

IN THE MATTER

of the Resource Management Act
1991

AND

IN THE MATTER

of applications to the **WAIKATO
DISTRICT COUNCIL** and
WAIKATO REGIONAL COUNCIL
by **WEL NETWORKS LTD** for
resource consents to authorise the
establishment, operation and
maintenance of 28 wind turbines for
the generation of electricity and
associated activities on the
Wharauoroa Plateau near Te Uku

STATEMENT OF EVIDENCE OF JULIAN ELDER

1. INTRODUCTION

Qualifications and experience

- 1.1 My name is Julian Elder. I am the Chief Executive of WEL Networks Limited (“WEL”), a position I have held since April 2007. In that capacity I have overall responsibility for WEL’s operations.
- 1.2 I hold a Ph.D in Electrical Engineering from Auckland University (1984) and a Bachelor of Engineering (First Class Honours), also from Auckland University (1979).
- 1.3 I have over 25 years experience in the management of infrastructure projects and businesses in the Water and Electrical Engineering industries, working in Singapore, Australia and New Zealand. Prior to taking up my current position, I held a number of senior positions involving major engineering projects and risk management, most recently as Chief Engineer for Watercare Services Limited (2005 – 2007).

Purpose and scope of evidence

- 1.4 The purpose of my evidence is to introduce WEL, to outline the company’s commercial and environmental responsibilities and objectives, and to comment on the philosophy underpinning the Te Uku Wind Park project.

1.5 Specifically, I will:

- (a) Introduce WEL and describe the company's core business and existing generation initiatives (Section 3).
- (b) Outline WEL's corporate values and environmental responsibilities and objectives (Section 4).
- (c) Outline WEL's environmental commitments (Section 5).
- (d) Outline the commercial rationale for the Te Uku wind project, in light of the foregoing (section 6).

1.6 My evidence needs to be considered alongside the evidence of:

- (a) Mike Underhill, who was the Chief Executive of WEL when the project was commenced and was involved in much of the original public consultation.
- (b) Russell Shaw, WEL's General Manager Operations, who will address WEL's network and how the project fits within this network, including the separate lines upgrade project which is currently underway.
- (c) Roger Burchett, who describes the viability of the project from a technical perspective; and
- (d) Blair Walter, who describes the significance of the project in the context of wind generation generally.

1.7 A summary of my key points is set out in Section 2.

1.8 I am authorised to present the evidence on behalf of WEL.

2. **SUMMARY OF MY EVIDENCE**

2.1 WEL is a Hamilton based electricity distribution ("lines") business which has the core function of delivering energy to customers in the Waikato Region. WEL's network includes supply to residential, commercial and industrial areas of Hamilton City, Huntly and Ngaruawahia.

2.2 WEL Networks is 100% owned by the WEL Energy Trust, a community trust that represents the interests of the local community. The long term capital beneficiaries are the local councils, Hamilton City Council, Waikato District Council and Waipa District Council.

- 2.3 As a community-owned organisation, WEL has an informed sense of social responsibility. The company is committed to placing the Waikato community at the forefront of its planning and decision-making.
- 2.4 In addition to our core regulated business, WEL has developed a growing number of business opportunities that draw on the company's core skills, including small scale generation projects such as a 1MW gas generation plant at Horotiu. WEL has the capacity to expand into significant distributed generation projects. The proposed Te Uku Wind Park will represent a major component of our generation and renewable strategy.
- 2.5 WEL is an energy company under the Energy Companies Act 1992. Its principal objective is to operate as a successful business. As a community owned organisation it is risk averse as regards business decisions.
- 2.6 WEL has a commitment to operate in an environmentally sensitive manner and adopts a proactive approach to environmental and safety issues relevant to the companies' operations. WEL adopted an environmental policy in August 2003 and was approved by the Minister for the Environment as a requiring authority in 2004.
- 2.7 WEL has developed procedures which outline WEL's responsibilities and the responsibilities of its employees and contractors in terms of achieving with the RMA.
- 2.8 WEL manages a range of energy efficiency initiatives and programmes for the WEL Energy Trust.
- 2.9 WEL has identified renewable generation as a business opportunity that is consistent with consistent with WEL's core business and WEL's commitment to the community and sound environmental performance.
- 2.10 As a community owned prudent business operator, it will invest in the project only if it represents good business and can return acceptable profit. WEL has undertaken detailed investigations as to viability of this project having regard to these key yardsticks for over two years and remains confident that this is both technically and commercially feasible.
- 2.11 While the main connection point for the electricity generated from the wind park is at a grid exit point, it is from this point that the WEL network emanates. The electricity generated at Te Uku will predominantly be used by WEL customers. This will be explained in the evidence of Russell Shaw and Roger Burchett.

3. **WEL NETWORKS LIMITED**

3.1 WEL is a Hamilton based electricity distribution (“lines”) business which has the core function of delivering energy to customers in the Waikato Region. WEL is the largest electricity lines and distribution company in the Central Waikato. The network includes supply to residential, rural, commercial and industrial areas of a large part of Central Waikato.

3.2 WEL’s traditional network area is shown in Figure 3.1 below.

Figure 3.1: WEL traditional network area



3.3 WEL Networks manages, maintains and develops the physical network of lines with over 80,000 connections, and an annual throughput of over 1166GWh and a system length of 4,884 kilometres, including 1,469 kilometres of underground lines. WEL competitively contracts out a range of capital works projects to other parties. WEL’s field services are predominantly undertaken by its own Field Services Team with some work tendered out competitively.

WEL ownership and core values

- 3.4 WEL Networks has one shareholder, the WEL Energy Trust, a community trust that represents the interests of the local community. The long term capital beneficiaries are the local councils, Hamilton City Council, Waikato District Council and Waipa District Council. The Trust has asked the Company to consider how to reduce its prices and, consequently, the Company has introduced an annual discount programme. This has resulted in discounts of \$59.3 million (incl. GST) over the past four years. This saving is returned to the community by way of a discount to WEL customers located in the traditional WEL networks area. This discount comes as a credit on the customers' electricity accounts. It would also therefore be expected that the profit of the wind farm that is to be returned to its customers would be included in this discount and returned to customers in this way. However, this would be up to the Trust, as elected by the community.
- 3.5 As a community-owned organisation, WEL has an informed sense of social responsibility. The company is committed to placing the Waikato community at the forefront of its planning and decision-making.
- 3.6 WEL has made a customer promise about reliability and quality of power supply, including the timely restoration of power in the event of outages and an agreement to make payments in the form of compensation when these standards are not met – such payments are made automatically.
- 3.7 This commitment to our customers is also reflected in the substantial discounts paid to all customers connected to the Waikato Region of our network.
- 3.8 The Trust has also been instrumental in providing a wide range of community programmes and facilities resulting in tangible benefits to the people of the Waikato. This community focus represents a central element of the rationale underpinning the Te Uku wind park proposal, as will be explained in greater detail by Mr Underhill.

Distributed generation initiatives

- 3.9 In addition to our core regulated business, WEL has developed a growing number of business opportunities that draw on the company's core business skills. For example, WEL is expanding into renewable generation and has a 1MW landfill gas generation plant at the closed Horotiu landfill. We are presently considering the economics of increasing the generation capacity at this facility to utilise additional short term gas that has become available at this site.

3.10 WEL has also considered or been involved in other generation projects, including:

- (a) A demonstration 1kW photo voltaic (PV) solar generation system installed at the Vardon Road School that is run in parallel with WEL's network. This project has also helped WEL understand how to deal with small scale distributed generation projects.
- (b) WEL owns the 500 kVA diesel generator at the Hamilton Airport. This generator can be used for emergency use for the Airport. WEL also uses this facility to provide demand avoidance and capacity support if required in the Rukuhia area.
- (c) WEL has a number of distribution transformers set up to plug in generation if required in emergency situations.
- (d) WEL is reviewing the option of using dairy waste on farms and how it can be utilised to generate electricity. This project also has the ability to assist and reduce WEL's costs with our asset replacement programmes at the ends of our network in the rural sector where WEL has long overhead reticulation systems that will require replacing in the future.
- (e) WEL has other distributed generation presently operating within its network, including a 45MW Contact Energy cogeneration plant at Fonterra and 1.8 MW cogeneration plant at the Hamilton City Council pollution control plant.

3.11 These initiatives demonstrate that WEL has both the desire and the capacity to expand into significant distributed generation projects. The proposed Te Uku wind park will represent a major component of our generation and renewable strategy.

4. **WEL'S CORPORATE VALUES**

4.1 WEL is an energy company under the Energy Companies Act 1992. As such, section 36 of that Act states that WEL's principal objective is to operate as a successful business. In seeking to achieve this objective it is required, amongst other things, to have regard to the efficient use of energy.

4.2 WEL operates under strong commercial principles and has a highly skilled and experienced independent Board of Directors. Chaired by a highly experienced director, Rodger Fisher, the Board brings substantial business acumen and applies high standards of corporate governance.

4.3 In order to be a successful business WEL must respond to the needs of new and existing customers by extending the provision of its services, and in some cases

major works for the construction and maintenance of its services for it to remain efficient and competitive and to ensure the provision of an adequate and reliable service.

- 4.4 WEL is a service-oriented company and provides customer satisfaction through an efficient, reliable and safe service at a competitive price. Ensuring this aspect of its service requires WEL to have the ability to construct, maintain and operate its network utility business and in that regard WEL was approved by the Minister for the Environment to become a requiring authority in 2004. That enables the company to utilise designation powers to authorise the land use aspects of network upgrades such as new lines and substations.
- 4.5 WEL has a substantial capital works programme underway as detailed in its asset management plan, including the upgrade to the Raglan area supply, as addressed in more detail in Mr Shaw's evidence.

5. **WEL'S ENVIRONMENTAL COMMITMENTS**

- 5.1 WEL has a commitment to operate in an environmentally sensitive manner and is concerned to ensure that it has a reputation for a proactive approach to environmental and safety issues relevant to the companies' operations.
- 5.2 WEL adopted an environmental policy in August 2003. It states:

“WEL recognises that a successful electricity distribution system is part of the economic resources and infrastructure of the national, regional and local communities. In operating a successful network business, WEL is committed to ensuring that its activities are conducted with a high standard of environmental performance. This will be achieved by ensuring that the needs of the community and the values attached to the natural and physical resources are taken into account in planning the way in which our business is conducted. This is demonstrated by our adherence to the following:

- *We operate our businesses safely and as good stewards of the environment. If it is not safe, we will not do it.*
- *We strive to limit possible impact on the surrounding environment by ensuring environmental management is a key component of our operational and network development strategy.*
- *We recognise that safety, the health of our employees, the community and environmental stewardship are every employee's responsibility.*
- *We will comply with environmental regulations and serve as guardians of our natural resources and environment.*

- *We build concern for the environment into everything we do.*
- *We act to protect public health and safety in everything we do.”*

5.3 In accordance with this policy, WEL has developed procedures which outline WEL's responsibilities and the responsibilities of its employees and contractors in terms of achieving with the RMA.

5.4 Where a resource consent is required, the application is accompanied by a thorough assessment of effects on the environment and a detailed consideration of the relevant objectives and policies of the district plan.

Energy efficiency initiatives

5.5 WEL manages the WEL Energy Trust's energy efficiency programmes, which have included household insulation retrofits, energy efficient light bulb programmes, a cylinder wrap insulation retrofit programme, a refrigerator replacement and recycling programme and heat pump programmes. These programmes are designed to bring energy efficient products to customers at an affordable price. This month, the Trust will celebrate its 1000th house retrofit as part of its Cosy Homes project. This retrofit programme provides a range of insulation and other measures into low income housing.

5.6 WEL has historically used show homes and festivals / shows to demonstrate energy efficiency options in homes including heating, insulation and smart control systems. WEL promoted the Medallion Home, a certified BRANZ (Building Research Association of New Zealand) energy efficient home concept. WEL promoted the use of Ice Bank technology for the snap chilling of milk and initiated the demonstration site for this technology at St Peters School's dairy unit.

5.7 WEL has also won two national energy efficiency awards (1996 and 1995) including its heating system at Turua School on the Hauraki Plains and heating and associated systems at Waikato Diocesan School for Girls in Hamilton.

6. RATIONALE FOR AND VIABILITY OF THE TE UKU WIND PARK PROJECT

6.1 As noted, WEL is trust-owned. As a result, the opportunity to grow WEL's business through mergers and acquisitions is very limited. WEL considers that the best opportunity for growth is to expand into a business which is consistent with WEL's core business and WEL's commitment to the community and sound environmental performance, as I have outlined. In that regard, WEL identified that the business

opportunity that was most consistent with these core objectives was renewable generation.

- 6.2 In that context, a key rationale for the Te Uku Wind Park Project is because it represents an appropriate and complementary expansion of WEL Networks' core business.
- 6.3 As a prudent business operator, WEL will only invest in the project if it represents good business and can return acceptable profit, the benefits to the distribution network can also be realised and that they can be built in to the value of the project. It will proceed with the project only if it is technically and commercially viable.
- 6.4 As set out in the evidence of Mr Underhill, WEL has from the outset stated that it will only build this wind farm if it can be demonstrated at the time of tender that it is good business. That requirement means any wind farm construction will return a profit in its operations and these profits will add to the profits of the consolidated operations of WEL. WEL has undertaken detailed investigations as to viability of this project having regard to these key yardsticks for over two years and remains confident that this is both technically and commercially feasible. Once established, the wind park will represent the most significant generation asset in the WEL portfolio.
- 6.5 Some submitters have queried whether the electricity generated will really be for the benefit of Waikato customers. That is undoubtedly the case. The net effect of electricity flows and ownership is that the physical and financial benefit of the wind farm comes back to the community that owns WEL. The electricity generated at Te Uku will predominantly be used by WEL customers. This is discussed in detail in the evidence of Mr Shaw and Mr Burchett. Further, with the expected increase in customer connections, all electricity generated will eventually be used by WEL customers.

Julian Elder
November 2007