

April 10, 2023

The Honorable President and Commissioners
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Sent via Email

Subject: Energy Savings Assistance Program

Dear CPUC President Reynolds and Commissioners:

The Low Income Oversight Board (LIOB) appreciates having the ability to serve low-income communities with the the Energy Savings Assistance (ESA) program. Members of the Board have collaborated to produce this document with the intent of advising the Commission with effective solutions in this critical ESA mid-cycle period. This communication seeks to identify root causes and offer actions/solutions to address these conditions.

Background

As you may know, the LIOB exists to advise the Commission on low-income ratepayer issues related to gas, electricity, water and certain aspects of the Lifeline program related to coordinated outreach with the CARE program. This includes the ESA program and other weatherization programs.

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.

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 21st 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.

The LIOB recommends the following actions to be taken by the Commission:

- Support Cash Flow of Contractors: The LIOB requests the IOUs to work with their contractors to determine if contractor advances to ensure the financial stability of the program services delivery would assist financial stability for both the service provider network and the program. Qualified contractor advances will be state law effective January 1, 2024.
- Fund a Prevailing Wage: The LIOB requests the IOUs to implement adequate contractor compensation margins that ensures worker retention, program sustainability and a competitive wages.
- Streamline Procurement: The LIOB requests the CPUC to direct the IOUs to reexamine all bulk purchasing activities of appliance programs and equipment with the intent of not overburdening contractors with added expenses that increase the administrative overhead to service implementers.

- Fund Workforce Development: The LIOB requests the IOUs to provide adequate contractor compensation for workforce, education, and training costs for the development of a skilled workforce that meets the demands of an evolving ESA program.
- Independent Study Actual Costs: The LIOB asks the CPUC to order an independent (not IOU administered) ESA market rate study to provide data on fair compensation and the true costs of program fulfillment.
- Compliance with 2790: The LIOB asks the CPUC to direct ALL IOUs to deliver all feasible measures consistent with the Public Utilities Code 2790. The administration of ESA services across all service areas must ensure all income qualified customers seeking ESA services are treated equitably and receive all feasible measures.
- Weatherization Measures: The LIOB further asks the CPUC to direct the IOUs to perform all feasible measures to include “weatherization measures” consistent with PUC Code 2790. These measures include:
Attic insulation, caulking, weather stripping, low-flow shower heads, door and building envelope repairs to reduce air infiltration, and water heater blankets. The LIOB understands that some of the IOUs are delivering all feasible measures to include some, if not all weatherization services, however, that is not the case with Southern California Gas (SCG). The LIOB asks the CPUC to direct SCG to deliver all feasible measures (to include air infiltration and weatherization) to their eligible low-income customers.
- Budget Flexibility for Better Outcomes: The LIOB would request that the CPUC extend ESA budget flexibility to the ESA Main portion of the program for the entire program portfolio. Current budgets should be maintained, but intelligent strategic portfolio budgeting will allow the IOUs to avoid Q4 year decisions primarily for the primary purpose of accommodating deadlines. This Q4 practice may create unforeseen impacts in subsequent fiscal years.

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,

Low Income Oversight Board

[LIST ALL MEMBERS VOTING IN THE AFFIRMATIVE]

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