Dear CPUC President Reynolds:

c.c. Commissioner Genevieve Shiroma, Commissioner Darcie L. Houck, Commissioner John Reynolds, Commissioner Karen Douglas

Pat Watts and I genuinely appreciate having the ability to serve low-income communities as members of the Low-Income Oversight Board and the Energy Savings Assistance (ESA) Working Group. We have collaborated to produce this document with the intent of assisting the Commission with effective solutions in this critical ESA mid-cycle period. This communication seeks to identify root causes and offer solutions to address these conditions.

Background: Fiscal Year 2023 has been a year of major transitions for the Energy Savings Assistance (ESA) program consisting of numerous program changes with shifting a statewide low-income energy program from an "all homes eligible treatment goal" to a "targeted deep energy savings goals program."

For some IOUs, but not all, these new ESA programmatic objectives have been problematic fostering a ripple effect throughout their respective ESA programs resulting in fewer eligible customers treated and a major financial burden on contractors and their employees. s

ESA margins have always been conservative, but in previous years ESA service providers have been able to address those thin margins based on volume. That scale of economy does not exist today given that fewer homes are treated despite the vision of increased spending per home would make up that deficit. That element of the program and its financial transition have not been fully realized.

Some of the causes and proposed solutions are:

- Recognizing that ESA is a "pay for performance" program, all contractors must pay all upfront and program subsistence costs. This financial factor, while the program is transitioning is the principal cause for layoffs and some contractors dropping out of the program, further reducing capacity to treat homes.
- Reduced Program Silo Coordination and Leveraging: The previous ESA program (from the service provider implementation) had a central silo of contracting; the new ESA has transitioned into multiple contracts and separate programs and not every contractor participates with all these new ESA program silos thus exacerbating a financial crunch for many employers.
- Competitive Process: A primary concern is that competitive solicitations at program launch should mean just that, furthermore, IOUs should not "leverage down" to a subjective cost structure that does not allow for fair or realistic compensation.
- Indirect and Administrative Costs: ESA's "market rate" compensation in many cases is not reflective of actual costs for contractors. Like what the IOUs request from the Commission, we request that administrative overhead be recognized by the IOUs that reflect the rising costs to do business. This includes rising labor costs, materials, employee benefits and associated inflation. We recommend that revised revenue margins that permit both nonprofits and small businesses to remain as ESA service providers be implemented.
- Employee Retention for Contractors: Non-ESA energy service businesses can and do offer better wages, enhanced benefits, and retirement plans. Even the fast-food industry has a wage floor of $20.00 per hour. This economic factor makes it difficult to attract new employees to the ESA program. The fact is it is even harder to retain these ESA skilled employees once they are trained

and experienced. These employees cannot be blamed for seeking better paying employment in an energy industry that is growing, lucrative and robust. Most, if not all worker training costs are also paid for by contractors. It takes anywhere from sixty to ninety days to train an ESA entry level employee, get them badged and into the field delivering services. This process takes at a minimum 60-to-90-days of non-revenue producing scenario reflecting a labor cost that is completely absorbed by contractors. In a “pay for performance” program that can exhaust contractor lines of credit, financial assistance (advances) joined by increased compensation margins are mission critical if we are to ensure the sustainability of the ESA program for all eligible low-income households.

- Technology Challenges with IOUs: For some of the IOUs, new - not yet fully functioning - administrative systems that enable lead development/customer acquisition have had significant challenges in generating qualified leads as envisioned in their respective applications. A “restart” of this process was required, and the program is now just getting up to speed, and as a result revenue streams were severely interrupted. Special attention should be made given this procedure, for without a robust customer acquisition process the program will constantly underserve eligible households.

- A need for fair market rate data reflecting the true costs of ESA customer acquisition and ESA Measure(s) installation given this system slow down. These issues have been discussed at both the LIOB and the ESA Working Group for resolution, but the IOUs cite cost-effectiveness mandates as barriers to altering these costs and compensation. There is much truth in their response. Categorical adjustments that allow for non-energy saving costs must be promptly addressed. During the ESA Working Group sessions the IOUs are seeking to address this structural reform at the end of the program cycle. We fear that this needed change may be too late. Realistic measure compensation is required that permits contractors to pay a competitive industry equity wage while meeting the ever-increasing administrative program overhead (insurance, fuel, materials, etc.) costs, supply chain disruptions, and the constant rising cost of inflation.

- Customer Equity: Feedback from the field indicates a "customer measure installation and services gap." Despite ESA household eligibility there are some customers receiving all feasible measures, while others do not. Modifications in the program should seek to provide customer equity with all feasible measures.

As mentioned, fast-food workers are now guaranteed $20.00 per hour. While we applaud that move to ensure a better living wage for the foodservice industry, entry level ESA worker compensation and their employers cannot keep pace with increasing wage structures outside of our program.

We believe, as we are sure you do, that ESA workers also deserve fair compensation, but limited margins set by the IOUs deter contractors in providing an hourly rate that attracts entry level workers into the program while retaining skilled labor to service an evolving 21rst century energy savings program.

This challenging program transition has also generated fluctuations in the program cycle where IOUs are asking contractors to ramp up (increasing their costs and financial risk) only to realize that those increased costs cannot be responsibly sustained by a volatile ESA funding stream. It is essential that peaks and valleys in the ESA funding stream be addressed if we are to sustain a robust ESA program.

Please keep in mind these adverse conditions for ESA customers and service providers are especially acute given that ESA is a pay for performance program. It is recommended that ESA keep pace with other state public purpose programs (CSD and CEC) that anticipate start up and transition costs. Other state agency programs provide contracted service providers with a reasonable advance at the outset of a program launch to lessen the financial burden and risk. They pay back that advance during the progression of the program. Unfortunately, ESA funding has no such advance provision. We are asking that the CPUC direct the IOUs to institute qualified advances while also providing the measure compensation bandwidth that enables any contracted advance to be paid back in full.

While we are hopeful that the IOU authored mid-cycle report will identify some level of needed modifications, this added independent insight seeks to provide the CPUC with added and necessary program perspective moving forward.

Both Pat and I recommend the following:

- Contractor advances to ensure the financial stability of the program services delivery; this will be state law effective January 1, 2024.
- Adequate contractor compensation margins that ensure that those advances are fully paid back thus providing for an adequately compensated labor force while sustaining a stable healthy contractor network;
- Where this activity does not exist require bulk purchasing of all appliance programs and equipment that enhance cost savings and better leverage purchasing volume;
- Dedicated compensation for workforce, education, and training costs for developing a skilled workforce that meets the demands of an evolving ESA program;
- Contractors should not be obligated to participate in statewide programs that have zero financial value and function as a loss to already burdened service providers.
- The CPUC should order an independent ESA market rate study to provide data on fair compensation and true costs of program fulfillment.

In closing, we thank the CPUC and especially you, our assigned Commissioner Genevieve Shiroma for this opportunity to comment on this most important program.

Sincerely,

Robert Castaneda

Pat Watts