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WHITE PAPER

# Key Considerations for Home Energy Efficiency Retrofit Rebate and Financing Incentive Integration

January 2011

BY: Bruce Matulich  
CEO & Executive Director  
916-480-7314  
bmatulich@egia.org  
<http://www.linkedin.com/in/brucematulich>

Ed Thomas  
VP, Utility and Government Services  
970-209-8347  
ethomas@egia.org  
<http://www.linkedin.com/in/edmthomas>

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3800 WATT AVE. SUITE 105  
SACRAMENTO CA 95821

WWW.EGIA.ORG

# KEY CONSIDERATIONS FOR HOME ENERGY EFFICIENCY RETROFIT REBATE AND FINANCING INCENTIVE INTEGRATION

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## ABSTRACT

This paper details how to leverage federal funding and combine current program incentives in ways that create sustainable home energy efficiency programs.

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Increased federal funding provides utilities, along with regional, state and local government agencies as well as non-profit organizations, unprecedented opportunity to:

- make permanent energy efficiency improvements to housing stock,
- make home ownership more affordable by reducing home energy use and energy bills, and
- create a growing and vibrant “clean energy” jobs workforce that will meet the needs of communities for years to come.

One of the challenges that communities face is how best to leverage federal funding with local funds in ways that energize the community and create sustainable community energy efficiency programs that endures short term surges in funding.

Key considerations for program designers looking to “reinvent” their residential retrofit, or Better Buildings, programs to capture and combine current program incentives in ways that increase existing program effectiveness are presented below.

## FUNDAMENTAL CONSIDERATIONS

**Consider the Contractor Perspective.** Homeowners don’t drive the adoption of home improvements as much as home improvement contractors do. Every day, home improvement contractors replace HVAC systems, upgrade insulation, and replace windows following traditional approaches. Some unscrupulous or untrained contractors insist homeowners need only purchase a single energy efficiency measure “silver bullet” to reduce overall home energy bills by 50% or more. On the other hand, responsible home performance contractors develop a comprehensive work scope “bucket of silver buckshot.” A credible comprehensive approach includes energy use modeling that projects monthly energy savings and juxtaposes the monthly savings with the monthly cost of home improvement financing (minus available rebate and other incentives), to show how the home energy improvements “cash flow”.

Building science-based solutions will begin to pay for themselves the very first month. A program that ignores the traditional way homeowners buy—and contractors sell—home improvements is naïve. Instead, program designers must create program incentives that are easy to articulate “at the kitchen table” where homeowners and contractors meet to negotiate the work scope, budget, and payment terms for all types of home improvements projects, including those that have energy efficiency and renewable energy implications. For example, EGIA’s GEOSmart financing program gives authorized contractors the capability to initiate the loan application and learn if the customer qualifies during a pre-visit interview or while in the home. If the homeowner is credit approved and the project meets program requirements, the contractor can begin the installation right away. Programs that require contractors to wait days, weeks, or even months while homeowners visit



their local financial institution or jump through never paperwork hoops and slow approval processes will cause contractors to “sell around” the program by offering homeowners a look-alike cash back discount and/or loan interest rate buy down if the homeowner will allow the contractor not to participate in the program incentive offering. Contractors know that if they leave the customer’s home without a contract, then every day that goes by significantly reduces their close rate and increases their overall cost of sales.

**Showcase Participating Contractors Who Embrace Third-Party Technical Qualification.** BPI, RESNET, NATE and others have developed nationally recognized standards for contractor performance. Utility and government programs that develop and enforce proprietary technical contractor standards offer no added benefit or exposure for contractors working outside the program territory. However, it is important for utilities and government agency program managers to validate that contractors participating in their programs meet both technical and business qualifications. The business qualifications often include such requirements as:

- proper contractor licensing,
- minimum revenue and/or time-in-business,
- no outstanding judgments or customer complaints,
- customer and trade references, and
- agreement to follow a code-of-ethics.

While many programs stop short of ranking or otherwise recommending one contractor ahead of another, Platte River Power Authority’s LightenUP commercial lighting contractor listing on its website at [www.prpa.org/productservices/eervicesbus/i/VendorandContractorlist.pdf](http://www.prpa.org/productservices/eervicesbus/i/VendorandContractorlist.pdf) includes the objective information of how many improvement installations the contractor has reported to the utility-sponsored program and customer satisfaction star rankings that PRPA collects as part of its quality assurance process. EGIA also surveys customer satisfaction as an integral part of its contractor referral program.

Utilities and government agencies that don’t have an independent way to verify contractor credentials should consider using a third-party referral program that conducts screening to verify that contractors meet basic and advanced technical and business qualifications, and satisfy their customers.



**Align Local Programs with State, Regional and Federal Initiatives.** California Public Utility Commission and California Energy Commission have wisely aligned state-wide program incentive guidelines for whole house energy efficiency to embrace dual prescriptive and performance paths that mirror the GOLD STAR and SILVER STAR approach of the proposed HOME STAR federal legislation. The Sacramento Municipal Utility District (SMUD) does the same by maintaining their traditional (prescriptive) rebate structure but layering on additional rebates for homeowners that integrate performance testing as part of the installation. Further, the California whole house programs align the contractor participation requirements with the Building Performance Institute National Standards and Professional Credentialing.

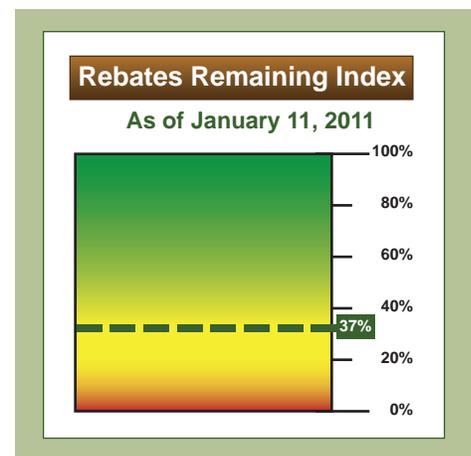
**Collaborate with Neighboring Programs.** Contractors' sales territories rarely mirror the boundaries of utility service territories and municipality borders. Programs, especially those with an overlapping customer base, benefit from collaborating to establish similar qualified improvement measures, incentive amounts, and contractor participation requirements so that contractors can facilitate the transaction for customers. The planned Energy Upgrade California statewide initiative plan will offer homeowners a "one-stop shop" to enter their zip code and learn about all the energy efficiency incentives in their area while being referred to participating contractors. See a Colorado joint utility initiative example at [www.excessisout.com](http://www.excessisout.com).

The screenshot shows the 'EXCESS IS OUT' website interface. At the top, it says 'High-Efficiency Natural Gas Equipment Rebate Program'. Below this is a table titled 'Rebate Amounts' with columns for Measure, Efficiency Level, Colorado Rebate, Source(s), Allowance Energy, and Excess Cash Savings. The table lists various equipment like High Efficiency Gas Furnace, High Efficiency Boilers, and Water Heaters with their respective rebate values. Below the table is an 'APPLICATION INFORMATION SECTION' with a form for contractor details and a 'REBATE REMAINING INDEX' section with a thank you message and a reminder to save the portion for records.

## REBATE PROGRAM CONSIDERATIONS

**Offer A Reservation System.** A growing number of utilities and government agencies are implementing reservation systems, which allow customers to reserve funds prior to making a purchase and enable utilities with limited budgets to manage their program funding while controlling customer demand. Reservation systems allow real-time tracking of future claims while preventing oversubscription. (See example in adjacent graphic)

**Integrate Incentive Application Process.** Metropolitan Water District of Southern California (MWD)—a consortium of 26 cities and water districts and more than 300 water agencies—partners with its member agencies to share the rebate expense so that a customer may receive higher incentives for purchasing a water-efficient measure. Homeowners apply just once and receive one check with EGIA, the third-party rebate administrator, allocating the MWD and individual water district rebate and administrative cost across multiple programs. An added benefit of this integrated approach is that MWD and its member organizations get access to the complete online program reporting, share a customer service call center, and use a combined rebate application. See example at [www.socalwatersmart.com](http://www.socalwatersmart.com)



**Offer A Choice of Online and Mail-Back Incentive Applications.** Requiring homeowners and contractors to complete a written incentive application by hand, provide a "wet signature," and lick a stamp to receive an incentive is so "old school", and is an excellent way to constipate program participation. Only rebate providers who don't want people to apply make participants jump through those limited program hoops. Instead, leading programs offer a choice of online, mail-back or fax-in processing options. An added benefit of providing online applications is the ability to determine an improperly completed incentive form as soon as homeowner clicks "submit", instead of mailing in the wrong application and receiving a response days or weeks later of the need to correct and resubmit the incentive application.

**Tier Incentives to Reward Homeowners for Taking Comprehensive Actions.** Rebate programs that reward homeowners with higher dollars for installing a larger HVAC system serve as a disincentive to homeowners who would benefit more from appropriately air sealing and insulating their homes and replacing their HVAC unit with a properly sized, often smaller, unit. The most recent guidance from the California Public Utility Commission takes the right approach by requiring utilities to offer "whole house" incentives such as up to \$1,000 per home for Pacific Gas and Electric Company homeowners who install multiple measures following a prescriptive approach that encourages a proper loading order. Higher incentives with increasing rebates for increasingly improved performance, starting at \$1,250 for 10% modeled energy savings up to \$4,000



for 40% modeled energy savings are available for homeowners who take a performance-based approach. Program details at [www.pge.com/myhome/saveenergymoney/energysavingprograms/euca.shtml](http://www.pge.com/myhome/saveenergymoney/energysavingprograms/euca.shtml). This tiered approach also allows homeowners to achieve the prescriptive incentive caps using “traditional” home improvement contractors who work with a BPI Building Analyst Professional to perform health and safety testing, but incentivizes homeowners to reach for the incremental incentive and make the “leap” to more innovative home performance contractors with BPI Certified Professionals on staff that can help homeowners achieve additional performance-based savings well above those obtained by the prescriptive qualified measures.

**Offer Real-Time Reports to Participants and Program Designers.** Wyoming and Pennsylvania ARRA ENERGY STAR Appliance Rebate programs offer

a real-time “gauge” on their program websites to track program expenditures and let consumers and trade allies know how much of the rebate budget is left. This allows all to have confidence that there will be enough money in the kitty to pay their incentive... or alert them that they better hurry to get in before the dollars run out. Programs like Colorado’s Excess is Out and Metropolitan Water District rebate programs have additional program information that is available to program staff behind a password-protected fire wall. The secure website for program managers gives them the ability to view real time reports based on paid rebates the same day that checks are cut and mailed.

The screenshot shows a web application interface for 'Conservation Rebates'. At the top, there's a 'REPORT FILTERS' section with dropdown menus for 'Received or Paid', 'Agency', 'Date Range', 'Programs To Date', 'Aggregations', and 'Agency Summary'. Below this is a large summary table with columns: Agency, Received, Apr, May, Total, Avg Reb, Avg Cost, and Avg. The summary table shows a total of \$1,200,000 received and \$1,176,511 in total costs. Below the summary table are three smaller data tables, each with columns for Agency, Received, and Avg Reb, providing a breakdown of the data.

## FINANCING PROGRAM CONSIDERATIONS

**Give Homeowners a Choice of Rebates or Financing Incentives or Both.** A rebate won’t be effective if the homeowner doesn’t have the spare cash to make the improvement. Likewise, insisting that a homeowner that does have the spare cash must apply for a low-interest loan to capture the incentive isn’t fair either. Instead, utilities such as Roseville Electric in California give homeowners a choice of a cash back rebate, or a 9.9% APR low interest unsecured GEOSmart loan when purchasing qualified high efficiency measures from a participating contractor. See example at [www.EGIA.org/Roseville](http://www.EGIA.org/Roseville).

**Promote a “Loading Order” for Both Efficiency Improvements and Financing Options.** Much attention has been given to the focus of California regulators on the promotion of an “energy efficiency loading order” that encourage homeowners to do more lower cost, higher energy saving (hence cost-effective) improvements, like air sealing and duct sealing, ahead of higher cost, less effective improvements. Following the proper loading order, even in a prescriptive measures program, helps avoid lost opportunities for future improvements.

Following that pattern, programs should promote a “loading order” for homeowners to decide how best to finance home energy improvements given preference to (in order of cost-effectiveness):

1. **Cash** - Better return-on-investment than any other savings account or similar investment,
2. **Home Refinance or Equity Line-of-Credit** - Lowest interest rate and longest payment term (likely longer than life of improvement itself),
3. **Subsidized Loan** - Interest rate buy downs and same-as-cash promotions from government, utility, manufacturers, the contractor, or
4. **Market Loan** – Credit Card type (revolving) with variable payment/rate to Car Loan type (installment) with fixed payment/rate (better payback than other purchases).

**Promote a “Mosaic” of Financing Solutions.** Three key attributes of any type of energy efficiency and renewable energy



financing are:

- **Monthly Payment** – Make monthly loan payment align with monthly energy savings with no “out of pocket” down payment required.
- **Assured Payback** - Lenders must be certain they will be paid back. Unfortunately, lenders have no track record to trust energy savings projections which truly improve homeowner’s ability to pay back the loan.
- **Easy for Homeowners and Contractors** - Contractors need ability to perform a home assesment, develop work scope, and sell the job in-the-home (not send homeowner to the bank with their deed).

Property-Assessed Clean Energy (PACE) and HUD Powersaver financing products have received much interest because they address two of the above attributes in an innovative manner. But the loan product designs in their current forms don’t allow for contractors and homeowners to reach an agreement to proceed at the kitchen table..

**Offer Financing Incentives to Help Contractors Grow Their Business.** Federal stimulus funding is intended to grow the number of clean energy jobs. In order for today’s home improvement contractors to embrace the home performance approach, they must purchase expensive diagnostic equipment, buy training, and pay certification and accreditation fees. Then, in many cases, they will need to rent or lease additional shop space, inventory more equipment, and expand vehicle fleets. Oh, and they will need to commit resources to market their company and build their brand to survive once the market-stimulating incentives go away. Programs need to include incentives for contractors to secure what they need to grow. For example, EGIA’s GEOSmart financing resources include commercial leasing options for contractors starting at \$10,000 to lease diagnostic equipment with associated training, ranging up to \$2 million or more to expand their businesses. Learn more at [www.EGIA.org/GEOSmart](http://www.EGIA.org/GEOSmart).



This White Paper was prepared collaboratively by the staff of the Electric & Gas Industries Association, (EGIA) based on

national experiences with various utility and government programs. The opinions expressed are those of EGIA staff and not necessarily the utilities and government agencies mentioned. To discuss how EGIA can help you re-invent your rebate and/or finance incentive program, contact Ed Thomas, Vice President, Utility and Government Services, at (970) 209-8347 or [ethomas@egia.org](mailto:ethomas@egia.org).

Founded in 1931, EGIA is a nationwide 501(c)6 non-profit organization that provides member contractors, manufacturers and distributors focused on delivering energy and water efficiency and renewable energy solutions with the knowledge, tools, training and networking that accelerate their business growth and profitability. EGIA also support utilities and government in achieving their goals related to the development of sustainable markets for energy efficiency and renewable energy products and services. For more information visit [www.EGIA.org](http://www.EGIA.org).

With over 30 years of experience in processing energy efficiency rebates, EGIA has a proven track record in delivering a comprehensive yet simple process for rebate submissions, delivering high-quality customer service through its bi-lingual call center, generating accurate and timely rebate payments, effectively managing consumer expectations, protecting confidential customer information and eliminating any and all potential for fraud. EGIA currently is providing rebate processing service for:

- **Energy Utilities:** Southwest Gas, Nicor, People’s Gas, SourceGas, North Shore Natural Gas, Atmos Energy, Colorado Natural Gas, Eastern Colorado Utilities, Arkansas Oklahoma Gas, Arkansas Western Gas, Alameda Power & Telecom, Roseville Electric



- **State Energy Offices:** ARRA ENERGY STAR Appliance Rebate Programs for the State of Wyoming, Illinois and Pennsylvania
- **Water Agencies:** Metropolitan Water District (consists of 300+ water agencies serving 18 million Californians) and Solano Water

EGIA is not only a recognized national leader in rebate program administration, but also provides a nationwide energy efficiency and renewable energy financing program; contractor network management, training and screening; and sales channel development and support. EGIA's GEOSmart Loan Program has facilitated financing of over 50,000 home upgrades valued at nearly \$800 million in the past 5 years alone. Currently, EGIA's GEOSmart loan program is the financing solution for energy efficiency and Home Performance with ENERGY STAR programs throughout the country.

EGIA also produces home energy makeover contests and Leadership Academy in-person & web-based activities where program sponsors, energy-related organizations and contractors can learn and network regarding best practices in energy efficiency, renewable energy, water conservation, customer service, marketing, sales, enhanced business operations and green collar workforce development.

