

Nyle Systems LLC

To Abigail Daken

From Ton Mathissen, President Nyle Systems

Re Water Heater Program

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During the previous revision of the Energy Star criteria for water heaters the add-on unit was being considered for inclusion. Given that the majority of manufacturers have focused on the integrated units, the add-on remains an interesting alternative for the customer. The key reasons people choose add-ons continue to be:

1. If the tank of a hybrid unit starts leaking, you have to replace both the heat pump and the tank at a considerable cost. If the tank of the Geyser add-on fails, you just replace the tank.
2. The add-on is easier to install and people don't have to throw away the tank that they already have
3. Keep in mind that the Heat Pump recovery is slower. If a customer is "just getting by" with a traditional 50 gallon tank, they will experience cold showers if they upgrade to a 50 gallon hybrid. And larger hybrids are more expensive. Instead they get an 80 gallon storage tank and add a Geyser.
4. Many customers have a water heater that is located in the basement (or other place) that doesn't have the headroom for a hybrid. They choose the Geyser and place it next to their existing tank

In addition, the add-on has the potential to be an alternative that is considerably lower cost than the integrated units while providing the same savings. Our current price to consumers is \$849. Due to our lower volumes we have not had the opportunity to drive the price much lower but with an energy star, we can easily foresee volumes that would allow us to price it below \$650.

Over the course of the discussions we overcame several issues that were put on the table by our competitors. A sticky point came up when some of the tank manufacturers threatened to invalidate their warranties even though others like Vaughn and Giant confirm that our add-on does not have a negative impact on the tank (Also, why would the heat pump on top of the tank not create an issue if the heat pump next to the tank does – this is clearly a red herring thrown up just to keep our unit out). We offered to provide labels on our packaging and advertising that warns customers of this possibility.

In the end a negative report done on an add-on heat pump that was in the market ten years before ours closed the door on the discussion.

Now we are 2 years later and our units are still in the market with very favorable customer feedback. The lack of an Energy Star makes us miss out on the many credits and rebates that are available to our competition resulting in our unit actually being more expensive to consumers, net of the rebates and credits. Still we manage to sell about 20 units per month and earlier this year we were featured on Ask This Old House" (they selected us based on market feedback, this is not paid advertising).

Given the additional two years in the market with favorable customer feedback we hope that at this time Energy Star will reconsider its position and add the Add-on unit to the program. Our „new and improved unit that will be introduced later summer reaches an EF of 2.1 so we hope to be added at an

EF requirement of 2.0, similar to the 50 gallon integrated units which currently are the vast majority of the units sold.