

**Testimony of Scott Bates
Corporate Vice President, General Counsel and Secretary
Rheem Manufacturing Company**

Before the

**U.S. House of Representatives
Committee on Agriculture
Subcommittee on Conservation, Credit, Energy, and Research**

To Discuss the Rural Energy Savings Program Act

**Wednesday, May 12, 2010
1334 Longworth House Office Building
Washington, DC**

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TESTIMONY OF SCOTT BATES
CORPORATE VICE PRESIDENT, GENERAL COUNSEL, AND SECRETARY
RHEEM MANUFACTURING COMPANY

BEFORE THE HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON CONSERVATION, CREDIT, ENERGY, AND RESEARCH

TESTIMONY ON HR 4785, RURAL ENERGY SAVINGS PROGRAM ACT

MAY 12, 2010

Chairman Holden, Ranking Member Goodlatte, and Members of the Subcommittee, I would like to thank you for the opportunity to speak with you today about H.R. 4785, the Rural Energy Savings Program Act.

My name is Scott Bates, and I am the Corporate Vice President, General Counsel, and Secretary for Rheem Manufacturing Company (Rheem), a leading global producer of heating, cooling and water heating products.

Rheem was established in the mid-1920s when brothers Richard and Donald Rheem acquired a galvanizing plant in San Francisco, California. The company began manufacturing water heaters in the 1930s and reached coast to coast distribution of its water heaters by 1936. Rheem increased its product line to include space heating units for homes, oil furnaces, and air conditioners during the 1940s and 1950s. In 1959, Rheem acquired Ruud Manufacturing Company, a pioneer in the water heating industry and the manufacturer of a well-regarded product line with a distribution network throughout North America. In the following years, Rheem entered the heating and air conditioning market, and the company expanded in the late 1960s and 1970s with the rapid growth of the central air conditioning industry. In 1985, the company acquired Raypak, a leading producer of copper tube boilers used for swimming pool heating and commercial hot water supply and hydronic heating. Since then, Rheem has become a global market participant.

Rheem is a significant employer in the United States. The company's headquarters and corporate offices are located in Atlanta, Georgia. The company has a finished goods distribution center in nearby McDonough, Georgia, and has additional facilities in Fort Smith, Arkansas; Montgomery, Alabama; Oxnard, California; Arcadia, Florida; Eagan, Minnesota; Randleman, North Carolina; and Lewisville, Texas. Rheem also has an international presence in such locations as Brazil, Canada, and Mexico.

Today, Rheem is a leading global producer of water heaters, central warm air furnaces and air conditioners, and swimming pool heaters and commercial boilers. The

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company is an engaged market player with a broad portfolio of products important to the public and our national energy efficiency goals. The range and variety of Rheem's product line offerings makes the company a one-stop provider for all heating, cooling and water heating solutions. Rheem's product offerings cover residential and commercial heating, cooling, conventional storage-style water heaters, tankless water heaters, solar water heating systems, geothermal heat pumps, non-metallic water heaters, replacement parts and accessories for all categories.

The company has consistently demonstrated a commitment to innovation and efficiency with its product offerings, and industry groups have lauded and recognized this commitment in recent years. The Rheem Passive Solar System Series received the 2009 MVP Award for Innovation and Efficiency from the Builder's Group, and the California-based Valley Electric Association awarded the company a 5,000 unit project for this solar technology. Rheem led the water heating industry in the development of Flammable Vapor Ignition Resistance (FVIR) technology. Rheem's hybrid electric heat pump water heater was one of the first integrated heat pump water heater to qualify for Energy Star, and the heater has received numerous awards and recognition: Green Builder Top 50 Best Products Award, Architectural Record – Top 10 Green Product, Contractor magazine Editor's Pick, Green Build Expo Award – Best Products Winner, and Builder News – Best Product 2009 Winner. And of particular relevance for today's discussion, Rheem's non-metallic Marathon water heater, manufactured in the company's Eagan, Minnesota facility, is offered to the cooperative market and offers a lifetime tank warranty.

Because of Rheem's demonstrated commitment to energy efficiency, the company is very interested in legislation and government programs which incentivize or facilitate the reduction of energy costs and increase the demand for and availability of energy efficient products. Government incentives that encourage investment in home energy efficiency are powerful tools to help support the American consumer and the industries that supply them. The Rural Energy Savings Program Act in particular is critically important to energy efficiency efforts because it lowers the cost barrier faced by consumers interested in investing in energy efficiency.

In doing so, the program would benefit every concerned party and our country as a whole. This important initiative would create jobs at a critical point in our economic recovery and reduce our country's energy footprint. Consumers would be able to afford to invest in products that would reduce their costs, increase their energy efficiency, and improve their quality of life at home or in the workplace. Domestic manufacturers of energy efficient products would realize increased demand and increased volume of sales, and others would have yet another incentive to enter the market of energy efficient products. In the words of the sponsor of this legislation, House Majority Whip Jim Clyburn, "[t]his bill provides for energy conservation, job creation and cost-effective upgrades that will improve consumers' quality of life. There is such broad support for this initiative because it is a win-win-win proposition." Similarly, the lead co-sponsor, Congressman Ed Whitfield described the bill as "a win for American consumers and a win for improving energy efficiency across the country." We could not agree more, and we strongly urge Congress to move forward and establish the Rural Energy Savings Program.

As you know, under the proposed legislation, individual co-ops or state-based groups of co-ops will apply to the Rural Utilities Service (RUS) of the US Department of Agriculture (USDA) to borrow money to fund local energy efficiency programs that meet RUS energy savings standards. Co-ops, in turn, will use the funding to make low-interest micro-loans available to residences or small business that choose to participate in the voluntary program and that have a demonstrated ability to repay the loans. Participating consumers repay the co-ops for the installation and material costs through a charge on their utility bills within a 5-10 year window. Energy savings from the upgrade should cover most, if not all, of the cost of the loan, and consumers should save hundreds of dollars annually once the loan is repaid.

The program builds on an existing and strong co-op infrastructure that has strong community ties, an established presence in the industry, and a demonstrated history of repayment of loans. The Rural Energy Savings Program presents little risk to taxpayers and the federal government because the reliable co-ops will assume the responsibility of collecting from consumers. Co-ops currently borrow extensively from the federal government to finance electric distribution, generation and transmission investments and have a proven repayment track record.

Rheem has significant and proud experience working with co-ops to offer energy efficient products to consumers. The company's nonmetallic Marathon water heater, in particular, is a popular product with co-ops. The product, manufactured in the company's Eagan, Minnesota facility, comes with a lifetime tank warranty, and it is offered in sizes ranging from 15 gallons to 105 gallons (see the picture below).



Currently the Rheem Marathon water heater is affiliated with nearly 300 rural electric cooperatives in various states. The programs differ by co-op, but the most typical

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business model is for the co-op to offer a significant rebate to the member, especially if the member is part of an off-peak load management program.

Marathon heaters have efficiency ratings ranging from 91 percent EF to 94 percent EF, with new, increased efficiency models planned for release over the next several months. The Marathon heater uses insulation to keep water hot, and the Marathon's blow-molded tank and tough outer jacket will not rust, leak or corrode. According to the Department of Energy, the average lifetime of a water heater is 13 years; however, in rural areas often with lower water quality than municipal areas, the tank may have to be replaced sooner due to corrosion. As a result, the Rheem Marathon water heater is a popular choice among consumers because of its nonmetallic tank, high efficiency levels, and the Lifetime Tank Warranty that saves consumers the future expense of buying and installing a replacement heater. Consequently, the Marathon heater can carry a higher cost, and regardless of eventual cost savings, Rheem has learned through experience that consumers often cannot afford the initial up-front cost of higher efficiency products. The availability of low-interest financing through co-ops will allow homeowners and small business to more readily afford cost-reducing and efficiency-increasing products such as the non-metallic Marathon water heater.

The Rural Energy Savings Program will give consumers the option of low-interest financing and the ability to decrease initial costs and realize the cost savings of higher efficiency energy products. Consumers should see long-term energy savings while avoiding the upfront capital and financing costs they would face in the private market, allowing consumers to invest in technology that should save American families hundreds of dollars each year in energy costs. The cost savings eventually realized on energy bills will allow low income households to allocate funds to food, shelter, education, and other necessities. Similarly, the program will also allow small businesses to focus their savings on other areas of need. Beyond utility cost savings, the American public will be working for more successful businesses and living in homes that are better insulated, more efficient, and more comfortable.

The impact of the Rural Energy Savings Program extends well beyond the players in the market for energy efficient products and helps advance national policies that will benefit the country as a whole. Improving energy efficiency will reduce our national carbon footprint and will help decrease our dependency on foreign energy sources. The program will create jobs at home at a critical time for our economic recovery and our efforts to lower unemployment rates. Specifically, the domestic manufacturing and construction industries would benefit greatly as energy efficient products are domestically manufactured and, as you know, installation jobs cannot be outsourced. The fact that this bill would advance such important national policies while at the same time providing direct and immediate benefits to consumers and manufacturers explains why Majority Whip Clyburn, Congressman Whitfield, and others have worked so diligently to advance this legislation.

For nearly 200 years, the Committee on Agriculture has established agricultural policy for America and tackled vitally important energy issues including renewables,

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rural development, conservation, and related jobs efforts. The need to lower cost barriers for those in rural communities to energy efficient products is yet another key issue.

Under your leadership, Chairman Holden and Ranking Member Goodlatte, and Members of the Subcommittee, this body has the opportunity through the Rural Energy Savings Program Act to extend its long-standing efforts to create jobs, reduce consumer costs, spur domestic production, and reduce our energy footprint. Moreover, the program will achieve all these results by prudently using federal resources to lower cost barriers and empower co-ops and consumers to help themselves and our country. Rheem strongly urges you to move quickly to pass the legislation establishing this program. I thank you for your time and for the opportunity to testify before you today, and I welcome any questions you may have at this time.

Thank you.

Committee on Agriculture
U.S. House of Representatives
Information Required from Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Scott D. Bates
2. Business Address: Rheem Manufacturing Company
1100 Abernathy Road, Suite 1400
Atlanta, GA 30328
3. Business Phone Number; 770-351-3050
4. Organization you represent: Rheem Manufacturing Company
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
Rheem is one of the largest manufacturers of residential and commercial water
heaters, pool heaters and residential and commercial central heating and cooling
products.
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
Mr. Bates directs Rheems' legal, risk management, intellectual property and
government affairs activities.
7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:
Corporate Vice President and General Counsel

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2007.

Name: Scott D. Bates

Address: 1100 Abernathy Road, Suite 1400
Atlanta, GA 30328

Telephone: (770) 351-3050

Organization you represent (if any): Rheem Manufacturing Company

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agriculture producers:

Source: N/A Amount: N/A

Source: N/A Amount: N/A

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2007, as well as the source and the amount of each grant or contract:

Rheem Manufacturing Company and its affiliates sell products to various parties including retailers, distributors and contractors, some of whom install products in Federal facilities. Rheem Manufacturing Company does not track the source and amount of any Federal funds for such products.

Please check here if this form is NOT applicable to you: _____

Signature: 

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY