

**Submitted Testimony of the American Gas Association  
Subcommittee on Energy and Power  
House Committee on Energy and Commerce**

**Hearing on “Home Appliance Energy Efficiency Standards Under  
The Department of Energy– Stakeholder Perspectives”  
June 10, 2016**

The American Gas Association (AGA) appreciates the opportunity to submit this statement for the record relating to the U.S. Department of Energy’s energy conservation standards program for residential appliances.

The AGA, founded in 1918, represents more than 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 72 million residential, commercial and industrial natural gas customers in the U.S., of which 95 percent – just under 69 million customers – receive their gas from AGA members. Today, natural gas meets more than one-fourth of the United States’ energy needs.

AGA and its members are strong proponents for advancing energy efficiency in homes and businesses. For example, natural gas utilities have helped customers save 175 trillion Btu’s of energy and offset 9.1 million metric tons of carbon dioxide emission in 2014 alone through investments in natural gas efficiency programs totaling more than \$1.27 Billion.

AGA believes that well-designed federal minimum energy efficiency standards for appliances and equipment deliver significant value to consumers and the economy as a whole. The

Department of Energy can uniquely provide a needed function by establishing a uniform national regulatory environment, and preventing a patchwork of conflicting state standards that would be harmful to both business and consumer interests.

However, in recent years AGA has become increasingly concerned with process and implementation issues we have observed in new standards rulemakings. Going forward, we strongly encourage DOE to work more collaboratively with all stakeholders to reduce implementation difficulties that damage the integrity of the public process, and ultimately provide a disservice to significant numbers of American households.

A number of shortcomings in the Department's implementation of its regulatory responsibilities are evident in the on-going effort to develop a new energy efficiency standard for residential gas furnaces. Unfortunately, the furnace rule proceeding is emblematic of the Department's performance in a number of other rules related to natural gas appliances and equipment. AGA's major concerns in the context of the furnace rule are described below.

**DOE conducted a non-transparent process.** The DOE process associated with this rulemaking has consistently obscured the assumptions, data, and methodologies contained in their technical documents in support of the rule. Despite written inquiries, questions submitted by AGA to the DOE have gone almost completely unanswered. This is particularly troubling given the immense complexity of the proposed rule and its reliance on highly sophisticated and opaque modeling methodologies.

Much of the DOE analysis relies on methodologies that are proprietary or otherwise outside the public domain. Because DOE has failed to provide sufficient information needed by AGA – or

any member of the public – to develop a clear understanding of the technical analysis supporting this rulemaking, it is impossible to ascertain whether or not the proposed rule meets the criteria established by EPCA for establishing new and/or amended standards.

Transparency is a critical component of the rulemaking process since making more information available to the public enhances awareness and participation in the standards setting process.

Transparency also is important as it allows the public to serve as an effective check on the regulatory system and helps safeguard against regulators pursuing policies that may not be consistent with the public interest and their enabling statutes.

Another negative consequence of this lack of transparency is that it has precluded opportunities for iterative improvements of the proposed rule through interactions with stakeholders. AGA sought to provide additional information and data that could have been usefully applied to the development of the furnace rule. Unfortunately, the Department failed to acknowledge this additional information in numerous circumstances, several of which are detailed below.

**DOE’s economic analysis underestimated the costs to consumers and other adverse impacts that amended standards would impose.** AGA raised concerns with DOE that its cost and energy impact estimates did not fully reflect the costs that the initial proposed furnace standard of 92 percent AFUE would impose on consumers and the nation. According to the Department’s own analysis, 66 percent of affected households would see no benefit or bear higher net costs under the proposed rule. In particular, this rule as proposed would have placed an undue burden

on low income consumers who will be unable to overcome the initial barrier presented by the higher unit costs of condensing furnaces.

AGA and other stakeholders offered DOE alternative, market-based data for key variables in DOE's Life Cycle Cost (LCC) analysis spreadsheet used to determine the economic feasibility of new standard levels for furnaces. Unfortunately, DOE did not engage the stakeholders in a discussion on the alternative data offered or utilize the data in the LCC spreadsheet. For example, although industry provided DOE with data indicating the average lifetime of gas furnaces is approximately 15 – 16 years, DOE chose to utilize their significantly longer lifetime estimate of 21.5 years in their analysis. DOE's overly optimistic assumption has the effect of inflating DOE's estimates of net economic benefits and energy savings to consumers, and increasing estimates of the share of consumers who experience life-cycle benefits.

**DOE overestimated the size of the affected market.** AGA has questioned the methodologies and data used in key components of DOE's Life Cycle Cost analysis/model. A critical component for identifying the potential benefits a new or amended efficiency standard will have on the market is to determine the size of the market that will actually be affected by the new standard. Based on AGA's technical expert's review of supporting documents for the proposed rule, there appeared to be flaws in the methodologies used by DOE that would overestimate the size of the market that would be affected by the proposed standard which would result in overstating the savings associated with the new standard.

AGA provided DOE with a revised Life Cycle Cost analysis that corrected the flawed methodologies in its comments on the furnace NOPR detailing the significant differences in the economic and energy consumption results between the two analyses but did not receive a response from DOE on this critical element of the rulemaking.

**DOE used unexplained and inconsistent installation costs in its Life Cycle Cost analysis.**

When comparing DOE's 2011 Life Cycle Cost analysis with the Life Cycle Cost analysis used in the proposed standard, our technical experts identified a large differential in the installed costs of a baseline 80 percent Non-Weatherized Gas Furnaces (NWGFs) and the installed cost of condensing NWGFs. The installed cost for the 80 percent NWGF have increased while the installed costs of the condensing NWGF have decreased.

These large, unexplained changes in installed costs have contributed to improved Life Cycle Cost savings of condensing furnaces. In addition, the installed cost differential between the 80 percent NWGF and the condensing NWGFs in DOE LCC analysis used for the proposed rule is significantly less than the cost differential data AGA members have collected from a national survey of contractors in their market areas. Although AGA shared this data with the Department, it did not result in any changes to the DOE analysis.

**Another troubling trend in DOE's implementation of regulatory process is a failure to comply with process rules governing changes in testing procedures.** The Department is required to finalize any revisions in testing procedures for energy efficiency standards for covered products before proceeding to a rulemaking for determining whether a new energy

efficiency standard is necessary. This process break-down has most recently occurred in rulemakings concerning commercial packaged boilers and commercial water heaters.

Finalizing the testing procedures first is just common sense. Testing procedures can be highly technical, and varying the test can change whether a particular function or aspect of the appliance's use are reflected in the test. Changes in the testing procedure – while they do not affect the *actual* efficiency of the appliance – may well affect the *rated* efficiency. Finalizing the test procedures before considering the efficiency standard itself is the only way to ensure that all parties, regulators and stakeholders alike, have a common understanding of the meaning of the standard.

AGA appreciates the opportunity to submit this statement to the subcommittee on this issue of critical importance to consumers and to the natural gas industry. We encourage the subcommittee, in its oversight capacity, to continue to monitor the development of appliance energy efficiency standards at the Department of Energy, and to encourage the Department to improve the implementation of its regulatory authority to better serve the public interest.