

Comments Via E-mail From Steve Saunders, TexEnergy Solutions, Inc.

Here are two of my thoughts related to delay implementation of at least a portion of the 2006 Energy Star effort as a result real issues in the HVAC world as described below. These are the ideas I submitted to Texas HERO and I wanted to pass them on to you for consideration.

Proposal 1: Recommendation is to delay the implementation of the 14 SEER requirements as part of the Energy Star package until Q4 of 2006 or January 1, 2007.

Proposal 2: Reduce the HSPF requirement on the 14 SEER heat pumps on what manufacturers have to do to have this product be eligible for the "Energy Star label".

Rational for Proposal 1: EPA Proposal Commentary re HVAC impacts: 13 SEER and rationale for delay.

- The change to 13 SEER HVAC will be much more complex and disjointed than most anyone can imagine.
- At present, all manufacturers are publicly promising to have 13 SEER ARI rated products only by January 23, 2006. But, the integration of these products into the real world will take time and effort.
- This is the largest single transition in the last 30-year history of the HVAC manufacturing business and perhaps the most difficult manufacturing change ever for them.
- Most (if not all) manufacturers planned years in advance for a transition to 12 SEER as the minimum standard. The shift to 13 SEER destroyed their strategy and busted their plan. In addition, they have had little time to create a new strategy, outline appropriate plans, design the products needed, order the tooling and pray that they can figure it out and get it right the first time.
- All manufacturers will be exclusively producing 13 SEER ARI products by 1/23/06. But, these products will not be immediately available to the market place.
 - To protect against the disastrous effect of supply disruption, most manufacturers will be stuffing the channel with product.
 - There will be limited value to the below code product after the change and so distribution has a strong vested interest in depleting the existing inventory prior to releasing new 13 SEER product in the market.
 - Most of the new product will have different colors, shapes or cabinet designs.
 - New Homeowners (and builders) will not want to have mixed product on their homes. In addition, builders only want to deal with and explain the change one time. So, once the transition is made, it is permanent. (Leaving the distributors with a motive to delay introduction of the new product until the old ones are almost completely gone).
 - All parties are likely to estimate on the high side of too much product (the lesser of the two evils) but this will further complicate introduction.
 - New product always takes longer to hit the field (i.e. available for purchase and then installation by a licensed HVAC contractor) than anyone imagines.
 - Our historical experience indicates that it is usually 3 to 4 months after the original manufacturing date of a product before we begin to see its availability locally. (We know this from painful experience on product design problems. When we finally get the factory to fix the problem, they order the fix and to them the problem is solved. For contractors, we must wait until the fix is applied in the factory and then wait until the product gets built in volume and shipped to the field in response to orders and wait until the old product is sold ... all before the problem that we face is resolved.)

- The transition is usually ugly and difficult to communicate.
- This particular transition is seen by everyone in the HVAC distribution channel as a potential opportunity to recapture margin dollars lost to builder purchasing power in the last few years of builder supply chain cost reduction.
- As a result, the pricing for the RNC market on 13 and 14 builders HVAC product is a chess game. No one wants to go first. No one wants to lose share. Everyone wants to grow margins. There is huge fear that someone will break and the pricing will devolve into the same low margin morass that is currently driven by the purchasing strategies of the largest building companies. We won't see any pricing on the new 13 SEER product until July at the absolute earliest and we won't see the "real" price until September or October. We are not likely to see the 14 SEER builder price until sometime in 2006.
- This is because much of the competitively priced 14 SEER product is still on the engineering room computer (i.e. read 14 SEER ARI product with a single speed blower – not variable speed) and is unlikely to be available for builder installations until the latter half of 2006 (if then).
- The end result is that 14 SEER RNC (read product that the builder can afford to pay for) HVAC product will not really be available – may not even be built - in the first several months of 2006.
- So, the recommendation will be to delay the implementation of the 14 SEER requirements as part of the Energy Star package until Q4 of 2006 or (easier to do) January 1, 2007.

Rationale for Proposal 2: Reduce the HSPF requirement on the 14 SEER heat pump on what manufacturers have to do to have this product be eligible for the "Energy Star label.

- HVAC Standards for "Energy Star" credits:
- Gary Bedard of Lennox is greatly concerned that the standard for an "Energy Star" label on a Heat Pump is too tough.
- As I recall our discussion (15 minutes on this subject in the midst of a 3 hour executive briefing) on this subject: Lennox can plan and build an Air Conditioner and Heat Pump that meets a 14 SEER and 12 EER. But, the HSPF requirement for Energy Star (I remember 8.7 but really I don't think much about HSPF here in Texas) is too much. Gary said, "At this level, the SEER rating and the HSPF rating fight each other". Essentially (I interpret that), he believes that the requirement would force them to either not build a product or to build one in another cabinet size. But, they already feel stressed on the product changes that they have made in such a short time. The problem is one of meeting the cost requirements for production builders and production HVAC companies. This is a separate issue of the cost being higher due to low manufacturing volumes. This problem is: we have already "designed" our platform for the future and this enhanced product does not fit the design.
- Unless EPA will relent some on the HSPF requirement, then the ability of manufacturers to deliver a 14 SEER heat pump for the production builder market at a cost upgrade that will entice builders to participate in the Energy Star program will be limited or limited to fewer manufacturers. Either result will be bad for the program.
- We all want to move to more efficient equipment. This concern is not related to a lack of desire for moving to a more efficient product. This concern is not related to the fact that 14 SEER will cost more and that as manufacturers build more, their costs on 14 SEER products will drop. This concern is based on a. the amount of time that quality manufacturers have to develop the appropriate product (see rationale 1 explanation above) and b. that the goal

of a 14 SEER heat pump with a single speed blower (meaning no expensive variable speed motors) is within our grasp. By giving manufacturers a break on the HSPF requirement may allow for the product to actually be delivered in the near future. More net savings will come from having allowed for this small product break unleashing a much greater number of 14 SEER heat pumps in the real marketplace than to set the HSPF requirement at an unreasonable level for 2006 or 2007 implementation.

- These are real issues and delay in the new standards to accommodate them are reasonable.