

ADELAIDE HILLS COUNCIL
ORDINARY COUNCIL MEETING
Tuesday 22 October 2019
CONFIDENTIAL 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 below 160 MWh sites
For: Decision

1. Electricity Procurement Contract Post 31 December 2019 for below 160 MWh sites – 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.X: *Electricity Procurement Contract Post 31 December 2019 for below 160 MWh sites* 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. On 27 May 2019 Council resolved to utilise the new LGA Procurement contracts (Infigen Energy) for sites above 160 MWh per annum and unmetered street lighting. These contracts will be effective as of 1 January 2020.

Due to the volatility of the small sites market only three submissions were received for the supply of electricity (Black and GreenPower) for Below 160MWh sites. The LGAP resolved to go back to the market in August/September with the objective of receiving additional retailer responses and sharper pricing.

Given the positive outcomes previously achieved for the above 160 MWh sites and street lighting 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 a contract with the successful tenderer for the supply of electricity for:
 - I. sites below 160 MWh per annum 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 contract for below 160MWh is \$100,400. This budget represent a 5.9% decrease on the 2018-19 budget based on the Long Term Financial Plan (LTFP) 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 by \$18,500. This will however be more than offset by significant reductions in years two and three of the contract. It is intended that this increase be considered as part of Budget Review 2.

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 \$1,600 per annum in additional cost to what has currently been provided for. 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.

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.

Corporate Carbon Management Plan

The Draft Corporate Carbon Management Plan (CCMP) has a goal of 100% renewable energy by 2024.

Council has three electricity supply contracts with the new ones effective from January 2020. Two of these contracts will have 60% renewable energy component however the contract for [under 160MWh has approximately 25% renewable energy](#).

Council is therefore heading towards the 100% renewable target but achievement of this target will be dependent on the next round of LGAP contracts in 3 years time.

GreenPower Program

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.

LRET and SRES

The Renewable Energy Target, or RET, is a Commonwealth Government scheme that aims to reduce the level of greenhouse gas emitted in the electricity sector, and encourages additional generation of electricity from sustainable and renewable sources such as rooftop solar. Legislated by the Commonwealth Government and administered by the Clean Energy Regulator, the RET uses incentives and environmental schemes to ensure renewable energy makes up at least 20 per cent of electricity generated by 2020.

The RET operates at two levels:

- Large-scale Renewable Energy Target (LRET)
- Small-scale Renewable Energy Target (SRET)

The RET is a mandatory environmental charge that is covered in invoices from the provider.

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.

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 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 Procurement Coordinator
<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); Note : since awarded to Infigen Energy as of January 2020
- 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

Following the procurement process a subsequent report was presented to Council on 28 May 2019 recommending council utilise the LGA Procurement contracts (Infigen Energy) for sites above 160 MWh per annum and unmetered lighting.

As such Council resolved as follows:

19.1.1 Electricity Procurement – Confidential Item

Moved Cr Mark Osterstock
S/- Cr Ian Bailey

130/19

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.**

Carried

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

LGAP issued a formal RFT on the 2 September 2019 for the below 160 MWh sites for which five (5) responses were received by the close of tender on the 23 September 2019.

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

Criteria	Percentage Score
Pricing (including both black and GreenPower pricing)	55%
Invoicing, Reporting including Mandatory Business Processes	15%
Customer Service	15%
Renewable Options	10%
Referee	5%

3. ANALYSIS

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

Below 160MWh Supply

Following the evaluation, the LGAP considered the three (3) year option offered by Origin Energy for the Supply of Electricity (Black and GreenPower) for Below 160MWh sites, to be of best value to the local government sector.

The proposed below 160 MWh supply contract sees a 9.5% reduction in year one (2020), 23.9% in year two (2021) and 30.2% 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.

About Origin Energy

Origin Energy is the current incumbent provider for Adelaide Hills Council below 160 MWh sites and the 3 year offtake agreement with Origin Energy for the below 160MWh sites helps to support renewable energy in South Australia. Origin has committed to purchase the offtake from approximately 1,200 MW of new wind and solar projects.

In 2018/19, the second stage (110 MW) of the Bungala Solar Farm in South Australia was commissioned and available to the grid, creating Australia's largest solar farm as of November 2018.

Furthermore, Origin continues to invest in their existing gas fleet to improve its reliability and flexibility. In 2018/19, at their Quarantine Power Station in South Australia, they commissioned a new fast-start aero-derivative turbine that can start up in as little as three minutes, helping support growth in renewables.

Clare Solar (100 MW), Daydream Solar (150 MW) and Darling Downs Solar (110 MW), all in Queensland, were also commissioned in FY2019.

The 530 MW Stockyard Hill Wind Farm is currently under development and expected to be online in 2020, putting Origin on track to reach their target of more than 25 per cent of Origin owned and contracted generation capacity being made up of renewables and storage by 2020 – up from 19 per cent in 2019.

GreenPower Program Impact

The annual financial impact of the additional \$/MWh charge for the GreenPower program for the proposed contract, on top of the retail power energy charge, represents in the order of \$1,600 in additional cost to Council for each 10% of load as per the following table, in the first year:

GreenPower % of Load	Additional Cost Year one	Additional Cost Year two
100%	\$16,000	\$8,700
50%	\$8,000	\$4,350
25%	\$4,000	\$2,180
10%	\$1,600	\$870

These charges would be additional to the mandatory RET charges

- Large-scale Renewable Energy Target (LRET)
- Small-scale Renewable Energy Target (SRET)

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 as part of the Community Sustainability Grant Scheme or other initiatives within the capital works program.

Next Steps

The LGAP advised that they were seeking authority from each council to participate in the electricity contracts by 10am Monday 30 September 2019. As such the CEO has advised 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 CEO of LGAP has subsequently agreed to Council indicating a commitment to participate “subject to Council’s approval”. This commitment was provided on the agreement that final approval would be given on Wednesday 23 October 2019 (the day after the 22 October Council Meeting) should Council approve entering into the contract.

4. OPTIONS

Council has the following options:

- I. To delegate the Chief Executive Officer to enter into contracts with the successful tenderers for the supply of electricity for sites below 160 MWh per annum without an agreed GreenPower load (Recommended).
- II. 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.
- III. 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.