



**SEE Action**  
STATE & LOCAL ENERGY EFFICIENCY ACTION NETWORK

## Impacts of Energy Efficiency Programs on Customer Satisfaction

### Executive Summary

This paper provides data from nationwide utility customer satisfaction surveys and two case studies to encourage utilities to offer and promote high-quality programs and services related to energy efficiency, so that they can reap more of the financial and non-financial benefits of efficiency. The available data consistently indicate that utility customer satisfaction increases as customers become more familiar with efficiency programs offered by the utility, even when the customer does not actually participate in those programs. This paper also strives to encourage policymakers and other stakeholders to recognize and consider these benefits during their review of proposals. Utilities, consumer advocates, and regulators should become familiar with the evidence that energy efficiency programs and services contribute significantly toward higher customer satisfaction. More research on the connections between energy efficiency and customer satisfaction would also be helpful, especially peer-reviewed research or research by consumer advocates.

### Description of the Issue

The desire to improve customer satisfaction can be a significant motivating factor for retail energy providers, whether they operate in a competitive market or as a monopoly utility. Satisfied customers who trust their provider may be more likely to seek advice about energy efficiency, and may be more receptive to important messages regarding safety and other topics. In retail choice markets, satisfied customers are less likely to switch to another provider. In areas served by a monopoly utility, customers who are satisfied with the quality and price of service may be more likely to support (or less likely to oppose) reasonable rate increases proposed by the utility. Similarly, utilities that rate highly on customer satisfaction may find that a reservoir of goodwill leads to less-intensive scrutiny or a more routine level of skepticism in regulatory proceedings than utilities that have a history of customer dissatisfaction. Over the long term, these factors could have an effect on an investor-owned utility's allowed rate of return, especially if the utility is subject to performance-based regulation.

Survey data from the marketing firm J.D. Power and Associates (J.D. Power) suggests a positive correlation between the energy efficiency efforts of gas and electric utilities and customer satisfaction. The most recent example comes from a 2011 study measuring business customer satisfaction with gas utility companies.<sup>1</sup> The study examines six factors: billing and payment; corporate citizenship; price; communications; customer service; and field service. The survey found only 32% of business customers overall were familiar with their gas utility's energy efficiency programs, but those who were familiar were significantly more satisfied with gas prices than those who were not. This one variable, awareness of energy efficiency programs, accounted for a 112 point difference on a 1,000 point scale of overall customer satisfaction.

Additional evidence of this connection can be gleaned from 2010 J.D. Power studies of residential gas and electric utility customers.<sup>2</sup> Residential gas customers were reportedly more satisfied with corporate citizenship than in 2009, "due to improved

### Key Points

- Survey data suggests that energy efficiency programs contribute significantly toward customer satisfaction.
- The desire to improve customer satisfaction can motivate utilities to offer or expand energy efficiency programs.
- Utilities should increase customer awareness of existing energy efficiency programs.
- Utilities can expand energy efficiency programs to increase customer satisfaction.

#### **About SEE Action**

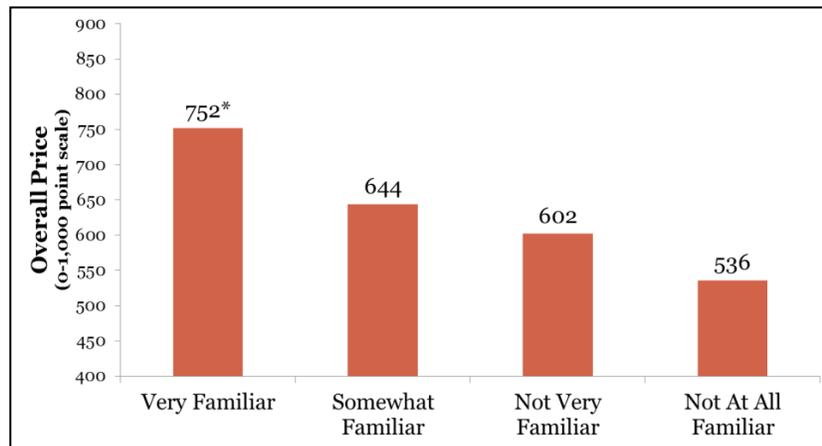
*The State and Local Energy Efficiency Action Network (SEE Action) is a state and local effort facilitated by the federal government that helps states, utilities, and other local stakeholders take energy efficiency to scale and achieve all cost-effective energy efficiency by 2020.*

#### **About the Working Group**

*The working group is comprised of representatives from a diverse set of stakeholders; its members are*

customer perceptions of their gas utility's energy savings programs and concern for the environment." And among residential electric customers, the data suggest that, all else being equal, satisfaction with the overall price of service increases substantially as customers become more familiar with available energy efficiency programs, as shown in the figure below.

Although these results do not specifically explain why customer satisfaction increases with awareness of efficiency programs, the results should come as no surprise. Customers who understand that they have access to tools to help them manage their overall bills would logically be more satisfied than customers who don't know how or where to find help. In a time of increased upward pressure on utility rates, giving people assistance in managing bills through energy efficiency should be an important motivation to regulators and utilities.



**Residential electric customer satisfaction with overall price vs. familiarity with energy efficiency programs**

\* Based on 2010 J.D. Power survey; small sample size in "very familiar" category

## Case Studies

Two very different case studies are presented below. The first case study shows how MidAmerican Energy Company, a utility that rates very highly in surveys of customer satisfaction, views energy efficiency as an integral part of its success. The second case study shows how DTE Energy, a company that did not enjoy similarly high ratings, launched new energy efficiency programs and targeted outreach as part of a successful strategy to improve customer satisfaction.

### Case Study: MidAmerican Energy

MidAmerican Energy Company (MidAmerican) consistently rates near the top of U.S. gas and electric utilities in customer satisfaction, according to J.D. Power and Associates. When analysts at MidAmerican looked at the survey results, they found that customers who were aware of the energy efficiency programs offered by the utility ranked the utility significantly higher on overall corporate citizenship. The utility also found a correlation between how familiar a customer was with their energy efficiency programs, and how highly the customer rated the utility on overall price of service. These effects held true even in cases where the customer was aware of but had not actually participated in energy efficiency programs. These results are especially significant because price and

corporate citizenship are two of the factors that J.D. Power has found to be key drivers of overall customer satisfaction.

MidAmerican analysts also looked at survey data from another marketing firm, Market Strategies International (MSI), and found similar results. MSI mapped out all of the factors that influence satisfaction in the utility's customers, and created a predictive model that allows MidAmerican to see the likely impact changes to one factor will have on all other factors. Some of the primary drivers of customer satisfaction, according to MSI, are electric reliability, customer service reputation, and rates/prices. Here again, MSI found that awareness of (not necessarily participation in) efficiency programs was a statistically significant factor linked to higher scores on a variety of key measures for both residential and commercial customers, including:

**Residential customers.** Higher scores on "value of electric product," "providing reliable restoration estimates," "being well managed," and "taking positive steps to affect climate change" (plus three other key measures).

**Commercial customers.** Higher scores on "reasonableness of electric rates," "showing concern and caring," "being easy to do business with," and "working to control their costs" (plus six other key

measures). MSI also notes in its National Benchmarking Study 2010 that an improvement in customers' perceptions of energy efficiency programs mitigates the negative impact of increasing electric rates on customers' perceptions of price.

Finally, MidAmerican analysts looked at data from TQS Research, Inc., their primary source of key account customer satisfaction performance and benchmarking. This data indicated that the needs of large commercial and industrial customers with regard to energy efficiency are twofold: 1) They expect their utility to give them the latest, best information on ways they can save energy and money, and 2) They expect their utility to be able to provide technical assistance with regard to energy efficiency (evaluating products, advising through the installation process, etc.).

#### Case Study: DTE Energy

In 2008 and 2009, DTE Energy found that it ranked in the third lowest quartile in overall customer satisfaction among a peer group of energy utilities, based on MSI data. Also in 2008, the State of Michigan enacted energy legislation requiring utilities to increase energy efficiency awareness, encourage customers to improve their energy efficiency, and reduce electric and natural gas demand.

In response to its customer satisfaction challenges, the new legislation, and economic hardships in the region, DTE Energy launched a customer satisfaction strategy that focused on improving customers' awareness and usage of energy efficiency measures. The strategy was also supported by DTE Energy's proprietary customer satisfaction model, which showed that having programs to help customers manage their energy bills improved service reputation—a key driver of overall customer satisfaction.

Based on the results of extensive customer research, DTE Energy identified seven customer segments differentiated by energy consumption, household income, and customer attitudes toward energy efficiency, innovation, and lifestyle. The company then developed energy efficiency programs and educational information targeted specifically at certain customer segments. Targeted customers received a number of direct mail and electronic communications aimed at informing them about energy efficiency options, including brochures, interactive postcards, and video postcards. In addition, DTE Energy worked with churches and community leaders to implement a special outreach program for its most economically-challenged customers that involved in-home consultations and assistance.

The results of DTE Energy's strategy are promising. Customers who recalled receiving the targeted

communications were more likely to perceive their electric and gas rates as reasonable, and were also more likely to express satisfaction with the company's efforts to help customers save money on energy bills. For the special low-income program, preliminary research indicates that customer satisfaction increased 11%.

Looking more broadly, the company is convinced that its strategy and communication efforts in 2010 contributed to improved or stable customer satisfaction ratings across all customer groups at a time of increasing rates.

#### Conclusions and Recommendations

The evidence presented above suggests that customer satisfaction improves when consumers are aware of a utility's efficiency programs. The implications of this result have significance for all stakeholders:

- Utilities may want to expand their energy efficiency programs and services in order to increase customer satisfaction.
- Utilities (and where appropriate, regulators) could reap benefits by making more of an effort to increase customer awareness of energy efficiency programs that already exist and communicate the results achieved by those programs.
- Utilities that operate in a performance-based regulatory environment may be especially motivated to expand and promote their efficiency programs.
- Consumer advocates should add "customer satisfaction" to the list of reasons why well-designed energy efficiency programs are an appropriate use of ratepayer dollars.
- Consumer advocates and utility regulators should take note of the evidence that customer satisfaction improves with awareness of a utility's efficiency programs, even among customers who don't actually participate in the programs.
- All stakeholders involved in program design and actual implementation should consider that elements not executed properly (e.g. timely payment of incentives, adequate funding) have the potential to negatively affect customer satisfaction.<sup>3</sup>

More research on the connections between energy efficiency and customer satisfaction would be welcomed. For example, it is not clear from the data released by J.D. Power whether the positive correlation between customer satisfaction and energy efficiency program familiarity holds true when efficiency programs are not administered by the utility, but rather by a third

party. Peer reviewed research, or research by consumer advocates, could also be an especially helpful addition

to the proprietary survey data summarized in this issue paper.

While there is no objective reason to question the survey results reported by marketing research firms, it might be helpful to reinforce this evidence with research that looks at other ways of assessing customer satisfaction, such as call center complaints, positive/negative press coverage, or public comments filed in regulatory proceedings.

In addition, there appears to be little or no available research examining whether the relationship between customer satisfaction and energy efficiency is reciprocal or involves a positive feedback loop. In others words, is it possible that satisfied customers are more receptive to participation in efficiency programs, which might in turn make them even more satisfied? Research on this question could be useful in the context of market potential studies as well as targeted marketing of programs.

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**References**

<sup>1</sup> J.D. Power and Associates. 2011 Gas Utility Business Customer Satisfaction Study<sup>SM</sup>.

<sup>2</sup> J.D. Power and Associates. 2010 Gas Utility Residential Customer Satisfaction Study<sup>SM</sup>; 2010 Electric Utility Residential Customer Satisfaction Study<sup>SM</sup>.

<sup>3</sup> A word of caution may be in order. Hypothetically, a utility might, at least in the short term, reap the benefits of improved customer satisfaction solely by raising awareness of energy efficiency programs and services—even if those programs and services are underfunded, ineffective, or not available to all customers.

Encouraging such an approach is not the intention of this paper.

**Disclaimer:**

The Driving Ratepayer-Funded Efficiency through Regulatory Policies Working Group of the State and Local Energy Efficiency Action Network (SEE Action) is committed to taking action to increase investment in cost-effective energy efficiency. This document was developed under the guidance of and with input from the working group. The document does not necessarily represent an endorsement by the organizations of Driving Ratepayer-Funded Efficiency through Regulatory Policies Working Group members. However, the working group members do urge consideration of these materials as they believe that the information contained within will promote the deployment of cost-effective energy efficiency.

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