

# Water Heater Rental Program

**developed and implemented by**

AGL Resources with

American Water Heater Rentals

## Background

When Florida City Gas was acquired by AGL Resources in November, 2004, almost 50% of the utility's 100,000 customers in North and Central Florida rented a water heater or other appliance from the Florida utility. Appliance rental programs have been a mainstay of many gas utilities dating back to the 1940's, but the utility quickly realized that administering such a program was no longer a core competency for the utility. After an extensive review of alternates, the utility chose to sell its appliance rental program portfolio to America's Water Heater Rentals (AWHR). Gary Lakey, Manager, Coastal Region of AGL Resources explains, "AWHR impressed me right away with their depth of program experience. Todd Grzybinski of AWHR and I hit it off personally and we quickly developed a professional relationship built on trust. We both realized that we shared the goal of creating a mutually-beneficial alliance to ease the transition of the rental customers from Florida City Gas to a trusted third-party program administrator."

"Water heater rental make more sense for utility customer than ever due to steeply rising equipment costs, permit fee increases and more complex power venting requirements. "The key customer segments for water heater rentals are not our middle-income customers but rather those on either side: higher income customers and landlords who don't want the hassle of ownership, and lower-income customers who don't have the upfront cash for replacement when their water heater needs replacement," Lakey explains.

The program transition was handled over several months with a coordinated campaign of bill insert announcements leading to dual billing and case-by-case "kid glove" handling of customer inquiries and concerns. Throughout the transition, the utility made it clear to customers and employees alike that it intended to continue to offer appliance rentals through a third-party administrator so that it could be more responsive to customers at a cost-effective monthly fee.

## Program Strategy

The success of the program transition in Florida led Gary Lakey to propose launching a similar pilot water heater rental program for utility customers in Southeastern Georgia, to include the cities of Savannah and Valdessa. The region chosen for the pilot is ideal because it has a mix of upper income as well as lower income customers in an area with little need for space heating.

"In small Southern towns, customers trust their gas utility to service and replace their appliances, especially when there aren't a lot of retail and repair service options. The utility divested itself of appliance repairs in the 1990's and we now only sell appliances on our Web site, but some of our customers don't realize this," says Lakey. "Introducing the water heater rental program is an excellent way to provide a new appliance service to our customers at no cost or risk to our utility."

Also, Lakey sees the water heater rental program a way to better retain the utility's water heating customers in Georgia after years of decreased emphasis on gas marketing due to regulatory issues. Aggressive competition from electricity and propane suppliers has included such tactics as giving away free water heaters to homeowners to get them to switch from natural gas even though the fuel choice can be more cost-effective from an operational perspective. In recent years, the number of water heating customers in Georgia among existing homes has eroded by about 7% per year.

## Program Design

The water heater rental program was designed to be an event-driven program because people tend to replace their water heater only when it leaks or bursts. While the residential market is the emphasis, water heater rentals are also available to small business owners as well as apartment building managers. In December 2006, AWHR took the lead to recruit and train over 15 local plumbing contractors to offer the rental program as an alternative to their customers seeking equipment replacement. Plumbers accepted in the program must meet rigorous standards for licensing, insurance, appearance and superior customer services. “We insist that all the plumbers in the program share our strong commitment to safety and customer satisfaction,” Lakey explains.

## Program Implementation

The utility promotes the program availability in several ways. Utility staff in Southeastern Georgia conduct about 150 service calls monthly for gas leaks, pilot re-lights and inoperable appliances. While in the home utility staff are trained to leave behind a brochure advising customers about the water heater rental program and, where appropriate, place a sticker on the existing water heater to invite the customer to call AWHR directly about the rental program when their water heater next needs replacing. Ultimately, the rental program may also be promoted through utility bill inserts in Georgia as it is in Florida.

Nonetheless, the primary source to recruit customers is from the plumbers themselves. When a certified plumber visits a home on a service call and the customer chooses to rent their next water heater rather than purchase, the plumber usually dials AWHR’s toll-free phone line while at the customer’s home to be sure the customer qualifies. Acceptance usually takes less than 15 minutes to verify home ownership and get credit approval. Once accepted, the plumber helps the customer complete the application form and schedules the return visit to install the water heater. The equipment is available for pick-up by the plumber at a nearby utility warehouse, or in some cases, inventoried at the plumber’s own facility. The customer pays nothing upfront for a standard replacement installation and receives a monthly bill directly from AWHR starting at \$14.95 for a 50-gallon tank. The initial rental agreement is for 24 months after which the customer may choose to continue on a month-to-month basis or have the equipment removed, at their choice. When the home is sold, the new owner is offered the option to continue the rental agreement. The plumber is paid a competitive market labor rate for the installation and a bonus “finder’s fee” if they initiated the customer contact. Should the customer ever require a subsequent service visit, a sticker on the water heater instructs them to call AWHR’s toll-free number first and AWHR will dispatch the installation contractor as a first preference.

## Program Summary

The pilot program just got underway in late 2006, but Lakey understands what will make it a success. “The key success factors for designing a water heater rental program are”:

- Superior customer service by quality-oriented local plumbing contractors,
- Correct price point for the customer’s monthly fees and the contractor’s installation labor, and
- Close alliance between the utility program sponsor and experienced program administrator.

Once the implementation of the pilot program in Georgia is proven successful, the utility will consider deploying the program system wide to the utility’s over 1.6 million customers.”

### *To Learn More*

visit [www.marketdevelop.com](http://www.marketdevelop.com) or contact:

Gary Lakey, Manager,  
Coastal Region,  
AGL Resources,  
[glakey@aglresources.com](mailto:glakey@aglresources.com),  
(912) 655-0978



or

Stephen King, Senior Vice President,  
Sales and Marketing,  
AWHR  
[sking@awhr.com](mailto:sking@awhr.com),  
(973) 895-9657

