

DOCKETED

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INCENTIVES FOR BUILDING DECARBONIZATION

Alex Ayers

Director of Government Affairs

HARDI

OUR MISSION

To advocate on behalf of HVACR Wholesale-Distributors so that they may better operate their businesses, serve their partners and employees, and add value to the economy by remaining “The Channel of Choice for HVACR Manufacturers and Contractors.”

OUR TRADE ASSOCIATION HAS

NEARLY 1,000

MEMBER COMPANIES

OVER 475

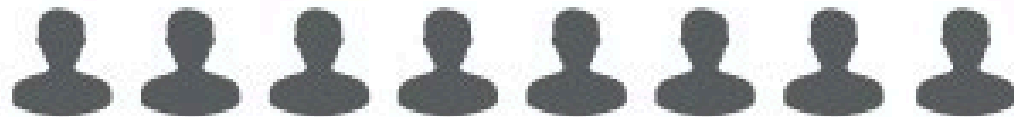
ARE U.S. BASED
WHOLESALE
COMPANIES



OF MEMBERS ARE
CLASSIFIED AS

**SMALL
BUSINESSES**

THESE SMALL BUSINESSES
COLLECTIVELY EMPLOY



40,000

HARD-WORKING AMERICANS

ELECTRIFICATION VS DECARBONIZATION

Electrification

- Electrification is a major component of decarbonization
- For many consumers electrification has the highest decarbonization impact
- However, decarbonization should not be viewed through a 100% electrification lens

Decarbonization

- Decarbonization can be achieved through:
 - Switching to low-GWP refrigerants in AC and refrigeration
 - Replacing older inefficient equipment
 - Using high-efficiency gas equipment for cooking and water and space heating
 - Electrification

DISTRIBUTOR ROLE IN SUPPLY CHAIN

HVACR VALUE CHAIN

MANUFACTURERS

DISTRIBUTORS
HARDI

CONTRACTORS

CONSUMERS

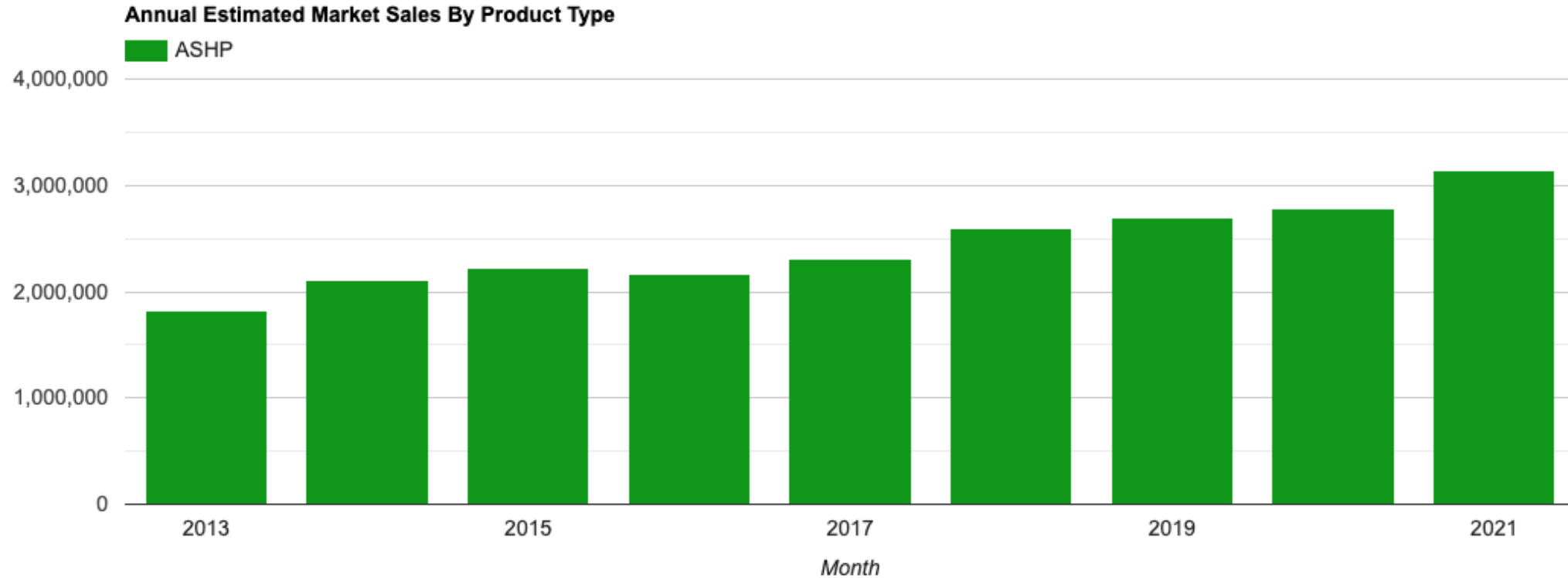
- Distributors play a critical role in the value chain:
 - Primary source of equipment and supplies
 - Knowledgebase
 - Warranties
 - Training

INCENTIVIZING CONSUMER BEHAVIOR

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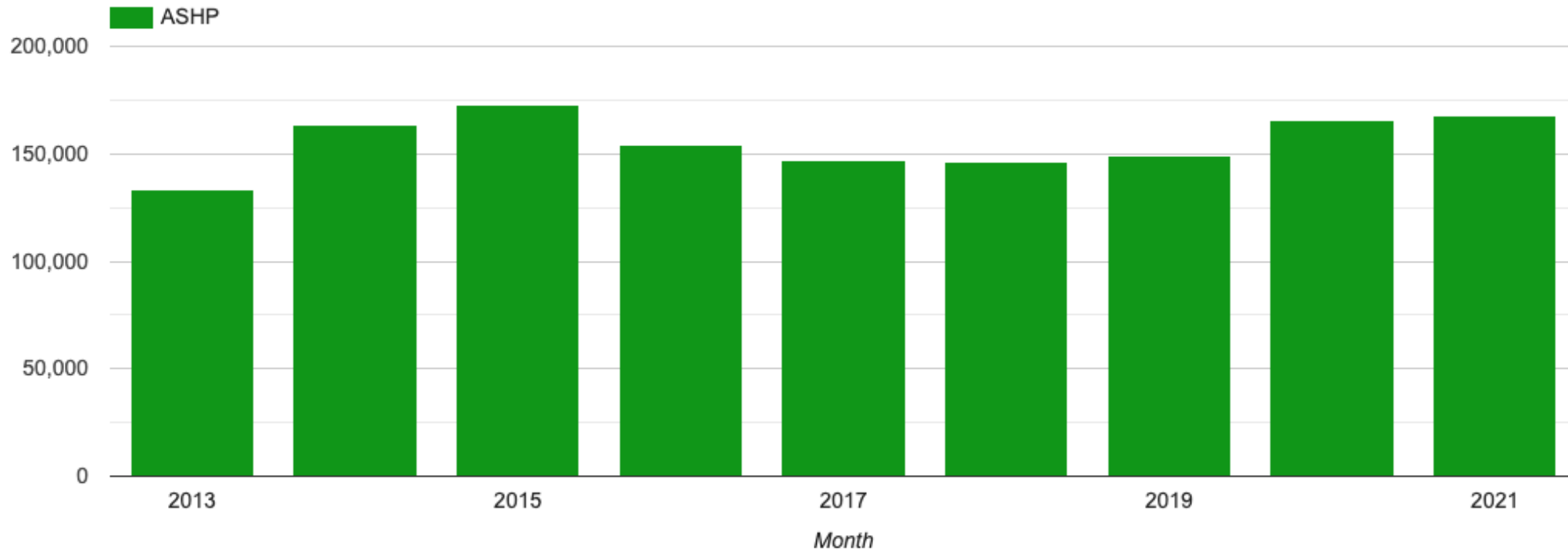
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RESIDENTIAL HEAT PUMP SALES GROWING NATIONWIDE



CALIFORNIA RESIDENTIAL HEAT PUMP GROWTH IS SLOWER THAN NATIONWIDE

Annual Estimated Market Sales By Product Type



Since 2013, 1.4 million heat pumps have been installed in California, HARDI estimates the installed base of heat pumps to be 1.75 million with a replacement rate of greater than 80,000 expected in 2022, the remaining growth in sales will be for new construction.

WHERE TO TARGET INCENTIVES

Home/Building Owners

- Delayed financial incentive
- Income verification is done directly with a government agency, no third party is involved

Point-of-sale (Contractor)

- Instant financial incentive
- Requires instant income verification, possibly through an unsecured system

Targeting incentives at the consumer or point-of-sale (contractor) is the most efficient at ensuring the right people receive the benefits of the program. Mid-stream and up-stream incentives do not solve the demand problems in the same way and mid-stream entities are designed to respond to demand (more on that later)

BALANCING TIME VS SAVINGS

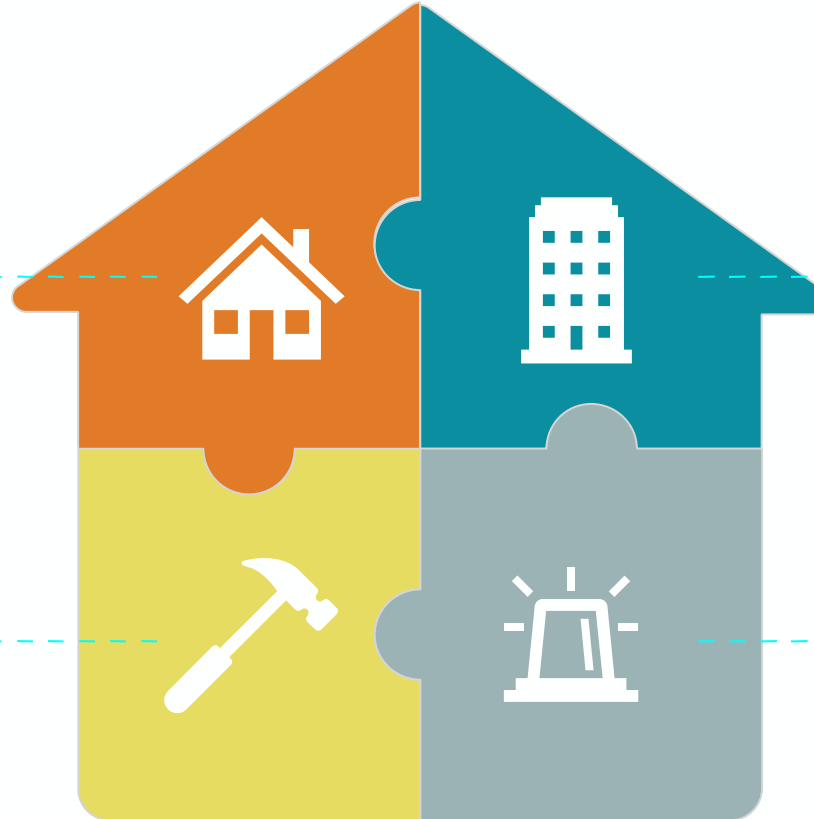


SOURCES OF RESIDENTIAL HVAC DEMAND

Comfort
driven

**New
Construction**
Single Family Homes

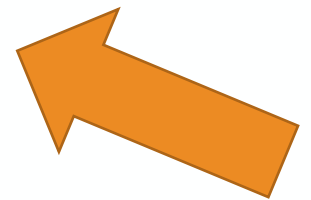
Add-on/Remodel
Additions to or
planned remodels of
existing homes



**New
Construction**
Multi-family Homes

Replacement
Emergency
replacement of
existing equipment

Cost
driven



Largest
demand source

80% of the HVAC residential market comes from add-on/replacement services.

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CALIFORNIA HAS MULTIPLE CLIMATE ZONES

 **15** °F | °C
 Precipitation: 12%
 Humidity: 61%
 Wind: 5 mph

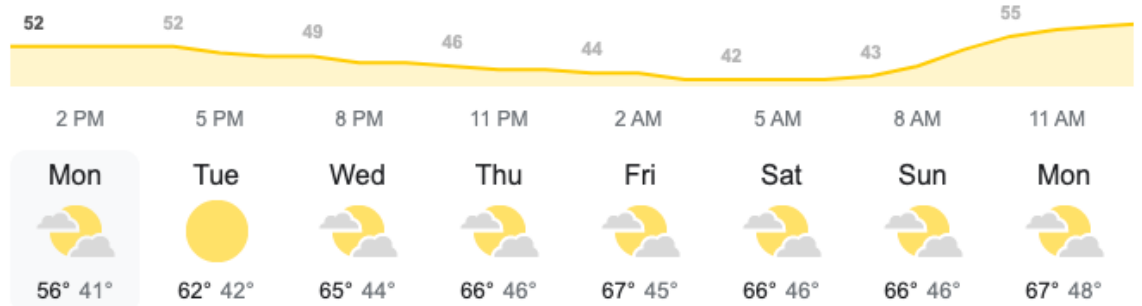
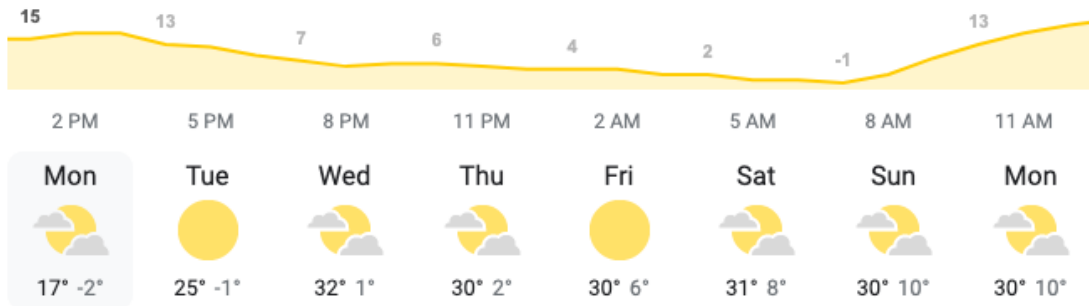
Bodie
 Monday 1:00 PM
 Mostly sunny

 **52** °F | °C
 Precipitation: 11%
 Humidity: 62%
 Wind: 5 mph

Palm Springs, CA
 Monday 1:00 PM
 Cloudy

Temperature | Precipitation | Wind

Temperature | Precipitation | Wind



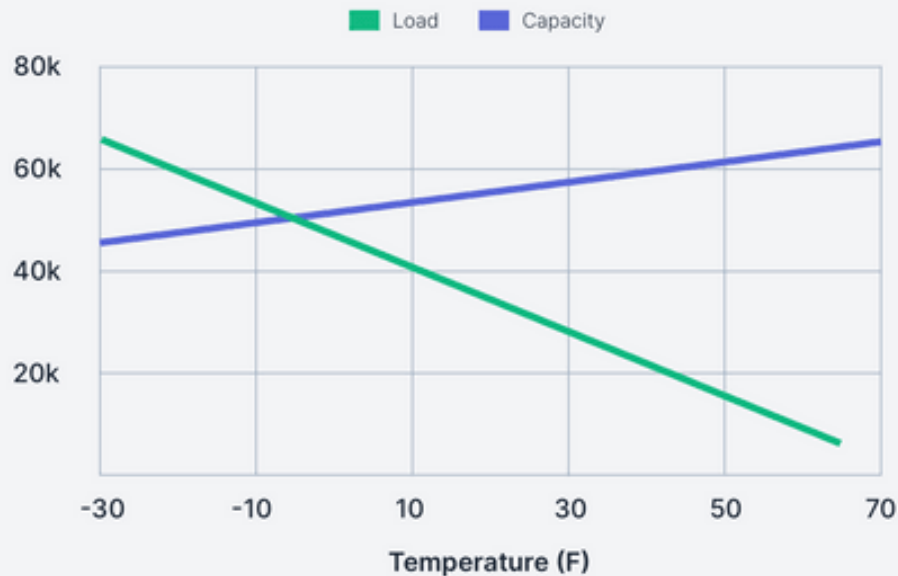
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INCENTIVES SHOULD NOT PREVENT DUAL FUEL OPTIONS

Colder weather means less capacity

As the temperature drops, heat pump capacity falls



High-efficiency Dual Fuel systems reduce carbon footprint while ensuring adequate heating capacity at an appropriate price point

FINANCING OFFERS ANOTHER VECTOR FOR INCENTIVES

- According to the 2021 HARDI Voice of Contractor Survey, nearly 50% of aren't offering financing for every job.
- Incentives partnered with financing can reduce or eliminate the price vs. time problem
- Finance also has secure access for income verification

<u>Frequency</u>	<u>Percent</u>
During every sales consultation	35%
I never offer customer financing	26%
In some sales consultations <i>(less than 50% of the time)</i>	25%
In most sales consultations <i>(greater than 50% of the time)</i>	14%

WHOLESALE DISTRIBUTORS' RESPONSE TO DOWNSTREAM INCENTIVES

ANNUAL INVENTORY CYCLE RESPONDS TO DEMAND

Spring

Initial
load-in of
inventory

Summer

Mid-
season
restocking

Fall

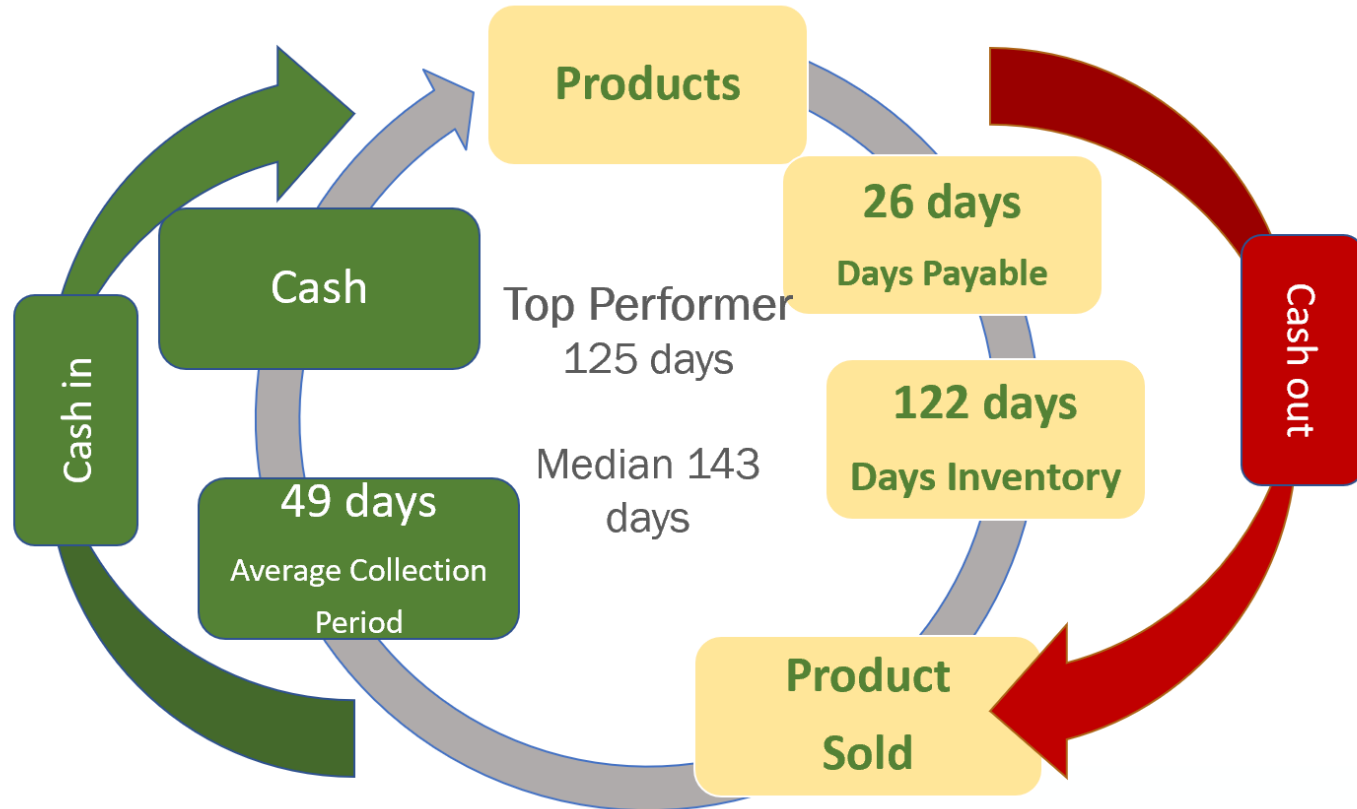
Late-
season
orders

Winter

Sell
remaining
inventory



INCENTIVE DESIGN AFFECTS PAYMENTS TO DISTRIBUTORS



Average Collection Period
+ Days in Inventory
= Gross Cash Flow Days
- Accounts Payable

= Cash Cycle Days

Cash Cycle Days has been
in the 142 to 146 range
for the past 9 years

INCENTIVIZING CONTRACTOR BEHAVIOR

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TRAINING, TRAINING, TRAINING

Some companies are pro-training

- Believe highly trained technicians are more efficient
- Training can reduce warranty calls
- Ready for transition to mildly flammable refrigerants

Other companies are anti-training

- Believe training time is lost revenue
- Will likely avoid/delay the switch to mildly flammable refrigerants and continue to use high-GWP refrigerants

Providing incentives for technician training ensures a timely transition to low-GWP refrigerants, better installations of energy-efficiency equipment to ensure peak efficiency, and overcoming the stigma of heat pumps in the contractor community.

