

9.6 SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS

Author: Heather Bradbury - Acting Environmental Programs Coordinator

File No: ET/11/019

Attachments: 1. Mitchell Community Energy - Seymour Installation SSAC
2. Mitchell Community Energy - SSAC Balloon Payments

SUMMARY

The Chittick Park Solar Project (also known as the Seymour Sports and Aquatic Centre (SSAC) Solar Project) is a collaborative project between the community and Council.

In 2016 Mitchell Shire Council commissioned the Moreland Energy Foundation to undertake a feasibility study titled "Chittick Park – Renewable Energy Investigation Project Report". The study, completed in June 2017, was partly funded via a grant from the Department of Environment, Land, Water and Planning (DELWP).

The feasibility report presents a business case to install a 99kW 'behind the meter' solar panel system on the roof of the SSAC. The estimated cost for installation is \$120,000 with a payback period of approximately 5 years.

A behind the meter system is when the electricity generated is used on site, this model is well suited to end users with high daytime electricity requirement loads, such as the SSAC.

There has been much community and Council interest in this project especially from the new and active community group "Mitchell Community Energy" (MCE). MCE has been the driver for this project and has presented a proposal for a "Collaborative installation of a solar panel system on SSAC". Following this proposal an amendment was submitted to Council. A copy of this proposal and the amendment is attached.

MCE has also made a submission to the draft budget requesting "Council to enter into a community investment model agreement with Mitchell Community Energy for the construction of the Seymour Sports and Aquatic Centre solar panel installation".

This report examines two (2) financial options to fund the design and installation of solar panels on the SSAC.

Option A

Nominate to enter a partnership agreement with the MCE to fund the solar panel project whereby Council borrows \$120,000 from MCE @ 4.5% and pay back the interest, principle and administration fees over 7 years.

Option B

Nominate to design and install the solar panel project using already allocated Capital Works Budget funds.

In addition to recommending a suitable option outlined above, the report also recommends Council investigates entering into a Memorandum of Understanding (MoU) with Mitchell Community Energy with a view to pursuing other energy

SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS (CONT.)

efficiency initiatives aligning with this local social enterprise and Councils own aspirations to pursue more energy efficient business solutions.

RECOMMENDATION

THAT Council:

1. Acknowledge the initiative and leadership of Mitchell Community Energy in bringing this matter before Council which has ultimately lead to a more efficient and sustainable operation of the Seymour Sports and Aquatic Centre.
2. Nominate to design and install the solar panel project using already allocated Capital Works Budget funds as outlined in Option B.
3. Investigate entering into a Memorandum of Understanding (MoU) with Mitchell Community Energy with a view to pursuing other energy efficiency initiatives aligned with this local social enterprise and Councils own aspirations to pursue more energy efficient business solutions.

BACKGROUND

The Chittick Park renewable energy project first commenced in 2016 with meetings between the former Mitchell Shire Director of Engineering and Infrastructure and local community group - Sustainable Seymour, now superseded by Mitchell Community Energy.

Below is a timeline of major milestones for the project;

- Council was successful in an application to DELWP for \$10,000 funding under the Victorian Climate Change Grants for a feasibility study for a solar power system at Chittick Park. Council contributed \$7,800 to the feasibility study.
- Moreland Energy Foundation was appointed to undertake the feasibility study which was completed in June 2017.
- In November 2017 Mitchell Community Energy presented to 7 Councillors on the project, including funding options, such as a community investment model.
- The following month (December 2017) the Moreland Energy Foundation presented the outcomes of the feasibility study to Council.
- The feasibility report presented a business case to install a 99kW 'behind the meter' solar panel system on the roof of the SSAC. The estimated cost for installation is \$120,000 with a payback period of approximately 5 years.

The feasibility of the project at the time was based on the scenario where there were no available capital funds from Council to directly fund the project.

Mitchell Community Energy

Mitchell Community Energy Inc. was formed in late 2017 and is a community-based organisation whose purpose is to "reduce the generation of greenhouse gases in the

SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS (CONT.)

Mitchell Shire community and develop a greater awareness of climate change issues by:

- Securing funding from within the community and elsewhere to undertake renewable energy and energy conservation projects.
- Building community participation, empowerment and pride by working together on those projects.
- Strengthening the local economy by using local enterprises and labour and capital.
- Keeping the funds generated by savings in power costs within the community.
- Ensuring that all members of the community have opportunities to benefit from the projects.”

ISSUES AND DISCUSSION

Available Project Funding

At the time of the initial feasibility study undertaken in 2017 calculations were based on the assumption there would be no up-front capital investment available from Council. In the absence of any capital expenditure available the scenario presented as an opportunity for Council to save in operational costs year on year with a view repaying both the interest and principle loan amount by year 7.

As a result of the initiative from MCE, further investigations from Council staff and the timely underspend of projects and programs within the Environmental Programs unit, an opportunity to secure capital funds for the project has since been realised. This included merging the following three budget items from the Environmental Programs unit

- Watts Working Better project underspend \$66,393;
- Energy Efficiency Initiatives Program \$40,000; and
- Solar Electric System Design Works \$16,890.

The merger of these funds totals \$123,283 in support of the detailed design and installation of the solar panel system at the SSAC.

The availability of these funds significantly impacts the previous financial feasibility for the proposed project as it was proposed in 2017 and presents an alternative option for Council to finance the initiative.

Financing Options

Two (2) financing options to fund the design and installation of a 99kW behind the meter solar system on the SSAC are proposed.

Option A - Mitchell Community Energy loan (\$120,000)

SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS (CONT.)

- Council to enter into a legal financial agreement with MCE for a loan of \$120,000 for a term of 7 years at 4.5% p/a to finance the delivery of the project in the 2018/2019 year. Interest would be paid annually on the anniversary of signing the loan agreement. Interest would not be compounded.
- In addition to the \$120,000 cost to construct the solar system (payable in year 7), the additional forecast cost to Council is \$45,565 (Interest \$37,800 plus Administration costs \$7,765).
- MCE advise they could provide the funds within two weeks of Councils endorsement.
- Community delivered project supporting the Mitchell Community Energy Inc.
- Delivered in the 2018/2019 financial year
- Forecast energy savings \$180,544 (over 7 years)
- Total cost \$165,565 to Council
- Net saving to Council \$15,000 (over 7 years)

Option B - Fund via 2018/2019 Environmental Programs Capital Works Budget

- A total of \$123,283 is available to cover the detailed design and installation of the solar panel system at the SSAC.
- Delivered by Council in 2018/2019 financial year.
- Zero interest and administration payments.
- Forecast energy savings \$180,544 (over 7 years)
- Total cost \$120,000 to Council
- Net saving to Council \$60,000 (over 7 years)

Both options have included the following assumptions in the financial modelling:

- Cost to deliver the project is \$120,000;
- Annual savings in electricity bills is \$25,792;
- No maintenance costs included; and
- No council legal expenses or staff resourcing included in option a.

It should also be noted that the above options do not include project management and Ausnet Services communications study (estimated to be between \$2,000 and \$3,000) or a switchboard upgrade if required.

SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS (CONT.)

Financially, Option B provides maximum savings, is the most cost saving approach to Council and will deliver the project as soon as possible with minimal risk.

Option A clearly presents as a costlier option for Council, however this option is likely to raise the profile of the group and may assist in attracting more funding and support. To build capacity and support the Mitchell Community Energy Inc., Option A would be the preferred approach.

CONSULTATION

Mitchell Community Energy and Moreland Energy Foundation have both met with and presented to Council on this project in late 2017.

Council's Director of Development and Infrastructure, Environment Coordinator and Environmental Planning and Sustainability officer met with representatives from Mitchell Community Energy on the 5 April 2018 to discuss the project and the proposal. Further meetings have been held in September 2017 and January 2019. The Environmental Programs team have continued to update the group on the projects progress.

Councillors have also been kept informed of the project via the Councillor Portal and email updates on the 8 March 2018, 13 April 2018 and 10 January 2019.

The project has been discussed at the Mitchell Shire Council Sustainability Taskforce meeting and at the Mitchell Environment Advisory Committee at their 4 April 2018 meeting, where the following recommendation was made:

'RECOMMENDATION

THAT: The Mitchell Environment Advisory Committee:

- 1. Receive and note the Chittick Park Solar Project Update; and*
- 2. Support an encourage Mitchell Shire Council in the implementation of the Chittick Park Solar Project*

MOVED : G. Mabbett

SECONDED : L. Mundy

CARRIED'

Council's Finance Team were consulted in the financial aspects of options A and B and assisted by providing financial modelling.

Mitchell Community Energy provided guidance regarding the project scope of works and contractor candidates and additional project information to inform this report.

Council officers have undertaken the necessary procurement processes and have awarded the design and installation of the solar system to the preferred contractor.

FINANCIAL, RESOURCE AND ASSET MANAGEMENT IMPLICATIONS

SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS (CONT.)

The following information is provided in addition to the financial options previously discussed in this report.

Electricity Savings from Solar

The Seymour Sports and Aquatic Centre is a high user of electricity costing about \$277 per day, or \$101,105 per annum. The feasibility study estimated that the installation of a solar system producing 99kW was estimated to cost \$120,000 and reduce electricity costs by \$25,792 per annum.

Legal and administrative costs

The proposal Mitchell Shire Council received from Mitchell Community Energy Inc. is based on the Community-Council partnership using a loan-based financial structure. According to Sustainability Victoria, the use of this type of structure results in relatively simple and minimal requirements in terms of governance, financial, legal, compliance and administration.

Sustainability Victoria are supportive of community energy models and have template loan agreements and legal agreements that are available for use. Sustainability Victoria staff are aware of the Seymour Sports and Aquatic Centre Solar Project and are keen to assist where possible.

Mitchell Community Energy have also prepared draft documents based on community energy organisations operating elsewhere and will provide this to Council as part of the process for developing the Memorandum of Understanding etc.

POLICY AND LEGISLATIVE IMPLICATIONS

The delivery of the Seymour Sports and Aquatic Centre Solar Project and establishing a partnership with Mitchell Community Energy will assist Council in achieving the following key strategies and actions of the Mitchell Shire Council Plan 2017-2021:

- “Simplify ways the community can engage with Council and access information”
- “Engage the community in developing the capital works program and provide regular updates about priority projects”
- “Empower our volunteer community”
- “Review opportunities to support community-based volunteer organisations and groups”
- “Empower the community through partnerships and education”
- “Actively engage with community groups, agencies, industry and land owners to achieve shared environmental goals”
- “Be prepared and proactive in responding to the effects of climate change on the community”

SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS (CONT.)

- “Work in partnership with relevant agencies to plan for climate change”

The project also assists in achieving the aims of the Mitchell Shire Sustainable Resource Management Strategy 2011, which identified that Kilmore and Seymour Sports and Aquatic centres produce about 40% of Councils greenhouse gas emissions.

RISK IMPLICATIONS

Risk Ranking is determined using [ROHS201-G1- Corporate Risk Matrix](#). Risk is identified as Low, Medium, High or Very High.

Risk	Risk Ranking	Proposed Treatments	Within Existing Resources?
There is a risk that Option B, whilst financially more cost effective will compromise the efforts and initiative from the MCE.	Medium	Brand the project as a joint initiative of Council and MCE Enter into an MOU to formalize a partnership between Council and MCE to explore other renewable energy opportunities	Yes

SUSTAINABILITY IMPLICATIONS (SOCIAL AND ENVIRONMENTAL)

It must be noted that community energy projects include outcomes and benefits beyond just financial returns.

The benefits to the Council in entering into the collaborative project agreement with MCE would be to support the establishment of an active community organisation in the shire which will present as a vehicle for future local greenhouse reduction projects. In return the benefits to Mitchell Community Energy would be to establish it's credentials within the community by its involvement in a high-profile project.

Mitchell Community Energy grew from Sustainable Seymour, BEAM-Mitchell Environment Group and the Seymour We Want Group. These groups collectively have strong established community networks and the ability to mobilise volunteer efforts, for instance the twenty willing financial investors into this project.

The environmental benefits of the project are an increase of the use of renewable energy in a Council facility and investment in a social enterprise that is committed to undertaking future energy saving projects within Mitchell Shire.

CHARTER OF HUMAN RIGHTS IMPLICATIONS

The rights protected in the *Charter of Human Rights and Responsibilities Act 2006* were considered in preparing this report and it's determined that the subject matter does not raise any human rights issues.

SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS (CONT.)

OFFICER DECLARATION OF CONFLICT OF INTEREST

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

CONCLUSION

Mitchell Shire Council has identified a strong business case to install a 99kW 'behind the meter' solar panel system on the roof of the Seymour Sports and Aquatic Centre.

Two (2) funding options have been analysed for the design and installation of the solar panel system on the SSAC and it is recommended that Mitchell Shire Council adopt Option B and self-fund the project and not seek a loan from the MCE to fund the project.

Option B is considered to be the more fiscally responsible option for Council.

In acknowledgement of the strong working relationship between Council and the MCE and in an effort to support a local social enterprise, it is further recommended that Council seek to enter into an MOU to establish a Community-Council partnership with Mitchell Community Energy to deliver the project and jointly brand the initiative as such.

This partnership presents an opportunity for Council to be innovative and deliver environmental and social benefits to our local community, whilst reducing Council's greenhouse gas emissions and electricity costs.

MITCHELL SHIRE COUNCIL

Council Meeting Attachment

DEVELOPMENT AND INFRASTRUCTURE

18 FEBRUARY 2019

9.6

SEYMOUR SPORTS AND AQUATIC CENTRE (SSAC) - SOLAR PROJECT FUNDING OPTIONS

Attachment No: 1

**Mitchell Community Energy - Seymour
Installation SSAC**

SOLAR INSTALLATION – SEYMOUR SPORTS AND AQUATIC CENTRE

Council has been working with Mitchell Community Energy Inc. (and its predecessor organisation Sustainable Seymour) on the feasibility of installing solar panels on the Seymour Sports and Aquatic Centre. Moreland Energy Foundation conducted an expert analysis of the project which indicated that it offered significant economic and environmental benefits.

The analysis confirmed that SSAC is a high user of electricity costing about \$277 per day, or \$101,105 per annum. A solar installation producing 99kW was estimated to cost \$120,000 and reduce electricity costs by \$25,792 per annum, a very significant saving.

As the initiator of the project, Mitchell Community Energy Inc. (MCE) is proposing a financial arrangement for the installation of the solar panels. The arrangement is based on the community investment model successfully used by Lismore City Council to finance two solar farms.

Under this model, MCE proposes to establish a proprietary company limited by shares, called a Special Purpose Vehicle or SPV, for this project. For legal reasons it has a maximum of 20 shareholders in any 12 month period. Shares are offered by a prospectus to people who have already expressed an interest in investing, and the local community is encouraged to invest. This not only encourages local people to invest in their own community, but it helps to educate the community on environmental and energy matters.

The invested funds are loaned to Council on a loan term of seven years. Council arranges the installation of the system and owns, operates and maintains it, gaining the benefit of lower power costs immediately. Council pays interest on the loan and repays the capital amount at the end of the loan term. This means that Council does not have to provide a substantial upfront payment. MCE proposes that Council pay an interest rate of 5.5%.

There will be formal costs where no pro bono support is provided. Upfront costs such as the legal and accounting costs of establishing the SPV would be included in the cost of the installation. Ongoing bank and audit fees, etc., would be deducted from the stream of income to the SPV, as would tax, currently 30%. MCE also has ongoing costs, most met by voluntary labour but as a contribution to other costs such as insurance it is proposed to draw an administration fee.

After tax and administration costs the return to the shareholders would be about 3.5%, a rate slightly above current term deposit rates and therefore reasonably attractive to small investors.

It is recognised that Council would pay a slightly higher interest rate than its usual sources. Assuming the latter to be 3% the extra cost over seven years would be about \$20,000. (The saving to Council during that time would be about \$180,000.) By supporting community participation Council would be helping to develop a greater consciousness of the benefits of renewable energy and energy conservation. A further benefit to MCE of this arrangement is that its involvement with Council in a high profile project would affirm its credentials in the community to continue with other energy projects.

RECOMMENDATION

Council officers consult with MCE to confirm details of the financial analysis provided and prepare a draft agreement between Council and MCE as proposed by MCE.

MITCHELL SHIRE COUNCIL

Council Meeting Attachment

DEVELOPMENT AND INFRASTRUCTURE

18 FEBRUARY 2019

9.6

**SEYMOUR SPORTS AND AQUATIC CENTRE
(SSAC) - SOLAR PROJECT FUNDING OPTIONS**

Attachment No: 2

**Mitchell Community Energy - SSAC Balloon
Payments**

9/1/2019.

SEYMOUR SPORTS AND AQUATIC CENTRE
Balloon Repayment, \$120,000, 4.5%

	Principal	120,000	MSC Interest	4.50%	Investor Int	3.50%	Totals
Year	1	2	3	4	5	6	7
Outstanding Principal	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Interest paid by MSC to Co-op	5,400	5,400	5,400	5,400	5,400	5,400	37,800
Principal Repayment	-	-	-	-	-	5,400	120,000
Saving	25,792	25,792	25,792	25,792	25,792	25,792	180,544
MSC Profit	20,392	20,392	20,392	20,392	20,392	20,392	(99,608)
Net income to investors @ 3.5%	4,200	4,200	4,200	4,200	4,200	4,200	29,400
Co-op net income	1,200	1,200	1,200	1,200	1,200	1,200	8,400
CAV	387	78	82	86	90	95	105
Audit / bookkeeping?	0	0	0	0	0	0	0
MCE admin	1,122	1,118	1,114	1,110	1,105	1,100	1,095
							7,765