

2.09 Chatham Islands Electricity Multi-Purpose Lines Vehicle

Evaluation, Cover Sheet and Decision Form

Project:	Chatham Islands Electricity Multi-Purpose Lines Vehicle		FOR:	Approval
Applicant:	Chatham Islands Electricity Company Ltd		Pipedrive ID:	Commercial I
Application type:	Main PGF	(A) Total Project Value:	\$ Commercial Information	
Funding type:	Grant	(B) PGF Funding Sought:	\$ Commercial Information	
Entity Type:	Company	(C) PGF Funding Recommended:	Up to \$192,168.79	
Region:	Canterbury	(D) Applicant Contribution:	\$ ^{Com}	
Tier:	2 - Sectors	(D/A) Co-contribution Rate:	^{Com} %	
Sector:	Energy			
Application summary:	<p>Commercial Information</p> <p>Commercial Information</p> <p>Additionally, the state of the lines network is such that improvements (particularly tree trimming) will be needed to give effect to these improvements. The vehicle used for these tasks is currently out of service and not fit-for-purpose. A replacement is needed so that this work can be undertaken, and future tasks related to expansion and improvements to the lines network as the total project is rolled out. The purpose of this application is to purchase the multi-purpose lines vehicle to undertake these tasks, Commercial Information</p> <p>The Chatham Islands Electricity Company has demonstrated good processes and experience to undertake the purchase. Limited funds has meant a suitable replacement vehicle could not be purchased.</p> <p><i>[Please see full project description in the Application Description Section]</i></p>			

The PDU recommends that: this application be progressed by SROs:

Agree to approve an up to \$192,168.79 grant (Commercial Information) from the PGF towards purchasing a Multi-Purpose Lines Vehicle

1. because:
 - a) As part of the (Commercial Information), it will help create a resilient electricity network that will lead to cost savings for residents and business;
 - b) It helps enable a project that better utilises the existing electricity network, improving reliability and resilience;
 - c) Is supported by the region through the Chatham islands Investment Strategy;
 - d) The applicant has demonstrated suitable processes and expertise;
2. note:
 - a) This application for a multi-purpose electricity lines vehicle forms part (Commercial Information);
 - b) (Commercial Information), and this application gives effect to that by improving the lines network (a necessary prerequisite);
 - c) (Commercial Information)

Section A: Triage – Assessment against PGF eligibility criteria

Declining under CAP-18-MIN-0347

➤ Is the project an illegal activity?	No
➤ Is the project located in the three main metropolitan areas?	No
➤ Is the project seeking investment in large scale infrastructure of social assets?	No
➤ Is the project seeking investment for three waters?	No

Declining under DEV-19-MIN-260

➤ The applicant is not willing to consider a loan which is deemed necessary to ensure the proposal complies with New Zealand's international trade obligations?	No
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➤	Due Diligence is failed, including financial and character assessments?	No	
➤	The application is for a Commercial project and has zero co-contribution?	No	
➤	Application likely to fail on a <u>TWO STAGE TRIAGE</u>	No	
➤	<u>STAGE 1</u>	a) the project is only weakly aligned to PGF objectives, <u>AND any of the following (from Stage 2)</u>	No
➤	<u>STAGE 2</u>	b) the project is not likely to commence within the PGF timeframes*; OR	No
		c) the extent of regional support and alignment with regional priorities is low; OR	No
		d) the co-contribution is inadequate given the key information about the project; OR	No
		e) available security does not align with security principles position paper	No
* The application is not in line with the PGF position paper on feasibility studies and business cases, or does not have required resource or other statutory consents.			
Is the application eligible for funding?		Yes	

Due diligence on applicant – Summary of findings	Completed
No findings.	
Conflicts of Interest	No
Terms and Conditions	Yes

Application description

Background

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Electricity network issues

The electricity lines network on the island is in a state of disrepair. In particular, vegetation has grown to interfere with lines (particularly notable during bad weather), poles need replacement/installation, and there are a number of repairs needed throughout the network. These issues need to be sorted

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Electricity Multi-Purpose Lines Vehicle

The vehicle used for maintaining the lines network on the Chatham Islands is no longer operating due to attrition, and is also not fit-for-purpose. An assessment of the vehicle indicates that it is beyond repair. It is noncompliant, unable to get a warrant, unsafe, and does not have the equipment necessary to undertake the tasks required. In recent times the vehicle has continually broken down, and is currently inoperable, meaning no work has been undertaken on the lines for some time.

A new multi-purpose lines vehicle would be a long-term strategic asset for the Chatham Islands economy as it would ensure reliability and resilience of the electricity network. It would enable power pole installation, tree trimming, installation and repairs across the network, safely, effectively and productively. It would also help consolidate and grow the lines and electricity network as residents and business, old and new alike, are added to the network.

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maintenance is necessary to realise this.

Cost details

Cost description	\$ (excluding GST)
Base vehicle cost (including, truck, crane, basket, manual extension, engineering modifications)	\$ <small>Commercial Information</small>
Land freight Nelson to Timaru port	\$ <small>Commercial Information</small>
Sea freight Timaru port to Chatham Island	\$ <small>Commercial Information</small>
Total	\$ <small>Commercial Information</small>

Project Ownership (Structure and Key Personnel)

Chatham Islands Electricity Company is a wholly owned subsidiary of Chatham Islands Enterprise Trust. Key personnel include:

- Ian Sanson (Chief Electrical Officer, Chatham Islands Electricity Company)
- Noel Brown (CEO, Chatham Islands Enterprise Trust)

Overseas Investment Office

- Is the application being made by a non-New Zealand based legal entity? (Foreign investment laws may apply and the Overseas Investment Office consulted)

No

Section B: Operational Assessment Criteria (Complete for EoIs and Applications)

(Rate and comment – 1= poor, 5 = very good - Provide the number for this project, not subsequent phases)

Fund and government outcomes

Please highlight number below

Would the project:

<p>➤ create permanent jobs?</p>	<p>Commercial Information</p>	<p>Commercial Information</p>
<p>➤ deliver community benefits?</p>	<p>Will lead to more reliable electricity supply, encouraging residents and business to join the main grid, reducing reliance on diesel generators, saving money.</p>	<p>Commercial Information</p>
<p>➤ increase utilisation of and returns on Maori assets?</p>	<p>The above community benefits will also apply to Maori owned assets, and Commercial Information will also impact positively on Maori assets.</p>	<p>Commercial Information</p>
<p>➤ enhance the sustainability of natural assets?</p>	<p>Reduces reliance on diesel generators.</p>	<p>Commercial Information</p>
<p>➤ mitigate climate change effects, or assist with the lowering of emissions?</p>	<p>Commercial Information</p>	<p>Commercial Information</p>

Additionality

Would the project:

<p>➤ add value by building on what is already there, without duplicating effort?</p>	<p>Allows more use of the existing electricity grid, and works with the other components Commercial Information</p>	<p>Commercial Information</p>
<p>➤ be a catalyst for productivity potential in the region?</p>	<p>Other PGF investments are in aquaculture, tourism, Commercial Information increase energy capacity and gain efficiencies to enable sector expansion.</p>	<p>Commercial Information</p>

Connected to regional stakeholders and frameworks

Does the project:

<p>➤ align with regional priorities, such as frameworks, or regional plans?</p>	<p>Commercial Information</p>	<p>Commercial Information</p>
<p>➤ have the support of local governance groups (councils, iwi and hapu)?</p>	<p>The Chatham Islands Council, Iwi and Imi support the project Commercial Information</p>	<p>Commercial Information</p>

Governance, risk and project execution

Does the application show:

<p>➤ robust project management and governance systems?</p>	<p>The Chair of Chatham Islands Electricity Ltd (Peter Dowling) and Chief Electrical officer (Ian Sanson) are highly experienced in the industry. They have experience in purchasing vehicles for the maintenance of the network. The procurement process will be</p>	<p>Commercial Information</p>
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	<p>overseen by the Chatham islands Enterprise Trusts CEO Noel Brown who has senior management experience in infrastructure consulting roles in Australia. A high level project plan has been provided, which should be sufficient for a straightforward and relatively small project.</p>	
<p>➤ plans for future ownership and operational management?</p>	<p>The vehicle is proposed to remain with Chatham Islands Electricity Ltd, and the Chatham Islands Enterprise Trust. It is not foreseen that this will change.</p>	<p>Commercial Information</p>
<p>➤ how the project will be delivered and managed?</p>	<p>Delivery of funding will be based on agreed milestones.</p>	<p>Commercial Information</p>

Section C: Risk Management Evaluation

<p>Does this application demonstrate consideration of the following risks?</p>			<p>Yes</p>
Type of risk	Risk description	Mitigations	Risk Rating
<p><input checked="" type="checkbox"/> Project risk</p>	<p>Is the project feasible? Can it be delivered on time, on budget and to specification?</p>	<p>The Chief Electrical Officer of the Chatham Islands Electrical Company Limited will appraise the vehicle ahead of purchase and during fit out.</p> <p>Commercial Information will undertake a full mechanical inspection prior to delivery.</p>	<p>Commercial Information</p>

<input checked="" type="checkbox"/> Operational risk	<p>Will the project or asset operate to specification, to budget, and achieve the forecast revenue?</p>	<p>The Chief Electrical Officer of the Chatham Islands Electrical Company Limited will appraise the vehicle ahead of purchase and during fit out.</p> <p>Commercial Information will undertake a full mechanical inspection prior to delivery.</p>	<p>Commercial Information</p>
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If the answers to the first question is NO, or assessments of risk(s) are HIGH, discuss with an Investment Director.

Section D: Funding and financial analysis Please highlight number below

<p>Does the application show:</p>		
<p>➤ How strong is the financial position of the applicant organisation?</p>	<p>The funding will allow the purchase of a vehicle to replace one that is no longer operational. This is crucial to the reliability and resilience of the network.</p> <p>The key issue related to this aspect of the electricity business is the capital expenditure (i.e. the vehicle), which Chatham Islands Electricity Company Limited could not afford. There are no associated issues with ongoing operation of the vehicle and work to be carried out on the lines, Commercial Information</p>	<p>Commercial Information</p>
<p>➤ How does the scale of the project compare to their overall business?</p>	<p>The scale up is not significant, and systems are in place to manage the scale up in activity, the only issue being capex requirements.</p>	<p>Commercial Information</p>

<p>➤ Why is Crown funding being sought rather than commercially-available funding?</p>	<p>The Chatham Islands has a small population and a challenging economic environment – impacted by isolation from mainland New Zealand - which means there are limited means to raise capital for essential services and infrastructure, especially through private means. This, in turn, impacts on economic development.</p>	<p>Commercial Information</p>
<p>➤ What does the independent financial analysis/ business case indicate?</p>	<p>The purchase of the vehicle supports Commercial Information a key component of the Chatham Islands Investment Strategy.</p> <p>Commercial Information</p>	<p>Commercial Information</p>
<p>➤ Is the funding model requested appropriate? Is the PDU recommending a different model?</p>	<p>A grant is the most suitable method of funding as the overall package has already been agreed to by RED Ministers, and this forms a component of it.</p>	<p>Commercial Information</p>
<p>➤ Has the applicant provided evidence of market pull for this project?</p>	<p>Commercial Information</p>	<p>Commercial Information</p>
<p>➤ Has the applicant provided evidence that their supply chain is secure?</p>	<p>Yes.</p>	<p>Commercial Information</p>
<p>Summary of funding and financial analysis:</p>	<p>Chatham Islands Electricity Company Limited has limited ability to afford large capital projects. A grant to purchase the multi-purpose lines vehicle will free up the company's capital expenditure budget</p>	<p>Commercial Information</p>

	<p>for other improvements to the network as required. <small>Commercial Information</small></p> <p><small>Commercial Information</small> A grant is preferred as this was what was agreed upon as an approach by RED Ministers in September 2019.</p>	
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Funding arrangements

<p>Milestone plan:</p> <ol style="list-style-type: none"> 1) Sourcing of suitable vehicle (\$ <small>Commercial Information</small>) 2) Engineering modifications (\$ <small>Commercial Information</small>) 3) Delivery (\$ <small>Commercial Information</small>)
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Summary statement of Application Review undertaken

All of the following have occurred as part of this application assessment and recommendation:

- Discussions between the Regions Team and the Investment Team; and
- Consultation with relevant partner agencies allowing the provision of technical advice; their verbatim feedback is included above; and
- Full and comprehensive review by an Investment Director; and
- Review by the Head of Investment; and
- Review by the PDU Leadership Team.

These have occurred to the satisfaction of the reviewer and the reviewer concurs with the recommendation.

Review has been completed	Yes
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Supporting proposal:	Yes
Appendices:	Yes
Author of paper:	JSH, Senior Investment Analyst, AM, Investment Director, PDU Investment Team