

## 3.5 Contracts for Electricity Supply

### Abstract

This report seeks Council endorsement to enter into contracts for electricity supply from 1 July 2020.

The Local Government Power Purchase Agreement (LG PPA) for green renewable electricity has been delayed and is now expected to be led by the City of Darebin without the involvement of the Municipal Association of Victoria (MAV).

Given the delay, local governments (including Boroondara) who committed to the original LG PPA must enter into new electricity contracts for 1 July 2020, in order to obtain ongoing supply and avoid high cost default market rates.

Council purchases electricity for three categories of sites; Large Market, Street Lighting and Small Market. 85% of electricity use at Council's assets is used for Large Market and Street Lighting. The remaining 15% of electricity is used across some 185 Small Market sites.

Officers have secured an offer for extension of current supply for Council's Small Market sites. Extension of this contract is recommended as it achieves continuity of supply without the requirement to change accounts at a large number of sites and achieves a price reduction compared with the previous two years.

Three options for supply of electricity for Council's Large Market sites and Street Lighting have been presented for consideration and endorsement. All options include the recommendation that Council extends contracted supply with Origin Energy for Small Market sites for a further 12 months.

Option one is an alternate Power Purchase Agreement being undertaken by Procurement Australia (PA). The new PA Power Purchase Agreement (PA PPA) is the only option that effectively provides a long term solution to our electrical supply needs for the majority of Council's electrical demand (ie Large Market and Street Lighting). The two remaining options for securing short-term supply (ie the Victorian Government State Purchasing Contract (SPC) and the MAV Tender option) are both options for an interim supply of electricity for 12 months, and effectively defer any decision about long-term supply of electricity.

On balance, the new PA PPA approach is recommended for Large Market and Street Lighting sites on the basis that it presents a ready to go solution meeting Council's current needs at a time of uncertainty. Participation in the new PA PPA option presents the following advantages:

- Allows Council to meet greenhouse targets and sends a strong message which responds to the Boroondara community's increasing interest in sustainability.
- Offers an opportunity consistent with Council's promotion of participation in the original LG PPA process.
- This is a current offer ready to supply electricity from a Victorian Windfarm from 1 July 2020, and does not require any interim arrangement for Large Market and Street Lighting to meet our electricity demand when our existing contract expires.

- It provides pricing certainty and stability for ten years and is approximately 10% cheaper than purchasing green electricity through standard procurement approaches.
- Current alternative options are short term only and there is significant uncertainty about future long term options.
- Officers and councillors will not be required to reconsider these matters during the contract period allowing resources to be focused on other matters.

In recommending this option, officers recognise this opportunity is estimated to be more expensive than the originally proposed and now uncertain LG PPA.

Finally, while the impact of COVID-19 on electricity markets is uncertain, there is a clear expectation of increasing pressure on Council's income and expenditure. In this context the ability to lock in prices and avoid budgetary surprises is especially advantageous. Additionally, commitment to a long term contract reduces Council's risk from participating in tenders undertaken during a pandemic.

This report seeks Council's authorisation to enter into individual contract arrangements for electricity supply for:

- Small Market Sites
- Large Market Sites
- Streetlighting.

Confidential information is contained in **Attachment 1**, as circulated in the confidential section of the agenda attachments, in accordance with Section 89(2) of the *Local Government Act 1989*, as the information relates to (delete any of the following which do not apply) personnel matters, the personal hardship of any resident or ratepayer, industrial matters, contractual matters, proposed developments, legal advice, matters affecting the security of Council property, and premature disclosure of the information could be prejudicial to the interests of Council or other persons. This item has been included in the public agenda to facilitate transparency and accountability in Council's decision making.

If discussion of the confidential information in the attachments to this report is required in order for Council to make a decision, this item will be deferred to the confidential section of the agenda.

## Officers' recommendation

That Council resolve to:

1. Enter into:
  - a. Contractual arrangements for Electricity Supply (Small Market) with Origin Energy for 12 months from 1 July 2020.
  - b. Contractual arrangements for Electricity Supply (Large Market and Street Lighting) managed by Procurement Australia for ten years from 1 July 2020.
2. Authorise the Director Environment and Infrastructure to execute the contract agreements for the above arrangements.

3. Note that performance of the contract will be monitored and reported on biannually.
4. Note that expenditure under this contract will at all times be in accordance with Council's budget.

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**Responsible director: Daniel Freer**  
**Director Environment and Infrastructure**

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## 1. Purpose

The purpose of this report is to authorise officers to enter into contractual arrangements for the supply of electricity from 1 July 2020 for:

- Small Market Sites
- Large Market Sites
- Street Lighting

## 2. Policy implications and relevance to community plan and council plan

Purchasing green, renewable electricity supports a number of strategic objectives and targets including:

### Council Plan and Boroondara Community Plan

**Strategy 3.5:** Reduce the environmental impact of Council facilities and assets through continued greenhouse gas saving initiatives and stormwater treatment and re-use.

**Strategy 3.7:** Lead our community through advocacy and action to mitigate against and adapt to impacts of climate change to minimise adverse impacts on community health and wellbeing, our natural environment and facilities and services.

### Council's Our Low Carbon Future Strategy

The objectives of this strategy include:

- Reduce Council's own greenhouse gas emissions.
- Reduce the aggregate emission for Australia.
- Reduce the impact of rising electricity prices on Council's budget.

The Our Low Carbon Future Strategy (OLCFS) has a target to reduce Council's corporate greenhouse gas emissions by 30-40 percent below 2007-08 levels by 2020.

This target is a strategic indicator and applies to tonnes of CO<sub>2</sub> emissions from energy used in all Council owned and operated buildings, street lighting, Council fleet, taxi and air travel.

## 3. Background

### Council's current approach to Electricity Procurement

Council currently purchases electricity through an aggregated contract managed by Procurement Australia. Through this, Local Government Authorities (LGAs) and other organisations tender as a group, to leverage a better market outcome and share the costs and resources associated with this procurement. Through this approach, Council typically achieves price certainty for a maximum of two years. Council does not currently purchase green electricity for any of our sites.

Electricity pricing is notoriously volatile, complex and unpredictable. While fixing a price for two years provides some certainty, there is minimal opportunity to predict the impacts on Council's Long-Term Financial Strategy (LTFS) beyond this period, and the financial impact of rising electricity costs continues to pose a risk.

#### Local Government Power Purchase Agreement

In August 2019 Council resolved to participate in a tender for electricity supply via a LG PPA led by the City of Darebin with the MAV responsible for managing Governance and Probity. This tender sought supply of 100% green renewable electricity and would ensure that Council met its high end adopted greenhouse gas reduction target of 40 percent below 2007/08 levels by 2020.

As outlined in the August 2019 report, a PPA is a broad term which relates to a contract for the purchase of an agreed amount of electricity over an extended period (ie 8-10 years). A PPA can also allow customers to purchase electricity from a specific generation source (ie from a renewable energy source, typically solar and wind). A business case prepared by independent consultants indicated savings compared with a standard procurement approach are expected under this model. This report also identified the potential risk to continuity of electricity supply in the event that the tender failed to achieve an outcome by 1 July 2020. A range of approaches to manage this risk were identified.

Unfortunately, there are delays in the original LG PPA which is no longer expected to run under the original governance model that involved the MAV. The City of Darebin is expected to continue leading the project but the timing and structure of the original LG PPA is currently uncertain.

Due to the failure of the original LG PPA process to provide electricity supply by 1 July 2020, Council is now forced to enter into alternative electricity contracts.

#### **4. Outline of key issues/options**

##### Interim or Alternative Electricity Supply

Given the delay, local governments who committed to the original LG PPA process (including Boroondara) must now secure alternative and best value supplies of electricity. For Boroondara, this means we must enter new contract arrangements (for Small and Large Market Sites and Street Lighting) before our existing electrical supply contracts expire on 30 June 2020. Officers have identified a number of alternative approaches all which carry relative pro's and con's. Officers have made a recommendation on the option best responding to Council's operational and strategic needs.

##### *Small Market*

Council's Small Market sites account for approximately 15% of electricity consumption but some 185 individual sites and accounts. Compared with Large Market and Street Lighting, transferring these accounts to new retailers presents a significant operational burden.

Officers have successfully negotiated with our current retailer, Origin Energy to continue current supply arrangements. Pricing in this third year (2020-21) will be lower than the previous two years of contracted supply.

Officers recommend continuing with Origin Energy for an additional twelve months for Small Market accounts.

Continuing with Origin for Small Market sites offers the following benefits:

- This offer is the best available pricing and is expected to offer better value than can be achieved through any alternative approach.
- This approach avoids the significant disruption and resource impact of switching 185 accounts to a new retailer.
- Council will retain the opportunity to consider participation in the original LG PPA or any other future tender process.

This offer carries the disadvantage that Council must secure new supply from July 2021 for small market sites.

### *Large Market and Street Lighting*

The organisation's Large Market and Street Lighting accounts correspond to 12 of Councils largest buildings and a total of 17 accounts. These correspond to approximately 85% of total electricity consumption (and costs) at Council assets.

### **Option One - Long Term Arrangement Option - PPA**

An opportunity exists to enter into an alternative PPA managed by Procurement Australia (PA). PA conducted a successful PPA tender during 2019 and in early 2020 has reached an agreement with a retailer for electricity supply from 1 July 2020. This tender includes participation of approximately ten organisations.

On 5 March 2020, PA formally sought expressions of interest from additional local governments considering joining this contract.

The new PA PPA offers the following benefits:

- Includes an option to purchase 100% green electricity consistent with the intent of the original LG PPA option.
- Participation sends a strong message which responds to the Boroondara community's increasing interest in sustainability, and enables Council to meet its high end greenhouse reduction targets.
- The new PA PPA offers an opportunity consistent with Councils promotion of participation in the original LG PPA process.
- This is a current offer ready to supply electricity from a Victorian Windfarm from 1 July 2020, and does not require any interim arrangement for Large Market and Street Lighting to meet our electricity demand when our existing contract expires.
- It provides pricing certainty and stability for ten years.
- Officers and councillors will not be required to reconsider these matters during the contract period allowing resources to be focused on other matters.
- This offer is predicted to deliver savings in the order of 10% (\$150,000 p/a on the full price of electricity) for green electricity compared with green electricity from a standard procurement approach.

The new PA PPA carries the following disadvantages:

- The tender was limited in scale with ten participants typically only committing to purchase a portion of their electricity through this process, compared with 48 local government participants for the original LG PPA.
- While this opportunity is expected to deliver savings for green electricity, it is not expected to achieve the same level of financial savings as proposed under the original LG PPA.

- Council is locked in to the price and will not be able to take advantage of any fall in the market price of electricity.

It should be noted that:

- This offer is for Large Market sites and Street Lighting only.
- If Council commits to the new PA PPA, no further arrangements will be required for large sites or Street Lighting for a period of 10 years.
- Under this contract model, new supply arrangements will be required for small sites from 1 July 2021.

### **Option Two- Interim Arrangement Victorian Government State Purchasing Contract**

The Victorian Government Department of Treasury and Finance (DTF) has committed to provide access for Boroondara to join the current State Purchasing Contract (SPC) for electricity. This contract leverages the buying power of the Victorian Government and has not previously been available to local governments. The SPC has historically achieved lower pricing than contracts negotiated by PA. This option is for progressive procurement over the 12-month period. Final pricing will be negotiated by the DTF.

This option offers the following benefits:

- Includes an option to purchase 100% green electricity consistent with the intent of the original LG PPA option.
- Electricity supply from this contract is available from 1 July 2020.
- Good value is leveraged from the State Government's buying power.
- Council will retain the opportunity to consider participation in the original LG PPA in the future.

This offer carries the following disadvantages:

- This offer is for progressive procurement and is subject to market variations during the contract period.
- A new supply contract for Large Market sites and Street Lighting will be required from 1 July 2021.
- The purchase of electricity with the option of green electricity is expected to be more expensive than securing green electricity via either the new PA PPA or the original LG PPA.

It should be noted that:

- This offer is for Large Market sites and Street Lighting only.
- If Council chooses this option, continuing with Origin Energy is recommended for Small Market sites.
- New arrangements will be required for all sites from 1 July 2021.

**Option Three- Interim Arrangement - MAV Tender Option**

The MAV is currently preparing a tender for supply of electricity for Victorian local governments. Boroondara has been invited to join this tender for Large Market and Street Lighting. While the initial invitation allowed for Boroondara to make a final commitment by 28 April 2020 (following consideration of this matter at the Ordinary Council Meeting on 27 April), new challenges including COVID-19 have required the MAV to request that Council commit by as soon as possible. The MAV will attempt to accommodate a late application on 28 April by the City of Boroondara. If participating in this tender, we will be bound to the outcome and would not have any opportunity to consider pricing compared with alternative options. Some market analysts have recommended that current market conditions (pre COVID-19) are favourable for a short-term contract (of this type) securing better pricing than will be available from the progressive procurement SPC. MAV has expressed confidence in securing a contract prior to 1 July 2020. Officers note that these short timelines do present a risk, particularly during such uncertain times.

This option offers the following benefits:

- This offer is expected to include an option to purchase 100% green electricity consistent with the intent of the original LG PPA option.
- This offer has the potential to achieve the best value for the 2020-21 financial year due to favourable market conditions.
- Prices will be fixed for the 12-month contract period.
- Council will retain the opportunity to consider participation in the original LG PPA in the future.

This offer carries the following disadvantages:

- A successful tender must be completed for a contract to be in place from 1 July 2020.
- The impact of the COVID-19 pandemic on tender timelines and market responses is unknown. The risks associated with participating in a tender during this unprecedented situation are unknown.
- A new supply contract for Large Market sites and Street Lighting will be required from 1 July 2021.
- The purchase of electricity with the option of green electricity is expected to be more expensive than securing green electricity via either the new PA PPA or the original LG PPA.

It should be noted that:

- This offer is for Large Market sites and Street Lighting only.
- If Council chooses this option, continuing with Origin Energy is recommended for Small Market sites.
- New arrangements will be required for all sites from 1 July 2021.

***Other Long Term Arrangements***

Other long-term arrangement options include:

- PA has also proposed to run a new PPA tender in 2020-21.
- There will be an opportunity for Council to consider participating in any future LG PPA under new arrangements.
- Participate in other future procurement approaches as offered by the MAV or PA including the direct purchase of green electricity.

### Closing the Our Low Carbon Future Strategy emissions gap

Despite the success of the recently completed Energy Performance Contract (EPC) in 2019 and adoption of the Sustainable Council Building Policy (2016), Council's building program is delivering generally larger buildings with a higher service provision, which is partly counteracting our emissions reduction efforts.

For the lower range 30% target, a gap of approximately 2,350 tonnes CO<sub>2</sub>-e is expected. For the 40% target, the gap is approximately 5,000 tonnes CO<sub>2</sub>-e.

The purchase of green energy through a PPA was identified as the preferred option to meet Council's OLCFS targets in a cost effective manner. Should this not occur in 2020, an alternate approach is required in order to meet the target in the 2020-21 financial year.

### Council Commitment Process and Timelines

In order to avoid reverting to standard market rates which are substantially higher than current offers, Council must commit to alternative arrangements by 28 April 2020. Noting the recently amended request from the MAV, officers have confirmed that all offers remain valid.

## **5. Consultation/communication**

This report has been prepared in consultation with officers from Contracts and Procurement and the Chief Financial Officer. Officers have also sought advice from neighbouring councils facing similar procurement challenges.

Participation in the original LG PPA has been widely promoted by Council and neighbouring councils and has received positive feedback.

## **6. Financial and resource implications**

In 2019-20, Council's expenditure on electricity was approximately \$1.5 Million. Of this, approximately 55% is negotiable. As such any tenders for electricity only seek to negotiate this portion which equates to a total of approximately \$825,000 pa.

Relative to the current options presented for consideration, approximately \$125,000 of this negotiated portion is recommended to be contracted to Origin Energy. The additional \$700,000 portion associated with Large Market sites and Street Lighting will be contracted according to one of the three options presented. The remaining expenditure on electricity is made up of fixed fees set by the Essential Service Commission.

Council's current contracts for electricity supply end on 30 June 2020. Due to the delay in the original LG PPA, Council is required to secure alternative electricity supply from 1 July 2020.

Council's standard approach to electricity procurement requires Council to participate in tenders for supply and commit to tender outcomes without the opportunity to view pricing and supplier details. For the options currently available, officers have been provided limited pricing and offer details.

The electricity market is inherently uncertain, and it is not possible to provide definitive advice about the financial advantages of any electricity procurement approach. While officers have used the best information available to inform councillors about the financial impacts of these options, it is inherently difficult to make robust predications about future electricity pricing.

The cost implications of the three options is presented in Confidential **Attachment 1**.

## **7. Governance issues**

The implications of this report have been assessed in accordance with the requirements of the Victorian Charter of Human Rights and Responsibilities. The officers responsible for this report have no direct or indirect interests requiring disclosure.

## **8. Social and environmental issues**

This project provides both environmental and social benefits.

The project will reduce Council's use of electricity from fossil fuel sources which contributes to air pollution and climate change.

## **9. Conclusion**

Council's current contracts for electricity supply end on 30 June 2020. Due to the delay in the original LG PPA, Council is required to secure alternative electricity supply from 1 July 2020.

Three options have been presented for consideration and endorsement. All options include a recommendation that Council extends contracted supply with Origin Energy for Small Market sites for a further 12 months, at a discounted price compared with the previous two financial years.

The new PA PPA approach is the only option that effectively provides a long term solution to our electrical supply needs for the majority of Council's electrical demand (ie Large Market and Street Lighting). The two remaining options for securing short-term supply (ie the Victorian Government SPC and the Tender from the MAV) are both options for an interim supply of electricity for 12 months, and effectively defer any decision about long-term supply of electricity.

On balance, the new PA PPA approach is recommended for Large Market and Street Lighting sites on the basis that it presents a ready to go solution meeting Council's current needs at a time of uncertainty. Participation in the new PA PPA option presents the following advantages:

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- It provides pricing certainty and stability for ten years and is approximately 10% cheaper than purchasing green electricity through standard procurement approaches.
- Current alternative options are short term only and there is significant uncertainty about future long term options.
- Officers and councillors will not be required to reconsider these matters during the contract period allowing resources to be focused on other matters.
- In recommending this option, officers recognise this opportunity is not expected to achieve the same level of financial savings originally proposed for the now uncertain LG PPA.

Finally, while the impact of COVID-19 on electricity markets is uncertain, there is a clear expectation of increasing pressure on Council's income and expenditure. In this context the ability to lock in prices and avoid budgetary surprises is especially advantageous. Additionally, commitment to a long term contract reduces Councils risk from participating in tenders undertaken during a pandemic.

Officers now recommend that councillors resolve to:

1. Enter into:
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2. Authorise the Director Environment and Infrastructure to execute the contract agreements for the above arrangements.
3. Note that performance of the contract will be monitored and reported on bi-annually.
4. Note that expenditure under this contract will at all times be in accordance with Council's budget.

**Manager:** Adam Hall, Environment & Sustainable Living

**Report officer:** Mathew Dixon, Coordinator Environmental Sustainability