2017 Regional Cold Climate Air Source Heat Pump Market Transformation Workshop

June 27-28 // Andover, MA

Howard Merson
Vermont Energy Investment Corp.
VEIC, Consulting
About VEIC

• Nonprofit; 30 years of reducing economic & environmental costs of energy
• Energy efficiency, renewable energy, & transportation
• Program design, planning & evaluation, policy, advocacy, and research
Examples of VEIC’s Utility Clients
HVACR
Upstream / Midstream
What is an upstream / midstream program?

- Manufacturer
- Manufacturer Rep
- Distributor
- Contractor
- End User
Benefits of Upstream / Midstream

1. Promotes increased availability, sales, & installation of efficient equipment
2. Influences distributor stocking practices
3. Diminishes financial barriers
4. Facilitates market transformation
Participating Manufacturers
Participating Manufacturers

DAIKIN  Carrier  Haier

FUJITSU  MITSUBISHI ELECTRIC  Panasonic

QM POWER

In the future...
Upstream / Midstream Distributors
16 Distributors, 48 Locations
HVACR
Upstream / Midstream Approach
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. Develop SMIT Plans
10. MOA/SA/AMO
VEIC’s Approach to Upstream / Midstream

1. Project planning
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10. PDA / MOU
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Understand Supply Chain’s Profit Model

Return on Net Assets (RONA) =

Net Income

Inventory + Accounts Receivable – Accounts Payable
# Distributors’ Profit Model

<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>
<tr>
<td>Decrease inventory investment &amp; increase turnover</td>
<td>• Collaborative sales &amp; marketing</td>
</tr>
<tr>
<td></td>
<td>• Intensive product &amp; program training</td>
</tr>
<tr>
<td></td>
<td>• Incentives increase market demand</td>
</tr>
<tr>
<td>Accounts Receivable (AR)</td>
<td>• Avg. AR collection 50 - 55 days; Target &lt; 35 days</td>
</tr>
<tr>
<td>Accounts Payable (AP)</td>
<td>• Avg. AP terms 30 - 35 days; Target: 45 - 240 days</td>
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</table>
# Distributor Value Proposition - HPCP

A strategic partnership

<table>
<thead>
<tr>
<th>Factor</th>
<th>Standard pump</th>
<th>HPCP pump</th>
<th>Variance</th>
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<tr>
<td>Resale from distributor to customer</td>
<td>$65</td>
<td>$165</td>
<td>$100</td>
</tr>
<tr>
<td>Distributor cost (estimate)</td>
<td>$52</td>
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</tr>
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<td></td>
<td>$100</td>
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</tr>
<tr>
<td>Resale value, with $100 incentive to distributor’s customer</td>
<td>$65</td>
<td>$65</td>
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</table>
## Distributor Value Proposition – Supply Chain

### High Performance Circulator Pumps - strategic partnership

<table>
<thead>
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<td></td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td>Resale value, with $100 incentive to distributor’s customer</td>
<td>$65</td>
<td>$65</td>
<td></td>
</tr>
<tr>
<td>Gross profit per circulator pump</td>
<td>$13</td>
<td>$44.75</td>
<td>$31.75</td>
</tr>
<tr>
<td>Gross margin per circulator pump</td>
<td>20%</td>
<td>27%</td>
<td></td>
</tr>
<tr>
<td>Gross profit generated from 10,000 units / year</td>
<td>$130,000</td>
<td>$447,500</td>
<td>$317,500</td>
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<td>$13</td>
<td>$44.75</td>
<td>$31.75 / $13</td>
</tr>
<tr>
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<td>20%</td>
<td>27%</td>
<td>244%</td>
</tr>
<tr>
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<td>$130,000</td>
<td>$447,500</td>
<td>$317,500</td>
</tr>
</tbody>
</table>
## Distributor Value Proposition - HPWH

<table>
<thead>
<tr>
<th></th>
<th>Electric Resistance</th>
<th>HPWH</th>
<th>Variance</th>
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<tbody>
<tr>
<td>Resale from distributor to customer</td>
<td>$458</td>
<td>$1054</td>
<td>$596</td>
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<tr>
<td>Distributor cost (estimate)</td>
<td>$376</td>
<td>$850</td>
<td>$474</td>
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<tr>
<td>Gross profit per water heater</td>
<td>$82</td>
<td>$204</td>
<td>$122</td>
</tr>
<tr>
<td>Gross profit generated from 17,000 units / year</td>
<td>$1,394,000</td>
<td>$3,468,000</td>
<td>$2,074,000</td>
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</tbody>
</table>

HPWH increase distributor value **150%**
VEIC’s Approach to Upstream / Midstream

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TARGET: Use Supply Chain Approach

Manufacturers / Manufacturer Reps

Distributors
Leverage Supply Chain Approach to Recruit & Train Installers
Understanding the Distributor landscape

Current Regional Distributor Database:
55 Companies, 270 Branch locations

<table>
<thead>
<tr>
<th>Tier</th>
<th>% of Companies</th>
<th>% of Total Branch Locations</th>
<th>Branches</th>
<th>Cumulative</th>
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<tbody>
<tr>
<td>Top 4</td>
<td>7%</td>
<td>55%</td>
<td>148</td>
<td>148 (55%)</td>
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<tr>
<td>Next 5</td>
<td>9%</td>
<td>19%</td>
<td>50</td>
<td>198 (74%)</td>
</tr>
<tr>
<td>Next 9</td>
<td>16%</td>
<td>11%</td>
<td>30</td>
<td>228 (85%)</td>
</tr>
<tr>
<td>Next 37</td>
<td>67%</td>
<td>15%</td>
<td>42</td>
<td>270 (100%)</td>
</tr>
</tbody>
</table>
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Optimize the Collection of Transactional Data
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## HVACR Upstream / Midstream Incentives & Fees

<table>
<thead>
<tr>
<th>Upstream program</th>
<th>Current incentive / unit</th>
<th>Current administration / management fee / unit</th>
<th>Comments</th>
</tr>
</thead>
</table>
| ccASHP           | $600 single zone $800 multi-zone | $50                                           | • Complex sale  
|                  |                          |                                               | • Inventory investment  
|                  |                          |                                               | • Aggressive fee |
| HPWH             | $600                     | $65                                           | • Sales under duress (95%)  
|                  |                          |                                               | • Small window of upsell opportunity  
|                  |                          |                                               | • Aggressive incentive & fee |
| HPCP             | $50 $200 $600            | $3 $3 $50                                     | • Tiered fee: $ / MWh |
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SMIT: Sales, Marketing, Inventory & Training

- Internal / external stakeholder planning meetings
- RFI (Request for information) to suppliers
- Suppliers: Develop & present SMIT plan
- SMIT strategy planning sessions
SMIT Supply Chain Feedback

“The most comprehensive program for impacting the marketplace. We are proud to be asked to be a partner.”
– Distributor, VP-Residential Sales

“VEIC team, I want to thank you all for a great meeting and looking forward to working with you. Thank you again for your time and information shared.”
– Manufacturer, Division Sales Manager

“We, as manufacturers, look to you for guidance in what equipment to develop and bring to market. Efficiency Vermont is really a national leader on this.”
– Manufacturer, Regional Sales Manager
SMIT Examples
SMIT Marketing Efforts

Customer facing marketing materials of rebate offer

Post-sale communications reinforce customer value
Heat Pumps

A cold climate heat pump can lower your heating costs considerably and double as a cooling system in the summer.

Heat pumps draw heat from the environment and move it indoors to heat your home, or move it outdoors to cool your home. They can also move heat to warm up water and even make it cold enough to switch to air conditioning instead of fuel.
SMIT Marketing Efforts

In-store displays at distributors & marketing materials for contractors

Messaging to communicates additional offerings

For Building Systems Distributor Customers

Here’s a partial list of Building System Products with In-Store Discounts available up to $800:
- Cold Climate Heat Pumps
- Efficient Evaporator Fan Motors
- Heat Pump Water Heaters
- High-Performance Circulator Pumps

To receive an in-store discount, provide the following information at the time of purchase:
Customer Name | Installation Address | Water Heating Fuel

Here’s a partial list of Building System Products with Post-Purchase Rebates available:
- Ventilation & Furnace Fans
- Variable Frequency Drives & Motors
- Furnaces & Boilers
Joint Marketing Efforts

**Challenge:** Communicate end-user benefits of upstream / midstream programs to contractors & customers

**Solution:** Visual materials

![Box sticker example]
Upstream / Midstream Website

Participating Distributors
QPLs
Cold Climate Heat Pump Program
Participating Distributors
Effective 1/21/2014; Updated 7/4/2017

This list will be continuously updated with additional distributors and heat pump manufacturers as they join the program. Please check back for updates.

<table>
<thead>
<tr>
<th>Distributor Name</th>
<th>City</th>
<th>Phone</th>
<th>CCHP Manufacturer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Purchases</td>
<td>South Burlington</td>
<td>802-780-0900</td>
<td>Fujitsu</td>
</tr>
<tr>
<td><a href="http://www.airpurchases.com">www.airpurchases.com</a></td>
<td></td>
<td></td>
<td><a href="http://www.fujitsuenergy.com">www.fujitsuenergy.com</a></td>
</tr>
<tr>
<td>Bell Simons Companies</td>
<td>South Burlington</td>
<td>802-862-8705</td>
<td>Mitsubishi</td>
</tr>
<tr>
<td><a href="http://www.bellsimons.com">www.bellsimons.com</a></td>
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<td><a href="http://www.mitsubishicomfort.com">www.mitsubishicomfort.com</a></td>
</tr>
<tr>
<td>Blodgett Supply</td>
<td>Montpelier</td>
<td>802-229-5105</td>
<td>Fujitsu</td>
</tr>
<tr>
<td><a href="http://www.blodgettsupply.com">www.blodgettsupply.com</a></td>
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<td><a href="http://www.fujitsuenergy.com">www.fujitsuenergy.com</a></td>
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<tr>
<td>Blodgett Supply</td>
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<td>802-334-0151</td>
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<tr>
<td>Rutland</td>
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<td>802-295-3148</td>
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<tr>
<td>Central Supply</td>
<td>Williston</td>
<td>802-864-9831</td>
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<tr>
<td><a href="http://www.plumberssupplyco.com">www.plumberssupplyco.com</a></td>
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<td>Keene, NH</td>
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<td>Lebanon, NH</td>
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<tr>
<td>Granite City Electric</td>
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<td><a href="http://www.granitecityelectric.com">www.granitecityelectric.com</a></td>
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<tr>
<td>Brattleboro</td>
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<td>Barre</td>
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</tr>
<tr>
<td>Buxton</td>
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</tr>
</tbody>
</table>

Participating Manufacturers:

- Carrier
  - www.carrier.com
- Daikin
  - www.daikin.com
- Fujitsu
  - www.fujitsuenergy.com
- Haier
  - www.haier.com
- Mitsubishi Electric
  - www.mitsubishicomfort.com
- Panasonic
  - www.panasonic.com

For more information, visit: www. efficiencyvermont.com/cchppartners
<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Unit Type</th>
<th>Model Name</th>
<th>Capacity (Btu/h)</th>
<th>HSF</th>
<th>EER</th>
<th>SEER</th>
<th>Distributor(s)</th>
<th>Product Incentive</th>
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<tr>
<td><strong>Carrier</strong></td>
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<td></td>
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<td><strong>Hater</strong></td>
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<td></td>
<td>18,000</td>
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<td>12.0</td>
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<td>All Purchases</td>
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<td>12.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Participating Distributors:**
- [Central Supply](https://www.centralsupply.com)
- [Blodgett Supply](https://www.blodgett-supply.com)
- [Romax](https://www.romax.com)
- [Murphy Supply](https://www.murphy-supply.com)
HVACR
Upstream / Midstream Results
Consolidated Results from Participating Vermont Distributors of High-Performance Circulator Pumps

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

HPCP as a % of CP Sales
Upstream / Midstream vs. Downstream; Heat Pump Water Heaters

Units Sold

- Downstream Cumulative

Oct-13 to Dec
Upstream / Midstream vs. Downstream; Heat Pump Water Heaters

Units Sold

- **Upstream Cumulative**
- **Downstream Cumulative**

Vermont Energy Investment Corporation
Consolidated HPWH Participating Vermont Distributors’ Results

4,386 TOTAL Units
Jun '14 - Dec '16
Impact of the Upstream / Midstream Program in 2016

<table>
<thead>
<tr>
<th></th>
<th>HPCP</th>
<th>HPWH</th>
<th>ccASHP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in Sales</td>
<td>8,550%</td>
<td>750%</td>
<td>+90%</td>
</tr>
</tbody>
</table>
1) Business model
2) Front loaded
3) Strategic partnerships
4) Supply chain management
The National Distributed Products Platform (NDPP)
Objectives for NDPP

• Shorten timeline and reduce complexity for utility programs nationwide to launch
• Enable utility programs to accelerate product sales based on a proven upstream / midstream approach
  • Utilities
• Substantially increase sales of efficient products included in the Platform
  • Manufacturers, reps, distributors, & contractors
• Save energy and transform the market
  • VEIC
Standardized Tools and Processes

• A common set of tools, systems, & specifications for high-efficiency, distributed product technologies
  • Cold Climate Air Source Heat Pumps
  • Heat Pump Water Heaters
  • Unitary Pump Systems
  • Other technologies in the future

• Formal agreements w/ manufacturers, reps, distributors, and national & regional buying groups

• Proven approach to map the supply chain in a service territory
VEICs Vision for Growth of NDPP

2016: Launch
- Secure founding sponsors
- Introduce to utilities

2017: Grow
- Secure 5-10 utilities

2018: Grow
- Add 5-10 more utilities
- Add new technologies

2019: Sustain
- Add 5-10 more utilities
- Add new technologies

2020: Sustain
- Add 5-10 more utilities

18-month start-up phase
NDPP 2017

• **New York State Energy Research and Development Authority (NYSERDA)**
  - New York ccASHP Upstream / Midstream Initiative
  - Sales & marketing of residential cold-climate high efficiency heat pumps in Con Edison service territory (i.e. NYC & Westchester County, NY)
  - 2000 Units with initial Pilot

• **NEEA (NW Energy Efficiency Alliance)**
  - ID, MT, OR, WA
    - 13.5 Million Population
    - 150 Utility Clients
  - GOAL: Grow from 6000 to 17,000 HPWH Annual Units
    - US Market = ~60,000

• **EPA ENERGY STAR** Products
Regional Heat Pump Market Transformation Initiative

Starts with **CONSISTENCY**, including:

- Program eligibility requirements:
  - ccASHP criteria
  - Quality installs
  - Contractor training requirements
- Upstream / Midstream incentive approach:
  - Instant discount through participating distributors
  - Best practice incentive design
- **Inventory**: Consistent terms to elevate supply & increase turns;
- Accounts receivables & accounts payables
  - Incentive payment timeline
- **Supply Chain engagement**:
  - Sales, Marketing, Inventory, Training (SMIT) approach
  - Streamlined communications w/ manufacturers, manufacturer reps, and Northeast Distributors
Regional Heat Pump Market Transformation Initiative

Next Steps

1. VEIC: proposing to develop a regional initiative in collaboration w/ NEEP
2. Leverage VEICs SMIT approach
3. Supply Chain engagement
   • Manufacturers / Manufacturer Representatives
   • Distributors
4. Explore funding options through ‘18 programs
5. We can work w/ existing program implementers as needed
6. By working together, we can achieve economies of scale & increase our impact
7. Utilities & programs that are interested in a regional initiative should contact Dave Lis or Howard Merson
Thank you!

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QUESTIONS?