

**ADELAIDE HILLS COUNCIL
COUNCIL MEETING
Tuesday 28 May 2019
AGENDA BUSINESS ITEM**

Item: 19.1

Originating Officer: Mike Carey, Manager Financial Services

Responsible Director: Terry Crackett, Director Corporate Services

Subject: Electricity Procurement Contract Post 31 December 2019

For: Decision

1. Electricity Procurement Contract Post 31 December 2019 – Exclusion of the Public

Pursuant to section 90(2) of the *Local Government Act 1999* the Council orders that all members of the public, except:

- CEO, Andrew Aitken
- Director Infrastructure & Operations, Peter Bice
- Director Development & Regulatory Services, Marc Salver
- Director Corporate Services, Terry Crackett
- Director Community Capacity, David Waters
- Executive Manager Governance & Performance, Lachlan Miller
- Manager Financial Services, Mike Carey
- Manager, Sustainable Assets, David Collins
- Sustainability Officer, Sharon Leith
- Governance & Risk Coordinator, Steven Watson
- Minute Secretary, Pam Williams

be excluded from attendance at the meeting for Agenda Item 19.1 Electricity Procurement Contract Post 31 December 2019 in confidence.

The Council is satisfied that it is necessary that the public, with the exception of Council staff in attendance as specified above, be excluded to enable Council to consider the report at the meeting on the following grounds:

Section 90(3) (d) of the *Local Government Act 1999*, that the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to prejudice the commercial position of the person/agency/business who supplied the information by disclosing specific quotes and modelling by a number of tenderers.

Accordingly, on this basis the principle that meetings of the Council should be conducted in a place open to the public has been outweighed by the need to keep the information and discussion confidential.

SUMMARY

Adelaide Hills Council currently has three electricity supply contracts for its facilities, all with Origin Energy, that finish on 31 December 2019. These contracts were previously negotiated on councils' behalf by Local Government Association Procurement (LGAP) using the combined purchasing power of the Local Government sector to achieve a positive financial and service outcome.

LGAP has recently commenced the renegotiation process for these contracts, and given the positive outcomes previously achieved, it was proposed that AHC continue to be a party to the negotiations.

As in previous tenders involving LGAP in the contestable electricity market, once tenders are received, there is limited time for LGAP to accept or reject the tenderer's offers.

A Report was presented to Council on 26 February 2019 outlining the process being undertaken by LGAP and seeking direction in relation to the new electricity supply contract. At that meeting, Council resolved that a further report be provided following the completion of the evaluation of contract offers by LGAP for Council consideration.

RECOMMENDATION

Council resolves:

- 1. That the report be received and noted**
- 2. To delegate to the Chief Executive Officer the authority:**
 - a. To enter into contracts with the successful tenderers for the supply of electricity for:**
 - I. sites above 160 MWh per annum without an agreed GreenPower load; and**
 - II. 12 hour and 24 hour unmetered lighting without an agreed GreenPower load**
 - b. To make, vary and discharge contracts; and**
 - c. To sign all relevant documentation in this matter to give effect to this resolution.**

1. GOVERNANCE

➤ Strategic Management Plan/Council Policy

Goal 4	Explore ideas and work with others
Strategy 4.6	We will actively pursue opportunities to share resources and partner with others for better community outcomes.

Working together as a local government sector through the Local Government Association Procurement (LGAP) will provide Council with the best opportunity to benefit from negotiation with energy suppliers on larger electricity volumes.

Under Council's Procurement Policy, Council is able to utilise Strategic Alliances as an acceptable procurement method whereby the Council undertakes procurement through contract arrangements already established and administered by other organisations.

➤ **Legal Implications**

The ability for the LGAP to act on behalf of all councils does not breach legislation or anti-competitive requirements of the ACCC obligations.

➤ **Risk Management Implications**

The use of Local Government Procurement to act on Council’s behalf will assist in mitigating the risk of:

Council entering an electricity supply contract or contracts that does not lead to the greatest community benefit.

Inherent Risk	Residual Risk	Target Risk
High (2B)	Low (2D)	Low

This process is current practice and hence no new mitigation action is required.

➤ **Financial and Resource Implications**

Council’s proposed 2019-20 budget for the electricity supply contracts is \$340,100 as per the table below:

Electricity Supply Category	2019-20 Budget
>160 MWh - AHBTC (Old Woollen Mill / FABRIK)	88,500
> 160 MWh – Stirling Offices and Coventry Library	82,200
12, 24 hour and Unmetered including street lighting	69,000
Subtotal – LGAP current proposal	239,700
< 160 MWh	100,400
Subtotal of Electricity Supply Contracts	340,100
Street lighting – DPTI	17,800
Street lighting – SAPN (lighting infrastructure tariff cost)	118,600
Total	476,500

The 2019-20 electricity budgets represent a 5.9% decrease on the 2018-19 budgets based on the Long Term Financial Plan economic assumptions emanating from advice received on the impact of the electricity market and associated pricing for the 2019-20 year.

Given the costings that have been provided by LGAP, and the timing of the reductions in the tariff pricing over the three year period, the proposed budget for 2019-20 will need to be increased, but offset by more significant reductions in years two and three. It is intended that this increase be considered as part of a future Budget Review once the LGAP has gone to market for the < 160 MWh sites during August / September 2019.

Should Council wish to endorse a GreenPower purchase option on top of the retail energy component it is estimated that each 10% represents in the order of \$6,100 per annum in additional cost to what has currently been provided for within the budget. The report recommends that Council not enter into a GreenPower arrangement given greater environmental gains can be achieved through the direct application of funding to local initiatives.

Council has also budgeted a separate amount of \$20,000 per annum within the Sustainability function for a Community Sustainability Grants Scheme. This replaced the green power allocation for the current supply contract period as discussed below. This program has been fully committed over the last two years.

➤ **Customer Service and Community/Cultural Implications**

Not Applicable

➤ **Environmental Implications**

The following context is provided to assist Council in their consideration of the environmental impacts.

GreenPower

The GreenPower program is a government managed scheme that enables Australian households and businesses to offset their electricity usage with certified renewable energy, which is added to the grid on their behalf. This offset can be used in the certification process to achieve carbon neutrality. By purchasing GreenPower, households and businesses commit their GreenPower providers to purchasing the equivalent amount of electricity from accredited renewable energy generators. Through the GreenPower Program additional costs are paid to the electricity account to enable investment in developing new infrastructure in the renewable energy sector. This investment largely occurred in states other than South Australia.

The GreenPower program was launched in 1997 and grew rapidly during the 2000s but began to decline in 2009. The South Australian Government does not buy GreenPower and many local governments in SA have switched from GreenPower to concentrate more on on-site renewables given that there is a more direct connection to where the investment is being undertaken.

Renewable energy in South Australia

Currently around 45% of South Australia's electricity supply comes from a renewable source (green energy) which includes wind and solar (large solar farms and rooftop solar photovoltaic (PV) systems). The remainder of the electricity supply comes from natural gas-fired generation with approximately 60% of natural gas in SA used for electricity generation. SA is on track for over 70% renewable energy generation by 2025 and there are a number of large solar PV farms and storage systems under construction along with incentives to increase storage including the recent SA government grant program of up to \$6k for installation of household battery systems.

Current LGAP Tender Process

As part of this tender process LGAP has sought pricing for the GreenPower product offerings as well as alternate options for procuring carbon mitigation products that better support local carbon mitigation projects than GreenPower.

These alternate options have become available as a result of the South Australian market evolving since the last contract with opportunities to enter into agreements with established wind farms and new SA project developers for solar and wind. As such these options represent an opportunity for councils to purchase low cost renewable energy that supports SA projects. From a terminology perspective these are referred to in the industry as Power Purchase Agreements (PPA).

AHC's current position

Prior to the current contract with Origin Energy, Council had been purchasing GreenPower since 2007, and was paying in the order of \$7k for 20% for the under 160 MWh pa sites as well as traffic signals and street lighting. Whilst initially Council also had a GreenPower Program for the above 160MWh sites, this discontinued given complexities with passing those costs onto the tenants at AHBTC.

In relation to the current electricity supply contract covering 1 January 2018 to 31 December 2019, Council resolved at its 28 March 2017 meeting not to continue with a contribution to the GreenPower scheme but instead included sustainability outcomes and criteria into the Recreation and Facilities grant program supported by a contribution of \$20k from the sustainability program budget. This contribution recognised that GreenPower costs were set to rise to over \$12k in the 2017-2018 financial year, and that by adding additional funding to the Recreation and Facilities grant program this would provide a more directly benefit towards Community Sustainability.

➤ **Engagement/Consultation conducted with Council Committee, Regional Subsidiary, Advisory Group, the Administration and Community**

Consultation on the development of this report was as follows:

<i>Council Committees:</i>	Nil
<i>Council Workshops:</i>	Nil
<i>Advisory Groups:</i>	Nil
<i>Administration:</i>	Executive Leadership Team Manager Sustainable Assets Sustainability Officer
<i>Community:</i>	Nil

2. BACKGROUND

Adelaide Hills Council currently has three electricity supply contracts for its facilities, all with Origin Energy, finishing on 31 December 2019 covering the following categories:

- Large sites (Above 160 MWh);
- Small sites (Below 160MWh); and
- 12, 24 hour and unmetered sites

For Adelaide Hills, the categories cover the following:

- Above 160 MWh per annum sites (relate only to two sites, namely Stirling Office and Coventry Library and the Adelaide Hills Business and Tourism Centre (AHBTC) at Lobethal);
- Below 160 MWh per annum sites (majority of AHC sites); and
- 12 & 24 hour Unmetered (Street and traffic lights).

Historically Local Government Association Procurement ("LGAP") has undertaken competitive tendering for electricity supply on behalf of the majority of councils across South Australia. Given the positive outcomes previously achieved, it was proposed that AHC continue to be a party to the tender process to be undertaken by LGAP given that more optimal pricing can be achieved by aggregating a significant number of councils' sites into a single procurement offering as is being presented by the LGAP.

LGAP advised that to assist with the procurement process, LGAP has engaged CQ Partners, who they have indicated is one of Australia's most respected energy advisory consultancies, to develop an electricity procurement solution that addresses the challenges faced by SA councils.

A Report was therefore presented to Council on 26 February 2019 outlining the process being undertaken by LGAP and seeking direction in relation on the new electricity supply contract.

At that meeting Council resolved as follows:

12.4 Electricity Procurement

8.36pm Cr Parkin returned to the Chamber

8.41pm Cr Parkin left the Chamber

8.41pm Cr Parkin returned to the Chamber

Moved Cr Malcolm Herrmann

S/- Cr Leith Mudge

33/19

Council resolves:

- 1. That the report be received and noted**
- 2. That a further report be provided to Council following the completion of the evaluation of contract offers by Local Government Association Procurement (LGAP).**

Carried Unanimously

Subsequent to the Council meeting, the following process was undertaken by LGAP in undertaking their electricity procurement process.

Phase 1

On 5 March 2019, LGA Procurement issued an expression of interest (EOI) as Phase One of the electricity procurement process, to several electricity retailers and renewable energy project owners for the supply of electricity to large, small and unmetered council sites for the SA local government sector with contracts to commence from 1 January 2020.

Eleven (11) responses were received through the expression of interest (EOI) process to provide indicative pricing for large, small and unmetered customer sites. This initial exercise sought to assess where the South Australian electricity market sits currently with regards to pricing, with the intention to then issue a formal request for tender (RFT) as Phase Two of the process to all 11 respondents to submit formal pricing offers for supply from 1 January 2020.

Phase Two

On 2 April 2019 the formal RFT was issued to all 11 respondents from the EOI process, with a closing date of 29 April 2019.

On 18 April 2019, LGAP extended the close time to 6 May 2019 due to a number of factors, not least being a run of warm weather not being conducive to any significant drop in pricing, which is generally experienced in the April/May period.

At close of tenders on 6 May 2019, LGAP received 7 responses to the RFT for provision of electricity to the SA local government sector.

On 7 May 2019, the Evaluation Team met and resolved to go back to the 7 tenderers, requesting clarification on a number of items and to request negotiation on a range of additional charges that were included by some respondents that could impact the overall price to councils. Tenderers were also asked to provide a best a final offer for pricing, closing on 13 May 2019.

Evaluations were conducted based on the following pre-determined criteria and associated weightings:

Criteria	Percentage Score
The price offered (including both black and GreenPower pricing)	70%
Invoicing and Reporting capability	20%
Overall response to tender	10%

3. ANALYSIS

As a result of the LGAP evaluation process, Council has received a recommendation report that included with the following recommendations.

12 & 24 Hour Unmetered Supply

Following the evaluation and further extensive negotiations by LGAP on a number of issues including pricing, the LGAP Panel considered the three (3) year option offered by Infigen Energy for the Supply of Electricity (Black and GreenPower) for 12 & 24 Hour Unmetered Supply sites.

The proposed 12 & 24 Hour Unmetered supply contract sees a 15% reduction in year one (2020), 27% in year two (2021) and 32% in year three (2022). The contract is based purely on the energy component of Council's electricity charge which equates to approximately 60% of the total electricity amount invoiced. The remaining 40% is regulated by the Federal Government through the Australian Energy Regulator and is non-negotiable.

Above 160MWh Supply

Following the evaluation and further extensive negotiations by LGAP on a number of issues including pricing, the LGAP Panel considered the three (3) year option commencing 1 January 2020 for a period of 3 years expiring 31 December 2022 offered by Infigen Energy for the Supply of Electricity (Black and GreenPower) for Above 160MWh sites, to be of best value to the local government sector.

The proposed above 160 MWh supply contract sees an 8% reduction in year one (2020), 22% in year two (2021) and 27% in year three (2022). This contract is based purely on the energy component of Council's electricity charge which equates to approximately 65% of the total electricity amount invoiced. The remaining 35% is regulated by the Federal Government through the Australian Energy Regulator and is non-negotiable.

Below 160MWh Supply

Due to a number of external factors beyond the local government sector’s control including the volatility of the market and the uncertainty with the election and energy policies, only three (3) submissions for the supply of Electricity (Black and GreenPower) for Below 160MWh sites were received.

As such LGAP has resolved to go back to the market in August/September with the objective of receiving more responses and better value pricing.

Power Purchase Agreements and GreenPower

LGAP received PPA offers from 4 respondents including Infigen. One of the respondents required a 10-year commitment with the others offering shorter terms of 5 years. All Power Purchase Agreement (PPA) offers provided pricing for the renewable component with the unserved energy having a fixed price for the first 3 years (2020 to 2022).

LGAP advised that while there are several renewable projects in the pipeline which would increase the proportion of low cost generation into the mix, there is still a lag to when these projects commence operation and hence have a direct impact on the market.

Due to the uncertainty of what pricing may look like for years 4 and 5, and committing to a fixed price for the renewable component for 5+ years, LGAP considered that the risks associated with a long term agreement did not warrant proceeding with a PPA offering at this stage.

As such the LGAP recommendation report identified a preference for a 3-year retail agreement rather than a longer-term PPA.

The annual financial impact of the additional \$/MWh charge for GreenPower for the two proposed contracts, on top of the retail power energy charge, represents in the order of \$6,100 in additional cost to Council for each 10% of load as per the following table:

GreenPower % of Load	Additional Cost Per Annum
100%	\$61,000
50%	\$30,500
20%	\$12,200
10%	\$6,100

At this time it is not recommended to enter into a GreenPower arrangement given greater environmental benefit can be achieved through the direct application of funding to local initiatives.

In Summary

2020 pricing for both large and unmetered sites for the energy and renewable (LRET, SRES) components has fallen compared to existing contracts with a further fall in 2021 as a result of new renewable projects coming online.

Based on the retail offers seen by the energy consultant (CQ Partners) over the past few months in SA, the pricing provided by Infigen Energy for Council’s large and unmetered sites is competitive and represents good savings compared to the incumbent contractor and other offers received as part of the tendering process.

The other requirement was to support renewable generation in SA of which Infigen Energy operates all the Lake Bonney wind farms as part of their portfolio to supply their SA customers.

About Infigen Energy

The 3 year offtake agreement with Infigen Energy for the large and unmetered sites helps to support renewable energy in South Australia. Infigen Energy is a significant renewable project developer with the Lake Bonney Wind farms in the South East of South Australia totalling 278.5MW. The LGA Procurement agreement with Infigen Energy will source around 60% of energy supply from the Lake Bonney Wind Farms.

Infigen Energy is also currently developing a battery energy storage system (BESS) at Lake Bonney proving 25MW of capacity with 2 hours of storage. By contracting with Infigen Energy, Council is supporting a renewable project developer in addition to supporting retail competition in South Australia, a value consistent with the SA State Government's vision. LGAP indicates that in their view supporting retailers aside from the "big 3" will contribute to greater competition and lower prices for South Australian energy consumers.

Next Steps

The LGAP advised that they were seeking authority from each council to participate in the joint electricity contracts by 5pm Monday 20 May 2019. As such the CEO has advised the Acting CEO of LGAP that Adelaide Hills Council (AHC) was unable to meet this timeframe given the understandable AHC requirement for a Council decision to enter into such a contract. The Acting CEO of LGAP has subsequently agreed to Council indicating a commitment to participate "subject to Council's approval" by 5pm Monday 20 May 2019. This commitment was provided on the agreement that final approval would be given on Wednesday 29 May 2019 (the day after the 28 May Council Meeting).

4. OPTIONS

Council has the following options:

1. To delegate the Chief Executive Officer to enter into contracts with the successful tenderers for the supply of electricity for sites above 160 MWh per annum and 12 hour and 24 hour unmetered lighting without an agreed GreenPower load (Recommended).
2. Determine a percentage of load to apply to GreenPower. This option is not recommended at this time given greater environmental benefit can be achieved through the direct application of funding to local initiatives.
3. To seek its own offers from the market in relation to electricity supply contract. This option is not recommended given Council is a small volume user of power from a National or State perspective and would have limited ability to negotiate a better outcome than the LGAP.

5. APPENDIX

Nil

2. Electricity Procurement Contract Post 31 December 2019 – Period of Confidentiality

Subject to the CEO, or his delegate, disclosing information or any document (in whole or in part) for the purpose of implementing Council’s decision(s) in this matter in the performance of the duties and responsibilities of office, Council, having considered Agenda Item 19.1 in confidence under sections 90(2) and 90(3)(d) of the *Local Government Act 1999*, resolves that an order be made under the provisions of sections 91(7) and (9) of the *Local Government Act 1999* that the report, related attachments and the minutes of Council and the discussion and considerations of the subject matter be retained in confidence until the contracts are signed, but not longer than 31 December 2019.

Pursuant to section 91(9)(c) of the *Local Government Act 1999*, Council delegates the power to revoke the confidentiality order either partially or in full to the Chief Executive Officer.