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

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Mr Adrian Merrick, Founder and Chief Executive Officer, Energy Locals.

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. Any comments you make outside the hearing are not afforded such privilege. Hansard is recording today's proceedings. We will provide a proof version of the *Hansard* transcript so you can correct any typographical errors. If you give us a statement, then we will provide some questions to you. Could you state your name before you start.

Mr MERRICK — Adrian Merrick, I am the Founder and CEO of Energy Locals. Thank you for inviting Energy Locals to make some comments and take questions from the Committee. We think it is good that the Victorian Government is looking into this. There is a lack of policy leadership in this space at a federal level, as most people know, so it is good to see the various states now taking some firm action, and community energy we think is a powerful way to do that.

Energy Locals has been set up as a social enterprise. Our ultimate aim is to dramatically reduce the reliance that customers have on the grid. When connected to the grid a customer is a price taker with very little control over the price they ultimately pay for the energy that they use, and we would like to turn that around and say we would like customers to be able to use as much energy as they need to live a comfortable life for a fixed, fair and affordable price, and we would like that energy to be clean.

We will not get there in one fell swoop, so our first move into the market is to start by cleaning up the retail offers and offer a very clear and transparent product in the market, including Australia's only energy company promise to never increase our prices for profit. So for customers the price will be the price, and if it changes, it will be external factors rather than the traditional profit creep that I think people are used to seeing on their bills and as discounts tend to erode. Over half of our profit goes to the partners we serve. We are looking to work with partners that are involved in a few good causes, but the core one for us is community power and people who are looking to grow the mix of local renewable energy within the country.

We do not think that energy retailing is the sort of thing that we should be setting up piecemeal all over the place. It is a complex operation to run, and it is not cheap to set one up and run it. It requires scale in order for customers to get the best possible price. If we were to fragment that too far, then I am not sure consumers would win, so we have set up our business to provide a retail service for communities that want to be able to control, structure their own local retail offering, benefit from the profit from that but without having to set up a retailer from scratch. As I said, through that we would like to grow renewables. I am happy to take any questions that the committee members have.

The CHAIR — Thank you, Adrian, for your contribution. My question to you is: how does the business model for Energy Locals directly contribute to an increase in distributed generation?

Mr MERRICK — A lot of the partners we are working with, in fact most of the ones we are talking to—there are a few charities, but the majority of the ones we are talking to—have local projects that they want to see funded, and one of the things that a lot of communities wrestle with is how best to fund some of the projects that are going into new solar, be it a single roof at a time or be it to get communities involved in a larger project within their local area. There are a few different sources of that funding, but at the moment close to 100 per cent of someone's bill when they pay it leaves that community. It disappears out of the community to stakeholders in companies that are not located within it, but by and large it is close to 100 per cent. We believe that starting to retain some of that money within the community gives them the ability to directly contribute to those projects without having to go and raise external funding or ask a super fund for assistance or whichever source it may be, because we know that each of those external debt financing sources actually has its own pros and cons. Super funds, for example, want guaranteed returns over a very long time, which is quite hard for a small community energy group to achieve.

Mr CRISP — In your opening remarks you did touch on this, so I would like to tease out a little bit further just how your retail service platform for a community energy group works, and then the barriers to setting up this platform in Victoria and how you were able to set it up in New South Wales.

Mr MERRICK — It is essentially the same platform that will be used in all states. We will go live in three and a half weeks' time in New South Wales and Queensland, and that is simply because we are able to because we have a licence to operate there. So we submitted our regulatory applications to the AER, the Australian Energy Regulator, that covers most of the other states, and to the ESC, the Essential Services Commission in

Victoria, at around the same time. We have our licence, our full licence without conditions from the AER; we are still waiting to hear what will happen with our application in Victoria.

It is the same system; I will explain how that works. The platform: in essence we have some predefined retail tariffs that we believe are appropriate—they are fair. Again they all have the guarantee that we will not put up customer prices for profit. That is just an implicit guarantee across all of our products. A community group that we talk to can say, 'Yes, that's appropriate'. We were talking with a Victorian one this morning actually. They can either say, 'Yes, that's appropriate', or 'Actually, based on our individual needs we would like to see a higher feed-in tariff', or some other change in the structure of the tariff. We can do that in a matter of hours, have that loaded into our billing platform.

When we then provide the price to the customer it is very normal. So they will see a fixed daily charge and they will see cents per kilowatt hour, so very standard product architecture, but we will not do the discount games that go on in the market because we know that that is not actually necessarily in customers' best interests unless they are some of the very few that switch around about every 11 months. It will be a different type of promise that we offer to customers. So when a customer then pays their bill, we deduct a fixed service fee which covers effectively our cost to serve, an extremely small profit and then the remaining net profit goes to the community partner. So they essentially get the bulk of the net profit associated with that energy retail offer but without having to go up and set up a retail operation, get a licence and all of those other bits and pieces, which may work for some communities—and we are completely supportive if that is the right approach—but I think largely the winners, if a lot of communities were to set up a retail operation from scratch, would be IT companies who would replicate the same sorts of systems and software across many small customers, which probably is not efficient for those customers.

Mr NARDELLA — What are the barriers restricting the rollout of virtual net metering, and how can these be overcome?

Mr MERRICK — Virtual net metering or local energy trading or local network credits, the terms get interchanged, but in essence to a customer it means kind of the same thing, which is if I have excess energy and my neighbour is able to use that, then why is he or she—the neighbour—paying all of the various add-ons, such as full network charges that get added to that as it goes out of the house, across the pavement and into the next house? It has all the same add-ons as though it had been generated 200 kilometres away, which is quite unfair.

There are different perspectives on this. I think you would find most people who have responded to the Committee's inquiry with submissions would want to see that changed, because we are coming at a place where energy can be more local again and should be more local and customers can be more in control. It is not necessarily in a network company's interests to lobby for that change. We would have to look as to how each of them stands individually, which I have not done, but within their mindset it would be unusual for them to say this is a great idea based on where they are today.

There was a recent determination—I think it was the AEMC—that knocked back a potential rule change though, and I think there are still a couple of weeks left for submissions to be able to be made to try to challenge that and appeal against where they have landed. So in essence the biggest barriers are regulatory. The technology exists, whether people are using blockchain or whether they are using simpler forms of technology. The ability to measure the output of a unit of energy from someone's solar PV at a particular point in time and the consumption of that somewhere else at a particular point in time, the technology to match those does exist. So this is not a technological issue. It is not a commercial issue. There are people out there that want to do this in Australia and other countries. We would like to see some regulatory change that would support that. We run the risk of having various communities around Australia that are running way ahead of the regulatory landscape, which would be a real shame I think.

Mr NARDELLA — We heard some evidence earlier on today on this particular point in terms of yes, there is the technology to do that. Before South Australia, Tasmania, Victoria, New South Wales and Queensland were connected under John Monash, Victoria was all connected. So there is an inherent value in all of that if you have a look historically. For somebody to come in and to say, 'Yes, we will just cherrypick; I will get it from my place to your place, but I don't want to pay', do you not think that is a bit unfair? Because there is a charge and there is a maintenance charge, and if the local system goes down, then you are relying on the total system—whether it just be within Victoria or that interstate system—to in actual fact operate. Otherwise I think as a family you do not care where the electricity comes from, but when you put the telly on you want it to

actually go on, or the lights. You see it as unfair that there is a charge there. Why do you see that as unfair? Because there is an actual cost of running that network from one peer to another peer, from one household to another household, one company or whatever to another.

Mr MERRICK — I am not saying there should not be a charge. I am just saying that paying a normal charge as though it has come from a power station some distance away is the part that is not fair on the consumer.

Mr NARDELLA — But there is a cross-subsidisation, so, yes, you have got Loy Yang 150 kilometres away or whatever it is — have we still got Loy Yang? Yes, we have. But in Peter's case, that has got to travel all the way up to Mildura. So there is a cross-subsidisation of the metropolitan area to then provide that there. What you are saying is, 'Well, we'll just put all that aside. We're only going to charge peer to peer. It might only be a kilometre. It might be 5 kilometres. So that should be the charge'. How do you work that out?

Mr MERRICK — There are a couple of ways, and there have been some pretty detailed submissions that have gone to the AEMC with different ways in which this could be structured. A very simple alternative is to load it into more of a premium feed-in tariff for locally distributed energy where there is some agreement in place through a retailer or other body that that energy has been offset by someone else's consumption in the local area. I am not saying that you should remove those charges at all. There is still upkeep of those local poles and wires that are still connecting those houses, but a lot of the network would not need to be used in its current capacity, and a lot of network investments in the future around pinch points in the network could be avoided if this is more efficiently managed when the network is most needed.

There are people out there who will say to you, consumers who will say, 'If this regulation was in place, I would fill my roof with more panels'. They would increase the capacity beyond what they need as a consumer. So you start to have much more local power generation than that individual home needs, and that is kind of helpful because not every home will have solar or other forms of microgeneration on it. If this is starting to keep some of the energy within a particular local region, there is use of that local network, I agree, but you are not using the full energy infrastructure as it stands today.

Mr NARDELLA — Not at that time, but then what you do is you isolate all working-class families and others that are not part of the microsystem to then pay for that network, do you not? Again you are cherrypicking your own small micro-distribution area, but even within that area there are people who cannot afford it—renters, for example, or pensioners—who may not necessarily be able to put on a 5 or 10 or 15 or 1-kilowatt system, not that you can at the moment. They cannot afford it, so their network charges are going to be loaded up to pay for middle-class and upper-class people who can afford to put in place their own systems and be part of that microsystem. I do not think that is fair.

Mr MERRICK — We have absolutely got to avoid disadvantaged consumers in particular losing out in this, but I would also argue that some of those consumers now have access to a different market. Some of those consumers today, I would argue that a reasonable proportion of them are not on the best deal that they could be on in the market. As they have access to other local sources of energy that they could choose to buy from and an aggregator of that local power that says, 'Well we are grouping together the various kilowatt hours that are being exported from roofs in the local area, and we will offer it to you cheaper than your retailer is offering it to you', I would argue that gives that consumer more choice. But I absolutely agree that none of this can be put in place if it means that the 10 or 20 or 30 per cent of people who are left properly using the network pick up 100 per cent of the bill, so there has to be network tariff reform, on which there has been a lot of debate over the last couple of years and no real firm resolution as yet. I do not think anyone would sit in this room and argue that it is okay for a declining number of people to still pick up the same bill. I would argue though that local generation credits and local network credits open up the market and give consumers access to greater choice than they have today.

The CHAIR — Talking about distributors, how could community energy projects be used to subsidise the electricity bills of low-income households, and can you provide examples of where this has been achieved?

Mr MERRICK — I think Moreland Energy Foundation is a good example of this, and I think you are seeing them tomorrow perhaps or in the next session that you are having. They have done some great work in that area to actually get out and have some solar put on the roofs of the homes of people who cannot afford it.

There are a couple of models that can be used from that, in one of which the consumer pays less than they are paying to their current energy supplier, so they are effectively purchasing a reduced rate for the energy that is coming from the roof. That reduced rate goes to the people who funded the asset to pay off the cost of it. The other way, which probably has not been explored in Australia to the extent that it could as yet, is the ability for some people to pay that off through their rates instead or concession payments even, so a different type of commercial arrangement for them to pay for the cost of essentially cheaper or subsidised clean power.

That is one example that is being used in a few places. There are a number of community energy groups that are very conscious of this. That is where I think these community energy groups have a much greater ability to target those consumers than large energy companies or network companies will have, because they are in amongst the community and they understand the needs of those types of customers that have specific requirements.

Mr CRISP — Other than virtual net metering, what regulatory reforms are required to support the community energy sector?

Mr MERRICK — There is a lot of talk about community ownership and then the various organisational structures that would support that. Cooperatives are one of the things that people do look at as a way of making things very fair and equitable. There are rules around limiting the number of people you can seek investment from at the moment, and I think that links into the so-called crowdfunding-type legislation. It is clear that changes to that would open up the ability for people to contribute on a fairly micro basis but still own a share in something that is being built. Having said that, I am not sure community ownership is necessarily the answer to everyone's problems. I think communities need empowerment and they need benefits. Ownership is one potential way of obtaining that, but it is not the only way. Regulatory reform around local generation credits and local network credits, as we have already discussed, I think is in need of being addressed properly. I am not sure if we have run the full course of that debate as yet.

The ongoing reviews that are happening in Victoria over the licensing framework, I think, will make it easier for people to understand exactly what is required if they are to set up either a retailer or an operator that is selling power purchase agreements, so essentially selling energy but without being a retailer through the panels on someone's roof. That licensing framework review would just make it really clear where people stand and actually simplify the process for people who are in the community trying to do the right thing. There have been some recent positive moves in the right direction there, but there is probably a little way to go still.

Mr NARDELLA — In your submission you talk about how the current licensing framework creates risks for community energy projects due to long lead times for application processing and process uncertainty. How do you see that being dealt with? Is there an industry ombudsman that might be able to assist? Is it through getting a group of experts to assist in getting these regulatory processes through? What is your view, Adrian?

Mr MERRICK — I am not 100 per cent clear on why it is taking much longer in Victoria than it does for the AER. I am aware that the licensing process in Victoria was last reviewed a very long time ago, hence the comment that I was just making about some of the recent changes. I actually heard the chair of the ESC say at a conference recently that there have been some resourcing issues that have slowed down the licensing framework review. Whatever it is that is holding back review applications, it should be addressed, but without being inside the Essential Services Commission it is hard to see what those would be. But when you have got communities and other bodies that are out there trying to get on and offer different types of choice and different types of offers and competition in different ways to consumers, then it would be good to get those entities an answer over their application sooner rather than later. I see no reason why Victoria should be slower than the rest of the country, but I am not clear on exactly why it is today.

Mr CRISP — How can the protection of consumers and their energy security be assured as the level of distributed generation increases?

Mr MERRICK — Quite topical, from events of recent weeks, obviously. I would argue that if we are to encourage the right investment in the right places, then we can see greater energy security in the future. We already have a number of very ageing baseload generation assets. We have just heard about the announcement of the closure of one. There are others that are quite old in their life and would require an increasing amount of investment to keep them running. I am not aware of any new baseload generation from coal that is out there looking to be built at the moment. To turn the question around, there is a do-nothing scenario which gives us a

security of supply issue potentially as well, which is you have a bunch of ageing assets that no-one is looking to replace or spend a huge amount of money operating. So I think there is an imperative on us cracking on with this.

What is the greatest risk to energy security if we were to proceed apace with distributed generation? The greatest risk is that asset owners start switching them off at an increasingly fast rate. We have seen a couple in South Australia, we have seen one in Victoria recently and there are probably others that are being debated in various boardrooms around the country. So some sort of regulatory change to provide an incentive to keep capacity available when it is needed would be sensible. A market in which you are only paid when you generate does not necessarily provide the impetus for some of these generators to stay online. So if there is a capacity payment that says, 'Look, if we need you, then you've got to be there'—and I am simplifying things dramatically, but I am aware that that has been talked about in the past and potentially should be something that is considered. So that is on the baseload and potentially peaking generation side.

On the network side I would like to see that networks increasingly support the ability of consumers to connect new local generation to the grid, potentially opening up the ability for microgrids to operate in the future, which could solve some of the future network constraints that are on the horizon if nothing else changes. And clearly we should encourage the AER to maintain a strict control over the ongoing review process they have for network tariffs and—back to our conversation earlier—how those network tariffs are best structured to make sure that we do not see too violent a swing in one direction or another, which could leave some consumers in a worse-off position.

Mr NARDELLA — In your submission you said it was too expensive and onerous for small community energy projects to become wholesale market participants so they may resort to a power purchase agreement and that favourable power purchase agreements can be difficult to negotiate when most retailers also generate their own renewable energy. I did not understand what you meant by that. Can you explain what you mean by that?

Mr MERRICK — Yes. If you put yourselves in the shoes of a larger retailer or a larger energy company, then you have a lot of customers and you obviously want to make sure that you have a reasonable balance between your access to generation and your customer demand. You want to ideally keep those two things reasonably balanced, otherwise you are exposed to shifts in the wholesale market one way or the other—it could go well or it could go badly, so you really want to keep those two things fairly balanced. So there is clearly a lot of long-term forecasting that will be put into decisions around making sure that that capacity is available, either through building something or through purchasing, entering into a PPA with a renewable asset owner. But the scales that obviously these companies are operating at means that it is kind of hard for them to go out and talk with 300 different projects that are all doing, in their own right, independently, quite small contributions to the overall generation mix. I know that there are a lot of people out there who are looking to sell PPAs to large retailers right now. One of the reasons is that in the market at the moment the debt financing that is available, be it from super funds or wherever else, is looking for long-term commitment, the ability to pay down to service that debt.

Now I understand that this was the case a very long time ago when people started building coal power stations and everyone was looking for long-term offtake agreements before they had put a shovel in the ground. I think at some point we need to find some change to the framework—and I am afraid this is not my area of expertise, so I do not know what that is—that makes it easier for people to financially support these projects without requiring a 20-year signature from a very large participant in the market on a piece of paper before they are able to release the funding, because that obviously is an impediment. It means that there are a lot of large projects that are looking for a signature on a PPA before they are able to release the funding and start the work, even though they are kind of ready to go, and the smaller projects probably do not get as much of a look in the door just because there is so much conversation around these bigger deals; if you have got 1 conversation you could be having or 30, then clearly it is very rational that these guys would be having just the 1 conversation with a larger player. So I think there are fairly rational reasons why it is a little bit harder for them to do that.

But with different models emerging in the market, then there should be other people who are able to buy this from local renewable generators, as we are looking to do, and then offer that back to communities in a form of local retail tariff. That is one of the things that we are talking to some of our partners about—if they are looking to develop some local renewable generation, then to reserve a portion of it that we will buy from them and

provide to the community in the form of a tariff. So there are different business models emerging that I think will start to help with this.

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

Mr MERRICK — Thanks. Good luck.

Committee adjourned.