ENVIRONMENT AND NATURAL RESOURCES COMMITTEE

Inquiry into energy services industry

Bendigo — 6 February 2006

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Witnesses
Mr J. Pollock, Ecological Sustainable Development Project Officer; and
Mr J. Bothe, Industry Development Officer, Economic Development Unit, City of Greater Bendigo.
The CHAIR — I declare open the Environment and Natural Resources committee hearing on energy services industry and I note that Andrea Coote, Geoff Hilton and Wendy Lovell are apologies for today’s hearing. I would like to welcome Mr John Pollock, who is the ecological sustainable development project officer, and Mr Jeff Bothe, industry development officer, economic development unit from the City of Greater Bendigo. Thank you for coming today and giving us your time. All evidence taken by the committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review, but if you make comments outside the precincts of the hearing, they are not covered by parliamentary privilege. Hansard is recording all evidence taken today and you will be provided with a proof version of the transcript within a couple of weeks that you can check off and return to us with any necessary corrections. With that, I will hand over to you, John, for your presentation.

Mr POLLOCK — Thank you. If it is all right with the committee we would like to talk our submission. Jeff and I will go through the submission, and then we will be happy to take questions.

Over the last four years the City of Greater Bendigo has improved its knowledge and understanding of the energy services market through studies of the deregulation of the electricity market in Victoria and its impact on central Victorian business. Our original belief at the start of the deregulation process was that the major players, the distributors and retailers, had responsibilities to provide energy services such as energy management products and services to their customers. Indeed, part of the anticipated benefits of deregulation was that retailers in particular would be providing price and service offerings to differentiate themselves in the competitive electricity market. But it has become much clearer from the experiences and discussions that the City of Greater Bendigo and the Bendigo Manufacturing Group have had with local businesses, retailers, distributors and regulators that it will be the responsibility of third parties to provide such energy-efficiency services, as the industry has deregulated.

Prior to deregulation, organisations such as the SECV and the Gas and Fuel Corporation were the main sources of energy management information and technical implementation assistance in the region. This source of expertise has dissipated over time in this region as the industry has deregulated. The bigger energy users in the central Victorian area are being targeted by Melbourne-based energy services companies; however this does not seem to be the case for small to medium-sized enterprises in this area. This is presumably because of the relatively higher transaction costs associated with engaging and retaining such businesses.

The City of Greater Bendigo has tried to address the local skills shortage by developing an energy climate care partnership with Origin Energy, which has included running an energy-efficiency and industry program with local businesses to identify and implement energy management opportunities. The current regulatory regime in place for the electricity industry is heavily focused on supply-side economics and price-capping issues. This does not encourage the consideration of demand-side options as part of the development of the electricity industry. An alternative revenue-capping approach which puts a ceiling on earnings from electricity sales can encourage distribution companies to push revenues by selling conservation whenever it is more profitable than selling electricity.

The City of Greater Bendigo also takes on an advocacy and promotional role in regard to energy services initiatives. One of the longstanding initiatives that the City of Greater Bendigo is proud to support is a green plumbers training program, with 12 local plumbing organisations accredited with having completed one or more of the green plumbers’ training courses held in their municipality. The City of Greater Bendigo also strongly supports the local energy information partnership between Access Employment and Sustainability Victoria over the provision of energy efficiency and renewable energy information to rural and regional residents, community groups and businesses in the central Victorian region.

The City of Greater Bendigo submission to the ENRC inquiry into the energy services industry is based on experiences and information gleaned from a number of related projects with which it has been involved over the last four years, with the primary focus on the deregulated electricity market. In April 2002 the City of Greater Bendigo produced its first electricity industry report which highlighted the impact of increased electricity costs on central Victorian businesses. Anecdotal evidence collected from the report identified that local industry lacked an understanding of energy management opportunities, with one reason being the poor availability of energy services expertise in the central Victorian region.

Having identified a lack of relevant skills in the region, the City of Greater Bendigo released a tender in late 2002 seeking a partnership with a suitably qualified organisation or consortium to provide energy and climate-care skills, expertise and knowledge not readily available in central Victoria. This tender was also in response to the City of
Greater Bendigo commitment as a member of the Cities for Climate Protection program to assist citizens, both business and residents, to reduce the intensity of their greenhouse energy consumption by becoming more efficient in their use of energy and/or using low-greenhouse-intensity energy such as renewable energy. Similarly, the City of Greater Bendigo was interested in how it could reduce the greenhouse gas intensity of its own operations and services. Three submissions were received, and the successful tenderer was Origin Energy. In June 2003 the City of Greater Bendigo and Origin Energy climate care partnership was successful in a funding application to the state government’s greenhouse Community Action Fund. The funding application covered opportunities to improve energy use in the industrial and residential sectors, as well as in the council’s own operations.

Focusing on the partnership’s experiences with the energy efficiency in industry program, as part of the Community Action Fund funding, an extensive marketing campaign was undertaken, commencing with a mail-out to 350 manufacturers and 40 motels, hotels and retail organisations, describing the program and inviting them to program information sessions. As well, advertisements were placed in the Bendigo Advertiser, inviting companies to attend information sessions at which information folders about the program, including case study materials of participants’ experiences based on similar programs in Adelaide, were available. One-to-one visits were also conducted with various companies, seeking their involvement in the program. In the end eight companies participated, which was a very disappointing result, based on the marketing undertaken. A similar program in Adelaide had been very successful in terms of company participation. The main difference in the South Australian approach was that the service was made available free of charge to participants through a 100 per cent subsidy from the Australian Greenhouse Office, whereas the energy efficiency in industry program participants had to pay for the auditing service, albeit at a subsidised rate. This was a real stumbling block in recruiting companies, many of which did not see the value of the services being offered when a cost was associated with participation.

The outcomes of the energy efficiency in industry program were an estimated 480 tonnes per year of CO₂ equivalent saved through energy efficiency measures implemented by the participating companies. Interesting feedback from some of these companies about their participation in the program revealed that many of the energy management opportunities identified were not rocket science, but were simply part of good management practices.

Mr BOTHE — From May through until September last year, the City of Greater Bendigo and the Bendigo Manufacturing Group conducted the Central Victorian Demand Tariff Energy Project which was funded by the Consumer Utilities Advocacy Centre. A report containing the project findings and recommendations was published in September 2005. It is interesting to note that we tendered the project into the broader community, and we did not get one response from a central Victorian or country-based organisation to do the project for us; it was undertaken by a Melbourne-based company.

The project involved 27 businesses and included some 30 sites in central Victoria that had a combined annual spend on electricity of about $12.3 million. The primary objectives of the project were to establish the accuracy of the application of specific regulated charges on demand-tariff business consumers, identify the standard of electricity management practices within these business consumers, and to identify the impact on network charges of the reduction of the transmission equalisation adjustment payment for these business consumers.

Project findings included potential savings for the cohort of businesses of $1.53 million through improved electricity tendering and negotiating practices within businesses — that was $990 000; ensuring businesses are on the most cost-effective tariff, $170 000, and more diligent management of electricity contract demand, $358 000. Included in the report were recommendations of particular relevance to this inquiry.

In order to reduce the high transaction costs, local businesses could be provided with more information on the electricity market, network tariff structures et cetera. In particular this would include training workshops to more fully explain the operation of the deregulated electricity market and best practice techniques for negotiating retail electricity supply contracts, plus account management and reconciliation processes and provision of information on local network tariffs and rules of thumb on how these tariffs can be minimised — again, this could be done via workshops; facilitation of groups of SMEs that can jointly negotiate their retail electricity contracts — this will increase negotiating leverage and reduced negotiating overhaul; basic energy management information that will help local consumers to more wisely use energy, monitor monthly accounts and further reduce costs, provided as a standing resource by the regulator or government.

Another recommendation was the establishment of mechanisms to provide local businesses with cost-effective ongoing support and professional advice, including approaching industry organisations to inform them of this
report and assist in the facilitation of targeted workshops, and the Essential Services Commission mandate that all distributors are to regularly, at least annually, liaise with their business consumers to ensure that businesses are on the most appropriate network tariff.

The recommendations above close the information gap that clearly exists for many central Victorian businesses about the understanding and knowledge of the energy market and energy management opportunities more generally. The report highlighted that there is minimal interaction between retailers and their customers, except at the start and the end of the contract period. This is mainly done via call centres, rather than an actual visit by an account manager. With energy retailers selling electricity as a commodity, rather than being bundled with other energy services, consumers are not being offered any advice beyond the pricing of their electricity.

As a result of the break-up of the electricity market, it is questionable that the retail sector of the deregulated industry has the necessary technical expertise to offer energy services advice, based on its preferred channels for marketing their commodity, although the electricity retailer which provides electricity to the City of Greater Bendigo properties does offer a tariff analysis service of our sites to ensure that they are on the correct distribution tariff.

Distribution businesses still have much of the technical expertise that was available prior to the regulation, however it is the view of many distributors that it is the retailer rather than the distribution company that should be the main interface with the customer over their electricity needs. Anecdotal evidence from a Canadian federal government energy efficiency expert who visited Bendigo recently revealed that he was surprised that there were not more obligations on the distributors to provide energy efficiency services to their customers, as have to in parts of Canada.

Prior to deregulation, organisations such as SECV and the Gas and Fuel Corporation were the main sources of energy management information and technical implementation assistance in the region. This source of expertise has dissipated over time as the industry has deregulated. The current regulatory regime is focused mainly on supply-side economics and price-capping issues. An alternative revenue-capping approach which puts a ceiling on the earnings from electricity sales can encourage distribution companies to boost revenues by selling conservation whenever it is more profitable than selling electricity.

**Mr POLLOCK** — The City of Greater Bendigo is one of five pilot councils from Victoria participating in a Cities for Climate Protection project facilitated by the Melbourne-based Australia-New Zealand office ICLEI, Local Governments for Sustainability. The Victorian Local Economic Development Project aims to assist pilot councils to identify and commence implementation of greenhouse-friendly local economic development projects that work to achieve the following objectives: engage the economic development units within each of the pilot councils to build their capacity and to recognise the links between economic development and greenhouse gas reduction, identify the synergies between council’s strategic planning policies, frameworks and processes, and how they relate to sustainable economic development, deliver a community greenhouse abatement that can be included in future Victorian Measures Reports, explore the links between greenhouse-friendly economic development climate change and resilient communities. A pilot project such as this has the potential to assist energy service companies to develop their products and services, while achieving possible flow-on effects for communities of job creation, economic investment and greenhouse reduction.

As well as being a user of energy services the City of Greater Bendigo takes on an advocacy and promotional role for various energy services initiatives. One of the longstanding initiatives the City of Greater Bendigo is proud to support is that of the GreenPlumbers training program. To date more than 3800 plumbers representing over 1800 plumbing businesses have completed one or more GreenPlumbers training sessions. They are designed to assist plumbers in understanding their role in relation to environmental and public health issues and to provide their customers with up-to-date information and advice on the latest technology, energy-saving and practical appliances and installation knowledge, the environmental impacts of plumbing services, appliances and household practices, consumer information, energy and water cost savings, short-term and long-term cost comparisons and environmental benefits thereof. A number of training courses have been held here in Bendigo with 12 local plumbing organisations accredited with having completed one or more of the GreenPlumbers training courses.

The City of Greater Bendigo notes with interest that a similar information and training program for 100 electrical contractors, trades and related services has been funded on a trial basis by the federal government through the Cities for Climate Protection program to be run by Moreland City Council, Hume City Council and the City of
Darebin municipalities. Given our experiences with the lack of local expertise in the energy services sector a program offering basic energy management technologies and services training to trades such as electricians would help to develop relevant local expertise.

The City of Greater Bendigo, primarily through the Bendigo Manufacturing Group informs the local manufacturing community about energy management issues relevant to that sector. A program that may be of interest to local industry that is about to commence in Bendigo is a joint initiative between the Australian Industry Group and Sustainability Victoria. The City of Greater Bendigo also strongly supports the local energy information partnership between Access Employment and Sustainability Victoria over the provision of energy efficiency and renewable energy information to rural and regional residents, community groups and businesses in the central Victorian region.

The CHAIR — Thank you very much.

Mr DRUM — Jeff or John, I was wondering if you could explain to me a little bit more about how the energy companies can become profitable by selling conservation as opposed to selling electricity. This is also based around the concept that we cap the amount of electricity that these companies can sell, which is part of your theme.

Mr POLLOCK — I must admit I find it a bit difficult to talk about it from the revenue capping point of view, but certainly just from a basic understanding of the margins that electricity as a commodity is being sold at these days in terms of what they buy it at compared to what they are selling it at — their margins are very thin, whereas offering energy services in terms of demand safe management and energy efficiency, there is the possibility of having higher margins in terms of the cost of providing that service to the price for which they sell that service to their customers. There is a much bigger margin in terms of offering energy efficiency services compared to the margin on what is basically a commodity.

Mr DRUM — So the profit comes in how to go out and sell the knowledge of how they can either change their contracts over or how they can use electricity more efficiently?

Mr POLLOCK — Yes. Because the margins in electricity are so fine they have basically taken away all that knowledge and expertise and concentrated it through selling a commodity via a call centre. There is none of that interaction in terms of taking the next step of offering perhaps more profitable energy services that albeit might see their energy usage reduced. That was the whole point of deregulation — to give choice to customers with a whole variety of different offerings, and basically we are now being offered a commodity not a service.

Mr DRUM — Jeff, one of the findings that came out of the report and study you did which included 27 businesses in Bendigo was the amount of line loss that was incurred in getting electricity into this region. It was not mentioned as part of your submission to this report, but I was wondering if you have an opinion on whether there was a recommendation put forward to try to deal with the amount of line loss into this region and the pricing structure?

Mr BOTHE — No. It was more a reference to that component as the add-on cost that businesses often do not take into account when they work out what their electricity costs are going to be. Personally I have some ideas: we have to work towards embedded generation to try to offset those line losses locally. Then you enter a whole new area of issues, because when you have got a transmission and distribution network that has a formula for line losses calculated, you then have a local generation that would be used to put power back into the local network. How you then manage that local supply into the local network without the impost of line losses then being added on for a consumer is an area that needs to be explored. It has not been explored to my knowledge. It was looked at by the COAG energy group and I think they did a study on it, but I have not seen the results of how embedded generation was going to be effectively implemented and the benefits from it then passed on to consumers.

Mr DRUM — So effectively that is another distribution point in regional Victoria, where the main distribution centre is, and the company would then incur the cost of any line losses to the new distribution point?

Mr BOTHE — If you had, say, in an East Bendigo industrial area an embedded generator set up, there would have to be some negotiation with our distributor, Powercor, as to what the line loss factor would be for that generation of power into the local network. You would not have transmission losses, because there is no transmission involved. Certainly with distribution there would still be losses but not of the ilk that is referred to
across Powercor’s region. Some points of price sensitivity could be looked at to encourage industrial development in certain locations around that.

Mr SEITZ — Either of you can answer this: you have got a very large broiler chicken industry here, and last time I visited them they were all just in tin sheds, yet electricity was used to keep climate control in those sheds. They must be large consumers of electricity and energy. When they are putting up their buildings is any thought given to being climate conscious themselves — that is, whether it be double walls or insulation or stuff like that, as required in domestic building nowadays?

Mr BOTHE — I will take that one. Yes, in olden days it was just tin sheds, but these days with the poultry industry the more modern facility has its own climate control — gas heating to keep the temperature between 20 and 22 degrees sitting inside the poultry shed. I am not sure if you have heard of the ‘enviro’ shed which is used by one of the egg producers, but they can quite comfortably accommodate 50 000 birds in these new sheds. They are energy efficient and have insulation on the walls; they have got the panelling that provides that level of efficiency, and that is the way the industry has to go. I think these days those tin sheds that were around have been coated with some insulation on the inside and then sheeted again to conserve energy. Certainly it is a big industry, and we are working with the poultry industry locally as a region, not just the City of Greater Bendigo but Campaspe, Northern Grampians, Buloke and Loddon, to look at that industry. We are also looking at bioenergy — that is, converting the waste from the energy into fuel. Whether it be heat energy or electricity is yet to be determined. That is a project that is under way with Sustainability Victoria at the moment.

Mr SEITZ — Thanks, I am pleased to hear that. Big progress, yes, absolutely! The only other question I would ask about the use of energy efficient appliances in a house, whether it is retrofit or in the new industry, is: do you find it is the cost of, say, solar hot water, double glazed windows and things like that that is a burden for the people who are not using or implementing it? Is the cost a barrier to it?

Mr BOTHE — Certainly from the experience I have had, when you do the payback period calculations on hot water and photovoltaic cells, it is a cost factor. The importance of improving our climate does not always enter into the equation. With regard to other reasons why more energy-efficient equipment is not taken up, I think it has a lot to do with the original equipment manufacturers, that they themselves do not provide sufficient information on the actual appliance. An engine manufacturer, for instance, tells us what the efficiency of that engine is. Industry is driven by engines, basically, and if you take the industry market there are a lot of inefficient engines being put in businesses because it is a cheaper engine. We need to have some standards whereby equipment that goes in and is a major user of energy in industry needs to be rated on its efficiency. We are not doing that at the moment.

Mr SEITZ — The changes the state government has made with the five-star rating in new houses being built, how is that going here? Price-wise, has that been accepted by the community and the builders?

Mr POLLOCK — We have got no feedback.

Mr BOTHE — I cannot give an answer on that. We should have got someone from our building department here.

The CHAIR — I have a couple of questions. Your Energy Efficiency in Industry program, just so that I have got this clear, that is the program that you ran with Origin Energy?

Mr POLLOCK — Yes.

The CHAIR — Under a grant from the community action program?

Mr POLLOCK — From the Community Action Fund, the state government.

The CHAIR — The SEAV, as it was then?

Mr POLLOCK — No, I think it came via the greenhouse policy unit, DSE.

The CHAIR — So that is the program that had the eight companies that participated, which was reasonably disappointing.
Mr POLLOCK — Yes.

The CHAIR — Do you have any real figures on how effective that program has been within those eight companies?

Mr POLLOCK — Overall the submission provides some greenhouse gas emission reductions. In terms of individual companies they range from manufacturing through to motels. I cannot give individual company results, but basically most of the projects are looking at a two-year or less payback. Certainly for some of them there were quite significant dollar savings, particularly in the hotel-motel organisations that participated.

The CHAIR — Is there any capacity to run a similar program again, but using those local success stories as the drawcard?

Mr POLLOCK — Certainly if we are ever talking to local industry we make mention of the outcomes of that program, but again it is a fairly torturous process to try to convince industry and commerce that there are actually some opportunities there for them.

The CHAIR — Is there any capacity to run a similar or the same program again, but using those local success stories as the drawcard?

Mr POLLOCK — Certainly if we are ever talking to local industry we make mention of the outcomes of that program, but again it is a fairly torturous process to try to convince industry and commerce that there are actually some opportunities there for them.

The CHAIR — There were some additional rebates attached to this program, weren’t there?

Mr POLLOCK — Basically there was a subsidised rate from the point of view of government funding but also Origin absorbed some of their costs to try and encourage companies to take up the program.

The CHAIR — My other question is that under the Central Victorian Demand Tariff Energy Project we have identified $1.53 million of savings, but nearly $1 million of that comes not from saving electricity but from just a different tendering process?

Mr BOTHE — That is right. Poor management, yes.

The CHAIR — Looking at that, one would say that if 66 per cent of our savings are just from a different contract, we do not have to save energy at all. All we have to do is drive our dollar further so it becomes just an economic argument with the environmental rewards of using less energy kind of forgotten in it; or am I just being a bit too harsh on it?

Mr BOTHE — No, I think what that report uncovered — it surprised us, those results. We will put that up front as well. We did not expect those sorts of savings to be possible just by improving how it is managed. Electricity is a very complex industry and the ordinary person in a business focuses on their business, not on, okay, elements that might be a lower operating cost within the overall business. But it is not until you start to drill down as to what businesses were paying for their electricity on a simple cents-per-kilowatt hour basis that you start to realise there were some problems — that is, the first report we did indicated that demand tariff businesses were paying upwards of 15 to 16 cents per kilowatt hour for their electricity when they should have been paying around 10 or 11 cents per kilowatt hour.

I guess if you go back to the old story that ‘You have a friend at the SEC’, when the SEC was around, they carried on with that same philosophy with the supplier of their electricity and they did not question what they were being offered and the prices that were going around. Hence we did that demand tariff report to try to come up with some benchmarks for retail prices for electricity and that is where those savings were realised. That was a realistic benchmark that was established in that electricity report as well, so much so that a number of the businesses have since negotiated their contracts and realised significant savings. Part of those savings were identified in reality, so what was identified is now actually being achieved.

From the energy efficiency side, the same sort of lack of skill sets exist within industry. But it is difficult because, as I said, you have got equipment manufacturers that do not provide those efficiency ratings. How can industry make decisions when they are not getting advice from those they are buying equipment from? I guess it comes back to what John touched on a little bit about the Green Electrician-type initiative that has been done in three municipalities in Melbourne. We would love to see an initiative like that, where you train up the people in the industry to provide that advice to industry on this side of it. I think that is where it has to go.

Mr POLLOCK — Just very quickly on your question, in raising the awareness about the fact that they were not tendering their electricity properly it also raised their awareness of the fact that they might not be managing their electricity properly. Certainly the consultant who we engaged to do this study went through what
the companies could do, and there was probably about 10 per cent savings just through switching off machines that should not have been on and they were not aware they were on, and as I said in the submission with regard to the Energy Efficiency in Industry Program, a lot of it was not rocket science. Some of the companies were actually quite ashamed in some sense that they had not picked it up themselves because it was fairly simple if they had just thought about it a bit more. So I think through the demand tariff energy project, it raised the awareness of energy management. Some of the companies have gone further than just the contracting issue; they have actually looked at the way they use their electricity and worked out ways of reducing it.

The CHAIR — Thank you very much.

Witnesses withdrew.