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HELD ON MONDAY 16 MAY 2022

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01) ELECTRICITY PROCUREMENT**Department:** Infrastructure Services**Author:** Director Infrastructure Services**CSP Link:** 2. Local Governance and Finance**File No:** ET.LI.2

Recommendation:

That Council:-

1. Note the extreme and unprecedented volatility of the electricity market currently being experienced,
2. Provide in principle support to contribute a minimum of 50% of Council's electricity load to a renewable energy Power Purchase Agreement.
3. Reaffirm to Central NSW Joint Organisation of Councils, its resolution of 21 March 2022, in regard the current investigations into the Blayney Solar Farm.
4. Receive a report on completion of the procurement process.

Reason for Report:

This report seeks Council's approval to amend the resolution of 16 August 2021, by removing the requirement for the upcoming procurement for electricity pricing to be less than existing contracted rates.

Report:

Member councils of the Central NSW Joint Organisation (CNSWJO) have been procuring electricity collaboratively for over 15 years. In the past this has provided substantial cost savings to members.

There is increasing interest across the Central NSW region in energy efficiency and renewable energy, and the upcoming procurement process for the supply of electricity aims to take advantage of this opportunity. CNSWJO member councils continue to work on energy efficiency projects, for example the LED street lighting replacement, as well as installing on-site solar. These activities continue to reduce councils consumption of electricity from external sources.

The contracts for small tariff sites (< 100MWh p.a.), large contract sites (> 100MWh p.a.) and streetlighting expire on 31 December 2022.

A technical consultant, probity advisor and legal advisor have been engaged to provide support to the procurement process for a contract to commence on 1 January 2023 for large market sites and streetlighting.

The CNSWJO Board received a report at its May meeting in relation to the small market site contract, where GMAC has recommended that Council use the NSW Government Retail Supply of Electricity Contract, which provides cheaper pricing than the current contract.

Procurement Update and Market Timing

It was originally anticipated that the Request for Proposals (RFP) for the supply of electricity for the 16 councils participating in the aggregated procurement process, would be released in mid to late March. However, in early March signs of increasing pricing were seen in the energy futures market. The increase was reportedly mainly due to the war in Ukraine.

In March, Presync, (the energy consultants who have been engaged to provide expert technical advice to the process), made a recommendation to delay releasing the RFP to market in the short-term as a price drop was anticipated.

However, while prices temporarily eased in mid-April, they remain at an unprecedented high. The following graph shows the electricity futures price trend for calendar year 2023 from May 2021 to May 2022



Source: Bid Energy

Presync has more recently advised that due to the sustained increase in electricity futures pricing, competition for new sources of renewable electricity (which are anticipated to provide more stable pricing) is rapidly increasing and have highlighted that further delay in going to market may mean that Councils miss out on a suitable renewable project.

As such, Presync has recommended that the RFP is released to the market in May 2022.

While the majority of the total load (~80%) can be matched to a wind or solar project, the remaining 20% will likely need to be firmed from grid energy. Retailers may use a pricing model informed by the futures or spot market, which will be affected by the current market volatility.

Consequently, the resolution of Council to:

Provide in principle support to a minimum 50% of Council's electricity load to a renewable energy Power Purchase Agreement where the pricing is lower than the existing contracted price,

is no longer considered realistic.

It is noteworthy that the current retail prices for regular grid power (flat rate) is currently around 20c/kWh (\$200/MWh), so a shift in the current approach away from renewable energy would not provide any relief. Indeed, renewable energy pricing is currently well below this.

The procurement process for the supply of electricity is underway, however has paused in recent weeks due to the extreme and unprecedented energy market volatility. This will affect the price of a portion of council's load unmatched to renewables - which is approximately 20%. The Steering Committee has been meeting regularly and watching closely, and agreed at its recent meeting that, while prices are not coming down, not finding a project to source renewable electricity from, is a greater risk.

While the contracts are not due to commence until 1 January 2023 and the procurement process was commenced well in advance to allow sufficient time in case there were delays or extreme market volatility, the situation now includes the supply of renewable energy becoming limited. New generation continues to come online however projects take many years to come to fruition.

A detailed explanation from Presync can be found in the confidential attachment.

Previous Council considerations

The Steering Committee for electricity procurement has been meeting regularly and at the most recent meeting on 5 May it agreed that due to the market volatility there is a chance that the offers received may not be lower than the existing contracted price.

Council has received two reports regarding this electricity procurement process. A report was received on 16 August 2021 regarding contributing a minimum of 50% of total load to a renewable energy agreement if pricing was lower than the existing price. The resolution from that report was as follows:

That Council

- 1. Receive and note the report on Council electricity procurement.*
- 2. Note the alignment between the advice in this report and Council's Renewable Energy Plan/ Energy Targets/ the NSW Government's aspirations for Net Zero.*
- 3. Provide in principle support to a minimum of 50% of Council's electricity load to a renewable energy Power Purchase Agreement where the pricing is lower than the existing contracted price, and,*

4. *Advise Central NSW Joint Organisation that Council's decision will be subject to further review given current investigations into a potential Council owned solar energy site.*

(Resolution No 2108/011)

Council also received a confidential report on 21 March 2022 which provided an update on the procurement process, along with advice regarding the mechanism to accept offers. The resolution from that report was as follows:

That Council;

1. *Advise Central NSW Joint Organisation that Council's decision and term of contract will be subject to further review given current investigations into the Blayney Solar Farm*
2. *Resolve that because of the extenuating circumstances set out in the report a satisfactory result would not be achieved by inviting tenders for the aggregated procurement of electricity for large market sites and streetlighting which are due to commence on 1 January 2023.*
3. *Note that the reasons for this decision are as follows:*
 - a. *The services with respect to which the tender relates can only be provided by energy retailers.*
 - b. *Council has received expert advice that due to the nature of the relevant market, offers from those retailers which will be made in response to the request for tender will only be open for acceptance for a period of 1-2 weeks.*
 - c. *Even if the tender period was shortened to 7 days as permitted under the Regulations, some if not all of the relevant tenders would expire prior to Council being able to undertake an assessment of tenders, report the matter to Council and resolve to accept or reject any tenders.*
 - d. *This would result in Council either having no valid tenders which it is able to accept, or it would not be able to consider for acceptance all of the tenders lodged in response to the request for tender.*
 - e. *This would not be a satisfactory result for Council.*
4. *Delegate the authority to execute the contracts for the supply of electricity for large market sites and streetlighting to the General Manager.*

(Resolution No 2203/025)

Therefore, Council will need to have the resolution from 16 August 2021 **(Resolution No 2108/011)** amended where it currently states a minimum of 50% of the total load be from renewable energy if prices are lower.

Conclusion

Council has a resolution in place that states a minimum of 50% renewable energy if it is cheaper than the existing contract price. Given the current energy market pricing, it is unlikely this will be achieved. Expert advice from Presync is that a business-as-usual approach of regular grid power will not provide a better outcome than the existing strategy of minimum 50% renewable energy. Indeed, renewable energy pricing is cheaper than other generation e.g. coal. It is therefore recommended that Council amend the resolution from 16 August 2021 to remove the requirement for the pricing “to be less than existing contracted rates”.

It is recommended that Council:

1. note the extreme and unprecedented volatility of the electricity market currently being experienced,
2. replace the previous resolution from Council report dated 16 August 2021 (**Resolution No 2108/011**),
Provide in principle support to a minimum of 50% of Council’s electricity load to a renewable energy Power Purchase Agreement where the pricing is lower than the existing contracted price,
with
Provide in principle support to contribute a minimum of 50% of Council’s electricity load to a renewable energy Power Purchase Agreement, and
3. receive a report on completion of the procurement process.

It is highlighted that the content and outcomes of the report presented to Council on 21 March 2022, remain unchanged as they articulate the reasons for, and provide delegation to the General Manager to execute contracts for the supply of electricity for large market sites and streetlighting, not the mix of electricity source (renewable v other generation (e.g. coal)), which is the subject of this report.

Risk/Policy/Legislation Considerations:

Council continues to prepare a Capital Expenditure Review on the proposed Blayney solar farm (endorsed at its meeting on 15 November 2021 (**Resolution No 2111/007**)).

The potential construction of a Blayney Shire Council owned solar farm, has been identified in the Request for Proposal (Supply of Electricity) tender specification document prepared for the CNSWJO and Riverina Eastern Regional Organisation of Councils (REROC), to ensure retailers are fully informed of the potential additional generation available, or loss of load to be procured through the electricity procurement process.

The Steering Committee is chaired by the General Manager of another CNSWJO member council, whom are also seeking to develop a mid-scale solar farm. Therefore the flexibility to exit from a 7-10 year electricity contract early remains essential to both Blayney and the other Council, prior to acceptance and signing.

Budget Implications:

Nil

Enclosures (following report)

- 1 Report - Presynch Market Timing Advice 4 Pages

This matter is considered to be confidential under Section 10A(2) (d) of the Local Government Act, as it deals with commercial information of a confidential nature that would, if disclosed (i) prejudice the commercial position of the person who supplied it.

Attachments (separate document)

Nil

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