



*A prosperous and progressive
community we proudly call home*



LATE ITEMS

Business Papers 2020

MID-WESTERN REGIONAL COUNCIL

ORDINARY MEETING

WEDNESDAY 21 OCTOBER 2020

LATE ITEMS

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Item 9: Finance

9.2 MWRC Solar Array - Stage 2

REPORT BY THE CHIEF FINANCIAL OFFICER
TO 21 OCTOBER 2020 ORDINARY MEETING
GOV400087, ENE100032

RECOMMENDATION

That Council:

1. **receive the report by the Chief Financial Officer on the MWRC Solar Array - Stage 2;**
 2. **note the result of the Solar Array business case is that the payback period for the investment is 11 years, and provides a positive Return on Investment supporting continuation of the project;**
 3. **note that the Capital expenditure review is complete;**
 4. **approve progression of the MWRC Solar Array to Stage 2 – detailed design and construction trade package tender process;**
 5. **approve proceeding with the biodiversity corridor and civil construction works as detailed in the report;**
 6. **amend the 2019/20 Budget to allocate an additional \$665,000 towards the MWRC Solar Array, funded from the capital reserve; and**
 7. **request a report be brought back to Council with the detailed design and revised construction cost estimates for Stage 3.**
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Executive summary

At the 20 November 2019 Council Meeting, Council provided endorsement of Stage 1 of a 5 MW (battery ready) solar array.

Stage 1 endorsement included completion of a concept design, community consultation, capital expenditure reporting, Development Application, and engineering and grid connection approval. This report will expand on Council's progress with Stage 1 and outline the next steps to proceed to Stage 2: a detailed design and completion of the construction trade package tender process.

Disclosure of Interest

Nil.

Detailed report

PROJECT SCOPE

The project has been broken into 4 stages:

- **Stage 1:** Concept design, connection approval and feasibility confirmation
- **Stage 2:** Detailed design and construction trade package tender process
- **Stage 3:** Onsite construction, commissioning and energisation
- **Stage 4:** System operation, tuning and maintenance

STAGE 1 PROGRESS

PROJECT TEAM ESTABLISHMENT

A steering committee was established, with appropriately qualified staff and consultants to ensure that required risks were minimised, governance maintained and appropriate approvals obtained. Contracts have been finalised for Project Management (Constructive Energy), and Construction Management (Engie Electrical and Communications Pty Ltd).

The steering committee includes:

1. General Manager
2. Director Community
3. CFO
4. Constructive Energy – Project Management & Consulting

CONCEPT DESIGN & FEASIBILITY CONFIRMATION

The intent of Stage 1 was to assess and confirm feasibility of the project. Based on the business case results:

1. Construction costs have been confirmed, with additional costs allocated after a risk assessment
2. The site is suitable for the installation of the array in terms of solar orientation and the Geotech studies show that the ground conditions are largely suitable. The site will require some work to do, however there are no 'showstoppers'
3. Business case feasibility testing has been developed on 2 energy usage and sale models:
 - a. *Model 1- Pool Pass through (sell and buy solar energy at time of production, sale of excess solar energy, buy energy at wholesale market price at low production/night);*
 - b. *Model 2 - Revolving Offtake Agreement (solar energy applied to 100% of Council energy consumption, excess sold)*
4. Scenario testing was applied to both models – Best case, middle case (anticipated), worst case.
5. Modelling confirmed feasibility with positive ROI results and a payback period within 11 years. The asset has a life of 25 years, and modelling included all operational and maintenance costs.

CONNECTION INVESTIGATION SERVICES AGREEMENT (CISA)

The CISA application is progressing, with the following summarised outcomes:

1. Delays to the timing of a granted CISA – unlikely to receive approval before the end of this financial year, so construction timing has been pushed to 2021/22

2. Essential Energy network enquiry confirmed there is still capacity available on the network
3. Essential Energy augmentation costs are significantly higher than anticipated – estimates are currently at \$730k which has been added to the project cost estimates

CONFIRM COMMERCIAL & INDUSTRIAL (C&I) CUSTOMER UPTAKE LEVELS AND PRICING

A survey was designed and hosted on Council's "Your Say" web site and promoted via Council relationships with local business groups as well as individual approaches. Several businesses were contacted directly by Constructive Energy and interviewed in lieu of completing the survey on-line. 12 responses have been surveyed.

The results of the consultation supports the proposal of selling excess energy to local C&I customers to support local economic development:

1. A broad mix of business types\sectors responded, including hospitality, retail, automotive and viticulture.
2. 2/3rds of businesses are currently on contract with their existing energy Retailer (across 6 different energy Retailers)
3. The majority of businesses are prepared to swap providers for a better deal and about 2/3rds for increased renewable supply.
4. 100% of respondents are interested in purchasing local energy from a Council owned array and about 3/4 qtrs would be OK with the bill coming from Council.

DEVELOPMENT APPLICATION

MWRC has called upon a third-party town planner to complete the development application process, Atlas Environment and Planning. The Development Application is progressing, noting:

1. The MWRC Development Control Plan is to be followed, however some items may be deemed unnecessary for this development;
2. Development Application will include a Statement of Environmental Effects together with Plans of the proposed development;
3. Areas of special interest will include visual impacts, traffic assessment and glare/glint study.

Next steps will include consultation with surrounding landholders and community.

STAGE 2 RECOMMENDATION

Given the positive modelling results from Stage 1, it is recommended Council progress to Stage 2 which will include:

1. Detailed design
2. Construction trade tender package development
3. Development Application progression
4. CISA progression
5. Biodiversity corridor (tree planting)

Community Plan implications

Theme **Looking After Our Community**

Goal	Effective and efficient delivery of infrastructure
Strategy	Provide infrastructure and services to cater for the current and future needs of our community

Strategic implications

Council Strategies

Operational Plan and Development Plan

Council Policies

Local Preference Policy

Legislation

In accordance with Section 23A of the Local Government Act 1993, Council is required to undertake a capital expenditure review when it spends money to buy, construct, renovate or acquire an asset.

The NSW Office of Local Government's Capital Expenditure Guidelines apply to capital projects for infrastructure facilities, expected to cost in excess of council's annual ordinary rate revenue or \$1 million whichever is the greater amount (GST exclusive). As the estimated construction price of the solar array is \$8.8 million, a capital expenditure review has been completed and is an attachment to this report.

Financial implications

UPDATED PROJECT COSTS AFTER STAGE 1 DESIGNS

	Initial estimates (\$)	Stage 1 update (\$)	Variance
Stage 1	152,500	70,430	
Stage 2	270,000	665,000	
Stage 3	7,072,767	7,410,900	
Consulting	366,733	366,733	
Contingency		300,000	
Total	7,862,000	8,813,063	951,063

The budget allocation for the Solar Array Initiative was \$205,000 in 2019/20. Feasibility costs of about \$22,000 have already been costed to this project, in 2019/20, \$183,000 was revoted into the 2020/21 budget.

Estimated costs for Stage 2 are about \$665,000 including biodiversity corridor works. The total budget for this financial year is recommended to increase to \$848,000. As these design and civil works are considered to be capital, this cost does not affect the 2020/21 Operating Performance Ratio.

Should the project go ahead, changes in the future year ratios will occur as follows:

Budget Year	Operating Performance Ratio	Own Source Revenue	Building & Infrastructure Renewal
2019/20	-	-	-

Future Years	✓	✓	✗
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Associated Risks

Risks have been identified and actions are being taken to mitigate projects risks, as a part of Stage 1 and continuing. At this stage, the notable risks are:

1. **Failure to obtain Development Application approval** – should the DA not be approved for the proposed location, any capital works for this site will not be utilised and therefore may be considered a waste of funding. The project team is aware of this risk, and will not be completing unnecessary material capital works before the DA is approved.
2. **Estimates for Essential Energy connection works are incorrect** - it should be noted that the estimates for network connection are on the conservative/high side and that no negotiation has occurred to date with Essential Energy around alternative designs or approaches to reduce this component. *Given Essential Energy have confirmed capacity to connect, it is deemed there is no risk of failure to obtain approval (CISA) at this site.* Therefore, it is recommended to progress with biodiversity corridor works and site civil works this financial year.

LEONIE JOHNSON
CHIEF FINANCIAL OFFICER

16 December 2019

- Attachments:*
1. MWRC Solar Array Capital Expenditure Review. (Confidential - separately attached)
 2. Capex Review Attachment 1 - Constructive Energy Stage 1 - MWRC Report. (Confidential - separately attached)
 3. Capex Review Attachment 2_MWRC Renewable Energy Action Plan. (Confidential - separately attached)

APPROVED FOR SUBMISSION:

BRAD CAM
GENERAL MANAGER