

## Exemption from Tender - Renewable Gas Certification Pilot

File No: S084740.016

### Summary

This report seeks an exemption from tender to participate in a Renewable Gas Certification Pilot due to the unavailability of competitive/reliable tenderers. A satisfactory result would not be achieved by inviting tenders because the Renewable Gas Certification Pilot is a unique inter-industry partnership which cannot be replicated.

The City recently announced that it is bringing forward its Net Zero emissions goal by five years to 2035. The City's natural gas related emissions will become the most significant portion of the City's operational carbon emissions from July 2021 onwards.

The Renewable Gas Certification Pilot will provide the City an opportunity to be a leader and early adopter of renewable gas and help pioneer new ways to help reduce emissions. To facilitate this pilot, City is seeking to enter a Memorandum of Understanding (MOU) with Jemena Limited (an owner and operator of the natural gas network for the Sydney region) in association with Sydney Water.

This report recommends that Council:

1. approve entering into discussions under a Memorandum of Understanding with Jemena Limited in association with Sydney Water regarding a Renewable Gas Certification Pilot; and
2. should the Renewal Gas Certification Pilot commence, approve an exemption from tender for the City to enter into an agreement with Jemena Limited and Sydney Water, or appropriate related entities, to enable the City to participate in the Renewable Gas Certification Pilot.

## Recommendation

It is resolved that:

- (A) Council endorse entering into discussions with Jemena Limited, Sydney Water and other relevant related parties under a non-binding Memorandum of Understanding to investigate the City's participation in a Renewable Gas Certification Pilot;
- (B) Council approve an exemption from tender to enter into an agreement with Jemena Limited, Sydney Water or appropriate related entities in relation to the Renewable Gas Certification Pilot for a timeframe that will be determined during implementation of the Memorandum of Understanding;
- (C) Council note that a satisfactory result would not be achieved by inviting tenders for this work because:
  - (i) the Renewable Gas Certification Pilot is a unique inter-industry partnership which cannot be replicated and hence there are no other suppliers which can offer a similar competitive/reliable alternative; and
  - (ii) there are no other suppliers currently, so there are no competitors with which to run a tender process;
- (D) authority be delegated to the Chief Executive Officer to enter into the Memorandum of Understanding;
- (E) authority be delegated to the Chief Executive Officer to determine if the Renewable Gas Certification Pilot commences and is considered to be feasible and, if feasible, negotiate, execute and administer the contracts relating to the Renewable Gas Certification Pilot; and
- (F) Council note that if the City enters into an agreement with Jemena Limited, details of this agreement will be provided via a CEO Update.

## Attachments

**Attachment A**      Financial Implications (Confidential)

## Background

1. The City has recently revised its commitment to achieve Net Zero emissions by 2035. Additionally, the City has a target of 70 per cent reduction of greenhouse gas emissions by 2030 from 2006 levels.
2. Due to the City transitioning its electricity to 100 per cent renewable, the City's natural gas will become the most significant portion of the City's carbon emissions from July 2021 onwards. Unlike the electricity market, which has advanced significantly in renewable generation over the last 10 years, renewable gas is at an early stage. Within this market there is no origin/certification scheme in Australia for renewable gas. To progress, the industry would need to develop a suitable framework.
3. The City's main energy uses are electricity and gas used in buildings and fuels used by fleet vehicles. The City's electricity is now zero emissions since switching to 100% renewable electricity in July 2020. Fleet emissions continue to reduce through driver training and switching to electric vehicles (using renewable electricity). Replacing natural gas is now the most significant opportunity to further reduce the City's emissions. This can be done by switching gas using equipment to electricity (electrification) or by using renewable gas in place of natural gas. The most cost-effective time for electrification is when equipment is due for replacement.
4. Most of the City's natural gas usage is for heating pools. Currently it is not cost-effective to fully replace gas at the aquatic centres. Renewable gas can be used to reduce the City's carbon footprint until it is cost effective to electrify.
5. The term 'natural' gas refers to fossil fuel gas which is formed from decomposed plant and animal matter over millions of years. It is extracted from deep wells, both onshore and offshore, or via coal seams which requires fracking. The extraction and processing of natural gas has many environmental impacts. Natural gas is mostly made up of methane which is a powerful greenhouse gas (28-36 times more potent than carbon dioxide) which leaks to the atmosphere during the extraction, processing and transporting of natural gas. Burning fossil gas also releases carbon emissions to the atmosphere which contributes to global heating.
6. Renewable gases are natural gas replacements - for example 'biogas' or 'biomethane' - formed from the anaerobic digestion of organic wastes from landfills, farming waste and wastewater treatment facilities, whereby bacteria break down the matter into mostly methane and carbon dioxide. Biomethane is currently being generated at Sydney Water's Malabar Sewerage Plant Sydney, however it is being flared into the atmosphere rather than used. The pilot project is seeking to upgrade the plant to allow the biomethane to be captured and fed back into the gas network - enough to supply the equivalent of 6,300 homes.
7. When combusted, renewable gases do release carbon dioxide, however it is from plant matter that has recently taken the carbon dioxide from the atmosphere (as opposed to the millions of years it takes for natural gas to form). As more renewable gas is created, it comes from plant and animal matter which has recently drawn carbon from the atmosphere. This closed loop can be considered as a clean energy source which does not produce additional emissions.

8. The Australian-first Renewable Gas Certification Pilot will unlock a voluntary market for gas users to buy renewable gases. The pilot will design and test a simplified renewable gas registry, which will make renewable gas available to customers in early 2022. The scheme will be piloted at the Malabar Biomethane Injection Project (MBIP), Australia's first wastewater biomethane facility. The new facility will convert raw biogas into biomethane, which will then be injected back into the NSW gas distribution network rather than being flared into the atmosphere.
9. The Renewable Gas Certification would operate in a similar way to how renewable electricity certificates are used to verify the origin and use of renewable electricity. That is, for every unit of renewable gas produced there would be a renewable certificate created which organisations like the City are able to purchase to claim the renewable gas benefit.
10. This project is supported by Australia's Renewable Energy Agency (ARENA) funding. The project is currently scheduled to be commissioned in early 2022 and anticipated to be capable of supplying a portion of the City's natural gas demand.
11. Jemena Limited is seeking to develop a renewable gas certification system to recognise that the gas injected from the Project facility is produced from a replenishable source and displaces (or replaces) natural gas produced from fossil fuels within the gas network. This would give the City an opportunity to be a leader within the circular economy sphere by enabling less reliance on natural gas derived from fossil sources.
12. The certificates underlying the project's renewable gas certification system are intended to be transferrable such that a customer can purchase the certificate to recognise a connection and contribution to the Project and that the customer's gas use (or portion of their gas use) is displaced (or replaced) from this source.
13. Jemena Limited is proposing the City be one of three organisations to be part of a renewable gas certification pilot. To facilitate this discussion, relevant parties are requested to enter a non-binding Memorandum of Understanding (MOU). This would allow discussions to develop the framework for renewable gas contracts within the industry. Additionally, the Memorandum of Understanding will enable the City and Jemena Limited to assess the commercial viability of injecting renewable gas into the network.
14. The non-binding Memorandum of Understanding will provide a framework to facilitate discussions with Jemena Limited regarding the proposed certification scheme and the terms of an agreement in relation to the Renewable Gas Certification Pilot. The timeframe of this agreement will be determined during Memorandum of Understanding discussions.
15. The Memorandum of Understanding imposes no commitment or obligation on either the City or Jemena Limited to enter into a pilot agreement.

### **Financial Implications**

16. There are sufficient funds allocated for this project within the current year's (2021/22 financial year) operating budget, and future years' forward estimates.

## Relevant Legislation

17. The exemption from tender process has been conducted in accordance with the Local Government Act 1993, the Local Government (General) Regulation 2005 and the City's Procurement and Contract Management Policy.
18. Local Government Act 1993 - Section 10A provides that a council may close to the public so much of its meeting as comprises the discussion of information that would, if disclosed, confer a commercial advantage on a person with whom the council is conducting (or proposes to conduct) business.
19. Attachment A contains confidential commercial information and details of Council's evaluation and contingencies which, if disclosed, would:
  - (a) confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business; and
  - (b) prejudice the commercial position of the person who supplied it.
20. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.

## Critical Dates / Time Frames

21. The City is seeking to enter the Memorandum of Understanding with Jemena Limited by August 2021. If not entered into, the City would be at a risk of not being a part of the Renewable Gas Certification Pilot as it is a non-replicable one-off opportunity.
22. Key stakeholder meetings will be conducted by October 2021.
23. The Malabar Wastewater Treatment Plant is expected to produce the first biomethane for injection into the gas network in early 2022.

## Options

24. Concurrently, the City is exploring renewable gas through a retailer-led solution. This will be conducted through traditional procurement pathways, allowing Council to purchase renewable gas from retailers who are sourcing gas from renewable projects. Ultimately, the City may procure renewable gas from either or a combination of these sources, depending on which model proves most technically and financially feasible.

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