ENERGY SECURITY BOARD

Response to the National Energy Guarantee Draft Detailed Design Consultation Paper

SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

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SUMMARY OF SUBMISSION

The South Australian Wine Industry Association (SAWIA) remains 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 detailed proposal set out in the Draft Detailed Design Consultation Paper 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 to South Australian grape and wine industry businesses so they achieve great things that they couldn't by themselves.

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.

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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 60% 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 Detailed Design Consultation Paper of the National Energy Guarantee

SAWIA is pleased to be able to comment on Draft Detailed 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

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technical expertise in this area. Nevertheless, we provide views on the specific issues about the paper 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.

It is particularly alarming that this complexity has been proposed whilst the paper states that even with the increased intermittent generation "the current reliability standard is still not forecast to be breached".

Furthermore, it is still 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. It is pleasing to see that this iteration of the NEG proposes an exemption from the emissions reduction requirement for small retailers (i.e. <50,000MWh/yr) that might foster competition and help prevent potential further concentration of market power by larger retailers. However, there will need to be strong enforcement to ensure that larger retailers do not 'game' the system, which again could lead to increased complexity and consequent cost that will inevitably be passed on to users.

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). In-principle, we are supportive of the EITE exemption from the emissions reduction requirement that is proposed in the NEG, however it will be important to ensure that all such exemptions are well monitored and controlled in order to prevent any unfair or disproportionate burden being shifted to those remaining non-exempt users.

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, whilst others have specifically sought to implement their own renewable energy targets. Large Scale Generation Certificates (LGCs) have been an important aspect of financial viability in these past investments and it is important that the NEG be designed in order to provide clarity in the future. In this respect, we have some concerns:

- about the proposal to allocate emissions abatement from solar PV generation to the retailer and only on net exports, since this may restrict the potential value from investments in distributed energy generation by our members; and
- that credits arising from excess low-emissions generation should be credited at their real value of emissions intensity to ensure a fair market for credits.

End of submission

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