Confidential Item

CAMPBELLTOWN CITY COUNCIL

Confidential Item

For Council meeting to be held on

Tuesday 16 May 2023 at 7.00 pm

Refer Item 11.10

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023

Confidential Item

11.10 Electricity Procurement Update 2023 and Delegation

Senior Sustainability Officer, Kimberley Kueh and
Manger Finance, Simon Zbierski's Report

Purpose of Report

To provide Council with an update on the upcoming electricity procurement process and obtain endorsement to authorise the Chief Executive Officer to enter into negotiations with, secure commercial offers from, and enter into contracts with, electricity service providers in the market having regard to the Council's Procurement Policy (the **Policy**).

Strategic Plan Link

Focus Area 2.1.1 Drive our Climate Solutions Strategy

Focus Area 4.1.3 Provide service levels that strive to meet the changing needs of the Community

Previous Council/Committee Resolution

At its meeting on 18 October 2022, Council resolved:

'That Council:

- delegate the authority to the Chief Executive Officer to purchase electricity through the LGA Procurement tender process on the completion of the Election Caretaker Period
- continue to endorse the purchase of 100% accredited renewable electricity where practical.'

At its meeting on 18 January 2022, Council resolved:

'That Council:

- authorise the Chief Executive Officer to indicate a willingness to participate in the purchase 100% accredited renewal electricity
- endorse that any cost savings from the budget allocated for the purchase of electricity achieved through the purchase of 100% renewable energy be allocated to the Climate Solutions Circular fund to finance future projects.'

At its meeting on 21 December 2021, Council resolved:

'That Council:

- note the progress of the Electricity Working Group and LGA Procurement for the next Local Government Electricity Contract
- endorse, in principle, to purchase 100% accredited renewal electricity subject to the price of the renewable electricity being equal or less than the current unspecified electricity contract price.'

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023

Background

Last year, Council participated in the LGAP (Local Government Association Procurement) electricity procurement process, as its last contract was set to expire 31 December 2022. On 13 December 2022, Council was presented with a recommendation report from LGAP on the preferred tender, based on the evaluation panel's analysis of all offers.

Unfortunately, due to a combination of a short turnaround time (1 day to respond), a lack of alternatives (Council was not able to secure a more competitive contract with other energy providers one week before the Christmas shut down period), and the electricity market being extremely volatile at the time, Council agreed, along with almost all other Councils, to the electricity contracts presented, that were on average 240% higher than its contract from 2021/2022.

Given the instability of the electricity market, and the news of the Federal Government looking to intervene in the market by setting a price cap for gas at the time of the agreement execution, a 6-month contract ending 30 June 2023 was signed to prevent Council from being locked into higher electricity prices (Council has previously signed 12-36 month contracts). A decision for a 6-month contract has been proven to be the correct choice as electricity prices have since reduced, despite still being volatile.

Council's current electricity contracts are set to expire on 30 June 2023, and while Council has agreed to participate in LGAP's non-binding procurement process, Staff are also looking at other alternatives that may provide Council with the best pricing moving forward which still align with Council's Procurement Policy. These are:

- direct negotiation with an identified supplier
- accessing another Council's contract, who have undertaken their own tender process.

Given the volatility and uncertainty around electricity pricing, ideally the Council can illicit and compare a range of offers utilising the abovementioned three, distinct market engagement approaches.

The analysis and decision will not be possible until the release of pricing by LGAP at the end of May 2023. Council will then be required to make a decision in an urgent timeframe to lock in the best offer.

It should also be noted that while securing the lowest electricity price is a priority, Council has committed to achieving carbon neutrality for its Scope 1 and 2 emissions by 2025 as part of its Climate Solutions Strategy. Given that emissions from electricity use currently accounts for 73% of Council's Scope 1 and 2 emissions, purchasing 100% renewable electricity is critical for Council achieving carbon neutrality by 2025. Otherwise, carbon offsets would need to be purchased to achieve carbon neutrality or Council may need to review it's commitment to this target.

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023

Discussion

As a first priority, Council needs to secure a competitive short-term electricity contract (12-24 months). In parallel to this and as a second priority, Council needs to undertake long-term planning for the procurement of electricity.

One of the ways to secure fair and sustainable electricity pricing in the long term is through a PPA (Power Purchase Agreement); an agreement to buy electricity from a power generator, whose assets can include solar farms, wind farms and batteries. A PPA can also better ensure that Council will be able to secure 100% renewable electricity for its operations. The duration of PPAs are typically 7-12 years, as the owners of the generation assets generally require a long-term commitment by customers to obtain funding and build the assets. An example of a PPA in operation within the local government sector is the City of Adelaide's PPA with Flow Power.

A new PPA generally requires 12-24 months to set up as there are significant logistics involved, including:

- establishing a Buying Group - given that the electricity demand of Council is considered too small (3.9 GWh) to warrant the development of a PPA by itself, it is likely that Council will need to form a Buying Group with others to ensure better purchasing power and negotiations of a PPA with power generators (minimum demand of 20GWh is recommended). ERA Councils have committed to investigate combining their electricity demand to establish their own PPA
    - establishing a MoU (Memorandum of Understanding) with a Buying Group
    - obtaining legal advice on issues such as the ACCC (Australian Competition and Consumer Commission) approval
    - developing a tender and going out to market
    - negotiating contract price and conditions
    - managing the PPA.

As such, a short term (12-24 months) electricity supply solution would still be needed while Council investigates whether establishing a long-term PPA would provide the best money for value option.

For the short-term contract, the Policy currently allows for the following to be considered:

1. *Purchasing through LGAP:*

    LGAP has indicated that the Evaluation and Recommendation reports will be provided to Council by 30 May 2023, after which Council will have a very short timeframe (previous experience was 1-3 days) to decide whether Council endorses signing the contract. This is the process that Council has generally followed in the past.

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023

2. *Accessing another Councils' electricity contract:*

   Staff understand that there are Councils, including Resilient East Councils, who are not participating in the LGAP process and have undertaken their own tender process. Depending on their prices, Council could potentially access their agreement, subject to their consent.

3. *Purchasing through a separate retailer:*

   Council has - on a no obligation basis - directly engaged with iOEnergy, a known supplier of electricity to Councils in South Australia. Council has engaged with iOEnergy as a benchmarking exercise in order to support a robust evaluation of alternatives open to Council when it received the LGAP process pricing. Initial pricing from iOEnergy was competitive when compared with Council's current contract. Staff therefore recommend obtaining a new quote from iOEnergy at the same time as it receives the LGAP recommended pricing for comparative purposes.

   Staff note that iOEnergy's supply capacity is limited and there is a risk that Council will miss out on a competitive contract if other Councils commit to an iOEnergy contract prior to Council doing so.

Regardless of which option is chosen, it is anticipated that Council will only have 1-3 days to respond to quotes and make a final decision. In addition, it is likely that the total annual cost of the electricity contract will be above the CEO's (Chief Executive Officer) current delegation of $1 million.

As such, to be able to respond quickly and secure the best outcome for Council, it is recommended that the Council:

- grant an exemption from the application of the Policy to enable the CEO to select and accept the preferred offer from the three, distinct market engagement processes set out in this report (for the reasons set out under 'Governance / Risk Management' below); and

- recognising that the value of the preferred contract may exceed $1m, authorise the CEO (or nominee) to enter into negotiations with, secure commercial offers from, and enter into such contracts with, electricity service providers as set out in this report in accordance with the Recommendation set out below.

Social Implications

There are no social implications in relation to this report.

Environmental / Climate Change Implications

It is intended that Council purchases 100% renewable electricity as part of its long-term electricity procurement plan to help Council achieve its carbon neutrality target, where financially prudent and sustainable.

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023

Asset Management Implications

There are no asset management implications in relation to this report.

Governance / Risk Management

As set out above, in order to navigate the volatile and dynamic electricity market, the Council is seeking to undertake a critical procurement that is of strategic and operational importance for the Council.

Having considered the circumstances applying to this procurement against the Policy including that the contract value will likely exceed $1 million, taking up the LGAP Contract and 'piggy backing' on other Councils' contract are procurement methods specifically contemplated by the Policy for this procurement (as set out at 'Appendix 1: Procurement Category – Approach to Market' of the Policy). Whilst a direct negotiation process with a supplier such as iOEnergy is not specifically contemplated by the Policy, there are strong grounds for the Council to resolve to pursue a direct market procurement in these circumstances, noting that such an approach will not be undertaken in isolation – it will run in parallel with the two other approved (including the LGAP open market) market engagements.

The purpose of the Policy is to provide guidance to the Council for the procurement of goods or services. Whilst the Council's procurement methodology is primarily determined by the value of the procurement (with reference to the table set out at 'Appendix 1: Procurement Category – Approach to Market' of the Policy), the Policy acknowledges that not all procurements are the same and that the circumstances surrounding each procurement may differ.

Further, the Policy recognises that there may be circumstances in which a competitive tendering process will not necessarily deliver the best outcome for Council, or whether other market approaches may be more appropriate.

As set out in the Policy, determining the best method in the circumstances will generally be based on the consideration of the following types of issues:

- The nature of the procurement
- The value of the procurement
- The risk associated with the procurement
- Whether the market for the procurement is known
- What is the most efficient process to achieve the Council's objectives in a timely and cost efficient manner
- The capacity of potential contractor/s to submit a proposal that adequately responds to the Council's procurement method.

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023

In developing the Recommendation that the Chief Executive Officer (or nominee) have the delegated authority to approve a direct negotiation, there are a number of relevant factors in relation to this procurement which support a direct market engagement / hybrid approach, specifically:

- The criticality of the procurement and the dynamic market conditions means that the Council will need to actively engage the electricity provider market to determine which provider is capable of and has the capacity to provide electricity to the Council in accordance with the Council's objectives.

- Given the circumstances and the time constraints, this is a process that will benefit from a range of distinct approaches including a direct market engagement. Critically, the proposed direct market engagement is not being undertaken in isolation – rather it is in parallel with two other approved (including the LGAP open market) market engagements.

- To that end, any commercial offer(s) received pursuant to a direct market engagement can be benchmarked by the Council against the outcomes of the two other approved market engagements. In undertaking a comparative analysis of the costs and benefits (including environmental) of any offer(s) received pursuant to a direct market engagement against the outcomes of the other two approved market engagements, the Council can demonstrate that it has adequately tested the market.

- At all times, the Council will retain the ability to follow through with the LGAP's 'Evaluation and Recommendation' as to their preferred electricity provider or elect to 'piggy back' other Councils' procurement approach, however, it can do so with the benefit of having first tested other opportunities in the market through its own direct market engagement / hybrid approach.

The above direct market engagement / hybrid approach is supported by the 'Principles' of procurement as set out in the Policy. The objective of the Policy is to provide clear direction and a framework that enables the Council to achieve best practice in relation to its purchasing and disposal functions.

Having regard to the underlying need, timing and specific circumstances relating to the procurement, there is a view that that a direct market engagement / hybrid approach strikes an appropriate balance of the principles of procurement, particularly with respect to:

- achieving value for money through the securing the most appropriate electricity provider

- managing risk on the part of the Council, and

- ensuring consistency with Council's strategic and long-term financial directions.

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023

In summary, given the circumstances there are strong grounds for the Council to resolve to pursue a direct market procurement in parallel to the two other approved market engagements so that the Council may best explore the opportunities available in the electricity market.

Community Engagement

There are no Community engagement implications in relation to this report.

Regional Implications

Council has a range of options available to it in regards to the procurement of electricity. This may be done through LGAP, through negotiation with an electricity supplier or through partnership with other Councils by piggy-backing their agreements.

Council will also be investigating the option of developing a PPA, in partnership with other ERA Councils over the next 12 months.

Economic Development Implications

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

Financial Implications

Council's draft 2023/2024 Budget includes an electricity budget of $1,106,300. This budget has been developed to take into account the current electricity contract rates offered by LGAP, extrapolated across a 12 month period.

At this stage, Staff are not in a position to articulate the likely cost as they are still waiting for confirmation of pricing. Once the electricity supplier is selected, Staff will be in a better position to determine the required funding and amend the budget accordingly.

Recommendation

That Council notes the contents of this report and:

1. **authorise the Chief Executive Officer (or nominee) to**:
    - **secure commercial offers from electricity providers in the market utilising the varied procurement approaches set out in this report; and**
    - **determine the best offer for the Council balancing commercial terms, timeframe and sustainability within the Council's context**
    - **having determined the best offer for the Council, enter into such contracts, secure such authorisations and approvals, and do such other things required to enter into a Power Purchase Agreement with the relevant electricity provider**
2. **continue to endorse, in principle, the purchase of 100% accredited renewable electricity, where financially prudent and sustainable.**

Document Set ID: 6711305
Version: 7, Version Date: 12/05/2023