

2019 Utility Industry Outlook

Flattening demand, a volatile regulatory environment, digital transformation, and a spate of recent safety lapses are just a few of the challenges confronting the nation's electric, gas, and water utilities as they turn the corner to 2019. How will they address these issues and, in turn, how will those initiatives impact utility customers?

J.D. Power has combed through its utilities industry data set to identify the biggest issues confronting U.S. utilities operators and their customers and spotlight areas that are poised to receive the most attention in the year ahead.

Time-of-Use Pricing Becomes a Focal Point

California has led the way in implementing new time-of-use (ToU) rate schedules, which adjust per-kWh rates for electricity based on periods of peak demand. By 2020, California's largest utilities will roll out the first system-wide default ToU rates to their millions of residential customers.

While other utilities around the country watch this implementation unfold, the question on everyone's mind will be: *How will customers react?*

Based on our data, it appears the devil will be in the details. We have found that when pricing options are forced on electric utility customers, they respond with significantly lower customer satisfaction scores. However, when these programs are implemented as part of a broader environmental initiative, complete with proactive communications and price guarantee for one year, satisfaction can actually improve.

For example, after customers were forced to migrate to a ToU rate in Ontario in 2014 they were less satisfied than the average customer elsewhere in North America (505 -v- 560 price satisfaction on a 1,000-point scale) and much less satisfied than other North American customers that selected Time of Use (505 -v- 632 price satisfaction).

Citizenship Initiatives Grow

Having a visible presence in the community has become a key differentiator for utilities. In our recent [2018 Electric Utility Business Customer Satisfaction Study](#),SM for example, we found that one of the consistently strong drivers of customer satisfaction was a commitment to the community among utilities. Specifically, we found that, among the highest-ranking utilities, 75% of customers say their utility supports the economic development of the local community, which is 7 percentage points higher than for non-recipient utilities. A similar gap exists in customer awareness of utility employees volunteering in the community.

Among the most impactful community initiatives are those focused on the environment, assistance programs for community members who are unable to pay for services, and energy efficiency programs.

The Hunt for New Revenue Streams

Old-timers in the utilities industry will remember the days of door-to-door salesmen working on behalf of the local electric or gas company to hawk toasters and other appliances in the quest to spur demand for more energy. It’s an old idea that has a new vitality in the age of stagnating demand.

Appliance showrooms are reappearing in the lobbies of some utilities, along with special offers for installation and maintenance programs. Other products and services rising to prominence in the utility sales toolbox include special rebate offers and energy management services.

Not only do these programs create new revenue streams for utilities, they also increase customer satisfaction. Across our studies, we find that awareness of and utilization of utility products and services increases overall satisfaction by 70 index points (on a 1,000-point scale).

Awareness and Utilization of Ancillary Products & Services Improves Satisfaction

Number of products/services aware of versus participation	Overall customer satisfaction index
Not aware of any offerings	677
Aware but not participating	735
Currently using 1 product	747

Electric Utilities Awaken to EVs

Surprisingly, despite the obvious push into products and services designed to spark new revenue streams, electric utilities have so far not been particularly aggressive in their embrace of electric vehicles (EVs) as a potential source of new demand.

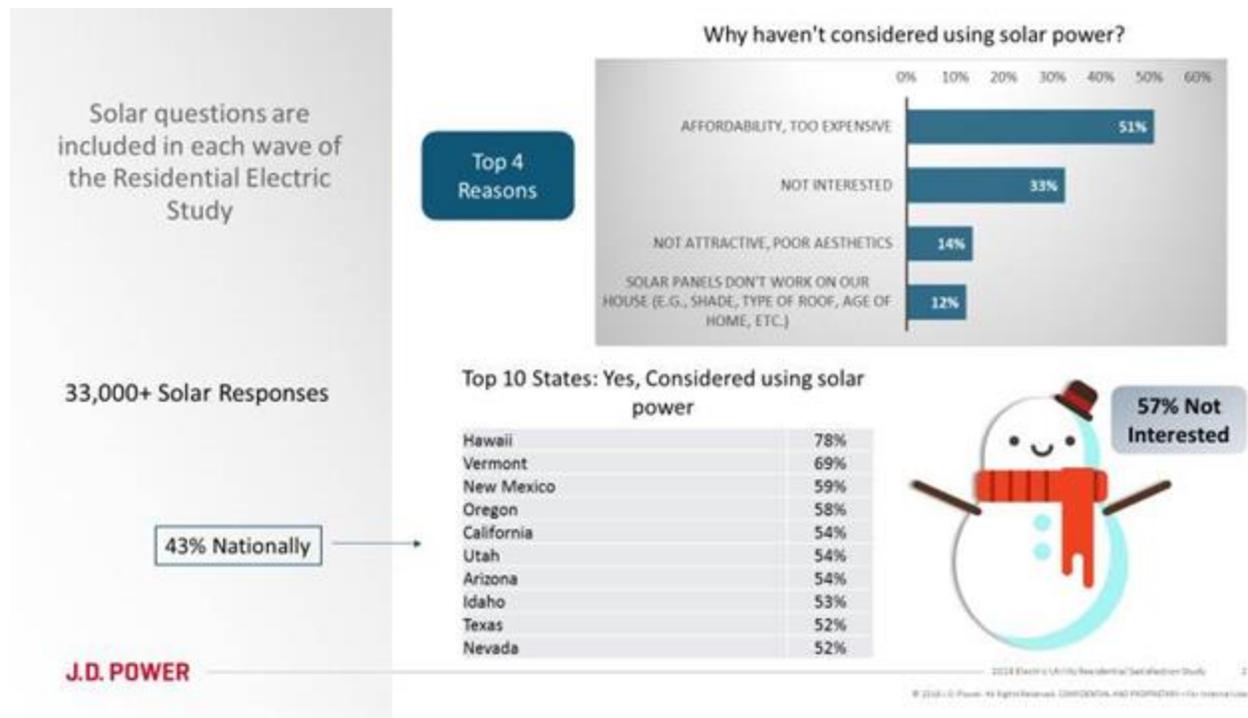
While overall EV adoption has been low nationwide, plug-in electric vehicles have become a visible presences on American streets and some utilities – particularly those in California – have begun to offer EV-related incentives. Some of the most progressive programs are even linked to ToU programs that effectively allow electric utility customers to recharge their automobiles in overnight hours for dramatically reduced rates.

While these programs are still in their infancy, we are seeing a growing consumer awareness for them, with the west region leading the charge. For example, we’re seeing that roughly 6% of electric utility customers in the west region are currently aware of electric vehicle pricing plans. That compares with just 3% in the east, midwest, and south regions.

Solar Reaches Tipping Point

If you feel like you cannot drive three miles these days without seeing a solar power installation van, your eyes are not deceiving you. Solar megawatt capacity soared 24% in 2017 and grew another 8% in the first 9 months of 2018.

We've been including a range of solar-related questions in all of our utilities industry studies to get a better reading on where solar adoption is trending and what are some of the impediments to adoption. Ultimately, we're seeing that 43% of electric utility customers nationally are considering solar power, with the highest concentration of them located in Hawaii, Vermont, New Mexico, Oregon, and California. The biggest obstacle to adoption among the 57% who aren't interested is cost.



Safety Outcry Drives Investment in Aging Infrastructure

This past September, a residential gas leak and subsequent explosions in Lawrence, Andover, and North Andover, MA resulted in one death and 25 injuries. In California, a federal judge has ordered Pacific Gas & Electric Co. provide a written statement outlining any potential role its power lines may have played in the deadly Camp wildfire. In New Jersey, a new report found that water utilities in the state have amassed 226 contamination violations of the Safe Drinking Water Act.

The common bond in all of these examples: Aging infrastructure that desperately needs to be upgraded to meet today's safety standards.

While this will be a mammoth and costly undertaking for utilities across the country, it also represents an opportunity to strengthen relationships with customers. Across all of our utilities industry studies, we've found that customer awareness of safety initiatives has a high correlation with customer satisfaction. Among electric utility customers, awareness of utility efforts to increase safety is associated with a 112-point increase (on a 1,000-point scale) in total satisfaction. For residential gas customers,

perception of the utility's level of helpfulness in preparing for a safety issue is associated with a 121-point increase in customer satisfaction. Among water utility customers, the belief that the utility maintains its current infrastructure is associated with a 225-point increase in total satisfaction.

Digital Disruption Rears its Head

One of the biggest challenges confronting utilities when it comes to customer satisfaction is meeting current customer demand for user-friendly tech that is in line with what they've come to expect from their banking and credit card digital apps and other mainstream consumer technologies. Accordingly, utilities are investing heavily in technology systems upgrades that will allow them to instantly text customer alerts, allow customers to manage their usage and billing, and interact with customer support digitally.

Getting this formula right is critical for utilities as digital communication channels rapidly become the preferred means of customer communication. According to the 2018 J.D. Power Electric Utility Residential Customer Satisfaction Study, customers who interacted with customer service via online, text, e-mail, chat, and social media channels all had higher levels of satisfaction than those who interacted via a live customer service representative.

Digital Customer Service Experiences Rate Highest

Channel of Contact	Customer Service Experience Rating (on a scale of 1-10)
Online (desktop/laptop)	8.13
Online/App (mobile/tablet)	8
Text	7.97
Email	7.93
Chat	7.84
Social media	7.8
CSR	7.8
IVR	7.74

Source: JD Power Electric Utility Residential Customer Satisfaction Study (2nd half 2018 fielding periods)

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Upcoming 2019 J.D. Power Utilities Industry Syndicated Studies

Across its utilities practice, J.D. Power has a wealth of data and perspective on the trends impacting the industry and consumers. Upcoming syndicated studies for 2019 include:

- Utility Digital Experience Study, February 27, 2019
- Water Utility Residential Customer Satisfaction Study, May 8, 2019
- U.S. Electric Utility Residential Customer Satisfaction Study, July 3, 2019
- Electric Utility Business Satisfaction Study, December 11, 2019
- Gas Utility Business Customer Satisfaction Study, December 18, 2019

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