewing the agreement for a further period or to call for tenders.

Owing to current uncertainty regarding pricing in the electricity market, we have approached the main electricity providers with regard to ongoing supply. Our findings from this research show that our initial concern back in November 2001 of a 30% increase in cost of electricity supply, which was subsequently incorporated into 2002/3 budget, now show the average market price being offered by providers other than Meridian is closer to a 60% increase.

However, after conducting discussions with Meridian Energy Limited, we have received an offer to extend our existing agreement for up to a further two years. This offer would incorporate a price increase and would also only allow Christchurch City Council to have 85% of its consumption at a fixed price with the remaining 15% reflecting fluctuating spot market rates. Meridian have also agreed to purchase Christchurch City Council generated electricity from the Waste Water Treatment Plant at the corresponding fluctuating spot market price, provided that it is at least 15% of Christchurch City Council total time-of-use on metered load. As the Treatment Plant's consumption is roughly in line with the aforementioned 15%, Meridian are happy to only apply spot market rates to this facility. The Treatment Plant's consumption does not vary greatly and so Christchurch City Council will be at a substantially reduced exposure to risk from spot market pricing. Therefore, Meridian's offer is substantially more beneficial to the Christchurch City Council than other offers in the current market place and would keep pricing within the budgeted increase.

Meridian has presented Christchurch City Council with a range of four options for continuance of supply and the above proposal is the one which would suit us best. These same four options have been presented not only to Christchurch City Council but also to all businesses nationwide whose contracts are due to expire up to the end of July.

This is the current offer which is on the table from Meridian but it is due to be reviewed over the coming months and adjustments may be made accordingly. There is the possibility that refusing the offer at this stage and going to tender could be to the detriment of Christchurch City Council. Bearing in mind the extra inflation of current pricing from the other providers and the expense of going to tender combined with the probability that we would be unable to negotiate such favourable terms as currently exist in our Electricity Contract, it is felt that we should seriously consider extending the current agreement with Meridian.

Section 247E of the Local Government Act 1974

Section 247E of the Local Government Act 1974 states:

247E Contracts and Tenders

1. *Where any local authority is contemplating entering into any contract for the supply of goods or services that is likely to involve the local authority in expenditure or financial commitment that the local authority considers significant, the local authority shall consider whether or not the matter shall be put to tender.*

2. *Where any local authority decides not to put out to tender a contract to which subsection (1) of this section applies, the local authority shall ensure that the reasons for the decision are recorded in writing.*
3. *In considering whether or not to put any matter to tender and whether or not to accept any tender, the local authority shall have regard to its objectives as stated in its annual report to the public under section 223D of this Act.*

A copy of the Council's objectives, as stated in its Annual Report to the public under section 223D of the Local Government Act, is attached.

- Recommendation:**
1. That, in accordance with section 247E of the Local Government Act 1974, the Council resolve that the requests for proposals for electricity supply be limited to the supplier Meridian Energy Limited for the reason that this supplier is the only organisation that is likely to be able to meet the Council's requirements for its electricity supply within the approved Christchurch City Council budget.
 2. That the Council authorise the Corporate Services Manager to renew the existing agreement with Meridian Energy Limited for the supply and delivery of electricity for a further term not exceeding two years commencing August 2002.