

Ordinary Council

LATE REPORTS

Business Paper

date of meeting: Thursday 15 February 2024

location: Council Chambers, 17 Burrawan Street, Port Macquarie

time: 10:00am

Community Vision	A sustainable high quality of life for all
Community Mission	Building the future together People Place Health Education Technology
Council's Corporate Values	<ul style="list-style-type: none"> ★ Sustainability ★ Excellence in Service Delivery ★ Consultation and Communication ★ Openness and Accountability ★ Community Advocacy
Community Themes	<ul style="list-style-type: none"> ★ Leadership and Governance ★ Your Community Life ★ Your Business and Industry ★ Your Natural and Built Environment

Under Clause 3.23 Statement of ethical Obligations in the Code of Meeting Practice as adopted by Council at the Extraordinary Meeting of Council held on 23 June 2022 (Item 6.04), business papers for all ordinary and extraordinary meetings of the council and committees of the council must contain a statement reminding councillors of their oath or affirmation of office made under section 233A of the Act and their obligations under the council's code of conduct to disclose and appropriately manage conflicts of interest.

Councillors are reminded of the oath or affirmation which was taken by each of them on 10 January 2022.

Oath Of Councillor

I swear that I will undertake the duties of the office of Councillor in the best interests of the people of Port Macquarie-Hastings local government area and the Port Macquarie-Hastings Council and that I will faithfully and impartially carry out the functions, powers, authorities and discretions vested in me under the Local Government Act 1993 or any other Act to the best of my ability and judgment.

Affirmation Of Councillor

I solemnly and sincerely declare and affirm that I will undertake the duties of the office of Councillor in the best interests of the people of Port Macquarie-Hastings local government area and the Port Macquarie-Hastings Council and that I will faithfully and impartially carry out the functions, powers, authorities and discretions vested in me under the Local Government Act 1993 or any other Act to the best of my ability and judgment.

Councillors have the opportunity to declare any interests in items on the agenda and inform the Council and public if they will be leaving the Chambers during the debate and voting on the item.

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Items of Business

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4 Your Natural and Built Environment

What we are trying to achieve

A connected, sustainable, accessible community and environment that is protected now and into the future.

What the result will be

We will have:

- Effective management and maintenance of essential water, waste and sewer infrastructure
- A community that is prepared for natural events and climate change
- Sustainable and environmentally sensitive development outcomes that consider the impact on the natural environment
- Accessible transport network for our communities
- Infrastructure provision and maintenance that meets community expectations and needs
- Well planned communities that are linked to encourage and manage growth
- Accessible and protected waterways, foreshores, beaches and bushlands
- An environment that is protected and conserved for future generations
- Renewable energy options that are understood and accessible by the community

How we will get there

- 4.1 Provide (appropriate) infrastructure and services including water cycle management, waste management, and sewer management
- 4.2 Aim to minimise the impact of natural events and climate change, for example, floods, bushfires and coastal erosion
- 4.3 Facilitate development that is compatible with the natural and built environment
- 4.4 Plan for integrated transport systems that help people get around and link our communities
- 4.5 Plan for integrated and connected communities across the Port Macquarie-Hastings area
- 4.6 Restore and protect natural areas
- 4.7 Provide leadership in the development of renewable energy opportunities
- 4.8 Increase awareness of issues affecting our environment, including the preservation of flora and fauna



Item: 13.09

Subject: SUPPLY OF ELECTRICITY - REGIONAL COUNCILS NSW POWER PURCHASE AGREEMENT

Presented by: Community, Planning and Environment, Melissa Watkins

Alignment with Delivery Program

1.4.2 Deliver agreed services at the agreed service level at best value.

RECOMMENDATION

That Council:

1. Under the extenuating circumstances provision of s.55(3)(i) of the Local Government Act 1993, not invite open tenders and participate in the Hunter Joint Organisation procurement process to pursue a Power Purchase Agreement for Council's electricity contract for large sites and streetlights.
2. Give support to pursue a Power Purchase Agreement for Council's electricity contract for large sites and streetlights through the Hunter Joint Organisation tender process with the upfront cost of participation being \$22,385.
3. Subject to a successful tendering process by the Hunter Joint Organisation, the Chief Executive Officer shall negotiate and enter into a contract for the supply of electricity to Council's large sites and streetlights under existing delegation and present a further report to a future meeting of Council on completion of the process for Council's information.
4. Note that the contract under a Power Purchase Agreement may be a longer six-year term to attract better pricing and gain long term price certainty compared to the current two-year or previous three-year electricity contract.
5. Note that a Power Purchase Agreement may also provide a feasible pathway to achieve Council's Long Term Energy Strategy aim to source 100% of its electricity from renewable sources by 2027.

Executive Summary

Council needs to seek a new electricity contract for Large Sites and Streetlights before the end of this year. The State Government is supporting the Hunter Joint Organisation (HJO) and Mid North Coast Joint Organisation (MNCJO) to run a tender process for regional NSW councils to bid together for better priced long-term Power Purchase Agreement (PPA).

A PPA is long term agreement between a renewable energy power generator and consumer/s for the purchase of clean electricity at a competitive, stable and predictable price. The long-term nature of the agreement protects organisations

against the risk of price fluctuations in the electricity market, providing budget certainty and resilience (NSW Department of Planning and Environment, 2022).

Council's Executive Group have endorsed this recommendation going to Council to participate in the PPA. It is also prudent to seek Council's support to pursue a PPA over a more traditional electricity contract, given the fluctuations and risk in the electricity market to date and into the near future.

An experienced team of advisors has been selected to support HJO and MNCJO councils during the procurement process, including relevant procurement, probity, legal and energy market expertise. To benefit from these services a fee of \$22,385 is required to participate in the MOU for the proposed procurement process which councils must commit to by 29 February 2024. A briefing was delivered to the Executive which has assisted to develop this recommendation to Council.

The merit in joining with other councils to tender for an aggregated PPA deal include:

1. Reduced costs through sharing advisory services between councils.
2. Reduced risk with more due diligence and expert oversight possible through a group with more resourcing.
3. Increased chance of getting a better deal as a larger consumer group than what Council has or could get alone, with no ongoing commissions and only one upfront cost per council to pay.
4. The PPA may enable Council to cost effectively meet its adopted Long Term Energy Strategy aim to source 100% of its electricity from renewable sources by 2027 and avoid the need to install a lot more solar panels locally.

A two-stage procurement process is planned to allow an initial tender for current market offers and conditions. A recommendation report will be provided to each participating council to consider how to best proceed. Those councils that choose to proceed can then help negotiate a firm consolidated bid to tender for the most optimal deal from the currently favourable market.

Council will not be obliged to accept any offer if it does not deem it in the best interests of the Council or Council can withdraw from the process at any time.

Discussion

This is not the first time a PPA has been considered or endorsed by the Executive Group, as it was previously agreed on 14 June 2022 to join other councils on a tender process for a seven-year PPA. This tender process however was then abandoned due to elevated and increasing market pricing. Many of the previous councils are joining this new PPA tender as market conditions have improved.

The energy market appears attractive to tender into currently. Wholesale electricity prices in the National Electricity Market (NEM) had significant price rises and volatility over 2022. Some stabilisation occurred over 2023, however the planned 2025 closure of Origin Energy's Eraring Power Station, Australia's largest coal power generator may significantly escalate price and volatility risk again. This risk will likely continue over the next few years as low-cost renewable generation pushes out higher-cost fossil fuelled generation before sufficient reliable renewable energy generation and storage exists to meet market demands.

Council's current two-year electricity contract for Large Sites and Streetlights ends this year on 31 December 2024, with peak-tariff rates being triple the price of the previous three-year contract, and off-peak being double the previous rate. The high-priced volatile energy market conditions that this contract was made in have now improved to create a favourable opportunity to tender for a better priced deal from 1 January 2025. Without a new contract in place before the current contract ends, significantly higher default retail prices will be charged.

A PPA often runs twice as long as a conventional short-term electricity contract to give beneficial long-term price certainty and risk mitigation benefits for both counter parties, such that better deals can be negotiated.

Other councils also have electricity contracts ending this year and are seeking to reduce the costs for electricity and are going to market for replacement contracts. Electricity tenders are costly to undertake, such that many councils and service providers like Local Government Procurement (LGP) are preferring to go to market less often by only tendering for a long-term PPA instead of another short-term contract. Sharing the costs of going to tender with other councils also reduces the expense further and combining council electricity demands as an aggregated market bid can attract better priced deals that provide significant benefits to tendering alone. Councils generally do not have enough inhouse expertise to tender in electricity markets without external expertise.

The State Government is supporting the Hunter Joint Organisation (HJO) Mid North Coast Joint Organisation (MNCJO) to run a tender process for regional NSW councils to bid together for better priced long-term PPA. Relevant procurement, probity, legal and energy market expertise have been engaged by HJO to help provide key advice and services to deliver the "Powering Tomorrow - Regional Councils NSW PPA" tender process in early 2024. Six councils have already signed the HJO's Memorandum of Understanding (MoU) to join the tender process and remaining councils have until 29 February 2024 to also commit. Within the MNCJO, Kempsey Shire Council already has a favourable seven-year PPA and Bellingen Shire Council is joining this PPA. Other councils currently expected to join include Mid Coast Council and four others from different regional Joint Organisation areas.

An upfront contribution of \$22,385 is needed from Port Macquarie-Hastings Council to participate in this group tender process, which is estimated to be half the cost of undertaking a tendering process alone. This amount can be covered from the existing 2023-2024 budget. This PPA deal is also expected to cost council less over its duration as there are also no trailing commissions to cover being paid by the retailer to Regional Procurement (RP) like other service providers (eg. LGP and Procurement Australia) charge. As time is critical to secure the most favourable rates, the CEO proposes to exercise existing delegation to enter into a contract as tendered rates will not remain valid if the delay of a Council resolution is required.

As participants in this process, the CEO or a delegate can be involved in the ongoing decision-making process to help optimise outcomes from being on the Procurement Development Team, Steering Committee and Procurement Evaluation Panel. A deal is only made if decided favourable. A two-stage procurement process is planned to allow an initial tender for current market offers and conditions. A recommendation report will be provided to each participating council to consider how to best proceed.

Councils choosing to proceed then help negotiate a firm consolidated bid to tender for the most optimal deal to accept from the currently favourable market.

If a new subsequent electricity deal is not secured before the 1 January 2025 next year, higher default retail prices will be charged by the current retailer. A PPA can provide longer-term price stability and budget certainty while short-term volatile markets exist during disruption, as the rapid transition to renewables has accelerated due to a growing source of cheaper power, higher export values for coal and gas, and State/Federal Government initiatives. This has led to future fears of supply gaps and early coal generator shutdowns being possible which are likely to raise contract market prices once again. The graph below shows the historic volatility in the market as at January 2024 and clearly shows the market is much improved compared to the peak in 2022, making it an ideal time to secure pricing.

Graph 1:

Contract Market – NSW Financial Years Flat



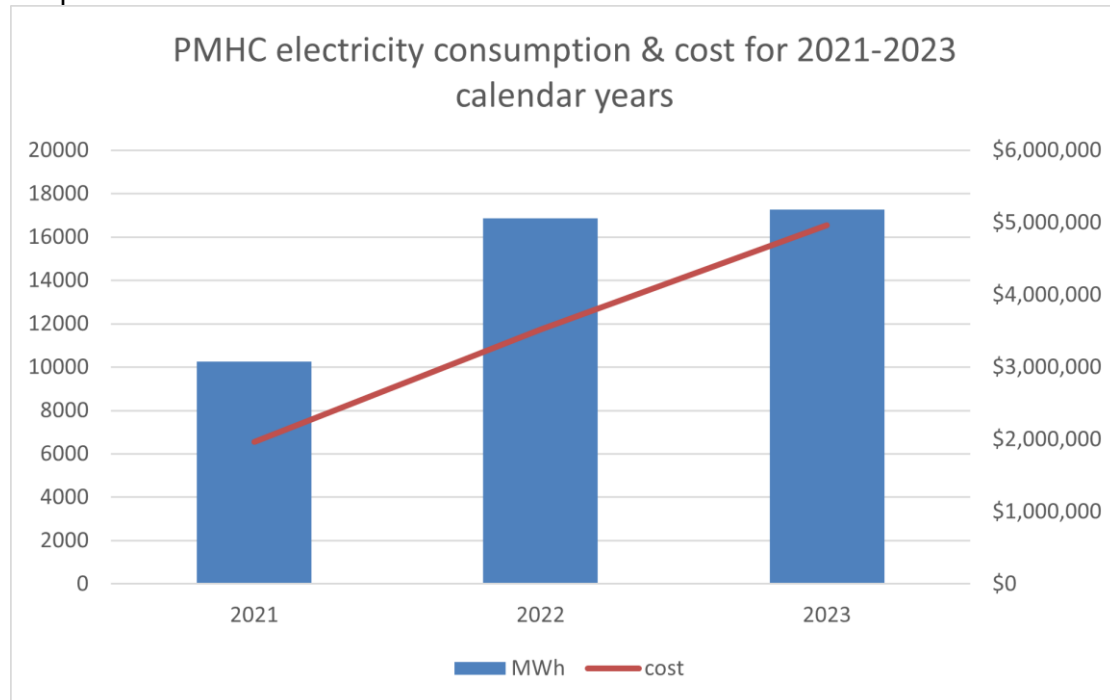
A long-term PPA offers an alternative to the current approach to future electricity procurement. Renewable electricity sources can help supply low-cost power to long-term PPA deals as they have no ongoing fuel costs like coal and gas generation. Fixed tariff prices may also be negotiated which will benefit councils with high-power consuming water and sewer assets as time of use tariffs (as per current contract) can restrict operations due to high costs during heavy usage times.

This PPA deal is expected to cost Council less over its duration as there are no trailing commissions to cover by the retailer. Trailing commissions may be up to a two percent on the total electricity bill, not just on the electricity tariff, as well as any

renewable energy certificate costs that are the negotiable elements actively tendered for.

Graph 2 (below) shows consumption and how Council’s electricity costs have continued to increase. These increases are despite very similar power consumption to the year before but are due to the higher contract prices. It should be noted that electricity prices typically only make up a portion of the total bill cost, with the rest consisting of other non-negotiable fees and charges.

Graph 2:



Options

Council has the option to:

1. Adopt the recommendations or
2. Request more information (noting the 29 February deadline) or
3. Resolve in some other manner.

Community Engagement and Internal Consultation

No community engagement has been made nor considered necessary for this report.

Professional engagement with industry experts and other council staff was made to help gain the information required. The relevant internal consultation considered necessary has then been undertaken with key staff and the Executive Committee to make this informed recommendation to Council.

Planning and Policy Implications

A PPA can better align with Council’s Quadruple Bottom Line (QBL) approach to demonstrate civic leadership and social, financial, and environmental sustainability



benefits. This would then help Council demonstrate alignment to its Sustainability Policy and Climate Change Response Policy.

A PPA will assist Council to meet its adopted Long Term Energy Strategy aim of being 100% renewable by 2027.

Financial and Economic Implications

The PPA enables a longer-term energy contract for large sites and streetlighting. This will enable more competitive pricing compared to a shorter-term contract and provides greater budget certainty for the length of the contract.

Attachments

1.  Powering Tomorrow-Regional Councils NSW PPA 20 December 2023
2.  Regional Councils PPA_MOU 22 December 2023