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Water heater market analysis

See story on page 38

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See contest detailsPage 22

CORPORATE
REPORT –
CONBRACO

Triumphing over the economy . .Pgs. 44-45

VARIABLE
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On the Cover

How does the water heater market project for late 2009 and 2010? Industry experts weigh in on the state of the water heating industry. See story on page 38.

On the cover: Chuck Appleby, owner of Old Lyme, Conn.-based Appleby Plumbing Co., a third-generation family business, sweats a connection for a Bradford White eF water heater.

(Note: For the sole purpose of this cover shot, safety goggles were not used. However, safety eyewear always should be used while soldering.)

Features

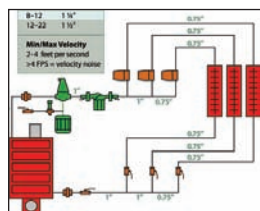
44 Conbraco on a roll

Morris Beschloss interviews the moving forces behind Conbraco: President Glenn Mosack and senior vice presidents Carole Mosack Lee and Cal Mosack. They offer insight as to how Conbraco is thriving in a weak business climate.



46 Variable-speed circs – a primer

Yes, there's math, but variable-speed hydronic circulators follow the universal hydronics formula; this article demystifies the aura surrounding a technology that has been with us for quite some time.

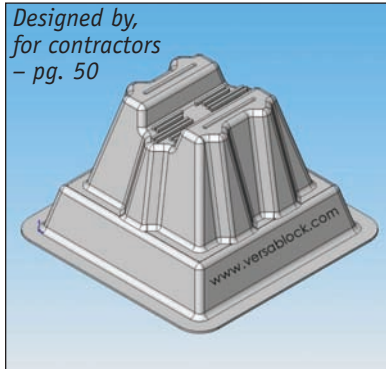


Phc News

plumbing & hydronic contractor news

Departments

Designed by,
for contractors
– pg. 50



Columns

- Dan Holohan:** Indirect radiation — you might still see it22
- Bob "hot rod" Rohr:** Storing solar energy for when you need it . . .26
- Paul Rohrs:** Hang it all, hang it all properly28
- Ellen Rohr:** Plan your time for its most effective use30
- Richard DiToma:** Selling all of those hours for the right margin . . .32

Field Reports

- Eternal Hybrids save energy, space at government facility16
- Smith+Guard floor drains go to college, pass with flying colors .20

In the News

- India asks UL, Commerce Dept. for help on water quality6
- Grundfos takes ALPHA circs on a road show; green business alliance formed8
- The Pulse: MAPP is a gas; fuel prices mostly down10
- Movers & shakers12
- Texas second state to legislate HETs14
- Santa Fe helps green firm start solar hydronic venture24
- Contractor-designed VERSABLOCK fills need on the roof50
- Supply New England bestows mfr. rep awards56
- Product update, tool news . . .52, 54

From the Editors

- It's a tough market, so use all the business tools available58

Sending drains to college – pg. 20



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Tom M. Brown Jr., President

Adventures in water heating

BY JOHN MESENBRINK,
chief editor

“Adventures” as in relating to the volatile economy. Consumer confidence is not exactly where it should be and some economic experts believe that, in time, the economy eventually will dig itself out of this recessive ravine, but not nearly replicative of some of the high times seen from the last half decade.

The fact is that the water heater industry still looks sluggish. “2010 is going to look a lot like 2009, with a slight uptick late 2010,” said Chuck

Rohde, wholesale market manager, Rheem Water Heating.

The ever-so positive news is that according to the U.S. Census Bureau and the Department of Housing and Urban Development, June housing starts and building permits issued saw a slight increase — 8.7% building permits, 3.6% housing starts — from May revised numbers. However, the movement appears minute compared to last year’s numbers — down nearly 50% in both categories — but builders will take any good news when they see it.

So where do we go from here?

“The economy is certainly one of

the most frequently discussed topics, but most contractors are taking advantage of this time by working with homeowners and facility managers to upgrade their systems instead of waiting for their next job to come to them. We have found that contractors who proactively seek out opportunities, and who do a fair job of selling ROI, are being successful,” said Sterling Boston, director of marketing, Lochinvar.

“Along with its partner representatives, distributors and contractors, we have all felt the burden of the economic crisis. The biggest concern we face collectively is from the

global economy and the impact that it has on homeowner’s ability and desire to purchase new heating equipment,” said Todd Romig, vice president of sales and marketing, Heat Transfer Products.

A great reference point to get a pulse of the water heater industry is to examine shipment data. Every month, water heating shipment data released from the Air-Conditioning, Heating, and Refrigeration Institute (AHRI) can be a good barometer of the water heating market. According to the latest AHRI May shipment numbers, residential electric water heater shipments for May totaled 313,492, an 11.5% drop from the same month a year ago. Residential gas water heater shipments totaled 299,013, a 10.8% decrease compared with shipments for the same month last year. (See Figure 1.) For the year-to-date, about 1,603,970 residential gas water

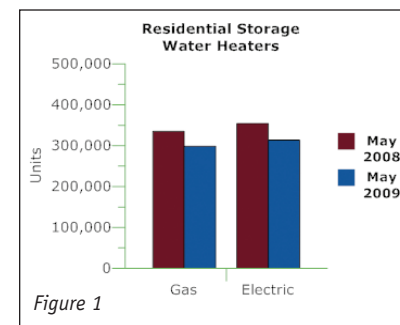


Figure 1

heaters have been shipped, a 7.4% drop compared with the same period a year ago. For the year-to-date, about 1,597,548 residential electric (Turn to Water Heater... page 40.)

Water heater options

Even in this economy, manufacturers continue to look to the future with their product offerings. Energy efficiency is driving the market, with Energy Star and green building piloting the ship.

“The economy is the biggest concern, no doubt. However, while the overall market size continues to contract, there are opportunities for customers to incorporate new technologies and expand into new markets, like solar,” said Bruce Carnevale, vice president of sales and marketing, Bradford White Corp.

Some key examples include:

Bradford White — Bradford White Heaters recently introduced 14 new indirect solar water heating units, increasing the company’s offerings in the solar category to a total of 32 models.

The new water heaters include six EcoStor2 SC double wall, single coil gas backup models, six EcoStor2 SC double wall, single coil TTW gas backup models and two EcoStor2 SC



double wall, single-coil Eco-Defender gas backup models.

Laars Heating Systems subsidiary

Laars will soon introduce a volume water heater version of the successful NeoTherm mod-con boiler. These will be fully condensing, 95% efficient, with a welded stainless steel heat exchanger. There will be five sizes ranging from 150 to 500,000 BTUs.

Heat Transfer Products — The new Phoenix Evolution combines space heating, domestic hot water, and total system control into one compact, high efficiency mod-con unit.

Just five connections — supply and return for heating, inlet and outlet for DHW and system feed — and you’re

done. There’s no primary-secondary loop to install, no near boiler piping, no boiler/indirect electrical connections, and no isolation valves.

Imagine fitting a 55-gallon water heater, 135,000 Btu boiler, and buffer tank into a space as small as 34" x 53". The new Phoenix Evolution does it!

The Evolution’s advanced mod-con technology delivers a system efficiency of 96%, reducing electrical and gas consumption without sacrificing comfort. The high output heat exchanger puts out 135,000 BTU/hr for space heating, with system isolation for low temperature baseboard, radiant heating, and hydro air applications built in.

A.O. Smith — The Cyclone® Xi model from A.O. Smith achieves the first water heater endorsement from the Green Restaurant Association (GRA). These models are ideal for restaurant applications due to the high



efficiency of 96% percent and versatile venting capability.

Rheem Water Heating — Consumers enjoy remote, fingertip control of their domestic hot water from virtu-



ally anywhere inside the home. Rheem Water Heating recently announced that (Turn to Options, page 40.)

Water heater forecast

(Continued from page 38.)

storage water heaters have been shipped, a 10.4% drop compared to the same period last year.

"Many experts were predicting a turn around in the economy in the 3rd or 4th quarter of 2009. I think any improvement will be minor, and probably not until 2010," said Bruce Carnevale, vice president of sales and marketing, Bradford White.

Commercial numbers have declined more with commercial gas water heater shipments for May totaling 6,220, dropping 15% compared with the same month last year, while commercial electric water heater shipments totaling 4,691, an 18.9% drop compared with the same month a year ago. For the year-to-date, commercial electric water heater shipments (24,250) are 16.6% behind total shipments of this product during the same period last year (29,083).

Commercial gas water heater shipments (34,011) for the year-to-date are down 12.8%, compared with the same period a year ago (38,999).

"Water heater unit sales will be the lowest we've seen in a number of years. The softening seems to have flattened out, but we don't foresee a significant recovery in 2010. We see 2010 producing similar results to 2009 in terms of overall industry volume. Where the residential market seems to have bottomed out, we do not see a significant rebound in 2010. We also see a softening in the commercial market that will continue into 2010," said David Chisolm, brand manager, A.O. Smith.

But not all news is doom and gloom. The high efficiency market will continue to grow as a percent of the overall market.

"Our concern is a combination of
(Turn to Water Heater... page 42.)

Options

(Continued from page 38.)

a wired remote control with a liquid crystal display screen (LCD) will be offered on its 40-gallon and 50-gallon, tall and short, power-vent gas-fired water heaters. Available in late July 2009, the remote-controlled water heaters will be Energy Star® compliant, displaying the insignia on the exterior of the units, which will be distinctively identifiable with its black top and bottom pans and white jacket.

Lochinvar — Lochinvar's newly introduced SHIELD Commercial Water Heater comes with a \$50 cash rebate paid to the installing contractor for every unit installed (up to 20 units) through the end of the year. With inputs up to 500,000 Btu/hr, 96 percent thermal efficiency and storage up to 125 gallons, SHIELD has every-



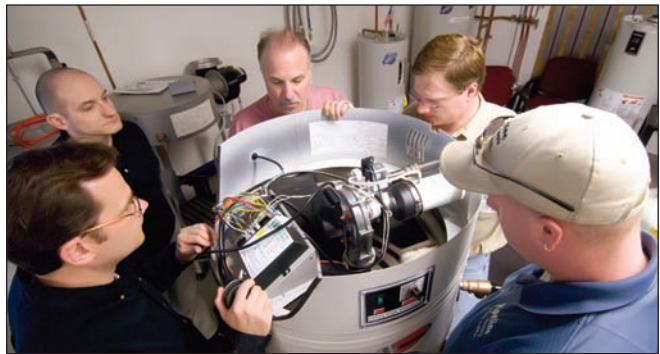
thing it takes to provide the ultimate green operation — without the risk of lime scale buildup inside the tank. Designed to provide a 100% effective defense against this problem, SHIELD is equipped with the industry's most advanced stainless steel heat transfer system located outside of the tank, ensuring the same high efficiency and low operating costs throughout its life cycle.

Water heater forecast

(Continued from page 40.)

the weak economy, regarding the commercial market, and frustrations

water heaters gets mixed reviews on whether it will completely stem the tide. “2009 has not been spectacular



Contractors examine the “nuts and bolts” and inner workings of a water heater at a Bradford White training seminar.

with new technology — there will be a continued push for higher efficiency products, this can only be done with more advanced technology,” said Chisolm.

The tax incentives on efficient

for our industry as a whole, but with incentives such as the \$1,500 Federal Tax Credit for homeowners to use for efficiency upgrades and stimulus money being pushed out on commercial work, there is definitely enough to keep us busy right

now,” said Boston.

However, “While the tax incentives will help drive sales for some high efficiency products, I don’t believe they will overcome the lack of consumer confidence in spending. Consumers

are investing in higher efficiency products, but there is also a trend toward more basic, lower cost options to heat water as well. We also see that consumers are more likely to repair equipment rather than replace it,” Carnevale added.

Although 2010 may forecast soft, it appears to be slowly getting better.

“All indications from the economists that we are listening to is that 2010 will start soft but should be heading back to normal by the 3rd quarter,” said Boston.

Although the forecast doesn’t look all too rosy for 2010, many manufacturers are clinging to the ideals of more efficient products and helping their customers any way they can. “I don’t foresee a lot of improvement in 2010. But, in times like these, sometimes you have to ‘make your own light at the end of the tunnel.’ The market is down, so we see it as our responsibility to provide our customers with the highest quality, most comprehensive product line

available to them. Some of our new products and technology will open new market niches for contractors — a good way to grow business for all of us,” said Carnevale.

High Efficiency — A new line of power direct vent (PDV), tank-type water heaters from Rheem Manufacturing Co., for example, is designed to meet the rigorous demands of today’s tightly constructed new homes that seek to maximize both energy savings and air quality. With an Energy Factor (EF) of 0.67, Rheem PDV Water Heaters exceed the new, phase one Energy Star criteria of 0.62 for water heaters, which the Department of Energy made effective on January 1.

A. O. Smith, State Water Heater and American Water Heater brands, for example, all have a comprehensive line of Energy Star®-rated water heaters. Likewise, the A. O. Smith Vertex line, the State Premier Power Vent line and the American Polaris line also qualify for the \$1,500 Federal tax credit. ■