



Australian Dairy Industry Council Inc.

3 March 2017

Review of Electricity and Gas Retail Markets
Department of Environment, Land, Water & Planning
PO Box 500
Melbourne VIC 8002

Via email: energymarket.review@delwp.vic.gov.au

Dear Sir/Madam,

RE: Review of Electricity and Gas Retail Markets in Victoria

The Australian Dairy Industry Council (ADIC) appreciates the opportunity to provide a submission to the review of Victoria's electricity and gas retail markets.

The ADIC is the dairy industry's peak policy body. It co-ordinates industry's policy and represents all sectors of the industry on national and international issues through its two constituent bodies, Australian Dairy Farmers Ltd (ADF) and the Australian Dairy Products Federation (ADPF).

Background

Australian dairy is a \$13.7 billion farm, manufacturing and export industry. Australia's 6,100 dairy farmers produce approximately 9.5 billion litres of milk a year. Approximately 98% of Australian dairy farms are family-owned businesses.

In Victoria, 4,141 dairy farms produce 6.2 billion litres of milk a year with a farmgate value alone of \$3 billion, dairy enriches regional communities across Victoria. These farms provide work for 16,000 Victorians with another 11,000 in milk processing factories. Victoria is export-oriented, accounting for 85 per cent of Australia's dairy exports. The dairy industry has the potential to grow substantially over the next decade to meet growing domestic and international demand.

Compared to other primary producers, dairy is disproportionately vulnerable to electricity costs due to the industry's high power needs in milking machinery, cool milk storage, and milk processing procedures. ABARES¹ has identified that electricity accounts for about 3 per cent of total dairy farm operating costs in Victoria, compared with less than 1 per cent in livestock/cropping enterprises. This is because electricity is dairy farming's main energy source, not the transport fuels on which cropping, sheep and beef grazing rely.

Dairy Position

The purpose of this submission is to highlight the significant role of electricity prices for dairy farming businesses in Victoria, which ultimately affects processing facilities and thus all sectors of the industry. Whilst we acknowledge the scope of the review is limited to small businesses, higher electricity costs for manufacturers typically has a flow on effect that could impact the price farmers receive for their milk.

This review defines a small business as having annual consumption of less than 40MWh. Dairy farms are small business that consume energy beyond the defining amount of this review. The annual consumption for dairy farms ranges from approximately 36MWh to 182MWh, with a median annual

¹ Australian dairy: financial performance of dairy producing farms, 2013-14 to 2015-16, ABARES Research Report 16.6

consumption of 72MWh². This exposes dairy farms to significant electricity costs which is a major factor for their business' cost of production.

Although dairy farms have the potential to negotiate and manage their energy supply arrangements as high energy users, it has not resulted in reduced electricity costs. Most dairy farmers have seen their overall energy bills rise substantially, even when their energy consumption has remained much the same.

A Dairy Australia analysis³ shows that some larger farmers, particularly in Victoria, have been able to reduce or negate the effects of the rising tariffs by joining group supplier schemes or directly negotiating a better deal with their power company. However, rising tariffs, rising network and service charges, and environmental state levies have contributed to daily electricity costs rising 33-100 per cent for many farms since 2010. Even as energy consumption over that period has remained fairly steady.

Dairy farmers are now typically spending between \$35 and \$75 a day on electricity to power their dairies, compared to between \$20 and \$45 a day in 2010. Large dairy farms with milking herds of more than 600 cows are paying between \$75 and \$300 a day for power at the dairy shed, up from between \$50 and \$150 in 2010⁴.

These findings also underline the potential for improved energy efficiency as the next big step-change for dairy farms to address rising energy costs. Large, up-front capital costs for equipment upgrades and renewable energy options, tight margins, and long payback periods are the main barriers.

Dairy farming like most agriculture sectors, is a price taker in domestic and international markets and are unable to pass any energy cost increases on to consumers.

We welcome the opportunity to further discuss the matters raised in this letter. Please contact Betty Helou, Policy Officer (bhelou@australiandairyfarmers.com.au) for any further inquiries.

Yours sincerely,



Terry Richardson
Acting Chair, ADIC

² & ⁴ Dairy Australia, 2013: 'Carbon Abatement Project, Section A: Analysis of dairy shed energy bills', NBA Consulting.

³ Dairy Australia, 2014:

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