

<b>Board Meeting:</b> May 2018	<b>Agenda Number:</b> 12 (ii)	<b>Record Number:</b> ED18/3500
--------------------------------	-------------------------------	---------------------------------

# LORD HOWE ISLAND BOARD

## Business Paper

### OPEN SESSION

#### ITEM

Renewable Energy Program Update

#### RECOMMENDATION

It is recommended that the Board note the renewable energy program update.

#### BACKGROUND

Funding for the LHI Renewable Energy project is provided through a \$4 million grant from the Federal Government via the Australian Renewable Energy Agency (ARENA), a \$5.9 million loan from NSW Treasury (to be paid back via diesel fuel savings), and \$0.5 million from the Board.

Consultants Jacobs were engaged by the Board in 2014 to lead the technical elements of the project, and community consultation. Jacobs completed a Technical Feasibility Study which showed that using 450 kW of solar panels (around 2,000 panels), a 400kWh battery and two small 275kW wind turbines, would reduce the Island's diesel fuel consumption from 541,000 litres per year to around 180,000 litres per year, a 66% reduction. This combination would also provide 67% of the Island's annual electricity needs.

#### **Solar, Battery and Control System Contract**

The tender for the solar, battery and control system contract package of work was advertised on NSW e-tendering between 15 June and 24 August 2016. The assessment of the tenders by Jacobs and the Board is complete. However, ARENA has delayed the awarding of the contract by the Board until after their Go\No Go decision about the future of the project.

#### **Wind Turbines**

In May 2017, the Federal Minister for the Environment and Energy decided that that the "proposed action of constructing and operating two wind turbines on Lord Howe Island would have unacceptable impact on World Heritage values and the National heritage values of the Lord Howe Island Group". This means that it is not possible to proceed with the wind turbine component at this stage.

#### **ARENA Funding**

In June 2017, ARENA representatives indicated that they did not believe that the ARENA Board would support continued funding for the project in its current form. Without the wind turbine component, the project with just solar and battery storage, saving 35% of diesel fuel

was not seen as sufficiently innovative and would not serve as a demonstration case for other remote areas.

After extensive negotiations, ARENA approved the funding for the development of further options, comprising solar and other renewable approaches, which may be acceptable to their Board and lead to a variation in the Board's funding agreement with ARENA.

Consultants Jacobs completed their other Options Analysis Report on the project economics and potential demonstration value in December 2017.

The Options Report was presented to the Board in March 2018, with the Board endorsing Option 4 – Optimised Solar and battery configuration with enabling technologies, as the preferred option.

## **CURRENT POSITION**

### **Preferred option**

Jacobs are now preparing new tender documents to include the changes for option 4 with optimised solar and battery configuration ready for the repricing by the two successful tenderers. Jacobs have also been requested to provide timelines to award the contract and complete the works, based on the tenderers' response.

The ARENA Board will consider the preferred Option 4 at their next Board meeting in July 2018, with a view to deciding on continued funding.

### **Budget**

The total cost of the project from July 2014 to date is \$2.4 million. Expenditure has been frozen since ARENA indicated that it was reconsidering the funding agreement with the Board.

To date ARENA has provided funding of \$500,000, and NSW Treasury provided \$60,000 to meet the cost of the preparation of the business case, leaving a shortfall (overspend) of approximately \$1.85 million. This overspend includes approximately \$500,000 that has been spent on the supply of road base materials for the access road construction, which is now on hold. Pending a decision on the future of the renewable energy project, these materials will be diverted to other road projects on the Island and the funds recouped from other capital project budgets.

In order for ARENA to approve the additional alternative investigation works by Jacobs they approved a change to the existing Deed of Agreement for the funding through a "Deed of Variation" which has inserted a new milestone 5: Alternative Scenarios Report and pushed back the other milestones consecutively up to milestone 12. Approximately \$100,000 has been earmarked by ARENA for the further investigation works.

Invoices amounting to \$850,000 (ex GST) have now been sent to ARENA for both Milestone 4 and Milestone 6. ARENA has agreed to pay all of Milestone 4 and partial Milestone 6 amounting to \$700,000 (ex GST). This is due to Milestone 6 containing requirements pertaining to the wind turbine which cannot be met until the current deed is updated.

## **RECOMMENDATION**

It is recommended that the Board note the above information.

**Prepared:** John Teague, Manager, Infrastructure & Engineering Services

**Endorsed:** Penny Holloway, Chief Executive Officer

**Attachments:** Nil