

STATEMENT FOR THE RECORD

By

A.O. SMITH CORPORATION

Before the

HOUSE COMMITTEE ON AGRICULTURE

SUBCOMMITTEE ON CONSERVATION, CREDIT, ENERGY, AND RESEARCH

UNITED STATES HOUSE OF REPRESENTATIVES

May 12, 2010

Good morning Mr. Chairman and Members of the Subcommittee. My name is Charlie Adams, and I am Chief Engineer and Director of Government Affairs for the A.O. Smith Corporation. Founded in 1874, A.O. Smith is the largest manufacturer of residential and commercial water heating equipment in North America, employing 15,350 employees worldwide. The Corporation is a global leader in applying innovative technology and energy-efficient solutions to products sold in more than 60 countries around the world, including solar, heat pump, and gas hybrid water heaters, along with the highest efficiency natural-draft residential gas storage water heaters on the market.

A.O. Smith appreciates the opportunity to testify before the Subcommittee today regarding the Rural Energy Savings Program Act, H.R. 4785. We believe this legislation is well-structured and timely and would help maintain and create jobs across the entire value chain of the U.S. manufacturing sector. For A.O. Smith this would include our water heater manufacturing operations in South Carolina, Kentucky, North Carolina, Washington, and Tennessee, as well as our Electrical Products Company operations in Ohio and Kentucky. The headquarters of our Water Products Company in Ashland City, Tennessee, was unfortunately affected by the serious flooding in the Nashville area last week, and half of that facility's production has been relocated to our Johnson City, Tennessee facility, which is ably represented by one of the Agriculture Committee's Members, Congressman Phil Roe.

I would like to focus my testimony today on the benefits of H.R. 4785, the meaningful role that energy-efficient water heaters can play in reducing energy usage in rural America, and the importance of ensuring that the most energy-efficient products on the market will qualify under the Rural Energy Savings Program.

H.R. 4785 Will Produce Meaningful Energy Savings and Support U.S. Manufacturing Jobs

H.R. 4785 represents an important means to both save energy and create and sustain U.S. manufacturing jobs. Installation of energy-efficient technologies plays a key role in our national effort to reduce energy usage. According to the American Council for an Energy Efficiency

Economy (ACEEE), the United States can cost-effectively reduce energy consumption by 25-30% or more over the course of the next 20-25 years through energy conservation measures. In addition, the U.S. manufacturing sector has been hard hit by the recent recession, and this bill will be an important driver of job growth in the energy-efficient appliance manufacturing sector which stands ready and able to meet heightened demand for our products from rural consumers.

Congress has previously established tax credits and other incentives to promote “green” building and the use of energy-efficient technologies. Yet the needs in rural America are unique and require a program specifically designed to encourage the participation of rural homeowners and small businesses, many of whom are low-income, in the implementation of energy-efficient retrofits. H.R. 4785 strikes the right balance in providing meaningful incentives for rural homeowners and small businesses to implement energy-efficient retrofits, while ensuring program participants can easily access the financing that many of them need to update their facilities. In the end, the implementation of these retrofits will provide energy savings to rural consumers – a cost savings that is critical for many families and businesses in this recession.

Most importantly, the legislation does not prescribe which specific products will qualify under the program; rather, it allows consumers and rural utilities to choose which products will best serve their needs and meet energy efficiency goals. By enabling appliance manufacturers to compete on a level playing field for consumers’ business, this legislation helps ensure that the most energy-efficient, highest-quality, and greatest-value products will be installed in rural homes and small businesses across the country – producing significant energy savings for consumers and helping to reduce our nation’s carbon emissions.

Energy-Efficient Water Heaters Can Provide Substantial Energy Savings in Rural America

Water heating is estimated to be the second-largest use of energy in the typical American home, after heating/air-conditioning. As such, currently-available, off-the-shelf, highly energy-efficient water heating technology offers “low hanging fruit” to all users of water heating equipment who wish to reduce their energy usage. The reductions in energy consumption that can be achieved quickly by removing older units and installing new, highly-efficient units are sizable. For example, if we were able to replace the estimated 100 million water heaters in residential use today with the most energy-efficient water heaters on the market, reductions in annual consumption of natural gas by water heaters could decrease up to 30%, and the reduction in annual generation of electricity to power water heaters would equate to the annual output of 21 large power plants. The greenhouse gas emissions reductions that could result from this shift would be equivalent to taking 30 coal-fired power plants offline.

As Congress debates the difficult issue of how best to reduce emissions from power plants and manufacturing facilities in the future, energy conservation through replacement of outdated water heaters and other appliances remains a meaningful step that can be taken to reduce carbon emissions and U.S. energy usage today. Rural America can reap uniquely positive benefits from energy conservation, given that a majority of electric generation by rural electric cooperatives is coal-fired power generation. Thus, reducing energy usage in rural America through near-term energy-efficient retrofits is an important means of reducing carbon emissions from coal-fired plants.

H.R. 4785 Should Ensure Promotion of the Highest Efficiency Appliances

As the Subcommittee and Full Committee examine this legislation and seek to ensure its maximum benefit for rural homeowners, small businesses, and manufacturers, we urge that the final bill ensure that the Rural Energy Savings Program is sufficiently coordinated with current and future rural utility appliance rebate or energy-efficiency programs such that all highly efficient water heaters are eligible. Specifically, it is important that eligible products are not limited to those that qualify under the Environmental Protection Agency's Energy Star program.

Current federal law does not uniformly rate the energy efficiency of all classes of water heaters. Depending on a water heater's gallon capacity and energy input rating, it may be covered under the National Appliance Energy Conservation Act (NAECA) of 1987 (P.L. 95-619) or the Energy Policy Act (EPACT) of 1992 (P.L. 102-486). If covered under NAECA, the water heater must be rated in energy factor (EF). If covered under EPACT, it must be rated in thermal efficiency (TE). While the distinctions created by these laws may have seemed practical in prior years, the water heating industry has changed sufficiently such that the existence of these two rating systems has become outdated, arbitrary, and most importantly, confusing to consumers. For this reason, there is strong industry and NGO support for changing federal law to apply one uniform testing standard to all water heaters (see S. 2908, the Water Heater Rating Improvement Act of 2009).

Unfortunately, the Energy Star program only allows water heaters rated in EF to qualify for the Energy Star rating, despite the fact that there are now water heaters on the market rated in TE that are far more efficient than those rated in EF. This inherent problem with the Energy Star program has been perpetuated through subsequently-established State and utility rebate programs that use the Energy Star program as a model and thereby prohibit consumers from receiving rebates for many highly-efficient water heating products. These Energy Star standards are particularly restrictive when one considers that Section 25C of the tax code, intended to provide incentives for the installation of energy-efficient water heaters, provides a homeowner with a tax credit of up to \$1500 for the purchase of an energy-efficient water heater rated 90% TE or greater. Yet, in many States, a homeowner could not receive a rebate for such a water heater through local rebate programs, because the Energy Star program does not recognize the efficiency of TE-rated products. An additional weakness in Energy Star is that only electric heat pump water heaters are eligible, excluding electric storage water heaters rated as highly as 0.95 EF. This limitation is not reasonable or practical for the homeowner given that, per a recent analysis by the Department of Energy,¹ 40% of homes may not have sufficient space to accommodate an electric heat pump water heater. In rural areas, with typically smaller homes and manufactured homes, the percentage would be higher.

While the Agriculture Committee does not have jurisdiction over the Energy Star program or tax policy, it can ensure that rural utilities, when implementing H.R. 4785, do not simply limit product eligibility to those that are Energy Star-rated. Because some of the most energy-efficient water heaters on the market are not rated in EF, the Rural Energy Savings Program can only ensure maximum energy savings through the program by ensuring that products rated in TE will be

¹ See the Final Rule Technical Support Document (accompanying the Energy Conservation Program Final Rule: Energy Conservation Standards for Residential Water Heaters, Direct Heating Equipment, and Pool Heaters, 10 CFR § 430 (2010)), Chapter 8, page 8-23, found at: http://www1.eere.energy.gov/buildings/appliance_standards/residential/heating_products_fr_tsd.html

deemed eligible for rebates by the rural utilities. Indeed, the Energy and Commerce Committee recognized the significant energy savings that can be gained from TE-rated water heaters when it included them in the rebate program established through the recently-passed Home Star Energy Retrofit Act (H.R. 5019). A.O. Smith would be pleased to work with the Subcommittee on this issue as you continue your work on H.R. 4785.

Conclusion

A.O. Smith greatly appreciates the work that Congressmen Clyburn and Whitfield have done to craft this bill, and we are anxious to work with the Subcommittee to advance this important legislation. Should this bill be enacted this year, we look forward to working with the rural utilities and State energy offices as this program is implemented in rural communities across the country. We have no doubt that the Rural Energy Savings Program would be of significant value to rural homeowners and small businesses and manufacturers like A.O. Smith who employ thousands of U.S. workers dedicated to manufacturing the most energy-efficient appliances on the market.