

## **Scope of subsidies for gas engine hot-water supply systems**

“With regard to implementation of the subsidized project to facilitate installation of high-efficiency household/building energy systems (project to promote the use of energy-efficient water heaters), the Board demanded that the setting of a purchase price range for gas-fired water heaters be covered by the state subsidy, so as to ensure efficient implementation of the project, resulting in the measures taken by the auditee.”

### (1) Summary of the project

Having adopted a policy to promote the use of high-efficiency household/building water heaters that are more energy efficient than the traditional type, the Agency for Natural Resources and Energy (“Agency” hereinafter) is implementing a subsidized project to facilitate installation of high-efficiency household/building energy systems (project to promote the use of energy-efficient water heaters). Since Fiscal 2003, under this subsidized project, the Agency has been granting state subsidies to private organizations (“subsidiary organizations” hereinafter), which subsidize purchasers of gas-fired water heaters for part of the cost involved, for their expenses incurred during the course of the work of disbursing their subsidies (“project to promote the use of gas-fired water heaters” hereinafter).

As the purchase price of a gas-fired water heater is substantially higher than that of the traditional type, the Agency set as an objective of the project to promote the use of gas-fired water heaters by subsidizing the difference in purchase price between a gas-fired water heater and a traditional type, and disbursing state subsidies within the range of this difference, so as to promote wider use of gas-fired water heaters.

Every fiscal year, subsidiary organizations will submit a work method statement containing an indication of the base amount set in reference to the purchase price of the traditional type and a project implementation plan, so as to verify the subsidy disbursement procedure, range of projects to be covered by the state subsidies, amount of state subsidies, and whether or not state subsidies will be provided for their projects. Upon approval of the Minister of Economy, Trade and Industry, the subsidiary organizations will implement their projects.

The base amount was set by subsidiary organizations based on the results of their own

2003 market survey of purchase prices for traditional type water heaters. Since then, the subsidiary organizations had kept the base amount unchanged until Fiscal 2008.

The criterion for projects to be covered by the state subsidies is that the purchase price of the gas-fired water heater should be higher than the base amount. The amount of state subsidy granted in Fiscal 2003 and 2004 was 50% of the difference between the purchase price of a gas-fired water heater and the base amount. From Fiscal 2005 onward, the amount of state subsidy has been set as a flat rate.

## (2) Results of audit by the Board

The audit of installation work completion reports by purchasers found that state subsidies totaling JPY370.87 million, granted under the project to promote the use of gas-fired water heaters for 2,119 out of a total 52,835 gas-fired water heaters installed over the period from Fiscal 2005 to 2008, had been paid in excess of the difference between the purchase price of the gas-fired water heater and the base amount. The amount of state subsidies disbursed in excess was found to be JPY117.81 million.

The target of the project to promote the use of gas-fired water heaters was to install systems equivalent to 340,000 kW of installed capacity by the end of fiscal 2010. However, only one-third of the government target had been delivered by the end of Fiscal 2008. It was therefore considered necessary to continue efforts to promote use of gas-fired water heaters.

In order to facilitate and promote the use of the gas-fired water heaters in an efficient manner within the limited budgetary resources, the amount of state subsidy should have been confined within the range of the difference between the purchase price and the base amount in implementation of the projects. However, the audit results showed that state subsidies for the projects had been disbursed in excess of the difference between the purchase price and the base amount. It was therefore concluded that the state subsidies had not been disbursed in an efficient manner in accordance with the purpose of the project to promote the use of gas-fired water heaters.

## (3) Improvement measures taken by the Agency

In response to the audit findings, and in reference to the spread of gas-fired water heater uptake in the market and its actual market price, the Agency took measures to ensure that the state subsidy should be disbursed within the range of the difference between the purchase price and the base amount, so as to efficiently facilitate and promote use of the equipment,

as follows:

In July 2009, the Agency reminded subsidiary organizations of the purpose of the project to promote the use of gas-fired water heaters and the approach to rate-setting for state subsidies. In September 2009, the Agency approved an amendment to the work method statement form providing that a state subsidy shall be granted only when the purchase price of the gas-fired water heater exceeds the sum of the base amount and the flat-rate state subsidy, in order to ensure that the amount of state subsidy to be disbursed does not exceed the difference between the purchase price and the base amount. Since September 2009, applications for state subsidies have been made using the amended form.