PRINCIPLES OF GOOD HVACR INCENTIVE PROGRAM DESIGN

Preamble

While the HVACR industry in Canada generally accepts the need for regulation in the marketplace, for reasons of safety, consumer protection, worker well-being, product performance and other matters, the industry has a more ambivalent view when it comes to governments or utilities seeking to influence consumer choice through incentives.

Well-designed incentive programs can be very effective in transforming the marketplace and moving end users to make product choices that are deemed to be in the public interest (e.g. more energy-efficient or lower in carbon emissions). On the other hand, poorly designed programs can have quite detrimental effects on market participants, while at the same time failing to meet program objectives.

One conclusion that has become increasingly apparent over the past several decades is that programs affecting consumer choices of HVACR products inevitably perform better and yield great benefits when industry leaders are involved in the program design stages.

For the HVACR industry, the principles identified below should always be taken into consideration during the early stages of rebate program design.

Five Key Principles

1. Advance Knowledge for Planning Purposes

Far too often, program funders announce new programs, or new measures within existing programs, with little or no advance warning to industry participants. The result is that the very partners that are expected to

deliver results for consumers are caught unaware, which can create the following problems (among others):

a. Manufacturers and distributors not having sufficient time to build inventories with the right mix of products. This problem is made worse during times of tight supply, when six months or more might be required to place orders.

b. Contractors need time to ensure they have the staffing in place to meet new demands stimulated by incentive programs.

c. Contractors need time to prepare for engaging with customers who may be motivated to act on new incentives. Contractors who are not aware of new offerings in advance of their introduction risk embarrassment and/or reputational damage if they are unable to answer questions or speak to the detail of these offers.

2. The Importance of Technician Competence/Certification

For the HVACR industry, incentive programs should always include provisions to ensure that installations are undertaken by appropriately qualified technicians, who are duly certified to do the work. Almost every province in Canada has regulatory requirements for licensed trades around specified scopes of work. The installation of HVACR equipment is within the scope of several trades which, depending on the specific product type or application, might include the Refrigeration and Air Conditioning trade, Gas Technician, Plumber, Sheet Metal Worker and/or Electrician.

It is also true, however, that in most provinces, effective enforcement of these certifications in the residential retrofit field is a significant challenge for regulators, and therefore, much of the work is done (knowingly in some cases, unknowingly in others) by unqualified, or under-qualified, workers.

Incentive programs can be a very powerful tool for ensuring that installations are done by qualified personnel. Publicly sourced incentive

dollars should not flow to consumers unless there is proof that the work was done by a certified professional. Where these conditions apply, contractors are motivated to invest in personnel training and certification, as there are financial consequences for not doing so.

The practice of tying incentives to qualified installations not only provides protection for end users, but also for funders who want to ensure that their programs achieve the desired goals. It is well known that HVAC systems are more likely to operate at optimal efficiency and meet performance expectations when they are professionally installed.

Programs that make incentives conditional on professional installation also serve the marketplace by crowding out bad actors and by providing an incentive for otherwise-reluctant industry participants to invest in technician training and competence.

3. *Industry Must be at the Table at the Critical Design Stage*

It should almost go without saying that programs aimed at shifting the behaviour of end users should reflect the insights and knowledge of the industry players who are responsible for delivering those programs. A few of the benefits are:

a. Because they are engaged with customers daily, HVAC contractors possess unique insights into consumer decision-making processes (e.g. the incentive levels needed to trigger purchase decisions).

b. Manufacturers and wholesalers have expertise on emerging technologies and/or product innovations that might deliver energy savings or other benefits of interest to program designers.

c. Including industry representatives (associations) at the table presents an additional benefit of helping to balance competing claims that might be made by different producers and identifying products that are truly promising.

4. *Program Duration Matters*

While incentive programs by their very nature are meant to be temporary, not permanent, they are often cancelled long before they achieve the stated desire for market transformation (at which time they would no longer be needed). On again/off again programs are not only ineffective in achieving program goals; they can also be significantly disruptive for the HVAC industry, pulling purchase decisions forward in time and causing overheated market activity for some time, only to be followed by lulls in the aftermath. Industry members are far more likely to support programs that are rolled out over a sustained period, ideally more than five years. This creates a more predictable environment in which to make business decisions.

5. *Wherever Possible, Support Choice and Competition in the Market*

HRAI and its members believe that competitive markets deliver better outcomes for end users. Apart from the condition that only *appropriately qualified* contractors should be permitted to participate in incentive programs, the industry supports the principle that, where ratepayer or taxpayer dollars are funding these programs, they should be accessible to all who have an interest in participating.