



## **2011 Home Performance Contractor Coalition Program Changes**

To:

President Lee A. Solomon  
Board of Public Utilities  
Two Gateway Center  
Newark, NJ 07102

Michael Winka  
Director  
Office of Clean Energy - NJBPU

Dear Mr. Solomon and Mr. Winka,

The past year has seen significant changes in the Home Performance with ENERGY STAR ("HPwES") Program, as well as many other programs. This has created confusion in the marketplace and the contractor community, which has adversely affected the program(s) success. While we do understand that program incentive modifications were necessary, due to budgetary restraints and market over-stimulation, the depth and breadth of the changes, in such rapid succession, along with program suspensions has caused a troubling aftereffect in the marketplace.

Efficiency First is a nonprofit organization which represents 35 New Jersey based business owners composed of contractors and energy auditors composed of nearly 500 employees.

For HPwES (or the Program(s)) to be successful the market has to be re-stimulated with a well thought out and sustainable Plan. After considerable analysis of what's required by contractors to be successful in the HPwES program as well as what we understand is available in the way of NJCE HPwES incentives we'd suggest the following to create a Homeowner friendly and sustainable program for 2011:

- **Increase 5% savings threshold to at least 10%**
  - Eliminate financing at 10%-20% level. The cost to program is out of balance with other program incentives/goals.
- **Reduce 25% savings threshold to 20%** (*We would encourage its implementation in 2010 FC2*)
  - This will line up to the Federal HomeStar Legislation. While this legislation is still pending, it makes sense to align the Federal and State regulations. Additionally, being in position to launch HomeStar quickly in NJ is critical.
  - This will reduce the barrier to entry that many homeowners are facing reaching 25% total energy savings ("TES").
    - 25% TES is hard to reach in many homes across NJ, and in some cases, impossible. In many situations, the only way to get over threshold is to add an 'on-demand' water heater. This is a

- costly option for homeowners and completely offsets all incentive dollars, before any health and safety, or shell measures are addressed.
  - If Homestar is passed, the BPU/OCE should have a built in flexibility to eliminate any cash incentives and only deliver financing options.
    - We feel this would be necessary to ensure program sustainability, with the anticipated uptick in demand that would come with Federal cash incentives.
    - It may be wise to have a small cash incentive available to those who do not need financing, to act as an incentive not to take the financing.
  - NJ is in a prime spot, as of now, to deliver ‘Gold Star’ level Homestar incentives immediately, and leverage a large amount of Federal funding if we have the above in place.
    - This would allow NJOCE to get better results with less money, and bring a large percentage of Federal dollars into NJ, reducing homeowner energy use, and putting people back to work.
- **Eliminate appliance incentives** – Allow appliance savings to be utilized for total energy savings, but eliminate all cash and financing incentives. It costs at least 10% for contractors to take on the responsibility of being involved in the appliance transaction which is the current incentive level. Additionally, given current incentive levels and the associated energy savings from appliances, they really don’t qualify for incentives at this point anyway. Including them on the eligible measures list only serves to confuse the marketplace further.
- **STEP 3 Comprehensive Project Incentives.** As with any other successful retail products, a customer having choices assures its success. When evaluating the incentives that aided this program’s past success, as well as, what is currently hindering its success since all of the recent changes, we suggest the following:
  - **More Financing Options are Critical** – Enhanced incentives helped in 2009/2010, but we all know the real acceleration in program came from the addition of the 10 Year 0% financing. It removed the barrier to participation for many homeowners, and makes the whole house approach manageable for the owner. With the change in rebate levels, we feel more financing options are necessary to assure the success of the program. Different homes require different options and the current ‘one size fits all’ approach has been restrictive in selling the program. Currently, many homeowners need to come up with money out of pocket to commence an HPwES project, and many of them just do not have it in today’s economic climate. Additional finance components need to incentivize a performance based approach. Just as Home Star would increase the incentives for greater energy savings, any finance option should encourage home owners to maximize energy savings.
  - **Cash Back Only Incentive** – While many need the financing, some do not, but there was never any incentive for them not to take it. With higher dollar cash back only option it would steer those who do not need financing away from the financing, and would cost the program less per project. It’s our opinion, that \$5,000 is the magic number to incentivize home performance, considering other programs across state (HVAC, etc...). The caveat to this would be those that need financing, hence why the lower incentive is workable when coupled with financing options. Below is a table illustrating incentive options available to a homeowner who reaches more than 20% TES, and the total incentive amounts paid by the “HPwES” Program.

**Total Incentives Table: (Assuming All Incentives at Maximum)**

Incentive Options	Cash Rebate	Approximate Financing	Total Customer Incentive	Contractor Incentive Cost	Total Program Cost

		Buy Down	Cost		
No financing, \$5,000 rebate	\$5,000	\$0	\$5,000	\$700	\$5,700
\$10,000 10 Year 0% Fin. & \$3,000 rebate	\$3,000	\$5,300 +/-	\$8,300	\$700	\$9,000
\$15,000 10 Year 2.99% Fin. & \$3,000 rebate	\$3,000	\$5,500 +/-	\$8,500	\$700	\$9,200
\$20,000 10 Year 5.99% Fin. & \$3,000 rebate	\$3,000	\$5,600 +/-	\$8,600	\$700	\$9,300

- **Audit Subsidies: \$100 for all audits; for jobs converted to retrofits: include audit subsidy in the \$700 production incentive**
  - **We believe a large part of the drop-off in program success is due to the homeowner barrier of increased audit costs.** Keeping the audit affordable is critical to stimulate Homeowner's to explore the benefits of the HPwES Program. While the \$175 contractor incentive may have been too much, the current \$100 incentive paid for sold projects seems counterintuitive. If a contractor secures a job, the production incentive and the job itself is the incentive. Therefore, if the contractor secures the job, the audit incentive should be considered part of the \$700 production incentive (not as an additional \$100). The Audit incentive should require proper software entry, information on which homeowners were supplied with an actionable report. These incentive(s) should be disclosed to the homeowner. This model will also allow contractors to set their own price and depth of an audit.
  - The program should encourage homeowners to get Comprehensive Assessments (recognized by BPI or RESNET).
- **Production Incentives – Keep the same (Max \$700).** Production incentives serve an important purpose in helping to cover program marketing and the significant extra administrative costs of doing work under program. We have estimated that \$700 is the approximate additional administrative cost of a program project. Without this incentive, those additional costs would have to be passed along to homeowner, making the program even more expensive. Additionally, they provide an incentive for contractors to do comprehensive projects and it also gives the program an enticement to ensure contractors comply with QC inspection callbacks. If it came to a situation where the choice was between the contractor incentives versus additional customer incentive, we would encourage the contractor incentive for the reasons listed above. Additionally, if needed the contractor could use this incentive to entice a homeowner to participate in the program in the form of a Contractor HPw/ES discount, rebate, coupon, etc...
- **Enable homeowners to utilize WARM/COOL Advantage program rebates and Home Performance Program financing.** We feel that the current structure of all of the NJOCE programs creates a competition between programs, as opposed to a tiered approach. Most projects will need to include furnaces and air conditioners to qualify for the program. This funnels people away from WARM/COOL Advantage and therefore it makes sense to utilize that funding. There are a few different ways to do this, but the goal should be that WARM/COOL Advantage is a path to Home Performance, not a competitor. One way of doing this would be to have the current prescriptive based rebates for WARM/COOL and that amount would be deducted from any HPWES rebates, if a project reached the 20% TES level. At that point any Home Performance rebate monies could be calculated on shell and health and safety measures only, but the financing could be used across all measures (including HVAC).

- **Remove Contractors not in Program Compliance** - We all strongly feel that there is no place in this program for anyone committing fraud, not complying with program requirements or failing to respond to QC issues. There should be a zero-tolerance policy for anyone falling into these categories. These contractors are getting the same incentives as those doing things the right way while using the majority of program resources and at the same time getting lesser results. Especially with the current situation, it is hurting the Program by allowing these contractors to continue to participate in the program at the expense of the rest of us. We feel a clear cut set of guidelines and penalties need to be developed by the program. We would be happy to offer additional input on this, but quick thoughts are as follows:
  - Contractors with multiple open QC issues that are not addressed within 30 days, should be suspended until all open matters are addressed then an additional of 60 days.
  - If a second suspension occurs in any 12 month period, the offending contractor should be suspended for a minimum of one year.
  - If they do not address QC issues, then *ALL* of their pending production incentive monies should be frozen, so that the program can utilize that money to address any open QC issues. If this situation occurs, offending contractor should be suspended for a minimum of 2 years.
  - Any of the above actions should be required to be made in person, by calling said contractor to a meeting, so that they can make their case, as to why they should not be suspended.
  - Any suspension should be able to be appealed to a 3<sup>rd</sup> party, which was not directly involved in the decision to suspend the contractor.
  
- **De-Couple Financing from QC Process, *especially considering recent payment issues*, and the above recommendation of removing non-compliant contractors.** On a cash back only job the contractor is paid by the customer for the work and the production incentive and ability to be in good standing with the program are the incentive to address any QC issues. This should be no different for financing projects. Contractors should be paid when the work is completed, and incentives would still be tied to QC process, and the above penalties should be invoked. However, it makes no sense to delay payment on jobs by as much as 60 days just because a job is selected for QC. The equipment was delivered, the workers were paid, and so should the contractor.
  
- **Future Program Incentive Modifications** - We agree incentive modifications are at times necessary to ensure continued year round Program sustainability. To make additional specific recommendations would require knowing what the budget is that we are working with. If you would share this information when it becomes available we would gladly participate with the Program Managers to develop a program that continues to achieve sustainability, energy reduction and Market Transformation.
  - Specifically we would recommend the continuation of the program working groups.
    - To be productive, the group should not be a “first come, first serve” group of contractors.
    - Contractors who understand the different processes/parties involved, have played a significant role in developing this program, have been actively involved in working with the program to help ensure its success, who have had great successes in the program, and/or have no program procedure or QC issues, should be ensured places on this group. However, there should also be a certain number of spots reserved for smaller contractors so that their voices are heard as well, as long as they are in program compliance.

- **Continuation of Program Without Incentives** – Regardless if there are incentives available contractors should be able to submit and gain WSAs from the Program. As with other retail markets, changing incentives, rebates and financing are the normal course of business. Having this program appear to be available year round is important to the program’s and the contractor’s success. This will also provide validation to the customer that they are achieving the savings that they were sold. While having approval from HPw/ES program, they could utilize WARM/COOL Advantage program incentives. Saying the program is open, but that there are currently no cash/financing incentives is a better alternative than saying the program is in suspension, which leaves the marketplace at a standstill, which is detrimental to all of us. The solar program currently does something similar to this.
  
- **Utility Programs** - We agree that utility companies can be invaluable partners in making the programs sustainable and successful.
  - The participation of the majority of the gas utilities offering to buy down the interest rate has been the programs biggest success in our opinion. However, we feel that ANY utility programs should act as a *supplement* to any state programs, not as an option or competitor. The current structure of disparate programs in different utility territories confuses the marketplace, and increases program administration costs.
  - The non-participation of PSEG, has caused a large portion of the program’s issues over the last year. Additionally, their own program acts as direct competitor to the state’s programs, and in fact, has a monopoly in the UEZ’s. This is a practice that cannot be allowed to continue. We feel that any utility supplements should be uniform across all territories and open market based.
  
- **Program Structure** - We would recommend continuing with the current “Market Manager” based approach, but would be open to the ideas of OCE structured programs, that the utilities administered, as long as they were uniform across the state, additionally the non-profit manager is something we would be open to learning more about if there was an advantage to making that change . There are certainly still issues that need to be worked out amongst all the different levels, but feel that this structure is workable and ensures market stability. We will highlight some of the benefits/concerns with some of the other approaches below.
  - **Flexibility** – No matter what structure is utilized, we feel that the Administrators need to have some authority to act quickly to avert the situation(s) we have run into earlier this year. We feel oversight is needed, and transparency to program partners, but if that was built in we could have reduced the shock to the program over the last year.
  - **OCE Structured / Utility Administered Programs** – This still creates the concern of a fractioned marketplace, but if properly structure and administered could offer some advantages.
    - **Pros** – Faster payment timelines
    - Offers some other unique opportunities (i.e. on-bill repayment) that do not exist with other structures.
    - **Cons** – The prospect of programs being “open” in some areas and “closed” in others, due to individual utility budgets.
    - Additionally, different procedures for different utilities are a major burden for the contractor community. If it can be assured that the contractor community would deal with one process, and one piece of software statewide, this concern may be lessened.
    - If not structured properly, could lead to a fractioned marketplace, and possible anti-competitive practices.

- **While we cannot endorse this approach without some our concerns being addressed, we would be more than willing to talk to the utilities and OCE staff about how to address our concerns and exploring if this is a workable option for all parties involved.**
  - **Non-Profit Manager** – This is basically the same as the Market Manager method as far as we are concerned. The only difference is that this would be another change, and there have already been too many of them recently, so we feel stabilizing the programs with current structure would be best. However, if the Non-Profit Manager would hold the funding for the program, which could make funding more secure from state budgetary issues, and help expedite payment timelines, then making the change to this structure may be worthwhile.
  - **Utility Structured Programs** – This would create a fractioned marketplace as many contractors serve multiple utility territories. In addition, this creates the opportunity for anti-competitive practices. **We cannot endorse this approach.**
  - **Grant Based Approach** – We feel that this would act as a barrier to entry for small and medium sized businesses, and would strongly favor large companies/projects. **We cannot endorse this approach.**
  - Any utility supplements should be focused on Home Performance, not WARM/COOL Advantage. While the intention of these enhanced rebates were good, they now act as a hindrance to getting people to embrace the Home Performance approach.
- **WARM/COOL Advantage Rebates** – We agree with the Current straw proposal of reducing COOL Advantage rebate levels and suggest keeping WARM Advantage at the same. This still incentivizes consumers to make the right decision if they are in an emergency situation, but does not dis-incentivize Home Performance.
  - We feel the shifting of the COOL Advantage rebate to a manufacturer incentive is not a good idea to stimulate customers to by high efficiency AC equipment.
- **Program Administration Cost Reduction** – We would encourage any improvements to processes that reduce the administration cost of the program for both the program administrators **and** the contractor community. We would be open to discussing any such ideas program staff may have, one idea that we put forth is the following:
  - **Self-Approval** – If a proven contractor in the program wanted to take the option of being able to commence with work without a WSA generated by program staff, they should be allowed to do that.
    - This would decrease program admin costs since staff would only have to put their hands on the project at completion and only review the project once.
    - As this does put the contractor at risk to some extent it should be strictly voluntary.
    - A method of reserving funding would be necessary so that no retroactive program changes can be imposed upon said projects.
    - New contractors, and those that have multiple QC issues, or paperwork submission issues would need to go through the current process, until they reached a certain level of performance.
    - There would still be third party verification of the project, it would just occur at a different point in the process

It's our opinion that the approach outlined in this report will assure the viability of the Program. We also believe that, due to the extensiveness of the report it is prudent that a meeting with all involved parties be scheduled to review the plan in its entirety. It is our hope this meeting will occur in the next two weeks. Please contact us so such a meeting may be arranged. Thank you in advance for your cooperation.

On behalf of Efficiency First,

Brian Bovio, National Board Member  
Bovio, Advanced Comfort & Energy Solutions  
Sicklerville, NJ

Jared Asch, National Director  
Efficiency First

Scott Needham  
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On behalf of South Jersey HVAC Association,

Fred Hutchinson

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**ABOUT EFFICIENCY FIRST**

Efficiency First is a national nonprofit trade association that unites the Home Performance workforce, building product manufacturers and related businesses and organizations in the escalating fight against global warming and rising energy costs. Efficiency First represents its members in public policy discussions at the state and national levels, to promote the benefits of efficiency retrofitting and to help our industry grow to meet unprecedented demand for quality residential energy improvements.