

**Statement of Christopher Peel
Chief Operating Officer
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U.S. House Committee on Energy & Commerce
Subcommittee on Energy & Power
April 30, 2015**

SUMMARY

Heating, cooling and water heating products have been regulated for decades. Manufacturers have learned, adapted and incorporated the regulatory requirements into their business models and look forward to establishing additional mechanisms for negotiated rulemakings, which are more collaborative among stakeholders, to enhance the success of well-intended regulations going forward. The Department of Energy is planning to promulgate 23 new product efficiency standards affecting the industry between 2015 and 2018. This accelerated regulatory schedule, caused by the intersecting priorities of the President's Climate Action Plan and the legally mandated deadlines on issuing new efficiency standards, has caused a significant reduction in the needed constructive interaction between stakeholders and DOE during the rulemaking process. Unfortunately, this lack of true collaboration has resulted in oversights, including errors involving economic assumptions and technical issues. Rather than working collaboratively to achieve common objectives, there arises the need to ask for Congressional intervention, or, in some extreme cases, resort to legal action to ensure that regulations are designed to achieve what is in the best interest of the environment, the economy, and hard-working Americans.

In an effort to create a more open and transparent regulatory process, the rules governing how regulations are crafted need to be updated. The testimony will focus on three main examples:

- Transparency and stakeholder engagement in the promulgation of rules under the Energy Policy and Conservation Act (EPCA)
- The expected impact on both industry and consumers of the U.S. Department of Energy's (DOE) proposed efficiency standards for residential furnaces, and
- Support for the value provided by voluntary independent verification programs (VIVPs), such as AHRI's program

The current proposed standard for residential gas furnaces is an example of a rule that, while seeking to achieve the laudable goal of reducing energy consumption, will unnecessarily burden millions of residents, while unnaturally shifting the current market demand for gas furnaces. The industry is asking for Congressional action in order to bring all stakeholders together to negotiate a sustainable path forward.

Finally, the establishment of voluntary independent verification programs conserves DOE resources, reduces taxpayer costs and provides clarity for manufacturers bringing products to the market. Reliance on a strong and consensus-built verification program alleviates unnecessary regulatory burdens on manufacturers and strengthens market surveillance, assuring consumers of the quality and efficiency of the HVAC and water heating products in their homes and businesses. We thank Representatives Latta, Cooper and Blackburn for their leadership on this issue and applaud the Subcommittee Leadership and staff for including this measure in the draft bill. This supports the environment, taxpayer cost-savings, and jobs. A proverbial win-win-win.

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Chairman Whitfield, Ranking Member Rush and Members of this Subcommittee, good morning. I would like to start by taking this opportunity to thank you for your work to address energy policy matters that are important to the US economy, including your recent passage of S.535 which included crucial language providing regulatory relief for grid-enabled water heaters.

I would also like to thank you for inviting me to testify this morning. My name is Chris Peel, and I am the Chief Operating Officer for Rheem Manufacturing Company (Rheem). Rheem was founded in the 1920's and is headquartered in Atlanta, Georgia. Rheem is a global industry leader with seven US-based factories and distribution centers. Rheem designs, develops, and manufactures products that make our lives safer, more comfortable and more productive, including residential and commercial furnaces and air conditioners, water heaters, and indoor air quality accessories. Rheem also has a deep history of developing innovative, high efficiency products and we are proud to have earned numerous industry awards for these technology solutions, which have reduced energy consumption and saved small businesses and consumers thousands of dollars annually on utility costs. We also maintain a significant philanthropic initiative which we call the Heart of Comfort that supports environmental, housing, social assistance, and veterans' programs, among others to ensure we are giving back in the communities where we are fortunate to have a presence.

I am also here representing the Air Conditioning, Heating, and Refrigeration Institute (AHRI), which is a trade association that represents 315 manufacturers of heating, ventilation, air conditioning, refrigeration (HVACR), and water heating equipment. AHRI's member companies employ over 100,000 people in the US and represent more than 90 percent of the HVACR and water heating equipment manufactured and sold in North America. This number increases to over a 1,000,000 employees when including those involved in the manufacturing, distribution, installation and support of HVAC and water heating appliances. AHRI has a 50-year history of promoting environmental stewardship and, during that time, has successfully administered a voluntary independent verification program (VIVP) that ensures its members' products comply with federally-mandated efficiency and performance requirements.

In both my capacity with Rheem and on behalf of AHRI, I am here today because, we care about improving the environment, safety and reliability; the employees in our industry; and the customers we serve. With these priorities in mind, I ask the Subcommittee to help address three issues that are vitally important to the ability of the HVAC and water heating industry to serve the American consumer while we work to compete in the global economy:

1. Transparency and stakeholder engagement in the promulgation of rules under the Energy Policy and Conservation Act (EPCA);
2. The expected impact on both consumers and industry of the U.S. Department of Energy's (DOE) proposed efficiency standards for residential furnaces; and,
3. The value provided by voluntary independent verification programs (VIVPs), such as AHRI's program.

ENERGY POLICY AND CONSERVATION ACT (EPCA) PROCESS REFORMS

As part of the President's Climate Action Plan, DOE is planning to promulgate 23 new product efficiency standards affecting our industry between 2015 and 2018. This accelerated regulatory schedule, caused by the intersecting priorities of the President's Climate Action Plan and the legally mandated deadlines on issuing new efficiency standards, has caused a significant reduction in the needed constructive interaction between stakeholders and DOE during the rulemaking process. Unfortunately, this lack of true collaboration has resulted in oversights, including errors involving economic assumptions and technical issues. Rather than working together to achieve what are very common objectives, we find ourselves in a situation where we need to ask for Congressional intervention, or, in some extreme cases, resort to legal action to ensure that we are doing what is in the best interest of the environment, the economy, and hard working Americans.

In my view, new efficiency standards achieve the greatest public benefit when industry, interested NGOs, and government officials work together to create consensus-driven standards. We believe this is also the goal envisioned by DOE's "Process Rule" which involves early input from stakeholders as a means to achieve regulations in a manner that enhances success through the appropriate analysis and utilization of real-world inputs. Expanding the regulatory tools available to the DOE to include greater use of a negotiated rulemaking process affords all stakeholders the ability to engage in human interaction, as opposed to merely a formalized notice and comment method. Some detractors may claim that negotiating face-to-face in the same room over many months slows the regulatory process, but I would submit that the final results will create consensus-based, intelligent energy policy that will move our economy forward.

To improve this process, I would respectfully ask that this Subcommittee work with stakeholders to codify the rules that govern the DOE rulemaking process. Doing so would ensure all voices are fairly represented when a new standard is under consideration. The resulting policies will be better-balanced and would achieve the intended benefits for the economy and the environment.

DOE RESIDENTIAL FURNACE RULE

Chairman Whitfield and Ranking Member Rush, the recently proposed residential furnace rule is an example of a DOE rule created with insufficient input from manufacturers. DOE is poised to finalize a new energy efficiency standard for residential furnaces that would raise the national annual fuel utilization efficiency (AFUE) from 80% to 92% for natural gas furnaces. Stated justifications for the proposed rule are that it will reduce greenhouse gas emissions from furnaces and lower costs for consumers. These are laudable goals that we share; however, we have significant concerns regarding the true impact and market viability of such a standard.

By way of background, there are two primary residential gas furnace technologies in the market today, commonly referred to as 80%+ (or non-condensing) and 90%+ (or condensing). The US market is roughly evenly split between 80% and 90% furnaces, and it is estimated by the Energy Information Administration that, as of 2009, there were more than 44,000,000¹ central warm air gas furnaces installed in the US. The overwhelming majority of 90% furnaces are installed in the northern US and, due to the significant climate difference, the majority of 80% furnaces are installed in the south.

¹ Residential Energy Consumption Survey (RECS); Space Heating. U.S. Energy Information Administration. <http://www.eia.gov/consumption/residential/data/2009/#undefined>.

To achieve the higher efficiencies of 90% furnaces, additional costs must be added to the product, and more complex and costly installation requirements are necessary. DOE estimates that replacing an existing 80%+ furnace will cost consumers an average of \$660 more and that this cost cannot be economically justified in 60% of the installations². In the Agency's worst case scenario, such as a very old home or a multi-residence dwelling, the cost could be as much as \$2,200 more in order to update the infrastructure.

A more balanced and economically justifiable solution would be to recognize the significant and distinct differences between the two gas furnace market segments and work with all stakeholders to develop a minimum efficiency approach that ensures that both 80% and 90% furnaces are viable options for American consumers, rather than penalizing such a significant share of our nation's families and small businesses by eliminating an entire product category. It is our view that we can achieve credible environmental benefits that can be economically justified with such a solution.

Therefore, we recommend consideration of legislative efforts to swiftly address concerns before this rule should be finalized in its current form. We would also request that the timing to finalize this rule be delayed until all stakeholders are able to work together to ensure that the proposed regulations will achieve our environmental objectives without penalizing families and small businesses.

² Energy Conservation Program for Consumer Products: Energy Conservation Standards for Residential Furnaces;" Notice of proposed rulemaking and announcement of public meeting, 10 CFR Part 430 (12 Mar 2015). Table IV.12—Additional Installation Costs for Non-Weatherized Gas Furnaces in Replacement Applications.

VOLUNTARY INDEPENDENT VERIFICATION PROGRAMS (VIVP)

I also wish to thank Congressman Latta for his tireless efforts on behalf of industry manufacturers and their customers. He and Representatives Jim Cooper and Marsha Blackburn of Tennessee, have introduced H.R. 1785, the Voluntary Verification Program Act, which will assure consumers that the HVAC and water heating products they install in their homes truly meet the applicable federal efficiency levels and do so in a manner that provides clarity on the operational side of our manufacturing-intensive businesses. All of this can be done in a way that also conserves taxpayer resources. This is the proverbial win-win-win scenario.

To ensure compliance with DOE regulations, our industry spends millions of dollars and thousands of employee hours every year working to certify and verify that our efficiency ratings are accurate. Manufacturers' efficiency rating claims are verified through random testing by an independent laboratories and participation in AHRI's stringent verification programs. These programs are open to all manufacturers whether or not they are AHRI members. AHRI-verified products are publicly listed on their website, which is updated daily, and the data is also sent directly to the Department of Energy (DOE) on a daily basis.

Under H.R. 1785, DOE and stakeholders would work collaboratively on a negotiated rulemaking to establish criteria under which the federal government would certify voluntary independent verification programs and rely upon such VIVPs to verify efficiency ratings. It is important to note that for enforcement purposes, DOE would retain its authority to penalize violators and periodically inspect and test products to ensure compliance.

As DOE budgets and priorities can fluctuate year to year, we believe that our industry is best served by VIVPs. Because a level competitive playing field is essential to the long term viability of any industry, VIVPs, such as AHRI's 50-year old program, continue to successfully hold all manufacturers accountable to the high standard that our consumers deserve and expect. I believe this approach conserves DOE resources, reduces taxpayer costs and provides clarity for manufacturers bringing products to market. I would like to thank Representatives Latta, Cooper and Blackburn for their leadership on this issue and applaud this Subcommittee and staff for including this measure in the draft bill. It is our view that The Voluntary Verification Program Act of 2015 will ensure a robust market surveillance program to ensure consumer protection, and we would respectfully request your continued support.

CONCLUSION

Finally, Chairman Whitfield, Ranking Member Rush and Members of the Subcommittee, I appreciate the chance to appear this morning. I look forward to answering any questions you might have and to working together with you, your staff, industry colleagues, efficiency advocates, and DOE leaders to achieve policies that help strengthen American jobs and serve the best interests of our customers -- your constituents -- who have a right to expect environmentally responsible product solutions that truly improve the quality of their lives. We are dedicated to building upon our tradition of working with you on these critically-important objectives and thank you for your service and leadership.