

#### 4.4 PROCUREMENT CONTRACT FOR NATURAL GAS SUPPLY TO LARGE TARIFF SITES

(PB): CF2020104

Responsible Director: Ossie Martinz

##### **RECOMMENDATION**

*That Council:*

- 1. Awards the tender from Origin Energy for Supply of Natural Gas to Large Tariff Sites, Contract No. 2020104 for a commodity based contract with an estimated annual contract value of \$350,000 and an estimated total contract value of \$1,050,000, GST Inclusive;*
- 2. Authorises the Chief Executive Officer or her delegate to execute the contract agreement.*
- 3. Notes that the contract will commence on 1 January 2020 and will conclude on 31 December 2022 with no extension options.*

##### **INTRODUCTION**

This report seeks to:

- Inform Council of the collaborative process for procurement of natural gas undertaken by MAV Procurement on Council's behalf;
- Advise Council of the current and projected gas supply cost; and
- Obtain authorisation for the Chief Executive Officer to finalise and accept schedule of rates contracts for the supply of natural gas with Origin Energy for a period of 36 months.

##### **BACKGROUND**

For Council sites with large energy usage, it has been previous practice to collaboratively tender with other councils to maximise the cost benefits to council. As such, Council recently participated in a collaborative tender undertaken by MAV Procurement for the Supply of Natural Gas for Large Tariff Sites.

Due to supply issues over recent years, the retail price for natural gas has been very volatile and peaked in the range of \$13-\$20/GJ. Since 2018, the retail price has stabilized somewhat however there remains significant supply concerns over the short to medium term.

To help guarantee the supply of natural gas to large sites, a collaborative purchasing approach was used to allow the retailers to bid for larger wholesale volumes. MAV Procurement issued a collaborative tender for natural gas supply for sites qualifying for the large site tariffs, (request for tender EC8310-2019 LargeNG) which resulted in tender offers to Council at the end of November 2019. The tender offers are to be evaluated and accepted separately by each participating Council.

Council has previously successfully used the collaborative tender process with MAV Procurement for both electricity supply and gas supply. The previous round for natural gas for large sites was for 2018 where we secured a favourable rate as shown the confidential attachment.

### ***DISCUSSION***

#### **Procurement Process**

Due to the volatility of energy markets, the cycle of tender and offer is normally very short. In late September 2019, MAV Procurement invited councils to participate in collaborative tender. Council officers advised Council of the intention to participate in this tender on 30 September 2019.

The MAV public notice of tender was advertised on 30 October 2019 and closed on 19 November 2019. The initial evaluation report and recommendations were prepared by MAV Procurement and Trans-Tasman Energy Group (TTEG) who have been appointed as MAV's technical advisors. The evaluation report was received by Council on 3 December 2019 and the pricing offer received on 16 December 2019.

The report and recommendations were evaluated by the internal panel (see Confidential Tender Evaluation Report).

Eighteen sites participated in the collaborative tender and three retailers provided pricing proposals with 6, 12, 24, 36 and 48 month terms. The preferred offer was from Origin Energy for a 36-month term commencing on 1 January 2020. Origin Energy is council's current retail supplier of natural gas to MARC.

The CEO currently has a delegation of up to \$750,000 for Energy Contracts, which is sufficient for a 24-month contract term for gas supply to MARC.

### ***KEY CONSIDERATIONS/ISSUES***

#### **Contract Term and Offered Rates**

- Council's current contract with Origin Energy for the supply of natural gas to MARC expired on 31 December 2019.
- The best offer is from Origin Energy and is for a fixed rate for a 36-month term for MARC. The base rate does not change during the term but is subject to annual CPI escalation.
- Network and State charges are passed through at cost.
- The offered rate is discussed in the Confidential Tender Evaluation Report but results in **cost savings** to council.

- By contrast, the tendered offers from the other two retailers would result in a **cost increase** for all offered contract terms of 12, 24 and 36 months.
- The offered term of 36 months from Origin Energy provides the best value to council and ensures stability in prices for an extended period. A term of 36 months represents an estimated contract value of \$1.05M, GST Inclusive. As this amount is outside the CEO's delegation, Origin Energy have however agreed to a delay in finalisation of the new contract to allow the offer to be considered by Council. Origin Energy will provide gas at the reduced rate from 1 January 2020 if the contract is subsequently approved.
- The new supply contract will commence on 1 January 2020 and will not affect the current year budget due to the lower contract rates.
- The establishment of a fixed unit price for 36 months will provide certainty in establishing future budgets.

#### Gas Usage and Large Site Tariff.

Monash Aquatic & Recreation Centre is council's only site that qualifies for the large site tariff. Gas consumption at MARC is currently around 27,000 GJ per annum. Consumption has fallen significantly over the last two years principally due to significant maintenance activities that has led to energy efficiency improvements. In conjunction with the improved collaborative tender pricing, there has been a 40% overall reduction in gas cost since 2017.

Similarly, improvements at Clayton Community Centre mean that it no longer qualifies for one of the large site tariffs.

MARC has an interval meter installed which measures gas consumption hourly. This allows the retailer to provide its best rate with a high degree of confidence in the consumption pattern.

The proposed contract allows for a range of +/-20% of the annual consumption target of 27,000 GJ without cost penalty, which provides for further energy consumption improvements without financial penalty.

#### ***SOCIAL IMPLICATIONS***

Reliable and cost effective gas supply to Council facilities assists with the delivery of key services to meet community expectations.

#### ***HUMAN RIGHTS CONSIDERATIONS***

Reliable and cost effective gas supply assists Council to deliver quality and accessible services to the whole of its community.

**FINANCIAL IMPLICATIONS**

Energy prices continue to be volatile but this proposed contract provides certainty for the next 36 months. The estimate of the financial implications are:

1. The estimated expenditure for 2020/21 is expressed as a range with an upper limit of \$350,000 per annum inclusive of GST.
2. The overall contract value is expressed as a range with estimated value of \$1.05M inclusive of GST for the period 1 January 2020 to 31 December 2022.
3. The estimated contract value can be funded within existing budgets.

**CONCLUSION**

The procurement process for the supply of gas to large tariff sites was conducted by MAV Procurement acting as agent for Council in accordance with Section 186 of the Local Government Act 1989.

Origin Energy's pricing proposal represents an **overall cost saving** against existing rates as detailed in the Confidential Attachment.

The offer of a fixed unit rate for a period of 36 months from 1 January 2020 until 31 December 2022 represents excellent value to council and much needed price stability.