Gain Steam, Go Midstream! Distributor-Focused Residential HVAC and Water Heater Incentives

ENERGY STAR Products Partner Meeting
October 24, 2017
Chicago, IL
Speakers

• Stacy, Glatting, U.S. EPA
• Jesus Pernia, Energize CT
• Jen Ryan, Winn Supply
• Howard Merson and Jake Marin, Vermont Energy Investment Corporation
• Francois Lebrasseur, A. O. Smith
What are Distributor-Focused Midstream Incentive Programs?

- Downstream mail-in rebate programs for HVAC and water heaters are difficult to administer and have high overhead & low participation.
- Instead, target the wholesale distributor who provides an “instant rebate” to the contractor, who passes that along to the customer.
- Most products are ENERGY STAR certified.
Why Does ENERGY STAR Care About Midstream Distributor Focused Incentive Programs?

Table 1: Participation Improvement for Distributor-Focused Residential Midstream Programs Compared to Downstream Programs

<table>
<thead>
<tr>
<th>Efficiency Program</th>
<th>Measure</th>
<th>Incentive Amount</th>
<th>Increase in Program Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ENERGY STAR Certified Heat Pump Water Heater (HPWH)³</td>
<td>$750</td>
<td>423%⁴ (PY1)⁵</td>
</tr>
<tr>
<td></td>
<td>ENERGY STAR Certified HPWH⁶</td>
<td>$400</td>
<td>750%⁷ (PY1)</td>
</tr>
<tr>
<td></td>
<td>ENERGY STAR Certified HPWH⁸ and Natural Gas Water Heaters⁹</td>
<td>$300 for gas; $600 for HPWH</td>
<td>1000%¹⁰ (PY2)</td>
</tr>
<tr>
<td></td>
<td>ENERGY STAR Certified Natural Gas Boiler and Furnaces¹¹</td>
<td>$450 to $800</td>
<td>234% (PY2)</td>
</tr>
<tr>
<td></td>
<td>ENERGY STAR Certified HPWH¹² and Natural Gas Water Heaters¹³</td>
<td>$100 for gas; $300 for HPWH¹⁴</td>
<td>Just began program in 2017</td>
</tr>
</tbody>
</table>

Order of magnitude increase in program participation!
New Midstream Website Resource

- Results of other midstream distributor focused programs.
- Why these programs work for all parties.
- Best practices gathered from a technical advisory group (TAG): leading program implementers, manufacturers, and distributors.
- Ability to set up call with TAG to answer your questions.

www.energystar.gov/products/retailers/midstream_programs
Midstream Office Hours

• Bring your questions for our experts to the Midstream Office Hours session!
  – Wednesday, October 25th, 1:15-1:45pm
  – Gold Coast, Level 3
Connecticut Residential HVAC & Water Heating Rebate Program

Gain Stream, Go Midstream! Distributor-Focused Residential HVAC and Water Heating Incentives

Presented By: Jesus Pernia – Eversource Energy
October 24, 2017
Program Objectives

- Increase market share of energy efficient equipment sold and installed
- Increase program participation and reduce rebate breakage
- Easy incentive/rebate redemption
- Increase awareness and customer education
- Increase stocking of energy efficient equipment at Distributors/Retailers
- Emergency replacements
- Educate Contractors
HVAC & DHW Program Activity (Units)

<table>
<thead>
<tr>
<th>Year</th>
<th>Boilers 1</th>
<th>Furnaces</th>
<th>Water Heating</th>
<th>Heat Pump Water Heater</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 (MAIL-IN)</td>
<td>1,002</td>
<td>1,008</td>
<td>206</td>
<td>408</td>
</tr>
<tr>
<td>2014 (MIDSTREAM)</td>
<td>3,288</td>
<td>2,095</td>
<td>1,758</td>
<td>1,391</td>
</tr>
<tr>
<td>2015 (MIDSTREAM)</td>
<td>4,197</td>
<td>3,344</td>
<td>3,068</td>
<td>1,192</td>
</tr>
<tr>
<td>2016 (MIDSTREAM)</td>
<td>3,885</td>
<td>3,813</td>
<td>1,983</td>
<td>1,558</td>
</tr>
<tr>
<td>2017 YTD SEPTEMBER (MIDSTREAM)</td>
<td>3,072</td>
<td>1,735</td>
<td>664</td>
<td>1,358</td>
</tr>
<tr>
<td>2017 FORECAST YEAR-END (MIDSTREAM)</td>
<td>4,506</td>
<td>2,545</td>
<td>917</td>
<td>1,992</td>
</tr>
</tbody>
</table>

1 Note: Between July 2016 & August 2017 NG Boiler, Furnace, and WH rebates were shutdown in SCG territory due to over subscription.
2 Note: 2017 YTD (Midstream) includes data through the month of September.
Source: Eversource and UI (SCG, CNG) tracking system.
Ductless Heat Pumps - New Midstream in 2017 (Units)

1029

2217

2956

115% Lift

Note: 2017 YTD (Midstream) includes data through the month of September.

Source: Eversource and UI (SCG, CNG) tracking system
CT HVAC+DWH Market Research (Contractors)

How aware are Contractors that Energize CT offers instant discounts for ENERGY STAR high efficiency equipment?

- Very aware: 1%
- Somewhat aware: 2%
- Somewhat unaware: 10%
- Not at all aware: 87%

How frequently do your customers proceed with your recommendations to install high efficiency equipment?

- All of the time: 23%
- Most of the time: 63%
- Some of the time: 14%

How strong of a factor is the instant discount in a customer decision to proceed with HVAC equipment upgrades?

- Very Strong Factor: 47%
- Strong Factor: 42%
- Not very strong factor: 2%
- Not at all a factor: 2%
- Don't know: 7%

What are the most important factors your customers consider when looking to upgrade their heating system?

- Cost savings: 20%
- Energy savings: 18%
- Reduced energy bills: 16%
- Long lifespan: 12%
- Low maintenance: 12%
- Installation Time: 12%
- Ease of operation: 11%
- Equipment Availability: 8%
- Other: 7%
- Don't know: 1%

Source: GreatBlue Research. CT 2017 HVAC Contractor + Distributor Market Assessment. August 2017
Customer Education & Marketing

- Point of Purchase (POP)
- Radio & Billboards
- Educational webpages, brochures & videos
- Geo-targeted ads
- Targeted direct mail
- Trade-allies training
CONNECTICUT MID-STREAM PROGRAM - DISTRIBUTOR PERSPECTIVE

2017 Energy Star Products Partner Meeting
October 23-25, 2017
Jen Ryan | Winsupply of Shelton
Mid-Stream Program Overview

- Utilities Publish Qualifying Products List With The Input of Distributors

- New Programs Will Need 1 Progressive Distributor Who Puts Their Customers First - The Rest Will Follow

- Distributor Reduces The Cost of Equipment At The Point of Sales and Notates Rebates Given On Sales Receipt

- Distributor Submits Claims For Reimbursement Through Online Portal

- Contractor Identifies Rebate Given On Homeowners Quote/Receipt/Bill

- Utility Follows Up With Post Card To Keep Contractors Honest
Highlights & Successes

- Homeowner and Contractor Have To Do Nothing!
- Cost Reduction On Front-End Expedites Decision to “Go-Ahead” With Upgrades
- Contractor Improves Success Ratio With Cost Saving Solutions For Homeowner
- Free Huge Salesforce With Distributors and Contractors
Highlights & Successes

- Train, Train, Train!
  - EnergizeCT Does Periodic Industry Wide Update Trainings & Communicates Updates Throughout the Year Via Email

- After Hours Trainings At Our Location With EnergizeCT

- Face-To-Face At Our Sales Counter With Contractors

- Lunch & Learn Counter Days With EnergizeCT

- Weekly Email Newsletters

- On-Hold Phone Messaging
VEIC’s Approach to Upstream / Midstream

1. Project planning
2. Establish value proposition
3. Mapping the supply chain
4. Eligibility & Performance request
5. Data collection
6. VEIC SMIT RFI / planning sessions
7. Establish incentive levels
8. Administration / management fees
9. Execute SMIT plans
10. PDA / MOU
Supply Chain’s Profit Model

Return on Net Assets (RONA) =

\[
\frac{\text{Net Income}}{\text{Inventory + Accounts Receivable} - \text{Accounts Payable}}
\]

<table>
<thead>
<tr>
<th>RONA driver</th>
<th>Consideration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase gross margin (GM), gross profit (GP) &amp; net income (NI)</td>
<td>• Energy-efficient products affect GM, GP, &amp; NI</td>
</tr>
</tbody>
</table>
| Decrease inventory investment & increase turnover | • Collaborative sales & marketing  
• Intensive product & program training  
• Incentives increase market demand |
| Accounts Receivable (AR) | • Avg. AR collection 50 - 55 days; Target < 35 days |
| Accounts Payable (AP) | • Avg. AP terms 30 - 35 days; Target: 45 - 240 days |
## Distributor Value Proposition - HPWHs

<table>
<thead>
<tr>
<th></th>
<th>Electric Resistance</th>
<th>HPWH</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resale from distributor to customer</td>
<td>$458</td>
<td>$1054</td>
<td>$596</td>
</tr>
<tr>
<td>Distributor cost (estimate)</td>
<td>$376</td>
<td>$850</td>
<td>$474</td>
</tr>
<tr>
<td>Gross profit per water heater</td>
<td>$82</td>
<td>$204</td>
<td>$122</td>
</tr>
<tr>
<td>Gross profit generated from 14,000 units / year</td>
<td>$1,148,000</td>
<td>$2,856,000</td>
<td>$1,708,000</td>
</tr>
</tbody>
</table>

HPWH increase distributor value 150%
Leverage Supply Chain Approach to Recruit & Train Installers and understand the Distributor landscape

<table>
<thead>
<tr>
<th>Tier</th>
<th>% of Companies</th>
<th>% of Total Branch Locations</th>
<th>Branches</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 4</td>
<td>7%</td>
<td>55%</td>
<td>148</td>
<td>148 (55%)</td>
</tr>
<tr>
<td>Next 5 (9)</td>
<td>9% (16%)</td>
<td>19%</td>
<td>50</td>
<td>198 (74%)</td>
</tr>
<tr>
<td>Next 9 (18)</td>
<td>16% (32%)</td>
<td>11%</td>
<td>30</td>
<td>228 (85%)</td>
</tr>
<tr>
<td>Next 37 (55)</td>
<td>68% (100%)</td>
<td>15%</td>
<td>42</td>
<td>270 (100%)</td>
</tr>
</tbody>
</table>
SMIT: Sales, Marketing, Inventory & Training

1. Internal / external stakeholder planning meetings
2. RFI (Request for information) to suppliers
3. Suppliers: Develop & present SMIT plan
4. SMIT strategy planning sessions

### Section III: Inventory Plan

Hot Water Solutions understands that increased inventory can help to accelerate HPWH sales in the Northwest. As sales volumes increase and technologies improve, it is important to understand how your organization will support the supply chain building inventory, launching new models, and phasing out existing inventory.

#### 7. Inventory Support

Please complete the table below to indicate how you plan to address inventory concerns from distributor customers. Where applicable, please provide additional details on your inventory support plans and describe how Hot Water Solutions can provide assistance.

<table>
<thead>
<tr>
<th>Inventory Concern</th>
<th>Yes/No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will you consider extending your distributor’s payment terms with the objective of diluting inventory levels?</td>
<td></td>
</tr>
<tr>
<td>Will you offer other financial incentives to the distributors, i.e., volume discounts, etc.?</td>
<td></td>
</tr>
<tr>
<td>Will you accept returns of the lower tier HPWHs in exchange for higher tier HPWH inventory?</td>
<td></td>
</tr>
<tr>
<td>Will you eliminate associated inventory restocking fees when your distributor’s exchange, leading inventory, for HPWH inventory?</td>
<td></td>
</tr>
<tr>
<td>Do you plan to have an exchange program of the lower tier HPWH inventory for higher tier HPWH inventory?</td>
<td></td>
</tr>
<tr>
<td>Will you address warranty issues associated with the replaced technology?</td>
<td></td>
</tr>
</tbody>
</table>

### 4. Wholesale Marketing Plan

Please use the table below to share your HPWH marketing plan for the wholesale channel. Please mark with an (x) to indicate that you plan to reach an audience with a given tactic. Keeping in mind that cooperative marketing funds are limited, please mark with a ($) if you would like to collaborate with Hot Water Solutions on a given tactic. Feel free to suggest additional audiences and/or tactics.

<table>
<thead>
<tr>
<th>Tactic / Audience</th>
<th>Local trade events</th>
<th>Distributor events</th>
<th>Printed literature</th>
<th>Print advertising</th>
<th>Email marketing</th>
<th>Social media</th>
<th>P.O.S. marketing</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hot Water Solutions Supply Channel Account Manager</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale Distributor Management Teams</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale Distributor Sales Teams</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade Installers and Service Contractors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>End Users / Property Owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 9. Training Prioritization

Hot Water Solutions is evaluating and updating program training curriculum in 2017 to incorporate adult learning best practices and effectively support installer motivation and sales skills. We are currently working with you to develop and deliver training content from the manufacturer level. By gathering additional information on training plans and deployment we can increase the impact of training through the wholesale channel in the Northwest.

Please use the table below to share the trainings that you have planned for the wholesale channel. Mark with an (x) to indicate that your organization plans to provide training to these audiences in any of the training categories. Understanding that Hot Water Solutions training resources are limited, please mark with a ($) to indicate where you believe Hot Water Solutions should prioritize training.

<table>
<thead>
<tr>
<th>Sales contact</th>
<th>Sales Training</th>
<th>Technical and Instillation Training</th>
<th>Hot Water Solutions and Utility Program Training</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributor counter sales associate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor inside sales associate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor outside sales associate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor sales manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor branch managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor regional managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributor corporate level managers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small contractor companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Midsize contractor companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large contractor companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (please define)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Efficiency Vermont
HVAC
Upstream / Midstream Results
Efficiency Vermont Midstream HVAC Programs

High Performance Circulator Pumps

Heat Pump Water Heaters

Cold Climate Heat Pumps
Consolidated Results from Participating Vermont Distributors of High-Performance Circulator Pumps

Units Sold

Every 2.5 Days = TOTAL ANNUAL AVERAGE before Upstream Program!!
Distributor’s “Before & After” Upstream

HPCP as a % of CP Sales

- 2013: 0.5%
- 2014: 39.8%
- 2015: 56.7%
Midstream vs. Downstream; Heat Pump Water Heaters

Cumulative Units Sold

- 2013 October
- 2014 January
- 2014 April
- 2014 July
- 2014 October
- 2015 January
- 2015 April
- 2015 July
- 2015 October
- 2016 January
- 2016 April
- 2016 July
- 2016 October
- 2017 January
- 2017 April
- 2017 July
Midstream vs. Downstream; Heat Pump Water Heaters

Cumulative Units Sold

- Midstream
- Downstream

Vermont Energy Investment Corporation
Join the movement....

...Go Midstream
Consumer Mail-in Rebates Are Ineffective

https://vimeo.com/hotwateru/review/233824008/4882132cf3
2017 Instant Rebate Programs

### 2017 Instant Discount Programs – Heat Pump Water Heaters

<table>
<thead>
<tr>
<th>State</th>
<th>Utility</th>
<th>Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>Entergy AR</td>
<td>$300 / unit (50G)</td>
</tr>
<tr>
<td>California</td>
<td>San Diego Gas &amp; Electric</td>
<td>$350 / unit (50G, 66G and 80G)</td>
</tr>
<tr>
<td>Connecticut</td>
<td>Energize CT</td>
<td>$600 / unit (50G, 66G and 80G)</td>
</tr>
<tr>
<td>Florida</td>
<td>Orlando Utilities Commission</td>
<td>$500 / unit (50G, 66G and 80G)</td>
</tr>
<tr>
<td>Idaho</td>
<td>NEEA</td>
<td>$200 / unit (50G)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$300 / unit (66G and 80G)</td>
</tr>
<tr>
<td>Maine</td>
<td>Efficiency Maine</td>
<td>$600 / unit (50G, 66G and 80G)</td>
</tr>
<tr>
<td>Montana</td>
<td>NEEA</td>
<td>$200 / unit (50G)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$300 / unit (66G and 80G)</td>
</tr>
<tr>
<td>Ohio</td>
<td>First Energy Ohio</td>
<td>$250 / unit (50G, 66G and 80G)</td>
</tr>
<tr>
<td>Oregon</td>
<td>NEEA</td>
<td>$200 / unit (50G)</td>
</tr>
<tr>
<td></td>
<td>Energy Trust of Oregon</td>
<td>$300 / unit (66G and 80G)</td>
</tr>
<tr>
<td>Vermont</td>
<td>Efficiency VT</td>
<td>$500 / unit (50G, 66G and 80G)</td>
</tr>
<tr>
<td>Washington</td>
<td>NEEA</td>
<td>$200 / unit (50G)</td>
</tr>
<tr>
<td></td>
<td>Puget Sound Energy</td>
<td>$800 / unit (50G, 66G and 80G)</td>
</tr>
</tbody>
</table>
Instant Rebate Lift

A.O. Smith Heat Pump Water Heaters Shipments at Wholesale

Northwest Shipments

Northeast Shipments
Program Support

Selling Tools

Contractor Incentives

Product Training

Consumer Advertising

www.hotwater.com/utility-programs/
Midstream at Lowe’s

Instant Rebate in Store - POP

Get instant cool.
Up to a $300 instant rebate is waiting for you at the cash register, when you buy a qualifying evaporative cooler today!

Pre-qualification of Utility customer

Barcode scanned in-store or coupon code entered online

Instant Rebate on Lowes.com

AO Smith
Q & A Session Today

• Members of the TAG are here on the panel today to answer your questions about midstream programs!

• Contact ENERGY STAR at midstreamdistributor@energystar.gov if interested in learning more!
Speaker Contact Information

• Stacy Glatting, US EPA
  glatting.stacy@epa.gov, 202-343-9138

• Jesus Pernia – Eversource Energy
  jesus.pernia@eversource.com, 860-665-5331

• Jen Ryan, Winsupply of Shelton, Shelton CT
  jlryan@winsupplyinc.com, 203-984-6592

• Howard Merson, Vermont Energy Investment Corporation
  hmerson@veic.org, 802-540-7821

• Jake Marin, Efficiency Vermont
  jmarin@veic.org, 802-540-7700

• Francois Lebrasseur, A. O. Smith
  fglebrasseur@hotwater.com, 615-339-3707