

COVID-19: Supply Chain Assessment

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For 25 years, Energy Solutions has provided cost effective, market-driven solutions that deliver reliable, large-scale impacts. We currently implement more than 100 upstream and midstream programs across 22 states and Canada for HVAC, foodservice, water heating, pumps, and lighting technologies. During this pandemic, we have been in frequent contact with our global, national, and regional networks of distributors and manufacturers. We are surveying our trade allies to get a current snapshot of the market and inform you of developments and updates to supply chain and market conditions that affect our clients' programs.

Method Review

Our team gathered information across various technology areas and market actors to provide insight on company directives or market observations around the following categories: product availability, equipment sales, service providers/contractor impacts, and administrative impacts.

Findings

1. PRODUCT AVAILABILITY

- a. **Foodservice** — A major manufacturer reported supply chain issues resulting in a 9-week production delay. A distributor reported seeing another influx of used equipment entering the market due to many business closures and is actively leveraging midstream programs to bolster sales of energy efficient new equipment.
- b. **Water Heating** — A major manufacturer reported that they have finally recovered from a week long shut down in April due to the pandemic, and production has caught up in October to meet market demand. Lead times have been restored.
- c. **Lighting** — Due to the hurricanes in the southeastern US, several manufacturers reported difficulty getting resin and plastic products, which are mainly used in reflectors or louvers, causing limited availability and price increases. There are also difficulties getting circuit boards from Mexico, which affect the construction of LED drivers and dimming controllers. In addition, delays in shipments from China have prompted some distributors to increase their local inventory to offset the setbacks.

For these updates, the Trade Ally Team has communicated with the following number of market actors per technology area:

	This Issue	Communications To Date
HVAC	11	117
Foodservice	17	130
Water Heating	10	64
Pumps	2	24
Lighting	13	98
Grand Total	53	433

Table 1

2. EQUIPMENT SALES

- a. **HVAC** — A major manufacturer reported that despite commercial sales being down this year and many projects being paused or canceled due to the pandemic, new construction VRF (variable refrigerant flow) sales have been consistent and are flourishing. Residential customer inquiries, quotes, and close rates for indoor air quality products have also increased.
- b. **Foodservice** — A distributor reported increased sales in frozen food storage: walk-in freezers and reach-in freezers. This demand reflects trending customer strategies to navigate pandemic uncertainties by buying in bulk and freezing.
- c. **Water Heating** — Distributors have reported an uptick in residential sales and a slowdown in sales to commercial businesses, schools, and universities.

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- d. **Pumps** — A manufacturer reported strong sales across all pump categories and reported that anything related to pump installation or maintenance is “flying out the door”. In anticipation of new Department of Energy requirements that will be in place in July 2021, sales are increasing as distributors stock up on all available pumps.
- e. **Lighting** — Several distributors reported volatility in business but are remaining busy overall. Some have started doing outdoor counter days to recapture the customer segment that like to shop in person.

3. SERVICE PROVIDERS / CONTRACTORS

- a. **HVAC** — Service providers reported that most jobs currently revolve around disinfecting and UV. There is also continuing work and demand from residential customers for indoor air quality products like air sensors and filtration.
- b. **Water Heating** — Equipment sales are climbing back up to ‘normal’ levels and contractors are remaining flexible in the still uncertain business environment.
- c. **Lighting** — Some service providers reported that many business customers are actually waiting to pull the trigger on upgrades as business is good right now with stores and offices open. They’d like to wait for a lull in business to install new lighting products to minimize disruption. As a result, the pipeline is building up.

4. ADMINISTRATIVE / APPLICATION SUBMITTAL

- a. **Across technologies** — responses from distributors continue to range:
 - i. A distributor permanently closed as a result of the pandemic.
 - ii. Other businesses reported declines leading to furloughs or lay-offs, resulting in understaffing.
 - iii. Others are experiencing good business with stores and offices open.
 - iv. And for some, business is busy / booming and closing sales has been prioritized over program submissions, resulting in a growing backlog of claims submissions.

Market Insight:

- a. **Legislation** — In California, the Governor has signed AB841 into law which redirects unspent IOU energy efficiency funds to schools for HVAC system and water fixture upgrades. A report from the U.S. Government Accountability office estimated 41% of school districts need to update or replace HVAC systems in at least half of their schools, representing about 36,000 schools nationwide. A distributor has already confirmed school districts requesting large bids for HVAC retrofit work.
- b. **HVAC** — Increased sales for dedicated outdoor air systems (DOAS) are anticipated as a strategy to support indoor air quality through dilution, introducing outdoor air to mix with indoor air.
- c. **Life Sciences** — Manufacturers of ULTs and laboratory grade refrigeration equipment report they are nearly at production capacity with orders backed up to January 2021 – “I have never seen anything like it. We are barely keeping up with demand”.

Currently, all upstream and midstream programs implemented by Energy Solutions are active.

Rebates paid in the last four weeks vs. 2020 year-to-date weekly averages:

HVAC	DOWN 6%
Foodservice	UP 23%
Water Heating/ Pumps	UP 11%
Lighting	DOWN 16%

Table 2

Editor's Note: Figures reflect a nationwide average. There are significant regional variations.



Spotlight: Commercial Market Roundtable

Energy Solutions recently hosted a Commercial Market Roundtable: Foodservice Edition, where we dove into best practices, challenges, and opportunities pertaining to midstream program design and implementation. Our panel hosted four leaders from across the industry – manufacturers from the hot-side, cold-side, and life sciences as well as a nationwide dealer. If you weren’t able to join us and are interested in accessing the recording, please reach out Ted Jones at:

tjones@energy-solution.com.

Disclaimer: The COVID-19 pandemic is an evolving situation, and this report reflects our best estimate of market impacts at this time with the information available. We will be continually updating this forecast and adding details as more information becomes available and the actual impacts of the pandemic on the markets are felt. These updates will be versioned and dated so you can know at what time they apply.