Public Comment to the EEAC on PA RFQ Structure and Market Conditions

Dear EEAC Members,

Thank you for the opportunity to provide input on the current RFQ structure being implemented by the Program Administrators (PAs). As you assess the reasonableness and long-term impacts of the proposed approach, I ask you to consider several key macroeconomic and structural issues that are being overlooked and which carry serious consequences for both contractor sustainability and program performance.

Inflation and Cost Escalation

- Since the start of the previous 3-year plan, inflation has increased **13%**, according to the Bureau of Labor Statistics.
  - Since the last RFQ in **mid-2023**, inflation has risen **5.3%,** with an additional **2.3–2.8%** expected annually through 2026.
  - The Producer Price Index tells a similar story: up **11%** since the last plan began, and **4.9%** since the last RFQ.
- Bottom line: The cost of doing business—including labor, materials, equipment, and insurance—has increased **5–13%,** depending on the metric used.
- The current RFQ design would implement pricing that **undercuts inflation-adjusted cost increases**, creating an unsustainable financial burden for contractors.
  - I have spoken with many of these contractors and there is a very real concern for their welfare should the RFQ move forward.

Massachusetts Labor Costs and Cross-State Comparisons

- According to the U.S. Bureau of Labor Statistics:
  - MA has the **2nd highest overall labor costs** in the U.S., behind only D.C.
  - For insulation-specific labor, MA ranks **7th highest** nationally.
- Despite these costs, MA contractors are paid, on average, **~35% less** for equivalent work compared to other states.
  - This data is based on a survey of contractors across **8 programs**.
- While this cost structure may benefit the ratepayer in the short term, it places contractors in an **untenable position**—high labor costs with artificially low compensation.
- There is **no margin left** to absorb continued downward pricing pressure. The market is already operating at a deficit relative to national norms.

Three-Year Plan Budget Assumptions

- The 2025–2027 Plan already **budgets for 15–20% measure cost increases** over the prior plan, reflecting inflationary trends.
  - Within the plan period, the PAs forecast **4–8% annual increases** in cost—reasonable, market-aligned growth.
- Given that these increases are already baked into the plan's financial model:
  - It is **contradictory** and **counterproductive** for the RFQ to force pricing **below** these projections.
  - It demonstrates a **disconnect between planning and implementation**, undermining the credibility of the entire structure.

Structural Market Considerations

- Massachusetts is unique in that it does **not just set incentive levels**, but also **controls total pricing**—even in market-rate programs.
- This is in contrast to most other states, which:
  - Set incentives and allow the market to determine price;
  - Avoid distortions by **letting supply and demand balance cost and quality**.
- This rigid approach places the program in the role of market regulator—not just for low-income segments, but also for partially-funded, market-rate projects.
- If the program **chooses to control pricing**, it also **inherits responsibility** for the **long-term economic sustainability** of the contractor base.
- Therefore:
  - It is **not sufficient** to focus solely on maximizing short-term savings per ratepayer dollar.
  - The program must also ensure that pricing supports a **viable, resilient, and growing contractor ecosystem**.
  - Otherwise, the industry will contract, quality will suffer, and program goals will be put at risk.
- ***If the program insists on controlling market-wide pricing, then it must also commit to setting prices that offer contractors a clear and sustainable path for long-term growth and viability. Anything less is a dereliction of the responsibilities it has chosen to take on.***

Conclusion

- The current RFQ process is pushing the contractor community to a breaking point—despite inflationary cost pressures, high labor costs, and even the PAs' own budget assumptions.
- The RFQ outcomes must reflect reality, not abstract goals divorced from the economic conditions on the ground.
- We ask the EEAC to:

- Advocate for an **RFQ framework that aligns with inflationary and cost-of-living data**;
- Ensure **market-based pricing** that reflects MA's actual labor conditions;
- Reevaluate the appropriateness of **price-setting in market-rate programs**, and if continued, **accept the responsibility to ensure economic sustainability for service providers**.

Thank you for your consideration.

Sincerely,

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EEAC Member – Energy Efficiency Businesses

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