



**8.7** **MELBOURNE RENEWABLE ENERGY PROJECT (MREP)**

**WARD:** **WHOLE OF MUNICIPALITY**

**GENERAL MANAGER:** **CLAIRE FERRES MILES, PLACE STRATEGY & DEVELOPMENT**

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**TRIM FILE NO:** **30/21/15**

**ATTACHMENTS:** **Nil**

#### **PURPOSE**

To provide information and a status update on the Melbourne Renewable Energy Project to Council and the community.

#### **1. RECOMMENDATION**

That Council:

- 1.1 Notes its current commitment to zero net Greenhouse Gas (GHG) emissions by 2026/27 for Council operations and the potential contribution that switching to renewable energy has on this commitment.
- 1.2 Notes Council's role in the development of the Melbourne Renewable Energy Project.
- 1.3 Considers the suitability of the Melbourne Renewable Energy Project contract, proposed as a Confidential Item on 19 September 2017.

#### **2. BACKGROUND**

- 2.1 In the 2017-2027 Council Plan, the City of Port Phillip (CoPP) has set a target for zero net Greenhouse Gas (GHG) emissions by 2026/27 for Council operations. Reduction in Council's GHG emissions is a long-standing principle, adopted by Council in June 2007 as part of the Toward Zero environment strategy.
- 2.2 Council's Greenhouse Plan 2011 set a vision for a low carbon city, and documented the actions required to achieve zero net emissions. The Greenhouse Plan described a framework based on considered implementation of the Greenhouse Gas Management Hierarchy, as follows:

- **Measure:** Understand emissions and set emissions reduction objectives.



- **Reduce energy and fuel demand:** Create GHG emissions and cost savings by adopting standard operating procedures and implementing energy avoidance and efficiency initiatives.
- **Fuel Switch:** Switch to renewable and low carbon energy sources.
- **Advocate:** Advocacy for systemic changes to enable a low carbon economy and community, and for behaviour change to encourage positive energy saving practices by council staff and tenants.
- **Offset:** Offset the remaining emissions through the purchase of carbon offsets, accredited by the National Carbon Offset Standard (NCOS) to ensure the environmental integrity of the offsets.
- **Repeat:** Continue to work through the hierarchy to reduce emissions taking advantage of improved measurement and emerging technology.

2.3 To date, council's net greenhouse gas emissions have reduced to 6464 tCO<sub>2</sub>e (net emissions); a 60% reduction in GHG emissions when comparing the 2016/17 results with the base year inventory (1996/1997).

#### **Melbourne Renewable Energy Project (MREP)**

- 2.4 MREP is a partnership project being led by the City of Melbourne that will enable the development of a new, yet-to-be-constructed renewable energy facility located in Victoria. The City of Port Phillip has been involved in project development since 2015.
- 2.5 MREP represents an opportunity for a step change in reducing council's GHG emissions through Fuel Switching. It focuses on switching council's electricity supply to a 100% renewable energy source, produced in Victoria, which will reduce council's GHG emissions by 87%. In 2016/17, electricity contributed 87% of council's GHG emissions. MREP plays no role in energy consumption reduction, rather it is a means to produce renewable electricity to meet Council's operational needs.
- 2.6 In late 2015, the objectives of the project were confirmed as seeking to:
- Drive new investment in utility-scale renewable energy;
  - Capture the benefits of scale through an aggregation/consortium approach to electricity and Green Power procurement;
  - Reduce the cost of renewable energy to MREP partners;
  - Demonstrate leadership; and
  - Develop a new model that is replicable by the local government sector and other cities.
- 2.7 MREP can be described as a joint renewable energy purchasing group. MREP seeks to establish a Power Purchase Agreement (PPA) tied to a renewable energy generation facility. In a PPA, an organisation buys the electricity and/or Large Scale Generation Certificates (LGCs), as part of a long-term contract (generally 10-30 years) with a third-party owning and operating the renewable energy facility.



### **3. KEY INFORMATION**

#### **MREP status**

- 3.1 An open tender process was conducted in late 2016 and a preferred vendor has been identified. The vendor has provided an offer for retail electricity services and a power purchase tied to a specific renewable energy generation facility. The offer is subject to MREP partners committing to the 10-year purchase of Large Generation Certificates (LGCs) above a combined threshold level. If this threshold is not met, the offer may lapse.
- 3.2 Council can determine to what extent it may seek to be involved in the MREP PPA. It can select its entire electricity demand, a group of electricity accounts as a subset of that and/or the procurement of a nominated volume of LGCs (analogous to Green Power) for the 10 year proposed PPA period. It can also choose to discontinue its involvement in MREP and pursue alternative means to achieve its policy commitments. Each option has different financial implications and risks.
- 3.3 If financially and strategically acceptable, two contracts will need to be struck by each MREP partner– one contract with the retail arm of the preferred vendor for the supply of electricity and a separate contract with the renewable energy generation facility for the supply of LGCs (or Green Power).
- 3.4 The Project Lead, City of Melbourne, is responsible for contract negotiations with the proponent.

#### **Emerging and Future Opportunities**

- 3.5 Other opportunities to reduce net emissions in accordance with current targets may arise prior to 2020 if Council decides not to participate fully in MREP. While the opportunities are foreseeable, the details on scope, timing and ability for Council to participate are not clearly defined.



## FURTHER SUPPORTING INFORMATION

### 4. ALIGNMENT TO COUNCIL PLAN AND COUNCIL POLICY

- 4.1 MREP aligns with Council Plan 2017-27 *Direction 3: We have smart solutions for a sustainable future*
- 4.2 MREP supports the outcome: *A City with lower carbon emissions.*
- 4.3 MREP delivers one Direction 3 priority:
  - **Invest** in renewable energy and energy efficiency measures in Council buildings and in the **Melbourne Renewable Energy Project (MREP)**, a group purchasing model to drive investment in renewable energy.
- 4.4 MREP will help attain the Direction 3 priority – Develop a sustainability strategy for beyond 2020, including **consideration of United Nations sustainability goals and targets** and baseline municipal-wide greenhouse gas emissions:
  - MREP aligns with the actions and targets of United Nations Sustainable Development Goals, specifically:
  - Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all, and Goal 7 target - by 2030, increase substantially the share of renewable energy in the global energy mix
    - Goal 11: Make cities inclusive, safe, resilient and sustainable, and, the Goal 11 Target - support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning
    - Goal 13: Take urgent action to combat climate change and its impacts
- 4.5 Participating in MREP will confirm Council's leadership position on climate action, and support Council's involvement in climate change initiatives such as the Compact of Mayors and Take2.

### 5. CONSULTATION AND STAKEHOLDERS

- 5.1 Council's Procurement team were consulted during the course of the project and have reviewed procurement processes following the end of the public tender process.
- 5.2 Council's Governance team was consulted to confirm the governance and legal implications of Council's involvement in MREP.
- 5.3 Council's Procurement, Governance, Asset Management, Finance and Sustainability & Transport departments provided input into the development of the tender specification and Green Electricity Supply Agreement.
- 5.4 Staff from Finance and Assets teams attended MREP information sessions, and have been consulted on budgetary impacts of the project.
- 5.5 Procurement Australia facilitated the procurement process, compliant with the requirements stipulated by Section 186 of the Local Government Act 1989.
- 5.6 The tender evaluation process was supported by Procurement Australia and Energetics, with probity advice provided by consultants, Court Heath.



## **6. LEGAL AND RISK IMPLICATIONS**

- 6.1 Through the City of Melbourne, Ashurst lawyers, have provided a 'Letter of Reliance' that covers all MREP partners. All MREP partners can rely upon the advice provided by Ashurst Lawyers in relation to the Electricity Retail Supply Agreement (GERSA) and other MREP project documents.
- 6.2 Timing Risk: The volatility in the National Energy Market could expose MREP partners to significant "timing" risk, i.e. locking in prices for multiple years at a time when prices are uncertain.

## **7. SUSTAINABILITY – Triple Bottom Line**

### **7.1 ENVIRONMENTAL IMPLICATIONS**

- The recommended approach will reduce Council's GHG making a contribution to achieving its 2020 target of zero net emissions.
- Excess electricity generated above that required by collaboration partners, will be exported into the electricity grid and contribute towards lowering the emission factor for electricity in Victoria.

### **7.2 SOCIAL & CULTURAL IMPLICATIONS**

- This initiative will create local economic development opportunities in Victoria through the creation of:
  - direct full time equivalent construction jobs
  - indirect jobs locally during construction
  - indirect jobs state-wide during construction

### **7.3 ECONOMIC IMPLICATIONS**

- This initiative will create local economic development in Victoria through investment in local manufacturing and services during construction and operations and maintenance.
- This initiative demonstrates leadership by local government and the private sector in investing and growing the Australian renewable energy sector, and as such it will have a positive impact on the sector as a whole.

### **7.4 FINANCIAL IMPLICATIONS**

- Committing to a 10 year contract for LGCs commits Council to an ongoing higher energy spend than a Business-As-Usual approach.

## **8. IMPLEMENTATION STRATEGY**

### **8.1 TIMELINE**

- 30 September 2017 - Determination if MREP project will proceed, contingent on conditions being met.



**8.2 COMMUNICATION**

- Until the commercial-in-confidence contracts are confirmed and signed, the project is confidential and no public statements can be made regarding project details not already in the public domain. Communications will be coordinated by City of Melbourne in conjunction with Procurement Australia. This is to protect the probity of the tender process.

**9. OFFICER DIRECT OR INDIRECT INTEREST**

- 9.1 No officers involved in the preparation of this report have any direct or indirect interest in the matter.