

## **5.4 Distributor Initiatives**

### **5.4.1 Overview**

The Distributor Initiatives Program offers incentives for efficient products, including lighting and heating systems, acquired through distributors. Distributors are supply houses where contractors and larger customers go to purchase plumbing, heating, refrigeration and electrical supplies. Distributors stand in contrast to retail stores where homeowners and smaller commercial customers typically shop.

The distributor channel is an important complement to the retail channel as well as planned or customer-driven efficiency projects. In general, the measures discounted at distributors include:

- Products sold at significant volumes (e.g., typical residential boilers);
- Products that are not typically offered for sale at retailers, due to their size or specialized applications, such as a boiler or furnace; and/or
- Products that are not typically chosen or specified by the customer, such as a circulator pump.

Over the Triennial Plan III period, the Trust discounted a number of space heating systems, water heating systems, and LED products at distributors to capture more equipment purchased by contractors on behalf of customers. In the period covered by Triennial Plan IV, all distributor initiatives will be grouped under a single program to consolidate delivery and administration.

#### **Customer Segments**

Distributor Initiatives serves all sectors of the Maine economy including residential, low-income, commercial, and industrial customers. This program includes measures that reduce natural gas, unregulated heating fuels, and electricity consumption.

#### **Channels**

The Distributor Initiative program encompasses a network of suppliers serving contractors purchasing lighting, space heating, water heating, and commercial kitchen equipment. The discounts offered through this program enable the Trust to capture more of the emergency replacement market. In addition, the markdowns offered at the distributor make it easier for contractors to choose the efficient option when working on a project where the product model is not specified. These instant discounts also encourage distributors to stock efficient product models, ensuring availability for interested contractors and customers.

### **5.4.2 Objectives**

- Incentivize measures to reduce electricity, natural gas, and heating fuel consumption;
- Reduce total energy costs;
- Reduce peak load demand for electricity;
- Help contractors and customers overcome barriers to implementing efficiency projects;
- Promote high-efficiency equipment options when customers and contractors are replacing inefficient or burned out equipment or adding new equipment; and

- Create more favorable market conditions for the increased use of energy-efficient products and services.

### 5.4.3 Market Barriers

- *Upfront cost*: The increased cost of the energy-efficient option is a barrier for many customers. This program relies on markdowns (also referred to as instant discounts) to overcome the price differential between conventional and high-efficiency options. For many purchases, the price differential is key because the contractor is making the purchasing decision and will likely purchase the lowest-cost option.
- *Short replacement decision cycle/emergency replacement*: Many replace-on-burnout situations have a short decision cycle for replacement. Capturing these emergency replacements is a challenge, especially if it requires the adoption of a new or unfamiliar technology; there may not be time to educate decision makers before the purchase. Upfront cost is the primary driver in these situations.
- *Lack of information*: Many customers are not familiar with high-efficiency choices: markdowns at distributors provide an added incentive for contractors to educate customers about efficient options, or make the education *less* necessary because the contractor has connected the customer with the lowest-cost option. Discounted high-efficiency models can be sold as “free product upgrades.”
- *Paperwork*: Many contractors, even long-time participants in Trust programs, consider the incentive application process burdensome and frustrating for some installations or projects. By discounting equipment at the distributor, the reporting requirement and any liability from rebate errors shift to the distributor. In turn, the Trust can ensure data integrity through participating distributors (a smaller pool than participating contractors) as well as underwrite some of the costs associated with reporting. This program design can remove the paperwork barrier for contractors, as well as invite contractors that are not trade allies to pass along the benefits of the program to their customers.
- *Installation*: Installing high-efficiency equipment may require more time and materials because the new system may, for example, require new piping or site preparation. Equipment markdowns can keep total project costs commensurate with those of a conventional system, allowing a customer to spend more on labor while spending less on equipment.

### 5.4.4 Opportunity Analysis

The opportunity analysis for Distributor Initiatives set out to assess which measures offered through Trust programs were best suited for instant discounts, if more measures would be purchased through this channel than through another program, and if new technologies or measures should be offered through the program during the Triennial Plan IV period.

## Methodology

The opportunity for efficiency savings procured through Distributor Initiatives was determined by a market study that examined the cost-effectiveness of measures typically marketed through distributors, and projected rates of turnover for equipment that could be replaced, cost-effectively, with a more efficient model. The study also reviewed past program performance for some measures currently discounted at distributors. The Trust assumed that most purchases through the program were made because existing systems had reached the end of their useful lives or had otherwise failed. These purchasing decisions are categorized as replace-on-burnout; the baseline for these measures is a less expensive and less efficient system that meets minimum codes and standards.

The opportunity assessment included an in-depth study of heating, ventilation, and air conditioning (HVAC) measures, as the Trust anticipated moving, and including, more measures into the distributor channel during the Triennial Plan IV period (see Appendix E). The study also reviewed distributor or midstream initiatives administered by other efficiency programs, including in nearby states, and identified additional measures to include. For example, Vermont has had success in capturing energy savings in the circulator pump market through its distributor program. The data from other markets and efficiency programs also demonstrated that the Trust could expect an increase in both the kinds of measures incentivized and the quantity of measures sold, if a measure were shifted from downstream or customer rebates to markdowns.

The study also determined that the cost of delivering instant discounts through the distributor channel could be expected to be lower than the delivery costs for downstream rebate programs.

The Trust complemented this assessment of new HVAC opportunity with a review of the lighting, water heating, and commercial kitchen measures currently discounted at distributors through Trust programs. This assessment projected participation levels based on historic performance. As will be described elsewhere in the Retail Initiatives section, LED sales are highly sensitive to incentive levels. The opportunity for energy savings from lamps marked down through Distributor Initiatives takes into account the general findings from the Trust's 2017 study on LED price sensitivity (see Appendix F) as well as the potential impact of the enforcement of the Energy Independence and Security Act (EISA) standards regulating the energy efficiency of the lighting industry. For more on EISA and its impact on lighting savings opportunity, please see the Retail Initiatives section.

The opportunity assessment also found that sales of heat pump water heaters (HPWHs) through distributors were highly price sensitive. At smaller instant markdowns, contractors swapped HPWHs for less efficient models at a modest rate. When the instant discount was bigger, resulting in an end price of HPWHs to the same, or lower than, inefficient models, many more contractors purchased the efficient model on behalf of their customers. Moreover, distributors and manufacturers responded to higher discount levels by adding promotions or discounts of their own, further incentivizing the purchase of the efficient model.

## Findings

The Trust's analysis determined that the program should continue to mark down many of the Triennial Plan III measures for Triennial Plan IV, as they remain cost-effective. These include HPWHs, boilers, furnaces, commercial kitchen equipment, and screw-in LEDs. The assessment of the savings opportunity afforded through LED instant discounts found that the energy-saving potential for screw-in LEDs is consistent with the energy savings of the last Triennial Plan period. The Trust's market assessment found that the size of the water heating market is projected to grow over that of the Triennial Plan III period with more aggressive incentive levels. The Trust will split this opportunity between Distributor Initiatives and Retail Initiatives based on historical performance. Because the Trust has never experienced high levels of uptake of commercial kitchen equipment, the assessment did not project a significant change to levels of measure adoption. The Trust will closely monitor the adoption rate for commercial kitchen equipment during the Triennial Plan IV period.

In addition, the opportunity analysis determined that the Trust should expect more HVAC measures to be purchased through the distributor channel than through the downstream programs that the Trust offered during the Triennial Plan III period. This projected increase in sales is due to many factors, including a maturing relationship with distributors, contractor familiarity with instant discounts, the movement of many residential HVAC measures to the distributor channel, and an increase in discounted measures offered.

An interesting example from the study was that of residential ECM smart pumps. These pumps have integrated variable frequency drives and software that allows them to ramp up and down based on demand. Pumps fit several of the criteria for what makes for a good measure for midstream discounts: (1) They are rarely specified by the customer, (2) They are chosen by the contractor on the basis of price, (3) They are not typically sold at retail, and (4) They are sold in high volumes.

ECM smart pumps had been incentivized through the C&I Prescriptive program but not in the residential sector. The study found that these pumps have an extremely low penetration in the Maine's residential market, but that other northeastern states have captured half the market with their midstream programs. The study estimates that the Trust could capture approximately three quarters of replacements in the residential sector through a midstream discount.

To preserve the efficiency and simplicity required to maintain contractor and distributor participation, the Trust offers incentives based on technology and not fuel type. For instance, a condensing gas boiler for small commercial and residential applications may be fueled by either propane or natural gas. To offer an instant discount on this measure, the Trust attempts, to the greatest extent practical, to incentivize the boiler at the same amount, regardless of what fuel type is used and then account for the incentive from the appropriate funding source. Fuel-specific measures and discounts are projected to significantly impact participation and adoption rates.

For the Distributor Initiatives budget under the Triennial Plan IV, see Appendix A. This includes investment potential for multiple fuels and program funds, including electric procurement, natural gas procurement, and RGGI funds.

#### **5.4.5 Program Design**

The program relies on Memoranda of Understanding (MOUs) with distributors to promote and incentivize efficient heating, plumbing, commercial kitchen, and lighting equipment. The MOUs also require participating distributors to report on key data points including measure characteristics, fuel type (for HVAC and plumbing measures), and installation location. The Trust will frequently visit participating distributors to ensure the availability of informational materials, and answer distributor staff questions about data collection, eligible models, and more.

#### **Addressing Market Barriers**

The program addresses the first-cost market barrier by discounting the cost of the high-efficiency option to make it cost-competitive with the conventional option; this amount is set high enough to guide contractor or customer choice to the high-efficiency model. The markdowns also address the barrier presented by emergency replacements by having efficient options readily available at a competitive price compared to the conventional replacement model. This helps to overcome barriers presented by lack of information about efficient options or lack of time to research efficient options and available incentives. The reduction in first costs also helps mitigate additional installation costs that may be required for the efficient option. Finally, discounts offered at distributors help to overcome any barriers presented by rebate paperwork or processing -- installing contractors simply have to present installation information to the distributor. In many cases, the Trust reimburses distributors for some of the costs associated with collecting and reporting this information.

#### **Measures Promoted**

Determining if a measure is a good candidate for this program involves consideration of several questions. First, is the equipment traditionally purchased at distributors? Second, is the market for the measure large enough that participating distributors will stock it? Extremely large boilers, for example, are not discounted through the program because they are installed infrequently, and many are purchased directly from product manufacturers. The program instead focuses on the models of space and water heating systems that are commonly installed in Maine buildings.

Third, are the market barriers associated with selecting efficient equipment overcome by the program design? As described above, the program focuses on replace-on-burnout or emergency replacement measures. Trust incentive programs have traditionally captured only a small fraction of the heating and water heating replacement market because the short window for replacement made it difficult for customers to apply for rebates or investigate efficient alternatives. The Distributor Initiatives Program is designed to capture more emergency replacement situations by reducing first costs and making the efficient measure the default replacement model. Providing instant discounts on efficient options assists contractors that may select the measure without customer guidance and therefore default to the least expensive option.

The program design also helps overcome other market barriers. For some measures in this program, there is energy-saving potential that was not being fully captured through other program delivery

mechanisms, or potential participating contractors or customers deemed the rebate application process “not worthwhile.” An example of this situation is commercial kitchen equipment. A restaurant would realize significant energy savings by upgrading to high-efficiency equipment, but there has not been a proactive retrofit market in Maine. Very few commercial kitchen measures have been incentivized through Trust programs in the past. By offering incentives for these measures to commercial kitchen equipment distributors rather than directly to contractors or customers, the program will attempt to capture some of the replace-on-burnout market. As described in Appendix A, market research indicates that most commercial kitchen equipment sold is refurbished, used equipment. In this case, Trust discounts offered on new, efficient models compete not only with standard models, but also with less expensive, used equipment.

Whenever possible, eligible measures will be verified and vetted by a third party. For example, measures incentivized through the program may be listed and verified by Consortium for Energy Efficiency; Air Conditioning, Heating, and Refrigeration Institute; and the DesignLights Consortium. These organizations also provide technical information on high-efficiency equipment and installation best practices.

#### **Incentives and Financial Considerations**

The program will discount efficient heating systems, light bulbs, and other equipment by the percentage of the incremental price difference between conventional and high-efficiency models required to motivate the sale. These incentives will be delivered as a markdown, administered pursuant to individual MOUs between the Trust and participating distributors. In some cases, the Trust may also incentivize distributors to collect and report data as that burden shifts from contractors to distributors in this program model. Furthermore, depending on the measure and level of activity, the Trust will provide distributors per-unit payments to offset administrative and marketing costs and to encourage sales.

#### **Marketing and Outreach**

The primary goal of this program is to capture replace-on-burnout or emergency replacement purchases rather than proactive replacements. These transactions are largely between distributor staff and installation contractors. With that in mind, the marketing and outreach for the program focuses primarily on distributors. This includes educating distributor staff, posting signage about instant discounts at the distributor, and making contractor- and customer-facing materials available at the distributor’s location. These materials are meant to equip the contractor with everything he or she may need to communicate with customers about efficient options and instant discounts.

In addition, the Trust may market efficient options directly to customers in the hopes that they will ask their contractor about a “discounted equipment upgrade” or instant discounts. For example, the Trust has undertaken digital ad campaigns about emergency replacements. The Trust has also undertaken marketing campaigns about aging heating systems to prompt customers to ask contractors about efficient options.

**Quality Assurance/Quality Control**

Program field representatives will visit distributors to ensure that data collection processes are in place and that distributor staff is familiar with eligible equipment; in addition, program representatives will verify that informational materials are available for contractors. Program staff will review instant discounts processed by distributors to ensure that the product and participant are eligible. The Trust will carefully monitor product pricing and program participation to assess appropriate discount amounts.

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