

## MOTIVATING HOME ENERGY ACTION

### Fact sheet 5 - Offering financial incentives

#### SHOULD I USE A FINANCIAL INCENTIVE?

Money is not always a significant motivator in home energy actions.

#### Householders don't see energy costs

It's often impossible for people to calculate the costs and benefits of an energy action. People over estimate the energy used by visible appliances, such as lights, and underestimate the energy used by invisible appliances, such as hot water services.

#### Expenditure on energy is generally not significant

In Australia in 1993-94, households spent an average of only 2.8 per cent of net household income on fuel and power (excluding vehicle fuel). This is less than the amount spent on alcohol (2.9 per cent). Energy prices are also low in Australia. In this context, households can't be expected to engage in energy saving actions primarily for cost reasons.

#### WHAT ARE THE ESSENTIAL FEATURES OF FINANCIAL INCENTIVE STRATEGIES?

##### Estimate the likely impact of the strategy

Small-scale experiments are better at achieving this goal than survey activities.

##### Know the demographics of your market

Understand the difference between market-driven and retrofit home energy decisions.

##### Use financial incentives as part of a long-term strategy

If a financial incentive strategy is adopted, the strategy should encourage householders to think of themselves as energy savers.

Studies have shown programs administered differently, but offering identical levels of monetary gains, often have very different success rates.

Factors improving the success of your program include:

##### Promotion

- Householders need frequent reminders about program benefits. They also need to know exactly what they must do to benefit from the program.

##### Simplicity

- Householders respond best to programs that they can easily understand and participate in.

##### Reliability

- A financial incentive program must sell a high quality product. Partners and products recommended must be high quality.

##### Trust

- Face-to-face communication through social networks is an excellent way to enhance program effectiveness.

#### TYPES OF FINANCIAL INFORMATION STRATEGIES

##### Energy rate pricing

Energy rate pricing involves charging different rates for energy usage based on a number of variables. Examples include off-peak and seasonal rates. Energy rate pricing is unlikely to be successful in Australia because:

- energy is relatively cheap, and
- simply increasing energy prices is likely to be socially regressive.

##### Rebates and grants

Rebates are usually more effective than loans because:

- people find rebates easier to understand
- people generally prefer rebates to loans, and
- rebates are easier to administer than loans. Rebate programs can be costly however, and the success of such programs varies widely. They are best used to promote specific types of energy efficient equipment.

A US experiment compared the effectiveness of different types of rebate programs. The rebate was for the 25 per cent most efficient refrigerators. Slightly different rebates were offered in different regions.



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### Fact sheet 5 - Offering a financial incentive (continued)

Program Components	Participation Rate (% of efficient fridge purchases)
None	15%
Information + Advertising	35%
Information + Advertising + US \$35 rebate	40%
Information + Advertising + US \$50 rebate	60%

#### Loans

Loan schemes are often ineffective and are difficult to market. But overseas programs have demonstrated they can be of benefit to householders without the capital to invest in energy efficiency actions.

#### Comprehensive installation programs

Comprehensive installation programs can achieve energy savings of 10 to 15 per cent in participating households. Make it easy for householders to install a package of energy saving measures by including features such as:

- an energy audit
- installing energy efficiency measures, and
- financial assistance (loans or grants).

Comprehensive installation programs can be expensive. To reduce costs:

- include only low-cost, but effective measures in the installations
- use voluntary groups to help reach low-income households
- undertake a comprehensive installation on a demonstration household, and
- offer a comprehensive installation program as a prize.

Effective comprehensive installation programs must:

- offer high-quality comprehensive services that make it easy for customers to participate
- offer readily available financing, and
- market the benefits personally to target householders.

#### WHAT ABOUT RENTAL PROPERTIES?

A US report concluded landlords were only likely to take home energy actions if:

- they felt their existing or future rate of return was under threat, and
- they had access to a service provider they believed would undertake the improvements effectively.

#### HOW DO I EVALUATE MY STRATEGY?

Surveys and in-depth interviews are the best method for measuring the effects of financial incentives and the views of program participants.

**COOL communities** are wise communities

