
SUPPLY OF ELECTRICITY TO SMALL SITES

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Chief Executive Officer

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General Counsel

PURPOSE

This report recommends that Council accepts an offer from [REDACTED] to supply electricity to Council small electricity sites throughout the city.

The offer is for a proposed two year contract at an estimated yearly value of \$481,096.12 for approximately 249 small electricity sites that consist mainly of council park facilities and barbecues and small Redland Water pump stations.

The report is presented late so as to meet the terms of the offer that is open for acceptance until 2:00pm on Friday, 22 August 2014, and is considered better value than existing electricity supply arrangements that have been recently reviewed.

The report commends that council resolves to implement a tender consideration plan and to accept the offer in accordance with section 230 of the *Local Government Regulation 2012*; and to delegate authority to the Chief Executive Officer to negotiate, make, vary and discharge the contract and to sign relevant documents in accordance with standard procedures and approved budget.

BACKGROUND

Council spends in the range of approximately 5 million dollars annually on electricity with approximately 90% spent on large electricity sites like waste water treatment plants and street lighting. Approximately 10% of the electricity spend is on small electricity sites like park facilities and pump stations where council was proposing to accept a [REDACTED] small electricity supply arrangement starting on 1 Oct 2014.

As part of a Council review of its large electricity site contracts which expire in September and December 2015 officers received the proposal from [REDACTED] which it is presenting to Council as urgent item without notice as representing better value from the existing proposal from [REDACTED].

Council's contract for energy supply to Council's small electricity sites expires on 30 September 2014 and had together with other local governments received an initial offer from [REDACTED] which acted as a broker to renew this arrangement.

Council officers recently reviewed this offer as part of a broader review of council contractual arrangements and engaged the services of [REDACTED] who specialize in obtaining and administering energy supply agreements and to obtain pricing for the supply of energy to council's small sites. These sites represent a very small portion of Council's overall annual spend on energy, the majority of which is spent on Council's large sites, such as wastewater treatment plants, Council administration building and streetlights.

Energy Action Process

Energy Action conducted a tender process on Council's behalf, which sought electricity prices from national retailers in accordance with its usual terms which are different from the provisions of the *Local Government Act 2009* and the *Local Government Regulation 2012*, which require a 21 day advertising period in a newspaper circulating in the local government area.

Energy Action used Council's usage data for energy for the past financial year and sought pricing from all reputable energy retailers who operate in the Redland City Council area. Energy Action has provided council with the pricing results from the 4 most competitive suppliers in respect of that usage. The results were as follows:

Tariff Type	Current Retailer Cost				
General Supply	\$411,022.22	\$424,208.68	\$370,913.27	\$376,839.16	\$415,292.19
General Supply TOU	\$127,028.05	\$126,596.29	\$109,126.28	\$111,513.61	\$122,889.03
Dom. Controlled Load	\$1,106.36	\$1,151.94	\$1,056.57	\$1,065.06	\$1,147.85
Grand Total	\$539,157.37	\$551,956.92	\$481,096.12	\$489,417.82	\$539,329.07

The amounts have been calculated by taking into account the usage rates from each of the energy retailers, applying the discount to those rates offered by that retailer to the broker based on Council's consumption and arriving at a figure for Council's annual spend on electricity based on the past financial year's consumption of energy.

The following is a breakdown of forecasted cost savings to Council of changing energy suppliers when Council's current energy supply contract expires on 30 September 2014, based on Council's current consumption.

offer results in a forecasted saving to Council of 10.77% or \$58,061.25 for the year in comparison to the rates offered by Council's current supplier.

Current Retailer Annual				
\$539,157.37	\$551,956.92	\$481,096.12	\$489,417.82	\$539,329.07

Saving	-\$12,799.55	\$58,061.25	\$49,739.55	-\$171.70
Percentage	-2.37%	10.77%	9.23%	-0.03%

Following the tender process, Energy Action brokered an offer from [REDACTED] which is open for acceptance until Friday, 22 August 2014. Council has also received an offer from [REDACTED], another energy broker, on behalf of [REDACTED].

Local Buy Process

Local Buy compared two suppliers, [REDACTED] and [REDACTED], to determine which would provide the more competitive pricing for energy supply. Those two suppliers are assigned to Local Buy's panel of providers for small site electricity.

[REDACTED] and [REDACTED] were asked to tender for council's small sites, however, tenders were provided on the basis that the supplier would ultimately supply energy for the small sites of Redland City Council as well as Ipswich, Logan, Gold Coast, Moreton Bay, Scenic Rim, Lockyer Valley, Somerset and Gympie City Councils. There is a reasonable likelihood that the collective volume of sites tendered for in the Local Buy process contributed to the competitiveness of the offers ultimately received.

The result was that [REDACTED] offered an approximate discount of 10% off tariff rates for electricity supply. [REDACTED] offered to supply electricity at up to 14% below the gazetted tariff rate for off peak usage on Tariff 22, but the peak usage rate was in excess of the gazetted tariff by 3.7% and the discount offered on gazetted tariff 20 rates was only 4%. The more competitive offer was that made by [REDACTED] which was considered less competitive against [REDACTED] Offer.

[REDACTED] - Offer

Council has received an offer from [REDACTED] to discount 15% from [REDACTED] standard small business rates for Council's smaller electrical sites. The offer is in the following key terms:

1. [REDACTED] will supply electricity to Council at [REDACTED] small business rates;
2. [REDACTED] will apply a 15% discount to [REDACTED] small business rates for the usage component for a period of 24 months;
3. The usage component is within 80% to 120% of the consumption limit; and
4. The usage component is based on the past financial year limit at 1.6 GWh.

In addition to these terms Council is likely to obtain further savings as a result of the recent carbon tax repeal provisions. The offer is subject to [REDACTED] standard terms and conditions. The standard terms and conditions provide, relevantly, that if Council's actual consumption of energy is less than 80% of the consumption limit of 1.6 GWh, [REDACTED] is at liberty to change the discount applied to all usage by Council for the annum. The discount applied may be as low as 0%. Similarly, if Council exceeds 120% of the consumption limit of 1.6 GWh, [REDACTED] is at liberty to change the discount applied to any usage above 120% of the consumption limit.

Council officers responsible for managing the sites have reviewed the offer and believe that current consumptions rates are relatively stable and don't expect any change beyond the 20% consumption tolerance over the next two years, taking into

consideration continuing measures to improve the efficiency of the sites and any new sites through the installation and maintenance of energy saving equipment.

STRATEGIC IMPLICATIONS

Legislative Requirements

Section 230 of the *Local Government Regulation 2012 (LGR)*, provides that council may avoid the need to strictly comply with the tendering provisions of the LGR by resolving to prepare a tender consideration plan and adopting that plan.

The tender consideration plan must state:

- a) the objectives of the plan;
- b) how the objectives are to be achieved;
- c) how the achievement of those objectives will be measured;
- d) any alternative ways of achieving the objectives, and why the alternative ways were not adopted;
- e) the proposed terms of the contract for the goods or services; and
- f) a risk analysis of the market from which the goods and services are to be obtained.

The following is the tender consideration plan to be considered, adopted and implemented by council.

Objectives of the Plan

The objectives of this tender consideration plan are to obtain the most competitively priced electricity contract for council's small electricity sites.

How the objectives are to be achieved

The objectives of this tender consideration plan are to be achieved by engagement of an electricity broker, who is generally able to obtain more competitive rates than general customers, including council. The broker(s) will obtain the most competitive market prices for supply of small site electricity on council's behalf, with a view to having council enter into a contract with the most competitive provider.

How the achievement of those objectives will be measured

The achievement of the objectives of this tender consideration plan will be measured by reviewing the offers brokered by the electricity broker to ensure that the offer accepted by council is the most competitive offer obtained by the broker.

Alternate ways of achieving the objective

It is possible that the objectives may have been achieved by undertaking a council tender procedure in accordance with the LGR. This alternative was not adopted as council has discovered, through direct discussions and dealings with electricity retailers that the prices and rates offered to brokers are more competitive generally than those which would be offered directly to council.

Proposed terms of the contract

The proposed terms of the contract are contained within the [REDACTED] "Energy Plan", "Agreement Schedule", "Energy Rates" and "Multi-Site Agreement Terms and Conditions" documents.

Risk Analysis

The market for electricity retail is a national market for which the reputable providers are large scale national companies. Tenders obtained by electricity brokers in accordance with the tender consideration plan have been obtained only from reputable providers, as smaller scale providers are more susceptible to insolvency or financial difficulty. Council has managed its risk by engaging experts in electricity retail (reputable brokers) to provide tenders for council's supply of electricity.

Risk Management

Council has managed its risk by engagement of expert electricity brokers to obtain tenders for electricity supply from reputable retailers. Once an offer has been accepted, the broker will administer the contract on Council's behalf, thereby mitigating any further risk which may arise from contract administration by persons who are not experts in the field.

Consultation has been conducted with officers from infrastructure & operations who have both confirmed that there is unlikely to be significant fluctuation in the usage at any of Council's smaller electricity sites, thereby reducing the risk to council of consuming additional electricity beyond the 20% tolerance.

Financial

Electricity prices have increased driven by increased network costs and tariff rates associated with transporting electricity from generators to supply sites such that Council current contracted discount of 19% off the tariff rate is no longer available.

The [REDACTED] offer represents a 15% discount off tariff rates, which will result in an increase to council's spend on small site electricity, but a forecasted saving of approximately \$60,000 per annum when compared to the rates offered by council's current energy provider moving forward.

People

There are no known implications on staff as the retailer will process accounts in accordance with standard practices.

Environmental

There are no known environmental implications, noting the contract allows for a 20% tolerance to continue monitoring and implementing energy efficiencies at sites.

Social

To deliver a cost effective and responsible operational service.

Alignment with Council's Policy and Plans

The recommendation supports alignment with the Corporate Plan for effective and efficient management of Council resources and community assets.

CONSULTATION

Consultation has been conducted with Procurement Services, Infrastructure & Operations and accounts receivable team.

OPTIONS

Council has the following options available to it:

- 1 Resolves to adopt and implement the tender consideration plan contained herein in respect of council's small sites electricity contract, and accept the offer made by [REDACTED] before it expires at 2:00pm on 22 August 2014.
- 2 Reject the offer and resolve to conduct a formal tender in accordance with section 228 of the LGR in respect of Council's small site electricity contract.
- 3 Resolves to revert to Local Buy electrical supply arrangements.

OFFICER RECOMMENDATION/ COUNCIL RESOLUTION

Moved by: Cr M Elliott
Seconded by: Cr M Edwards

That Council resolves as follows:

1. To adopt and implement the tender consideration plan contained herein;
2. To accept the offer by [REDACTED]
3. To delegate authority to the Chief Executive Officer, under s.257(1)(b) of the *Local Government Act 2009*, to negotiate, make, vary and discharge the contract and to sign all relevant documentation; and
4. That the officer report and any applicable attachments remain confidential so far as containing commercial in confidence information.

CARRIED 11/0