



CUSTOMER COMMUNICATION MEMO

Subject: DOE Commercial Water Heater Standards – Non-Enforcement Policy and Supreme Court Update

Date: June 23, 2026

From: Matt Schulz – Senior Product Manager, Commercial Gas

To: Valued Customers and Channel Partners

Executive Summary

Earlier this year, the U.S. Department of Energy (DOE) issued an Enforcement Policy Statement announcing a temporary delay in enforcement of new efficiency standards for certain commercial gas-fired water heating products. This action provides an effective one-year enforcement grace period—from October 6, 2026 through October 5, 2027—during which DOE will not seek civil penalties related to these specific requirements. This policy is intended to provide market certainty while the American Gas Association's (AGA) pending legal challenge of the DOE efficiency standards is resolved.

Background and Litigation Update

In October 2023, DOE finalized new energy conservation standards for commercial water heating equipment, with a required compliance date of October 6, 2026. Following issuance of the rule, AGA petitioned the U.S. Supreme Court to review a lower-court decision that upheld DOE's rule. The U.S. Department of Justice (DOJ) subsequently submitted a brief to the Supreme Court asserting that, in its view, certain aspects of the commercial water heater rule are technically and legally flawed. DOJ requested that the Supreme Court nullify the lower court's decision and return the case to the lower court for further proceedings. On June 6, 2026, the Supreme Court granted DOJ's request, vacating the lower-court decision and sending the case back to the lower court for further consideration in light of DOJ's new position. The Supreme Court did not rule on the merits of the case, but the order allows legal proceedings to continue in the lower court. The DOE's commercial water heater rule was not impacted by the Supreme Court's order and remains in place. However, the ongoing litigation has created near-term uncertainty for manufacturers, distributors, and customers that DOE has sought to address through a non-enforcement policy.

Summary of DOE's Non-Enforcement Policy

As previously communicated, DOE will not seek civil penalties for violations of the efficiency standards (10 CFR 431.110) or related certification requirements (10 CFR



429.12) for qualifying gas-fired commercial water heating equipment manufactured between October 6, 2026 and October 5, 2027. This functions as an enforcement grace period extending enforcement until October 6, 2027. **The regulation itself remains in place, and the policy may be modified or rescinded at any time.** The recent Supreme Court order did not impact the underlying regulation or DOE's enforcement policy, both of which remain in place at this time.

What This Means for A. O. Smith

A. O. Smith may continue manufacturing and selling non-condensing commercial gas water heaters during the enforcement window without civil penalties. This provides short-term flexibility during the transition to condensing technologies, but does not remove long-term compliance obligations.

What This Means for Our Customers

Customers can continue to specify and procure non-condensing products during the enforcement period, providing additional time to plan projects, manage installed base transitions, and adjust specifications. Long-term planning should still assume a transition to compliant condensing solutions.

Order, Inventory, and Planning Considerations

As a result of DOE's enforcement policy and consistent with our earlier communications, our previously planned order cutoff dates no longer apply, and we will continue to accept non-condensing orders and ship products until further notice. A. O. Smith will collaborate closely with customers on order timing, inventory planning, and real-time communication regarding regulatory or legal developments. Our regulatory and legal teams remain actively engaged with DOE.

A. O. Smith Commitment

A. O. Smith remains committed to transparent communication, customer support through regulatory transitions, and delivery of reliable, high-performance water heating solutions. We will continue to monitor developments in the litigation and any further actions by DOE, and will provide updates as appropriate.