

**Before the Committee on Environment and Public Works
United States Senate**

Hearing on S. 2754, American Innovation and Manufacturing Act of 2019

Written Testimony of

**John J. Hurst
Vice President of Government Affairs and Communications**

**Lennox International Inc.
2100 Lake Park Boulevard
Richardson, Texas 75080**

**Phone: (972) 497-7560
E-mail: john.hurst@lennoxintl.com**

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Chairman Barrasso, Ranking Member Carper, and members of the Committee, Lennox International Inc. respectfully requests your support of S.2754, the American Innovation and Manufacturing Act (The AIM Act). The AIM Act provides a process to develop and implement an efficient, predictable and cost-effective federal transition from HFC refrigerants to new environmentally friendly refrigerants. Specifically, the AIM Act:

- Achieves significant domestic economic and environmental benefits
- Grows American business
- Reduces regulatory burdens on the domestic HVACR industry
- Reduces American consumers' cost to cool their homes
- Preserves refrigerant choice

Introduction:

Founded in 1895, Lennox International Inc. ("Lennox") is an American company based in Richardson, Texas and employs approximately 10,000 people, many of whom work in American manufacturing or engineering design facilities in places like Tifton, Georgia; Marshalltown, Iowa; Carrollton, Texas, Columbia, South Carolina; Stuttgart, Arkansas; Grenada, Mississippi, Stone Mountain, Georgia; and Orangeburg, South Carolina. Lennox is a leading provider of heating, ventilation, air-conditioning and refrigeration (HVACR) products. Lennox is a technology leader in the HVACR industry, and we manufacture some of the most efficient products in the world.

HVACR products are essential to our way of life. The HVACR industry provides comfort and air filtration for inhabitants of essential commercial buildings such as grocery stores, hospitals, data centers and gas stations. Our products maintain the health and well-being of consumers and are also applied in smaller commercial facilities such as restaurants, doctor's offices, convenience stores, nursing homes and rehabilitation facilities. Refrigeration products are essential to the preservation of food, agriculture and medical supplies, such as pharmaceuticals, blood, insulin and plasma.

Lennox is a member of The Alliance for Responsible Atmospheric Policy ("The Alliance"), which was established in 1980 as a means for businesses that relied on hydrofluorocarbons, to participate in the development of policies to address ozone depletion. The Alliance represents businesses that produce HFCs, as well as manufacturers that use HFCs in air conditioning, refrigeration, appliances, foam insulation, foam products, electronics, aerosols, and metered dose inhalers.

Lennox is also a member of the Air Conditioning Heating and Refrigeration Institute ("AHRI"), which is the trade association representing manufacturers of heating, ventilation, air-conditioning, refrigeration, and water heating (HVACR) equipment. AHRI's more than 300 member companies account for more than 90 percent of HVACR residential and commercial equipment manufactured and sold in North America.

Background:

The future success of our business is dependent upon an efficient, predictable and cost-effective federal transition from HFC refrigerants to new environmentally friendly refrigerants.

We ask that you support the AIM Act, which will facilitate an efficient, predictable and cost-effective domestic phase-down of HFC refrigerants by providing narrow authority to the Environmental Protection Agency to regulate these substances.

Failure to pass the AIM Act into law significantly increases our regulatory burden and ensures a costly “patchwork” state-by-state refrigerant transitions with each state adopting their own regulations, costing manufacturers, distributors and contractors billions. The additional costs of an inefficient and unpredictable transition will ultimately be borne by your constituents, the American consumer. The AIM Act would reduce regulation to a single efficient, predictable and cost-effective federal program in a time of great economic uncertainty.

Achieve American Economic Benefits:

Congress should pass the AIM Act to claim clear domestic economic and environmental benefits. An efficient, predictable and cost-effective federal transition significantly improves industry’s ability to claim clear economic and environmental benefits.

An efficient, predictable and cost-effective federal program yields much greater environmental benefits than a slower and more costly “patchwork” of state-by-state transitions. If all states transition together, industry will develop and commercialize products that comply with the federal transition and make that transition as a nation.

A “patchwork” state-by-state transition ensures varying timelines, different compliance requirements by states that will make a transition early and by states that might not transition at all. This scenario is bad for business and it is bad for the environment. We implore you to find common ground, compromise and find a solution that benefits industry, the environment and your constituents.

The HVACR industry contributes \$158 billion to the American economy annually. Globally, demand for HVACR products is expected to double in the next decade. While all other developed economies have begun their transitions, the domestic HVACR industry is lagging and falling behind both the European Union and Asia. With clear federal guidance, the domestic HVACR industry could reap the following significant economic benefits:

- Create 33,000 new jobs and sustain 138,400 existing jobs between now and 2030
- Increase direct U.S. manufacturing output by \$12.5 billion
- Increase total (direct and indirect) U.S. manufacturing output by \$38.8 billion by 2030
- Improve the U.S. trade balance by \$12.5 billion
- Increase the U.S. share of the global HVACR market by 25 percent

- Save American consumers and businesses \$3.7 billion over 15 years

Lennox strongly supports smart federal regulation that provides consistent guidelines and certainty to enable the American HVACR industry to compete and win an increasingly competitive global market.

Reduce Regulatory Burden:

Congress should pass the AIM Act to reduce regulatory burden. An efficient, predictable and cost-effective federal transition significantly reduces the industry's regulatory burden.

Without a clear federal program, the American HVACR industry is not positioned to capitalize on the global market growth opportunity. Instead, the industry will be saddled with the significant incremental costs associated with complying with a patchwork of 50 varying state regulations to transition to the next refrigerant. A federal regulatory program as outlined in the AIM Act does not increase regulatory burden, but rather significantly reduces the regulatory burden. In these very uncertain economic times, this essential industry needs clarity, consistency and certainty.

Without an efficient, predictable and cost-effective federal transition, our industry will reallocate precious resources to respond to a costly patchwork of state regulations. Instead of investments in research and development, the industry will be forced to manufacture redundant product lines, ship dead product across state borders, increase our distribution footprint and reduce our inventory turns. Failure to pass the AIM Act ensures that inefficiency wins over innovation and American industry loses to foreign competition.

Reduce Consumer Cost (the cost to cool):

Congress should pass the AIM Act to reduce the consumer's cost to cool their homes. An efficient, predictable and cost-effective federal transition reduces consumer cost.

The transition from HFC refrigerants will not increase the cost of HVACR products to consumers if done in an efficient, predictable and cost-effective manner at the federal level. A state-by-state "patchwork" transition will clearly increase consumer cost.

In June of 1994, when industry was faced with the transition from CFC to HCFC refrigerants, the Competitive Enterprise Institute published a white paper entitled "The High Cost of Cool," which predicted significant increases in the cost of refrigerants and HVACR products as well as a significant increase in the cost of installation and servicing. The prediction was wrong.

Despite this dire prediction, the "cost of cool" decreased significantly over the past twenty-five years. In 1994, approximately two thirds of American homes had an air conditioner. Today, after two refrigerant transitions, over 90 percent of American homes are now equipped with an air conditioner, due to the improved consumer economics. The claim was baseless in 1994 and the claim is baseless today.

Since 1994, our industry successfully transitioned from CFC refrigerants to HCFC refrigerants to lessen the impact of refrigerants on the thinning ozone layer. In 2010, our industry made yet another transition from HCFC refrigerants to HFC refrigerants, again lessening the impact on the environment, while simultaneously reducing the cost of cooling to consumers and businesses alike. Energy Information Agency and Department of Energy studies suggest the cost of cooling has decreased by 50% since 1990.

Ironically, what will significantly increase the “cost of cool” over the next decade is your failure to act. Failure to pass the AIM Act significantly increases the regulatory burden and increases the cost to American consumers.

Reduce Replacement Refrigerant Cost:

Congress should pass the AIM Act to reduce replacement refrigerant cost. An efficient, predictable and cost-effective federal transition significantly reduces replacement refrigerant cost.

Today the HVACR industry uses several different HFC refrigerants for use in air conditioning and commercial refrigeration equipment. There are numerous replacement refrigerant options currently being evaluated for the various types of HVACR equipment. In the evaluation of suitable refrigerants, we consider the safety, cost, environmental impact, reliability, availability, compatibility and efficiency of each refrigerant replacement option. Some replacements are currently less expensive, while some replacements are more expensive.

In addition, some replacement refrigerants improve the efficiency of the system and require a smaller charge size (less refrigerant per unit), further reducing consumer cost. The price of replacement refrigerants is expected to decrease when broadly commercialized due to economies of scale when produced in much larger quantities. Additionally, competitive pressures will significantly reduce the cost of replacement refrigerants as has occurred in previous refrigerant transitions (CFCs to HCFCs and HCFCs to HFCs). These economies of scale are best achieved with an efficient, predictable and cost-effective federal transition. Further, it is our understanding that preliminary EPA estimates project billions of dollars of compliance and consumer cost savings over the fifteen-year implementation period.

Preserve Consumer Choice:

Congress should pass the AIM Act to preserve consumer options. An efficient, predictable and cost-effective federal transition preserves consumer choice.

With a well-defined federal regulatory program, consumers with a system that uses HFC refrigerants may continue to own and operate their equipment well into the future. Ill-defined state regulations could restrict consumer options if poorly implemented.

Today, there is no need to install a new air conditioning system if the system needs a “recharge” of HFC refrigerant. Under a well-defined federal program, once a current air conditioning system has reached its useful life, the consumer will purchase a new system containing the new refrigerant. If a consumer

has a leak in their existing system, there will be a plentiful supply of the legacy refrigerant to service equipment.

HFC refrigerants are being phased-down, not phased-out, meaning there will be a plentiful supply of replacement HFC refrigerants for decades. In fact, CFC-11 is still readily available to service equipment that was produced in the 1980s. R-22 refrigerants are still available for equipment produced in the early 2000s.

In both residential and commercial air conditioning, refrigerant cost is less than 1% of the overall cost of owning and operating equipment. History has shown that with the stable long-term lead times of the phasedown schedules, industry has successfully designed and commercialized products that cost less, are more efficient, and have lower leak rates. In most instances, government studies found previous transitions generated significant consumer cost savings. Similar results are expected from the phasedown approach provided in the AIM Act.

Consumer cost will decrease as a result of a rational federal transition. The biggest cost impact to consumers is a slower state-by-state “patchwork” transition from HFC refrigerants to alternate refrigerants. In a state-by-state transition, manufacturers lose the economies of scale required to conduct a transition in an efficient, predictable and cost-effective manner. The real issue is not the cost of an efficient federal transition, but rather the high cost of a state-by-state “patchwork” transition, which will ultimately be borne by American consumers if the federal government fails to act.

Produce Product Features that Matter:

Congress should pass the AIM Act to allow manufacturers to continue to produce equipment product features that matter to their consumers. An efficient, predictable and cost-effective federal transition preserves the ability for manufacturers to provide product features that matter to consumers.

Different HVACR applications require different refrigerant properties and therefore, no single refrigerant addresses all HVACR applications. For example, the refrigerants used in refrigerators, commercial freezers, automobile air conditioners, and home air conditioners are different. The same is true within the product portfolio of Lennox products. Different refrigerants are used in residential products, commercial HVAC products and commercial refrigeration products. Within a supermarket or a foodservice restaurant, one is likely to find various types of equipment that use various types of refrigerants depending on the type of application. One size does not fit all.

There are more than a dozen potential replacement refrigerants for air conditioning alone, both fluorinated and non-fluorinated, which could be manufactured by a variety of companies. The assertion that one company has a “monopoly” on alternate refrigerants is uninformed, unfounded and patently false. The challenge industry faces, is selecting the best replacement refrigerant for the right application from a myriad of choices.

Historically, choices narrow over time, because best-fit alternatives are identified. As choices narrow, major suppliers introduce product to supply market demand at competitive prices. To further make the point, manufacturers of residential HVAC systems have multiple refrigerant choices. These refrigerant choices are produced by many different companies and in many instances, some refrigerants are manufactured by more than one supplier.

Some have falsely claimed the AIM Act will constrain consumer refrigerant choice. To address this alleged issue, it is important to understand that the choice of refrigerant in an air conditioner or refrigerator is not a “consumer feature”. The assertion that consumers will “no longer have a choice of refrigerant” lacks a very basic understanding of HVACR products.

Today, when purchasing an air conditioning system, consumers have the choice of brand, model, size, efficiency, communicating controls, air filtration selections, smartphone controls, variable speed operation, tonnage and zoning systems amongst other options, which determine the comfort, cost and efficiency of a system.

Consumers are not offered a choice of refrigerant, because the type of refrigerant is not a product feature. Consumers don’t ask for a choice of refrigerant in their automobile air conditioner, nor do they ask for a choice of refrigerant in their home refrigerator, freezer, ice maker, wine cooler, nor do they ask for a choice of refrigerant when purchasing a home air conditioner. They don’t ask, because they simply don’t care.

The claim that a consumer is somehow losing choice is akin to the argument that a consumer loses choice because they cannot choose between an aluminum, copper or steel tailpipe when purchasing an automobile. Nor do consumers choose the brand or type of car battery, air filter, engine oil or the type of rubber hoses used in the engine compartment. Likewise, the refrigerant is a component of an HVAC system and is not a product feature. Consumers care about comfort, efficiency and cost. Consumers simply don’t care about the type of refrigerant used in the system as long as the product provides comfort, is easy to operate, is reliable and safe.

An efficient, predictable and cost-effective federal program, as outlined in the AIM Act will allow manufacturers to continue to provide the features consumers want.

Support American Businesses:

Congress should pass the AIM Act to support business. An efficient, predictable and cost-effective federal transition supports American business.

In numerous meetings with congressional staff, a common theme emerged that companies are “trying to make money off of climate change.” An essential feature of capitalism is the motive to make a profit. As such, the domestic HVACR industry wants to:

- Make a profit to both reward investors and retain earnings
- Satisfy, retain and grow our customer base
- Invest in research and development to produce the most innovative products globally
- Manufacture, distribute and sell differentiated products in a global market
- Provide the most cost-effective products globally
- Support regulations that benefit and improve the quality of our environment
- Win in a global market that is expected to double in the next decade

Profits allow industry to invest in research and development to produce innovative and differentiated products. Innovation allows American industry to develop and manufacture the most efficient products on the planet and we provide these differentiated products to consumers at a reasonable price. Comfortable, healthy and safe consumers are also happy constituents.

Profits allow industry to expand and hire more employees. Those employees in turn, shop for clothes, feed their families, purchase homes and automobiles, take vacations and send their kids to college.

Congress should pass the AIM Act to support American businesses and their employees.

Summary:

The AIM Act is widely supported by the HVACR industry, as well as the National Association of Manufacturers, the U.S. Chamber of Commerce, and the Natural Resources Defense Council (NRDC).

In closing, I ask that you put your differences aside and support smart legislation that facilitates an efficient transition that allows us to win globally, while also benefiting the environment.

Thank you for the opportunity to provide written testimony, and I welcome any questions.