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Working the Utility/Contractor Connection

By Gregory Thomas

Moving into increasing deregulation of utilities, home performance specialists and utility companies alike wonder what their role in the new market will be. Gregory Thomas, former president of Affordable Comfort, Incorporated, takes a look at one pilot project, a joint effort between a home performance contractor and a utility, that both parties feel was a success. Now the utility has expanded the program across its entire service area where it is slowly gaining acceptance from homeowners and other contractors. Both the utility and the contractor attribute recent success to improved marketing and sales skills among contractors and increased efforts to educate the consumer.

Public and investor-owned utilities across the United States are taking a hard look at their costs as they prepare for deregulation and the threat of price competition. At the same time, utilities are looking for ways to offer new services that will encourage their customers to continue buying energy from the utility in what could soon be an open marketplace. Marketing partnerships with home performance contractors offer utilities a unique



During field training, Joe Kuonen shows contractors discolored attic insulation, an indication of unwanted airflow.



opportunity both to increase customer service and to reduce costs.

For home performance contractors struggling to promote their services, the newly competitive utilities can be a valuable partner in marketing, sales, and public education. When big business and small business mix, however, both have some adjusting to do when it comes to business practices.

Niagara Mohawk Power Corporation (NiMo) in Syracuse, New York, is an investor-owned gas and electric utility that faced the end of its state-mandated residential energy audit service during the summer of 1995. The legislation requiring the audit service was expiring, and out of a desire to reduce costs and prepare for competition, utility management was not pushing for the renewal of the program. But NiMo, with a long-standing reputation for concern over energy conservation measures, recognized that its customers had come to expect this service. The utility was making a serious effort to create a transition away from the subsidized program.

The utility's initial plan was to draft a list of local insulation or HVAC contractors who performed energy audits as part of their standard services. Their efforts to find these contractors were not very successful. Because NiMo had offered the energy audit for free under the government mandate, contractors had been strongly discouraged from developing any business based on charging for an energy audit. After several days of phone calls that turned up no contractors who performed energy audits, the utility happened upon Syracuse-based Integrated Energy Systems (IES), one of the few building performance contractors in the area that uses energy diagnostic tools as part of its standard practice.

Joe Kuonen of Mid-America Building Science Institute uses a digital manometer and CO monitor to check the draft on a furnace. During training classes, contractors are instructed in the procedures used in every standard Niagara Mohawk audit, so that each of their audits will conform to the utility's guidelines.



Contractors during Niagara Mohawk's Energy Performance Training get a house-wide tour of the areas they'll need to examine to qualify as participants in the Complete Home Check Up and Treatment program.

Lessons Learned

During the course of this program, Niagara Mohawk and Integrated Energy Systems have learned a great deal about how to attract customers and sell them a home performance improvement.

Marketing. Personal contact and visual information seem to be the keys to introducing the home performance concept. Home shows and home improvement stores are good places to contact customers directly. Contractors can use connections with the utility to establish the credibility necessary to make presentations to local groups. Neighbors in a development tend to have the same problems and can be targeted with a mailing. Selling points for home performance contracting can be improved comfort, lower utility bills, and health and safety.

Initial Customer Contact. Customers who call in response to marketing material or other information almost always sign up for an inspection. IES also uses the program to increase its credibility with customers who contact the

Putting a Strategy Together

IES president Al DeDominicis met with Pam Ingersoll and Marguarite Towne of NiMo to consider low-cost ways the utility could help home performance contractors differentiate their work from the more typical insulation and HVAC contractors. DeDominicis even offered to pay NiMo for leads on clients who were concerned about improving the energy efficiency of their home. In a budget-conscious, income-seeking utility environment, this was the right kind of message to send--home energy performance has market potential even without a government mandate.

IES proposed a pilot project that would test the viability of partnerships between the utility and home performance contractors to provide customers with diagnostic inspections and home improvements. IES would perform the audits, charging the customer a fee, and NiMo would provide marketing support through some targeted mailings and referrals from their customer service center. In the proposal, IES stated it would offer home performance audits to NiMo customers at two levels of service--a home performance survey and report would be offered for \$35 and an Advanced Analysis that provided energy savings calculations (using energy rating software) in addition to the report would be offered for \$75.

The prices, though below IES's costs, were set with the explicit intention that the reduced price would make the service attractive to more customers, and IES would derive its primary financial benefit from the follow-up sales of installation services. The idea of the pilot was to test the effectiveness of various approaches to offering home performance audits to NiMo customers. Effectiveness would be measured by customer satisfaction and by the number of customers implementing improvements. (See ["Will Customers Pay](#)

company without any previous exposure to the Home Performance Service.

Inspection. Contractors can demonstrate problems to the customer using diagnostic tools. Problems with backdrafting, carbon monoxide, and inadequate combustion air are common motivators. Inadequate and isolated cold air returns can really affect comfort and system performance. Software for heat loss/gain calculation and size replacement duct work allows contractors to show results to the customer. Another convincing technique is to show the customer how moisture transport and heat transfer are causing rot and ice dams.

Sales. An energy auditor does not turn into a salesperson without getting some sales training. Communication skills are as important as technical skills. Remember to package improvements in such a way that people won't pick apart an interrelated set of treatments. Whole-system treatments work better when the customer doesn't treat a prescription like a menu.



In addition to in-house training on audit techniques, the Energy Performance Training provides classroom time on such topics as HERS rating software, the house as a system, and basic approaches to air sealing, testing problems, and diagnostic tools.

for Residential Energy Efficiency Services?")

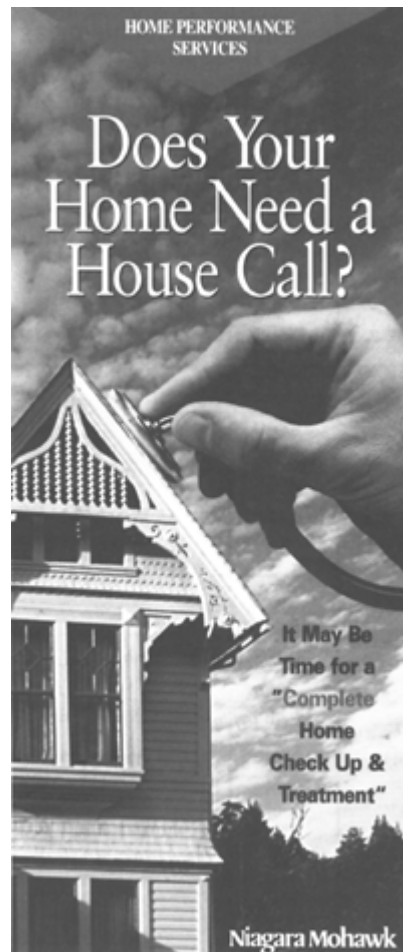
Defining Pilot Project Requirements

The proposed home performance service would consist of an inspection, a report, and optional construction services.

The inspection itself would consist of a safety and efficiency check of the heating system (carbon monoxide (CO) and backdraft), a safety check of the hot water equipment (CO and backdraft), a blower-door test of building air-leakage rates, a duct diagnosis to identify air leakages and imbalances, identification of air leakage sites and connections between building components using a digital manometer, a relative humidity test, and identification of existing insulation levels. IES would also perform a fuel consumption evaluation and a customer consultation to identify occupant problems and concerns.

Upon completion of the inspection, IES would provide the customer with a report describing the test results and recommending improvements. NiMo asked IES to include written recommendations for increasing comfort and improving the durability of the structure, and to address issues such as indoor air quality and reduced water and energy consumption. The utility also wanted other items like the results of furnace efficiency and safety tests to be included.

IES would give customers a proposal describing the scope of the work, the costs, and the estimated energy savings and payback period. If the customer opted to have the work done, IES had to comply with NiMo's standards, and submit to random inspection of its work by the utility. NiMo's role in the pilot program would be primarily providing marketing support and inspecting the



This brochure is an example of the marketing material Niagara Mohawk is using to promote the Home Performance Service program.

final work.

After the pilot project concluded, if the results were deemed successful by both parties, these parameters would apply to the full program rolled out across NiMo's service area.

Benefits of Partnership

The pilot "Home Performance Service" project provided a low-cost replacement for the free energy audits NiMo had once offered, which was a major customer service benefit for the utility. The budget for energy audits had been over \$3 million dollars per year during the prime years of the program. In later years, the annual budget had shrunk to roughly \$700,000, with \$70,000 spent during the last six months closing out the program. Since the cost of the new pilot program was almost entirely marketing, the cooperative effort with IES could offer a replacement at lower cost. Pam Ingersoll of NiMo says this is one of the more valuable aspects of the program. "It makes it so that the service is market driven," she says. "And no cost to the utility."

The only costs NiMo incurred were derived from marketing and education efforts to generate interest from their customers. IES and the utility shared the development costs of the program--another advantage for the budget-conscious utility.

Lighting the Pilot

After four months of careful consideration of the risks and benefits, NiMo contacted IES and confirmed the go-ahead on the pilot project. In order to try to catch the seasonal customers during the remainder of the heating season, IES and NiMo staff went into high gear. NiMo staff quickly developed protocol for the utility's customer service staff to use in making referrals to the pilot project. The utility circulated an internal memo describing the program to NiMo employees and sent out a letter to selected zip codes offering the home performance surveys. They created a booth for home shows and held up their end of the partnership by committing to further training and developing marketing materials. The utility also established a protocol for performing random inspections of contractors' work.

The home show booth and the targeted mailings were the most effective in generating leads that turned into installations. Pam Ingersoll of NiMo observed, "We felt leads from the home show were higher quality leads because the visual experience of the blower door piqued

[homeowners'] interest."

If interest was piqued by the home show display, the inexpensive \$35 price tag was a significant factor encouraging homeowners to purchase the survey IES offered. But many of these people were interested only in *learning* about the energy efficiency of their home, not in actually making the repairs and completing the retrofit. Ingersoll says that when the price of the basic survey began increasing, first to \$50, then to \$75, the program attracted a different kind of clientele. "We were getting the more serious homeowners," she said. "Owners who really wanted to treat the home."

A total of 87 home performance surveys were done in the pilot and 11 of these resulted in installations over the next six months. Months later, customers who received home performance surveys under the pilot continued to trickle in, asking to have the recommended work done. Marguarite Towne of NiMo says that customers who had their surveys done in the spring were likely to wait on completing the retrofit until the beginning of the new heating season. Although sales started off slowly, the sales percentage increased as the program went on, the price went up, and IES became more competent at delivering an effective sales pitch.

Ingersoll says that salesmanship played no small role in the 12.5% success rate IES had with selling the program. "IES is very proactive," she said. "They've seen that it can work. Some other contractors just don't have the sales skills."

NiMo surveyed roughly one-third of the customers who took part in the pilot project. Seventy-five percent of households contacted rated the inspection service and the report at least nine out of a possible ten (very satisfied) and said they would recommend the service to their friends and neighbors.

The survey taker concluded: "Many customers were happy that NiMo referred them to the contractor. They were also glad to see that NiMo was checking up on the contractor through the survey. Even though Niagara Mohawk is not performing the service themselves and it is now costing the customers money, they [customers] are finding value in the service and recognize that Niagara Mohawk supports the Home Performance Service. They see Niagara Mohawk almost as a regulator of the service and they seem very satisfied."

Program Expansion

After deciding that the results of the pilot program were positive, NiMo expanded the program to offer the Home Performance Service across their entire customer base of more than 1.4 million households.

Ingersoll and Towne developed a contractor Request for Qualifications (RFQ). This document contained information on the basic program requirements as well as NiMo's typical contractual requirements for home improvement subcontractors. Contractors were required to submit what the utility staff considered to be a minimum level of documentation of relevant experience and a sample report and inspection procedure.

The contracting organizations were not used to this kind of contractual document and in general found the RFQ process overwhelming; many didn't do reports and so did not have a sample one on hand. Of over 110 RFQs sent out, only seven contractors went through the process and were approved. One additional heating contractor who wanted to participate had considerable

training in heating and home health issues but no experience with blower doors or pressure diagnostics. He was referred to a variety of potential training sources. From the utility perspective, Ingersoll says, "The RFQ process made sure that we were getting the contractors who knew what they were doing."

After the initial RFQ process, NiMo sponsored a training session and brought in a specialist, Joe Kuonen of the Mid-America Building Science Institute. The two-day training was designed to introduce the Home Performance Service program, provide a refresher for qualified contractors, and act as an introduction for contractors interested in qualifying for the program. More than 50 people paid a nominal fee for the training. This considerably reduced the utility's cost of bringing in the trainer.

The training also emphasized that the Home Performance Service program was designed to help differentiate diagnostics contractors from other types of general contractors and increase their credibility with customers. After NiMo explained the utility installation inspection procedure, there was a pause. One of the contractors stepped into the gap and asked, "Does this mean we can tell customers our work is inspected by the utility?" When NiMo responded with a big affirmative, there was a surge of interest.

Now a full year after completing the pilot project and launching the program across their whole service area, NiMo has developed new marketing efforts. These include a video for customers; more home shows, press releases and public TV spots; a package of financing products including mortgages and loans for equipment and insulation; training of real estate agents and bankers on energy efficient mortgage financing; and recruitment of other marketing partners, such as insulation, HVAC, or finance companies to help support the program. Towne says NiMo is in the process of training its customer service agents to explain the program to customers who call in to the service center with high bill complaints. These customers may be more interested than others in improving the energy efficiency of their home.

One of the recent achievements has been getting approval from HUD to allow contractors in the Home Performance Service program to perform ratings and installations for energy-efficient mortgages (EEMs) on a pilot basis. The involvement of the utility and the utility's strong requirement for demonstrated contractor technical expertise were important for obtaining this approval. Giving contractors the opportunity to make recommendations and profit from the installation is certain to increase their interest in promoting EEMs. The first Home Performance Service EEM was recently approved by a lender.

As the Home Performance Service program continues to grow in NiMo's service area, the results have been deemed so positive that the utility is offering a proposal to have the program expanded across all of New York State. Towne says this will get more bankers, contractors, and realtors interested in and promoting home performance.

A Future for the Market

Market development is a big job, and somebody has to do it. When utilities are being deregulated, and governments are reducing their budget and cutting regulations, contractors can help stimulate the market to create opportunities that will support long-term business growth. This program provides an example of the synergy of marketing partnerships. Governments and utilities can support that synergy by finding high-quality home performance contractors and listening to their marketing needs.

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