

# STAY CALM AND RATE REFORM ON

With greater adoption of smart meters and increasing instability, many utilities are turning to rate reform to manage peak loads, engage customers, and create a more responsive grid. ILLUME has supported multiple utilities in the Mid-Atlantic, Midwest, West Coast, and Southeast regions in rate communications strategy, design, and evaluation.

We know this process can be an operational and regulatory nightmare and we understand the night terrors induced by the specter of plummeting J.D. Power scores. Stuck between competing priorities such as kW savings, customer satisfaction, equity, and hardship, our clients often find themselves beginning with a well-designed rate to only see it whittled down to a relatively modest departure from their standard rate structures. In the end, the customer is left with a confusing rate change and little clarity on how the rate will impact them and their families.

To help your customers and your company, we're sharing a few insights that we have gained over the past five years. Most of these are about your customers. But the first is entirely about you:

**Find your why.** Yes, we know this is overused and a touch existential, but it always comes back to this: why are you engaging in rate reform? Is it to teach your customers to respond to changing prices? Is it to alleviate grid constraints? Is it to generate more

benefits for your customers? As leaders, you must turn away from the kitchen sink temptation. You simply can't do it all. But you can innovate around a single objective, communicate it clearly, and create the behavioral levers to meet your goal. And once you write down your why on sticky notes and tack them on every surface (including your bathroom mirror), use these insights as guides when considering strategies:

**Your average residential customer does not know the difference between their electric and gas appliances and often confuse the two. Be specific.**

You have likely heard this time and again, but what are the implications for rate reform? It's pretty simple. The success of an electric company's rate reform is predicated on your customers' ability to identify which pieces of equipment in their home use electricity. However, dual-fuel customers often get it wrong. For this reason, when you are communicating updates, it is not enough to say, "your electricity costs are changing." Customers think in end uses, not in energy, so speak to customers in these terms. Saying "the cost of running your AC is changing" will provide greater clarity to your customers. Along these lines, it is also important to remember:

**Your customers don't care about your infrastructure, your grid, or your changing business demands.**

Customers don't think about the infrastructure needed to power their AC until something goes

wrong; and, if it does, they don't understand how their choices affected stability. You must frame these changes in terms of the benefits to them, such as enabling more household choices in products, appliances, and services, through the benefits of a smarter, more adaptive electric grid.

**Your customers believe that you have control over their costs, not them.** Refrain from using this message, as tempting as it is. Our ethnographic research suggests that customers know they have to work within the limits of your business; so instead, communicate about options, connect them to products and services that will make managing their electricity easier for them. In the end, your customers are looking for more agency within the constraints you place on them. Your customers want you to provide options, not to tell them that they have control.

**Customers do not have time or patience for your education and information campaign.** No, we are not trying to throw out years of great work to keep your customers informed. But there is a fine line between being informative and being pedantic. The truth is, most customers just want you to tell it like it is and provide clear and concise information on how your rate reform will impact their home or business. More importantly, this information must be tailored to their specific home or business and delivered at the right time.

**You need to communicate about rate reform close to the times when customers will see an impact.** Let's take time-of-use rates, specifically. You will waste your money informing customers in the shoulder months about costs and savings they will see in the summer or winter. Use these months to signal that change is coming but be sure to provide specific recommendations and tailored support no more than four to six weeks before you expect major changes in customers' bills.

**Your customers budget month-to-month, but you're asking them to think about annualized costs and savings, so tread carefully.** We all think, budget, and react on a bill-by-bill basis. Even if your customer will save money across the year, they will be judging you and your rate on a month-to-month basis. For this

reason, it is critical that you carefully manage how and when you communicate cost savings to your customers. The timing of your communication is everything.

**Your customers say "money talks," but that thinking sends the wrong message.** It is important to remember that, in most cases, your average customer will not see a huge impact per bill (unless you managed to get aggressive time varying rates through your regulatory process). Over-communicating a weak rate — a rate that has small bill impacts — can have deleterious effects. If you tell your customers to reduce their AC to save money, and they suffer through a sweaty football game only to save five bucks, they are not going to be happy with you. Be real, be specific. Be careful when using cost savings to justify actions; the economics are often "not worth it."

**They may get frustrated, but they will get over it.** Most of your customers will accept a cost increase to their bill if it keeps things easy and comfortable. Keep them happy by continuing to serve as a partner in making their homes more comfortable and providing solutions that take one more thing off their list (like responding to peak windows).

**Remember, you're in it for the long haul.** This is just one of many, many changes that are going to reshape your relationship with your customers. Take advantage by talking to them more, providing better solutions, and ushering them through the shifts that will inevitably face them in the next 5 to 10 years. As you've heard many times, your customers just want cold beers and hot showers.

**Take a breath.** Don't let your anxiety about rate reform cause you to act in a heavy-handed way — take time to make a strategy, and, ideally, test it. Map out a thoughtful communication and product strategy that will engage your customers as co-creators of your evolving business model and your energy future. ■