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Recommendations on low income energy efficiency programs to CPUC Commissioner Timothy Simon

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Re: THE DONALD VIAL CENTER'S RECOMMENDATIONS ON THE IOU'S 2012-2014 ESAP APPLICATIONS

Recent reports have raised some concerns about the design of the ESA programs and suggest areas for improvement and/or further investigation. These include the Vial Center's Statewide WE&T Needs Assessment,¹ the Low Income Energy Efficiency (LIEE) Program Workforce Education and Training Pilot Reports,^{2,3} and the Low Income Energy Efficiency Program 2009-2010 Process Evaluation⁴ and the Impact Evaluation of the 2009 California Low Income Energy Efficiency Program (Draft Report).⁵ While the IOUs' applications do acknowledge, to varying degrees, a need to integrate the lessons learned from these reports, we respectfully request a more comprehensive strategy on how the IOUs will address the following in the ESA programs:

1. **Strategies for improving energy savings in ESAP.** There are some indications that the ESA programs may currently be falling short of reaching their maximum energy savings potential at reasonable cost-effectiveness. Evidence from the 2009 Impact Evaluation estimates lower energy savings from PY2009 than those found in the PY2005 evaluation, and also indicates that, in some cases, ESA services may have actually been followed by higher energy use.⁶ The Commission needs to fully uncover what is going on in the ESA programs with respect to energy savings: why are savings declining and how might programs be restructured to improve energy savings? We suggest that the Commission

¹ Carol Zabin et al, The Donald Vial Center on Employment in the Green Economy. March 17, 2011.

² Leticia Barajas, Los Angeles Trade Technical College. February 28, 2011.

³ San Francisco Office of Economic and Workforce Development. February 28, 2011.

⁴ Jane S. Peters et al, Research Into Action, Inc. June 10, 2011.

⁵ ECONorthwest. *Draft* March 11, 2011.

⁶ ECONorthwest. *Draft* March 11, 2011. Page 90.

take a deeper look at the ways in which ESA program design shapes ESA contractors' business model and labor practices, and how this in turn may affect energy savings. There are several aspects that may be involved in this and which require further investigation and experimentation, listed below.

- a. **Restructure the ESA bidding process to avoid the detrimental aspects of low-cost bidding.** The Commission should consider ways to restructure the IOUs' process of awarding ESA contracts to avoid bidding based on lowest cost rather than best value. As Richard Heath & Associates points out in their comments on the Vial Center report, "When the Request for Proposals (RFP) is announced by a utility company or the CPUC for LIEE/ESA programs, winning bidders have to provide the greatest number of units served at the lowest cost. Over the years, successive bidding cycles demand that proposers increase the number of units to be served and measures to be installed at lower costs. This funding deflation works against labor and material cost inflation and the CPUC and utilities require competitive companies to provide 'more for less' it forces the price contractors can pay for labor down. In other words, the bidding process drives the 'low-road' response regardless of the certifications and skills of the workforce."⁷ The bidding process should lay out clear criteria for scoring contractors based on quality of work, qualifications of the workforce, investments in training, and other relevant metrics.
- b. **Ensure transparency and accessibility of the bidding process to all eligible contractors.** In addition to the above restructuring, the bidding process should also be fully transparent, provide notice to all eligible contractors, and allow sufficient time to invite all and review bids without disruptions of work.
- c. **Support contracting relationships that promote streamlined use of funds and maximum energy savings per unit.** The 2009-2010 Process Evaluation describes how ESA contractors frequently subcontract out specific pieces of the work, such as signing up new customers or carrying out a specific measure, to other firms or

⁷ Tom Barrett, RHA Inc., "Comments on the California Workforce Education and Training Needs Assessment," June 8, 2011. Page 11.

independent contractors.⁸ Former employees and experts familiar with the ESA program interviewed by the Vial Center suggested that this piecemeal approach reduces potential energy savings by providing incentives that undercut the ability of the program to address whole-house linkages among measures and to leverage all available funding streams.⁹ One way to test this claim would be to compare work done via this kind of subcontracting model and that done by in-house crews, since both models are currently being used in the ESA program.

- d. **Use cost-effectiveness testing and program design that incentivizes deeper savings per unit.** Currently the ESA program uses a prescriptive approach that gives a comprehensive list of measures and pays installers a piece rate for the number of measures and houses. Program goals are based on the number of households served within the budget, and average IOU spending per unit on LIEE ranged from about \$500 to \$1100 per unit in PY2010.¹⁰ This, combined with piece-rate pay, seems to be incentivizing crews to do as many fast, low-cost installations as possible instead of incentivizing measures that will produce greater energy savings. We recommend that the Commission re-examine the way that program goals and cost-effectiveness testing incentivize measures, and the impact of this on energy savings. We also recommend that they re-consider the level of investment in the ESA program per unit, and how that correlates to setting and meeting ambitious energy savings goals.
- e. **Collect data on the relationship between job quality and energy savings.** The Vial Center report suggests that work quality problems are closely correlated with job quality problems in the residential energy efficiency market as a whole, and that according to some interviewees this *may* also be the case for some ESA providers. These interviewees claimed high turnover rates among ESA program workers, a key indicator of job quality issues. More data is needed on the job quality of ESA program work, turnover rates, and the possible impact on work quality, in order to explore ways to remove any workforce-related barriers to achieving energy savings.
- f. **Ensure quality using worker certifications that set a high bar.** Certifying workers for the ESA programs is equally as important for ensuring quality as certifying

⁸ Jane S. Peters et al, Research Into Action, Inc. June 10, 2011. Pages 11, 56.

⁹ Carol Zabin et al, The Donald Vial Center on Employment in the Green Economy. March 17, 2011. Page 105.

¹⁰ LIEE PY2010 Annual Reports, author's calculations.

contractors. While the two-week utility training is a step in the right direction, the Commission should consider phasing in more rigorous, standardized certifications such as the DOE skill standards for residential retrofit as requirements for worker participation in ESA programs.¹¹

g. **Improve cost-effectiveness through aggregation and simplification of eligibility determination.** Although the IOUs and contractors have tried many different approaches to marketing low income energy efficiency programs over the years, “identification of eligible customers continues to challenge IOU program staff and contractors.”¹² Economies of scale could potentially be gained and cost-effectiveness of the ESA programs enhanced by piloting social marketing strategies that are being used in other states, such as partnering with community and neighborhood groups, or by using census tract or other eligibility criteria rather than individual income verification.

2. **Support targeted efforts for multifamily housing.** Three of the four IOU applications (PG&E, SoCalEdison and SoCalGas) included some discussion about addressing the needs of multifamily rental buildings and the tenants they serve. We acknowledge these efforts, and encourage SDG&E to include a specific discussion in its application about how it would address the needs of low-income multifamily tenants as well. However, additional discussion and detail about the multifamily proposals within all of IOU applications is needed. Multifamily affordable housing is a segment of the ESA program portfolio that may present opportunities for increased energy savings because of the potential for economies of scale. In terms of a business model, economies of scale make it possible to organize a larger body of work more efficiently through reducing time needed to travel from site to site, simplified eligibility determination, existence of whole building mechanical systems in some cases, and other efficiencies. The ability to aggregate work in multifamily housing more easily may allow contractors to take advantage of these efficiencies. The IOUs should address the issues of low-income multifamily tenants in a way that would increase inclusion, building on the work of the

¹¹ U.S. Department of Energy (DOE), *Workforce Guidelines for Home Energy Upgrades*. http://www1.eere.energy.gov/wip/retrofit_guidelines.html

¹² Jane S. Peters et al, Research Into Action, Inc. June 10, 2011. Page 80.

CityBuild and LATTC pilots to combine job training, quality job creation, and higher energy savings in innovative ways that expand scale. The IOUs each should reconsider including a pilot program for deep energy efficiency retrofits in low-income multifamily housing as outlined in the Energy Division’s March 2011 guidance.¹³ If there are no pilots, the IOUs ought to consider alternative program design and implementation for ESA programs in multifamily housing that is based on the principle of aggregating this work to increase efficiency. We refer to the comments submitted by the California Housing Partnership Corporation for more specific suggestions on how the IOUs can address the needs of low-income multifamily housing tenants.¹⁴

3. **Capture co-benefits of supporting good jobs for low-income people.** The primary goal of ESA is to help low-income people reduce their energy bills and improve the comfort and safety of their homes. However, the Long Term Energy Efficiency Strategic Plan also contains an explicit goal of inclusion of disadvantaged, low-income, and minority workers in training and job placement.¹⁵ The ESA programs present an opportunity for the IOUs to generate training opportunities and employment for the targeted low income populations. The Commission and the IOUs should develop a more intentional strategy to integrate good workforce development practices into the ESA programs and capture the co-benefits of supporting good jobs for disadvantaged populations. This strategy should:
 - a. **Improve access to ESAP jobs for targeted low income populations.** The WE&T pilots for LIEE represent an important step toward improving access to ESA jobs for low-income populations.^{16,17} The IOUs should integrate this goal more broadly throughout their programs, and partner with organizations and community colleges like CityBuild, LATTC, and MAAC in San Diego that have demonstrated expertise in

¹³ CPUC Energy Division’s (ED) Guiding Principles and Recommendations for a Low Income Multifamily Housing Pilot. March 22, 2011.

¹⁴ Ross Nakasone, California Housing Partnership Corporation. “Response of the California Housing Partnership Corporation (CHPC) to Pacific Gas and Electric Company, Southern California Gas Company, Southern California Edison Company, and San Diego Gas and Electric Company’s applications for approval of their 2012-2014 Energy Savings Assistance Programs and Budgets.” June 15, 2011.

¹⁵ California Public Utilities Commission (2008). *California Long Term Energy Efficiency Strategic Plan: Achieving Maximum Energy Savings in California for 2009 and Beyond*. Page 78.

¹⁶ Leticia Barajas, Los Angeles Trade Technical College. February 28, 2011.

¹⁷ San Francisco Office of Economic and Workforce Development. February 28, 2011

- job readiness and basic skills training for disadvantaged populations. LATTC and CityBuild found that to serve their clientele, it was necessary to develop much longer trainings than ESA providers usually carry out. The IOUs should also support developing appropriate linkages with K-12 programs and coordinate with the community colleges and adult education sector to create career pathways to for low-income youth to jobs with visible career paths in energy efficiency and related fields.
- b. **Develop sector strategies to support career pathways.** The CityBuild and LATTC pilots also surfaced the concern that ESA program jobs provided little opportunity for career pathways into better jobs and careers. The IOUs should develop strong career pathways in the ESA programs by aligning training pathways to help workers advance in their skill level and income by moving from one job type and training level to the next. One way to do this is to move toward standardized credentials in the industry so that workers can obtain portable, stackable certifications. National standards are good for workers because they facilitate mobility. The Commission and the IOUs should consider phasing in the DOE residential retrofit skills standards, and the corresponding IREC accreditation for the training required for ESA program workers. Developing sector strategies also involves working closely with and supporting contractors in the ESA program that have a demonstrated commitment to this approach to training. The IOUs need to work with a consortium of ESA contractors and training providers in a sector strategy model to assure that both employer and worker needs are met.
- c. **Track outcomes for workers with ESA programs to help develop strategies to improve job quality.** Ratepayer money should not be used to generate bad jobs. Although there are few sources for this kind of data, there is some evidence that ESA program structure may encourage a business model based on low wages. The Vial Center’s research found high variation in wages paid in the low income programs and very high turnover. Anecdotal evidence suggests that some ESA program jobs pay piece-rate wages that are as low as \$50-70 per day.¹⁸ The IOUs have a responsibility to collect data on the number and categories of jobs with the ESA program, wages, benefits, worker demographics, turnover, and career pathways in ESA, and then

¹⁸ Carol Zabin et al, The Donald Vial Center on Employment in the Green Economy. March 17, 2011. Page 107.

develop specific plans for improving job quality in the sector. Payroll data (with confidential information removed) should be available to evaluators and program analysts.

CONCLUSION

Based on the research of the Vial Center and other organizations, we offer the above comments for the Commission and the IOUs to develop more comprehensive strategies to improve energy savings in ESA programs, support targeted efforts on multi-family housing, and capture the co-benefits of supporting good jobs for low-income people. The Vial Center appreciates the opportunity to comment the IOU Applications and we look forward to continuing to participate in the proceeding and any related activities and workshops.