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The Secretary
Senate Economics Legislation Committee
PO BOX 6100
Parliament House
CANBERRA ACT 2600

economics.sen@aph.gov.au

24 July 2009

Dear Sir/Madam,

RE: Senate Economics Committee inquiry into the Renewable Energy (Electricity) Amendment Bill 2009

Elgas welcomes the opportunity to make a submission to the Senate Economics Legislation Committee inquiry into the Renewable (Electricity) Amendment Bill 2009.

There are 1.1 million residential dwellings using LPG (excluding BBQ use which is widespread). There are 4.3 million dwellings not connected to natural gas. There are 3.8 million dwellings with electric storage hot water systems, and 1.9 million of which are outside the capital cities. LPG can be provided to all these dwellings.

Elgas is the largest national LPG Marketer in Australia. Elgas supports strongly the submission of the Gas Industry Alliance, which provides to the Committee a detailed explanation of the significant shortcomings of the proposed Renewable Energy (Electricity) Amendment Bill.

It identifies a number of flaws in current and proposed legislation that are delivering adverse outcomes, and which will lead to the failure of the legislation to achieve the 20% renewable energy target by 2020.

To assist the Committee in its understanding of the issues, Elgas' submission provides a brief discussion of the market outcomes which are currently occurring, and leading to entrenchment of a new generation electric hot water systems in commercial and residential applications.

The Technology

The fundamental issue is the definition of electric heat pump hot water systems as "solar", despite the absence of solar panels. The photo shows three such systems, and the adjacent air-conditioning unit. They use the same technology – is air-conditioning also solar? Should it receive RECs certificates?



This is a solar hot water system (gas boosted):



Commercial Systems

The next photo demonstrates the extent to which these systems are penetrating the commercial sector. The RECs which they now generate makes their purchase and installation free. Large numbers can thus be installed to overcome the fact that they struggle to deliver the required amount of hot water. Thus, RECs are diverted from renewable energy to subsidise uneconomic installations which often generate more greenhouse emissions than the gas systems they replace.



This 30 unit installation at the Swan Hill Holiday Park in Victoria replaced gas hot water. The outcome is the locking in of a 48,000 kwh pa electricity load, and an 82% increase in greenhouse emissions (independently calculated data).

Its economics were provided by its entitlement to about 16,300 RECs certificates, which made the installation free for the park owner, and allowed the supplier to make a handsome windfall profit on the deal. Consequently, Australia will have 16,300 MWH less renewable electricity.

This is just one example of many.

The Residential Dwelling Market

As in the commercial sector, the value of the RECs certificates reduces the cost to the consumer of a new heat pump hot water system. When combined with Federal and State incentives for electric hot water replacement, the cost of a new appliance is reduced from over \$3,000 to almost zero. For example, recently Reece hardware advertised a Rheem heat pump system, normal price \$3378, for \$72 after RECs and Government incentives.

While good for the individual consumer, what is the outcome?

Firstly, the diversion of RECs from renewable electricity to entrench for the 10-15 year life of the appliance an electric demand. Incrementally, this demand will be supplied by coal-fired electricity.

Secondly, greenhouse emissions about the same, or greater, than a continuous flow gas hot water system (which costs around \$1,000).

Thirdly, greenhouse emission about three times those of a gas-boosted solar hot water system (the best environmental solution for hot water).

Structurally, a large shift from true solar systems to heat pump systems is occurring. The demise of the solar hot water industry, built up in Australia over decades, is a likely outcome.

Structurally, a reduction in the use of gas which is impacting the long-term viability of the natural gas networks and the regional LPG distribution infrastructure.

Conclusion

Elgas is seeing very fast change occurring in the market, generated by imperfect legislation (and its regulations). The outcomes are the opposite of the true legislative intent to promote investment in renewable electricity.

We are extremely concerned that the amendments, which set Australia's framework in this area to 2020, will entrench these outcomes.

We support the recommendations of the Gas Industry Alliance:

- To focus the legislation on its true intent of renewable electricity, and remove hot water from it. True solar hot water would be supported through separate directed policy,
- If the Government retains hot water within NRET, to ensure that entitlement to RECs is only for true solar hot water systems.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Evans', written in a cursive style.

John Evans
Head of Elgas