Launching Energy-Efficiency Programs: Ten Lessons for Success (and One for Failure)

Demand-side management (DSM) programs are increasingly being implemented by utilities, typically because of legislative or public utility commission requirements, public pressure to cut greenhouse gas emissions, a desire to lower customer energy bills, or the need to delay construction of new supply.

As these DSM programs are brought to market, we are seeing a huge disparity between programs that are effective and programs that are not. This white paper addresses:

- DSM program success factors
- How a DSM program can go wrong and actually do more harm than good
- How social marketing can impede or drive the success of DSM programs

Not All DSM Programs Are Created Equal

"When reviewing DSM programs throughout the U.S., we see that most do save energy. However, the actual performance of those DSM programs varies greatly from program to program—and that's because of how they were planned or implemented," says Ken Black, executive vice president of Member Services for E Source, who has 25 years of experience in DSM programs. According to Black, there are 10 best practices for developing a successful DSM program.

Plan ahead. "It's important to conduct market research about what types of DSM programs would be well received in a specific area. Do your homework," notes Black. "For example, you typically can't just take a DSM program from another utility, replicate it in your area, and expect the same results. How you package and present the program might need to be changed to account for the needs and interests of a specific constituency in a specific area." Just as a supermarket customizes its product mix based on a community's tastes, needs, and demographics, so should a utility customize its DSM plan. For example, utilities should only consider technologies that fit the climate (such as no evaporative coolers for humid environments), are readily available, and have a trained network of contractors, trade allies, and retailers that can support sales and installation.

Get up-front buy-in. "Another key component of DSM program success is to get up-front buy-in from local groups with a lot of clout," explains Michael Reid, a research director at E Source. "Typically, there are state and regional groups that are key players at the regulatory level. To make sure a new DSM program has a chance of succeeding, target those 'heavy hitters' in your area—brief them on the new program, get their feedback, and ultimately obtain their endorsement *before* you roll out the program. In some cases, these groups will actually promote the program for you as well."

Examples of groups that should be contacted before a DSM program goes live include environmental organizations, business and industrial trade associations, as well as your state's consumer advocate. Valuable feedback from these groups can help refine the DSM program before it's rolled out. Your conversations with these influencers should include:

- *Program specifics.* Explain how the program works and discuss the potential benefits to their constituents. Then ask for candid feedback such as: Are we missing anything? Do you feel this program will be well received? If yes, why? If not, what needs to be changed?
- *A call for support.* Once the program has been reviewed, discussed, negotiated, and shaped into a form that's acceptable to all parties, ask for the influencers' support for the DSM program. Ask, for example: Will you support this program in its current form? Will you support this program if changes are made?
- *A request for endorsement.* Be sure to invite these influencers to *formally* endorse the program. Ask if they will help spread the word through their networks and whether they are willing to share their positive perspective with the media.

Implement a pilot program first. "It's a good idea to test a DSM program before it's launched using a simple pilot," cautions Black. "Pilots for DSM programs don't have to be extensive or take a long time. You could test it with a relatively small sample—even just 50 to 100 customers. A pilot program will allow you to test everything from overall receptivity to the program to actual logistics (including making sure your tracking systems work) and the program communications plan.

"Pilot programs also allow utilities to experiment with various strategies and see what works best," says Black. For example, a pilot program to distribute energy-saving compact fluorescent lamps (CFLs) might test multiple distribution paths—such as direct to consumers, through a community group, or through a cross-promotion with a local building supply store—and determine which avenue gets maximum acceptance.

Involve strategic project partners. Utilities that are getting ready to launch a DSM program could team with a local retailer. "One of the more interesting DSM program strategies I've seen is to partner with a retailer that wants to boost store traffic and sales," says Lynn Stein, a senior advisor at E Source. "I've seen some utilities develop programs to retire old, inefficient air conditioners by offering a 'Cash for Clunkers'–type

of program. Consumers got a rebate on an efficient new air conditioner when they brought their old one to the store. The utility paid for the rebate and it was very effective in retiring old air conditioners as well as generating business for the local retailer."

Give consumers options. "DSM programs tend to not go over well when a one-size-fits-all approach is applied," explains Reid. "Consumers don't like something forced on them, especially if they have to pay for it. DSM programs should be voluntary and, ideally, offer multiple ways to participate." For example, utilities could offer customers a choice between receiving a one-time rebate or a low-interest loan to make energy-efficiency improvements.

Choose your technologies carefully. "There are many ways to drive down energy usage," notes Stein. "When developing a DSM program, make sure that you're choosing energy-efficiency technologies that work, are relevant for your constituency, and will be well received."

For example, in the 1990s when energy-saving CFLs were becoming popular for utility giveaways or rebate programs, some of the early products had problems such as poor color and long start-times. According to Stein, "The original CFLs didn't work as well as they do now and many people hated them—they weren't well received." The bottom line is to make sure that you pick energy-efficiency technologies that work, are already mainstream enough that they'll be well accepted, and are easy to implement.

Start modestly. "Utilities that are implementing DSM programs should start modestly. Walk before you run," advises Black. "Start with DSM programs that are relatively simple and cost-effective to implement. Design programs that target the low-hanging fruit—areas that can be addressed quickly and where changes in energy usage can have a significant impact. Don't dive in with a huge program that is expensive or logistically difficult to implement." Starting simple gives you a chance to make sure that your back-office systems are working correctly.

Take a long-term approach. "DSM programs should be viewed as ongoing efforts with long-term benefits and ramifications," says Black. "Why? Because behavior change and shifts in awareness are key components of any DSM program, and those don't happen overnight. To get a DSM program off the ground, you have to prime the pump of awareness; then you have to keep it going over time. You want sustainable behavior change, not a one-and-done approach." In addition, research shows that trade allies dislike programs that ebb and flow every couple of years. That complicates their planning and makes it hard for them to offer consistent messages to their target customers.

Expect a savvy customer base. In today's tough economic climate, consumers are scrutinizing every dollar spent and examining the structure of deals that are being offered to them. More and more consumers are pulling out their calculators and running the numbers before they sign up for a program. They need to trust the source of

information and assistance; they need to know the program is backed by reliable third parties; and they must receive assurances that they will, in fact, save money and energy if they participate in your DSM program.

Don't just launch—market it! Effectively blending traditional and new media marketing strategies is key to a successful DSM program. Utilities are increasingly using segmentation and more-sophisticated marketing techniques (microtargeting, for example) that have been used for years by telephone, cable, banking, and other consumer-product companies.

In the old days, getting the word out about an energy-saving program involved traditional communications such as bill inserts, working with contractors, or placing an ad in local media outlets. Those methods—newspapers, public relations, and "market buzz"—still have the power to impact DSM programs positively or negatively, but you need to consider using many more channels. Social marketing using online platforms such as Facebook and Twitter is an important new tool that helps turn customer attitudes into action for sustainable behavior change—just like Smokey Bear did for preventing forest fires 50 years ago. The point is that these days it takes more-sophisticated methods across more channels to properly market a new DSM program.

High-Potential DSM Program Areas

Logic (and good business sense) would dictate that utilities looking to start or enhance DSM programs should seek out areas of high energy-saving potential. According to Bill LeBlanc, a senior advisor at E Source, the three biggest areas that are ripe for development of initial DSM programs include:

- *Lighting.* "The technologies for both commercial and residential lighting are excellent," explains LeBlanc. "Finding ways to implement lighting-specific energy-efficiency programs—both for residential customers and commercial buildings—can save dramatic amounts of energy."
- *Commercial building commissioning.* "HVAC technologies for commercial structures and office buildings are complicated systems that use large quantities of energy, often 24 hours a day," notes LeBlanc. "By itself, building commissioning, which optimizes the operations of a building's HVAC systems, offers huge energy-saving potential, but you can add to that potential savings from purchasing high-efficiency HVAC components."
- *Industrial motors.* "Industrial motors on manufacturing plant floors require huge amounts of energy," says LeBlanc. "DSM programs in this category could take many forms—from offering manufacturers and distributors incentives for buying down the cost of high-efficiency motors to offering end users rebates for changing out older, inefficient models with newer ones."

Case Study: A DSM Program Gone Awry

An example of how *not* to launch a DSM program is the "free" CFL program planned by FirstEnergy Corp. (the parent company of Ohio Edison, Cleveland Electric Illuminating, and Toledo Edison), which debuted in October 2009. This ill-conceived program met a quick demise.

The backstory: FirstEnergy was mandated to increase energy efficiency by the state of Ohio. Specifically, Ohio's new energy law required a 22.2 percent reduction in energy usage by the end of 2025 and a 7.75 percent reduction in peak demand by the end of 2018. To help meet those goals, FirstEnergy bought $6 million worth of CFLs, prepared packets with two bulbs plus literature on the program, and organized a massive effort to hand-deliver the bulbs to its residential energy users.

Formally launched on October 5, 2009, the FirstEnergy program was initially cast in a positive light in the local media. The (Cleveland) *Plain Dealer* ran a story on launch day headlined "**FirstEnergy to Give Away 3.75 Million Low-Energy Light Bulbs**." Before long, however, the "bloom was off the rose" and the media vigorously pointed out that the true cost of the bulbs was many times more than the standard retail cost. (This extra cost was approved by the public utilities commission to help FirstEnergy recoup the cost of lost revenue as consumers used less energy by switching to the more-efficient bulbs.)

Analyzing the media coverage, we found that it was the Internet-based media—specifically, consumer advocacy web sites and bloggers—that broke the story within two days that the CFLs were not free at all, but were vastly overpriced. By October 7, 2009, the word was out and the following headlines started to appear: "**FirstEnergy Forces Light Bulbs on Customers for $10.80 Each**" (*The Consumerist*) and "**FirstEnergy Tells Its Customers 'Have Two Free Light Bulbs, but We're Charging You Three Times Retail for Them Over Your Next 36 Months!'**" (*Newsvine.com*).

Because of heightened scrutiny of the program's "fine print" and increasing public outrage, Ohio Governor Ted Strickland called for the plan to be postponed. In a public letter to Alan Schriber, chairman of the Public Utilities Commission of Ohio (PUCO), Strickland wrote, "Since FirstEnergy's program is under the purview of the PUCO, I am asking that you provide to me and members of the General Assembly answers to these questions and more details as to how these programs were developed. In the meantime, I am asking you to postpone this program until these questions are answered."

In addition to the Ohio governor's involvement, U.S. Congressman Dennis Kucinich (D-Ohio), State Senator Tim Grendell (R-18), and other elected officials weighed in on the matter and expressed strong concerns about the validity of the program. On October 8, 2009, FirstEnergy issued the following statement about the program:

> At the request of PUCO Chairman Alan Schriber, FirstEnergy has agreed to further discuss with the commission its PUCO-approved program to provide compact fluorescent light bulbs to customers of its Ohio utilities—Ohio Edison, the Cleveland Electric Illuminating Co. and Toledo Edison. We will work with the PUCO to respond to its questions and determine how best to proceed.

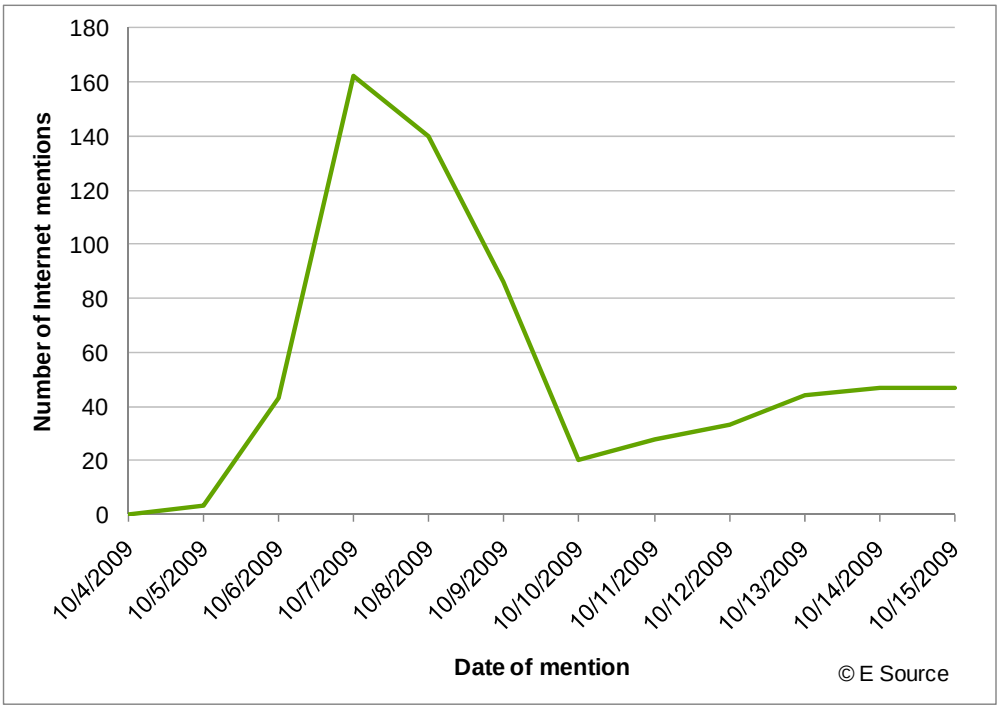
Later in the day, FirstEnergy declared that it would proceed with the CFL program. Within hours of that announcement, FirstEnergy made an about-face and issued a terse press release announcing that the program would be put on hold. Headlines such as "**FirstEnergy Flip-Flop: Light Bulb Program Put on Hold**" (WKYC.com) were not far behind.

Social Media: A *Huge* Factor in the Story's Evolution

The amount of social media buzz about the FirstEnergy program and how fast the word got out as a result of blogs and Twitter are two interesting aspects of this case study (**Figure 1**, next page). The story was picked up by many media outlets on October 5, 2009. E Source, in partnership with Filtrbox, has created a customized tool for helping utilities monitor social media and mentions of their business on the Internet. Using Filtrbox, we found that a blogger ran the numbers and posted a "this-isn't-right" listing on October 6. Other citizen journalists were doing the math as well and by October 6 there were already 50 online mentions about the CFL program not being free. At that time, traditional media were still covering FirstEnergy's talking points.

FIGURE 1: FirstEnergy Internet mentions

Internet mentions of FirstEnergy (or First Energy) peaked on October 7, 2009, at 162 mentions—all were negative.



By October 7, we found more than 160 online mentions of the program and *all* were negative. On that same day, mainstream media also went negative about the program, the governor and Senator Kucinich got involved, and the program was put on hold.

Once the program was essentially put out of business on October 8, the Internet buzz started to dwindle. By October 10, there were only 20 Internet mentions. On October 29, FirstEnergy took a different tack and announced a $7.4 million grant program to spur energy efficiency.

According to Burks, the moral of this case study is that "you can design the best program in the world, but in this day and age of news traveling lightning fast via the Internet, if you aren't in line with the customer, you have a good chance that citizen journalists will pick up on it and spread it like wildfire."

Additional Advice from E Source Analysts

If you advertise or present a DSM program as free, it should be free (with no hidden or line-item charges). If a program is presented as a good deal, assume that an increasingly savvy citizenry will be crunching the numbers to make sure your deal is indeed a deal. Word will spread quickly across the Internet and through social media if it's not.

FirstEnergy's failed program—and resulting bad press and damage to customer trust—probably could have been avoided by implementing a simple, prelaunch focus group. Restoring trust is difficult, expensive, and can take years.

It didn't help that the FirstEnergy CFL program was forced onto the utility's customers. In contrast, Michigan's Bay City Electric recently rolled out a similar program with much more success. Bay City Electric also gave away two free CFLs per household, but the program was voluntary and did not generate the bad blood created by FirstEnergy's program.

The media firestorm over the FirstEnergy debacle may have ended within 10 days, but the long-term damage will probably take more time to die down. Joseph Pulizzi, a social media thought leader and FirstEnergy customer, remains wary of the utility after this experience. "Like most people, I thought the CFL bulbs were free," remembers Pulizzi. "Then I heard from friends and from the Internet that the bulbs were going to cost well above market rate. Now if they try to sell us a future 'efficiency' program, I'm going to question it. It's like the tobacco industry saying 'Don't smoke cigarettes.'"

"Social media holds the power to make a small story a *big* story—and quickly," says Burks. "With blogs, microblogs like Twitter, and image sites like Flickr, people can say whatever they want and post what they want. And they are not constrained by any type of editorial process. For utilities, this means you no longer control the message and conversations about you are happening whether you are listening or not."

The starting point for utilities, according to Burks, is to start reviewing what's being said about your company. It can be done manually or with tools such as Filtrbox, which can help a utility track, analyze, and organize Twitter and Facebook postings, online forums, comments, video, still images, articles, and more pertaining to its business.

"Once you've found out what's actually being said, you can develop a social media strategy that incorporates the needs of your utility's customer care, marketing, and legal departments; determines your social media policies about what will be said and how; and in what way the strategy will support such things as DSM programs," said Burks.

Next Steps

Successful DSM programs require careful planning, selection of the best energy efficiency technologies, good program design, and effective marketing. Getting all of these factors right can be challenging. It doesn't make sense to replicate another utility's DSM program, but it can be helpful to understand what the best practices are and how they can be used as a guide for building your own program.

E Source helps utilities create effective energy-efficiency and load management programs using the right technologies while balancing the interests of utilities and customers. For more than two decades we have been researching the best DSM programs to identify the most-common and essential elements and to develop best practices for marketing these programs to both residential and business markets. We also provide clear, unbiased, fuel-neutral, vendor-neutral analyses of energy-consuming products and services to help you get the most-efficient programs into your customers' hands.

About E Source

E Source has been providing leading-edge energy business intelligence to over 300 utilities and large energy users for more than 20 years. Our research analysts and consultants are among the best minds in the business, delivering significant and timely research, analysis, and tools that equip our customers with the right information at the right time to make better, faster decisions. We're in the know—predicting and addressing trends, technologies, and problems related to energy efficiency, utility customer satisfaction, program design, marketing, customer management, and sustainability.

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