



AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

17 October 2008

Dear Sirs

Subject: Australia's Future Tax System Review

Thank you for the opportunity to make a submission on the above review.

Rheem has operated in Australia for over 70 years and our water heaters can be found in approximately 1 in 2 Australian homes. We have a strong commitment to the Australian hot water industry through the manufacture of our market leading Rheem, Solahart, Edwards & Vulcan water heaters at a number of Australian factories.

As you would be aware, the Federal and State Governments are currently in the process of developing new legislative and regulatory responses to climate change. Those responses with a high public profile tend to be the macro economic reforms such as the Expanded Renewable Energy Target Scheme (RET) and the Carbon Pollution Reduction Scheme (CPRS). What is less well known is that a wide range of microeconomic initiatives are also being implemented or considered, including Minimum Energy Performance Standards (MEPS), changes to the Building Code of Australia (BCA) and regulations restricting the type of products that can be installed in different housing classes.

With water heaters accounting for 25% of household emissions, the Australian water heater industry is at the leading edge of these regulations. Whilst the regulations currently proposed by various regulators will address the emissions problem, these same regulations will also cause major problems including higher water usage, the demise of the local water heater manufacturing industry, and perhaps most importantly, they will lock householders into higher energy prices in the long term.

One solution to these unintended water wastage and running cost consequences is the installation of renewable solar or heat pump water heaters. These are in the main locally made, and installation will protect householders against future energy price shocks arising from the CPRS's carbon tax and the forecast move to world parity pricing for natural gas.

Whilst choosing a renewable option at the time of breakdown (approximately once every 10 years) is a rational choice for the homeowner who pays for both the water heater and the ongoing running costs of the heater, this is not the case in rental properties. The landlord receives no ongoing compensation for installing a renewable water heater, only a \$2000-\$4000 higher installation cost. This problem is known as the "split incentive".



To assist landlords in overcoming this problem, Rheem proposes that the taxation treatment of water heater replacements in rental accommodation be amended to incentivise landlords to select environmentally responsible water heating solutions.

From a process viewpoint, identification of whether the appliance is renewable or otherwise can be easily ascertained. Each installation is registered via the Office of the Renewable Energy Regulator to allow the creation of Renewable Energy Certificates. A cross reference of the ATO and the ORER databases based on address should not be difficult.

Rheem would welcome the opportunity of meeting at Government offices or at our manufacturing operation at Rydalmere, to discuss further why the treatment of renewable water heaters in rental accommodation should be changed, and also to demonstrate Rheem's commitment to the Australian manufacture and marketing of low emissions water heaters.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Gareth Jennings', with a stylized flourish at the end.

Gareth Jennings
MANAGER, CORPORATE AFFAIRS