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U.S. Environmental Protection Agency
EPA Docket Center
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To whom it may concern:

I’m writing this letter to strongly encourage EPA to add 2020 sell-through relief for distributors and retailers to the current Wood Heater New Source Performance Standard rule. The May 15, 2020 sales deadline which now applies to all hearth business entities will be devastating to the hearth industry. The effects are already being felt.

We are in favor of manufacturers having to meet the May 15, 2020 deadline for stopping production of non-2020 compliant models. But we are against holding distributors and retailers to the same May 15, 2020 deadline for sales of already manufactured products. Having the one date for all entities (manufacturers, distributors, and retailers) inhibits the results you are trying to accomplish by stalling sales of non-2020 compliant appliances (this includes wood and pellet stoves) well ahead of the current end date.

What that means is that retailers of all sizes are very hesitant to expose themselves to the possibility of being saddled with unsellable inventory as of May 15, 2020 and therefore many are already refusing to purchase or display any non-2020 compliant appliances on their showroom floors. Fewer models on display results in fewer sales. If they aren’t showing it, it simply won’t sell.

For distributors, it means all current non-2020 compliant appliances in inventory are only being purchased by retailers if they have a high degree of confidence that a consumer is willing to accept a non-2020 compliant product. This is a problem in that the majority of product currently available is non-2020 compliant and those inventories can’t be cleared with only a trickle of sales. Distributors currently have millions of dollars of non-2020 compliant product in their warehouses.
What this means to manufacturers is a full stall in both current production and sales of non-2020 compliant models. In short, everything stalls, including and most importantly the revenue stream for all these companies, which is paramount to fund the final steps in developing products that will ultimately result in achieving the objective of lower PM emissions from residential wood-burning. This is an objective we all share.

Who we are:

Northeast Distribution LTD
11 Commerce Way
Exeter, New Hampshire

- Number of employees 20 to 21 full time
- Number of active retailer customers 850 +

- Retailers approximate sizes:
  - 1% of them are $500k to $1M in annual sales
  - 1% of them are $1m to $2.5M in annual sales
  - 1% of them are $2.5M + in annual sales

- The market we serve as a distributor, all points in the following 11 states:
  - 6 New England States
  - New York
  - New Jersey
  - Pennsylvania
  - Maryland
  - Delaware

- We distribute for different manufacturers
  - 6 of them make wood appliances
  - 3 of them make pellet appliances
  - Most of the balance all support installation and function of the various appliances
    - Chimney, hearth pads,.....

- Number of room heater appliance models:
  - Wood – 45
  - Pellet – 11
- Sales volume by fuel type:
  - Wood: \( \text{to } \) units per year
  - Pellet: \( \text{to } \) units per year*

- Inventory on hand:
  - We keep approximately \( \% \) to \( \% \) of yearly volume on hand depending on brand and ability to fill orders from manufacturers. Total appliances and supporting products equals \$\text{ }\) to \$\( \text{ }\).

*Pellet appliance sales are so cyclical, we end up having to overstock inventory in order to meet our retailers’ needs. Manufacturers often can’t respond to the quick swings in demand so we have to carefully manage for that challenge in an effort to fully supply our retailers over the sales year. The point here is that we end up having some products with 24-month sales projections rather than looking to cycle through 4+ inventory turns per year which we can do with many other products.

Ordering behavior of our retail customers and ours with our manufacturers:

- I am confident to say that nearly all (90%) of our retailers have told us they will not purchase non-2020 compliant wood or pellet heaters on our 2019 early-buy programs which run from Feb 1st to April 30th. Simply put in their words, “we are not willing to take the chance”. In fact, we have been discussing this with them for the last 3 to 4 months in preparation. They are adamant and are not willing to take on the exposure unless they believe they can continue selling non-2020 compliant products after May 2020.

- This presents challenges at several levels:
  - There are very few 2020 compliant products available at this point and we are working with Pacific Energy, one of the manufacturers leading the way in the number of compliant products available.
  - Currently in our building and actually available from the manufacturer we have 3 pellet units and 8 wood units that are 2020 certified. That is a far cry from the total number of appliance models in our catalog.
  - This now impacts our early-buy purchases from our manufacturers. My conversations with them have been very simple -- what 2020 compliant product can you ship on our early buys? I will not order any non-2020 compliant product for these truckload shipments.
  - Our manufacturers also have a considerable amount of non-2020 compliant product in their warehouses, just as do we. What will happen that that?
- There is a huge impact because of uncertainty in the future and because of lack of available 2020 compliant models. If the rule doesn’t change very quickly to allow distributors and retailers an extended sell-through period for 2015 compliant models, the impact on our company and retailers will be enormous. We currently have well over $\text{[amount]}$ in non-2020 compliant appliances in our building. Over the past year or more, we have not had a choice, we needed inventory to supply the market. We had to continue purchasing 2015 models since less than 15% to 20% of what is available is 2020 compliant (and several of those units just became available). We had to bring in non-2020 compliant product to fill the gap. The fact that retailers became unwilling to take any significant quantities of 2015 models beginning much farther ahead of the current sales prohibition date (in some cases almost two years) than anyone anticipated has created the surplus of 2015 compliant models across the whole hearth product manufacturing and sales network. The only way to get the 2015 inventory moving again is to add sell-through to the rule. If this can happen quickly, inventory will drop, orders from retailers will get back on track, and by extension, so will revenue to and shipments from manufacturers.

- The dealers we work with can display from as few as 15 total units to as many as 125 + in their showrooms. Most fall in the average of 40 to 80 units displayed.
  - Right now, most dealers are working to sell-off as many of their wood or pellet appliances that don’t meet 2020 to reduce their exposure as they move into 2019. The challenge is the limited number of 2020 compliant product available to replace what is being sold off, thus leaving big gaps on showroom floors. This impacts sales at all levels, if they don’t show it, they won’t sell it.
  - The other concern is the cost of selling off displays and then having to replace them once 2020 compliant products are finally available. The cost of this process is considerable. Display units typically have to be discounted between 15% to as much as 50% and this kills dealers’ margin in both the short term and long term as they get less dollars for displays sold and pay more for new units once available for display. It’s a costly double-edged process.
  - Between potentially stranded inventory losses and the costs associated with liquidating and replacing display models, retailers could be financially impacted on a long term basis before they can recoup.

- If the rule remains as it is currently, and we all have to meet the May 15th, 2020 sales prohibition deadline, the financial impact on our business could easily be $\text{[amount]}$ to as much as $\text{[amount]}. I can’t begin to estimate what the financial impact would be to manufacturers and retailers, but I can assure you it would be significant.
- A sell through period of 2 years would allow us to continue to clear our inventory and to buy additional 2015 units as needed (until a 2020 replacement is available) from our manufacturers right until the May 15th, 2020 production cut-off date.

- Retailers would know that they have two years to clear their own inventory of 2015 models which would restore the early-buy programs.

- This, in turn, would ensure manufacturers have sufficient cash flow and their excess inventory controlled as they work to design, certify and produce a full line of 2020 compliant product.

- The trickle down for distribution and retailers is huge as well, the sell-through period would allow a functional and profitable emptying of the inventory pipeline making this transition to 2020 compliant models very positive and supported at all levels.

What would change if you approve a 2 year sell-through for distributors and retailers:

- You would eliminate the potential crippling of wood and pellet appliance sales in the US market. Dealers and distributors could push all the non-2020 compliant inventory through the pipeline allowing everyone from the manufacturer to the end user to have a seamless transition.

- Dealers would have the ability to switch to 2020 compliant appliances in a planned process and without having the fear of getting stuck with inventory that is not sellable and ultimately very damaging to their businesses.

  o Timing is critical:
    - Early buy programs from manufacturers to distributors typically take place from January 1st to as late as March 30th.
    - Early buy programs from distributors and manufacturers to retailers typically take place from Feb 1st to April 30th.
    - If the industry doesn’t know if there will be a sell through period added to the rule, the buying of non-2020 compliant inventory will come to a screeching halt. Distributors and retailers will not take on the additional exposure.
    - Early buy sales for both manufacturers and distributors represent about 30% of yearly sales to their customers. These sales are provided with extended payment terms allowing several things to take place.
      - For distribution, it allows us to put some product in retailers’ warehouses giving us the opportunity to re-load our warehouse to better supply them as the season comes back around. They have product, we have product.
• For manufacturers, it does the same thing, distribution pulls in about 30% of the year’s production allowing them to build more inventory and get ready for the August to December period where 60% of sales take place. Filling the pipeline like this allows the industry the ability to supply customers in our very compressed major sales period.

• Without including a sell through period, this process will break down, so again, timing of our all knowing if we have a sell though period or not is a very big deal. Amending the rule to include sell-through six months or more into 2019 could be the same as no amendment at all. By then it might be too late to do any good.

Earlier in this letter I had mentioned the cyclical nature of the pellet stove and pellet furnace portion of our industry. If you haven’t looked at how this piece of our business cycles, you should, the highs and lows are extreme and are predominantly dependent on energy costs, specifically heating oil. If you look at the trends representing the cost of heating oil vs the sale of pellet stoves and pellet furnaces and the fuel to run them the relationship is obvious. To speak in current terms, the last time oil was over $70 per barrel was 2014, that is until this year when it hit nearly $77 per barrel and pellet stove sales took off. But from the end of 2014 until the spring of 2018 pellet stoves sales had dropped between $% to as much as $% year over year. The point is that this sector of our industry is difficult to predict, and manufacturers and distributors end up forecasting sales for longer periods based on heating oil price predictions for the year or two ahead.

- Without including an extended sell-through period we will have a large number of non-sellable pellet stoves, pellet insets, and pellet furnaces that will have no value.

In conclusion, please consider these critical points.

• Most of the retailers we serve are unwilling to take any non-2020 compliant products as part of our upcoming early-buy programs (January – April, 2019). Because of what the rule now says, their strategy is to greatly reduce the likelihood of having unsellable inventory in their possession on May 15, 2020. They are focusing on selling the 2015 units they already have in their possession and many have essentially stopped ordering any additional 2015 units, or at best, a few at a time if there is particularly high demand for a popular model. In addition, retailers are now beginning to remove 2015 display models from showroom floors. In many cases, this is leaving empty spaces in their stores since so few 2020 compliant replacements across all product lines are currently available. Of course, retailers can’t sell a model that isn’t showing so the fewer models that are on display, the less sales revenue they get.

• We are currently holding significant quantities (______) of 2015 compliant units in our warehouse, both wood-burning and pellet burning. This inventory must move from us to our retailers and then to consumers to keep revenue flowing throughout the supply chain. We
can’t take shipments of more 2015 products from manufacturers until we reduce our inventory levels and we can’t ship units we have to our retailers unless they are certain they will have adequate time to sell those units to consumers before the sell by deadline. The speculation and lack of confidence about what products can be sold and by what date has totally disrupted revenue flow to the manufacturers at a time when they most need funding to support product development, certification and manufacturing start-up activities as they transition to 2020 requirements.

- **Adding two-year sell-through for distributors and retailers would help get sales and orders back on track and allow everyone from the manufacturers on down to the end users to have a seamless transition from Step 1 to Step 2 products.** Retailers would be able to switch to 2020 compliant appliances in an orderly process while doing the least amount of damage to their businesses. Without the sell-through relief, EPA shouldn’t be surprised about major profit losses, company lay-offs or even company closures. In other words, potentially devastating outcomes within the solid fuel segment of the hearth industry.

- **The timing of adding sell-through relief is critical.** If it is delayed too much longer, it will be harder to reap the benefits to the industry and especially to the manufacturers. Please resolve this issue as soon as absolutely possible.

Respectfully submitted,

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