CAMPBELLTOWN CITY COUNCIL

Confidential Item

For Council meeting to be held on

Tuesday 3 September 2024 at 7.00 pm

Refer Item 11.6

Confidential Item

11.6 Update on Eastern Adelaide Retail Power Purchase Agreement

Manager Environment & Sustainability Services, Maria Zotti

Purpose of Report

To provide Council with an update on the progress of the Eastern Adelaide Retail Power Purchase Agreement (EARPPA) Project, which is a group procurement process between seven Councils for a long-term renewable electricity Retail PPA (Power Purchasing Agreement).

Strategic Plan Link

Focus Area 1.1 Drive our Climate Solutions Strategy

Focus Area 2.1.2 Identify and implement adaptation measures to support climate solutions

Previous Council/Committee Resolution

At its meeting held on 7 May 2024, Council resolved:

'That Council

- approves its participation in creating a buying group of Councils to conduct a group procurement process for a long-term renewable electricity Retail PPA
- develops a MOU (Memorandum of Understanding) between the participating Councils, documenting the process, governance, cost-sharing arrangements and any opt-out thresholds, noting this is not a commitment to join a Retail PPA, but for the development of an MOU among participating Councils
- reaffirms its delegation to the Chief Executive whereby the financial delegation is unlimited to the extent needed to secure ongoing electricity arrangements for Council's facilities and service provision
- endorse in principle that it enters into an electricity contract of this nature to secure Council's ongoing electricity arrangement.'

Background

Last year, most Councils across South Australia renegotiated new electricity contracts in partnership with LGA Procurement. At the time, electricity costs were extremely high and Councils are consequently paying record electricity prices until 1 July 2025. Through that procurement process many Councils were keen to purchase renewable electricity, due to the unprecedented electricity costs, most Councils decided to defer the purchase of renewables.

As a result of the unprecedented costs, ERA Councils, in partnership with the City of Tea Tree Gully, decided to explore alternative options for electricity procurement. ERA Councils include the Cities of Campbelltown, Burnside, Norwood Payneham & St Peters, Prospect, Unley, and the Town of Walkerville.

In July 2023, the group engaged Presync to explore options for long-term electricity procurement from renewable sources. Presync conducted a comprehensive analysis of electricity consumption and generated a forecast of future usage for the seven Councils involved in this project. The forecasting process included a detailed analysis and discussions on electricity consumption history and predicted future consumption for Councils.

Based on the analysis, Presync advised that the load profile of the group of Councils was a suitable size for a Retail Power Purchasing Agreement (PPA). Presync then went to the market and obtained a compelling indicative offer for a Retail PPA commercial structure:

- A 9.5-year wind and solar PPA (July 2025-December 2034), with the wind/solar mix optimised to best match the real-time consumption of the group of Councils.
- The proposal identified specific wind and solar farms in SA that would be linked to the PPA.
- A flat price for renewable electricity over the whole term of the PPA with wholesale market firming (ie while most of the electricity needed by Councils will be provided by the solar and wind farms, some electricity from other sources would still be used through the grid to help keep the price down).
- A flat price for Renewable Energy Certificate (RECs), which are optional and Councils can choose to purchase them if they want to claim they are using renewables to meet targets for the reduction of greenhouse gas emissions (without the certificates, Councils can still consume the electricity but cannot claim they are using renewables).

Presync advised that the indicative offer provided both lower prices and long-term price stability for electricity. Further, for Councils that require renewable electricity, the steady, flat-price RECs, would facilitate the achievement of renewable goals. For all Councils, with or without RECs, expenditure would be significantly below current levels.

Presync also advised that a buying group, consisting of seven Councils, is important to success of this project. A smaller group of Councils may not consume enough electricity to warrant competitive offers from the market (ie the combined load of all the Councils is attractive to the market). Further, the group has administrative advantages, having established collaborative arrangements through ERA and Resilient East, enabling efficient decision-making and administrative processes.

The next step was for the seven Councils to commit to being part of the procurement process and a ‘Model Report’ was developed to enable Staff from each Council to present a report to their respective Councils in April/May 2024 recommending that their Council:

- Endorse creating a buying group of Councils to conduct a group procurement process for a long-term renewable electricity Retail PPA
- Endorse the development of a Memorandum of Understanding (MOU) between the participating Councils, documenting the process, governance, cost-sharing arrangements and any opt-out thresholds.
- This was not a commitment to join a Retail PPA, but for the development of an MOU among participating Councils and to participate in procurement process.
- Delegate authority to their Chief Executive Officer to sign contractual agreements on Councils’ behalf.

All seven Councils endorsed the proposal and in July 2024 the Eastern Adelaide Retail Power Purchase Agreement (EARPPA) Buying Group was established. A Working Group, with representatives with diverse skill sets from each Council, has now been set up to progress the project.

Discussion

The EARPPA Working Group has developed a Memorandum of Understanding (MoU) that sets out 'ways of working' including governance, process and cost sharing arrangements and is currently developing tender documents and evaluation criteria.

Key tasks completed by the Working Group include:

- Gathering legal advice that the group is working within Australian Competition and Consumer Laws and does not require an authorisation from the Australian Competition and Consumer Commission

- Receiving advice from a specialist consultant that a prudential review is not required for this project.

Next steps include:

- Finalising tender documents and evaluation criteria
- Release procurement documentation to market
- Evaluation of offers (all Councils will be represented on Evaluation Panel)
- Negotiate contract
- Sign contract
- Contract management.

LGA Procurement offer

In an unexpected development, LGA Procurement has recently contacted Councils with a proposal for a multi-year electricity contract from an electricity retailer (hereafter called the 'LGAP offer') attached as a commercial in-confidence document. This proposal is for electricity at large and unmetered sites, which constitute most of a Council's electricity consumption.

At this stage, the LGAP offer includes only indicative pricing and although final pricing, the BAFO (Best and Final Offer), has not been submitted, Councils can now opt to participate in a non-binding process that will trigger the generation of final pricing. Once the final pricing is known EARPPA Councils can consider the offer and decide if they wish to accept it or continue with the EARPPA Buying Group.

To assist EARPPA Councils in decision making, the EARPPA Working Group has engaged Presync to provide a comparison of pricing to each Council, including:

1. Current electricity pricing
2. Pricing for the LGAP indicative offer
3. Pricing from the indicative quote the group obtained for a Retail PPA, and
4. Pricing on the ASX Futures Market.

Due to commercial in-confidence requirements, this modelling is provided to Council as a confidential attachment. This modelling will also be provided to all EARPPA Councils, first using the indicative pricing attached to the LGAP offer, then with the final BAFO pricing for that proposal, once it is received. Presync's advice is that the LGAP indicative offer is not competitive with the indicative quote the EARPPA Buying Group has previously received for a Retail PPA.

Once the final LGAP offer has been assessed by EARPPA Councils against other available pricing, three possible outcomes are:

1. The final LGAP offer is **not competitive** and all EARPPA Councils decline it, continuing the collaborative work of the EARPPA Buying Group
2. The final LGAP offer is **highly competitive** and all EARPPA Councils accept it, thus negating the need for the EARPPA Buying Group, or
3. The final LGAP offer is **moderately competitive** and some EARPPA Councils accept it. For example, the LGAP offer could be considered moderately competitive if the price is only slightly higher than the indicative Retail PPA offer and the term of the contract is shorter (ie a 5.5 year term, rather than a typical PPA term of 8 to 10 years). In this scenario, the future of the EARPPA Buying Group will need to be reconsidered.

Importantly, these decisions cannot be made until a final offer is known. The final offer is expected to be known in late September 2024, before the EARPPA Buying Group goes to market for a Retail PPA. Presync's advice is that it is preferable to go to market for a Retail PPA between October 2024 – February 2025 because electricity prices are typically lower during that window of time.

While waiting for the final offer, the EARPPA Working Group will keep working on the procurement of a Retail PPA, because the process is lengthy and any delays could generate a risk around having a new contract in place by 1 July 2025.

Social Implications

The Community has consistently provided feedback that climate change is a key concern and that Council should demonstrate leadership in taking climate action. The purchase of renewable energy to minimise Scope 2 emissions is a key action.

Environmental / Climate Change Implications

Council is committed to implementing the Climate Solutions Strategy which sets out emissions reduction targets including corporate carbon neutrality for Scope 2 emissions by 2025. A key action to enable this is to purchase renewable energy (Action 1.12).

In assessing the final LGAP offer, it is important to also consider, in addition to pricing, that power generated through a Retail PPA would be 100% renewable and LGAP's would not be. While LGAP's offer has an option for LGC (Large-scale Generation Certificates) purchase to allow Council to claim to be 100% renewable, the power generated would not be from renewable sources. This means that even if Council chooses to purchase LGCs through LGAP, it would be equivalent to purchasing carbon offsets, which means that Council will not be directly responsible for mitigating any greenhouse gas emissions.

Asset Management Implications

There are no asset management implications arising from this report

Governance / Risk Management

ERA Councils, in partnership with Tea Tree Gully intend to form a Buying Group to purchase a Retail PPA. The Buying Group has developed an MOU to set out arrangements and processes and build on existing relationships established via ERA and Resilient East governance structures and is developing a risk evaluation and management process.

Community Engagement

There are no Community Engagement implications arising from this report.

Regional Implications

Council is partnering with ERA Councils and TTG to progress a group Retail PPA.

Economic Development Implications

There are no economic development implications in relation to this report.

Financial Implications

The procurement process for a Retail PPA will include costs of technical, procurement and legal advice shared between the seven Councils. The indicative cost comparisons for the offers are attached (Attachment 2 – Cost comparison of standard electricity procurement; Attachment 3 – Cost comparison of 100% certified renewable power) for Members information.

Recommendation

That Council note the update on the progress of the Eastern Adelaide Retail Power Purchase Agreement Project, detailing the group procurement process between the seven Councils for a long-term renewable electricity Retail Power Purchasing Agreement.

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Recommendation report

Iberdrola Large and Unmetered supply of electricity extension offer

12 August 2024

lga South Australia Procurement

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build stronger communities.

Recommendation report

To:	Electricity Authorised Officers
From:	Simon Blom, Chief Executive Officer, LGA Procurement
Date:	12 August 2024

Recommendation

That South Australian councils and local government entities through the LGA Procurement Agreement Number 23081 for the Supply of Electricity (Standard Grid and Accredited Renewable) accept the indicative offer from Iberdrola commencing 1 July 2025 for the period until December 2030.

All councils and local government entities that opt-in using the attached form will be included in the calculations to determine the Best And Final Offer (BAFO). The timing of the BAFO will be dependent on participating councils obtaining delegated authority to execute the contract extension.

Iberdrola have provided indicative offers for:

- **Large (Above 160MWh supply)**
- **12/24 Unmetered Street Lighting Supply**

Note

It is important to note that:

1. The Evaluation Team believes that the timing is good to contract for a longer period.
2. A Best and Final Offer (BAFO) will be sought based on the loads of the councils that opt-in.
3. Opting in will include your council in the BAFO. It does not commit your council to enter a contract.
4. Councils and entities are now required to complete the COUNCIL / ENTITY AUTHORISATION TO PARTICIPATE form and return it to LGA Procurement by 5.00 pm Monday 26 August 2023 by email to: procurement@lga.sa.gov.au
5. Any response not received by that time will be assumed to be a non-acceptance of the offer.

Purpose

To present a proposal for an electricity contract extension with Iberdrola, Agreement Number 23081 for the Supply of Electricity.

Background

The National Electricity Market continues to be a complicated landscape as large generation transitions to renewables and smaller bespoke solutions are also developed.

2022 was a year unparalleled in modern times for the sheer scale of the energy crisis resulting from multiple worldwide considerations. The decision in late 2022 to enter short-term contracts of only 6 months proved to be the right one, as the market softened at the end of that period.

In 2023 LGA Procurement again approached the market and, together with the support of our energy consultants at CQ Energy, we recommended locking in rates for two years at significantly reduced rates to those of 2022. We recommended two years as we felt that there could be further price reductions available after that period. The two-year agreements conclude in July 2025.

Iberdrola, the supplier of Large Market and Unmetered sites, has provided an indicative offering of supply until Dec 2030 that we are bringing to you now. The offer has been considered as an unsolicited proposal and has progressed with respect to our unsolicited proposal policy.

We have been monitoring the market and feel that now is a good time to consider locking in prices for a longer period. The offer is indicative until final loads are understood, i.e. which councils choose to participate.

A Best and Final Offer (BAFO) will be prepared and presented based on those results.

Context

Iberdrola is not just an energy retailer; it also owns and operates renewable generation assets. The Iberdrola Group is today a world leader in renewable energy sources, with 43,421 MW of operational renewables by the end of the first half of 2024 and is on the cutting edge of the energy transition towards a low-emissions economy.

Iberdrola Australia has a fleet of renewable energy assets which is among the largest in Australia. In addition to their owned assets, they contract the output from other renewable

operators, to meet customer demands. More than 95% of their electricity generation is renewable.

The offer extends the electricity supply out till December 2030. This date is relevant because it is when the Renewable Energy Target (RET) concludes. The RET is an Australian Government scheme that aims to reduce greenhouse gas emissions in the electricity sector and increase renewable electricity generation. The RET creates a market to financially incentivise the generation of renewable energy.

Under the Large-scale RET, large-scale generation certificates (LGCs) are a financial incentive for the generation of renewable energy from a power station. LGCs are tradable certificates created for eligible large-scale renewable energy power stations. The purchase of LGCs is a component of the Iberdrola offer.

A revised approach to solar generation

The existing contract has a Feed in Tarriff (FiT) based on the price at the time of the spot market, minus $2 to administer. On occasion this results in a council receiving a negative dollar amount for their generation. This risk sits with the council as it reflects the cost to Iberdrola.

In negotiating the new agreement, we have included a mechanism whereby councils will receive the upside of the spot price minus $2 for all existing solar schemes, but never receive less than zero, even when the spot price is negative.

Any new solar systems installed by Iberdrola will be included in this mechanism. Any solar systems installed by third parties, as the system size and subsequent generation are not influenced by Iberdrola, will be subject to the spot price minus $2, including when the spot price is negative.

Alternatives to aggregated procurement

Aggregated procurement of electricity creates an attractive total load to attract competitive pricing. Some councils are considering alternative technical solutions for their electricity supply.

LGA Procurement will continue to support councils in procurement processes for alternative technical solutions for the supply of electricity should they require it, if there is no conflict of interest at the time. The differing load profiles and the ability to invest of each council is unique and technical solutions continue to evolve on both sides of the meter, and we are here to assist councils deliver to their communities in whatever way we can.

The LGA Procurement approach

- Provides an additional 4 and a half years of financial stability to councils
- Provides councils with the time and headspace to consider their electricity requirements beyond 2030, and invest if required to set up for that future
- Provides very competitive pricing
- Supplies Large Market and Unmetered sites with at least 95% renewable generated electricity
- Provides the councils with the option to purchase LGCs
- Provides an improved mechanism for councils to benefit from their solar investments.

Next steps

Based on the indicative offering, we are seeking an Expression of interest (EOI) from each council to be included in the calculations for a Best and Final Offer (BAFO). The EOI does not constitute a commitment to execute an agreement, but we ask for genuine expressions only as it will form the basis of the BAFO.

Councils that do intend to enter the agreement once the BAFO is prepared will need to gain delegated authority from their elected members. As is the case with electricity offers, the validation period of the offer is generally short. To ensure that the BAFO is current once councils have obtained delegated authority, we also ask you to respond to us with the timing of when you intend to request delegation from your council.

Iberdrola's current pricing for comparison

Large	1-July-23 to 30-June 2024	1-July-2024 to 30-June 2025
PEAK	$183.38	$167.58
OFFPEAK	$118.94	$109.67

UMS	1-July-23 to 30-June 2024	1-July-2024 to 30-June 2025
PEAK	$230.65	$213.26
OFFPEAK	$131.61	$121.20

Enviro's + Service	1-July 2023 to 31 Dec 2023	to 31 Dec 2024	to 30 June 2025
LRET rate $/certificate	$55.00	$48.50	$39.00
SRES rate $/certificate	$39.90	$39.90	$39.90
GreenPower - 50% - $/MWh	$27.50	$24.25	$19.50
GreenPower - 100% - $/MWh	$55.00	$48.50	$39.00
STC	Pass Through	Pass Through	Pass Through
REPS	Pass Through	Pass Through	Pass Through
Service	$40 per NMI, per month	$40	$40

The indicative offer from Iberdrola:

Please find our offering below which is inclusive of the following Solar FiT:

- $0 floor with Spot minus $2 FiT for positive spot outcomes
  - We will require each council to nominate which of their NMI's have solar at the time of contracting, this is applicable for a 31-Dec-2024 extension only
- Above FiT only applies to existing systems (at the NMI level) nominated at the time of contracting
- Any new solar systems installed by Iberdrola Australia will receive the above FiT
- If solar is installed by a third party after contracting, the customer will be bound by Clause 13 Exported electricity (Spot Price (in $/MWh)) - $2/MWh)

Iberdrola's offer to SA councils

Large	1-July-2025 to 31-Dec-2030
PEAK	$133.78
OFFPEAK	$96.28

UMS	1-July-2025 to 31-Dec-2030
PEAK	$188.98
OFFPEAK	$107.56

Enviro's + Service	1-July-2025 to 31-Dec-2030
LGC - mandatory	$29.50
LGC – 50% inclusive of mandatory	$28.00
LGC – 100% inclusive of mandatory	$27.00
STC	Pass Through
REPS	Pass Through
Service	$50 per NMI, per month

Expression of Interest to participate

Please complete the authorisation below, by either selecting YES or NO for the Opt-in, and email your response to: LGA Procurement via procurement@lga.sa.gov.au by no later than **5.00pm Monday 26 August 2024**.

Electricity Supply - Extension to Agreement 23081

(Council / Entity Name) .....

notes the Recommendation Report advice dated 12 August 2024 and authorises the above listed council / entity to be included in the Best And Final Offer for the **extension of Agreement 23081** for the period commencing 1 July 2025 until 30 December 2030.

Contract	Supply of energy	BAFO opt in
Large - Above 160 MWh Supply	LGA Procurement / Iberdrola - contract for the supply of Above 160 MWh grid electricity	Yes ☐ No ☐
12/24 Unmetered Street Lighting Supply	LGA Procurement / Iberdrola - contract for the supply of Unmetered Street lighting grid electricity.	Yes ☐ No ☐

When will the Authorised Officer have the delegation to execute the extension?	Click or tap here to enter text.
Are you aware of any significant projects that will increase your load before Dec 2030? If yes, what is the forecast amount?	Click or tap here to enter text.

Authorised Officer	
Signature	
Name	
Position	
Date	

(08) 8224 2000

procurement@lga.sa.gov.au

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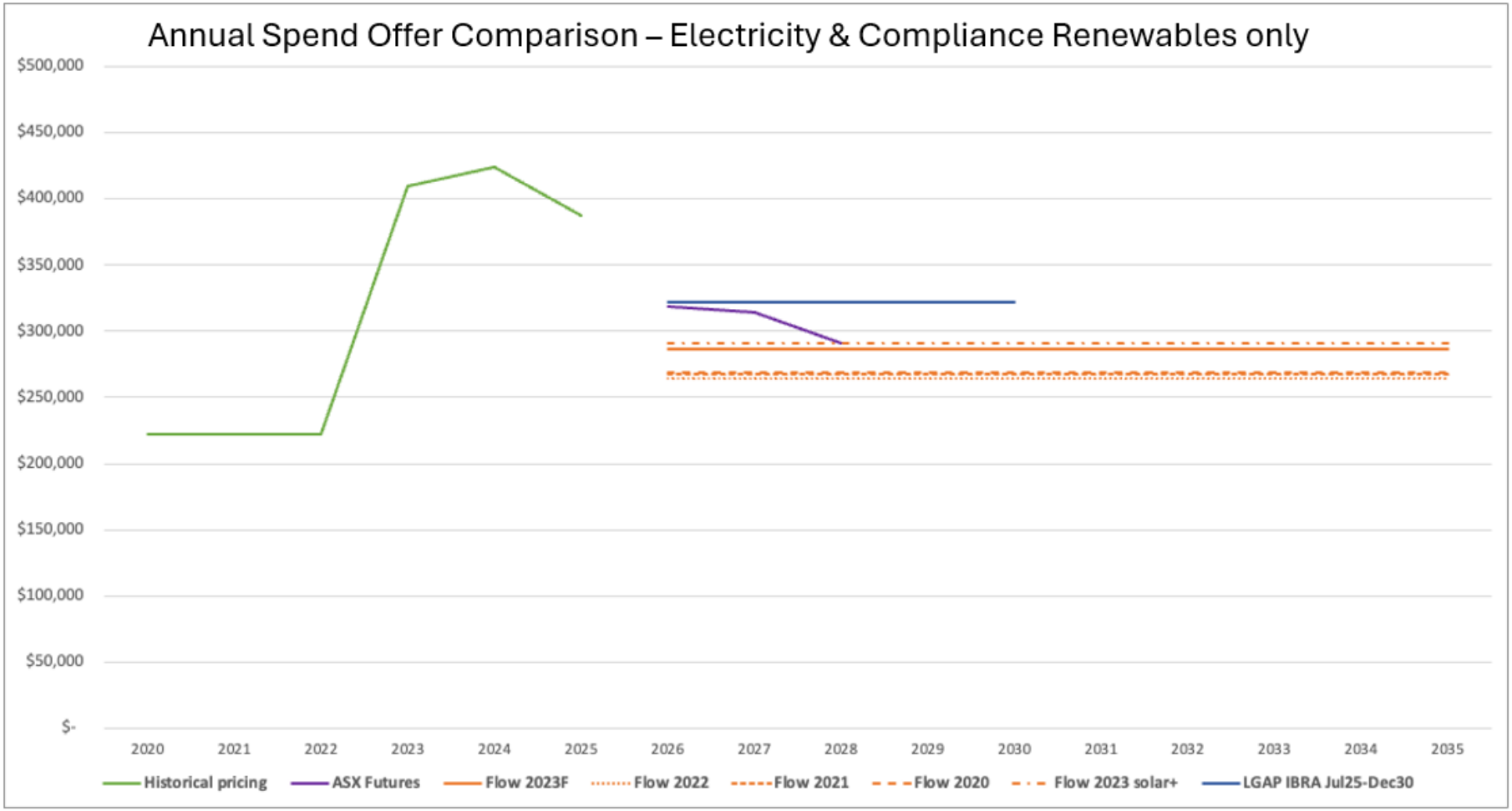
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Attachment 2 - Presync modelled cost comparison of EARPPA Retail PPA indicative quote, LGAP indicative offer and ASX Futures Market without voluntary LGCs (standard electricity procurement with compliance renewables only)



Attachment 3 - Presync modelled cost comparison of EARPPA Retail PPA indicative quote, LGAP indicative offer and ASX Futures Market with voluntary LGC (100% certified renewable)

