

18 February 2010

Mike Underhill  
Chief Executive  
Energy Efficiency and Conservation Authority  
P O Box 10388  
Wellington 6140

Dear Mike

### **Direct Use of Gas**

You will be aware that Gas industry Co reported recently to the Associate Minister of Energy and Resources following the completion of its work on the Direct Use of Gas. I would like to draw to your attention the three key recommendations contained in the report:

1. That an independent agency (such as 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 decision about their space heating and water heating requirements;
2. 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
3. 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.

The Associate Minister has written to Gas Industry Co inviting it to liaise with EECA over these recommendations.

The recommendation to the Associate Minister has its origins in some 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' which is available on our website. Steve Torrens from your office assisted with the development of the brief for the work, provided substantial input to the project, and assisted with a peer review of the draft report. I would like to record my appreciation for the extremely valuable help and support that Steve has provided throughout the process.

The Concept study 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

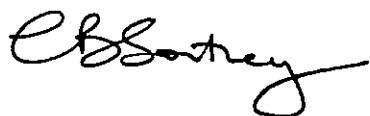
heating. The study examined whether it would be beneficial from a private and a national perspective for further direct use of gas in these areas. The analysis in the study suggests:

- That 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;
- That instant gas is generally the preferred means for water heating 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; and
- 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.

Gas Industry Co noted that whether to recommend promoting the increased use of gas in relation to water heating was a finely balanced decision, resting primarily on the assessment of barriers to the uptake of gas by consumers. On balance we concluded that the barriers were sufficiently material to warrant a modest financial incentive.

Adopting the Gas Industry Co recommendations would involve EECA considering how best to make information available to consumers, and whether it is desirable and feasible to extend the ENERGYWISE programme to include instant gas water heaters. Please let me know if there is any assistance that I can provide in this regard.

Yours sincerely



**Christine Southey**  
*Chief Executive*