



Members of the *E Source Demand-Side Management Service* get access to research and analysis that helps them more effectively execute their programs and compare their results to those of other utilities. What follows is an excerpt of a recently published member-only report.

Why and How to Outsource a DSM Program

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When deciding whether to run a demand-side management (DSM) program internally or hire third parties to implement it, a utility's greatest concern is balancing cost with quality. Utilities will always have some reasons to keep a program in-house and some reasons for outsourcing it. Through our survey of and interviews with 19 utility program administrators, we learned when, why, and how utilities rely on outside firms to perform various DSM program functions. Here, we explore the reasons for outsourcing a program and suggest some approaches to doing so successfully.

Why Outsource a DSM Program?

To Bring Programs Up to Scale

Utilities are often tasked with ramping up programs quickly when launching a new project or responding to aggressive goals from regulators. Most utilities agreed that relying on out-of-house firms can help bring programs to scale quickly. One utility representative commented, "Outside implementation offers speed of delivery and rapid response to changing regulations." Turnkey implementation companies that offer start-to-finish services are particularly convenient in these scenarios.

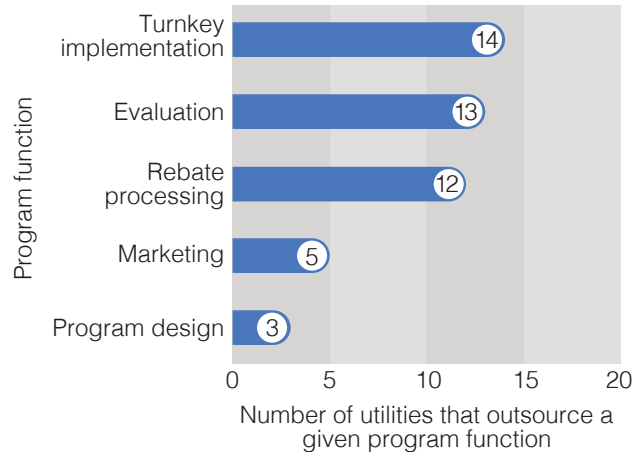
To Obtain Specialty Expertise

Sometimes, utilities lack the expertise to effectively run all aspects of energy-efficiency programs. This is particularly true for niche programs, such as strategic energy management or home energy report programs. Many utilities told us that, in these cases, they seek external specialists who have the skills, experience, and understanding of the market needed to run an effective program.

Which Elements of a Program Are Outsourced?

Survey respondents said they typically outsource turnkey implementation of programs, in which a contractor delivers the entire package of program services. Evaluation and rebate processing also appear to be popular functions to outsource. At the other end of the spectrum, just 3 of 19 respondents said they outsource program design (Figure 1).

FIGURE 1: Program design and marketing are more commonly kept in-house



Note: n=19 (multiple responses allowed).

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Most of the utilities we surveyed reported that they typically outsource program functions such as rebate processing, evaluation, and turnkey implementation. In contrast, just 3 of 19 respondents indicated that they typically outsource program design.



To Reduce Liability

If utilities don't have established expertise in many of the trades used for program delivery, they can limit their liability through outsourcing. For example, a few utilities reported outsourcing auditing, training, and technical-assistance functions because these roles are highly specialized.

To Build In Flexibility

Some utilities see outsourcing as a good option when programs need to adjust quickly, such as when a program is offered temporarily or seasonally. Outside firms are often able to adjust staffing levels much faster than utilities can hire and train employees.

“ We chose the outsourcing model several years ago to avoid having to add staff to the utility when we weren't sure about the scale and longevity of programs.”

Best Practices When Outsourcing

When outsourcing, utilities must relinquish some level of control over their programs. To maximize the performance of implementation companies while keeping costs in check, respondents to our survey suggest using the following strategies.

Set Clear Metrics

It's important to design contracts so that implementers are acutely aware of program goals. Many utilities incorporate specific performance metrics in contracts to help ensure that outside vendors meet their goals according to the agreed-upon budget and timeline and to minimize the risk to the utility. Besides identifying energy savings, contracts should define metrics around other program objectives such as participation and equity across market sectors. Establish clear goals up front in the contract.

Define the Terms of Customer Engagement

Contracts should include customer-engagement terms and expectations, which can help maintain brand awareness. Some utilities have established cobranding requirements in their contracts for implementers and subcontractors (trade allies). Utilities could require that contractors identify themselves as members of a trade ally network by displaying the utility's logo on service vehicles, paperwork, and, optionally, uniforms.

Requiring outside companies to associate themselves with the utility does present a risk to the utility's reputation: If customers have a bad experience with the program, it reflects poorly on the utility.

Pay for Performance

To win bids, implementation companies sometimes promise more than they can truly deliver. Utilities should write contracts with key milestones in place, whereby contractors are only paid for achieving the incremental goals. This method can be an effective way to ensure that goals are on track from start to finish.

Manage Implementers Closely

Outsourcing doesn't mean utility staff aren't involved in day-to-day oversight. In fact, utilities that report the most success in outsourcing their programs have someone paying close attention to performance at all times so that issues can be handled quickly. One utility occasionally asks implementers work on-site to help improve integration and communication.

Reevaluate the Model

Utilities should expect stumbling blocks when working with contractors, but it's important to reevaluate the implementation approach by assessing costs and benefits over time. What made sense at one time may not make sense forever.