7.4.1 2027002 NATURAL GAS CONTRACT FOR LARGE SITES

Responsible Manager:	John Yovanches, Manager Strategic Asset Management
Responsible Director:	Jarrod Doake, Director City Services

RECOMMENDATION

That Council

1. **Approves access to the State Purchase Contract Master Supply Agreement for the Supply of Natural Gas for Large Sites with AGL Sales Pty Ltd, under Council Contract No. 2027002 for a schedule of rates-based contract with an estimated contract value of $1,100,000 for the initial term and an estimated total contract value of $1,650,000 inclusive of all available extension options.**
2. **Authorises the Chief Executive Officer or her delegate to execute the contract agreement and**
3. **Notes that the contract initial term is proposed to start on 01/01/2027, ending on 31/12/2028 and that the contract also has one extension options to 31/12/2029 and authorises the Chief Executive Officer to approve extension options subject to the State of Victoria through the Department of Government Services extension approval and satisfactory performance for the City of Monash.**

(all dollar figures are GST exclusive unless stated otherwise.)

INTRODUCTION

Council Officers seek to access the State Purchase Contract (SPC) Master Supply Agreement for the Supply of Natural Gas for Large Sites with AGL Sales Pty Ltd.

BACKGROUND

In 2023, Council approved access to the Municipal Association of Victoria Procurement (MAVP) Supply of Natural Gas for Large Tariff Sites (EC8310-2023) Contract with Shell Energy Retail Pty Ltd. This contract expires on 31 December 2026 with no further extension options available.

Council still has one (1) large tariff site, the Monash Aquatic and Recreation Centre, with an estimated annual gas consumption of approximately 33,000GJ. Whilst much work has been done to reduce energy consumption at this site, the site continues to qualify as a large gas site for contacting purposes.

The Municipal Association of Victoria, Procurement Australia and the Victorian Government Department of Treasury and Finance often establish contracts on behalf of or accessible to Local Government authorities so that they may access supplier contracts in an efficient and cost effective manner. These organisations are focused on achieving better procurement outcomes by aggregating demand and achieving improved commercial and service outcomes.

Whilst Council was able to run its own tender process for large gas sites, the opportunity to leverage off gas contracts established by third parties, with much large cumulative volumes, remains the best option for Council. As such, the evaluation panel agreed to review the third-party contract options available.

NOTIFICATION

A Public Notice was not required because the proposal is to access the SPC Master Supply Agreement for the Supply of Natural Gas for Large Sites with AGL Sales Pty Ltd, as allowed under Council's Procurement Policy.

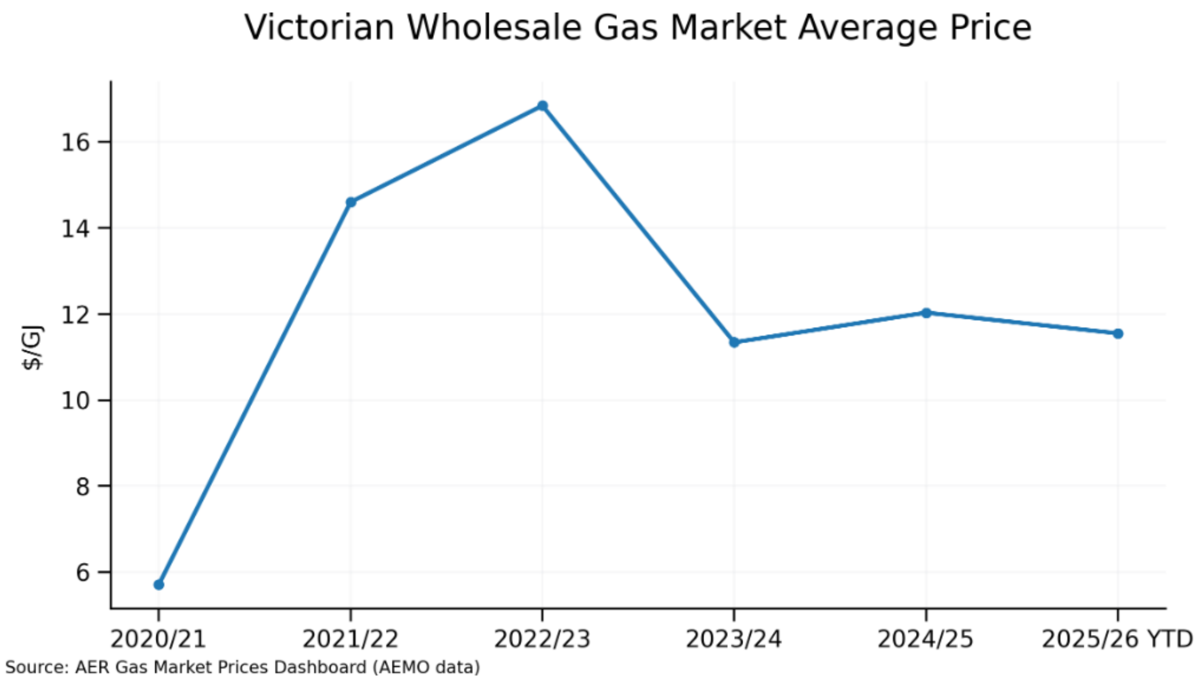
EVALUATION

For the evaluation process, the Evaluation Panel consisted of members from the Strategic Procurement and Strategic Asset Management teams. All members of the Council evaluation panel signed Conflict of Interest and Confidentiality forms and no conflicts were raised.

In the striking of large site gas contracts, supply and demand do play a significant role in determining the contract prices that are available at any point in time. Whilst the Evaluation Panel was able to compare current contract prices available from several options, two of the options are currently retendering and the timing of these procurement events will have a significant bearing on the contract prices achieved.

The Graph below shows the wholesale market prices for large gas over recent years.

Graph 1: Victorian Wholesale Gas Market Average Price Trend



The graph above displays wholesale market prices only. Council's contracted retail gas prices also includes retailer margins, transport charges and other risk premiums, but the wholesale market trend is a key indicator of market timing.

The key observations from this graph including that:

i. Pre-2022 gas pricing were relatively stable and generally lower than current levels;

ii. 2022–2023 saw significant price increases driven by energy market disruption, LNG-linked pricing and supply concerns in Australia;
iii. 2024 prices softened materially from the 2022–23 peak, as wholesale market conditions improved;
iv. 2025 prices largely stabilised but remained above historical norms; and
v. 2026 market conditions remain relatively stable, although suppliers continue to factor in supply, transport and winter demand risks.

A summary of the third-party options available to Council are summarised below:

Option	Contract Established by	Current Contract	Comments
1	MAV and Trans-Tasman Energy Group (TTEG)	Council currently accesses the MAVP Contract established with specialist support from TTEG. This contract expires on 31/12/2026.	The MAVP is not retendering Natural Gas contracts and TTEG are currently running a tender event.
2	Procurement Australia (PA)	PA are also retendering their Natural Gas contract during 2026.	Council cannot access this contract retrospectively but PA are open to running a separate tender process for Council if required.
3	State Purchase Contract (SPC)	SPC have an existing Natural Gas Contract for Large Sites that currently expires 31/12/2028 with an extension option to 31/12/2029.	Council is able to access this contract to access large gas contract rates after Council's current contract ends on 31/12/2026.

The Evaluation Panel reviewed the current Large Gas Contract price for all three options above and considered the timing of contract establishment to be one of the most significant factors influencing value for money outcomes in energy procurement. Gas retailers determine pricing based on prevailing wholesale market conditions at the time a procurement process is conducted. As a result, contract pricing can vary significantly between procurement events, even where supplier participation and consumption volumes are similar.

The SPC contract was established during 2024 market conditions. Whilst wholesale gas prices have reduced from the highs experienced during 2022 and 2023, market pricing still remains above historical norms and future procurement outcomes during 2026 cannot be predicted with certainty. By accessing the SPC contract, Council is able to leverage pricing established under earlier market conditions rather than exposing itself to the risks associated with a new procurement process.

Importantly, given Council now has only one large gas site with relatively modest consumption compared to the aggregated volumes represented under the SPC arrangement, the Evaluation Panel considers that market timing is likely to have had a greater influence on pricing outcomes than any additional competitive tension that could be generated through a stand-alone Council tender process.

Based on the information available, the Evaluation Panel considers that any procurement undertaken during 2026 for volumes similar to or lower than those represented under the SPC arrangement would be unlikely to achieve pricing superior to that already available through the SPC contract. Accordingly, a separate Council procurement process is unlikely to deliver a better value-for-money outcome.

For this reason, the Evaluation Panel recommends that the City of Monash accesses the SPC Contract with AGL Sales Pty Ltd from 1 January 2027 to 31 December 2028 (with an extension option to 31 December 2029) as this represents the best value outcome for Council.

FINANCIAL IMPLICATIONS

Council's annual expenditure on Large Gas is approximately $475,000. Including contingency for seasonal and patronage variations, the proposed annual contract value is $550,000, inclusive of usage, fees and charges.

CONCLUSION

That Council approves the recommendations contained within this report.

ATTACHMENT LIST

Nil