

**HPC Position Letter
November 30, 2021**

To Mass Save stakeholders:

Overview

As Massachusetts kicks off its new three-year plan, Home Performance Contractors (HPCs) are prepared to continue to drive a majority of residential energy savings as they have in the past, augmenting Mass Save's brand marketing with targeted outreach that brings new homeowners and renters into the program, educates them about energy efficiency, and encourages deeper energy savings.

Last year, HPCs accounted for over 50% of all HEAs and weatherization jobs performed in the RCS program, and by extension, the energy savings achieved. However, the integral role HPCs play in the success of the Mass Save program is under threat. Proposed changes to the program fail to account for the economics of operating as an HPC within the RCS program, and will result in the HPC community operating at a loss. This will force these local small businesses to look elsewhere for business opportunities and will drastically impact the program's ability to achieve its goals. With a few small changes, this situation can be avoided, and the service capacity of the program can be maintained or even expanded.

HPCs bring significant value to the program and have been a key driving force in the program's ability to achieve energy savings targets to date. They are proud to be a fundamental part of the leading energy efficiency program in the country, and enthusiastically support the PA's and EEAC's objectives outlined in the new three-year plan, and the state's 2050 decarbonization and net-zero goals. However, they operate under different economic conditions than Lead Vendors (LVs) and Independent Insulation Contractors (IICs) and request that the PAs and EEAC take those differences into account when developing pricing and other economic factors as part of the plan.

Value to the program

HPCs bring value to the Mass Save program in three ways:

- 1) Volume and scale: HPCs provide more than half of all program assessments, weatherization, and by extension, RCD programmatic savings. Furthermore, they drive that participation from ratepayers who are less likely to proactively respond to Mass Save "brand" marketing. By focusing on more localized and labor-intensive efforts like canvassing, event staffing, community partnerships, and targeted direct marketing, HPCs attract ratepayers who require a more educational and direct engagement approach to participate in the program. This drives significant value, attracting a majority of residential ratepayers who participate in the Mass Save offering, but requires HPCs to spend their own resources as there is no program compensation for these marketing, education, and outreach efforts.
- 2) Conversion: While Lead Vendor conversion data is not shared, evidence suggests that HPCs convert a higher percentage of their customer assessments to deeper energy savings measures. There are several factors that drive this improved performance:
 - a. HPCs provide a strong educational experience during the assessment, generating interest in further savings. As most HPC customers required a more personalized touch to participate in the program in the first place, the HPC process is geared towards continuing that educational aspect during the assessment.

- b. HPCs currently receive no additional compensation for their marketing efforts, so it's imperative they nurture and convert homeowners to further energy saving measures. They incentivize their teams based on performance and align that performance with program goals.
 - c. Many HPCs provide in-house roadblock remediation for combustion safety test fails, knob and tube wiring, mold remediation, and other barriers that prevent homeowners from weatherization. This skill set will become increasingly important as more weatherization-ready become insulated, and the percentage of uninsulated homes with barriers increases.
- 3) Unique skill set: HPCs offer capabilities that don't exist in the conventional program pathway, where ratepayers call Mass Save, LVs perform assessments, and IICs do weatherization.
- a. *Targeting*: One of the pillars of the new three-year plan is equity. HPCs have the tools to target renters, moderate-income, English-isolated, and multifamily ratepayers due to their experience with community-based localized marketing efforts and targeted direct marketing. This will be critical for program leadership to meet sustainability goals.
 - b. *Scalability*: HPCs can easily scale to meet demand, lessening the burden on program leadership to recruit and train an army of smaller, single trade contractors.
 - c. *Flexibility*: HPCs can efficiently shift their workforce depending on program needs, adjusting sales teams, weatherization installers, HVAC technicians, electricians, mold remediators, and more. This skill set will be critical not only for continued weatherization savings, but also for meeting electrification and decarbonization goals.

The challenge

The current expected reimbursement structure will not be sustainable for HPCs, especially given inflation-driven price increases for materials, labor, and the general cost of doing business. The HPC business model is fundamentally different from the LV/IIC "traditional path," and requires a different approach in order to maintain this critical part of the Mass Save ecosystem.

Historically, HPCs have performed HEAs at roughly break-even, with much of the revenue generated from Instant Savings Measures (ISMs) such as LED lightbulbs. HPCs understand the rationale for removing LED bulbs, but without them HEAs will become loss making, limiting HPCs' ability to invest in marketing and attracting new ratepayers into the program. Further compounding the challenge, ratepayers have historically responded well to the LED offering, and not being able to promote them has significantly increased marketing costs. For an HPC, this means more funding for marketing needs to come out of the revenue generated from deeper energy saving measures such as weatherization, while the LV and IIC model can utilize program funding for marketing, effectively paid for by the ratepayers, without affecting their operating margins.

HPCs rely on additional HEA revenue from ISMs because while the cost of labor and training has risen significantly over time, HEA compensation has not changed in 7 years. Similarly, labor and material costs for weatherization work have increased significantly faster than the price HPCs can charge, resulting in a further squeeze on operating margins available to invest in marketing, even with the recent 10% price increase that has been rolled out. Consensus among HPCs shows material costs have increased by 35% over the past 12 months, while labor costs have risen by 20% or more over the past 3 years.

In the current marketing climate, with significant material and labor price increases, and program reimbursements that either have not changed or have been eliminated, HPCs are struggling to remain

profitable. They are hedging against program uncertainty, forced to divert their operations to other programs, states, and business lines to survive. HPCs have yet to return to their pre-COVID profitability, despite bringing their businesses back at full capacity to meet consumer demand. A change is needed to ensure the program remains a financially sustainable option for such an integral part of the Mass Save program.

The proposed solution

HPCs respectfully ask the PAs and EEAC to take into consideration the different HPC business model as the program develops new pricing and processes. Right now, the HPC model is arguably more efficient, as HPCs bring customers into the program at their own expense, specializing in more localized and community-driven education and marketing efforts, and appear to be more effective at converting assessments into deeper energy savings. For HPCs to be able to continue driving energy efficiency as the program dynamics change, the following solutions are proposed:

- 1) Implement a marketing reimbursement. Mass Save spends ratepayer money on marketing, and as such achieves a certain cost per acquired homeowner. It should make no difference to the program if an HPC brings a homeowner into the program for the same cost, so it would be reasonable to reimburse HPCs an equivalent amount per acquired homeowner for their marketing efforts.
- 2) Reevaluate the HEA reimbursement. The \$150-\$175 HEA fee that HPCs earn for performing HEAs has not changed for at least 10 years, while the cost of generating and performing HEAs has gone up significantly, severely impacting the financial viability of a large part of the program.
- 3) Institute conversion fees on deeper energy saving measures. HPCs are integral partners in the push for energy efficiency, decarbonization, and electrification. Conversion fees for generating and performing weatherization and other important program measures will align all parties to hit the same targets.
- 4) Remove the artificial HPC / IIC differentiation. Weatherization projects stemming from LV-performed HEAs should be allocated to HPCs as well as IICs to increase the install capacity of the program and provide fair and equal access to LV-generated weatherization work.

Taken together, these adjustments will allow HPCs to continue to play a crucial role helping Massachusetts lead the way to a carbon-neutral future as an integral partner to the PAs, LVs, IICs, and all other stakeholders in the program. The HPC community will have a major impact on achieving state and utility objectives and should be included as active participants in program design, including the creation of compensation structures that align all stakeholders in the pursuit of equity, electrification, and decarbonization. However, there is a real danger that if the program focuses on only one business model, sustainably compensating only weatherization work, then the HPCs, who drive a majority of residential program savings, will be priced out of the market.

Sincerely,

The HPC community, including:

