

SUBMISSION to

Australian
Competition and Consumer Commission

Inquiry into retail electricity supply and pricing



SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

SUBMISSION OF: SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

ABN: 43 807 200 928

ADDRESS: First Floor, Industry Offices
National Wine Centre
Botanic Road
ADELAIDE SA 5000

CONTACT PERSON: Mark Gishen

POSITION: Project Manager – Environment & Technical

TELEPHONE: (08) 8222 9277

FACSIMILE: (08) 8222 9276

EMAIL: mark@winesa.asn.au

WEB: www.winesa.asn.au

DATE: 30 June 2017

Submissions by 30 June 2017:
By email: retailelectricityinquiry@accc.gov.au

About the South Australian Wine Industry Association

The South Australian Wine Industry Association (SAWIA) is an industry 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 members' wine business.

SAWIA membership represents approximately 96% of the grapes crushed in South Australia and about 36% 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 all aspects of business in the wine sector.

Executive summary

The South Australian Wine Industry Association (SAWIA) is hearing an increasing number of reports about the lack of relevant information about electricity prices in the market place, which hampers our members in negotiating their supply contracts.

The South Australian wine sector is electricity-dependent and has already been impacted by significant price rises, which has led to many wine businesses seeking alternatives to grid reliance. The sector's usage pattern is seasonal, with peak consumption during the vintage period – spanning from approximately middle January to at least late April (depending on seasonal factors it can be later) across all the wine growing regions, and coincides with peak demand from the grid generally, and consequently peak pricing.

Ultimately, realistic and reasonable price rises and reliability of supply in the future are key factors for the sustainability of South Australian wine businesses.

SAWIA hopes that the Inquiry will provide some much-needed transparency about electricity prices for business users, especially those considered 'large market' (i.e. consuming greater than 160 MWh per year).

Submission

Background: Electricity usage in the wine sector in South Australia

The Food and Wine sector is a significant contributor to South Australia's economy, generating Gross Wine Revenue of \$18.6 billion in 2015-16¹, contributing about 10% of the total for the State.

One of the South Australian (SA) Government's economic priorities 'Premium Food and Wine produced in our Clean Environment and Exported to the World', aims to grow the opportunities for South Australia's food and wine industries in existing and emerging local, national and international markets.

The SA wine sector has historically been the heart of the Australian Wine Industry with around half of Australia's vineyard area and about 40% of the total grape harvest. Many of the major Australian wine companies' head offices and production facilities are located in SA, and SA wineries export about 66% of Australia's total exports worth about \$1.335 billion in 2015-16.

Electricity can be a significant proportion of the costs of production for businesses in the wine sector. Our members have been concerned about the extent and rate of increase of electricity prices that have occurred over recent years.

In vineyards, the main use of electricity is to drive water pumps for irrigation, and, in 2015, was estimated to represent up to about 25% of total production costs, but is likely to be higher now. 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 (½ 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 in 2015, which would also be higher now. 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 wine processing facility, the largest use of electricity is most commonly for refrigeration, and the greatest demand for this occurs during the annual vintage period – spanning from approximately middle January to at least late April across all the wine growing regions. The peak demand (½ 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.

Most grape and wine production is based in regional areas of South Australia 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. The risk presented by an unreliable power supply can have significant economic impact on vineyards and wineries, especially when (if) extended power blackouts (were to) occur during the peak vintage-period.

¹ Food and Wine ScoreCard 2015-16, Primary Industries & Regions SA. Accessible from: http://www.pir.sa.gov.au/primary_industry/industry_support/scorecardsmarket

For example, loss of electricity supply during this critical vintage-period would result in loss of capacity to irrigate vines in vineyards as well loss of cooling capacity for wine fermentations in wineries. In the case of vineyards, a single event leading to even a 1% loss in value due to crop loss and quality impacts would equate to nearly \$6 million of farmgate value for South Australia. For South Australian wineries, a 1% loss in wine quality would be worth around \$20 million².

Compounded by increasing prices for electricity, this risk has led to many wine businesses installing their own solar power generators, and in certain cases, either choosing to remain off-grid or to use diesel powered generators or pumps to help reduce their electricity costs, and manage some of the risks associated with reliability problems.

Many wine businesses have also undertaken considerable effort to reduce their consumption by increasing through energy efficiency initiatives such as capital investments in LED lighting, power factor correction equipment, variable speed drives and new refrigeration plant, only to see the savings eroded by electricity price increases. For example, we are aware of one larger winery that had invested nearly \$400,000 in energy efficiency improvements and solar power that reduced costs by around \$120,000 per year, only to then face an increase in electricity cost of 160% in one year amounting to \$250,000 – a cost that comes straight off the bottom line.

Over the past decade, we have been hearing from our members, with increasing frequency, their concerns about the simultaneous rising cost and decreasing reliability of our electricity supply. There is a view that the risks posed by this to business has been accelerating in recent years, especially the last 12 months, which has sometimes been attributed to the transformation of the electricity market. Furthermore, there is an increasing perception being recounted to us that the National Electricity Market (NEM) has failed and is not functioning either nationally or as a free market.

Response to the Issues Paper:

SAWIA is pleased to be able to comment on the Issues Paper released on 31 May 2017 by the Australian Competition and Consumer Commission (ACCC) as part of its inquiry into the retail supply of electricity and the competitiveness of retail electricity markets in the National Electricity Market (the Inquiry).

We do not have the expertise or resources to develop and suggest detailed solutions to many of the specific questions posed in the Issues Paper, however we make some general comments and observations to some of them as outlined below.

Issue 1 – prices, costs and profits

SAWIA recognises the various components of retail electricity prices that are set out in the Issues Paper. Our understanding is that over the past ten years the network costs has been the main driver of price increases in South Australia, but that has now changed over the past year to now be the energy and retail costs.

We hope that the Inquiry will provide some much-needed transparency about electricity prices for business users, especially those considered 'large market' (i.e. consuming greater than 160 MWh per year), because we are hearing increasing reports about the lack of

² Grape production farmgate value in South Australia is estimated at \$581 million, and Gross Wine Revenue \$2.11 billion annually. Source: Wine ScoreCard 2015-16, Primary Industries & Regions SA. Accessible from: http://www.pir.sa.gov.au/primary_industry/industry_support/scorecardsmarket

relevant information about electricity prices in the market place, which hampers our members in negotiating their supply contracts.

The information that might be of benefit could include prices for:

- various lengths of contracts (for example: no contract, 1, 2, or 3 years)
- various scales of annual usage in bands (for example: <50, 50-160, 160 – 500, 500 – 1,000, 1,000 – 10,000, and >10,000 MWh)

Issue 2 – market structure and the nature of competition
and

Issue 3 – customers and their interaction with the market

We have been hearing increasing reports from our members, especially in the range of usage above 500 MWh per annum, of very limited response when seeking quotes from potential suppliers. Furthermore, some have reported very short time frames for response to offers from suppliers, which can prevent them from seeking comparative offers. This lack of ability to have or exercise a choice is having the effect of forcing them to become simply price takers.

SAWIA considers that the 'Energy Made Easy' website provides good information to allow current market price offers of electricity to be compared, but it is not applicable for 'large market' users (i.e. >160 MWh per annum). A similar service for 'large market' users would be very useful and could help make the retail electricity market more competitive.

End of Document