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AO Smith Comments on Equitable Building Decarbonization

Additional submitted attachment is included below.



June 30, 2023

California Energy Commission
1516 Ninth Street
Sacramento, California 95814

**RE: A. O. SMITH CORPORATION COMMENTS TO THE CALIFORNIA ENERGY COMMISSION DRAFT
EQUITABLE BUILDING DECARBONIZATION DIRECT INSTALL PROGRAM GUIDELINES**

Dear Commissioner McAllister:

A. O. Smith appreciates the opportunity to submit comments to the California Energy Commission’s (“Commission”) Draft Equitable Building Decarbonization Direct Install Program Guidelines, released on May 4, 2023. The Equitable Building Decarbonization Direct Install Program is an important part of increasing access to building decarbonization technologies for low- and moderate-income (“LMI”) households. These households have traditionally not been able to access energy efficiency upgrades and other decarbonization technologies.

About A. O. Smith

A. O. Smith Corporation, with global headquarters in Milwaukee, Wisconsin since 1874, applies technology and energy-efficient solutions to products manufactured and marketed worldwide with operations in the U.S., Canada, China, India, Mexico, the Netherlands, Turkey, and the UK. Listed on the New York Stock Exchange (NYSE: AOS), the company is one of the world’s largest manufacturers of residential and commercial water heating equipment and boilers, as well as a leading manufacturer of water treatment and air purification products. Along with its wholly owned subsidiaries, A. O. Smith is the largest manufacturer and seller of residential and commercial water heating equipment, high efficiency residential and commercial boilers, and pool heaters in North America.

Overview

A. O. Smith supports the intent of the Equitable Building Decarbonization Program (“Program”) but has some concerns with its requirements and proposed implementation. The Program lays out a variety of eligible measures that consumers can qualify for and mandates that at least two of the following four end uses in the building be electric: space heating, water heating, cooking and clothes drying and mandates that a heat pump is installed for either space heating or water heating.¹ Given the HVAC contractors familiarity with TECH, the company believes that the bulk of installations will choose to install a heat pump for space heating over a heat pump water heater (“HPWH”). Due to the year-round operation of a water heater when compared to space heating, HPWHs should be further incentivized by assigning a fix portion of the Program’s budget to HPWH installations.

Additionally, the Program should be easy to use for contractors who will be critically important for Program success. To the maximum extent practicable, A. O. Smith would urge the Commission to align the Program’s structure and processes – especially around income verification and pre-qualifying an LMI consumer – with existing state programs and the tools that may be included in the U.S. Department of Energy’s (“DOE”) forthcoming guidelines for the High-Efficiency Electric Home Rebate Act (HEEHRA) program for LMI households as authorized by the Inflation Reduction Act.² Streamlining and harmonization between the Program and the ensuing HEEHRA will allow contractors to better prioritize their resources and give consumers immediate feedback on whether they qualify for the Program.

Finally, in order to grow public confidence in these products, they need to perform as expected. This can only be guaranteed if they are installed correctly and in suitable locations. This Commission must ensure that HPWHs are installed in accordance with manufacturers installation instructions and industry best practices.

Program Requirements

1. Mandatory Heat Pump Water Heater Installations

As a threshold matter, converting a natural gas water heater to a heat pump water heater can reduce the annual emissions of a California household by fifty to seventy percent.³ As such the Program should prioritize HPWH installations. However, in order to achieve this prioritization, the Program must send a clear market signal to consumers, contractors, and distributors. A. O. Smith observes that the TECH program has demonstrated that targeted incentives drive adoption of high efficiency equipment. However, given the TECH program’s more open-ended technology approach, space heating and cooling applications (i.e., HVAC) have crowded out HPWH installations⁴. Therefore, if the Program’s structure allows for split incentives around water heating, space heating, cooking and clothes drying, A. O. Smith

¹ *Equitable Building Decarbonization Direct Install Program Draft Guidelines*, Docket Number 22-DECARB-03, Page 12.

² P.L. 117-169

³ *Emissions Reduction Potential from Electric Heat Pumps in California Homes*, Electricity Journal Vol 31, Issue 9, November 2018.

⁴ TECH shows that out of the 12,471 projects submitted less than 15% (~1,800 projects) were for HPWH's. <https://techcleanca.com/> accessed on 6/15/23.

believes that harvesting the largest percentage of emissions savings per household from water heating, will be left on the table. For these reasons, and to drive market adoption of HPWHs and realize greater emissions reductions from the existing built environment, A. O. Smith recommends that the CEC should dedicate fifty percent of Program funds to HPWH installations.

2. Harmonization with existing programs and an easy verification process

As cited earlier, A. O. Smith believes that the Program’s ultimate success will be predicated on the ease with which contractors and consumers can navigate and utilize the Program. Along those lines, prequalifying consumers – as well as contractors – is an essential step. On the consumer side, and consistent with the scope and intent of the Program to cover LMI households, income verification to determine eligibility will be the first critical step. While stakeholders await the ensuing HEEHRA program requirements, which also targets LMI households, California can turn to existing programs as an easy and straightforward approach to determine income eligibility. One example is Southern California Edison’s Family Electric Rate Assistance (“FERA”) and California Alternate Rates for Energy (“CARE”) financial assistance programs as models.⁵ These programs are readily understood with clear and easy to follow qualification steps to determine eligibility. In addition to determining income eligibility, A. O. Smith recommends that the Program prioritize and expedite permitting and inspections – via an online (i.e., Application-based platform) – to allow for remote inspections through virtual verification through pre and post pictures of installations. This process will reduce burdens for contractors, while maintaining Program integrity with approved and quality installation of equipment that is consistent with code and manufacturer’s installation recommendations and guidelines.

A streamlined, easy-to-use program to assist eligible homeowners, property owners, and contractors, will be a catalyst to further building decarbonization efforts in California and A. O. Smith recommends the CEC to consider and support this implementation strategy for the Program.

3. Central Heat Pump Water Heater Requirements

A. O. Smith supports the expanded use of central heat pump water heaters (“CHPWH”) for multifamily domestic hot water delivery. CEC’s Central Heat Pump Water Heater Performance Map Certification List⁶ exists to ensure that accurate data and models and that a transparent level-playing field is established for manufacturers, among other stakeholders, when complying with Title 24. A. O. Smith supports requiring that all qualifying products must appear on the certification list in order to qualify under the Program, requirements, and therefore opposes the Program’s current language that allow products utilizing CO2 as a refrigerant to circumvent the certification list. Holding only CO2-based CHPWHs to a different qualifying process is, by definition, establishing an uneven playing field for CHPWH manufacturers. Moreover, manufacturers are best positioned to account for the tradeoffs, including product efficiency associated with the selection of a refrigerant within the context of their system design

⁵ <https://www.sce.com/residential/assistance/fera-care>

⁶ CEC Central Heat Pump Water Heater Performance Map Certification List is available at <https://www.energy.ca.gov/rules-and-regulations/building-energy-efficiency/manufacturers-certification-building-equipment-8>.

not to mention system cost. While A. O. Smith supports the CEC's effort to incentivize low-GWP refrigerants, this goal must be technology neutral in the Program's requirements. Therefore, A. O. Smith would strongly recommend that CEC amend the Program's guidelines to require that all qualifying CHPWHs must appear on its Central Heat Pump Water Heater Performance Map Certification List regardless of system design or the type of refrigerant used.

Conclusion

A. O. Smith appreciates the opportunity to comment on the Commission's Draft Equitable Building Decarbonization Direct Install Program Guidelines. and looks forward to continuing the dialogue and working with the Commission to design a program that helps achieve the State's greenhouse gas emission reduction and equity goals as effectively as possible.

Please do not hesitate to contact me if you have questions.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joshua C. Greene".

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