CommBank Agri Insights.

Exploring energy use and investment in the Australian agribusiness sector

August 2018
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Key insights

Understanding farmers’ energy usage: what it costs, how reliable it is, and how farmers will manage energy in the future
Key insights

Across the country, Australians are feeling the pressure of rising energy costs. It’s a challenge for every business, including those of our farmers, who are at the heart of our nation, and are a driving force in our economy.

For our latest Agri Insights report we talked to farmers across the country about their energy use and their views on energy reliability, costs, and future energy investment plans for their farms. We also looked at what Australian farmers see as the energy challenges facing them, and the solutions they are looking to implement.

This is timely research. Energy is well and truly on the agenda with the National Energy Guarantee a major focus in industry, political circles and businesses across every sector, including agri, they are keen for national energy policy that delivers affordability and reliability in energy supply.

Our research shows overwhelmingly, at national, state and commodity levels, that our producers see the cost of energy as far more of a concern than energy reliability. Concerningly, they weren’t convinced about their current capacity to do anything about those costs. When asked if they felt they had control over their energy costs, most said they felt as if they had no control, a worrying statistic when you consider energy prices are on the rise. The impact of these uncontrollable and rising costs is creating what the majority of farmers would categorise as moderate or significant impact on the bottom line. Despite this, it is encouraging to see that farmers have the appetite to invest in energy efficient solutions as a way to combat these concerns over the longer term.

On top of their wish list is solar power with battery back-up. This coincides with recent announcements around facilities being developed in Victoria1 and South Australia2. It’s great to see that in times of challenge, farmers remain focused on the opportunities for their farms. We’re dedicated to supporting them to keep understanding these challenges, as well as identifying and acting on opportunities.

As always, I hope you find this report useful and beneficial. Our goal is to provide our customers with valuable and insightful research that can help them make informed business decisions.

If you would like to know more about the report, or ways in which CommBank can help support your agribusiness and energy solutions, please make contact with one of our many specialists.

Grant Cairns
Executive General Manager
Regional and Agribusiness Banking
Commonwealth Bank of Australia

About CommBank Agri Insights

Agri Insights canvassed 1,000 Australian farmers in February and March 2018, about several different factors of energy usage within their business operation: what it costs, how reliable it is, and how farmers see themselves managing energy into the future. Six in-depth interviews were held in February 2018, followed by the quantitative CATI (Computer Assisted Telephone Interviewing) research conducted in March 2018. We spoke to a representative sample of rural producers across Australia. Fieldwork was executed by Fairfax Agricultural Research and Marketing using its database of more than 100,000 rural producers, and the research was managed by Kynetec. This CommBank Agri Insights report is based on this research, and all states and commodity figures reported have been weighted for national representativeness using the latest ABS census data.

2 www.teslarati.com/tesla-sa-battery-response-time-billing-system/
81% of farmers say cost is a bigger concern than reliability.

78% of farmers nationwide say they do not have control over energy costs.

61% of farmers say rising energy costs have a moderate or significant impact on their farm operation.

76% of Australian farmers say they’d like to invest in solar with battery storage.

91% Dairy farmers are the most likely to feel they can’t control energy costs – 91% say they do not have any control.

WA farmers are the most keen to invest in energy efficient solutions in the future, with 47% saying they are very or extremely interested.
National overview

Australian farmers see rising energy costs as a concern, but are looking at new ways to tackle the challenge.
Cost versus reliability of energy

Australian farmers are far more concerned about the price of energy than the reliability of energy supply. An overwhelming 81% cite energy prices as their biggest challenge, rather than consistency.

It was evident from our interviews that energy costs are highly variable across both size and type of farm. Annual spend on energy ranged from $2,000 (grain farmer with sheep) to $50,000 (horticulture).

The relative cost of energy compared to overall operational expenses also varied extensively, from 0.25% right up to 10%.

When asked about reliability of supply, all the farmers who participated in the in-depth interview stage of our research spoke of some type of supply continuity issue. Some experienced planned outages which were easier to manage but others also experienced unplanned outages.

The unplanned outages had the potential to significantly impact their farming operations, so many had ensured they had backup power in the form of generators.

"Energy is obviously a major cost in the business and it’s going to get greater for us, on two fronts, because over time energy costs are going to continue to rise, and over time we’re going to increase our consumption of energy. Being as efficient as possible is something that we need to look at going forward."

Livestock farmer
Tasmania

Is the cost of energy, or the reliability of energy your biggest challenge?

- Cost: 81%
- Reliability: 19%
Control of energy costs

Margins matter in agribusiness, so Australian farmers are always looking for ways to control costs. But when asked about control over their energy costs, the majority of farmers (78 per cent) said they felt they had no control.

Nevertheless, some have put in place mechanisms to help manage and reduce their energy consumption and help them take some control over their costs. For some, this has meant maximising off-peak periods, while for others it has been about installing solar or engineering equipment to minimise energy consumption and investing in new innovative solutions.

"Energy is a challenge, but farmers are looking at ways to address it.”

Grant Cairns
Executive General Manager
Regional and Agribusiness Banking
Commonwealth Bank of Australia
Impact of rising costs

Energy costs can have a significant impact on the bottom line for all businesses, and farms are no exception.

Nearly two thirds of Australian farmers felt that rising energy costs have had a moderate or significant impact on their operations.

Only five per cent said that rising energy costs had no impact.

In our in-depth interviews, farmers told us that spend on energy within operations has increased, but this was relative to overall operational expenses. In other words, energy costs are going up alongside other costs but not generally disproportionately.

Nationally, farmers report energy costs represent an average of 11 per cent of their total input costs. Many say they are highly attuned to energy cost movements.

"We are more conscious of the energy we use and how we use it...when we were getting cheap power before it wasn't such a big concern but now with the price of power you are very conscious all the time."

Dairy farmer
Victoria

Nationally, energy costs represent 11% of farmers input costs.

Excluding fuel for transportation, what type of impact would you say rising energy costs have had on your farm operation?

- A significant impact: 22%
- A moderate impact: 39%
- A marginal impact: 33%
- No impact: 5%
Energy efficient solutions

Current state
Nearly half (45 per cent) of all farmers surveyed said that they were already using solar without battery on farm. One in 10 farmers are using solar with battery, and 20 per cent are using gas as their energy supply.

Looking ahead
Of those surveyed, 9 out of 10 respondents stated they were interested at some level in investing in energy efficient solutions for their farm. Only nine per cent had no interest in energy efficient solutions.

For those that were interested, solar power with battery backup topped the Australian farmer wish list, with 76 per cent saying they would consider or invest in this area.

Nearly 1 in 5 Australian farmers surveyed said they would consider investing in wind generators.

The in-depth interviews revealed that battery storage is seen as a good investment option to minimise ‘off-grid’ costs and guarantee continuity of power supply. Farmers also told us they were interested in future developments or innovations that would assist in their power storage.

45% of farmers surveyed are currently using solar without battery on farm.

How interested are you in investing in energy efficient solutions for your farm in the future?

- Extremely interested: 9%
- Very interested: 32%
- Moderately interested: 32%
- Slightly interested: 19%
- Not at all interested: 9%

What types of energy efficient solutions might you invest in or consider in the future?

- Solar with battery: 76%
- Solar without battery: 34%
- Operating in off-peak: 24%
- Modifying equipment: 22%
- Wind generator: 18%
- Electricity wholesale: 16%
- Smart meters: 14%
- Gas: 2%
Case study: IB Logistics, Queensland
Queensland: IB Logistics
Dale Bray

Simplicity equals efficiency for cane contractor.

Technology is often touted as the way forward for a more energy-efficient agribusiness sector, but contract sugar cane harvester Dale Bray from IB Logistics is finding that simple can be better than complex.

Tractors have traditionally been the machine of choice for the cane haul out process, but as tractors have become more sophisticated, contractors have started moving towards more efficient transporters that are designed specifically for haul out.

Dale says the task-specific transporter, designed and manufactured by another Queensland business, Agri-Con Equipment in Bundaberg, is just what he needed in his growing business.

“We harvest about 650,000 tonnes of cane per season from Tully across to the Atherton Tablelands,” Dale says. “We had been running up to four haul outs with each harvester, but because the new machines are simpler, more manoeuvrable and have a faster cycle time, they’re much faster, so we only need two or three per harvester,” he says.

Between dropping a machine from each crew and the higher fuel efficiencies the new transporters deliver, Dale says the switchover is delivering measurable business results. The machines have an approximate energy saving of 30% due to improved cycle time, the number of units used and better fuel usage per hour.

The haul out transport has been around for a while, but Dale says it’s only been in more recent years that it has really stood up as the better business choice.

“The technology has been around for about 25 years. In that time, we’ve seen the cost of tractors double while their reliability has become less certain in this type of work.

“Cane is a really tight-margin industry, so you have to really know your numbers and make good decisions. As we were turning over equipment we were looking at fuel efficiency and energy usage as well as longevity and hardiness of equipment.

The point has definitely arrived where a specialist unit like the transporter, which is much more fuel efficient and allows us to reduce our overall equipment requirements, is the right choice for us.”

Dale currently has four transporters and plans to add more to his fleet.

“The industry is pretty sound, especially in the Tablelands, so we’re continuing to invest in streamlining our operation and doing a good quality job for our customers. We will continue to switch to one new transporter each season as we replace equipment, so we can increase our efficiencies.”
Commodities overview

Across the commodity sectors, energy costs and reliability remain serious concerns
Across all commodity sectors, energy cost was a much larger concern than energy reliability.

Sugar cane growers are the most concerned about energy costs, with 93 per cent citing cost as a bigger concern than reliability.

They were followed closely by dairy farmers, of whom 92 per cent see energy cost as a greater concern than reliability.

It is unsurprising that these industries are the most concerned about energy costs, given their operations that rely on equipment that consumes a higher amount of energy resources, when compared to livestock farmers or other croppers.
Control and impact of energy costs

Dairy farmers are the most likely to feel they can't control energy costs – 91 per cent say they do not have any control, well above the national average of 78 per cent.

When looking at the impact of cost on farming operations, dairy farmers were again the most concerned, with 87 per cent saying the impact of rising costs is moderate or significant.

Notably, 54 per cent of sugar cane growers say the impact of rising energy costs has a significant impact on their operations.

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**Do you feel you have control over energy costs?**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Yes (%)</th>
<th>No (%)</th>
<th>Don't know (%)</th>
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</thead>
<tbody>
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<td>Horticulture</td>
<td>21</td>
<td>75</td>
<td>4</td>
</tr>
<tr>
<td>Cotton</td>
<td>10</td>
<td>87</td>
<td>3</td>
</tr>
<tr>
<td>Sugar Cane</td>
<td>14</td>
<td>80</td>
<td>5</td>
</tr>
<tr>
<td>Dairy</td>
<td>8</td>
<td>91</td>
<td>1</td>
</tr>
<tr>
<td>Sheep</td>
<td>19</td>
<td>74</td>
<td>8</td>
</tr>
<tr>
<td>Beef</td>
<td>21</td>
<td>76</td>
<td>4</td>
</tr>
<tr>
<td>Beef and Sheep</td>
<td>20</td>
<td>78</td>
<td>2</td>
</tr>
<tr>
<td>Grains</td>
<td>18</td>
<td>75</td>
<td>7</td>
</tr>
<tr>
<td>National</td>
<td>18</td>
<td>78</td>
<td>4</td>
</tr>
</tbody>
</table>

**What impact have rising energy costs had on your operation?**

* Due to rounding of results, figures may not add to 100%.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Significant Impact (%)</th>
<th>Moderate Impact (%)</th>
<th>Marginal Impact (%)</th>
<th>No Impact (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Horticulture</td>
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<td>25</td>
<td>2</td>
</tr>
<tr>
<td>Cotton</td>
<td>38</td>
<td>35</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Sugar Cane</td>
<td>54</td>
<td>18</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>Dairy</td>
<td>43</td>
<td>44</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Sheep</td>
<td>12</td>
<td>42</td>
<td>38</td>
<td>7</td>
</tr>
<tr>
<td>Beef</td>
<td>19</td>
<td>35</td>
<td>37</td>
<td>8</td>
</tr>
<tr>
<td>Beef and Sheep</td>
<td>8</td>
<td>52</td>
<td>34</td>
<td>8</td>
</tr>
<tr>
<td>Grains</td>
<td>11</td>
<td>43</td>
<td>41</td>
<td>4</td>
</tr>
<tr>
<td>National</td>
<td>22</td>
<td>39</td>
<td>33</td>
<td>5</td>
</tr>
</tbody>
</table>
Energy efficient solutions

Cotton is the sector with the strongest interest in energy efficiency, with 53 per cent of producers saying they are very or extremely interested in investing in energy efficient solutions.

When looking at what farmers would like to invest in, 57 per cent of dairy farmers say they’d like to invest in solar with battery storage, while 26 per cent of beef and sheep farmers would consider wind generators on farm.

33 per cent of sugar cane growers are not at all interested in energy efficient solutions for their farm.

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Future interest in energy efficient solutions*
* Due to rounding of results, figures may not add to 100%.

- **Horticulture**
  - Very/extremely interested: 42%
  - Slightly/moderately interested: 52%
  - Not at all interested: 6%

- **Cotton**
  - Very/extremely interested: 53%
  - Slightly/moderately interested: 44%
  - Not at all interested: 3%

- **Sugar Cane**
  - Very/extremely interested: 29%
  - Slightly/moderately interested: 38%
  - Not at all interested: 33%

- **Dairy**
  - Very/extremely interested: 39%
  - Slightly/moderately interested: 53%
  - Not at all interested: 8%

- **Sheep**
  - Very/extremely interested: 45%
  - Slightly/moderately interested: 41%
  - Not at all interested: 14%

- **Beef**
  - Very/extremely interested: 40%
  - Slightly/moderately interested: 51%
  - Not at all interested: 9%

- **Beef and Sheep**
  - Very/extremely interested: 48%
  - Slightly/moderately interested: 42%
  - Not at all interested: 9%

- **Grain/Livestock**
  - Very/extremely interested: 41%
  - Slightly/moderately interested: 57%
  - Not at all interested: 2%

- **Grains**
  - Very/extremely interested: 39%
  - Slightly/moderately interested: 55%
  - Not at all interested: 6%

- **National**
  - Very/extremely interested: 41%
  - Slightly/moderately interested: 51%
  - Not at all interested: 9%

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Types of energy efficient solutions to invest in*
* Respondents could choose multiple options.

- **Solar with battery**
  - Horticulture: 76%
  - Cotton: 61%
  - Sugar Cane: 65%
  - Dairy: 57%
  - Sheep: 79%
  - Beef: 78%
  - Beef and Sheep: 82%
  - Grain/Livestock: 75%
  - Grains: 76%
  - National: 76%

- **Solar without battery**
  - Horticulture: 21%
  - Cotton: 36%
  - Sugar Cane: 25%
  - Dairy: 41%
  - Sheep: 34%
  - Beef: 38%
  - Beef and Sheep: 36%
  - Grain/Livestock: 33%
  - Grains: 34%
  - National: 34%

- **Modifying equipment**
  - Horticulture: 24%
  - Cotton: 42%
  - Sugar Cane: 41%
  - Dairy: 39%
  - Sheep: 15%
  - Beef: 19%
  - Beef and Sheep: 16%
  - Grain/Livestock: 22%
  - Grains: 22%
  - National: 22%

- **Wind Generator**
  - Horticulture: 19%
  - Cotton: 3%
  - Sugar Cane: 18%
  - Dairy: 15%
  - Sheep: 19%
  - Beef: 19%
  - Beef and Sheep: 26%
  - Grain/Livestock: 20%
  - Grains: 17%
  - National: 18%

- **Gas**
  - Horticulture: 1%
  - Cotton: 3%
  - Sugar Cane: 16%
  - Dairy: 1%
  - Sheep: 1%
  - Beef: 1%
  - Beef and Sheep: 5%
  - Grain/Livestock: 2%
  - Grains: 2%
  - National: 2%
State analysis

How do energy costs and opportunities differ among the states?
Cost versus reliability

Victorian farmers are the most concerned about energy cost, with 88 per cent saying it’s a bigger issue than reliability, well above the national average of 81 per cent.

Tasmanian farmers followed closely, with 84 per cent stating cost is bigger concern.

While almost three quarters of Western Australian farmers (74 per cent) say cost is a bigger concern than reliability, more than a quarter (26 per cent) say reliability is a bigger concern.

This is a higher proportion than in any other state to see reliability as their biggest problem.

"It’s those little things that are cut out and it means no pay rise for us because you are always trying to cover costs. It [energy costs] would definitely be one of the top five [concerns and challenges]."

Horticulture farmer
Tasmania

Is the cost of energy, or the reliability of energy your biggest challenge?

<table>
<thead>
<tr>
<th>State</th>
<th>Cost</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>19%</td>
<td>81%</td>
</tr>
<tr>
<td>NSW</td>
<td>21%</td>
<td>79%</td>
</tr>
<tr>
<td>QLD</td>
<td>18%</td>
<td>82%</td>
</tr>
<tr>
<td>VIC</td>
<td>12%</td>
<td>88%</td>
</tr>
<tr>
<td>TAS</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>SA</td>
<td>22%</td>
<td>78%</td>
</tr>
<tr>
<td>WA</td>
<td>26%</td>
<td>74%</td>
</tr>
</tbody>
</table>
Control and impacts of energy costs

Victorian farmers are the most likely to say they have no control over their energy costs, with 83 per cent stating so, five percentage points above the national average of 78 per cent.

South Australian farmers are the most likely to say they do have some degree of control over costs with 28 per cent saying so.

When looking at the impact of rising energy costs on their farming operation, Queensland farmers believe they are most impacted, with 28 per cent stating it has a significant impact, and 39 per cent saying the impact is moderate.

Almost 1 in 10 (8 per cent) of South Australian farmers believe that rising costs have no impact on their operations.

Excluding fuel for transportation, what type of impact would you say rising energy costs have had on your farm operation?

Due to rounding of results, figures may not add to 100%.
Western Australian farmers have shown the most interest in investing in energy efficient solutions, with 47 per cent saying they are extremely or very interested in investing. This could well be related to the relatively lower number of energy suppliers in Western Australia, with farmers looking to take back control and future proof their operations with efficient solutions.

13 per cent of Queensland farmers have no interest at all in energy efficient solutions for their operations.

When looking at the type of solutions, 84 per cent of those in Western Australia said they were looking at investing in solar with battery backup.

26 per cent of South Australian farmers would consider operating in off-peak times to increase their energy efficiency, and 24 per cent of Tasmanian farmers would consider wind generators as a means for generating energy.

The results coincide with recent announcements in Tasmania concerning four new major wind projects, which will be used to provide cheaper power to control the state’s hydro scheme.1, 2

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2. www.brandtasmania.com/infrastructure-stories/Item=1246

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**How interested are you in investing in energy efficient solutions for your farm in the future?**

<table>
<thead>
<tr>
<th>State</th>
<th>Very/extremely interested</th>
<th>Slightly/moderately interested</th>
<th>Not at all interested</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>41%</td>
<td>51%</td>
<td>9%</td>
</tr>
<tr>
<td>NSW</td>
<td>42%</td>
<td>52%</td>
<td>7%</td>
</tr>
<tr>
<td>QLD</td>
<td>37%</td>
<td>50%</td>
<td>13%</td>
</tr>
<tr>
<td>VIC</td>
<td>40%</td>
<td>51%</td>
<td>9%</td>
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<tr>
<td>TAS</td>
<td>32%</td>
<td>59%</td>
<td>9%</td>
</tr>
<tr>
<td>SA</td>
<td>45%</td>
<td>49%</td>
<td>5%</td>
</tr>
<tr>
<td>WA</td>
<td>46%</td>
<td>47%</td>
<td>7%</td>
</tr>
</tbody>
</table>

**What types of energy efficient solutions might you invest in or consider in the future?**

<table>
<thead>
<tr>
<th>State</th>
<th>Solar with battery</th>
<th>Solar without battery</th>
<th>Operating in off-peak</th>
<th>Modifying equipment</th>
<th>Wind generator</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>76%</td>
<td>34%</td>
<td>24%</td>
<td>22%</td>
<td>18%</td>
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<td>NSW</td>
<td>78%</td>
<td>31%</td>
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<td>QLD</td>
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<td>VIC</td>
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<td>TAS</td>
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<tr>
<td>SA</td>
<td>76%</td>
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<td>19%</td>
<td>19%</td>
</tr>
<tr>
<td>WA</td>
<td>84%</td>
<td>36%</td>
<td>25%</td>
<td>24%</td>
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</tr>
</tbody>
</table>

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*Due to rounding of results, figures may not add to 100%. Respondents could choose multiple answers in this question.*
Case study: Golden Eggs, Western Australia
Western Australia: Golden Eggs, Peter Bell

Solar energy offers flexibility.

Western Australia’s largest egg producer needs a lot of energy, so the company is focused on creating a new era of energy efficiency for the business.

Golden Eggs has been operating since 1946 and today the business has six egg production farms, a warehouse, a factory with high-tech egg grading equipment and a head office under the name of parent company AAA Egg Company Pty Ltd.

It’s a big operation and with strong demand for energy, Peter Bell, Managing Director of AAA Egg Company Pty Ltd, has made it his mission to ensure Golden Eggs is as energy efficient as it can be.

“Ever since solar energy became an option we wanted to do it. We waited until it became more efficient and, as time goes on, the manufacturers are making them more efficient and reliable. Plus, as we all know, electricity costs keep going up. Solar is something that we will move more and more into,” Peter says.

Golden Eggs has installed solar panels at its new free-range farm at Hill River, but ultimately Peter would like to see them on all the farms.

About 25% of the Hill River farm’s power needs are met by solar energy. This includes the chicken feeders, lights, refrigeration and fans. “All the things you typically use on a farm,” he says.

“It’s definitely lowered the cost of energy, we can get a fairly quick payback on it, and it’s free apart from a little bit of maintenance work. It’s cost-effective,” Peter says.

Golden Eggs is investing in solar energy without battery storage for now but is very interested in battery storage once the product has been refined.

“At this stage we haven’t gone for the batteries. Batteries are still going through a little bit of development. They’re getting better and better and in due course we will, but in business it’s about getting a return on what you do as well,” he says.

Golden Eggs has also implemented other energy efficient initiatives, including the switch to LED lights and more energy efficient fans.

“We use evaporative cooling which is very efficient in Western Australia because of the dry heat. We look for more efficient fans. Once again, they keep developing new ones that are better. We shifted over to all LEDs which are much more energy efficient. We do have automatic feeders that are driven by electricity and are very efficient at distributing the feed to the hens,” he says.

While the switch to solar will be a gradual one, Peter sees a strong case for it.

“We’ve got plans to do it, we are committed to doing it and will progress this over the coming year. We have another large farm we’d like to use solar on, so it’ll be big savings to do that one,” he says.
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