



Memorandum

To EEAC
 From Eric Belliveau; John Livermore; Mike Guerard
 Date May 27, 2011
 Subject Mass Save Home Energy Services – Set Pricing Issue

Based on our assessment of the relevant data and information, the evidence indicates that the Program Administrators (PAs) have engaged in a good and fair process in developing set insulation measure pricing for the Mass Save Home Energy Services (HES) program. While communication can always be improved, the PAs have made a good faith effort to reach out to contractors and solicit their input on this topic.

The PAs have engaged in a yearlong process of restructuring the Mass Save HES program in order to better meet the goals set forth by the EEAC, including, achieving the energy savings goals of the 3-Year plans, achieving deeper savings per customer, and providing a more inclusive program structure in which more contractors would participate and more customers would be served. The program restructuring process has been driven by the Residential Steering Committee (RSC), a senior PA management group that was formed in August 2010 and included multiple stakeholders, PAs, EEAC Councilors, EEAC consultants, community group leaders, and others. The RSC, in conjunction with the HES working group, dealt with a wide range of program design issues, including, defining the new market model, optimizing the customer experience, addressing hard-to-reach/hard-to-serve customers, and packaging measures and rebates. In addition, the RSC reviewed the technical reference and process manual, potential software platforms, and set pricing. Through this process, the PAs, with the guidance of the RSC, have created a solid program design to effectively address multiple constituent priorities.

The PAs have reached out to contractors on multiple occasions to discuss program design progress and to solicit contractor input. The following table outlines these meetings and input opportunities.

Date	Contractor Contact	Purpose
May 2009 (Initial HES meeting) January 2010 (Contractor charrette) On-going (one-on-one phone conversations with contractors)	Multiple meetings and contacts coordinated by Lyn Huckabee (DOER) and supported by the PAs	To update contractors on program design development, cost-effectiveness, regulatory constraints & to provide an opportunity for contractor input
May 2010	Multiple meetings coordinated by Paul Gromer (EEAC member)	To develop customer 'tagging' system for contractors



Q4 2010/Q1 2011	4 outreach sessions with contractors throughout MA, coordinated with Paul Gromer, where pricing was discussed	To update contractors on program design progress & to provide an opportunity for input
Q4 2010/Q1 2011	4 outreach sessions with contractors coordinated by CLC	To update contractors on program design progress & to provide an opportunity for input
September 2010	Measure pricing RFI sent to 150 contractors statewide. Only 16 responses received.	To solicit measure pricing input from contractors
Q1 2011	Webinar session coordinated by Tina Halfpenny (then of NGRID)	To update contractors on program design progress
Spring 2010-Present	Multiple presentations at EEAC meetings by PAs and Council consultants	To update contractors on program design progress & to provide an opportunity for public comment
Going forward	Contractor Best Practices Forum (Quarterly) with reps from PAs, LVs, IICs, HPCs	To provide a forum for discussion of program best practices

It was acknowledged early in the program design process that it would not be possible to completely satisfy all of the interested parties through the new program design. As such, it was expected that some players would express disagreement with the decisions necessary to create the new design.

This memo deals specifically with set pricing, which was selected by the RSC as it provided multiple benefits for the program and the customer. Specifically, set pricing provides customer certainty on project pricing immediately upon completion of the energy assessment. It also provides clear contractor pricing expectations, certainty for PAs and regulators for planning and budgeting, and expedites measure implementation. It is important to note that set pricing has been working successfully in the PAs' energy efficiency programs for the past 10 years, with well over 100 contractors providing services.

Contractors who have spoken during the public comment at the past two EEAC meetings have generally expressed the following views:

- set pricing is not necessary; markets self-regulate;
- the current economic climate makes it difficult to convince customers to upgrade efficiency;
- contractor costs of doing business are higher than PAs recognize;
- contractors feel they haven't had sufficient opportunity to provide input to the PAs on pricing;
- contractors would like to stop the current process in order to renegotiate pricing with the PAs.



Process for Determining Pricing

There are differences in the PAs' methodology for determining revised measure prices. They have all, however, come to measure prices based on consideration of multiple factors and corollary program pricing data within their territories. The primary factors considered include: 1) Contractor meetings and feedback/input, 2) A comprehensive review of the current vendor pricing that incorporated historical pricing adjustments, 3) Review/consideration of recent and projected manufacturers' price increases (e.g. insulation materials) and fuel cost increases, 4) Comparison of similar program price lists (e.g. Low-Income weatherization), 5) Comparing and contrasting other PA pricing, 6) Internal management discussions and cost-effectiveness/budget impact analyses, 7) Participation on, and communication with, the RSC and Residential Management Committee, 8) Open communication with key stakeholders. Specific examples of PAs listening to contractors input and incorporating their ideas into the revised pricing include:

- Based on contractor input, NSTAR & NGRID adjusted pricing upward for balloon frame construction jobs, and for third floor exterior wall insulation.
- Based on contractor input, NSTAR has instituted an 'adder' for more difficult jobs.
- Based on contractor input and other factors, NGRID has increased their overall average pricing by 7.5%.
- NSTAR reached out to contractors who had worked successfully in the set pricing model in the past, and asked for input on revising measure pricing. Twenty contractors, representing 70% of the work performed, responded with suggested pricing information, with an average suggested price increase of 9.7%. Based on this and other information, NSTAR adjusted their overall pricing up an average of 9.5%.
- Based on contractor input and other factors, Columbia has increased their attic pricing by an average of 24%, and their wall pricing by an average of 55%.

Based on data received it appears that most measure prices are being increased by each of the PAs, in some cases significantly, over previous levels. It is important to note that the existing NSTAR and NGRID pricing had two price increases within the past three years to account for program and marketplace changes. A 3-4% fuel adjustment and material price increase was instituted in early 2009, along with a 13% price increase in August 2010 in response to new EPA lead safety requirements, labor cost increases, and higher permit fees.

On September 24th NGRID sent out a Request for Information (RFI) to approximately 150 contractors in Massachusetts. The RFI was sent by email and requested basic information about the companies and pricing on several measures. Out of the 150 contractors, NGRID received only 16 responses. The results of the RFI responses were shared with all PAs. Many of the contractors who have spoken during public comment at recent EEAC meetings were on the list to receive the RFI to solicit their input on program pricing.



While the original plan had been to coordinate pricing between NSTAR and NGRID, an executive decision was made in upper management at NSTAR and NGRID to discontinue any direct communication about measure pricing between the two companies in order to avoid any potential appearance of collusion.

The following table outlines the status of each PA's revised pricing schedule and the methodology used to determine measure pricing.

PA	Status of Pricing	Methodology used to determine measure pricing
NSTAR	Released May 17 th	Conducted an extensive internal and external pricing review
NGRID	Released May 23 rd	Conducted an extensive internal and external pricing review
WMECO	Release imminent	Conducted an extensive internal and external pricing review
CLC	Released	Conducted a thorough pricing review based on input from interested market-rate and low-income program contractors
Columbia Gas	Released May 24 th	Conducted a thorough internal and external pricing review
Berkshire Gas	Scheduled for release, June 1 st	Conducted a thorough pricing review based on participating contractor input
NE Gas	Release imminent	Conducted a thorough internal and external pricing review
Unitil	Incremental "phased in" release of new pricing, June 2011 & January 2012	Conducted a thorough internal and external pricing review

As an option to these PA-specific pricing methodologies, the Consultant team researched whether there are viable independent industry-standard sources that could be used to inform the process. It was found that although there are some options, they are very limited in their applicability to the cost of varying insulation products and applications for program purposes. RS Means online data, for example, does not specify the location in which the insulation is to be installed, even though this is a significant factor in determining the cost. The Oak Ridge National Lab (ORNL) "zip code tool" was one of the more detailed publicly-available cost estimation tools, but it does not provide specifics of the type of insulation (fiberglass, cellulose, dense pack) or construction (siding type, framing).

Cost-efficiency and Cost-effectiveness

It is important to point out that the PAs are bound by statute to use rate-payer monies as cost efficiently as possible and, specifically, to maximize net economic benefits. While the PAs are obligated to adhere to the DPU-mandated TRC cost-effectiveness test, they are also expected to deliver energy efficiency programs that reach their energy savings goals at the least cost possible to rate-payers. Thus, the PAs have many factors, and competing priorities, to consider when setting measure pricing. The established set pricing program framework is a profit producing model for many contractors in the Commonwealth. It is recognized, however, that the program framework may not be a good business model for all



contractors. As long as the program attracts enough contractors to do the work to meet the PAs' energy savings goals, the goals of cost efficiency and cost effectiveness are optimized.

Conclusion

The PAs have made enormous changes to the Mass Save HES program over the past year based in large part on input from contractors. The PAs have demonstrated on numerous occasions a willingness to reach out to contractors, listen to their feedback, and incorporate the best ideas into the new program design. Additionally, the PAs have committed to improving on-going processes to communicate with contractors and other stakeholders.

The evidence indicates that the PAs engaged in a thoughtful and balanced process in developing updated measure pricing. While several contractors have expressed, at recent EEAC meetings, some dissatisfaction with the program's pricing structure and the perceived process and conditions by which they were set, the PAs have also received positive feedback in the form of oral and written comments expressing satisfaction with the new pricing, gratitude for the increases and confidence in their ability to serve customers well under the new structure and earn a fair profit. Consistent with the Council's "Do and Learn" approach, the PAs have been responsive to on-going input from stakeholders, including contractors, and have adjusted the program, where reasonable and feasible, based on this input.

Recommendations to the PAs and Stakeholders

- Expediently establish the proposed Contractor Best Practices Forum to meet at least quarterly to seek input on program implementation issues.
 - Within this forum, periodically review set pricing levels and modify, if warranted
- Pricing should contain a "degree of difficulty" adder. (NSTAR already does this – it could be suggested that all do the same.)
- The PAs should forge ahead with program launch using the developed set measure pricing and a "do and learn" approach. If something is not working, the PAs should revisit it.