

## **Inclusion of Requirement for 100 per cent Renewables in Electricity Procurement**

**File No: S084740**

### **Summary**

This report recommends Council approve the City of Sydney purchase 100 per cent renewable energy in the next large market electricity contract.

This will enable the City to achieve our 2021 and 2030 greenhouse gas emission reduction, and 2021 renewable energy targets, ahead of schedule. This City will also meet our commitment to C40 to accelerate our actions to address climate change, as endorsed by Council on 16 December 2012 and 20 March 2017.

Sustainable Sydney 2030 sets a target of a 70 per cent reduction in greenhouse gas emissions compared to our 2006 baseline. The Environmental Action Strategy sets an interim target for Council operations of a 44 per cent reduction in the City's emissions by 2021, and also stipulates 50 per cent renewables in our electricity supply by 2021.

On 31 May 2010, the City resolved to move away from purchasing 'Green Power' and invest in its own emission reduction initiatives. Since then, the City has undertaken a broad range of efficiency projects including solar PV, energy efficiency of City buildings and tri-generation to reduce emissions by 25 per cent since the baseline year 2006.

The City is on track to achieve up to another 10,000 tonnes of direct reductions via efficiency initiatives over the next five years. However, after the City completes these planned initiatives, opportunities for further carbon emission savings beyond the next five years are limited within the Local Government Area.

The City has recently reviewed the external market conditions, which have changed significantly since 2010. Renewables now account for around 20 per cent of grid electricity with large solar and wind farms continuing to be developed in rural NSW, including community-owned renewable electricity projects.

The review concluded that market conditions now warrant investment in offsite renewable electricity projects (refer to Attachment A) as the cost of purchasing electricity from new renewable projects has become more affordable.

The City's current large site electricity contract expires on 31 December 2019. It is recommended that the City move to purchase 100 per cent renewable electricity in the next contract.

The City proposes to conduct an Expression of Interest (EOI) to investigate the market feasibility for our requirements, followed by a Request For Tender (RFT) to determine the price. Within this procurement activity, the City will encourage potential bidders to propose community-based renewable electricity projects.

## Recommendation

It is resolved that:

- (A) Council approve the purchase of 100 per cent renewable electricity in the next large market electricity contract;
- (B) authority be delegated to the Chief Executive Officer to:
  - (i) manage the Expression of Interest (EOI) and Request For Tender (RFT) process and to accept the tender for the purchase, use and sale of electricity, including the renewable energy up to an amount equivalent to the City's total electricity consumption; and
  - (ii) negotiate, execute and administer contracts relating to the purchase, use and sale of electricity including the renewable energy up to an amount equivalent to the City's total electricity consumption for a period of up to seven years, and to negotiate, execute and administer contract variations, including a further extension of up to five years subject to the details within Confidential Attachment B to the subject report;
- (C) Council note that the outcome of the EOI and RFT process will be circulated to Council via CEO update; and
- (D) Council note that all Large-Scale Renewable Energy Certificates generated will be retired.

## Attachments

- Attachment A.** Corporate Renewable Power Purchase Agreements in Australia
- Attachment B.** Business Case Summary (Confidential)

## Background

1. This report recommends Council approve the City of Sydney purchase 100 per cent renewable energy in the next large market electricity contract.
2. This will enable the City to achieve our 2021 and 2030 greenhouse gas emission reduction, and 2021 renewable energy targets, ahead of schedule. This City will also meet our commitment to C40 to accelerate our actions to address climate change, as endorsed by Council on 16 December 2012 and 20 March 2017.
3. Sustainable Sydney 2030 sets a target of a 70 per cent reduction in greenhouse gas emissions compared to our 2006 baseline. The Environmental Action Strategy sets an interim target of a 44 per cent reduction in the City's emissions by 2021, and also stipulates 50 per cent renewables in our electricity supply by 2021.
4. By 2018, the City achieved a 25 per cent reduction in emissions compared to the 2006 baseline of 52,970 tonnes. While the City has been carbon-neutral since 2011, this has required the use of offsets. Our interim and long-term Sydney 2030 targets can only be achieved by reducing emissions associated with the City's carbon footprint.
5. The City has undertaken a broad range of efficiency projects to reduce emissions since the baseline year, and is on track to achieve up to another 10,000 tonnes of direct reductions via efficiency initiatives over the next five years.
6. This reduction will be achieved through projects which are currently underway, including the partnership with Ausgrid to fast-track the upgrade of 9,500 utility-owned street lights to LEDs. Other projects include rooftop solar PV, lighting improvements, Building Management System (BMS) modernisation, plant improvements and pool cogeneration works.
7. These savings will be partially offset by up to 5,000 tonnes due to a combination of new assets and facilities coming online and increased utilisation of existing assets and facilities.
8. On 31 May 2010, the City resolved to move away from purchasing 'Green Power' to investing in its own emission reduction initiatives. This led to the City significantly reducing its carbon emission profile.
9. The City has recently reviewed the external market conditions, which have changed significantly since 2010. This review concluded that market conditions now warrant investment in offsite renewable electricity projects (refer to Attachment A).
10. Given the changes in the market, the City is proposing to enter into a contract that is linked to an offsite renewable project and to increase the planned 50 per cent renewable electricity to 100 per cent renewables.
11. Due to this change in investment strategy, the City will conduct a review of all emission reduction-related initiatives to offset the additional funds required for this project.
12. With the City's current large site electricity retail supply agreement finishing at the end of December 2019, it is an ideal time for the City to enter into a new medium to long-term agreement that includes the procurement of both electricity and Large-Scale Generation Certificates (LGCs), formerly referred to as Renewable Energy Certificates, from an identifiable off-site renewable energy project.

13. "Large site" typically refers to premises that consume more than 100 MWh (100,000 kWh) of electricity annually, or electricity consumed by about 20 households in the City area.
14. The City's remaining electricity usage falls under a "small site" electricity contract. These sites form part of the NSW Government 776 contract for small site electricity. The City will continually assess whether the NSW government contracts provides best value to the City.
15. Many companies are making the switch to renewables for both corporate social responsibility and financial motivations (as the price of new renewable energy projects continues to fall).
16. The following leading organisations have set (and some achieved) up to 100 per cent renewable and/or net zero targets (Attachment A):
  - (a) University of NSW is 100 per cent renewable through an electricity supply contract;
  - (b) Commonwealth Bank of Australia is 65 per cent renewable with 100 per cent target;
  - (c) University of Technology Sydney is 50 per cent renewable; and
  - (d) The City of Melbourne is 100 per cent renewable (January 2019).
17. As a leader in sustainability, it is recommended that the City should increase the renewable target to 100 per cent, before conducting the EOI. This will allow us to achieve the renewable electricity targets of both 2021 and 2030 ahead of schedule through incorporating this change in the City's electricity contract.
18. To align with other strategic priorities, the City's EOI and RFT documentation will encourage potential bidders to propose community-based renewable electricity projects.

## Key Implications

### Strategic Alignment - Sustainable Sydney 2030 Vision

19. Sustainable Sydney 2030 is a vision for the sustainable development of the City to 2030 and beyond. It includes the following strategic directions to guide the future of the City, as well as various targets against which to measure progress. This policy is aligned with the following strategic directions and objectives:
  - (a) Direction 1 - A Globally Competitive and Innovative City: one of the largest councils in Australia to be run by 100 per cent renewable electricity.
  - (b) Direction 2 provides a road map for the City to become A Leading Environmental Performer: a role model for corporations and councils that it is possible to be completely sustainable despite massive size and old buildings in one's portfolio.
  - (c) Direction 3 - Vibrant Local Communities and Economies: leading and boosting the investment in new and developing renewable electricity power plants.

- (d) Direction 4 - Sustainable Development, Renewal and Design: leader in the development and growth of renewable power plants.

### **Risks**

- 20. There are two main risks with Power Purchase Agreements (PPA) for offsite renewable electricity. These include:
  - (a) Counterparty risk: the renewable electricity plant fails to produce and/or send the agreed upon power.
  - (b) Regulatory risk: changes to energy regulation having a negative impact, especially with elections soon.
- 21. Risk Mitigation Strategies:
  - (a) The counterparty risk can be mitigated by managing the purchase of a renewable electricity plant via an electricity retailer and requiring the electricity retailer to ensure continuity of renewable supply at an acceptable price.
  - (b) The regulatory risk can be mitigated by requiring (so far as is commercially practicable) the retailer to carry the risk of governmental changes on energy policy.

### **Environmental**

- 22. Through this project the City will achieve its 2021 interim emission reduction target and its commitment to increase the level of renewables in its electricity supply.

### **Economic**

- 23. By specifying the purchase of 100 per cent renewable electricity, the City will further stimulate and develop the renewable electricity and PPA markets, whilst also encouraging other local councils and businesses to emulate the City's renewable achievements.

### **Budget Implications**

- 24. The long-term financial plan has not previously included provision for the purchase of 100 per cent renewable electricity. Savings to offset the additional cost as contained within Confidential Attachment B will need to be identified when developing the 2019/20 operation budget and future year's forward estimates.

### **Relevant Legislation**

- 25. Given the contract will be over \$150,000, the City will conduct an EOI in line with the Local Government Act. The EOI will be followed by a RFT that will embed the large site electricity contract with the purchase of renewable certificates to achieve the City's renewable target.
- 26. It is proposed that authority to negotiate and finalise terms of agreements for electricity purchases (including the purchase of 100 per cent renewable electricity) be delegated to the Chief Executive Officer, and for the Chief Executive Officer to execute the agreement on behalf of Council.

27. This is because of the prevailing conditions for setting prices in the Australian electricity supply market. Typically, finalised terms on pricing are offered by a retailer and must be accepted by a customer within three to five working days. This timetable is inconsistent with the time needed to prepare, review and accept a report to Council.
28. Attachment B contains confidential commercial information 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.
29. 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

30. Proposed Timeline:
  - (a) Change Renewable Electricity Target to 100% March 2019
  - (b) Release of Expression of Interest May 2019
  - (c) Release of Request For Tender June 2019
  - (d) Preferred Electricity Retailer Identified August 2019
  - (e) New Retail Contract Start January 2020

### Options

31. The City has considered a range of contracting models for the sourcing of off-site renewable electricity and has shown:
  - (a) Green Power is the most expensive option, however, it is quite easy to implement and short-term contracts are available.
  - (b) Similarly, Purchasing from a Broker is also quite expensive, easy to implement and has a short-term contract.
  - (c) Agreement with a Renewable Power Plant (not supply) provides transparency (renewable electricity source), however, it exposes the City to the spot electricity price which would require the City to enter a derivative type contract.
  - (d) Agreement with a Retailer for Supply of Power provides transparency and does not expose us to the spot market.
  - (e) Owning a Large Scale Off-site Power Plant is not in the City's investment criteria and it also requires a long-term contract, however, transparency is high.

32. Based on the City's preferred risk profile, the recommended option for the purchase of renewable electricity is Option (d): Agreement with a Retailer for the supply of power.
33. This option is considered to provide the lowest level of risk commensurate with a commercially satisfactory outcome. Given the relatively low risk, this approach is likely to be able to be readily shared to encourage greater uptake of renewables by other organisations in the city area.

**AMIT CHANAN**

Director City Projects and Property

Neil Palagedara, Business Performance Manger

**KIM WOODBURY**

Chief Operating Officer

Chris Barrett, Commercial Manager