

4 August 2015

Mr David Young
Director Energy
Energy Licence Framework Review
Essential Services Commission
Level 37, 2 Lonsdale Street
MELBOURNE VIC 3000

By email: reception@esc.vic.gov.au

Dear Mr Young, *David,*

Property Council Submission on the Energy Licence Framework Review

Property Council of Australia welcomes the chance to comment on the State Government review of Victoria's energy licence framework.

Our members represent the bulk of organisations who have led the implementation of renewable energy generation in their buildings and new developments, to supply local electricity, heating and cooling.

Optimal reduction in greenhouse gas emissions and network management costs will not occur without investments in technologies that can assist in the transition away from a reliance on older systems.

In Victoria, we believe there are significant opportunities in both the scale and number of precincts that can be leveraged to trial and deploy renewable technologies and systems in an integrated manner.

For this reason, the Property Council takes great interest in efforts to improve the frameworks that govern the market operation and regulation of these technologies. Outlined below are our key concerns.

Regulatory barriers to deploying embedded generation across multiple sites

A key component of the potential viability of any multi-site embedded generation project is the operator's ability to capture the retail value of the energy generated, since the project proponent is looking to recover the costs of their investment in any infrastructure associated with district scale heating and cooling.

The current licensing framework based on the *Electricity Industry Act 2000* and the *Essential Services Commission Act 2001*, requires all entities engaged in the generation, distribution and sale of electricity to be licensed, subject to certain exemptions (General Exemption Order under Section 17, *Electricity Industry Act 2000*).

The Property Council is aware of several regulatory barriers to the deployment of multi-site embedded generation systems which stem from Victoria's energy licence framework. These are:

- Where there is an existing distribution network, the Essential Services Commission (ESC) may be reluctant to licence a secondary distributor without sufficient evidence demonstrating the material benefits for the competition;
- The General Exemptions Order does not contain a deemed category that covers the activities proposed by alternative energy sellers. In some cases a precinct scale development may be entitled to a general exemption to the licensing requirements, but this would be the case only if the precinct is on property owned or controlled by a single entity. This is due to the narrow definition of an embedded network offered by the Exemptions Order which only applies to a single site or a group of commonly controlled sites. In contrast, precinct scale projects generally include multiple buildings, titles and one or more property owners;
- Should the project proponent be required to seek another licensed retailer to enable the on-sale of the energy produced, they will need to identify and negotiate with a licensed retailer willing and able to provide all the required services;
- Alternatively, should the project proponent become the retail service provider, some form of net metering of the generation and load among the precinct's customers is required to determine each customer's consumption of billing and settlement of retail charges in the wholesale market and network costs. These arrangements do not exist as current models cater for a single retailer and their development is likely to be resource intensive; and,
- Licences and exemptions are subject to a base level of requirements from the *Energy Retail Code*, even if the licensee is seeking to sell to specific groups of customers. The conditions imposed by the Retail Code on the retail electricity charges within the network can prevent the developer from recovering the infrastructure costs in the customers' charges, and may impose disproportionate additional obligations on the developer.

Additional barriers resulting from the licensing and exemptions framework

In addition to the above, we recognise further barriers which are likely to serve as impediments for the take up of multi-site energy systems. These include:

- A lack of available information around the current requirements for licensing and exemption has led to industry uncertainty and confusion. The application of these requirements will need much greater visibility among business - a responsibility that should be shared by Government, regulators such as the Essential Services Commission and industry.
- The lengthy and indeterminate timeframes required to apply to the ESC for a licence or to Government for a specific exemption will deter projects from being initiated.

Recommendation

The Property Council recommends making multi-site embedded generation projects eligible for consideration as a registrable exempt network, instead of existing licencing requirements, to enable cogeneration project owners to charge for the use of their services and recover the capital costs of their investment. This removes the uncertainty around the proposed individual exemption

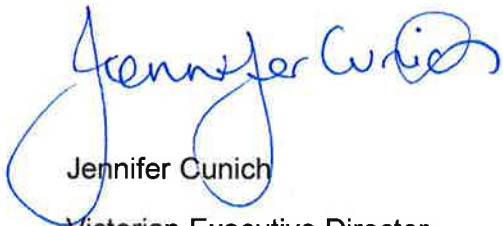
process. Moreover, customers should be offered the opportunity to opt out from the terms and conditions of the *Energy Retail Code*, where the customer supports the developer's model.

In the longer term, we support harmonisation of the Victorian energy licensing framework with that administered by the Australian Energy Regulator (AER), which allows for certain defined, registerable and negotiated exemptions to both the distribution and retail licensing requirements. Notably, the AER Exemptions Framework is defined by its flexible approach to innovative alternative energy systems, which would help to address the cost and complexity issues currently experienced by project proponents in Victoria.

The Property Council welcomes the ESC's efforts to improve the efficiency of the Victorian energy licensing framework. We will also be lodging a submission to the Department of Economic Development, Jobs, Transport and Resources on the review of the General Exemption Order Issues Paper.

Should you have any questions relating to our submission, please contact Sandra Qian, Policy Advisor on 9664 4220.

Yours Sincerely,



Jennifer Cunich

Victorian Executive Director

Property Council of Australia

