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Economic, Education, Jobs & Skills Committee  
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### **RE: Inquiry into community energy projects**

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Victorian Parliament's Economic, Education, Jobs & Skills Committee (the Committee) inquiry into community energy projects (the Inquiry).

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Technology change and innovation have created opportunities for supplying electricity in unconventional ways. Electricity generation technologies such as solar, biomass, wind generation and battery storage systems can provide electricity at a smaller-scale, distributed level in the interconnected grid- the National Electricity Market (NEM). Deregulation of the retail market has also created opportunities for the demand for electricity to be met by new services. Community energy projects are one of the many new choices communities can make to support their energy needs or pursue environmental goals.

There is a growing opportunity for diverse technologies to be engaged for community energy projects, but many of these are currently not cost effective. The existing regulatory and market structures do not limit community groups from establishing an energy project. However, understanding the regulatory frameworks and requirements to establish an energy project can require a significant investment in time and effort. It is essential that communities understand the costs and benefits of their proposed options to ensure communities make informed decisions. Providing a framework for analysing the relative merits of energy projects can assist to increase knowledge and awareness that empowers decision making. The Commonwealth's [www.business.gov.au](http://www.business.gov.au) website provides similar guidance to assist to small business planning<sup>1</sup>.

### **Evidence-based policy**

The Terms of Reference of the Inquiry require the Committee to investigate increasing or expanding the number of community energy projects. Any Government intervention in a competitive market should be carefully weighed against the costs. Introducing a subsidy or another government measure into an otherwise well-functioning, competitive market framework would be inefficient and welfare-diminishing.

The Victorian Government has not outlined an identified market failure which prevents groups from forming their own community energy projects. Only where a market failure has been identified can an effective subsidy aid in bringing social and private costs and benefits into alignment.

## Constructive support for community energy

The existing market does not prevent community energy projects from being developed. There may be general barriers such as the relatively high cost, long pay back periods and coordination or information difficulties. While the industry does not support intervention where a market failure is not identified and substantiated, there may be a role for governments to assist with the provision of information. Easy access to information tailored to communities may make it easier for community groups to understand the challenges and benefits of a local energy project, ultimately assisting their decision. The Government of New South Wales publishes a guide to community energy aimed at empowering communities to make decisions, with information<sup>ii</sup>.

Community energy projects can be arranged in a number of ways that suit the individual situation within the regulatory frameworks for electricity in the NEM. For example, some retirement village operators purchase energy and package the service with other products such as solar panels and battery storage. In this way, they act as retailers, on-selling electricity to residents. The Australian Energy Regulator (AER) provides retail licenses or exemptions to retail licenses for entities who sell electricity in the NEM<sup>iii</sup>. If a community group connect their energy project to the network through a Victorian distribution service provider, they are required to be registered. The regulatory framework for small users and generating systems (such as a community project) connecting to the network is set out in Chapter 5A of the National Electricity Rules<sup>iv</sup> as 'micro-embedded generators'. If a community group disconnected themselves from the network, going off-grid, they do not fall under the National Electricity Rules or regulations.

The Australian Energy Market Commission (AEMC), which creates the rules for Victoria's electricity and gas markets finds there are no regulatory impediments to small scale generators or users such as community energy groups. From 2015 to 2016 the AEMC considered whether distributed generators should receive a credit or payment, because it was proposed that distributed generators provide a benefit to society by lowering network expenditure. The AEMC does not agree, and considers that the local generation payments proposed are likely to increase electricity prices for all consumers<sup>v</sup>. Significant reforms led by the Council of Australian Governments (COAG), have resulted in the implementation of mechanisms in the NEM which incentivise efficient investment in embedded generation and other non-network solutions. The existing market and regulatory structures encourage new technologies as they become financially viable<sup>vi</sup>.

The customer protection framework in place in NEM jurisdictions (including Victoria) provides protection for energy consumers who are connected to the NEM, but does not cover off-grid energy consumers. COAG is currently considering regulatory reforms which would modernize consumer protections<sup>vii</sup>.

## Benefits and challenges for community energy

The benefits to the community when power is generated locally can be direct and/or indirect. The direct benefit to the community is to lower the amount of electricity purchased by generating and using electricity locally. And in cases where more energy is produced by the community than it consumes, payments for electricity generated may be earned. The indirect benefits of community energy may include emissions reductions where renewable generation offsets fossil fuel generation. At the fringe of grid areas, indirect benefits of local generation may also include an increase in power reliability and security. Even with storage technology incorporated as part of an energy system, most communities will require a connection to the grid to ensure consistent power supply year round. The significant grid infrastructure in established areas mean that the grid continues to offer cost effective power which is highly reliable.

Businesses are investigating ways in which battery storage combined with local power generation can benefit regional and remote communities<sup>viii</sup>. Community energy projects which use a combination of generation and power storage, may be able to achieve benefits such as lower fuel costs for diesel generation, improved reliability and security and in the long run may avoid costly network upgrades in some circumstances<sup>ix</sup>. By ensuring that communities understand the benefits of storage technology in combination with local power generation, communities may achieve more stable and reliable power. In the future, batteries could provide additional services to the grid which assist with market operations<sup>x</sup>. Providing information on the broad range of power systems available may assist communities to make informed choices about energy projects outside of solar and wind power.

The existing market does not prevent community energy projects from being developed. However, making it easier for groups interested in community energy to get information will assist them to make informed decisions. Easy access to information tailored to communities may make it easier for community groups to understand the challenges and benefits of a local energy projects and engaging with the energy transformation that is occurring.

Any questions about our submission should be addressed to Emma Richardson, Policy Adviser by email to [emma.richardson@energycouncil.com.au](mailto:emma.richardson@energycouncil.com.au) or by telephone on (03) 9205 3103.

Yours sincerely,



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<sup>i</sup> Department of Industry, Innovation and Science, 2016, <https://www.business.gov.au/info/plan-and-start/develop-your-business-plans>

<sup>ii</sup> NSW Government, 2016, *Community Energy*, <http://www.environment.nsw.gov.au/resources/communities/cpa-community-energy-how-to.pdf>

<sup>iii</sup> Australian Energy Regulator, 2016, *Authorisations*, <https://www.aer.gov.au/retail-markets/authorisations>

<sup>iv</sup> AEMC, 2016, *National Electricity Rules*, <http://www.aemc.gov.au/getattachment/09a91330-7bf7-438b-9cbc-5454b05d7c08/National-Electricity-Rules-Version-82.aspx>

<sup>v</sup> AEMC, 2016, *Local generation network credits*, <http://www.aemc.gov.au/Rule-Changes/Local-Generation-Network-Credits#>

<sup>vi</sup> AEMC, 2016, *Connection and control of storage capability*, <http://www.aemc.gov.au/Major-Pages/Technology-impacts/Documents/AEMC-Integration-of-energy-storage,-final-report.aspx>

<sup>vii</sup> COAG, 2016, *Energy market transformation bulletin no 02 - consultation processes*, <http://www.coagenergycouncil.gov.au/publications/energy-market-transformation-%E2%80%93-consultation-processes>

<sup>viii</sup> Horizon Power, 2016, *Horizon Power to trial latest in battery storage technology in Carnarvon*, <https://horizonpower.com.au/news-events/news/horizon-power-to-trial-latest-in-battery-storage-technology-in-carnarvon/>

<sup>ix</sup> Australian Energy Council, 2016, *Going off-grid, goes West*, <https://www.energycouncil.com.au/analysis/going-off-grid-goes-west/>

<sup>x</sup> AEMO controls key technical characteristics of the power system such as frequency and voltage, through Ancillary Services.

Australian Energy Market Operator, 2016, *Guide to ancillary services in the national electricity market*, <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Security-and-reliability/-/media/2C771C82C8054929B16E4545216ACE03.ashx>