

CORRECTED VERSION

ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

Inquiry into community energy projects

Melbourne — 20 March 2017

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Witness

Mr Geoff Drucker, Director, Countrywide Energy.

The CHAIR — Welcome to the public hearing of the Economic, Education, Jobs and Skills Committee’s Inquiry into community energy projects. All evidence taken at this hearing is protected by parliamentary privilege. However, any comments you make outside the hearing are not afforded such privilege. Hansard is recording today’s proceedings, and we will provide a proof version of the Hansard transcript so you can correct any typographical errors. Geoff, you can start, but please state your name before you do so and allow us some time for questions.

Mr DRUCKER — Sure.

The CHAIR — Thank you.

Mr DRUCKER — My name is Geoff Drucker. I am a Director of Countrywide Energy, which is a Victorian-based business that operates in the renewable energy space. I have got my 5-minute quick presentation, which I hope will suffice.

Visual presentation.

Mr DRUCKER — We started Countrywide Energy in 2015 effectively at the request of the Rural City of Wangaratta. The city had major issues in terms of energy reliability, and that meant that their ability to grow economically by attracting businesses to the area and looking after the businesses that operate in the area was under challenge. So they approached us to assist them to resolve their energy issues, and as a result they are building a 20-megawatt solar farm in Wangaratta, which is hopefully going to have the first sod turned in the next couple of months.

What we do is we work with councils to determine areas in Victoria, particularly regional Victoria, where there are energy issues that mean that businesses and residents lose power during peak times in summer months, and then we find a way in which we can provide energy in those areas to ensure that they do not suffer from those other sorts of issues. The opportunities we see are for an organisation like ours to add energy security to parts of Victoria that do not have it, and there are many, many cases. In fact week by week we find more areas in regional Victoria where energy is a major issue. Nagambie cannot grow without more energy. There is no opportunity for a town of 2500 people to offer more jobs, to offer regional development in that town because it cannot get any more energy into that area.

Mrs FYFFE — So a housing development that has happened at Nagambie has taken up any excess from that area, or...

Mr DRUCKER — When I say, ‘any more energy’—for a business to come in and put a factory in there. That factory would have a demand of a certain quantity on the system, and that system just cannot cope with it. A housing development is not a massive consumer, but to add more jobs and more development to the area—there is no way that that can grow. Similar situations happen in place like Corryong or in Wahgunyah in north-eastern Victoria where there are energy issues that mean that some businesses might close down if they are not given the opportunity to have a sure supply of energy.

Renewable energy in the form of solar is the best way to provide this energy for these places because, one, it is cheap to install; two, it is easy to install and it has got high reliability; and three, northern Victoria is a great spot for renewables—not as good as New South Wales and not as good as Queensland, but still it is a wonderful place for renewable energy. Someone quoted to me the other day that the worst place for renewable energy—for solar energy—in Australia is better than the best place for solar energy in Germany, and Germany is covered in solar energy. So we have got a massive resource in Australia with solar energy.

Our goal is to provide energy security to augment the grid—so to look at areas where there are issues in the grid and provide energy in those areas—to provide offtake to local townships, and we have now three townships that have said to us, ‘We would like to have a community energy opportunity’, which is why I was prompted to respond to this inquiry, and to offer locals an opportunity to invest if they want to, because there are a number of people who do not want to put solar panels on their roof, either because they think they might destroy or impact the look of their house, their house points in the wrong direction or they do not want to have the maintenance and the upkeep of them but they would like to invest in solar energy in some way. We would like to make it accessible and affordable for as many Victorians as we can, as well as meeting the state government’s renewable energy targets and reducing the state’s carbon footprint.

The barriers that we see really rest with the distributors — AusNet and Powercor — in regional areas, where they are very, very difficult to deal with. They are very slow to react. They do not seem to have a knowledge of what the grid is that they are responsible for. There is very little information about the distribution network in Victoria, such that we cannot find where there are issues without doing detailed investigations by basically travelling around the state and asking businesses if they have got energy issues. The state should know where the energy issues are so that we can go in there and fix those energy issues.

The cost imposed by distributors and AusNet — what would be a good example is our project in Wangaratta, where we started off with a \$1 million connection cost that has now blown out to \$2.3 million and could go higher. So we have got no way that we can go to investors and say, ‘Here’s a project. We need your financial support for this project to happen, and here are the costs’, because we do not know what the final cost is going to be for the connection agreement.

Ms RYALL — Can I just ask you there: why did it blow out?

Mr DRUCKER — They keep coming back saying, ‘Look, we probably should have said to you we need to do this study and that study’ and so on. We said, ‘But we started these discussions back in August of last year. Why are you telling us in March you need to do these studies now when we should have known that back then?’. They just do not dedicate the resources to it, Dee, I am sorry. They just do not dedicate the resources to it. I think we are nuisance value to them. They do under the legislation have to accommodate these opportunities for energy to be injected into the grid, but they do not do it in a friendly way.

Mr MELHEM — Is that because they do not know the answer to the question?

Mr DRUCKER — They do not know the answers to the questions sometimes, absolutely. This is why I was mentioning the point about the lack of knowledge about the grid. They just do not know what their assets are in these areas. We believe it is high time, given where the whole energy world is going, that an ombudsman was appointed to look after the whole energy operation, whether it is a national appointment or whether it is a statewide appointment — somebody who organisations like ours, and we are not the only ones suffering from this, can go to and say, ‘Ombudsman, we’ve got a blockage with this particular organisation’. Fortunately we have been able to talk with the advocate for renewable energy, Simon Corbell, and he has helped us, but we believe there should be somebody who has got the ability to make particularly the distributors, who basically own assets that were owned by the state, to comply with the opportunities that there are to inject renewable energy into areas where energy is needed.

Ms RYALL — Might that be an expansion of EWOV —

Mr DRUCKER — Yes, I could have said that.

Ms RYALL — rather than a whole new bureaucracy?

Mr DRUCKER — Rather than a consumer. Yes, exactly. That is my 5 minutes.

The CHAIR — Thank you, Geoff. At what stage of development is the Wangaratta solar farm, and what benefit will the farm provide to the local community?

Mr DRUCKER — Okay. On the first part of the question, the stage it is up to is we have the landholder agreements in place. We have development approval from the Rural City of Wangaratta, who have been amazingly collaborative in this whole thing because they see the benefit in it. We do have to go back to them with a minor amendment to the development approval, which is just about the siting of one piece of infrastructure on the land. We hope to have the connection agreement available by the end of April. We are now thinking it will be the end of June, but we would like to see it by the end of April. We have investors lined up to fund the \$43 million project to be built, but the investors will not invest until they know that we have got the connection agreement. So that is where it is up to.

We have offtake arrangements offered to us from two organisations, one most recently this morning, that are quite attractive in terms of energy going straight into the grid. That links to the second question about what the benefit is to Wangaratta.

There is one major employer over the road from where the site of the solar farm is, and that employer is called Alpine MDF. MDF stands for medium-density fibreboard—matt chipboard. That company is owned by Sumitomo Forestry. Our solar farm is 20 megawatts in size. Their consumption is 8 megawatts, so they could take 40 per cent of the energy from the solar farm. They suffer from outages at least nine times a year. They get compensated financially when they do, but the upset to the business, the delivery of orders and so on outweighs what they get compensated for when they go offline. So if it is a day of high demand in north-eastern Victoria, with hot weather, air conditioning on, daytime use—when solar is generating—they have to go offline.

That business started discussions with us right at the very start of the project and were going to be a partner in the project. Sumitomo Forestry decided that they would sell that business. They have had a buyer, a company by the name of the Borg Group, but because Borg was already an MDF manufacturer the ACCC got involved and that killed that sale off. Then the business went back on the market again, and we understand the new owner will be announced in the next week or so.

Mrs FYFFE — You say it is a \$43 million project now. When it was announced at the beginning of last year it was \$20 million.

Mr DRUCKER — Yes. We have doubled the size of it.

Mrs FYFFE — You have actually doubled it?

Mr DRUCKER — Yes.

Mrs FYFFE — So the doubling of the cost is the doubling of the size, not the cost of the panels?

Mr DRUCKER — Yes, Christine. Sorry, I should have explained that. When we originally started the project with the council, they allocated some council-owned land that we could lease which was right opposite the industrial estate in North Wangaratta. That would accommodate a 10-megawatt solar farm. We then, at that moment, began discussions with AusNet to find out what the grid could cope with in that area, and they came back and said they could cope with 20 megawatts going into the grid. So we thought, great, let us see if we can get some more land. We purchased some more land, and we have a lease on some more privately owned land. That is 50 hectares in total. That will accommodate the 20 megawatts.

Mrs FYFFE — Thank you. I was horrified, thinking if it has doubled in 12 months, are you ever going to get it off the ground? That is okay.

Mr DRUCKER — No. Since about October of last year we have been working on the size of a 20-megawatt plant. All the projects that we are keen on are really from about 30 megawatts down, so the next one we will probably be doing is in Wahgunyah just south of Corowa, and that will be about at least a 5-megawatt project there.

So of benefit to Wangaratta is surety of supply of energy, which means that an organisation—it will not be Alpine MDF, which owns that business now, but the new owner—not only will be able to guarantee that they can meet their 24/7 manufacturing needs, and that is for 25 days of the month, but they will be able to expand it to 28 days a month. So they will be able to produce a lot longer and have less downtime, because part of what we are doing is providing them with the energy that they need to expand their operation as well. In addition to that, new businesses have expressed interest in moving to Wangaratta. There is a saffron growing business, which is a hothouse business and highly labour intensive because they use little scissors to cut the stamens off the saffron, which is quite remarkable. That will move there if they are short of energy. There are two other businesses. One is a plastics recycling business, and the other is a motor car tyre recycling business.

These businesses see that they have got sure energy. What we can do is we can offer them energy at a capped price now, and when I say capped I mean capped to CPI, for 10 or 15 years if they want from the solar farm. So they know that in the future their energy price is going to be X rather than who knows what it will be.

Mr MELHEM — Can you take us through how you are going to attract them? You are generating during the day.

Mr DRUCKER — Yes.

Mr MELHEM — Obviously these businesses are day operators; they do not operate at night.

Mr DRUCKER — Alpine MDF is 24/7.

Mr MELHEM — And are you looking at using batteries as part of your development?

Mr DRUCKER — We are. We are building Wangaratta with the ability for batteries to be installed when they make financial sense. But right now, working with a retailer, we can provide a sure price of energy. So daytime it will be the solar farm's energy, and night-time it will be baseload energy—brown coal-fired power station energy—because it is cheap at night. I cannot draw a normal curve for you, but what batteries do is they extend the amount of energy that you are able to deliver. They cannot cover the night-time.

Mrs FYFFE — At the moment they cannot.

Mr DRUCKER — Not at the moment, no, although I just read about some new glass-based technology that is coming out which seems to be quite remarkable too, so I think the advances in battery will take us there at some stage. So we are building Wangaratta ready for batteries to go in there.

Ms RYALL — You are a commercial operator but working in with council, so you might lease to them—I looked in your business model—so establish and then maybe sell off to superannuation funds and the like. Have you powered direct into these companies, or are you powering into the grid for a certain value and then that gets redistributed?

Mr DRUCKER — We can do both. The initial goal with Wangaratta was for 8 megawatts of energy to be embedded into Alpine MDF. We were going to give them a new substation as well and gift that to them, and all these things just died when the sale process opened up. So, yes, we can provide energy directly. We are talking with Indigo Shire Council.

Mrs FYFFE — So geographically they are very close to you.

Mr DRUCKER — Yes, they are over the road. In fact the energy will go under a bridge that goes over the Hume Freeway. This solar farm is right on the Hume Freeway and stretches around to the old Hume Highway, so it is going to be highly visible. But then if you go under the bridge, VicRoads have agreed that it will go down the side of the freeway and into Alpine MDF. We can do that, or we can put it into the grid. At the moment, because Alpine MDF is really on hold, we are basing the whole project on it going into the grid.

Ms RYALL — I do not want to get into the details of your commercials, but there is obviously big risk for you given that when you centre on government in a sense where they control and regulate, it creates risk for commercial businesses to a degree because, like your explosion in cost, you suddenly end up with higher costs than you anticipated. You have risks associated, don't you?

Mr DRUCKER — You do, Dee. There are really four pillars that one of these projects rests on. One is getting the land, one is getting development approval from the council, the next is getting the connection agreement, which is where the costs are blowing out with AusNet, and the fourth is, if an investor insists on a power purchase agreement, having that as well. So we have got all those in place, apart from the connection agreement, with Wangaratta.

Fortunately when we did our original budgeting, panel prices were a lot higher than they are now. Because of Donald Trump and what he has been espousing about renewable energy, panel prices have come down enormously because the market does not seem to be as big in the United States as it was mooted to be. So panel prices have dropped. There are two new huge manufacturers in China that are pumping the product into the market. So while the costs have gone up for connection, fortunately the panel prices have come down. But that will not always be the case, and that is why that barrier of the distributors is always going to be a problem for us and for others who are doing the same thing.

Ms RYALL — So where, for example, businesses are facing huge hikes right now...

Mr DRUCKER — Double.

Ms RYALL — Yes, 150 per cent in some instances. So therefore you have got this coming on on the side, and obviously in Wangaratta and relating to that business, how do businesses deal in the interim with these massive costs? We have got a power station about to close down, so in the interim we are hearing that these projects take years to get off the ground. To a degree you have got the regulatory environment.

Mr DRUCKER — How do they cope?

Ms RYALL — So my concern is how businesses are going to cope in the ensuing interim period and also in the absence of a transition plan. We do not have one.

Mr DRUCKER — No. It depends on what their current contract is. Take Alpine MDF as an example. Their current contract ends at the end of 2017. They have been advised by Origin, which I think is their retailer, that their costs are going to go up enormously, and we will not have our solar farm ready, depending again on AusNet. Let us assume that AusNet says yes at the end of April, which would just be ideal, our first generation would be roughly at the time that the contract that Alpine MDF has expires. So we could actually offer them—not we, Countrywide Energy, but a wholesaler who we are partners with—a contract straight away to dispense with that massive increase in energy and have a new contract over a long period of time. It could be 10 years if they want it.

Ms RYALL — I am sorry if I am hogging the time; I just want to understand something. They have still got to sign up for a baseload supplier of their energy, but they are getting...

Mr DRUCKER — Yes, but the energy wholesaler that we partner with can offer them that as well. They offer them a total package of daytime and night-time, so they bundle together what they can buy the energy for at night-time, which is nothing, what they buy it from us as a daytime energy supplier, and then they put that together in a package and they say to the company, 'Here is your cost of energy, 24 hours, for this period of time'.

Ms RYALL — And it will be cheaper?

Mr DRUCKER — Yes, absolutely. It will be cheaper, sorry.

Mr MELHEM — Do you promise?

Mr DRUCKER — Yes, promise. If you give us access to the grid and the knowledge of the grid and also where the issues are, we will build solar farm after solar farm. I had a meeting this morning with the wholesaling company. Is this confidential today? You did say...

The CHAIR — It is protected by parliamentary privilege.

Mr MELHEM — It is not confidential.

Ms RYALL — It is not confidential. It will be public knowledge.

Mr DRUCKER — So I will not mention who they are. But it will be made public?

Ms RYALL — It will.

Mr DRUCKER — So I will not mention who they are. But they said, 'Can you find new energy for us, find new opportunities for us to get access to more energy? We need it desperately'. So they are actively going out—and this is another important part of me presenting today—and finding customers who want long-term energy agreements. What we are saying to them is: because we work in these regional areas we interact with businesses, we interact with residents who all want access to renewable energy, and we could actually bundle together customers for you and you could offer them a deal for all of Wangaratta or for all of Swan Hill or for all of Shepparton, wherever it may be, such that they can all enjoy those same offtakes.

Mr CRISP — We have talked quite a bit about pricing for businesses. How do you respond to the Australian Energy Market Operator's ruling that local generation network credits could increase the prices for other consumers?

Mr DRUCKER — I think it is wrong, totally wrong. If we are putting the energy into the market at a price and someone—a retailer—can make, based on a price that is lower than what the price is that would be offered in subsequent deals from retailers, that we are putting in a price that is lower, I cannot see how it can go up, unless someone is gouging the market, and we are working with organisations that have got similar principles to us, and they do not gouge the market.

If you think about the energy market, it is dominated by very, very powerful organisations that get a lot of money from the federal government. We do not. They get a lot of money from other supporters, like the Clean Energy Finance Corporation, to build projects and increase the profitability for them that they get out of the marketplace. If we can produce energy at a price that ends up for the consumer being less than what a retailer can, that sort of statement does not hold water.

Mr MELHEM — Is that because of proximity to your suppliers because they have got to maintain the grid? The biggest cost of delivering electricity to households is basically the cost of the grid, not the actual generation itself. My understanding is that you can produce electricity in the Latrobe Valley for either 6 cents or 7 cents or thereabouts a kilowatt, but then to deliver it to a house in Portland the cost of delivery is about 30 cents or thereabouts.

Mr DRUCKER — I would love you to ask that question of AusNet or Powercor or Jemena or any of the distributors to tell me how you work out what it costs to get the energy from the Latrobe Valley to Melbourne or the Latrobe Valley to Mildura. I bet they could not give you a document that tells you what it is.

Mr MELHEM — We will ask our next witnesses. I think they might be able to answer that. They are sitting behind you.

Mr DRUCKER — What they are doing is getting a return on their investment. They paid for the infrastructure when the electricity industry was corporatised, and they are getting a return on the assets. Have a look at your energy bill and just see how much is the cost you pay to have the energy delivered through the poles and wires. It is a slab.

The CHAIR — Peter?

Mr CRISP — No, I am right, thank you. It was very comprehensive.

Mrs FYFFE — It was. I admire what you are doing. Is Wangaratta the first one that your company has done?

Mr DRUCKER — Wangaratta is first. The next will probably be Wahgunyah, and then following Wahgunyah it will probably be one in Swan Hill. And there are another four that we are prospecting at the moment, and these are all areas where energy is curtailing economic and therefore social development, and that is where our focus is.

Mrs FYFFE — We are talking about the monopolies, the major companies. What changes do you think are needed to electricity distribution and retailing rules to make the community energies more viable? What changes would you like to see?

Mr DRUCKER — I would love to see the whole structure opened up such that what we are doing—and I am not saying this from a selfish perspective, because I do not think it is a selfish perspective—has the opportunity not only to inject energy into areas where it is needed for businesses but also for that energy to be shared with households as well. Wahgunyah is a really good case in point where the mayor and the CEO of Indigo Shire have said to us, ‘What are you doing with the Wahgunyah opportunity? We have got the land organised and so on and so forth’. They have said, ‘Could we open up an industrial estate next door to where you are doing this’. The answer is yes. Then, could we also supply energy to the households in the township next door? I said, ‘I don’t know. I don’t know how you are going to do that, how you are going to work that out with the distribution companies’.

Mrs FYFFE — Because of all the rules of crossing roads, going down highways and all those issues.

Mr DRUCKER — Yes, how you are going to do that with the distribution companies. That would be the absolutely ideal situation, where you have got areas where there is not energy security. So in the summertime

during the week when energy gets lost in these regional areas how can we pump that area with more energy and work cooperatively with the distributor to ensure that not only businesses are protected but also households are protected.

Mrs FYFFE — Without divulging any commercial confidence you said you have got the investors waiting for the \$43 million development. Do you think it will be easier to get investments for your next project? We have had a mixture of reluctance and so on.

Mr DRUCKER — Yes, I do. These investors—some are domestic, some are offshore. There seems to be a strong appetite for them. To get them to construction stage and operational stage then the super funds like them because they are an ethical investment with a long-term return on investment, so they like them. I do not think it will be that difficult, no, unless the cost of this one goes through the roof, and the only area where the cost can go through the roof is with our connection agreement. Everything else is under management.

The CHAIR — Geoff, on behalf of the Committee I would like to thank you for your time and your contribution.

Mr DRUCKER — My pleasure. Thank you.

Witness withdrew.