C O R R E C T E D V E R S I O N

ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

Inquiry into community energy projects

Melbourne — 7 November 2016

Members

Mr Nazih Elasmar — Chair
Ms Dee Ryall — Deputy Chair
Mr Jeff Bourman
Mr Peter Crisp
Mrs Christine Fyffe
Mr Cesar Melhem
Mr Don Nardella

Witness

Mr Ed McManus, Chief Executive Officer, Meridian Energy Australia.

The CHAIR — Welcome to the public hearing for the Economic, Education, Jobs and Skills Committee inquiry into community energy projects. All evidence taken at this hearing is protected by parliamentary privilege; any comments you make outside the hearing are not afforded such privilege. Hansard is recording today's proceeding. We will provide a proof version of the Hansard transcript so you can correct any typographical errors.

I would like to invite you to give us whatever you would like to say and then allow us for some time for questions. The floor is yours. Just state your name before you start.

Mr McMANUS — Yes, it is Ed McManus. What I might do is tell you a little bit about us very quickly and tell you, at a high level, what we think some of the barriers to community energy are and tell you what we are doing about some of those barriers. We obviously do not have all the answers, but we are trying to do some positive things.

First of all, we are Meridian Energy Australia. We own and operate two wind farms. One is here in Victoria. It is called the Mount Mercer Wind Farm, just outside Ballarat, and the second is at Mount Millar in South Australia. Then we have a retail business which sells electricity to residential consumers and businesses called Powershop. Powershop retail today has about 80 000 customers. We are pretty small. We are trying to grow that business. That business was launched about two and a half, three years ago, really off the back of trying to give consumers more information about how much energy they are using. So we have an app on our website where you can see how much energy you are using. We think by giving people information they can use less power, and that is by far and away the best way to save money.

We have had some history in partnerships with what I would describe as both local and national community-type organisations, where we have partnered with them to help them in doing what they do, and their members have in turn become customers of Powershop. That has been quite a successful model for us. So we have lots of connections into local community organisations, including community energy organisations. We have done a lot over the years around fairer pricing for solar customers, particularly residential solar customers. So just a few points of background about us. We are happy to answer any other questions.

It goes without saying because we are here, but we are very excited about community energy. We think community energy is very important in terms of playing a role, in terms of empowering communities, in terms of jobs, in terms of reducing the carbon intensity of our grid and the associated impact on climate change.

Some of the barriers are, I think, first of all the capacity of local communities—and I mean capacity in a few ways. The first is time. Obviously lots of community energy organisations are volunteers; they have full-time jobs doing other things. That is one. The second is expertise. The National Electricity Market and how it works, as you know, is extremely complex, both financially and from an engineering and technical point of view. I am certainly not an expert, but I think the capacity in local communities to understand that and then understand how therefore they can tap into that market is a challenge.

Obviously the market is changing. It is deeply regulated with lots of rules. There are rule changes all the time, so how does the community navigate that? I quickly read the numerous submissions you have to this inquiry and it is a morass of information, so how do you or how does the community see the wood through the trees and all that? We think that is a big challenge. And that gets into things like procurement. The local community procuring suppliers and things like that is difficult, I think. Finally, it is just finance. Where does the money come from and, more importantly, what are the financial structures around which community can get involved in community energy—so finance and governance and things like that.

So in terms of our role and what we are doing, we are doing a few things. I would describe them as small, medium and large. Maybe I will start with medium because that was in our submission. We have partnered with the Hepburn local community wind farm just outside Daylesford, which you well know, and we are doing a number of things with that organisation. First of all, our technical people at the Mount Mercer wind farm, which is about 50 minutes' drive from Hepburn, are helping the community organisation on a

day-to-day basis manage those two turbines. We think that is very important because these are 25 to 30-year assets, so deeply complex engineering and inherently unsafe because you are working at height, so I think we can add value for that local community.

We are also helping that organisation with its interaction with the National Electricity Market in terms of how the energy flows to the market and revenue flows to the local community organisation, Hepburn Wind. We are playing a role there. Finally, we have a retail partnership with them for the Hepburn members and supporters to join Powershop, the retailer. That is medium.

Small—we have launched a product in our shop, which we think is very exciting, called Your Community Energy. That is where our 80 000 Powershop customers can choose, if they like, to pay a very small priced premium on their power. They can choose to do that on a daily basis. Exactly how much they want to choose is up to them. And then that premium goes into a pool. We take none of that pool. The pool is given to local community organisations to fund community energy projects in the community. We started with two of these. One is CERES, which is the environmental park near Brunswick, to help them upgrade their solar. The second is a micro-hydro station, again near Daylesford. Our customers and us are helping fund small community-owned energy.

Mrs FYFFE — What has the take-up been from your 80 000 customers?

Mr McMANUS — Very promising.

Mrs FYFFE — Okay.

Mr McMANUS — I am happy to provide you with more detail over a coffee or however it works, but extremely promising. So we think we can make a contribution, but it is not at the level of 10 megawatt or 20 megawatt solar. It is small. It is rooftop solar or micro-hydro.

Finally, with large, at that sort of 5, 10, 20 megawatt level we are working very hard to understand what the investment structures could be for communities who want to buy into large renewable generation. So I do not really have an answer for you, but it is something we are working hard at because we think that is an untapped market. Those are the three things.

The CHAIR — Thank you. Talking about best practice interstate and overseas, my question to you is: what lessons can the Victorian government learn from other jurisdictions in relation to the development of renewable energy? You have developed a good project on that so what can we learn from that?

Mr McMANUS — There are always learnings to be had, but every energy market is so different. People look at Germany a lot. The structure of the market and how it works is entirely different to Australia. Obviously in Australia we have competition at a generation level. We have public and private national monopolies in networked businesses and we have competition at a retail level, so it is pretty unique. I am not so sure how you can go to a Scotland or a Germany. There are obviously learnings from those countries, but translating them back here is going to be problematic because of the nature of our market. So all I can tell you is that we do not look overseas that much for inspiration. We try and work within the current market rules we have to understand what it is we can do.

Mrs FYFFE — But you are an overseas company?

Mr McMANUS — Absolutely so. I should have said—pardon me—our parent company is Meridian, which is 51 per cent owned by the New Zealand government and 49 per cent publicly listed on the Australian and New Zealand stock exchanges.

Mrs FYFFE — So no other part of the world?

Mr McMANUS — Meridian is in no other part of the world, yes.

Mr CRISP — With small-scale community projects you talk about that bundling of funds to help them, but how sustainable is a model that we have been hearing about, which is people wanting to put solar

panels on the top of buildings and supply energy that way, so there it is a small scale? In Meridian's view, how sustainable is that?

Mr McMANUS — Let me just clarify the question. Do you mean sustainable in terms of communities in some structure investing in small solar panels?

Mr CRISP — From both the financial part, because you had experience in dealing with Hepburn and others, but also in the model over time being useful to the grid, the community and energy supply.

Mr McMANUS — We did this calculation. If you take the 25 kilometres surrounding Daylesford, which is where the Hepburn wind farm is, have a look at how many people live in that circle, ask how many circles of equivalent size population there is in Australia—I think it was about 1100 when we did the calculation—and extrapolate if each one of those had a Hepburn-type installation, how much energy would you be producing, off the top of my head it would be about 5 gigawatt hours, which is very significant in the context of the national electricity market. Now, of course not every community has got interest, capacity et cetera to do that, but we do think community energy has a small but significant role to play in the transition of our electricity market.

Mr CRISP — So you are looking more at a micro market rather than perhaps that microgrid model that some people are running around with as well, or developing, so you look at yours as more the market within the existing grid?

Mr McMANUS — Correct. We are interested in microgrids, but we are watching.

Mr BOURMAN — You mentioned the micro hydro project before. What sorts of energy sources other than the norms of wind and solar is Meridian looking into?

Mr McMANUS — I would say the other one that is worth mentioning would be waste-to-energy—biogas. That is viable.

Mr BOURMAN — I will just stop you there, and this is from a point of ignorance. One of the obvious issues is decarbonisation and things like that, so obviously waste-to-energy in itself is the burning of a gas. Does that not go against the way we are trying to go?

Mr McMANUS — Someone else will be able to give you a more technical answer to this, but basically if you do not do the waste-to-energy process, methane gets produced, and methane is a more intense…

Mr CRISP — Greenhouse.

Mr McMANUS — Greenhouse gas, thank you, than carbon dioxide. So the burning of biogas to create electricity overall means less greenhouse gas equivalents going into the atmosphere, but it is something we have asked ourselves, yes.

Mr BOURMAN — That is all right. I am not an engineer, unlike some around here.

Mr McMANUS — Nor am I.

Mr BOURMAN — That explanation is fine.

Mr McMANUS — With biogas, that sort of waste-to-energy, we are talking to a number of community groups that have had that, because obviously as you know in Victoria there are many communities where physically they just cannot because their landfill facilities are full. There are a couple of examples of that.

Mr BOURMAN — Is it something worth going on beyond a community group? Again, we produce God knows how much waste in Melbourne, for instance, and I do not know how much is actually…

Mr McMANUS — Absolutely. Yarra Valley Water are worth talking to. As you drive up the Hume Highway towards Craigieburn, if you are looking on the left you can see the two—I think it is two—

digesters they are building there. It is a really great project, and I encourage you to talk to them. So I think it is potentially viable beyond communities. Back to your original question, again I am not an engineer and I am not coming at this from a deep technical analysis, but the number of potential hydro sites left in Australia is probably very limited. It is a very sunny country so solar is good, and very windy in places so wind is good. Other than that you are into sort of experimental energy; tidal, wave, are still experimental—very promising but not viable today.

Mr BOURMAN — As long as the tide comes in and out.

Mr McMANUS — That is right.

Mrs FYFFE — Looking at Victoria's grid as it exists now, the growth of renewable energy, how do you think that is going to affect the security of the grid, being able to manage with the ebb and flow of the renewable energy being fed into the grid?

Mr McMANUS — There is no doubt that we need to change the way the grid is managed, and that will need to happen over time as you get retirement of what is typically seen as baseload coal-fired power stations. Those retirements are going to happen whether we wish them to happen or not, because those plants will run out of their useful lifetime, and that is what has happened at Hazelwood. So I think over a 10 to 15-year, 20-year horizon we will see more of that. I am not so sure if we will ever see another coal plant built in Victoria.

Mrs FYFFE — Perhaps we will go nuclear.

Mr McMANUS — Perhaps. That is as much for financing and risk reasons as climate concern reasons. So I think—again, I am not an engineer and am not coming at this technically—there really need to be changes in terms of how the grid operates. I think we will need to manage very carefully the ultimate impact on consumers' bills, because that change will mean some increased costs on the one hand, and then we are going to need to look for savings on the other hand—and there are areas of clear opportunity for savings. So I believe we need to manage too is that the average consumer over time is not paying in real terms any more than they are today, and in fact can save money.

Mrs FYFFE — But consumers want security of power supply.

Mr McMANUS — Of course.

Mrs FYFFE — I mean society has now reached the stage where there is an expectation that air conditioners will work on a hot day, heaters will work on a cold day and so on and so forth, and our society will not go back to not using as much.

Mr McMANUS — Of course, and we believe that can be achieved.

Mr CRISP — I want to explore a little more the community-corporate partnerships. Your company is involved in those. How can the Victorian Government encourage community-corporate partnerships within your business model? What would you like Government to do?

Mr McMANUS — I do not have a laundry list. I am genuinely just thinking of the things you could do. Obviously there are many community-type organisations coming to you and have written submissions. I think you have got the very tough job of going through those and understanding what is real and what is not real. I should clarify what I mean by that—what is achievable in the context of the market that we have, and what would be nice to have but ultimately is going to be very hard to do. Obviously it is great that you are going through this process because I think that is very important, but in relation to the specific things that you could do to help our business in regard to community partnerships, I cannot think of anything.

The CHAIR — If there are no further questions, Ed, thank you very much. On behalf of the Committee I would like to thank you for your contribution.

Witness withdrew.