



April 28, 2025

Heather Farr
Planning and Rules Manager
South Coast Air Quality Management District
21865 Copley Drive
Diamond Bar, CA 91765

Re: Proposed Amended Rule 1121 Mitigation Fees

Dear Ms. Farr,

On behalf of Bradford White Corporation (BWC), we would like to thank you for the opportunity to comment on South Coast Air Quality Management District's (SCAQMD) most recent draft of Proposed Amended Rule 1121 (PAR 1121) dated April 1, 2025.

BWC is an American-owned, full-line manufacturer of residential, commercial, and industrial Ultra-Low NOx (ULN), electric, and electric heat pump products for water heating, space heating, combination heating, and water storage, with our manufacturing for these products in Middleville, Michigan. To our knowledge, we are the only manufacturer producing integrated heat pump water heater products here in the United States. In Southern California, a significant number of individuals, families, and job providers rely on our products for their hot water and space heating needs.

We have compiled our comments and suggestions to modify the mitigation fee approach contained in PAR 1121 below:

General

BWC has reviewed the most recent draft of PAR 1121, dated April 1, 2025, and we appreciate staff's consideration to try to strike a balance between consumer choice and meeting the District's NOx reduction goals. However, we believe that the approach proposed by the District, i.e. to use mitigation fees assessed on manufacturer sales of ULN natural gas-fired water heater product, disproportionately burdens manufacturers relative to other stakeholders in the supply chain. We understand the intent of the rule is to shift consumer demand towards electric and electric heat pump product and away from ULN natural gas-fired water heater product. This is proposed with using a combination of mitigation fees collected from the manufacturer and to use those fees to fund the District's Go Zero incentive program.

Additionally, we understand the intent of the Go Zero incentive program is to assist consumers with their purchase of electric heat pump water heater (HPWH) equipment. The proposed fee structure utilizes a base fee per ULN natural gas-fired water heater sold and annual fleet targets that each manufacturer must achieve, or risk being charged an over target fee. That over target fee is 500% greater than the base fee assessed for each

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ULN water heater.

While we understand the underlying premise of the rule is to create market conditions that encourage a change in consumer behavior, the mitigation fee structure is simply not manageable from a manufacturer's perspective. Manufacturer sales are ultimately decided by several factors, which are largely beyond our control. If individuals and families in the District choose to demand ULN natural gas-fired water heater products, manufacturers will be compelled to support that demand. Under the current proposed rule, simply responding to consumer demand exposes us to large fees that would be owed to the District year over year, and those fee burdens ultimately being passed along to individuals and families.

BWC and other manufacturers have provided public testimony and submitted letters¹ in support of a more manageable solution for mitigation fees, i.e. ***a simple flat fee per ULN natural gas-fired water heater sold.*** Our industry trade association, Air-Conditioning, Heating, and Refrigeration Institute (AHRI), which represents over 300 manufacturers of water and space heating products, submitted a letter in support of a flat fee, demonstrating a large consensus among manufacturers that the currently proposed fee structure is not manageable. The District has already demonstrated success using a single mitigation fee to encourage the purchase of ULN furnaces and electric heat pumps through the CLEANAir Furnace Rebate Program. Also, a single mitigation fee was used in the transition from standard natural gas-fired water heaters to ULN natural gas-fired water heaters. Our proposal for a flat fee mitigation fee is outlined below.

Flat Fee Mitigation Fee Proposal

BWC proposes a flat fee that is some incremental value over the currently proposed base fee of \$50 per ULN gas-fired water heater sold. The amount should be set to accomplish two main objectives. First, balancing consumer choice, by not making ULN natural gas-fired water heater product unaffordable for individuals and families who can least afford to purchase a new water heater. And second, encourage individuals and families to consider electric and electric heat pump water heater alternatives with the support of rebates where they may not have otherwise.

The flat fee could also be designed to escalate over time in line with current District fee practices, using the California Consumer Price Index. Based on striking a balance as noted above, BWC suggests the District adopt a flat fee of \$63 per ULN natural gas-fired water heater sold. As we previously stated, product sales are ultimately decided by several factors, many of which are largely beyond the manufacturer's control. As such we believe that a range of possible outcomes could exist once PAR 1121 goes into effect, ranging from consumers rapidly changing behavior and meeting the District's proposed fleet targets, to consumers continuing to prefer ULN natural gas-fired water heaters. Our flat fee analysis, shown below, takes into account this range of possibilities and highlights the mitigation fee impact to individuals and families in the District.

In the analysis below, the over target percentages of 7% and 20% were established using publicly available data sources on water heater market penetrations in homes in California. The baseline fleet target the District established of 70% ULN natural gas-fired water heaters and 30% electric and electric heat pump water heaters, was based on data from the Energy Information Administration² (EIA). We have explored other sources, including National Renewable Energy Laboratory³ (NREL) data that suggests the market is closer to 85% ULN natural gas-fired water heaters and 15% electric and electric heat pump water heaters. The analysis explores three scenarios: 0% over target, 7% over target (middle between EIA and NREL) and 20% over target (representing NREL). The analysis assumes that consumer behavior will shift over time, but not as rapidly as

¹ [Microsoft Word - AHRI SCAQMD PAR 1111 and 1121 Comments \(Mar 20 2025\)](#)

² [State Water Heating.pdf](#)

³ [State Level Residential Building Stock and Energy Efficiency & Electrification Packages Analysis | Tableau Public](#)

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the District's proposed fleet targets.

Table 1. Flat Fee Analysis.

Flat Fee Analysis	2027-2028	2029-2032	2033-2035	2036+
Annual Water Heaters Sold*	341,867	341,867	341,867	341,867
Elect. & Heat Pump Water Heater Target %	30%	50%	75%	90%
ULN Natural Gas-fired Water Heater Target %	70%	50%	25%	10%
Elect. & Heat Pump Water Heater Target (Units)	102,560	170,934	256,400	307,680
ULN Natural Gas-fired Water Heater Target (Units) (A)	239,307	170,933	85,467	34,187
Base Mitigation Fee (B)	\$ 50	\$ 50	\$ 50	\$ 50
Base Mitigation Fee Collected (A x B)	\$ 11,965,350	\$ 8,546,650	\$ 4,273,350	\$ 1,709,350
Over Target Fee (C)	\$ 250	\$ 250	\$ 250	\$ 250
Over Target (7%) (D)	16,751	11,965	5,983	2,393
Total Mitigation Fees Collected (A x B) + (C x D)	\$ 16,153,223	\$ 11,537,978	\$ 5,769,023	\$ 2,307,623
Over Target (20%) (E)	47,861	34,187	17,093	6,837
Total Mitigation Fees Collected (A x B) + (C x E)	\$ 23,930,700	\$ 17,093,300	\$ 8,546,700	\$ 3,418,700
Flat Fee Low (A x B) ÷ A	\$ 50	\$ 50	\$ 50	\$ 50
Flat Fee Medium [(A x B) + (C x D)] ÷ (A + D)	\$ 63	\$ 63	\$ 63	\$ 63
Flat Fee High [(A x B) + (C x E)] ÷ (A + E)	\$ 83	\$ 83	\$ 83	\$ 83
*Sales provided in District Staff Presentations				

As shown in the analysis above, the mitigation fees collected by the District under the current proposed rule, could vary by nearly \$12 million in the first two years depending on which products consumers choose to purchase. While these fees are assessed on the manufacturer sales and are reported and paid for by manufacturers, the cost of these fees will likely be passed down to individuals and families in the District. It is also important to recognize that the fees in PAR 1121 will likely be amplified as products move through the supply chain to the consumer where they will ultimately be installed.

Referring to our proposal comments, above, we believe the mitigation fee should be set such that it balances consumer choice, by not making ULN natural gas-fired water heaters unaffordable for individuals and families who can least afford to purchase a new water heater but high enough to encourage individuals and families to consider electric and electric heat pump alternatives. Accordingly, we suggest the District adopt a flat fee of \$63 per ULN natural gas-fired water heater.

In conclusion, a flat fee would make administration manageable for manufacturers; provide more predictable funding for the Go Zero Program; and balance affordability, while encouraging consumers to purchase electric and electric heat pump product. BWC appreciates the time and effort the District has put into drafting and revising PAR 1121. We strongly encourage the District to consider our proposal as these important discussions continue. If the District has any further questions or would like to discuss our proposal in more detail, we welcome the opportunity.

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Sincerely,

Tom Gervais
Senior Director, Regulatory Affairs

Cc: R.B. Carnevale; E. Truskoski; G. Eynon; M. Kozak; T. Watters; M. Corbett; B. Wolfer

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