



AUSTRALIAN INDUSTRY
GROUP

Ai Group Submission

in response to the
Consultation Regulation Impact Statement:

Electric Storage Water Heaters

December 2013

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EXECUTIVE SUMMARY

The Australian Industry Group (Ai Group) welcomes the opportunity to comment on *Consultation Regulation Impact Statement (Consultation RIS): Electric Storage Water Heaters*.

Ai Group's response to the *Consultation RIS* is based on consultation with industry through Ai Group's networks.

It is essential that outcomes from a move to more energy efficient products benefit all stakeholders: community, environment, industry and government.

Importantly, Ai Group supports the MEPS and energy labelling program to improve the energy efficiency of appliances and equipment only where this is proven to be the most appropriate and cost-effective effective means of addressing market failure.

Ai Group does not support;

- The proposed strengthening of MEPS requirements for electric storage hot water systems as the cost benefit study contained in the *Consultation RIS* contains flawed cost data and the benefits may not be realised in the current fluctuating energy price market. Also, the *Consultation RIS* does not include the opportunity cost to industry of responding to regulatory changes;

Ai Group recommends:

- First developing a method of test for tank capacity to be included in AS/NZS 4692.1 before a ministerial determination is issued;
- Closing the current loopholes around "Solar ready" tanks if the regulator demonstrates that there is a real problem in the market;
- Alignment of standards to AS/NZS 4692.1 with sufficient time to comply; and
- The removal of size constraints.

RESPONSE TO THE CONSULTATION REGULATORY IMPACT STATEMENT

Ai Group is responding to the main points presented in the *Consultation RIS*. Overall, we believe the case to justify an increase in electric storage water heater MEPS has not been definitively proven by the *Consultation RIS* and is marginal at best.

Additionally, the weighing of costs and benefits should consider and include the opportunity cost on industry in needing to divert resources away from major technological research and innovation towards a marginal increase of existing regulation and technology. Industry would argue that this opportunity cost is not factored in to the *Consultation RIS* but is as significant, if not more so, than the costs of compliance.

Further, the water heater industry has been impacted by multiple regulatory changes at both state and federal level over the past decade and continues to be impacted by multiple uncoordinated regulatory change proposals. For example, this industry is currently awaiting E3 decisions on MEPS in regard to demand response, heat pump water heaters and standby power and have recently been advised of a proposed review of MEPS for solar water heaters. Additionally, there are currently two other independent reviews being undertaken by the Clean Energy Regulator (review of solar Water Heating Scheme) and the Australian Building Codes Board (review of the Watermark Scheme). Imposition of changes by any of the proposals and reviews will have a major impact on manufacturers. Multiple change proposals at the same time for these various products will cause significant difficulty for manufacturers.

Tank Capacity versus delivery

There may be some merit in the move from tank delivery to tank capacity, however in order to remove possible uncertainty on the part of end users (determining an appropriate replacement for their existing water heater), AS/NZS 4692.1 must first be amended to include a specific method of test for tank capacity prior to the issuing of a Ministerial Determination. Also, current allowances and margins for non-standard tanks (such as twin elements) that are included in the current testing regime should be maintained in the move to capacity testing. As well, any changes in this area should not preclude innovation.

Closing loopholes in current arrangements

Ai Group supports the proposal to close a current loophole allowing “solar ready” electric storage water heaters to skirt MEPS requirements if the regulator can justify that this is a significant issue - we were unaware of this issue before it was raised in the Consultation RIS. Before additional regulation is imposed the regulator should determine the scale of the problem. If it is determined that “solar ready” tanks are circumventing MEPS, Ai Group would support such products being treated as electric water heaters and subject to MEPS. We do not believe that genuine solar and heat pump tanks fall into this “solar ready” category.

Regarding labelling and inspection by building inspectors, Ai Group recently reported on non-conforming building products in Australia and found significant gaps and weaknesses with the current building products conformance framework which leads us to conclude that trying to ensure compliance via the National Construction Code and building inspectors would not likely be a robust solution.

Alignment of standards (to AS/NZS 4692.1)

Ai Group is supportive of a change to AS /NZS 4692.1 for testing purposes although a transitional period would normally be appropriate to allow manufacturers and suppliers to update testing to the new standard.

Also, there should be persistence with the current allowances in AS/NZS 4692.1 for additional elements and temperature pressure relief valves (i.e. relief valves located on the hot water side).

Removal of sizing constraints

In general, Ai Group is supportive of the proposal to remove sizing constraints although the MEPS formula should be reviewed including further consultation with industry specifically on this point.

Also, the current allowance of 0.2kWh/24h for additional elements should be maintained.

Proposed strengthening of MEPS requirements

Ai Group seeks more information from the Department of Industry to justify the cost figures presented in the *Consultation RIS*. Ai Group does not believe that the *Consultation RIS* cost benefit analysis contains the rigour required to justify an increase in MEPS and question the information provided on the cost side of the equation. Industry experience with previous MEPS impacts is that, in practice, the real cost impacts on industry have been at least an order of magnitude greater than predicted.

The *Consultation RIS* also bases the cost benefit analysis on predicted energy prices. Ai Group would argue that such benefits are difficult to predict in the current fluctuating energy price environment and the marginal benefits outlined in the *Consultation RIS* do not provide the certainty needed to justify a move to higher MEPS.

Also, consideration should be given to the advantage that some overseas manufacturers are allowed where they are able to manufacture using HCFC blowing agents (The use of HCFC

provide superior insulation capabilities at lower cost and smaller physical requirements yet their use in manufacturing is banned in Australia as we are a signatory to the Montreal Protocol). Increasing MEPS levels will advantage such manufacturers as they will be able to meet requirements at lower costs with smaller product dimensions using HCFC blowing agents.

Schedule a future review of MEPS limits on traditional EWHs

Ai Group is supportive of justifiable increases in MEPS requirements for electric storage water heaters. Regulators should realise and acknowledge in future proposals that manufacturing investment costs involved in re-designing and re-tooling are amortised over approximately 10 years so re-scheduling of MEPS increases should take this into account.

ABOUT Ai GROUP

The Australian Industry Group (Ai Group) is a peak industry association in Australia which along with its affiliates represents the interests of more than 60,000 businesses in an expanding range of sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other industries. The businesses which we represent employ more than 1 million employees.

In response to the *Consultation RIS*, Ai Group conducted industry consultations with members of our Electrical Appliances and Accessories Forum.

Electrical Appliances and Accessories Forum

Electrical Appliances & Accessories (EA&A) Forum addresses the technical and regulatory environment affecting supply of electrical appliances and electrical accessories through interaction with regulators and participation in standards bodies. This Forum is particularly focused on electrical safety, energy efficiency and environmental issues associated with electrical appliances and accessories.