

8 April 2010

Hon Pansy Wong  
Associate Minister of Energy & Resources  
Parliament Buildings  
Wellington

Dear Minister

### **Direct Use of Gas**

The purpose of this letter is to provide you with an update on recent developments in our direct use of gas workstream.

You will be aware that Gas Industry Co reported to you in December 2009 with three key recommendations as follows:

- That an independent agency (such as the Energy Efficiency and Conservation Agency (EECA)) should be tasked with making information available so that consumers have simple, up to date, and accurate information that will enable them to make better informed decisions about their space heating and water heating requirements;
- That a modest financial incentive should be made available for the installation of instant gas water heating either in a new build situation or for conversion from an existing water cylinder; and
- That the most efficient and cost effective way to implement this financial incentive is for EECA to extend its \$1,000 water heating incentive under the ENERGYWISE programme to include instant gas water heaters.

### **Concept Study**

These recommendations had their origins in the work undertaken by Concept Consulting Group (Concept), which is documented in a report, *'Cost: Benefit Analysis for increasing the direct use of gas in New Zealand'*, available on our website. The Concept report analysed the three energy end-uses that collectively provide the best opportunities for gas to substitute for other fuels. These were space heating, water heating, and industrial process heating. The report examined whether it would be beneficial from a private and a national perspective for further direct use of gas in these areas. The analysis in the report suggested the conclusions below.

- Electric heat pumps and log burners are generally the preferred means for space heating from both a private and a public perspective, and the arguments in favour of promoting the direct use of gas for space heating are not strong.
- Instant gas is generally the preferred means for water heating in new-build situations from both a private and a public perspective, and there may be a case for a low level of policy intervention in support of instant gas water heating, particularly if it is possible to extend an existing scheme. However, there does not appear to be a compelling case to promote consumers switching away from an existing workable water heating appliance such as an electric water cylinder.
- There may be a short-term private incentive to convert industrial boilers from gas-firing to coal-firing and this may not be in the national interest. However, given that the cap on CO<sub>2</sub> prices under the New Zealand ETS is due to be lifted post-2012, it is not believed that this will result in material levels of fuel switching.

### **Industry Workshop**

As a result of the significant level of interest in Gas Industry Co's recommendation, and in the detail of the Concept report, a workshop for interested stakeholders was held on 10 February 2010. The workshop was well-attended, with 16 participants representing gas retailers, gas distributors, appliance manufacturers, and consumers. Both at the workshop, and in follow-up submissions, industry participants suggested a number of issues and supplied additional information, which they considered should be taken into account in the Concept report.

Accordingly, we invited Concept to review all the various comments, submissions, and additional information supplied, and to consider whether its report should be amended. Concept has completed its review and has amended the report in some areas. Concept has concluded that, while the changes are worthwhile in the context of providing a more accurate report, they collectively have no material impact on the conclusions contained in the original report. Accordingly, the conclusions in the report on which Gas Industry Co based its recommendations to you are unchanged.

The final version of the Concept report is included for your information and will be available on Gas Industry Co's website shortly.

### **Discussions with EECA**

Following the receipt of our recommendation, you invited Gas Industry Co to liaise with EECA. Accordingly, we have had a dialogue with EECA about the recommendations.

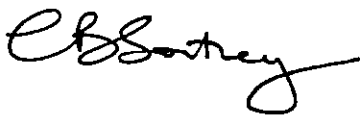
EECA agrees that improved information should be provided to consumers to enable them to make more informed decisions about their space heating and water heating requirements. EECA noted that it already provides information to consumers through the ENERGYWISE website and through other media, and proposes to adapt this to provide more comparative information covering affordability, carbon intensity, and health and safety. They have agreed also to use material in the Concept report to help develop improved information.

EECA has indicated that it is less comfortable about Gas Industry Co's recommendation to extend the \$1,000 water heating incentive under the ENERGYWISE programme to include instant gas water heaters, for the following reasons:

- Funding for the water heating incentive is due to expire soon and it is uncertain about the extent of funding that will continue to be available for the existing programme, let alone an extension.
- With limited funding, EECA prefers to focus resources on cylinder insulation wraps, pipe lagging, and efficient shower heads, rather than instant gas water heating.
- It has concerns that there is some evidence to suggest that consumers with instant gas water heaters tend to use more hot water, and this could undermine the energy efficiency benefits.

We will continue to work with EECA on these issues as it becomes apparent what funding is likely to be available, and the extent to which it may be appropriate to direct this towards instant gas water heating.

Yours sincerely



**Christine Southey**  
*Chief Executive*

Copy: David Buckrell (MED)

Encl: Final Concept Report, 'Cost:Benefit Analysis for increasing the direct use of gas in New Zealand'