Australian Dairy Industry Council Inc.

Thursday 30 January 2025

Department of Environment, Energy and Climate Action
E: energy.upgrades@deeca.vic.gov.au

Re: ADIC submission to the Department of Environment, Energy and Climate Action – consultation on the Victorian Energy Upgrade: new Victorian Energy Efficiency Certificates targets for 2026-2027.

Overview

The Australian Dairy Industry Council (ADIC) appreciates the opportunity to comment on the Victorian Energy Upgrades (VEU): new Victorian Energy Efficiency Certificates (VEECS) targets for 2026-27 targets.

This submission has been prepared in collaboration with Dairy Australia and reflects the collective views of our members.

Dairy farming and manufacturing in Australia are inherently energy-intensive industries due to the perishable nature of raw milk. Milk must be collected and processed within 24-48 hours of milking, necessitating a stable, reliable energy supply every day of the year. Unplanned power outages can disrupt production, cash flow, and significantly impact animal welfare if milking schedules are delayed.

Dairy processors transform raw milk into a wide variety of premium products, including fresh milk, cheese, yoghurt, and infant formula. The energy requirements for processing these products are substantial, involving high thermal and electrical energy inputs.

As the agricultural commodity most exposed to energy costs, the sector has faced increasing pressure over the past decade due to rapidly rising gas and electricity costs, which have eroded supply chain value and constrained investments in innovation and technology.

At the same time, dairy farmers and processors recognise and are responding to the requirements of a new energy future and are implementing ways to lower production costs and improved efficiencies, capability, and capacity, such as through wind, solar and biogas.

The unique energy-intensive nature of dairy farming and processing makes the sector highly sensitive to energy-related policies and initiatives, such as the VEU program.

The ADIC acknowledges this consultation is seeking feedback on the preferred 2026-2027 VEU targets, and commentary on the analysis in the Regulatory Impact Statement. However, in the absence of full visibility into the broader strategic review of the VEU program and clarity on activities needed to meet revised targets, assessing the appropriateness of the proposed targets remains challenging.

This submission outlines our general principles for setting VEU targets and key considerations specific to dairy farmers and processors, and we ask that the Victorian Government works closely with the dairy industry on next steps.

About the Australian Dairy Industry

The Australian Dairy Industry Council (ADIC) is the peak national body of the Australian dairy industry, representing the interests of dairy farmers and dairy processors through its two constituent bodies Australian Dairy Farmers and the Australian Dairy Products Federation.

Australian Dairy Farmers (ADF) is the national peak Industry Representative Body (IRB) representing all dairy farmers from across Australia's six dairy producing states. ADF's membership includes the State Dairy Farming Organisations from each State as well as direct farmer members.

The Australian Dairy Products Federation (ADPF) is the national peak policy and advocacy body representing the post farm-gate members of the Australian dairy supply chain, including processors, traders, and marketers of Australian dairy. ADPF members process more than 90% of Australian milk volumes and provide dairy products for both domestic and export markets.

Dairy Australia (DA) is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry's research and development corporation (RDC), it is the 'investment arm' of the industry, investing in projects that cannot be done efficiently by individual farmers or companies.

ADIC Principles for the VEU Program

With the Australian dairy industry being an adjacent industry to the energy industry, and in the absence of full visibility of the energy market and broader strategic review of the VEU program currently underway (including new activities needed to meet any revised targets), it is difficult to assess whether the proposed targets are too high, too low, or if there are any unintended consequences.

Instead, the ADIC proposes a set of nine principles to guide the VEU program, ensuring that any future VEU activities and VEEC targets are suitable for the specific energy needs and challenges of the Australian dairy industry:

1. **Equity and Accessibility:** Ensure equitable access to program benefits for all participating stakeholders, including regional and rural businesses.
2. **Support for Innovation:** The program should encourage the inclusion of new and emerging technologies to foster innovation and adaptability, with a focus on industry-specific

solutions like hybrid renewable systems and bioenergy hubs, provided they remain cost effective.

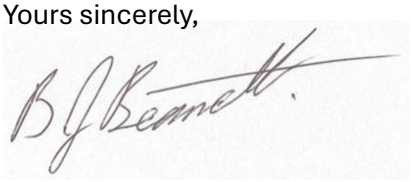
3. **Incentives for Decarbonisation:** Expand support for electrification and renewable energy solutions to accelerate the transition from gas reliance while maintaining affordability.
4. **Alignment with Dairy Systems and Energy Needs:** The VEECs program should recognise that the energy needs of dairy farming and processing differ significantly from other sectors. Eligible activities under the VEU program must accommodate the specific operational demands of dairy systems, considering their energy-intensive nature and need for reliable, high-capacity energy sources.
5. **Separate Classification for Agricultural Energy Users:** Many large Victorian dairy processors, as large energy users, are currently exempt from VEU participation unless they opt-in. However, small to medium processors and dairy farmers are automatic participants and are already contributing to the environmental charges of the VEU program. For many Victorian dairy processors who are not covered by the large energy user exemption, environmental charges make up a significant portion of their energy bill – sometimes up to approximately twenty per cent of the total cost. The VEU program should consider a separate classification for businesses involved in agricultural production that recognises the unique energy demands, cost structures, and operational constraints of the sector. This classification should retain opt-in rights for large energy users and ensure that environmental charges are proportionate and aligned with the scale of operations, while also providing tailored incentives and flexibility for energy efficiency projects.
6. **Cost Management and Competitiveness:** Ensure that the new targets set are based on a realistic assessment of the Victorian marketplace to deliver cost effective emissions reductions of the magnitude specified. As the VEU program matures and the low-cost emissions reduction options are exhausted, it is essential that cost management strategies are built into the program to minimise the cost of meeting the proposed targets and safeguard the competitiveness of industries like dairy, which operate in trade-exposed markets. Farmers and processors are price takers with limited ability to pass on increased costs. The program should therefore consider the downstream implications of cost pass-through to energy consumers and agricultural producers, where rising operational costs risk further eroding margins for dairy farmers and processors. In particular, the program should carefully consider how the shortfall penalty rate impacts the operation of the VEEC market and look to improve the transparency and fairness regarding how energy retailers then pass costs through to their customer base. Subsidies, grants, or other financial mechanisms should be considered to help mitigate the high upfront costs of generating VEECs for more complex emissions reduction activities and the ongoing expenses of measurement and verification, balancing the objectives of emissions reduction with affordability.
7. **Monitoring and Evaluation:** Set up robust mechanisms to monitor progress against targets and allow flexibility to adjust activities based on program outcomes or external changes in the energy landscape.

8. **Enhanced Communication and Engagement:** Improve stakeholder communication to address knowledge gaps and ensure effective engagement. Support will be needed, especially for small to medium sized dairy processors, to understand the value proposition and trade-offs for participating in the VEU program.
9. **Government Leadership:** As part of the VEU program, the government should clearly define actions, infrastructure investments, and financial mechanisms that will directly support industries in meeting the stated targets. This requires fostering collaboration and harmonisation between state and federal governments and across state departments to ensure cohesive policy implementation. Without clarity and coordination, there is a risk of targets being perceived as aspirational rather than achievable. This is critical to ensuring industries, especially energy-intensive sectors like dairy, can confidently participate in the program and contribute to its success.
10. **Supportive Policy and Regulatory Environment:** Promote clear, consistent policies that reduce barriers, support innovation, and provide tailored, equitable assistance for sustainable transitions in industries like dairy**.** Harmonisation between policy areas is essential to ensure a successful energy transition, capable of meeting both environmental and economic goals, and operational realities.

The ADIC remains committed to supporting the Victorian Government's decarbonisation objectives while ensuring the dairy industry can remain profitable domestically and competitive in a global market. We look forward to continuing collaboration on the VEU program to achieve sustainable outcomes for all stakeholders.

For further information, or to discuss our submission in more detail, please contact us as per the details below.

Yours sincerely,



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Considerations for Australian Dairy Farmers and Processors

As part of the preparation of this submission we consulted with dairy farmers and processors who are adopters of renewable energy and energy efficiency upgrades. Both farmers and processors expressed scepticism about meeting new targets without clarity on the proposed activities and proper government consideration of reducing barriers around technology and the energy market.

The following table describes key considerations for dairy farmers and processors relating to achieving new VEECs targets and shaping new VEU activities.

The ADIC urges DEECA to consider implementing these recommended actions to support uptake of new VEU activities and investment in energy efficiency measures.

Theme	Key Considerations for Dairy Farmers	Key Considerations for Dairy Processors	Recommendations
Energy Use and Reliability	**Involvement in efficiency upgrades or renewable energy investment is often limited by rural infrastructure challenges, and the need for consistent reliable energy access.** • Dairy farming relies on stable and consistent energy for operations like milk cooling, harvesting, and equipment cleaning. Grid fluctuations and outages in regional areas often disrupt operations. • Infrastructure challenges, such as aging SWER lines, limit renewable energy adoption. Strategic upgrades are needed to ensure equitable energy improvements.	**Involvement in efficiency upgrades or renewable energy investment is limited by the suitability of alternative energy solutions, such as for large scale thermal energy.** • Dairy processing plants depend heavily on stable and constant thermal energy for pasteurisation, drying, and other processes. While heat pumps work for small operations, solutions for large-scale boilers are limited. • Industrial biogas systems and renewable heat solutions need scaling and integration, requiring targeted investments in pilot projects and infrastructure.	• Prioritise upgrades to grid infrastructure, including support for microgrids and single-wire earth return (SWER) line replacements, to enhance reliability and enable broader participation in the VEU program. • Introduce specific activities and funding to support industrial-scale thermal energy solutions, such as biogas systems, that address the unique requirements of dairy processing facilities. • Provide incentives for energy storage solutions, including batteries, to enhance resilience against power outages and reduce dependency on fossil-fuel generators.

Theme	Key Considerations for Dairy Farmers	Key Considerations for Dairy Processors	Recommendations
Cost and Infrastructure Barriers	**High upfront costs, reduced financial incentives, and limited access to feasibility studies often deter renewable energy investment, underscoring the need for targeted financial support and educational initiatives to de-risk adoption and encourage long-term participation.** • High upfront costs for renewable energy technologies and grid upgrades pose barriers. Financial mechanisms like concessional loans and grant programs should be prioritised to encourage investment. • Farmers considering investment in efficiency or renewable energy upgrades face cashflow risks, procedural delays, and impractical upgrade costs, especially in regions with poor energy infrastructure. • Enhanced access to feasibility studies and education on technologies like biogas systems and solar photovoltaics can help de-risk adoption. • Reduced minimum feed in tariffs for renewable energy, and the erosion of current VEEC financial benefits makes it harder for farmers to justify the large capital expenditures for energy projects.	**High costs, lower financial benefits, access to technology, rising energy prices, and long delays connecting to the grid make it difficult for businesses to invest in renewable energy and energy efficiency projects, putting pressure on finances and competitiveness.** • High upfront costs, uncertain post-implementation benefits, and the need for extensive financing throughout the project lifecycle strain cashflow, financial capacity, and increase interest costs, creating significant barriers to renewable energy implementation. • Rising energy costs undermine competitiveness in export markets. Policies should focus on cost-effective solutions to ease financial strain. Measures are needed to mitigate indirect costs associated with energy infrastructure upgrades, especially for trade-exposed industries. • Available waste, land, transport, and digestate management are all impeding conversion capability. • As an example, for some processors reduced emissions factors for VEEC calculations are lowering the financial benefits of participating in energy efficiency programs, reducing	• Maintain exceptions for large energy users • Increase financial support for on-farm and factory-based renewable energy projects, particularly in regional areas where infrastructure limitations are pronounced. • Streamline grid connection processes and reduce approval timelines, while enhancing financial returns from VEECs to support timely investment. • Expand concessional loan schemes and provide regionally tailored feasibility studies to reduce barriers to renewable energy adoption for farmers.

Theme	Key Considerations for Dairy Farmers	Key Considerations for Dairy Processors	Recommendations
		processors' ability to fund capital-intensive projects. • Similarly, there are reports of dairy processors having large-scale renewable energy projects delayed for up to two years while negotiating with Powercor to approve grid connection – despite the project aiming to use all of the energy produced "behind the meter". Delays cost one company $100,000 per month.	
Partnerships for Regional Solutions	**Collaboration and regulatory support are key to enabling energy solutions that meet the needs of rural communities.** • Collaboration among farmers, renewable energy providers, and governments is essential to build localised energy hubs, making renewable energy adoption more accessible. • Addressing barriers like regulatory constraints will empower farmers to implement solutions like microgrids and shared renewable resources.	**Investment in regional energy hubs and strong government support are essential to drive the adoption of renewable energy innovations.** • Regional renewable energy hubs, like bioenergy or advanced heat solutions, are essential to overcoming scale and cost barriers. • Collaboration among processors, energy providers, and government is needed to enhance participation and efficiency. Regulatory and logistical barriers should be addressed to maximise regional energy initiatives.	• Facilitate partnerships between energy providers, policymakers, and the dairy industry to co-develop scalable and sustainable energy solutions. • Increase awareness of available energy efficiency technologies and programs through targeted outreach and educational initiatives to encourage uptake across the sector. • Implement policy and regulatory changes to facilitate the creation and operation of microgrids, allowing power sharing across farm boundaries and regional communities.