

**ITEM 10. GRANT OF FINANCIAL ASSISTANCE TO AUSGRID - PERMANENT DEMAND REDUCTION INCENTIVES PROGRAM****FILE NO: X011796****SUMMARY**

Sustainable Sydney 2030 was developed after extensive consultation with City residents and business and with other stakeholders. It sets a target of a 70% reduction in greenhouse gas emissions for activities in our local government area (LGA) by 2030.

The City expects that targeted reductions for its own operations will occur via better operational efficiency, extra on-site generation and voluntary renewables purchases. Already, operational emissions are 25% lower than the baseline year (2005-06).

Achieving targeted reductions on an LGA-wide basis is more challenging. While LGA-wide emissions reductions are occurring, only 17% has been achieved so far. The City must continue to advocate and influence, and must develop and promote further initiatives (both on its own and with other organisations).

As reported at the meeting of Council on 11 December 2017, the local electricity distributor, Ausgrid, has requested financial assistance for a program that will achieve LGA-wide remission reductions through a mix of energy conservation and onsite renewables.

Ausgrid proposes that the City should co-fund projects located in our area, up to a maximum of \$750,000 of City funds. Ausgrid will match the City's funds and increase the level of Ausgrid funding for projects in our area. In combination, the City and Ausgrid will invest up to \$1.5 million. In addition, property owners and others will invest. Compared to a scheme funded only by the City, this program has much higher potential and can deliver up to 8,000 tonnes of abatement a year in the City area on a permanent basis. This is a significant contribution to the City's overall target.

Council resolved to approve for public exhibition for 28 days a proposed resolution to grant financial assistance of \$750,000 to The Trustee for Blue Op Partner Trust & Others (ABN [78 508 211 731](#)) trading as Ausgrid for the purpose of promoting enduring energy conservation measures and increased solar PV generation in the City of Sydney local government area by way of Ausgrid's Permanent Demand Reduction Program.

This is in accordance with the provisions of section 356 of the Local Government Act.

Accordingly, at least 28 days' public notice of the Council's intention to consider the proposed resolution has been given by way of an advertisement in the "Public Notices" section of The Sydney Morning Herald on Thursday 4 January 2018. No correspondence or submissions have been received by the City in relation to the proposed grant of financial assistance.

**RECOMMENDATION**

It is resolved that:

- (A) Council note the importance of enduring energy conservation measures and increased solar PV generation in the City of Sydney local government area in order to achieve the goals of Sustainable Sydney 2030;
- (B) Council note that, in accordance with section 356 of the Local Government Act 1993, public notice of at least 28 days has been given of this resolution;
- (C) Council grant financial assistance of up to \$750,000 to The Trustee for Blue Op Partner Trust & Others (ABN [78 508 211 731](#)) trading as Ausgrid for the purpose of promoting enduring energy conservation measures and increased solar PV generation in the City of Sydney local government area by way of Ausgrid's Permanent Demand Reduction Incentives Program;
- (D) Council note the intended terms and conditions for the grant set out in the subject report; and
- (E) authority be delegated to the Chief Executive Officer to negotiate, execute and administer an agreement with Ausgrid in respect of the grant of financial assistance.

**ATTACHMENTS**

**Attachment A:** Letter to the City from Ausgrid dated 4 December 2017

**CONTEXT**

1. Based on extensive consultation with residents and business and other stakeholders, Sustainable Sydney 2030 sets a target of 70% reduction in greenhouse gas emissions related to the City of Sydney area by the year 2030. This is in addition to a target for a 70% reduction in greenhouse gas emissions attributable to the City's own operations by the year 2030.
2. The City has resolved to accelerate actions to increase renewables in the electricity supply system and reduce greenhouse gas emissions for our area. To this end, the City drafted and exhibited an Environmental Action Plan 2016 to 2021. The finalised Plan was adopted in March 2017.
3. The Environmental Action Plan sets a target for 50% of electricity supplied in the City of Sydney area to be sourced from renewable generation by the year 2030. For the purposes of the target, electricity supply means on-site generation plus renewables in grid plus voluntary off-site purchase (eg, GreenPower). This goal is in addition to a target for 50% of electricity supplied to the City's own operations to be sourced from renewable generation by the year 2021.
4. As part of the Environmental Action Plan, up to \$10 million will be allocated over the next decade to accelerate uptake of renewable energy by local businesses and residents, with a preference for local sources where feasible.
5. This is in addition to the City's already-established program of activities to reduce greenhouse gas emissions, eg, participation in the Better Building Partnership, the City's environmental grants program, and advocacy of energy market reform.
6. As well, the City is undertaking a major program for reduction in greenhouse gas emissions at its own sites and facilities, and has already reduced greenhouse gas emissions by around 25% compared to the baseline year (2005-06). The City will achieve future targets through better operational efficiency, more on-site generation and voluntary purchases of renewables.
7. However, major reductions in the level of greenhouse gases in the electricity supply system (the main source of greenhouse gas emissions in our LGA) are also required to achieve targets for our LGA by the year 2030. The City will continue to advocate and influence and undertake activities over time (both on its own and with other organisations) to ensure that the goals of Sustainable Sydney 2030 are achieved.

**OUTLINE OF AUSGRID INITIATIVE**

8. The City has been approached by Ausgrid, the local electricity distributor. In a letter received in December 2017, Ausgrid requests support for a program of energy conservation measures and onsite renewable generation (see Attachment A). This program will be delivered by service providers such as energy service companies and energy retailers. Suitable service providers are currently being identified.
9. The program is the Permanent Demand Reduction Incentives Program. It is part of an overall initiative to reduce investment in new network assets (eg, poles and wires). This should lower electricity costs for residents and businesses over time.

10. The program will achieve substantial reductions in greenhouse gas emissions and substantial increases in local renewables. Modelling by the City indicates that, by co-funding incentives under the program, emissions reductions can be achieved at a cost to the City of \$5 to \$6 per tonne of carbon. This is very good value compared to some other incentives for energy conservation and on-site generation.

### **BENEFITS OF PARTNERING WITH AUSGRID**

11. Partnering with Ausgrid is a cost-competitive way to accelerate reductions in greenhouse gas emissions and increase roll-out of local renewables. This will also give the City more influence over the choice of funded projects and the intensity of focus on permanent demand reduction in the City area (as opposed to other parts of the Ausgrid network) will be much greater.
12. Partnering with Ausgrid means that the value of projects funded in the City area will more than double. Providing funding of \$750,000 means an amount equivalent to the total value of incentive payments previously earmarked across the whole Ausgrid area will now be spent in the City of Sydney area.
13. Ausgrid's expertise and skill puts it in a strong position to influence consumer decisions and broker productive outcomes, and Ausgrid is relatively well trusted (especially for technical matters) by users of the electricity supply system. Ausgrid's leading role in the program is likely to increase the certainty and timeliness of new connections of solar PV undertaken as part of the program.
14. Partnering with Ausgrid also mitigates the risk of competing objectives and offers. The program is well structured, has a defined methodology, has clearly specified incentives, and is beneficial to both the City and Ausgrid.

### **PROGRAM DELIVERY**

15. Ausgrid will incentivise projects in areas where replacement of network assets (poles and wires, substations, etc) is expected in the near to mid-term. There are several such areas in our LGA.
16. Providers engaged by Ausgrid will seek out sites and groups of sites where energy conservation and on-site renewable generation can be deployed cost-effectively.
17. Investments will be subject to financial benchmarks set out in Ausgrid's request for proposals. These incentives are up to \$250 per kW of installed solar PV and up to \$250 per MWh of annual permanent energy conservation.
18. It is proposed that the City co-fund projects in the City of Sydney area, up to a maximum of \$750,000 of City funds. That means a shared investment in demand reduction measures of up to \$1.5 million.
19. Ausgrid is undertaking a procurement process to engage providers to identify and implement individual projects. Providers may be renewables energy financiers, energy retailers or energy service providers. A request for information was issued in November and evaluation is now well advanced.
20. Involvement by the City will occur via a series of steps:

- (a) Providers investigate potential sites/options and put proposals to Ausgrid.
  - (b) Ausgrid and the City review proposals put by providers. Only sites in the City area will be considered for co-funding. The City will reserve the right not to fund any particular project at its absolute discretion. The City's ethical guidelines will be taken into account.
  - (c) Ausgrid and the City commit combined funding up to the agreed incentive benchmarks. If Ausgrid funds are exhausted earlier than the City's (eg, if the City does not support some projects), the City may fund some projects at a higher level than 50/50, but is not obliged to.
  - (d) Ausgrid will verify completion of and emissions savings from individual projects.
  - (e) Once a project is finalised, the City is invoiced for its share of co-funding.
21. Ausgrid will pay providers if and when individual projects are delivered and verified. Only measures which are permanent will be considered.
22. It is undesirable to set a specific cap on co-funding for a particular site, project or project beneficiary (eg, property owner, tenant). A particularly high abatement may be identified at acceptable cost via a particular project or set of projects.
23. Discussions suggest that about 30 to 50 projects will be funded in the City area. Ausgrid is keen to involve a diversity of building types and occupancies (eg, warehouses, retail premises, cold stores, rental housing), so as to be able to apply project learnings more broadly in the future.

## ENVIRONMENTAL OUTCOMES

24. Incentive benchmarks are set out in the Ausgrid request for proposals. A total of \$1.5 million of incentives is proposed for projects in the City area. An 80/20 split between solar PV installations and energy conservation measures is assumed, based on high-level feedback from prospective service providers since December (this mix may change). On this basis, expected environmental outcomes have been recalculated.
25. Benefits associated with project outcomes (solar PV and energy conservation) are calculated on an annual basis and over a nominal project lifetime – see the tables below. The nominal project lifetime of 20 years allows for some churn, that is, some project sites may have a change of use or be rebuilt or refurbished.

### Abatement outcomes – yearly

	Energy saving measures	Solar PV installations
Investment	\$300,000	\$1,200,000
Avoided grid electricity	1,200 MWh	6,700 MWh
Avoided CO2	1,140 tonnes	6,360 tonnes
Total annual abatement – 7, 500 tonnes		
NB – Current NSW grid coefficient of 0.95t/MWh applied (reference: Commonwealth Govt National Greenhouse Account Factors 2017)		

Abatement outcomes – nominal project lifetime

	Energy saving measures	Solar PV installations
Avoided grid electricity	24,000 MWh	134,000 MWh
Avoided CO2	22,800 tonnes	127,200 tonnes
Total abatement over 20 years – 150,000 tonnes		

26. Cost of abatement to the City is calculated as follows:

\$750,000 divided by 150,000 tonnes = \$5.00 per tonne of CO2-e

27. Assuming 80% of matched funds in the City area are applied to on-site solar PV, this will lead to an increase of 4.8MW in local generation, which is close to half the current level of solar PV in the City area. (This is estimated at 10MW-12MW of capacity, including some sites not on the APRI website, such as the City's own installations.)
28. About 0.15% of total emissions attributable to the City area will be abated.

**BUDGET IMPLICATIONS**

29. Financial assistance will be spread over three financial years, primarily next financial year (July 2018 to June 2019). Only a very small number of projects are likely to be completed, verified and invoiced before then.
30. Accordingly, the following funding allocations are proposed:

- (a) 2017-18 financial year – \$50,000

(Reallocate from existing acceleration program)

- (b) 2018-19 financial year – \$500,000

The City's operating expenditure budget for 2018-19 will be adjusted to incorporate funding provided through this program. Correspondingly, the Renewable Energy Other (LGA) capital program budget will be reduced, effectively re-allocating funding from the capital program to the operating expenditure budget.

- (c) 2019-20 financial year – \$200,000

The City's operating expenditure budget for 2019-20 will be adjusted to incorporate funding provided through this program. Correspondingly, the Renewable Energy Other (LGA) capital program budget will be reduced, effectively re-allocating funding from the capital program to the operating expenditure budget.

**CRITICAL DATES**

31. This report has been presented direct to Council on account of timing. A formal letter of offer from Ausgrid outlining proposed involvement by the City was received in early December 2007, just prior to the previous report to Council. The period of at least 28 days' public notice was completed, just prior to the February meeting.

32. Ausgrid has already issued a request for information to potential solution providers. Initial feedback has been received from prospective providers, and the selection of providers is expected to be completed by early March. The City has been able to provide input into this selection process and take account of initial feedback in preparing this report.
33. In anticipation of a decision by Council, the following indicative timetable for delivery of the program has been developed in consultation with Ausgrid:
- |                 |   |
|-----------------|---|
| March 2018 -    | City and Ausgrid enter funding agreement  |
| June 2018 -     | first round projects confirmed after Ausgrid/City consultation  |
| December 2018 - | initial projects are verified and invoiced  |
| June 2019 -     | final round of projects confirmed for funding   |
| December 2019 - | final projects are verified and invoiced  |
| March 2020 -    | Ausgrid finalises program administration and assessment and provides findings to the Australian Energy Regulator and to the City. |

#### RELEVANT LEGISLATION

34. The grant of funding will be made under section 356 of the Local Government Act.
35. Ausgrid is now partially privately owned, and in part acts for private gain. Section 356(2) of the Local Government Act states: "A proposed recipient who acts for private gain is not ineligible to be granted financial assistance but must not receive any benefit under this section unless at least 28 days public notice of the council's proposal to pass the necessary resolution has been given."

#### PUBLIC NOTIFICATION

36. At least 28 days' public notice of the Council's intention to consider the proposed resolution has been given by way of an advertisement in the "Public Notices" section of The Sydney Morning Herald on Thursday 4 January 2018.
37. No correspondence or submissions have been received by the City in relation to the proposed grant of financial assistance to Ausgrid.

#### CONCLUSION

38. By agreeing to co-funding projects undertaken as part of the Permanent Demand Reduction Program in the City area, the City will be able to significantly enhance both local and the overall outcomes of this program.
39. The program will achieve ongoing greenhouse gas reductions of up to 8,000 tonnes a year and increase local PV generation at a very competitive cost to the City.

40. By highlighting the role that on-site generation and energy conservation can play in reducing the level of future investment in network poles and wires, the program will also help bring down the long-term cost of electricity for businesses and residents.

**KIM WOODBURY**

Chief Operating Officer

Chris Barrett, Commercial Manager Green Infrastructure