Swimming Upstream: When DSM Programs Can Benefit from Upstream Incentives

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Paying incentives to manufacturers, distributors, or retailers affords energy-efficiency program administrators benefits that downstream rebate programs just can't achieve on their own. Incentives paid "up the stream" help programs adapt to market changes faster, increase the availability of program-eligible measures, and simplify the rebate process.

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When Should Utilities Implement an Upstream Incentive Program?

Melanie Wemple

When utilities pay incentives to manufacturers, distributors, or retailers, they reap benefits that downstream rebate programs just can't provide on their own. Incentives paid "up the stream" help programs adapt to market changes faster, increase the availability of program-eligible measures, simplify the rebate process, and can reduce first costs of measures.

Upstream and midstream programs work best when program administrators can leverage a smaller per-unit incentive compared to what would have been paid downstream. This approach can be particularly cost-effective for measures with small per-unit energy savings, such as some plug loads, and for measures like space cooling equipment, where a downstream incentive would have to be substantially large to influence customer buying behavior. Several conditions can make an upstream program more promising (**Table 1**).

Table 1: Opportune times for pursuing upstream and midstream programs

Although the scenarios aren't mutually exclusive (nor collectively exhaustive), they can serve as a starting place for deeper conversations around the attributes that make a measure suited for upstream delivery channels.

Upstream and midstream programs can work when…	Why?
Downstream incentives must be substantially high to facilitate a sale	Some measures like HVAC equipment or luxury plug loads require a big incentive to affect purchasing behavior. Shifting incentives to upstream partners allows program administrators to reduce the per-unit incentive and leverage a collective sales incentive.
Eligible equipment has small per-unit energy savings	Energy savings from some measures, like DVD players, don't warrant a downstream rebate. But in aggregate, these energy savings can be substantial. Pacific Gas and Electric Co. is piloting a midstream initiative that includes Blu-ray/DVD players because of the potential combined savings.
A channel partner is necessary to promote the stocking, marketing, and sale of high-efficiency equipment	Upstream and midstream programs are particularly effective when the individual receiving an incentive plays a critical role in ensuring its sale.
The measure is "off the shelf"	Upstream and midstream programs are most effective in one-to-one replacement scenarios, where measures don't need additional pieces (like controls) to generate energy savings.
Close relationships with manufacturers are present or can be established	Manufacturers can provide special pricing, targeted marketing and promotion, or additional incentives that can be piggybacked on program administrator incentives. No matter who receives a program-related incentive (retailer, distributor, or manufacturer), opportunities to provide manufacturer discounts should be explored.

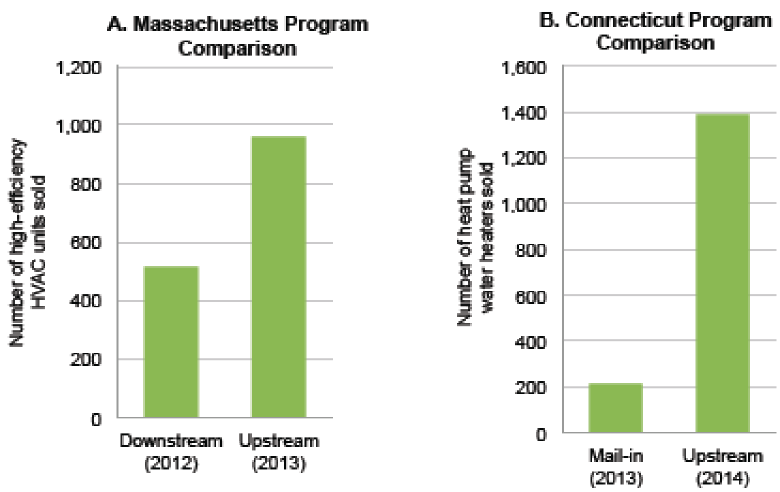
E SOURCE RESEARCH

Do Upstream Programs Really Work?

Massachusetts and Connecticut have used upstream approaches to great success in moving residential and nonresidential HVAC and water heating equipment (**Figure 1**).

FIGURE 1: Program success in Massachusetts and Connecticut

In Massachusetts, upstream HVAC incentives targeted at manufacturers and distributors resulted in an 86 percent increase in equipment sales in the first year of implementation despite a start that was slower than expected (A). In Connecticut, upstream efforts aimed at distributors and retailers yielded a 641 percent increase in the total number of residential heat pump water heaters sold (B).



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