Understanding supply issues and negotiating contracts

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Business Engagement

FIEA - Energy Management is Smart Business Workshop

Overview

• Key players
• Energy retailers
• Competitive bids
• Typical site
• Lines Company
Key Players

- **Energy Retailer**
  - Access to wholesale market and hedge cover
  - Billing and contract with Lines Company

- **Lines Company**
  - Local delivery and fault repairs
  - Contract with Transpower

- **Transpower**
  - Transmission

Energy Industry Structure

- **Wholesale Market**
  - 70%

- **Delivery network**
  - 10%

- **Energy Retailers**
  - 15%

  - 5%
Energy Retailers

• Mighty River Power
  – Largely Auckland based
  – Operate nationally for major customers
  – Generation in N.I. - Mainly hydro with some thermal

• Genesis Energy
  – Predominately North Island based
  – Supply a number of major national sites
  – Generation in N.I. - largely thermal and some hydro

Energy Retailers

• Trustpower
  – Operate nationally
  – Generation - hydro and wind power
  – Net purchaser from the market

• Contact Energy
  – Operate nationally
  – Generation - hydro and thermal
Energy Retailers

• Empower
  – Subsidiary of Contact Energy

• Meridian Energy
  – Operate nationally
  – Generation - renewable (hydro & windpower)
  – Significant S.I. Generation presence
  – Net Generator

Competitive bids

• Seek energy rates directly from Retailers
  – Typically smaller single sites up to 0.8 GWh or $50k p.a., or

• Request for Proposals using an agent
  – Larger sites generally receive competitive rates
  – Greater complexity of Tariff options
  – Often some spot exposure offerings.
Individual Vs Collective

- Industry clusters can generally work to extract more favourable rates, requiring:
  - Single point of contact for RFP, and negotiations with suppliers
  - Common commencement date
  - Accurate information
- Examples include: Greenfields, Education, Councils, Health Sector, national chains etc.

Typical profile
**Typical Invoice**

<table>
<thead>
<tr>
<th>Account Details</th>
<th>Page 2 of 3</th>
<th>Account Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity Charges for</td>
<td>Invoice Number:</td>
<td>JCP Number:</td>
</tr>
<tr>
<td>From 1 April 2003 to 30 April 2003 (30 Days)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Line Charges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installations (Demand)</td>
<td>$134.00 + VAT @ 15%</td>
<td>$2,244.20</td>
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<tr>
<td>Demand Maximum Demand</td>
<td>$74.40 + VAT @ 15%</td>
<td>$1,080.27</td>
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<tr>
<td><strong>Total Line Charges</strong></td>
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<td>$3,324.47</td>
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<tr>
<td><strong>Variable Line Charges</strong></td>
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<tr>
<td>Variable Distribution (600A - 7500A)</td>
<td>$15,000.00 + WH @ 0.651c per WH</td>
<td>$2,946.00</td>
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<tr>
<td>Variable Distribution (250A - 7500A)</td>
<td>$20,000.00 + WH @ 0.299c per WH</td>
<td>$95.49</td>
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<tr>
<td><strong>Total Variable Charges</strong></td>
<td></td>
<td>$2,339.49</td>
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<tr>
<td><strong>Energy</strong></td>
<td>kWh</td>
<td>kWh Rates</td>
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<tr>
<td>Sunday Night (600A - 0000)</td>
<td>50,612.10</td>
<td>2,152.30</td>
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<tr>
<td>Weekly Day (600A - 2400)</td>
<td>83,177.40</td>
<td>6,236.38</td>
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<td>Weekend Night (600A - 2400)</td>
<td>63,022.80</td>
<td>751.69</td>
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<td>Weekend Day (600A - 2400)</td>
<td>26,611.20</td>
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<td><strong>Energy Totals</strong></td>
<td>141,925.91</td>
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<td><strong>Other Charges</strong></td>
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<tr>
<td>Meter Services</td>
<td>30 Day @</td>
<td>$0.20 per Day</td>
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<td><strong>GST</strong></td>
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<td>$1,220.35</td>
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<td><strong>Total Electricity Charges</strong></td>
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<td>$17,335.13</td>
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</tbody>
</table>

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**Lines Company**

- Transpower relationship
- Infrastructure assets - largely KVA based
- Opportunities for savings
  - Capacity based charges
  - Site Power Factor improvement
Conclusions

• Energy spot pricing
  – Will continue to be volatile
• Hedge prices
  – Provide price certainty, however
  – Will trend upwards
• RFPs can provide competitive energy rates
• Talk to your Lines Company.

• Questions….