

## **16.1 RECONSIDERATION OF MATTERS PERTAINING TO A PROPOSED SOLAR PHOTOVOLTAIC ELECTRICITY GENERATION STATION AT KARRATHA AIRPORT**

<b>File No:</b>	<b>CP.586 / CP.589 / CP.594</b>
<b>Responsible Executive Officer:</b>	<b>Director Strategic Projects and Infrastructure</b>
<b>Reporting Author:</b>	<b>Project Manager</b>
<b>Date of Report:</b>	<b>10 February 2014</b>
<b>Applicant/Proponent:</b>	<b>Karratha Solar Power No.1</b>
<b>Disclosure of Interest:</b>	<b>Nil</b>
<b>Attachment(s)</b>	<b>1. Confidential - Independent Opinion - SolCogen</b> <b>2. Confidential - Independent Opinion - Duda &amp; Wills</b> <b>3. Confidential - Independent Opinion - IT Power</b>

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### **PURPOSE**

For Council to consider rescinding Resolution No. 152726 of 16 December 2013 and entering into a power purchasing agreement with Karratha Solar Power No1.

### **BACKGROUND**

At the December 2013 Ordinary Council Meeting, Council via Resolution 152726 by SIMPLE Majority pursuant to Section 3.57 of the *Local Government Act 1995* RESOLVED to:

1. INSTRUCT the Chief Executive Officer to prepare and advertise an Expression of Interest for the design, construction and operation of a Solar Power Station to supply the Karratha Airport with a renewable energy resource on land identified at the Karratha Airport site in accordance with policy CE-13;
2. NOTES that the outcome of the Expression of Interest will be brought back to Council for consideration at a later date; and
3. ADVISE Karratha Solar Power No1 Pty Ltd that an expression of interest will be publically advertised for the design, construction and operation of a Solar Power Station at the Karratha Airport.

The Shire had previously entered into a Memorandum of Understanding (MOU) with Karratha Solar Power No.1 (KSP No1) with the objective of:

1. Negotiating a lease for land or airspace on mutually acceptable terms, within the boundary of the Karratha Airport either owned or controlled by the Shire for the purpose of the development, construction, ownership and operation of a photovoltaic solar power project,
2. The possible supply of electricity from the Station to the Shire to meet part, or all of the electrical demand at the Karratha Airport.

The Shire entered into the MOU acknowledging the potential environmental and financial benefits associated with the development of a solar power plant with the view of obtaining a greater understanding of the potential benefits.

KSP No1 submitted a proposal to the Shire for a 1.0 MW station on 12,000m<sup>2</sup>. The proposal in essence is for the lease of land at the Karratha Airport site to construct a solar photovoltaic electricity generation station to produce electricity for the site at a reduced rate from that currently supplied by Horizon Power. The proposal considers an initial 15 year lease term with a subsequent term of 10 years. The proposal was reviewed by Shire staff giving consideration to existing long term planning for the Airport and commercial viability of the proposal.

To ensure a due diligence review of the proposal, the Shire engaged eTool to conduct an independent review of the commercial, technical and environmental components of the proposal and provide overall advice as to the potential risks and benefits for the Shire and whether the proposal provides a good commercial offer. The independent review of the KSP No1 proposal has highlighted areas in the proposal that require further negotiation, these being:

- Whilst the proposal intent is worth consideration, the current proposal is not comprehensive enough to make informed decisions in regards financial value and risk.
- In its current form, there is risk of negative financial outcomes for the Shire, mainly associated with modelling based on the Horizon Power tariffs that may not reflect the actual tariff the facility would be charged. It is also unclear how “excess energy” will be dealt with.

Following the review, Officers considered the level of risk to be high to the Shire in terms of Financial /Reputation and Compliance if Council choose to appoint a single contractor directly for a service that is not considered unique in nature and it is unlikely that there is more than one potential supplier, and subsequently recommended an Expression of Interest process be considered.

#### ARENA

Prior to the Council meeting in December 2013, KSP No.1 had submitted an application to the Australian Renewable Energy Agency (ARENA) to obtain approximately \$2M subsidy for the project through the Regional Australia's Renewables (RAR) Initiative. The funding application was submitted as a result of a recent amendment to Horizon Powers technical requirements (advised of in September 2013) for grid management. The change in requirement has increased the projects capital obligation significantly. The funding submission is to cover the cost of the generation management system required to meet the Horizon Power specification and is in the vicinity of \$2 million dollars.

ARENA is an independent agency established by the Australian Government to make renewable energy solutions more affordable and increase the amount of renewable energy used in Australia. Its objectives are to improve the competitiveness of renewable energy technologies, and to increase the supply of renewable energy in Australia and provides funds to develop technologies and to improve investor confidence in renewable energy projects and strengthen those projects' chances of success.

ARENA funding applications closed on the 31<sup>st</sup> December 2013, this being the last opportunity to obtain funding through this scheme.

ARENA have contacted the Shire and have indicated that their preliminary review of the project financial model indicates that without an ARENA grant to meet the cost of the generation management system specification, the project will not be an economically viable project to develop.

Critical factors for a project to be eligible to receive funding from ARENA include:

- Eligible applicants must have submitted an EOI by the 31st December 2013;
- The project must satisfy ARENA's eligibility criteria;
- The project must show transparency in establishing the projects capital cost; and
- ARENA's grant will not financially benefit the applicant beyond a reasonable market return.

ARENA has yet to complete its assessment of the projects EOI and, subject to issuing an invitation to submit a final proposal and the acceptance of that proposal by ARENA, the negotiation of a funding agreement between ARENA and KSP No1 will follow. The final proposal submission requires KSP No1 to have an executed power purchasing agreement with the Shire as its offtake party generally in accordance with the terms submitted in its EOI. ARENA have verbally advised that without a power purchasing agreement in place, it is unlikely that the funding application will proceed.

#### Generation Management System

Horizon Power require the installation of a generation management system to help manage any sudden change in the amount of electricity being generated by renewable energy installations. It reduces the effect of what might otherwise be an unmanageable increase in demand on the power station. If there is significant cloud cover or the solar power station is unable to produce power for a period of time, the local power station has to quickly produce more electricity to compensate for the loss of electricity no longer being generated by the renewable energy installation. This places a very sharp increased in demand on the power station and in certain cases, could lead to unplanned power interruptions.

Typical generation management devices control and/or store the electricity generated from renewable energy installations, either directly or remotely.

Staff have reviewed the need for a Generation Management System on the Horizon Power website and confirm that the project will require a renewable energy smoothing and feed in system.

#### Independent Third Party Opinion

The Shire has received three (3) letters from independent third parties providing opinions on the commercial impact of Horizon Power's specification for generation management and its commercial impact on renewable generation projects. The independent third parties, being:

- Solcogen (Letter attached)
- Duda & Wills - Professor Ray Wills (Letter and CV attached)
- IT Power

All opinions received concluded that the commercial rate of return of a proposed solar photovoltaic electricity generation station at the Karratha Airport site would fail to attract investment by an organisation seeking commercial returns, unless external funding support was made possible from an organisation such as ARENA.

#### Land

The proposed solar power station is a 1.0 MW station on 12,000m<sup>2</sup>. A parcel of land (of 12,000 m<sup>2</sup>) has been identified as the proposed location within the airport site. This site is acceptable to Airport Management and is in line with the identified development areas within the Karratha Airport Master Plan and Land Use Plan 2013-2033 – Zone E Non-Aviation light industrial. The site is to the East of the Waste Water Treatment Plant at the airport.

The proposal considers an initial 15 year lease term with a subsequent term of 10 years.

If Council resolves to progress the negotiations with KSP No1 based on the information provided by ARENA, any negotiated lease arrangements would require advertising as provided for under Section 3.58 of the *Local Government Act 1995*. This is further addressed in Statutory Implications.

### **LEVEL OF SIGNIFICANCE**

In accordance with Council Policy CE-8 Significant Decision Making Policy, this matter is considered to be of high significance in terms of economic issues and environmental issues.

### **COUNCILLOR/OFFICER CONSULTATION**

The Shire President, CEO, Director of Strategic Projects and Infrastructure and the Airport General Manager have discussed this project directly with KSP No1 and collectively.

### **COMMUNITY CONSULTATION**

No community consultation is required at this stage, however if the project progress, public advertising will be required at a later date.

### **STATUTORY IMPLICATIONS**

Pursuant to Section 3.57 of the *Local Government Act 1995* and 11 (2)(f) of the *Functions and General Regulations 1996*, Tenders are required for providing goods or services over the value of \$100,000 except (in part) if the local government has good reason to believe that, because of the unique nature of the goods or services required or for any other reason, it is unlikely that there is more than one potential supplier.

As Council has an existing resolution in regards to this project, should it wish to support the KSP No.1 proposal a rescission motion is required to be considered in accordance with Section 5.25 (1) (e) of the *Local Government Act 1995* and Part 2, Section 10 of the *Local Government (Administration) Regulations 1996*.

Section 5.42 of the *Local Government Act 1995* allows delegation of some powers and duties to the Chief Executive Officer by Absolute Majority. At this stage, Council is being asked to consider delegating authority to the Chief Executive Officer to enter into further negotiations with KSP No1 exclusively. Particular outcomes regarding possible lease, licence or land disposal arrangements negotiated are to be reported to Council for consideration.

Section 3.58 of the *Local Government Act 1995* sets out provisions for disposal of Shire assets, which includes land vested in the Shire.

### **POLICY IMPLICATIONS**

There are no policy implications.

### **FINANCIAL IMPLICATIONS**

The proposal to design, construct and operate a solar power station at the Karratha Airport requires no capital outlay from the Shire. If a Solar Power Station is constructed and operating, there will be an obligation via a Power Purchasing Arrangement (PPA) to purchase power from the supplier for energy. This would however be considered an operational expense for the Airport and considered within Council's annual budget.

It is envisaged that Council's operating costs would be reduced under the KSP No1 proposal.

## **STRATEGIC IMPLICATIONS**

This item is relevant to the Council's approved Strategic Community Plan 2012-2022 and Corporate Business Plan 2012-2016. In particular the Operational Plan 2013-2014 provided for this activity:

Our Program: 1.a.2.2 Operate Karratha Airport to achieve a commercial outcome.  
Our Services: 1.a.2.3.1 Manage lease of land, office accommodation and commercial space  
Our Program: 1.a.2.2 Operate Karratha Airport to achieve a commercial outcome.

## **RISK MANAGEMENT CONSIDERATIONS**

Council's previous decision on this matter was to test the market through an open tender process. Whilst it has been confirmed that Karratha Solar Power No.1 are the only applicant for ARENA funding for the Karratha Airport site and the Shire has received opinions from 3 separate independent parties outlining the project is unviable without the funding, if Council elect to rescind that decision and proceed with the recommendation, there is some risk that other providers of solar photovoltaic electricity generation station may challenge the decision.

## **IMPACT ON CAPACITY**

There will be some impact on resourcing to carry out the Officer's recommendation in regards to progressing the negotiations with Karratha Solar Power No.1. This is considered to be of minimum level over a short period of time.

Following the outcome of negotiations, there may be a requirement for further project management time in the project development.

## **RELEVANT PRECEDENTS**

There are no relevant precedents related to this matter.

## **VOTING REQUIREMENTS**

Absolute Majority and Simple Majority

## **OPTIONS:**

### Option 1

As per Officer's recommendation.

### Option 2

That Council by SIMPLE Majority pursuant to Regulation 10 of the Local Government (Administration) Regulations 1996 RESOLVES to UPHOLD Council Resolution No. 152726 of 16 December 2013

## **CONCLUSION**

Council resolved on this matter of the design, construction and management of a solar photovoltaic electricity generation station on 16 December 2013. Since that decision, further information has been provided from independent third parties that in their opinion, without ARENA funding approval, a proposed solar photovoltaic electricity generation station at the Karratha Airport site would fail to attract investment by an organisation seeking commercial returns.

It has been confirmed that Karratha Solar Power No.1 are the only applicant that has submitted an application for funding for a solar power plant at the Karratha Airport site.

Following the advice received, there is cause to consider that under Regulation 11 (2) (f) of the *Local Government Functions and General Regulations* that a local government can be

exempt from calling tenders if the local government has good reason to believe that, because of the unique nature of the goods or services required or for any other reason, it is unlikely that there is more than one potential supplier.

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**OFFICER'S RECOMMENDATION**

1. In accordance with Regulation 10 of the *Local Government (Administration) Regulations 1996*, that the following four Councillors AGREE to CONSIDER the rescindment of Resolution 152726 determined at the Council Meeting Held on the 16th December 2013:
  - a) \_\_\_\_\_
  - b) \_\_\_\_\_
  - c) \_\_\_\_\_
  - d) \_\_\_\_\_
2. That Council by ABSOLUTE Majority pursuant to Regulation 10 of the *Local Government (Administration) Regulations 1996*, RESOLVES to RESCIND Resolution 152726 determined at the Council Meeting held on 16 December 2013.
3. That Council by SIMPLE Majority pursuant to Regulation 11 (2) (f) of the *Local Government (Functions and General) Regulations 1996*, and Section 3.18 and Section 5.42 of the *Local Government Act 1995* RESOLVES to:
  - a) AGREE to enter into a power purchasing agreement with Karratha Solar Power No 1 to supply the Karratha Airport with a renewable energy resource on land identified at the Karratha Airport site based on advice that the Karratha Solar Power No1 proposal and subsequent ARENA funding deem additional proposals unlikely to proceed.
  - b) AUTHORISE the Chief Executive Officer to negotiate the terms and conditions of a proposed lease of land and a power purchasing agreement with Karratha Solar Power No1 Pty Ltd.
  - c) NOTE that any commercial terms relating to the lease, licence or land disposal arrangements negotiated will be the subject of a further report for Council's consideration.
  - d) ADVISE ARENA of Council's intent to enter into a power purchase agreement with Karratha Solar Power No1.