

The much talked-about carbon price legislation is now in effect. And though we've known of its impact on business operating costs and the effect of the carbon-equivalent levy on HFCs, HVAC&R Nation went out on the street to hear the thoughts of the rank-and-file members of the industry.

CARBON TAX TALK



Gabor Hilton, M.AIRAH

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Engineering manager
Oxford Cold Storage

HVAC&R Nation: What has been the impact on business since July 1?

Hilton: Oxford Cold Storage, like most other large third-party temperature-controlled warehousing operations, uses the natural refrigerant ammonia, which has a zero global warming potential and consequently has no carbon-equivalent levy. However, other smaller-sized cold stores, food processors, meat

works and cool room operators will have a huge problem with the cost of replacing HFCs in case of major leaks.

These facilities are mostly unaware of the potential costs and are ill-prepared for the financial cost of a major refrigerant loss. Many recently constructed cold stores, completed as late as January, were built using HFCs.

HVAC&R Nation: Have the effects been as expected?

Hilton: The carbon tax on electricity will be reflected in our electricity bill for the month of July 2012. The cost per kilowatt-hour will rise by 21 cents or by 23 per cent. Together with the other Renewable Energy Charges and State Clean Energy levies the environmental charges will increase our electricity costs by 43 per cent.

For a large-scale cold storage facility such as Oxford these environmental taxes will be in the order of \$1.4 million.

HVAC&R Nation: How will this impact your business? Will you be increasing prices?

Hilton: The cost of the carbon tax and the other clean energy charges will decrease our operating profit by more than 10 per cent. We have had to pass the increase on to our customers.

HVAC&R Nation: What planning were you able to undertake prior to July 1 and what information did you base it on?

Hilton: The company had a massive energy efficiency drive over the last three years and managed to reduce its annual energy use from 49kWh per m³ to 35kWh per m³, and the process is continuing.

We have tried to participate in the Government's Clean Energy Technologies funding programs available to manufacturers but, as we are classified under ANZSIC as "transport and storage", we are ineligible. We've had to fund all energy efficiency improvements ourselves.

HVAC&R Nation: Given we are almost two months into it, what do you think will be the longer term impact? How do you see the market adjusting?

Hilton: The longer term impact will be a significant increase in the cost of goods and services. As the industrial electricity prices are around half of the domestic rates, most industries will be hit with a price increase in excess of 20 per cent on top of the other earlier-introduced clean energy taxes and the recent huge increases in network charges.

For energy-intensive industries this will make a huge difference, and they will have no choice but to pass it on to their customers. Thus, the effects of this will take a long time to spread and will be felt for years to come.

The current carbon tax legislation splits industry into two groups: those that are trade-exposed and receive exemptions (mostly large companies) and the smaller companies that may produce the same products but have little or no exports yet are hit with the carbon tax. Some of the larger companies are also exempt from some of the renewable energy charges. ▲

Mark Padwick

President
AREMA

HVAC&R Nation: What impact have you seen from the carbon-equivalent levy and carbon pricing on the industry since July 1?

Padwick: Clearly there is a lot of noise out there about increased costs, and it will take some time for the market to digest these.

HVAC&R Nation: Were the effects of the carbon-equivalent levy as expected?

Padwick: In AREMA's submissions to government, we predicted price rises of 300 to 500 per cent, which is what we are seeing happening. The government seems surprised that this has come to pass. They shouldn't be – we told them this would happen.



Mark Padwick

HVAC&R Nation: What has been the initial reaction and feedback from your members and within the industry?

Padwick: AREMA members have been following developments closely, so while we may not like the impact of the carbon tax, we knew what was coming. However, there are a lot of people in the industry who obviously weren't as well informed, and who are now reeling under the shock.

HVAC&R Nation: What issues are your members facing as a result of the price increase on HFCs from the carbon-equivalent levy?

Padwick: The introduction of the carbon tax will have very far-reaching effects across the industry, a lot of which were identified at AIRAH's Industry Summit earlier this year. Warranty issues will be of particular concern to AREMA members, as will servicing issues such as undercharging.

A major concern is the possibility of using hydrocarbons in equipment not designed to use them safely, as we are all mindful of what happened at Tamahere in New Zealand.

HVAC&R Nation: Given we are almost two months into it, what do you think will be the longer term impact? How do you see the market adjusting?

Padwick: Of course, it's early days and we will have to wait some time for the full effects of the tax to be felt.

The real question is – will the tax achieve its purpose, which is presumably to reduce emissions? My feeling is that it will at best have a small effect on emissions, and will deliver some of the most expensive abatement ever seen.

The industry is moving to lower GWP refrigerants independently of the tax. For example, over the next couple of years we will see the vehicle industry move to HFOs – a move that will reduce the HVAC&R industry's emissions by about 10 per cent. This is being entirely driven by regulation in the EU, and has nothing to do with the carbon tax. ▲



Mark Jacobson, M.AIRAH

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Queensland commissioning manager, AE Smith;
AIRAH Queensland division committee member

HVAC&R Nation: What has been the impact on business since July 1?

Jacobson: We had to make sure that any refrigerant required on any project was purchased before July 1 to keep pricing in line with our tender offers.

HVAC&R Nation: Were the effects of the carbon-equivalent levy as expected?

Jacobson: The pricing [of refrigerants] has been a little higher than expected.

HVAC&R Nation: What has been the initial reaction from clients and within the industry?

Jacobson: We haven't had any negative feedback yet, but it has only been two months since the introduction of the tax. I would expect that summer will see a rise in any complaints.

HVAC&R Nation: What planning were you able to undertake prior to July 1 and what information did you base it on?

Jacobson: The pricing "guidelines" were provided by refrigerant suppliers and at the time there were no hard-and-fast pricing rules.

HVAC&R Nation: Given we are almost two months into it, what do you think will be the longer term impact? How do you see the market adjusting?

Jacobson: The costs, like any other industry, will be passed on to the customer. There will be some pain felt, especially when a chiller loses its charge, and there may even be lawsuits due to the cost of recharging incorrectly maintained equipment. ▲



John Grayer

John Grayer

Owner/operator
AC4U Air Conditioning

HVAC&R Nation: What has been the impact on business since July 1?

Grayer: For us, the main impact from the carbon tax has been an increase in the price of refrigerant gases, including pre-charged air conditioning systems.

HVAC&R Nation: Were these effects as expected?

Grayer: The increases were as forecast, but we did have a "believe it when we see it" attitude.

HVAC&R Nation: What has been the initial reaction from clients and within the industry?

Grayer: I feel the reaction from the industry is that we are all being robbed, almost helpless. Our customers seem to have been unaware that the carbon tax would have an impact on air conditioning products.

HVAC&R Nation: Where do you see it impacting businesses like yours?

Grayer: With all domestic split systems increasing between \$40 and \$160 each, all quotes will increase in price no matter the brands or suppliers you use. I think the service/repair sector will find it hard passing on a "per kilo" increase of such enormity to customers.

HVAC&R Nation: Given we are almost two months into it, what do you think will be the longer term impact? How do you see the market adjusting?

Grayer: The longer term impact will be universal – higher prices for the end user. The market will just have to adjust, as it always does. ▲