

**DOCKETED**

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**SMUD Comments Re Request for Information on the Inflation Reduction Act Home Efficiency Rebate Program (HOMES)**

SMUD Comments Re: Request for Information on the Inflation Reduction Act Home Efficiency Rebate Program (HOMES)

*Additional submitted attachment is included below.*

**STATE OF CALIFORNIA  
BEFORE THE CALIFORNIA ENERGY COMMISSION**

<b>In the matter of:</b>	)	Docket No. 23-DECARB-01
	)	
<b>Inflation Reduction Act Residential Energy Rebate Programs</b>	)	SMUD Comments Re:
	)	Request for Information on the
	)	Inflation Reduction Act Home
	)	Efficiency Rebate Program (HOMES)
	)	
	)	January 26, 2024

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**Comments of SACRAMENTO MUNICIPAL UTILITY DISTRICT on the  
Request for Information on the Home Efficiency Rebate Program (HOMES)**

The Sacramento Municipal Utility District (SMUD) appreciates the opportunity to provide input on the California Energy Commission’s (CEC) approach to program design for the federal Inflation Reduction Act (IRA) Home Energy Efficiency Rebate (HOMES) program. SMUD strongly supports building electrification and energy efficiency as an important strategy to reduce greenhouse gas (GHG) emissions, improve indoor and outdoor air quality and home comfort, and save customers money. SMUD has extensive experience offering energy efficiency programs, including direct install programs for low-income customers, and is currently piloting a neighborhood electrification program in underserved communities in our region. SMUD’s long-term vision includes helping with facilitating electrification of all buildings in Sacramento by 2045, with an accelerated target of 2040 for low-income homes; funding support, state and local policy support, and partnerships will be key to achieving these goals.

SMUD offers the following recommendations for the CEC’s consideration in designing the HOMES program:

- Leverage existing residential energy efficiency and building electrification programs, including, but not limited to, the CEC’s Equitable Building Decarbonization (EBD) program, to maximize the impact of HOMES funding.
- Utilize the modeled savings approach for rebates to serve low-income customers most effectively and reduce barriers to deployment.
- Provide a path for local entities administering complementary programs to qualify as aggregators to manage rebate applications on behalf of customers.

SMUD’s specific responses to the CEC’s Request for Information<sup>1</sup> are detailed below.

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<sup>1</sup> CEC Request for Information, revised Dember 21, 2023.  
<https://efiling.energy.ca.gov/GetDocument.aspx?tn=253718&DocumentContentId=88971>

## Input Request

- 1) **Braiding HOMES with Equitable Building Decarbonization Direct Install Program.** *Assembly Bill (AB) 209 (Chapter 251, Statutes of 2022) directs the CEC to develop and implement the Equitable Building Decarbonization Program which includes a direct install component. The CEC subsequently allocated \$690 million to the EBD Direct Install Program and adopted Direct Install Program Guidelines in October 2023 with goals of reducing GHG emissions and advancing energy equity. The EBD Direct Install Program will serve low-income residents with energy decarbonization packages installed at no-cost. Packages will, at a minimum, include a heat pump for space or water heating and may also include induction ranges and electric clothes dryers, air sealing, insulation, solar window film, LED lighting, air filtration, electrical wiring and panel upgrades, and remediation and safety measures. Additionally, all households served must be located in an under-resourced community.*

*Braiding HOMES funding with the EBD Direct Install Program would support building decarbonization for additional low-income residents while streamlining implementation and minimizing administrative costs by utilizing the same set of administrators and regional infrastructure. In the braiding scenario, CEC would seek approval from DOE to cover 100 percent of project costs for low-income households in alignment with the EBD Direct Install Program. The HOMES requirement for portfolios of projects to realize certain thresholds of energy savings would only apply to federally funded projects.*

- a) *Share any best practices for braiding federal and state funds for highly effective rebate, incentive, and/or direct install programs aimed at households in disadvantaged communities or meeting low-income guidelines.*

**SMUD response:** SMUD recommends the CEC consider options for braiding federal funds with existing direct install programs that include, but are not limited to, the Equitable Building Decarbonization Direct Install Program (EBD). All direct install programs would need to meet the federal requirements for HOMES funding and any additional criteria established by the CEC.

Braiding federal funds across multiple programs could leverage the existing community relationships, local contractor networks, program infrastructure, and understanding of regional needs. A hybrid approach that utilizes existing programs alongside EBD presents the opportunity to serve low-income households and underserved communities throughout the state in a manner that is more effective, expeditious, and cost efficient than by expanding a single program into new regions. It would also facilitate equitable access to federal funds while allowing the CEC to focus more of the state funds on the initial communities identified through EBD. SMUD is concerned that, if the CEC braids the HOMES program exclusively with EBD, federal funds may be accessible to only a small number of communities despite the acute need statewide.

As part of this hybrid approach, SMUD recommends that the CEC designate estimated funding allocations or formulas upfront for individual programs. Expected allocation information will help administrators identify and plan for the necessary scaling to support timely delivery of the HOMES rebates.

2) *In the situation where CEC **does not** incorporate/braid HOMES program funding into the EBD Direct Install Program, respond to the following questions to inform CEC's HOMES program design and application to DOE.*

a) **Overall program design.**

i) *How can HOMES funds that are awarded to deliver residential whole building energy efficiency retrofits, be best utilized to support the state's decarbonization and electrification goals?*

**SMUD response:** Consistent with the response to Question 1(a), SMUD recommends the CEC leverage existing direct install programs, provided they meet federal requirements and any additional criteria established by the CEC, to deliver whole building energy efficiency retrofits effectively for the benefit of low-income households and underserved communities. This approach is consistent with DOE's desired outcomes for the program, including effective integration of existing programs, widespread access for low-income and disadvantaged communities, and showcasing how federal, public, and utility funds can provide value to communities. In addition, utilizing existing direct install programs to deliver HOMES rebates presents an opportunity to build off local workforce development opportunities where they exist, furthering DOE's objective of expanding and sustaining a skilled workforce.

For example, in addition to our existing low-income direct install program, SMUD is piloting a neighborhood electrification program to electrify most or all end-uses for low-income homeowners in several under-resourced neighborhoods in the Sacramento region. The program is built on years of working with low-income customers to provide energy efficiency and weatherization upgrades and includes multilingual outreach and engagement with community partners to raise awareness, create support, and recruit customers; home energy audits to identify electrification and efficiency measures suitable for individual homes; and direct installation at no cost to the customer. SMUD's Multifamily Program also provides efficiency and electrification rebates for multifamily housing with greater assistance available for qualified buildings serving low-income tenants.

Additionally, SMUD recognizes that low-income communities not only stand to benefit from the positive impacts of household electrification, but if leveraged correctly these same communities can also benefit from the added economic investment resulting from electrification and workforce development. Specifically, as local businesses contracted by SMUD hire staff to complete this work, SMUD is taking a proactive approach to create a robust workforce pipeline that helps

low-income community members get the skills and experience so that they can be competitive candidates for jobs that lead to high-wage careers.

To this end, SMUD provides technical training (typically electrical theory, bending conduit, tool use, wiring junction boxes, etc.) in the very communities where our electrification efforts are taking place. SMUD's approach is to provide a modest stipend during the training phase of this project, and then to pay for participants to act as "interns/apprentices" assisting the participating businesses doing the electrification work. In this model, "apprentices" are effectively getting a long-term interview with business and getting on-the-job experience. SMUD typically trains several hundred community members each year in this fashion, many finding career paths in the trades that provide a thriving wage and long-term careers.

The HOMES program provides an opportunity to leverage the existing program structures SMUD has built to rapidly expand access to no-cost electrification measures for low-income customers, demonstrate electrification models that could be replicated across the state, and accelerate local workforce training opportunities. Moreover, the tenant protections associated with the HOMES rebates would position SMUD to expand our neighborhood electrification pilot to serve tenants as well as owners of single-family homes.

*ii) Aside from ensuring that program participation is a simple process from the resident's point of view and the need to avoid cash outlays, how should the program be structured to support widespread access and uptake in households located in disadvantaged communities or with a low income? How could CEC structure HOMES's pay-for-performance option to reach low-income communities more effectively?*

**SMUD response:** SMUD recommends the CEC further consider whether the pay-for-performance option would be an effective mechanism for reaching low-income customers. SMUD is concerned that the pay-for-performance approach would result in low uptake and delays in program implementation. The pay for performance structure seems to shift more risk onto the contractor or aggregator, which could result in higher costs for the same work due to pricing of risk and cost of capital. Without the ability of customer finance to play a role in this structure, the carrying costs by the contractor or aggregator could become quite significant and represent a barrier to deployment of projects. Moreover, such an approach may disadvantage local contractors that are small businesses and have a limited ability to "float" the cost of the rebate.

*iii) If funds are provided directly to existing residential efficiency programs, which programs will make the highest impact in terms of market transformation for efficiency and decarbonization technology?*

**SMUD response:** SMUD strongly supports the provision of funds to existing residential efficiency and electrification programs where such programs have inadequate capacity to meet the local need. The CEC could consider prioritizing programs that have a strong track record working with low-income and underserved communities, incorporate workforce training opportunities, and can facilitate a holistic approach to decarbonization by leveraging other programs and partnerships.

Utilizing existing programs can help accelerate deployment of HOMES funding and build off of years of experience in optimizing program design and community outreach. SMUD's direct install program for low-income customers has successfully upgraded over 2,150 gas furnaces, water heaters, and stoves to efficient electric alternatives over the past 5 years. SMUD has made several program changes along the way to improve effectiveness and incorporate lessons learned. For example, SMUD was recently awarded a patent for an algorithm that helps us identify inefficient space heaters. This algorithm is incorporated within our programs and helps us target customers who will see the greatest benefits from electrification. However, SMUD's direct install program, while proven effective, does not have sufficient capacity to meet community needs. SMUD estimates that approximately 32,000 customers enrolled in our Energy Assistance Program Rate (EAPR, which has an income limit that is more restrictive than HOMES) have inefficient or very inefficient cooling, but SMUD can typically only serve 300-500 homes each year through our existing funding. Provision of HOMES funding could provide an immediate impact on access to efficiency and electrification measures within the Sacramento region.

Leveraging existing programs for HOMES rebates can also reduce the amount of change required of contractors, which in turn reduces contractor fatigue and costs with changes to business models or new requirements. When programs are changed, contractors incur costs and delays in adapting to and incorporating those changes into their processes, systems, and customer transactions. Minimizing this disruption and utilizing existing proven program delivery models should be a key objective for the CEC in implementing the new funding. Building off of successful existing programs, rather than developing a new program or seeking to launch EBD in a new region in order to administer federal rebates, will maximize the impact of the HOMES funding.

Finally, funding existing programs presents an opportunity to seamlessly leverage other complementary rebates and programs for decarbonization technologies – such as electric vehicle charging, panel upgrades or technology to avoid upgrades, smart thermostats, rooftop solar, and batteries – that are offered by the same administrator or through its partnerships.

*iv) Leveraging and stacking:*

*(1) CEC has gathered feedback on how electrification incentives could best be leveraged and stacked with existing programs. Are there additional considerations for best leveraging and stacking residential whole house efficiency rebates, like HOMES with existing programs?*

**SMUD response:** The CEC should ensure that local entities that are administering complementary programs can qualify as an aggregator to receive rebates on behalf of homeowners. This could allow entities like SMUD to manage paperwork involved in delivering rebates.

*(2) Are there considerations for stacking pay-for-performance rebates (see below) with existing programs?*

**SMUD response:** No response.

*(3) What are the best strategies for effective and efficient integration into existing programs' administration, websites, and materials?*

**SMUD response:** The CEC should offer guidance and take a review and provide feedback approach to materials that are developed by existing program administrators to reflect the funding available via the HOMES program.

*(4) Which existing program quality assurance, quality control, workforce, or other implementation standards or best practices should be taken into consideration or used as a model?*

**SMUD response:** SMUD validates 20% of our installations per year to confirm the work was performed appropriately. This level of quality assurance is based on several years of program experience with over 2,150 equipment retrofits during that time and has been sufficient to ensure that the contractors that we work with in the direct install program are performing high quality work. In addition, SMUD conducts standardized measurement and verification reviews of all our programs to validate their performance and effectiveness.

*b) **Rebate determination approach and rebate values.** DOE offers both a modeled and a measured savings pathway. The measured savings pathway requires energy savings of 15 percent or greater per home or portfolio of homes. As noted above, through the measured savings pathway, the state can choose to set rebate values by either 1) paying a fixed portion of the project cost (80 percent for low-income households and 50 percent for households with income at 80 percent AMI or greater or 2) a pay-for-performance calculation payment rate equal to \$4,000 for a 20 percent reduction of energy use for the average home in the state for low-income households and \$2,000 for a 20 percent reduction of energy use for the average home in the state for households with income at 80*



*percent AMI or greater. States may seek approval from DOE to increase the maximum amount available for low-income households.*

*For both measured pathway options, CEC is to receive and review nine to 12 months of each retrofitted home's energy consumption data to confirm 15 percent of energy savings prior to issuing a rebate to the contractor, aggregator, or program implementers. Additionally, states must design programs such that low-income households are not required to use personal funds to pay for rebate-covered work.*

- i) What are the advantages and drawbacks of program design using the fixed costs versus pay-for-performance method? Can the pay-for-performance method effectively serve low-income households?*

**SMUD response:** SMUD believes the modeled savings approach, which identifies eligible homes upfront and sets the rebate at the lesser of a fixed amount or percentage of project cost, will be most effective at serving low-income customers. Rebates provided through the modeled savings approach will be available to customers or approved aggregators far more expeditiously and with greater certainty than rebates provided through the measured savings (pay-for-performance) approach.

One challenge with the pay for performance component of the measured savings approach will be serving customers with poor credit. If aspects of the project must be financed, reaching these customers will require an intermediary to finance the project components that would ultimately be paid for by the rebate. Customer finance will not be an option for a portion of the population due to customer credit concerns. This could put significant risk onto contractors or aggregators and, as a result, slow deployment of funding if these entities do not have adequate trust that the funding will be received, or access to low-cost capital for providing the upfront funding.

- ii) What are the options to manage and allocate performance risk and financing costs during the 9 to 12-month post-installation period prior to issuing the rebate? Options should consider at a minimum that: low-income households are not required to utilize personal funds to pay for rebated work, the inability for many contractors, installers, or small businesses to "float" rebate costs, and the cost of capital for aggregators (or some designated entity) to float those costs.*

**SMUD response:** The most likely scenario would be that an aggregator would need to "float" the rebate costs, which could be a deterrent and constraint on participation by aggregators or contractors, as further described the response to Question 2(a)(ii).

*iii) For the fixed cost method, how should the CEC approach setting allowable project cost caps? What are similar programs CEC should use as examples?*

**SMUD response:** No response at this time.

*iv) What is the best way for the CEC to obtain consistent and sufficient documentation for contractors, such as itemized cost breakdowns, while remaining consistent with contractor business practices?*

**SMUD response:** SMUD's direct install program currently requires contractors to submit a detailed invoice for each project completed. This is reasonable to require and can help the program identify cost drivers to work on. For example, high panel upgrade costs in our program helped accelerate the push for panel upgrade alternatives such as circuit splitter technologies.

**c) Eligible Recipients.**

*i) Should CEC reserve additional HOMES funds for low-income households, beyond the DOE-requirement of 50 percent of total rebate funds? If so, why, and what percent?*

**SMUD response:** Yes, SMUD supports the CEC reserving additional HOMES funding for low-income households. The low-income segment is the hardest to electrify and most crucial to electrify early in order to ensure an equitable transition. Rising gas prices over the next decade will have significantly negative impacts on household energy bills that will create affordability challenges for low-income customers. Maximizing the amount of money from HOMES towards low-income customers should be an objective to ensure this limited set of funds can have the largest impact on the communities most in need.

**d) Income Verification.**

*i) What approaches should CEC consider to verify individual household income that are efficient and accurate, safeguard information, and create a minimal burden for residents? Please provide examples of other programs and why you consider them effective models?*

**SMUD response:** SMUD verifies income for all customers enrolled in our Energy Assistance Program Rate (EAPR), which provides a discount on monthly energy costs and qualifies customers for our other low-income programs. Prospective enrollees must submit information on household size and provide documentation for all income/sources of money from within the last two consecutive months. Applications are available in multiple languages, and online submissions are typically processed within one week. SMUD's income verification method has been effective and could be replicated for HOMES income verification.

*ii) The EBD Direct Install Guidelines established a list of federal and state assistance programs that can be accepted to qualify a resident as low-income (i.e., "Categorical Eligibility"). Should the CEC utilize the same list of*

*programs for Categorical Eligibility for a program(s) developed with HOMES funding? In addition to the programs found in Section E.3. of the Guidelines, are there additional programs CEC should consider?*

**SMUD response:** SMUD recommends the CEC prequalify customers enrolled in EAPR. Eligibility is based on household income up to 200% of the Federal Poverty Level, which is more restrictive than the 80% area median income threshold required by federal guidance for HOMES. In addition, as noted in the response to Question 2(d)(ii), SMUD performs income verification for all customers enrolled in EAPR and this process could be leveraged to verify the 80% AMI income level required for the HOMES program.

### Conclusion

SMUD appreciates the opportunity to provide input on the development of the HOMES program and looks forward to continuing to work with CEC staff in this proceeding.

/s/

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cc: Corporate Files (LEG 2024-0015)