



*Australian Dairy Industry Council Inc.*

5 November 2014

Energy White Paper Taskforce  
Department of Industry  
GPO Box 1564  
CANBERRA ACT 2601  
Email: EWP@industry.gov.au

Dear Sir/Madam,

**SUBMISSION FOR ENERGY GREEN PAPER**

I make this submission on behalf of the Australian Dairy Industry Council (ADIC), the peak industry body representing the whole of the dairy value chain – dairy farmers and manufacturing companies.

Australian dairy is a \$13 billion farm, manufacturing and export industry, directly employing 43,000 Australians and indirectly providing a livelihood for more than 100,000 people in related service industries. Compared to other primary producers, the Australian dairy industry is disproportionately exposed to electricity costs due to the industry's high power needs in milking machinery, cool milk storage, and intensive milk processing procedures.

ABARES has identified that electricity accounts for 2.4% of total dairy farm operating costs, compared with 0.8% in livestock/cropping enterprises. This is because dairy farming's chief energy source is electricity, while cropping, sheep and beef grazing mainly rely on transport fuels.

Analysis commissioned by Dairy Australia<sup>1</sup> indicates that typical dairy farmers are now spending between \$20 to over \$100 a day on electricity to power their dairies. Rising tariffs, additional levies such as the carbon price and renewable energy schemes, and increasing network charges have contributed to daily costs rising 33-100% for many farms since 2010. Similarly, large dairy farms with milking herds of more than 600 cows are paying between \$75 and \$300 a day for power, up from between \$50 and \$150 in 2010. Daily energy consumption over the period has remained fairly steady.

The dairy industry recognises that its potential to grow may impact on greenhouse gas emissions. There is a strong link between the industry's target to reduce emissions intensity by 30% by 2020, the industry's use of electricity, and industry growth.

The dairy industry takes an interest in the Energy Green Paper and will provide feedback on the following themes of the Green Paper, which have direct and significant implications for the future growth and profitability of the Australian dairy industry:

- i. Electricity prices;
- ii. Energy security; and
- iii. Gas supply.

**i. Electricity prices**

The dairy industry is a large user of both electricity and gas in manufacturing. Some dairy processing companies are among the top 300 energy users in Australia. Their international competitiveness is highly sensitive to changes in energy costs. The dairy industry is a price taker in domestic and international markets and is unable to pass on any increases in energy costs.

---

<sup>1</sup> Australian Dairy Shed Energy Costs, 2014 fact sheet. Available:  
<http://www.dairyaustralia.com.au/~media/Documents/Environment%20and%20Resources/22072014-Australian%20Dairy%20Shed%20Energy%20Costs-Fact%20Sheet-July14.pdf>

The dairy industry welcomes regulatory and market reforms intended to constrain future price rises, and increase competition and consumer choice. However, it is concerned that policy directions proposed in the Green paper will have perverse outcomes for rural businesses.

In particular, the proposed cost-reflective tariff reforms will lead to disproportionate upward pressure on electricity prices in rural and regional areas where dairy farmers and milk processors are located. The dairy industry is strongly opposed to the Green Paper's proposal to remove cross-subsidisation on network costs, which has, to date, partially smoothed the cost differences between urban and rural areas.

Although the Green Paper argues that the cost of rural and regional infrastructure is relatively higher and that greater investment in this area will increase electricity prices for all consumers, the Paper does not mention that the Distribution Network Service Providers (DNSPs) contribute to this phenomenon by inflating costs of capital for their infrastructure, to drive up returns, resulting in surging network charges.

Continued electricity price rises will undermine the dairy industry's domestic and international competitiveness. This would be in conflict with the objectives in State and Commonwealth policies, including the Agricultural Competitiveness White Paper, to grow Australia's food and fibre production, profitability and competitiveness. I note that the Agricultural Competitiveness Green Paper (released 20 October 2014) identifies that energy security may impact Australia's food production and will be considered in the process for this Energy White Paper.

The Energy Green Paper's treatment of energy security and cost are also inconsistent with the recent Productivity Commission Report, *Relative Costs of Doing Business in Australia – Dairy Product Manufacturing*. The report noted that the sharp rise in wholesale prices of electricity and natural gas in Australia since 2006 would have had a relatively substantial negative bearing on cost-competitiveness.

Even in spite of the considerable strides the dairy industry has made in energy efficiency by investing in new technologies, increased network charges would quickly overtake any farmer investment in improved energy efficiency to reduce power bills.

Although the Green Paper highlights actions such as adopting smart meters and time-of-use pricing, it does not offer any solutions for consumers such as agricultural businesses, which have limited or no capacity to alter patterns of use. On a dairy farm, cows must be milked at certain times of the day, and milk heated and cooled on site in timeframes determined by food safety regulations. For dairy farms, cost-reflective pricing as suggested by the Green Paper, would have a significant negative impact on business operations.

The dairy industry notes that the Green Paper's proposed solution of a body, Energy Consumers Australia, is unlikely to be adequate in addressing consumer issues, given the limited influence consumer advocacy groups have had with the Australian Energy Regulator, as evidenced by the approval of large network tariff increases.

#### Energy efficiency and new technologies

Energy efficiency is a significant opportunity for reducing the dairy industry's energy use, costs, and greenhouse emissions. Some on-site energy generation technologies may also supplement energy efficiency (such as cogeneration or solar PV or solar thermal).

Dairy farmers are already embracing renewable energy technologies, with 40% of farms in 2012 having installed some form of renewable energy installation (such as heat pumps or solar water heating).

Dairy farmers were also quick to take up 1700 energy assessments co-funded through Dairy Australia and the Federal Government's Energy Efficiency Information Program. The audits identified many zero or low cost energy efficiency and energy reduction opportunities, as well as options that are more expensive but have significant cost savings and greenhouse gas abatement.

However, for all these opportunities, there are significant capital cost barriers. For example, installing heat recovery pre-heaters and variable speed drives on vacuum and milk pumps on dairy farms has an estimated capital cost of \$5000-\$17,000, with a 4 – 20 year payback period.

In many cases, federal and state programs have assisted farmers and manufacturers with the upfront capital costs, thereby increasing their participation. As the Green paper notes, schemes such as the Victorian Energy Efficiency Target have closed or are under review and other renewable energy incentive schemes such as the Renewable Energy Target and Small-scale Renewable Energy Scheme face an uncertain future. The loss of incentive schemes and government programs will increase the cost of adopting efficiency measures or renewable options. At this stage, the Emissions Reduction Fund (ERF) is not a viable substitute for the dairy industry, as the likely carbon prices are too low to make this an attractive economic option.

### Deregulation and privatisation

The Green Paper argues that further deregulation and privatisation will improve consumers' choice in accessing electricity, and lower prices. However, it is worth noting that Victoria's electricity assets were privatised almost 20 years ago, but this has not lead to demonstrably lower prices for consumers in Victoria, as shown on page 26 of the Green Paper. Moreover, the case for privatisation and its benefits remain unclear, and will require extensive consultation with rural and regional communities.

### **ii. Energy security in regional areas**

The reliability and capacity of power supply in many regional areas remains inadequate. In fact, the lack of capacity in the delivery network in some regional areas is restricting the potential for growth at some major Australian dairy processing sites. A significant investment to upgrade the infrastructure is required to enable manufacturing growth.

In addition, the opportunities growth and development of dairy farms can be limited by their inadequate energy supply. For example, many dairy farms do not have access to 3 phase power and this has a significant impact on opportunities to take up new technology.

The dairy industry would support policy reform and investment in infrastructure upgrades so that regional areas enjoy the same reliability and capacity of electricity supply as urban areas, without a price premium for a service that urban Australians take for granted.

The Green Paper acknowledges that despite recent network upgrades to replace ageing infrastructure, many regional areas still have limitations on reliable electricity supplies. The Paper suggests greater use of distributed energy generation sources, such as wind and solar, along with demand management, may offer a solution. But this solution is offered only in the context of remote, outback communities, with a Commonwealth commitment to provide \$10.6 million over four years as part of the Outback Power measures to service existing renewable energy systems. The Paper does not offer any solutions that would assist in a reliable supply in dairy regions. This security of supply issue is significant for the future of regional industry and must be addressed.

In addition, the dairy industry wants to see a more competitive market in regional areas, where farmers and manufacturers frequently have less choice in electricity suppliers than in urban areas, and are therefore limited in their capacity to switch supplies and negotiate better deals.

The dairy industry wants more transparent pricing on bills. Most bills opened by dairy farmers combine all charges – consumption, network, environmental fees, and the carbon price – into a single tariff. This has led to confusion as to the different drivers behind their rising costs. Improved transparency in Bills would be a simple measure to drive both better information and better behaviour of suppliers.

### **iii. Gas supply**

The relationship between onshore gas mining and agriculture is an emerging but important issue. The Government must ensure adequate frameworks are in place to enable all risks and potential issues to be fully considered. The geo-scientific information highlighted in the Green Paper is important to

provide a baseline and monitor effects. However, the information and processes for mining projects must consider broader economic and market issues, not just geo-science. For example, market access, food safety issues and consumer perceptions are very important considerations for onshore mining in dairy regions.

We endorse the proposal in the Green paper for the Government to prepare a strategy for the responsible development of the coal seam gas industry. The Government has a role in this “responsible development” to ensure that all relevant issues are addressed, including alignment between energy policy and other policy areas such as agricultural competitiveness.

### **Conclusion and recommendations**

The value of the Australian dairy industry to the economy and the rural communities it supports is a compelling foundation for Government attention and action to encourage downward pressure on electricity prices, increase uptake of energy efficient technologies, and improve reliability of supply.

The actions Government takes in the next few years will be critical to keeping the dairy industry competitive, relevant and significant in the global dairy marketplace.

In accordance with our submission on the Issues Paper, and in response to this Green Paper, the dairy industry makes the following recommendations:

*Recommendation 1: The Government ensure that its policy settings exert downward price pressure on network and other tariffs charged to agricultural commodities and processors.*

*Recommendation 2: Agricultural industries be supported with affordable network and other tariffs consistent with achieving the profitable and competitive agriculture sector anticipated in the Agricultural Competitiveness Green Paper. This will require that cross-subsidisation on network costs between urban and rural areas be retained.*

*Recommendation 3: The Government impose appropriate rules to prevent DNSPs and other electricity market participants from taking advantage of the system to inflate revenues by exaggerating the real cost of capital to cover infrastructure renewal.*

*Recommendation 4: The Government establish incentive schemes to encourage adoption of energy efficient measures, and renewable energy technologies in agricultural industries, to offset the effects of rising electricity prices, noting that the ERF scheme does not provide this incentive.*

*Recommendation 5: The Government ensure new reliability standards for the same standard of service in rural and regional areas as enjoyed in urban centres. This will require specific solutions in regional areas outside of Outback Power areas.*

Yours sincerely,



**Noel Campbell**  
Chairman, Australian Dairy Industry Council