

# ENERGY SECURITY BOARD

## Submission in response to the Draft Design Consultation Paper for the National Energy Guarantee



**SOUTH AUSTRALIAN WINE INDUSTRY**  
ASSOCIATION INCORPORATED

**SUBMISSION OF:** SOUTH AUSTRALIAN WINE INDUSTRY  
ASSOCIATION INCORPORATED

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Submissions by 8 March 2018 to:  
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## **SUMMARY OF SUBMISSION**

The South Australian Wine Industry Association (SAWIA) is concerned that some aspects of the proposed *National Energy Guarantee* may not deliver outcomes consistent with the National Energy Objectives with respect to the “long-term interests of consumers of energy”.

The aspects of the proposal that are of most concern to SAWIA are:

- the complexity of the proposed mechanisms may result in perverse outcomes including:
  - additional compliance costs throughout the energy supply chain that would inevitably be borne by electricity users
  - possible lack of transparency around how retailers and generators will meet their emissions requirements
- the possibility of decreased market competition with further concentration of market power

## **THE SOUTH AUSTRALIAN WINE INDUSTRY ASSOCIATION INCORPORATED**

The South Australian Wine Industry Association Incorporated (SAWIA) is an industry employer association representing the interests of wine grape growers and wine producers throughout the state of South Australia.

SAWIA is a not for profit incorporated association, funded by voluntary member subscriptions, grants and fee for service activities, whose mission is to provide leadership and services which underpin the sustainability and competitiveness of our members’ wine businesses.

SAWIA membership represents approximately 96% of the grapes crushed in South Australia and about 40% of the land under viticulture. Each major wine region within South Australia is represented on the board governing our activities.

SAWIA has a strong track record as an industry leader and innovator in many areas. SAWIA pro-actively represents members and the greater wine industry with government and related agencies in a wide variety of aspects of business in the wine sector.

## **SUBMISSION**

### **Background: Electricity usage in the wine sector in South Australia**

The South Australian (SA) wine sector has historically been the heart of the Australian Wine Industry with around about half of Australia's vineyard area and total grape harvest. Many of the major Australian wine companies' head offices are located in SA, and SA wineries export about 70% of Australia's total exports worth about \$1.786 billion in 2017. Wine is now South Australia's largest single export sector.

Electricity can be a significant proportion of the costs of production for businesses in the wine sector.

In vineyards, the main use of electricity is to drive water pumps for irrigation, and this can represent up to about 25% of total production costs. The demand is highly seasonal in most wine growing regions in South Australia, and the largest requirement for electricity is when the need for irrigation is at its highest – that is, throughout summer. The peak demand (1/2 hour interval) for electricity during this period can be an order of magnitude higher than the yearly average.

For wineries, electricity is used to power a range of processing equipment and the proportion of production costs can vary widely according to the types of activities carried out from as low as 5% to as high as 50% of total costs. The higher proportion would apply in the case of a winery that is perhaps a contract processing facility with few staff and no cellar door sales activity, whilst the lower might apply in the case of a winery that has a cellar door and maybe administration staff on site, with perhaps a small maturation cellar for barrel storage of wine. In a processing facility, the largest use of electricity is most commonly for refrigeration, and the greatest demand for this occurs during the vintage period – spanning from approximately early January to at least late April across all the wine growing regions. The peak demand (1/2 hour interval) for electricity during this period can in some cases be up to an order of magnitude higher than the average throughout the rest of the year. Hence, demand based tariffs can disadvantage grape and wine producers relative to other industries that have inherently less 'peaky' requirements for electricity.

Most grape and wine production is based in regional areas of the State and, whilst the majority have access to the power grid, some users have experienced limitations in supply and/or reliability of electricity from the grid. In certain cases, this has led to users either choosing to remain off-grid or to use diesel powered generators or pumps to overcome these problems.

### **Position on the Draft Design Consultation Paper for the National Energy Guarantee**

SAWIA is pleased to be able to comment on Draft Design Consultation Paper for the National Energy Guarantee (the 'NEG').

SAWIA notes that energy and emissions policy nationally have in the past been disjointed, which has also contributed to uncertainty in the electricity market with a consequent detrimental impact on prices. SAWIA therefore supports market-based policy developments to redress this situation.

Whilst SAWIA recognises the intent of the NEG, we consider that the complexity of the mechanisms makes it difficult for us to provide detailed input as we do not have extensive technical expertise in this area. Nevertheless, we highlight some specific aspects below.

### ***Complex regulations***

We are concerned that the regulations required to ensure compliance with both reliability and emissions requirements appear to be very complex. Effectively, this could amount to 'over investment' in the compliance system; costs that will inevitably be passed on to electricity users. Instead, it would be preferable to develop mechanisms that requires a compliance system that is simple, cost-efficient and streamlined.

Furthermore, it is not clear to us that the system for ensuring compliance with emissions requirements will be sufficiently transparent, which may in turn lead to market distortions that may not be in the long-term interests of electricity users.

### ***Competition***

SAWIA considers that increasing both competition and supply are essential elements to bring about more affordable and reliable electricity. Whilst we understand that the NEG is intended to address competition in the electricity market indirectly, it is disappointing that this appears not to be an urgent priority. We note that there has been some public commentary suggesting that market power may be further concentrated by the current NEG proposals, which would likely have an adverse impact on price and volatility.

### ***Energy-Intense Trade-Exposed (EITE) exemptions***

The wine sector is a significant exporter and is also highly reliant on several energy-intense industries within the supply value chain, for example, glass bottle manufacture, ammonia production (used in refrigeration plants), and high purity ethanol production (used in fortified wine). Therefore, we would support the EITE exemption proposed in the NEG.

### ***Investment certainty***

Our members have been concerned about the extent and rate of increase of electricity prices that have occurred over the recent years. Consequently, many of them have made significant investments in renewable energy in order to reduce their costs. Large Scale Generation Certificates (LGCs) have been an important aspect of financial viability in these past investments and it will be important that the NEG be designed in order to provide clarity in the future.

End of submission