January 6, 2026

California Air Resources Board
1001 I Street
Sacramento, California 95814

Re: Zero-Emission Space and Water Heater Proposed Standards

To Whom It May Concern:

A. O. Smith Corporation ("A. O. Smith" or "Company") appreciates the opportunity to provide comments on the California Air Resources Board's ("CARB") December 11th Public Workshop ("Workshop") pertaining to Zero-Emission Space and Water Heating Standards. The outcome of this rulemaking will have a significant impact on the design and manufacturing of the Company's product offerings. The Company appreciates that CARB is requesting feedback on its standards development concepts. While the Company is supportive of the state's goals to reduce statewide GHG emissions, it does have some concerns with the CARB's proposed pathways, including the timing, investment, and administrative complexities to achieve those goals and provides the following feedback on the concepts proposed during the workshop.

I. 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, 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.

II. **Overview**

The regulatory proposals put forth in the December 11th public workshop are the fourth iteration of proposed concepts for this rulemaking. In its February 28th, 2024, public workshop CARB presented on their first two regulatory concepts, defined as "a" and "b", which imposed stringent sales requirements for non-zero-emissions products.[1] Concept (a) set a 2030 compliance date for all products and concept (b) provides a staggered compliance pathway that aligned more closely with regulations established by the Bay Area Air District (BAAD)[2] and South Coast Air Quality Management District (SCAQMD)[3]. In its May 29, 2024, public workshop CARB introduced regulatory concept "c".[4] Regulatory concept (c) refined the proposed staggered compliance dates of concept (b) by modifying compliance requirements for furnaces and pool heaters. After the May 2024 workshop the Company submitted comments recommending slight shifts to the products classes and compliance dates that would ensure that CARB could meet its ambitious goals in such a manner that was more attainable for manufacturers to demand plan against, while also limiting supply chain risks. At the time of the May 2024 public workshop and as the Company explained, the proposed rule would have the effect of initially raising costs to consumers as markets adjusted; contractors became more familiar with product installations; and supply chains adjusted to meet the increased demand. However, while there would be increased costs due to proposed concept (c), the resulting change in market adoption would have been effective at meeting the goals of CARB to reduce statewide GHG emissions from fossil-fuel fired stationary space and water heating sources.

In contrast, the proposal put forth at the December 11, 2025, public Workshop pivots away from CARB's prior proposals and introduces a new structure that would not have the same statewide GHG emission, while introducing new regulatory and administrative burdens on manufacturers. As proposed the new concept contemplates annual limits on the types of space and water heating products that can be sold in the state and a penalty structure if those limits are breached, coupled with a mitigation scheme that allows manufacturers to buy and sell "credits" to meet their annual sales limits. Under the rubric of an "emissive" sales quota, the proposal seeks to establish a "cap and trade" and/or product portfolio requirements akin to the national corporate average fuel economy standards for automobiles. While creative in theory, there are

[1] https://ww2.arb.ca.gov/sites/default/files/2024-02/Final_Slides_February_28_2024_Workshop.pdf
[2] BAAQMD Regulation 9 Rules 4 and 6
[3] SCAQMD Rule 1146.2
[4] https://ww2.arb.ca.gov/sites/default/files/2024-05/May_2024_Workshop_Slides.pdf

potential market limitations to this approach, including, but not limited to, the inelastic nature of the space and water heating market. Unlike with automobiles, daily heat and hot water are essential utilities for consumers and businesses alike and are typically addressed on a twenty-four-hour emergency basis. Moreover, this approach delegates to manufacturers the administrative and financial burdens without any corresponding obligation on the consumer or contractor side of the channel. Manufacturers do not dictate consumer behavior and should not bear a financial penalty as a result of consumers exercising their choice to install the best products that fit their needs.

Finally, at its core the new concept seeks to drive space and water heating market transformation through penalizing manufacturers with an aspiration that "credit" trading among manufacturers will serve to mitigate higher costs on their products, which disproportionately will raise the costs of space and water heating products for low-to-moderate income and disadvantaged communities, while not achieving statewide GHG emission reduction goals. Hence at this time, A. O. Smith is opposed to the proposed regulatory concept presented at the December 11, 2025, public workshop.

III. **Response to CARB's RFI**

Emissive Equipment Sales Limits

1) Does a gradually decreasing emissive equipment sales limit adequately address regulated entity and end - user challenges? Why or why not?

> No, under the proposed regulatory concept both regulated entity and end users would still face challenges. The concept adds significant burden on regulated entities via additional reporting and tracking requirements for data that is not currently tracked to the requested detail. Furthermore, regulated entities have no control over consumer demand, and while they may offer complaint products for sale into the state, they will still face potential credit deficits due to consumer behavior. Lastly, the proposed concept will add costs to the products as the regulatory burden of the rule takes effect and as credit penalties are assessed. Increased costs may be delayed due to the three-year allowance on closing out a credit deficit.

2) If not, what alternative approach do you suggest for achieving California's GHG emission reduction goals that address end user challenges?

California's statewide GHG emissions reduction goals will not be met if CARB sets a phased in approach as outlined in this regulatory concept. The regulated entities cannot, and should not, directly control the purchasing decisions of consumers. The net outcome of this rule will be an inherent cost increase due to the need to meet credit requirements and set up a burdensome tracking and reporting regime to comply with the rule. To be successful, and meet the state's GHG emission reduction goals, CARB would need to fund and backfill considerable direct engagement to consumers to change purchasing behavior as well as fund rebates to incentivize the purchase of zero-emissions products.

Reporting Requirements

4) Do you have any feedback on proposed reporting requirements?

The proposed reporting requirements would require manufacturers to provide confidential business information that is not currently collected by any other state or federal agency. Furthermore, the reporting requirements fail to account for products that are sold to distributors outside of the state that sell into the state, or products that are sold to distributors inside the state and are sold outside of the state. The only way to accurately capture the sale of emissive vs. non-emissive products into the state is to implement a point of sale/point of installation requirement.

Credit Flexibility

5) What do you appreciate about the proposed credit system? What are your concerns?

While the Company is not in favor of a manufacturer driven sales reduction regulation, the credit system could provide some flexibility to meet the requirements of the regulation. The Company is however, concerned that the credit system concept is not sufficiently understood by stakeholders, including the resources required to successfully execute the system. For example, it is unclear if credits will be uniform across all three regulated sectors and therefore be able to be traded across the three sectors. The value of credits received for meeting non-emissions sales above the sales limits should be better defined and justified.

6) How could credit values, credit limits, and banking be designed to support a well - functioning credit system?

Credits should be tied to an inherent value and be transferable across the three regulated sectors. Credit mechanisms should also be better defined based on the quality of the goods provided vs. one size fits all approaches. For example, through the donation pathway an electric resistance product could be donated for the same credit value as a heat pump. While these two products can both be considered non-emissive, they provide greatly different values and utility bill impacts.

Implementation Planning:

7) Feedback on CARB staff implementation planning and interagency coordination?

The Company has no comment on this matter at this time.

Staff Analysis:

8) Any overall comments on the methods or results?

The Company has no comment on this matter at this time.

Technology Review:

9) Any comments on the technology types, status and current deployment of zero-emission options?

Manufacturers are investing heavily in both innovative heat pump technology and marketing for this technology. Most installations have a technologically feasible zero-emission option; however, not all solutions have cost parity with their gas-fired equivalent. This price difference is the key hurdle to consumer adoption of the products, not a lack of available technology options. Programs that streamline and incentivize zero-emission options rather than programs that penalize emissive products will be more likely to move the market.

Equity Analysis:

10) What other equity dimensions would you like to see CARB staff analyze and report on?

The Company has no comment on this matter at this time.

Cost Analysis:

11) Which energy rate forecast do you recommend CARB use to model the impact of future energy prices?

The Company has no comment on this matter at this time.

IV. **Conclusion**

The Company appreciates CARB's willingness to contemplate different approaches to regulate stationary sources of emissions to help the state reach GHG emission reduction goals and improve ambient air quality for Californians. In the Company's experience regulations seeking to reduce GHG emissions from space and water heating equipment are best addressed at the new construction phase, along with a combination of voluntary incentives and / or mitigation fees to accelerate the adoption of zero-emission equipment for existing buildings. Regulatory concepts that rely solely on the regulated entity to drive significant market change are not effective.

A. O. Smith is not supportive of the proposed emissive sales limitation and credit trading regulatory proposal at this time. Rather, the Company recommends that CARB return to an approach that assesses mitigation fees as a single fee at the point of sale or point of installation on all gas-fired products sold into California as a mechanism to meet statewide GHG emissions and air quality goals. This approach would be more straightforward in driving market transformation toward zero-emission products. By assessing this fee at the point of sale/installation, consumers will have greater transparency of the total cost of the products they are purchasing, and CARB can ensure that the mitigation fees on each NOx emitting appliance goes directly to a funding source that can support low-to-moderate income households and disadvantaged communities. Further, CARB could implement this program in such a way to both provide financial support to low-to-moderate income households and disadvantaged communities that wish to purchase non-emissive products and waive the emissive appliance fee for low-to-moderate income households and disadvantaged communities that wish to install an emissive product. This pathway would also reduce the reporting burden required to comply with the proposed rule. This recommendation would provide transparency and consumer choice, while maximizing equity benefits through price transparency.

The Company appreciates the opportunity to comment on the regulatory concepts proposed at CARB's December 11th public workshop pertaining zero-emission space and water heater standards and looks forward to continuing the dialogue and working with the CARB Staff throughout the rulemaking process.

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

Respectfully submitted,

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