



New Jersey Board of Public Utilities

Implementation of Federal Inflation Reduction Act HOMES and HOMES and HEEHRA Programs.

Docket # QO23100733

Pearl Certification Comments

January 12, 2024



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Dear NJBPU team,

Pearl Certification is grateful for the opportunity to contribute our comments in support of your continued leadership, on behalf of all New Jerseyans, to create a clean, affordable, reliable, and equitable energy system.

[Pearl Certification](#) is a third-party certification services provider on a mission to transform the market for high-performing homes. As a [Public Benefits Corporation](#), our core principles center around making the value of energy-efficient features visible to homeowners, including those in underserved communities. We have certified over 188,000 homes in 49 states, including over 3,500 in New Jersey. Our expertise is in bridging the information gap between energy efficiency upgrades and real estate valuations, driving demand for energy efficiency, and in doing so, transforming the market.

The leadership team at Pearl brings a cumulative 200 years of experience in energy efficiency and renewable energy, having played critical roles in developing federal programs and managing leading home performance initiatives across the U.S. We are excited that New Jersey has the opportunity to leverage these federal funds for long-term impact and to enhance the state's residential housing stock significantly. Pearl Certification can support New Jersey in fulfilling the Inflation Reduction Act (IRA) HOMES third-party certification requirement and play a pivotal role in formulating your Market Transformation Plans for HOMES and HEEHRA.

Please contact me with any questions using the email and phone number listed below.

Thank you,

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The Value of the Right Information at the Right Time

Energy efficiency gains in housing are an essential and practical first step toward New Jersey's ambitious goals to advance the electrification of 400,000 additional residential dwelling units and an additional 10 percent of residential units in low income communities to be made electrification-ready by 2030. Pearl Certification was developed to deliver measurable value to homeowners, independent of additional incentives or subsidies. The additional incentives now available through the Inflation Reduction Act present a unique opportunity to accelerate home upgrades, increase investments and catalyze market transformation for home performance upgrades.

As numerous stakeholders mentioned at the December 2023 Technical Conference in Trenton, given the number of new and existing utility, state, and federal energy efficiency programs, we agree there is a significant risk of consumer confusion about the IRA. New Jersey homeowners of every income level will need a simple and seamless way to engage with the HOMES and HEEHRA programs while navigating other available incentives. Ensuring equal access to and agency within these programs for lower-income homeowners will require comprehensive engagement and attention to detail, in addition to the technical acumen to build the necessary tools.

Our collective success rests in ensuring homeowners overcome the barriers to entry and fully participate. If the programs appear too complicated for contractors and homeowners alike, people will not act. Pearl's approach is to make the first steps easy and provide a clear path upfront, financially and technically. Our Home Investment Plans serve as a roadmap through the entire process from prioritization, financing, incentives, finding contractors, and moving homeowners and other stakeholders to take action. It's a free tool and a resource we can adapt for NJBPU to reduce the barriers to entry and improve the odds for widespread, continued, substantive upgrades over time.

Once engaged, our approach meets homeowners where they are, allowing them to upgrade their homes on their timeline. No matter how long the project timeline is, their documents and past work are archived securely so they can pick up where they left off to take the next step toward higher performance and levels of certification achievement. As upgrades are completed, the essential information about a property's energy efficiency and sustainable features is tracked, captured, and delivered in an easy-to-understand Home Certification Report.



[Pearl's Certification Report](#) is informed by years of consumer research. It highlights a home's energy-efficient and high-performing features, including environmental, health, and cost impacts, in a way that homeowners can understand, real estate agents can market, and appraisers and lenders can leverage to assign higher value. The report can also be shared with homeowners in a digital format and printed in cases where homeowners do not have internet access or are non-digital natives.

A certification is most effective if it helps answer questions about the experience of living in a home. In practice, this means providing information about the home's features but also translating these features into the language the owner or buyer needs to clearly see and understand the connection between upgrades like improved insulation and air sealing and the health, comfort, and energy savings benefits they provide.

The Pearl Certification Report generates lasting demand for high-performing homes by showcasing the features and benefits of energy efficiency upgrades. The report is a turn-key solution detailing retrofit equipment and materials, projecting energy savings, and supporting accurate retrofit valuation - meeting New Jersey's statutory requirement for the HOMES program. Pearl prioritizes transparency and ease for homeowners and homebuyers as a third party to the transaction.

Pearl is proud to be a Home Energy Score (HES) Partner, and a DOE-approved Home Energy Score QA Provider and Assessor, allowing Pearl to generate Home Energy Scores when it is part of the program design. When the data is available, Pearl includes a HES as the "miles-per-gallon" indicator of the home's energy consumption, comparing it to the energy cost of a comparable "average" home. Home Energy Scores are often unavailable; in these cases, Pearl generates a MMBtu-based energy consumption estimate using NREL's Energy Plus modeling engine (the same engine that generates the HES), with fewer data points.

Leveraging 3rd Party Certification for Market Transformation

A gap exists between the real estate and energy efficiency sectors, hindering residential efficiency programs' potential impact and outreach. Despite agreement among energy efficiency experts that energy-efficient homes deserve a higher value, the dynamics in the market, as encountered by households and real estate agents, undermine this expectation.



Consumer sentiment aligns with the notion that efficient homes should carry a higher value than inefficient homes. Studies by Consumer Reports, the National Association of Realtors ([NAR, 2023](#)), and the National Association of Home Builders ([NAHB, 2021](#)) consistently reveal that homeowners recognize the value of efficient homes and are willing to pay a premium. However, these sentiments do not manifest in actual market values, primarily due to the need for adequate tools for real estate agents and appraisers to communicate and evaluate the value of energy-efficient features.

This was a critical missing element in the American Reinvestment and Recovery Act (ARRA) programs: the ability to connect the improvements made to something homeowners care about, specifically equity in their homes. To achieve this, the real estate industry must comprehend how these improvements can aid in selling homes and be well-equipped to assist homeowners in making informed purchasing decisions. Home certification and appropriate marketing materials tailored for the real estate industry ensure that homeowners, potential buyers, and other stakeholders can access essential information about a property's energy efficiency and sustainable features.

Even if certification makes the efficient features of a home visible to buyers in a way that engages them, it's still very possible that this documentation will have no impact on the value of a home. Real estate agents play a key role in this process. For an agent to want to use an energy certification in marketing the home, it should be:

- Attractive and appealing to buyers (so it reflects well on the agent);
- Designed in a way that does not require the agent to explain it in detail (so that the agent does not run the risk of looking uneducated);
- Easy to incorporate into the marketing process

To assist real estate agents during the sales process, Pearl provides agents with marketing collateral showcasing the home and a Multiple Listing Service (MLS) Listing Report. This ensures an accurate representation of the home's high-performing features and benefits. Pearl has been adopted into the Real Estate Standards Organization (RESO) 2.0 data standard which is a vital step towards facilitating inclusion in MLS nationwide and on home search platforms like Zillow and Redfin.

The appraisal process is the final barrier to ensuring that energy-efficient homes are adequately valued. Appraisers need clear and accurate data presented in an industry-accepted format. The Pearl Certification Report includes sections tailored to



simplify the appraiser's task of attributing value to the home's energy-efficient and high-performing features. These sections comprise an estimate of the cash flows from energy efficiency improvements, aiding the appraiser in determining the value of these features. Pearl also generates a pre-populated copy of the Appraisal Institute Green and Energy Efficient Addendum with every report, presenting the relevant information in a format readily usable by the appraiser. To validate the effectiveness of this market transformation strategy, we've undertaken [four independent appraisal studies](#) in different markets, revealing that **Pearl-Certified homes typically command a premium of 3% to 5.5%.**

Promoting Equitable Outcomes

We see the IRA rebate programs as a rare opportunity for significant change in the market, alongside the crucial aspect of providing essential support to vulnerable populations in New Jersey. Many individuals reside in inefficient, uncomfortable homes that pose health risks. Furthermore, homes in disadvantaged communities consistently face undervaluation in the real estate industry. A [2018 Brookings Institute study](#) discovered that homes in majority Black neighborhoods are undervalued by an average of \$48,000. This presents a dual challenge: a housing stock that needs substantial investment, with residents unlikely to reap the full benefits of energy efficiency upgrades in wealth creation.

Design priorities such as low entry barriers, flexible timelines, multiple (native speaker) language translations and mobile accessibility are critical to ensuring equal access to opportunities. Most significantly, our third-party certification guarantees that residents fully realize the investments made through the IRA rebate programs, fostering generational wealth in home equity.

For households, particularly those dependent exclusively on mobile internet access, our [Green Door mobile app](#) offers an accessible entry point to the conversation about home energy upgrades and the IRA. Whether sparked by curiosity or a small action, such as purchasing the first ENERGY STAR appliance, the app supports homeowners on their energy efficiency journey. Green Door guides homeowners in understanding energy efficiency, electrification, and home performance. It enables them to create Home Investment Plans, outlining a roadmap for energy-efficient improvements, and showcases all available state IRA and utility rebates and tax credits. Homeowners can access



everything needed to enhance their homes and ensure accurate valuation at the time of sale.

Green Door can also connect homeowners with contractors to perform energy efficiency upgrades and train real estate agents fluent in high-performance homes when they sell their homes. To ensure the conversation and action does not end with one initial improvement, we provide homeowners ongoing support and resources to incentivize, map, and quantify additional energy-efficient investments that will continue to improve their quality of life and further increase their home's value.

The Importance of Stakeholder Engagement for Effective Program Development

Pearl suggests that NJBPU continue to collaborate with contractors, recognizing their direct interactions with homeowners and their valuable insights into the practicality and effectiveness of energy-efficient products and services. Contractors serve as the on-the-ground implementers for both IRA rebate programs and are currently facing challenges due to inflation. Homeowners are inclined to opt for repairs instead of replacements, placing contractors in the position of making tough decisions to support their staff and sustain their businesses.

While we acknowledge the importance of quality standards to protect homeowners, we understand that setting an unattainable bar may deter contractor participation. Drawing from our experience with DOE's Home Performance with ENERGY STAR, Home Energy Score mentorship process, and EPA's ENERGY STAR Home Upgrade program, we have found a balance between rigorous standards and industry capabilities to meet these important benchmarks. Finding this balance for IRA programs will set the stage for increased participation, quality results and positive experiences for homeowners and contractors.

We also recommend involving real estate agents in the dialogue; they often influence homeowners' purchasing decisions and can provide valuable insights into the program's market appeal. Historically, the real estate industry has not actively engaged with energy efficiency programs, perceiving them as irrelevant to their businesses. Support and engagement from real estate agents would significantly contribute to program success and facilitate long-term market transformation.



Community-based organizations (CBOs) and local stakeholders should also be central to the rebate program planning and design. These organizations know their communities better than any other stakeholders. CBOs, such as churches and neighborhood associations, often advocate for the interests of their diverse communities. Local stakeholders, including a wide range of advocacy groups and mission-driven non-profits, are also key representatives of their communities and drive change. CBOs and local stakeholders are among the most trusted voices in their communities. They can assist in ensuring the program's accessibility and benefits reach all homeowners, regardless of socioeconomic status.

Finally, successful private enterprises engaged in residential energy efficiency initiatives, like Pearl Certification, can also share their best practices and industry insights, contributing to the success of the IRA rebate programs. The Pearl team is dedicated to applying the lessons derived from our success in the private sector to support the public sector in meeting its objectives in new and innovative ways. We have observed that the effectiveness of programs greatly depends on how well they align with the private market. This includes designing programs with contractors, real estate agents, and appraisers in mind. Pearl is happy to help bring those voices into the conversation in New Jersey.

Conclusion

There are complicated challenges to making these programs successful, but they are manageable. We encourage NJBPU to continue to engage with market actors to garner further insights on what you can do to design programs for long-term impact. Additionally, incorporating the voice of the marketplace to ensure the program is designed so that the market can participate is critical to meeting the market transformation requirements of the IRA rebate programs. Pearl's network is rooted in real estate and contracting and can provide essential insights as New Jersey develops its program offering.

We welcome this and any subsequent opportunities to share our experiences and solutions further. Thank you for the opportunity to share our feedback on how to design the IRA rebate programs in a way that will promote an equitable transformation of the residential housing sector.