

Exemption from Tender - Large Market Electricity Procurement

File No: S084740

Summary

The City's current large site electricity contract expires on 30 June 2018. 'Large site' typically refers to premises that consume more than 100 MWh of electricity annually (equivalent to the electricity consumed by about 20 households in the City area). In 2017, this contract consisted of 117 sites that collectively equal 28,000 MWh.

As part of the Environmental Action Plan, the City has committed to source 50 percent of the electricity for its operations from renewable generation by the year 2021.

Work has commenced on the City's procurement model for electricity for large sites that will adequately address the City's 2021 renewable target. This includes investigating how similar organisations have contracted renewables and a market sounding exercise with market participants on best procurement models. This work has highlighted that securing a long-term supply agreement for renewables is inherently complex and would need up to 18 months to ensure the best outcome for the City.

The City will conduct a procurement strategy of Expression of Interest (EOI) followed by a select tender. This two-stage process will allow market participants to provide feedback on the City's expectations and for the City's proposed commercial terms to be adjusted to take account of market realities.

This report requests an exemption from tender regarding an interim (18-month term) large site electricity contract. The City is expecting a step increase in the retail energy component cost of the large-site contract. This is due to rising electricity prices over the last two years.

Despite the increase in retail energy rates, the total electricity bill for the City is expected to be lower than it was six years ago. That is due to ongoing efforts to improve efficiency at individual City sites and to develop other sources of power, for example, solar Photovoltaic (PV).

Recommendation

It is resolved that:

- (A) Council approve an exemption from tender, in accordance with section 55(3) (i) of the Local Government Act 1993, to contract with the City's existing supplier of electricity for 18 months, noting the electricity pricing considerations set out in confidential Attachment A to the subject report;
- (B) Council note that the reason for seeking an exemption from tender is that due to extenuating circumstances a satisfactory result would not be achieved by inviting suppliers, due to:
 - (i) market analysis shown within confidential Attachment A to the subject report, highlighting that Supplier A provides better value than current market expectations;
 - (ii) the risk of the market price for electricity increasing before the expiry of the current contract on 30 June 2018; and
 - (iii) providing time for Council to better understand options for future long-term electricity purchases with its commitment to achieving at least 50 percent renewables in its supply of electricity by 2021;
- (C) authority be delegated to the Chief Executive Officer to execute and administer the extension of Supplier A for 18 months, and to negotiate, execute and administer future variations, including a further extension of up to 18 months, should this be commercially expedient; and
- (D) Council note that an Expression of Interest will be issued shortly for the long-term supply of electricity that will address City's 2021 renewable target.

Attachments

Attachment A. Exemption from Tender - Large Site Electricity (Confidential)

Background

1. The City has resolved to accelerate actions to increase renewables in the electricity supply system and reduce greenhouse gas emissions for our area. The City adopted an Environmental Action Plan in 2017.
2. The Environmental Action Plan commits the City to source 50 percent of annual electricity for its own operations from renewable generation by the year 2021.
3. This supports Sustainable Sydney 2030, which seeks to achieve a 44 percent reduction in greenhouse gas emissions by 2021, moving to a 70 percent reduction in greenhouse gas emissions related to the City of Sydney operations by 2030.
4. Currently, the City's ongoing programs have reduced greenhouse gas emissions at its own sites and facilities by around 26 percent in the 2016/17 financial year, compared to the baseline year (2005-06).

Electricity Market Environment

5. Since the last contract negotiation, electricity prices have significantly increased over the past two years. Factors that contributed to the increase include the closure of emission-intensive coal-fired generation, resulting in more reliance on other types of generation (gas and renewables), which have a higher generation unit cost.
6. Looking forward, prices are expected to plateau. The main reason is that investors are more confident about wind and solar technology, resulting in an increased level of investment.

Interim Large Site Electricity Arrangements

7. The retail energy rates prescribed in large site contracts are based on market conditions. The City's current large site electricity arrangement covers from July 2015 to June 2018. The contract rate is based on an historical market low.
8. The City's current large site electricity contract expires on 30 June 2018. Large site typically refers to premises that consume more than 100 MWh of electricity annually (equivalent to electricity consumed by about 20 households in the City area). In 2017, this contract consisted of 117 sites that collectively equal 28,000 MWh.
9. To take advantage of relatively favourable market conditions compared to rates observed in 2017, it is proposed to undertake a direct negotiation with Supplier A for a period of 18 months while a commercially satisfactory long-term arrangement is sourced that includes a renewable energy component such as external solar or wind generation.
10. Supplier A has provided a competitive offer, because they consider the City as an important client. The analysis of this offer is discussed within the confidential attachment.
11. Historically, the City had access to the NSW Government 777 contract for large site electricity. This contract provides supply of retail electricity services for large sites to whole-of-government.
12. However, due to changes in "eligible government customers", local councils can no longer participate in this contract. Consequently, the City entered into a separate agreement in 2013.

13. The City's remaining electricity usage falls under a "small site" electricity contract. These sites form part of the NSW Government 776 contract for small site electricity. The City will continually assess whether the NSW Government contract provides best value to the City.
14. The City's gas usage also has a similar arrangement as the 776 contract, where these sites form part of the NSW Government 4000 contract for retail supply of natural gas.

Long Term Large Site Electricity Arrangements

15. An increasing number of businesses and institutions are opting to enter into long-term electricity purchases, e.g. City of Melbourne, Telstra, and University of NSW.
16. The City has been investigating a range of options to meet its commitment to 50 percent renewables by 2021 in a manner that is more transparent.
17. To address this renewable energy target, the City proposes a procurement strategy of Expression of Interest (EOI) followed by a select (closed) tender.
18. More details regarding the City's long term large site electricity contract will be provided in future Council reports and/or CEO updates.

Key Implications

Strategic Alignment - Sustainable Sydney 2030 Vision

19. Sustainable Sydney 2030 is a vision for the sustainable development of the City to 2030 and beyond. It includes 10 strategic directions to guide the future of the City, as well as 10 targets against which to measure progress. This report is aligned with the following SS2030 strategic directions and objectives:
 - (a) Direction 2 provides a road map for the City to become A Leading Environmental Performer – through seeking a cost effective and transparent solution to the City's 50 percent of electricity from renewable sources by the end of June 2021.

Environmental

20. This proposal impacts on how the City will achieve its 50 percent of electricity from renewable sources target by the end of June 2021. The City will meet this target by Solar PV on City's buildings, renewables already in the grid and a renewable component within its large site electricity contract.

Budget Implications

21. An extension of the existing large-market contract will be at a price consistent with the current market. This is substantially more expensive than in 2015, when the price of electricity was last renegotiated by the City. In anticipation of the higher market price, the City has budgeted for increased electricity costs within its draft 2018-19 operating budget.
22. Despite the higher market price, the total electricity bill is likely to be lower than it was from 2010 to 2013 (the last period of high prices), due to a significant reduction in the amount of electricity purchases.

23. In order to determine the value for money, the City engaged a reputable energy procurement firm Energetics to provide energy sector forecast. This information was used to carry out financial analysis against predicted electricity rates.
24. The analysis confirmed Supplier A's offer provided best value. This is discussed further in Confidential Attachment A.

Relevant Legislation

25. Relevant legislation includes the Local Government Act 1993 and the Local Government (General) Regulation 2005 and the City's Contracts Policy.
26. An exemption from tender is sought in accordance with Section 55 (3) (i) of the Local Government Act 1993 to extend the current electricity large-site contract.
27. The reason for seeking an exemption from tender is that due to extenuating circumstances a satisfactory result would not be achieved by inviting tenders.
28. This is due to:
 - (a) market analysis shown within Confidential Attachment A, which highlights that Supplier A provides better value than current market expectations;
 - (b) the risk of the market price for electricity increasing prior to the expiry of the current contract on 30 June 2018; and
 - (c) providing time for Council to better understand options for future long-term electricity purchases with its commitment to achieve at least 50 percent renewables in its supply of electricity by 2021.
29. Confidential Attachment A contains commercial information which, if disclosed, would:
 - (a) confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business; and
 - (b) prejudice the commercial position of the person who supplied it.
30. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.

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