

CORRECTED VERSION

ECONOMIC, EDUCATION, JOBS AND SKILLS COMMITTEE

Inquiry into community energy projects

Shepparton — 31 May 2017

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Ms Dee Ryall — Deputy Chair

Mr Jeff Bourman

Mr Peter Crisp

Mrs Christine Fyffe

Ms Jane Garrett

Mr Cesar Melhem

Witnesses

Ms Sally Rice, Manager, Safety, Amenity and Environment,

Mr Jackson Tennant, Environmental Services Technical Officer, and

Mr Thomas Brown, Environmental Sustainability Officer, Moira Shire Council.

The CHAIR — Good morning. Welcome to this 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. 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. Before you start, can you please state your name for Hansard? We will listen to your contribution and then allow us some time for questions.

Ms RICE — Thanks very much for having us; it is an opportunity we appreciate very much. My name is Sally Rice. I am the Manager of Safety, Amenity and Environment. I believe you have met Tom Brown, who has just changed hats and is now wearing his Moira Shire Council Environmental Sustainability Officer hat, and Jackson Tennant is Moira Shire Council’s Environmental Services Technical Officer.

I am just doing a little bit of an intro. To put in context our submission to you and the comments that we are making today, I will just draw your attention to our environmental sustainability strategy, which is currently out in draft for public consultation. It is available on our website or I can send it through for your benefit later. It is designed around seven focus areas that council is making a commitment to for the next four years.

Focus area number 4 is ‘Climate change—adaptation and mitigation’. We have identified in that four performance indicators that we will be guided by in our work over the next four years. The first one of them is about council developing a corporate emissions reduction plan; the second one is for 25 per cent of council’s electricity to be from renewable sources; the third one is about reducing greenhouse gas emissions; and the fourth one is for two community-based energy efficiency and/or renewable energy projects to be supported by council in the next four years. That brings together our focus on supporting and facilitating and enabling community energy projects as well as dealing with council’s own corporate emissions. That is the corporate context for the rest of our presentation. Tom is going to take over from now. Thank you.

Mr BROWN — I will for the record contain my responses to my role at Moira shire at this stage of the Committee hearing. I would like to take the liberty of playing you a four-minute animation that is the result of a three-year community renewable energy project that Moira shire ran in partnership with Swan Hill Rural City, funded by the Victorian Government. The project has been a long-running project. It started with one focus and ended with another. So without spending a lot of time detailing the project, I hope this animation will encapsulate its findings and its outcomes.

Video shown.

Mr BROWN — Unfortunately some of the detail was lacking in that because of the colour, but that animation will be available from Moira shire’s website shortly. It has a blue background which makes a lot more of the details make more sense. There are some additional websites there. They are actually clearer to read when the animation projects correctly.

So you may realise there is some crossover in information in that animation with what I talked about previously. But in terms of Moira shire’s perspective, the reason we wanted to look at community solar gardens was to assess our procurement guidelines, which we are required to follow under the Local Government Act under the procurement section. We are required to assess best value in any purchases that council makes.

At the time and even today, Moira shire does not have a huge amount of capital available to expend on projects such as solar gardens or solar farms. It is required for roads, curbs, curb drainage and any other sort of fundamental infrastructure. So we began to think about how council might be able to access its operational expenditure, which is an ongoing expense, in a better way to support the objectives of our sustainability strategy and also continue to improve our compliance with our Local Government Act requirements for best value.

So we quickly identified that using our operational electricity expenditure and thinking about how we could apply that expenditure in a different way was a good way forward. Solar gardens—after an extensive

study of a project that was funded with \$80 000, we have really come to that final conclusion that the model of a solar garden and the electricity transactional methodologies that sit behind that, such as local electricity trading, really provide councils with the opportunity to take more control over how they spend their ongoing operational expenditures on electricity and try and create some local economic development from that.

The CHAIR — Thank you. Peter, this is your chance. You might get a different answer from Tom than Thomas, so it is up to you.

Mr CRISP — I think we dealt with a number of those issues earlier. I think now we start looking at some of the add-ons we can do, and I am going to talk about tax incentives. Your submission did mention that other countries had implemented tax incentives to encourage community energy. What kind of incentive are you looking for, and what is federal and what is state?

Mr BROWN — Sure. Once again, the information around incentives and mechanisms that have been put in place in other jurisdictions internationally is fairly well articulated in the local electricity trading options report that was produced by the Institute for Sustainable Futures for Moira shire.

I am happy to profess I am not an expert in tax and the mechanisms by which tax can effect change, but if you draw a parallel to tax deductions for capital expenditure on items, it may have a positive social or environmental benefit. That potentially can be the vein of thought that can be applied to community renewable energy programs, or at least particularly the question around the taxation of earnings that are derived from community energy projects when they are structured through a unitised trust fund model where the owners or the co-investors in the community energy project receive a financial dividend as a result of the on-sale of their electricity into the market as opposed to receiving the electrons at their house to use and whether that income is generated from those community energy projects as a taxable income for those households. If it is, there can obviously be income tax consequences but potentially welfare consequences for those households who may perhaps be in receipt of welfare.

So determining some of those tax statuses of those community social enterprises or providing some clarity I think would be a good step. It may already exist. And I am not an expert, so if it does, I apologise. But it would be good to explore that in some depth.

Mrs FYFFE — Perhaps this is a Sally one. Since the submission, the AEMC has ruled against local generation network credits. In light of this, what are your expectations or hopes of the Victorian Government in what they can do to be able to help?

Ms RICE — I will get Tom to talk on the technical stuff. Because it is so technical, I have not indulged in it as much as he has. So I will pass that over. Thanks.

Mr BROWN — Thanks, Sally. What we expect from the Victorian Government I think in part is occurring already. There is a fairly forward-looking stance on supporting renewable energy and community energy in Victoria, and that was further bolstered recently by the announcement of the three community energy hubs that are being trialled—one in Ballarat, one in Bendigo and one in Latrobe Valley. That is a good step forward. In terms of local electricity trading, the mechanisms that enable that to happen that we have identified already exist in the retail energy sector, but it is the proportional charging for the distribution grid which I still think needs to be addressed. I think what Moira would expect or request the state government to do is understand the methodologies proposed to implement a proportional charging program for the distribution network and seek to discuss that at the COAG Energy Council and seek some type of national consensus on how we address those energy rules to make ...

Mrs FYFFE — Are you sensing that there is a desire to do that? Have you any ...

Mr BROWN — Not overtly from the correspondence I have received, but from Moira's perspective through this project certainly addressing that issue of the proportional charging for the distribution network is one of the critical barriers to the economics of community solar or community renewable energy.

Mrs FYFFE — There has to be an appetite for it to get through COAG, does there not?

Mr BROWN — There has to be, and I would like to understand whether the proposed methodology for the calculation of that proportional charging has been read and understood by the state and whether that has been tabled at COAG for discussion. I think that would be a very valuable first step if it has not already been done. And that information is freely available, both the modelling that the community energy sector has done and the modelling that AEMC has done.

Ms RYALL — Thanks, Tom. My question relates I guess once again to the vulnerable. The video clip that you showed is about if you do not have free space, then you can invest in a garden and still get returns. Have you mapped out how it would work in terms of those that have no disposable or extra income to actually invest to be included in how this would work?

Ms RICE — I think the whole community engagement phase of this is really where we are now at given that some of that knowledge has been uncovered through this project, and it is certainly an interest of ours to identify who in the community may be interested in participating in one of these set-ups and what their current barriers are, whether it be financial or that they are renting or that they are leasing the shop premises et cetera. We want to get a lot more information about that and then start working through how we can assist those people with their specific barriers, and there will be a number of them. But we have some particular communities in Moira shire who have challenges. The Barmah community with the future loss of access to red gum firewood, for example, is a pending issue that we are well aware of and have had discussions with the state government about already and what the options might be for those people. So there are the general people who may have financial constraints, and then we have also got some targeted community members and sectors that need to be engaged with probably quite particularly. Do you want to add to that, Tom?

Mr BROWN — Yes, I would not mind if we have the time. Although at present what I am about to say has not gone through any type of endorsement process at council, it is an opportunity to look at low-income households and how they might be able to participate in these types of programs. There is a project that Moira shire has a watching brief on that is being spearheaded by Maroondah city. It is a project called solar rates.

Ms RYALL — Maroondah?

Mr BROWN — Maroondah, yes. It is funded with about \$740 000 from the state government through the New Energy Jobs Fund, and it is looking to develop a replicable model for utilising the municipal rates mechanism through a special charge system to enable access to small amounts of capital to install renewable energy or energy efficiency upgrades in private properties and have those repayments against that special rates charge recouped over time at a rate that is lower than the savings accrued by those investments made in that private property. That type of mechanism was pioneered by Darebin city—the Darebin model, as it is sort of colloquially named these days—and it has been a success to date in that it has enabled an economic benefit to flow from an investment in a private property so that the home owner or the occupant is financially better off from day one in that investment.

That model is ideally replicable for rooftop solar or ownership of shares in a community solar garden if those rooftop solar panels could not be applied to, say, a rental property or the like for various reasons, whether that be the landlord or other aspects. I think councils have a growing opportunity to investigate how the rates mechanism can be applied in that setting to support low-income households.

There are some critical considerations in terms of how councils access the capital to resource those subsidised loans, but the project that is being run now is doing that sensitivity analysis. It has the support of the Australian banking institution as well in terms of the economics behind it, and I think over the next year or so the mechanisms and the costs involved in that type of model will be much more refined and understood by the local government sector. Subject obviously to council support, those types of mechanisms are ideal to be linked up to an idea or a concept such as a solar garden to enable low-income

households to participate. There may be some involvement for welfare organisations as well to provide some of the capital behind those loans through institutional lending.

Ms RYALL — Can I just suggest that we perhaps access the Maroondah information? Thank you.

Mr BROWN — One more point: if I could ask Jack to hold up one of the graphs here—this is a graph that we are happy to leave with you. It represents the energy profile of Moira shire’s largest building, our service centre. Effectively with the rooftop solar system that will be installed on that building shortly we can only satisfy 30 per cent of that building’s daytime energy demand—so we need to source that energy somewhere else, and we think a solar garden is a way we can do that. That is one of our motivators behind looking at solar gardens for the supply of our own energy for our municipal operations, but that leads into the opportunity to bring the community along as co-investors in that solar garden to supply their own energy to the same effect that we are needing in our own operations.

The CHAIR — I do not know if the tax incentives have been covered or not, but my question is—excuse me, it was covered?

Mr CRISP — Yes, I stole that one from you.

The CHAIR — Well, if I have no further questions, any other questions?

Mr CRISP — Probably through Sally to Tom. Tom, the trial that has been undertaken between Moira and Swan Hill, is that trial over yet or has it been written up yet?

Mr BROWN — Yes, it is complete. The final paperwork is sitting with DELWP at the moment for approval and will be publicly available through the Moira shire website. That project has also created an interactive business case model that enables potential investors to interact in a solar garden model and understand the outcomes and the effects on their energy costs through time. That project has now led on to a further consortium of Swan Hill partnering with the Community Power Agency and the Institute for a Sustainable Future in a funding bid to ARENA, specifically to look at how low-income households can be integrated into and benefit from solar gardens. That is subject to funding at this stage.

Mr CRISP — The charge that Powercor put on a kilowatt hour moving within that network—what was that, do you know?

Mr BROWN — What was the charge?

Mr CRISP — Yes, and the mechanism for charging.

Mr BROWN — Sure. You are referring to the methodology that was proposed through that project?

Mr CRISP — What I am getting at is trying to work out the quantum of the saving for those businesses and households that were involved in this project. There was a generation cost according to repaying the panels at the garden and there will be the cost of moving it to your business—in the end cost, how big is the saving?

Mr BROWN — I would encourage the Committee to defer to the virtual trial of a solar garden and the case study. It articulates about five or six consumer types and the projected savings they would receive from investing in the solar garden at different levels. The simple return on investment period for a number of different energy consumers was between five and eight years. Importantly, what the virtual trial and the business case found was that even without the ability for the proportional charging of the distribution costs, a solar garden could still deliver energy to a local consumer at a marginally lower cost than the current energy rate today on the market—with the added benefit that a proportion of the expenditure that those communities are making on energy is actually retained in the local community in the local solar garden, as opposed to leaving the municipality altogether.

Mrs FYFFE — So you are saying that there would be a cash return to the investors plus there will also be a social return after paying whatever levy, or whatever you wish to call it—a charge—by the people who are running the movement of the power?

Mr BROWN — That is correct, yes. The business case is sensitive to the retail cost of electricity and could be undermined by aggressive marketing attempts from the existing retailing sector offering massive up-front discounts, which ameliorate over time and disappear. It has been important in terms of building a solar garden and engaging the community to become members that that is clearly understood—that longer term a solar garden has a capacity to stabilise energy costs and make them predictable longer term for households and businesses, which is something they do not have today.

The CHAIR — A good way to finish. If there are no further questions, I would like to thank you on behalf of the Committee.

Witnesses withdrew.