

BPCA *mini* **WHITE PAPER**

Transitioning from State-sponsored Home Performance to a Free-Market Economic Paradigm for Energy Efficiency

A Product of the Building Performance Contractors' Association of New York State - Board of Directors
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The Building Performance Contractors Association (BPCA) of New York State is a 12-year old non-profit trade association (501c6) whose members are primarily energy efficiency contracting companies, building science consultants, and Energy Star raters. BPCA is focused on building up the marketplace and the businesses of our members through market transformation for energy efficiency services. Within this context, we function as an educational organization - specifically addressing advanced topics on energy efficiency diagnostics, deep retrofits, and building performance.

This white paper was reviewed by the BPCA Board of Directors, and approved by its Executive Board:

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Executive Summary

Market transformation is always complex. For the home performance market, success may ultimately depend as much on physics as it does on the interactions between consumers and contractors. NYSERDA has made a valiant effort to grow the industry over the past decade, in spite of immense difficulties. One of many lessons we've learned is that the competitive nature of a vibrant marketplace can be significantly impeded by state-sponsored programmatic requirements.

Bottom line: the due diligence and accountability required of an agency that is spending public funds adds significant costs to the machinations by which a natural industry can grow, and does not easily lend itself to the development of a free market. In support of the New York State Energy Plan, we need to address this.

In fact, it is this required overhead itself that impedes the marketplace. For example, quality assurance is a necessary requirement for agency accountability, but tends to strain the relationship between the consumer and the contractor while increasing the costs of doing business. The associated costs of these types of activities are incurred by the contractor, and must trickle down to the consumer, and this has a tendency to limit market activity and business growth. A transition to a free market economy requires that these imposed costs are reduced and eventually eliminated.

Market Transformation Simplified

- 1) Educating consumers as to the value of energy efficiency
- 2) Training contractors to do Energy Efficiency work properly
- 3) Putting the two parties together through a variety of creative mechanisms

When NYSERDA initiated New York's Home Performance with Energy Star program, it was intended only to kick-start the home performance industry. The architects of New York's Home Performance with Energy Star program never intended for the bureaucratic infrastructure to become an ongoing burden for the industry.

Many years later, we are still trying to figure out how to sunset programmatic activities, the ongoing costs of which (when combined with the impact of GJGNY legislation and the low price of gas / oil) has succeeded in stalling growth of the home performance marketplace.

NYSERDA's efforts to overcome these hurdles with financial incentives and low-interest financing have been herculean, but ultimately it seems the time is right to try a new approach.

Two fundamental factors need to be continued in the transition from a program-based economic model to a market-based economic approach include:

- 1) Reporting and aggregation of energy savings
- 2) Maintaining the Home Performance brand

Without financial incentives, contractors have little reason to report their energy savings, since the process of reporting adds overhead and drives up costs. But the reporting of energy savings is important to the growth of the marketplace, and for the integrity of the home performance brand. As we move to a market-based approach to market transformation, we must plan for the continuation of both.

The goal here is to bring natural scale to the residential energy efficiency market by providing a simple and elegant transition from state-sponsored energy efficiency programs to a free-market economic paradigm for market-rate customers (note that this paper does not address the needs of low to moderate income households, which we expect to continue unabated). When real market forces are at play, we believe that properly supported HP contractors can drive credit-worthy consumers to the marketplace.

And as with many things in life, there is an element of *timing* involved. As colder New York winters (with the higher energy usage and ice dam issues) have recently helped to revive market demand, BPCA suggests that the timing may be right for this transition to begin. Our challenge is to smooth out this transition so as to avoid significant market disruption.

Introduction

BPCA members and stakeholders are in basic agreement with the drive to move New York towards a market-based economic paradigm for energy efficiency work while working to protect the “home performance” brand. Based on extensive discussions that have occurred during 2015, we define the primary task ahead as one of *transitioning from a programmatic environment to a market-based Home Performance (HP) economy without undoing all the work foundational NYSEERDA has done to build this marketplace.*

And this foundation has been substantial – effectively making NYS a national leader in energy efficiency. This paper supports an approach to gradually reduce (and eventually eliminate) the use of state funds for market transformation, while still ensuring that Home Performance work continues unabated.

Two fundamental factors need to be maintained in market transformation for home performance:

- 1) **Reporting and aggregation of energy savings**
- 2) **Maintaining the Home Performance brand**

The devices that have been used to pursue these two factors include:

- 1) **The free energy audit**
- 2) **Financial incentives and rebates**
- 3) **Low interest loans**
- 4) **Marketing support**

Derivatives and variations of these devices have been discussed at great length throughout 2015, and each contractor tends to be more interested in one or another of these devices based on the business model they’ve carved out around the program. Every contractor has his or her own opinion on the relative necessity of each program benefit in transforming the marketplace. All agree that the market is not fully transformed yet.

The Free Energy Audit

Large contractors have overwhelmingly said the free energy audit is the most important part of the program, but smaller contractors claim it is forcing them out of the marketplace via tire-kickers and do-it-yourselfers. The free energy audit seeks to subsidize the high cost of lead generation and facilitate more opportunities to engage potential customers. Upstate contractors tend to be more interested in keeping the free energy audit than downstate contractors (where \$250 barely covers expenses). All agree that the free energy audit reduces consumer impressions and expectations on the value of an energy audit.

Financial Incentives and Rebates

As a group, BPCA contractors are split on whether consumer incentives are essential to the existing sales process. It’s obvious that stakeholders have already made the decision that these will be terminated. All agree that increased contractor incentives could be a reasonable alternative to reduced consumer incentives during this transition.

Low Interest Loans

Most contractors feel that if they had to give up all program benefits except for one, they would prefer to keep easy-to-access low interest loans. Ideally, these would be 15 year unsecured loans offered by local institutions and guaranteed by the Green Bank. All agree that low interest financing (available at the kitchen table during the sales process) can drive sales for market-rate consumers, especially when monthly energy savings match or exceed monthly payments.

Marketing Support

Although NYSEERDA’s marketing support has been much appreciated by companies both large and small, most contractors that have benefitted already have an existing marketing plan and could find their way without marketing subsidies.

BPCA’s position is that whatever options remain, the overarching goal of this transition should be simplicity and reduction of program overhead costs. We appreciate that NYSEERDA understands the need

for continuity during this transition. No sudden movements – no disruptive actions – ongoing communication for purposes of feedback and planning. We can't expect to please everyone during this phase, and we can't just cater to the loudest voices if you truly want to "raise the water for all boats."

As a publicly-funded agency, NYSERDA frequently finds itself trying to navigate the interests of multiple constituents whose goals cannot be easily reconciled. For example, it has been noted that the stated interests of the Center for Working Families (CWF) and the unions are somewhat at odds with each other – and also at odds with those of participating HP contractors.

CWF has suggested that contractors should be required to hire local labor and keep consumer prices low. Meanwhile, union reps suggest that contractors should be required to pay above-average wages, and hire from union training programs. In fact, small contractors are by nature a struggling enterprise. They are trying to build their businesses in a fledgling market, and are not well-positioned to do either of these things even if they'd like to.

As a public entity, NYSERDA can't be expected to negotiate these issues and relationships, and yet they have no choice. There's just no way to satisfy all the factions involved, and together they represent an ecosystem that will find its own balance over time. This is just one example of how a publicly-funded entity starts to impede the natural growth of the marketplace.

Oversight is absolutely necessary when we are using public funds. If we are to transition from programs to free market, our goal for the transition is to reduce costs for market players while maintaining already-codified Home Performance standards. We need to maintain the strength of the Home Performance brand while backing off on programmatic oversight.

One way to do this is to gradually shift the responsibility of oversight to the consumers. New websites are available (like Angie's List) containing crowd-sourced reviews of local businesses can protect consumers. If NYSERDA can't provide this sort of venue for consumers with public funds, then the marketplace (or BPCA) will create mechanisms to allow this process naturally.

We need to back away from the idea of state-sponsored success, as well as failure. The market has a life cycle and a rhythm all its own. NYSERDA has created this market, but success must be driven by market forces like the cost of energy and creativity that creates competitive advantage. NYSERDA's continued management at this point may only impede natural growth.

Ultimately, the cost of oversight should not be an impediment to achieving energy savings. So a free market economic model requires some flexibility with regards to regulatory requirements. Like parents trying to raise a well-educated child, there is a measure of guidance necessary, but the child must ultimately find his/her own footing. The parent must often grin and bear the results. With proper guidance and social influence, over time a child will grow to become a pillar in the community. This is our goal for the home performance industry, and no state agency can do more than provide guidance and encouragement.

Home Performance contractors oversee a complex business model that require 24/7 diligence and diplomacy. From day one, they must generate enough business to sustain their employees and maintain morale while generating some profit margin to pay for overhead and additional investment in growth. They must figure out a scalable way of building relationships with consumers and educating them, learning systemically about the problems their customers' have, and arriving at solutions that fit homeowner budgets. This is not easy – requires technical knowledge as well as sales acumen, discipline, and 'street smarts.' This is especially stressful and complicated during start-up. Without the mission-focused pioneers that are willing to take this on, the energy efficiency industry could not exist.

The Home Performance Industry as a Community

At the perimeter of the market-based infrastructure we are trying to build is education. Contractors enter the industry through training and certification. We need to protect the Home Performance marketplace from lackadaisical and/or uneducated workmanship, while bolstering the HP contractors that are high-functioning and productive. Our “firewall” is consumer education and contractor certification. Inside the perimeter of this community, players receive field-based training and mentoring for purposes of quality assurance, and there is reporting associated with this education/certification process. Alongside energy efficiency, we cannot overlook the additional benefits of HP: comfort, health & safety, intrinsic value of improvements.

Ideally, the difference between contractors on the inside is depicted by *realization rates*; how much energy is actually being saved through HP business activities, and how efficiently is that work being done. Once we get beyond the accountability issues required for govt spending, we realize that the amount of potential savings is a variable that cannot be controlled without undue oversight. But this oversight adds significant administrative overhead which the industry cannot easily afford. This overhead includes software modeling, project reporting, quality assurance and the contractors response to quality assurance, as well as other peripheral activities that support this administrative burden.

To continue aggregating data, energy savings must be easily and efficiently collected, compiled, and reported. This is largely a technology issue that we hope will eventually be addressed through implementation of the Energy Efficiency Meter (or Google via Nest).

Ensuring market sustainability even as NYSERDA backs away

NYSERDA can wean contractors off program-based incentives while growing the market.

- Continue to offer financing subsidies while reducing consumer incentives. While we expect the Green bank to address some financing issues, we don't necessarily believe that all the issues will be resolved by market rate financing from private lenders. Ultimately, the internal dynamics around risk acceptance and risk avoidance are fundamentally at odds with one another. But the market for financing will evolve if we continue to support this evolution with facts.
- Support contractors to do localized marketing that supports the HP brand. Markets for energy efficiency need to evolve locally, and nobody is in a better position to become beacons of energy efficiency than HP contractors themselves. Marketing campaigns can be coordinated at a state level while marketing events can be localized. Let creativity reign by paving the way for these activities without imposing too many requirements. This is how localized market-based activities can build momentum naturally.
- Help HP contractors sell more projects and do more work. Most home performance contractors are technically-oriented rather than sales-oriented. Incentives have helped to address this, and over time NYSERDA has created a viable landscape through the combination of incentives, rebates, and low-interest financing. We think that over time, an increase in sales acumen (via training and mentoring) can compensate for reduced incentives and rising loan percentage points. This is also a significant aspect of BPCA's mission.

It is NYSERDA's use of public funds that adds significant administration to the whole process, driving up costs for both contractors and consumers. The new goal should be to *engage consumers through contractors* in a way that is transparent – in a way that cannot be interpreted as playing favorites. NYSERDA should play an advisory role, rather than an active managerial role. This new goal involves very little infrastructure – looks more like a series of contractor-initiated marketing campaigns than an energy efficiency program – relies on contractor activity more than programmatic activity. The existing base of HP contractors can create a flourishing marketplace for growth if consumers are properly engaged.

Making program administration less complicated for participating contractors is critical. Reduced program incentives will be seen as a positive shift if that contractors no longer must jump through extensive hoops with added admin, intensive modeling, quality assurance based on inflexible guidelines, and the specter of return visits that facilitate consumer confusion.

Protecting the Home Performance brand

The science behind home performance creates the Home Performance brand, and differentiates HP contractors from the rest of the pack: the blower door / combustion analyzer / infrared scanner/ etc. Consumers need to be continually educated about the differences between HP contractors and other contractors. This helps ensure that untrained contractors don't undermine the brand while also undercutting market rates.

The Building Performance Institute (BPI) will play an essential role in maintaining appropriate standards. The benefits of BPI accreditation and individual certification will persist because there are inherently important business reasons for adhering to BPI standards. The new BPI Goldstar Accreditation model is focused on supporting and mentoring contractors, and will be a valuable supplement to our market transformation efforts. There are natural mechanisms to protect the home performance brand that go beyond programmatic requirements:

- Increased comfort for customers, as well as health and safety issues
- Reduced call-backs for mistakes
- Increased durability for customers' buildings
- The promise of reduced energy bills and minimized energy waste
- Development of ongoing customer relationships that continue to move towards net zero homes

Ultimately, the work that ends up being done will always be dependent on homeowners' interests and budgets. But BPI certified/accredited contractors have a vested interest in "doing the right thing."

Specific Recommendations

BPCA represents a diverse group of contractors whose business needs cannot be easily aligned. Nonetheless, based on extensive discussions that have transpired during 2015, BPCA respectfully offers up the following recommendations.

During the Transition

Market transformation is like a beach ball full of sharp metal objects. We must always push very gently to rearrange the contents without letting the air out. We can't expect to please everyone during this phase, and we can't just cater to the loudest players if we truly want to "raise the water for all boats."

NYSERDA

We appreciate that NYSERDA understands the need for continuity during this transition. Sudden movements can be disruptive. Simplicity and communication are critical. For this reason, NYSERDA needs to back away slowly but deliberately.

Establish a Transition Period

NYSERDA should set an established period of time to transition to a free-market economy. The length of the transition period (longer the better of course) should be determined based on best estimates for available funding, as well as stakeholder requirements. The transition period needs to be established - and stated publicly - so that participating contractors can make plans to shift their business models accordingly.

Continue to offer (reduced) incentives

We recommend that during the transition period, a 10% incentive be paid to the contractor. This incentive will replace all current incentives. The contractor should be allowed flexibility to apply this incentive at his/her discretion, for...

- Consumer discounts
- Loan buy-downs
- Instant rebates
- Internally (to cover program overhead which could include a free energy audit)

Maintain course while setting the stage for a post-transition marketplace

During this transition period, NYSERDA should continue efforts to infuse energy efficiency into the marketplace- especially during home sales and furnace failures, portraying energy efficiency as a well-established source of “negawatts.”

- Protecting the home performance brand through consumer education via marketing materials made available to consumers through participating contractors, and on social media
- Sharing realization rates with contractors to (based on the PSD report) to provide a feedback loop that will allow for performance improvements
- Directing consumers to BPI-certified analysts and BPI-accredited contractors
- If the transition includes pay-for-performance, then a stepped approach could be considered, where ‘deemed savings’ represents one level, and energy modeling represents a higher level.
 - A list of established measures that qualify for a 10% contractor incentive
 - An algorithm to establish the percentage of contractor incentive (eg; dollar amount multiplied by realization rate)
 - Contractor incentives based on each saved kilowatt / therm, to simplify the process and act as a regulating force (in the same way the FED’s interest rate regulates the economy)

Continue to innovate as budgets allow

No organization is more qualified to provide innovation to the marketplace than NYSERDA, but every attempt should be made to ensure that NYSERDA plays an advisory role, rather than a program management role. BPCA can support this by participating in a public / private partnership that facilitates this process whenever necessary.

- Encourage the Public Service Commission to assign collaborative roles to both NYSERDA and utilities, to ensure that they are able to coexist effectively. Utility programs should not supersede NYSERDA’s efforts, and should be required to support the industry’s need for access to energy usage data. Utilities should promote entry points to home performance in promotional “stuffers” that go out with utility bills.
- Promote and/or develop the energy efficiency meter for New York. The home performance industry needs real-time access to actual and historical usage data to track energy-unit savings. Contractors need feedback on performance so they can adjust their future predictions based on historical post-project results.
- Promote and/or develop a system for contractor feedback on how contractors perform as compared to their peers. This system is probably best sponsored by a “third-party” such as BPCA or a similar non-profit.
- Provide a rudimentary “Certificate of Energy Savings” to homeowners that follow through with home performance measures using a BPI-accredited contractor. This certificate should include some measure of carbon savings (cars taken off the road? Trees not cut down?) based on the contractors estimate of energy savings, and should be presented only after the consumer has provided a review of the contractor’s performance.

BPCA

The following are activities that BPCA would initiate during this transition. They are specifically designed to support the continued growth of a scalable marketplace *through* the involvement of participating contractors.

Market-building Activities

Individual contractors are the best marketing tool. Without spending significant money on marketing or advertising, localized marketing opportunities can be created and initiated – to allow HP contractors and other interested parties (aka “consolidators”) to promote localized energy efficiency services. The underlying points are made through a series of marketing messages that embody the larger message; “the comfort and energy efficiency of your home can be improved by a home performance contractor.” Marketing materials can be provided to contractors, and in some cases, it is hoped that collaborative attempts may require NYSERDA and utilities to facilitate these connections and relationships.

- Social media aggregation; eg: referral program initiated through the full spectrum of social media tools
- Speaking events for participating contractors organized through state-level community organizations; Rotary Clubs / Kiwanas / Chamber of Commerce / Community groups / progressive church communities / etc. - coordinated at regular intervals in accordance with existing meeting schedules around the state. Speakers will be participating HP contractors (coaching and speaking points will be available from BPCA).
- Tupperware parties organized by contractors and CBO’s; neighborhood-based marketing (eventually THIS becomes the free audit for market-based consumers).
- BPCA Parade of Energy Efficient Homes (already being discussed in Westchester):
 - February 2016 in Westchester
 - March 2016 in Buffalo/Rochester
 - April 2016 in Lower Hudson and the Capital region
 - Early May 2016 in Syracuse and also Binghamton
- NYS Festival summer circuit established; including - but not limited - to the follow events:
 - Clearwater Festival in Lower Hudson Valley (Croton-on-Hudson) June 18th thru 21st
 - Blue Heron Festival in Southwestern NYS (Sherman NY) July 4th thru 6th
 - Grassroots Festival in Central NYS (Ithaca) July 16th thru 19th
 - Big Splash Sustainability festivals (Watkins Glen) Aug 15th thru 17th
- Vets4Vets; where veterans are trained to do energy efficiency work by improving the homes of disabled veterans. This effort has great value on multiple levels, and especially public awareness.
- Sales “consolidators;” front line marketing organizations that generate relatively low cost leads for participating home performance contractors:
 - Community-Based Organizations (CBO’s)
 - Next Step Living / Domino “Energy Concierge”
 - Municipalities with PACE loan initiatives
 - Independent Energy Auditors (yes – there IS a viable business model that works as soon as the free audit goes away)

Market Expansion Activities

While we expect the Green bank to address some financing issues, we don’t necessarily believe that all the issues will be resolved anytime soon via market rate financing by private lenders, because the existing dynamics of risk acceptance and risk avoidance may be fundamentally at odds with one another. But the market will evolve, and we just need to support this evolution

with facts. BPCA will actively work to facilitate funding through creative mechanisms as the market gains strength and credibility with loan underwriters.

- Promoting creative ways to present existing loan options to consumers (e.g.: Green Sky / Renew Financial / ReHome / etc) and developing new funding streams
- Municipal-based PACE loans. BPCA is currently working with Leidos to reduce the processing / admin effort currently being imposed on both contractors and counties.
- Banks / credit unions (partnering to offer access to *pre-qualified credit-worthy clientele*)

Larger Socio-Economic Efforts

BPCA will advocate for the following policy changes through coordination with NYSERDA, Efficiency First, the Building Performance Institute, the Home Performance Coalition, the NY Energy Efficiency Coalition, and other industry players.

- Energy savings results should reflect the additional 30% difference between “source” energy and “site” energy.
- Carbon should be considered a solid waste, and promoted as such to progressive municipalities around the state.
- New York legislature should enact a “polluter’s fund” which can provide funding for energy efficiency from fines for environmental damage (as implemented in Pennsylvania).

Post-transition Activities

Once the established transition period has run its course, NYSERDA should make every attempt to allow the marketplace to behave in unfettered manner, focusing primarily on collecting data about estimated and actual energy savings, as well as data on certifications and accreditations. Ongoing marketing activities will continue because it will be in the best interests of participating contractors to do so. BPCA activities will be financed by enhanced membership fees and related training activities. NYSERDA’s overarching goals could be reduced to:

- Continuing to build the home performance brand through ongoing consumer education
- Publishing contractor realization rates based on aggregated data collected from contractors and utilities
- Directing consumers to BPI-certified analysts and BPI-accredited contractors through a variety of (transparent) mechanisms

Quality Assurance (QA)

BPCA advocates technical assurance in the form of front-end training and certification rather than back-end quality assurance. QA is expensive on several levels, and when based on CLEAResult’s Materials and Installation Guidelines (MIG), it has a tendency to preclude improvisation that is often required in energy efficiency measures performed on existing housing stock. The MIG should be seen as guidelines rather than a book of rules. As the industry evolves, it needs the ability to innovate if it is to improve. The constraints of governmental oversight may preclude this kind of innovation.

Currently, any deviation from the MIG becomes a potential call-back and a contractor score-card (QA) issue, as well as a significant investment of time. Worst of all, it makes the customer think they may have hired the wrong company, and it may create an impression that the contractor now assumes responsibility for fixing a customer’s house at the contractor’s expense (which is enough to shut down the industry all by itself). Delays between installation date and QA (up to 4 months) - as well as changing conditions during this time - create additional unnecessary paperwork and awkward explanations.

Flexibility supports industry growth and results in more work getting done. Actual effectiveness of this improvisation may fluctuate as anomalies will be inherent, but *on average* and over time, there will be an increase in effectiveness if BPI-certified workers are allowed to innovate.

As we move to a market-based economy, accountability for work performed resides with BPI-accredited contractors, and should ultimately be judged and reported *by the customer* - to Angie's List and/or other similar crowd-sourced online venues. BPCA and/or NYSERDA could even sponsor or support a version of this as part of marketing the home-performance brand.

Energy Modeling

Energy modeling should be seen for what it is; an abstraction of reality. Calibrating the energy model makes it more useful, but human behavior will always be unpredictable – so modeling will always represent merely an *estimate* of energy savings. Experienced energy efficiency contractors may be able to provide just as good an estimate without modeling – based on experience. Once we have a way to access actual energy usage information – through utility access, or the energy efficiency meter, estimates can be compared to actual energy savings for a realization rate that will provide useful feedback to both contractors and consumers.

Mainstream Scalability

To reach true scalability, we'll need to move beyond standard market transformation mechanisms toward more substantial efforts that reach larger numbers. Once the energy efficiency meter is implemented, BPCA is poised to engage on several larger (crowd-source funded) efforts as well:

- An info-mercial that runs on cable stations; 45 minutes of promotional messaging on solar and energy efficiency made available to localized cable networks.
- A feature-length film that educates the public on the value of energy efficiency in a humorous and engaging manner (what 'Sideways' did for the red wine industry).

Conclusion

In summary, state accountability and liabilities that drive up the costs of energy efficiency can be minimized by phasing out market dependence on state funding. This is not just doable; it is a critical step in the sustainability of the home performance brand in the marketplace.

BPCA was founded as a training organization and a Home Energy Rating System (HERS) provider. But over the past several years, as the market for contractor training and Energy Star™ homes has been reduced, BPCA's mission has shifted to market transformation, with the following long-term goals:

- Create new jobs in energy efficiency
- Reduce energy costs for homeowners
- Reduce energy waste for future generations
- Reduce US energy dependence on foreign oil
- Stop the constant flow of US energy dollars to adversarial nations

BPCA is prepared to leverage its organizational connections and increase its state-wide membership in an effort to engage both consumers and contractors as part of this transition to a market-based home performance program that scales naturally. As NYSERDA slowly backs away and lets the marketplace take over, we believe a third-party non-profit organization can make efficient use of significantly reduced funds.

A member-based non-profit has leverage in market transformation that's not available to a publicly funded agency, and can negotiate from a totally different standpoint. Overseen by a diverse and active board of directors, BPCA can operate with relative impunity, letting natural market forces run, and building a truly scalable economy for the NY home performance industry going forward.