

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION
COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKETS UE-151871 and
UG-151872 (*Consolidated*)

REPLY BRIEF OF PUBLIC COUNSEL

September 19, 2016

TABLE OF CONTENTS

I. INTRODUCTION1

II. PSE’S CHARACTERIZATION OF THE FAIR, JUST, REASONABLE, AND SUFFICIENT STANDARD DILUTES THE RATEMAKING STANDARD1

III. PSE’S PROPOSED LEASING PROGRAM OFFERS AN EXPENSIVE OPTION THAT POTENTIALLY PLACES AN UNNECESSARY ECONOMIC BURDEN ON CUSTOMERS2

IV. PSE’S CUSTOMER SURVEYS PRODUCED VARYING RESULTS REGARDING LEASE LIKELIHOOD.....6

V. CONCLUSION6

TABLE OF AUTHORITIES

UTC Decisions

*In re Puget Sound Energy for an Accounting Order Authorizing Accounting Treatment
Related to Funding and Cost Recovery of the Electric Vehicle Charger Incentive
Program and Waiver of WAC 480-100-223,
Docket UE-140626, Order 01, Order Denying Waiver and Approving Accounting
Petition on Conditions (Apr. 30, 2014)..... 1*

I. INTRODUCTION

1. Public Counsel continues to recommend that the Commission reject Puget Sound Energy's (PSE or Company) proposed leasing program, under which it would lease various space and water heating equipment. Public Counsel reaffirms the arguments made in its opening brief and does not repeat them here. Below, Public Counsel addresses certain arguments raised by PSE in its opening brief.

II. PSE'S CHARACTERIZATION OF THE FAIR, JUST, REASONABLE, AND SUFFICIENT STANDARD DILUTES THE RATEMAKING STANDARD

2. PSE states that although rates must be fair, just, reasonable, and sufficient, rates and rate methodology need not be perfect.¹ To support its statement, PSE cites to the Commission's Order 01 dated April 30, 2014, from Docket UE-140626, which dealt with PSE's request relating to its electric vehicle charger incentive program.² However, Order 01 from Docket UE-140626 does not stand for the general proposition that rates and rate methodology need not be perfect. Rather, the Commission characterized PSE's proposal in that case as a pilot program, and as such, the Commission approved the electric vehicle charger incentive program as a fair, just, and reasonable starting point in collecting certain data that may eventually minimize the need for future peaking facilities.³ The Commission recognized a trade-off between the research and development benefits of a pilot program and the imperfections in the program design.⁴ In this case, PSE is not proposing a pilot program, and the idea that the rates and rate methodology

¹ PSE Opening Brief ¶ 41.

² *In re Puget Sound Energy for an Accounting Order Authorizing Accounting Treatment Related to Funding and Cost Recovery of the Electric Vehicle Charger Incentive Program and Waiver of WAC 480-100-223*, Docket UE-140626, Order 01, Order Denying Waiver and Approving Accounting Petition on Conditions (Apr. 30, 2014).

³ Docket UE-140626, Order 01 ¶¶ 10-11. Additionally, the electric vehicle charger incentive program was approved as a conservation program because of its goal of avoiding future increased peaking need. Docket UE-140626, Order 01 ¶¶ 9, 11-12.

⁴ Docket UE-140626, Order 01 ¶ 10.

“need not be perfect” does not apply. In essence, PSE’s interpretation of Order 01 dilutes the ratemaking standard, and the Commission should decline PSE’s invitation to weaken the fair, just, reasonable, and sufficient standard.

3. PSE must demonstrate that the rates for the leasing program are fair, just, and reasonable. As discussed in Public Counsel’s opening brief, the evidence in this case is flawed such that setting rates that are fair, just, and reasonable is not possible. PSE used a flawed customer survey to estimate customer participation in the proposed leasing program, overstates the market potential, uses speculative equipment costs in its pricing model, and uses a failure rate that is unsupported in calculating its proposed rates. PSE did not meet its burden of proof in this case to demonstrate that the proposed rates are fair, just, and reasonable.

III. PSE’S PROPOSED LEASING PROGRAM OFFERS AN EXPENSIVE OPTION THAT POTENTIALLY PLACES AN UNNECESSARY ECONOMIC BURDEN ON CUSTOMERS

4. PSE argues that its proposed leasing program offers “benefits unmatched in the industry” and that there “is simply no comparable market option” to PSE’s proposal.⁵ PSE states that its proposed program offers customers a comprehensive option that is highly valued for its turn-key, single-sourced nature.⁶ Evidence cited by PSE for this proposition shows, among other things, that customers are “very satisfied” with HVAC and water heater contractors.⁷ For example, PSE’s own surveys found that HVAC customers reported high levels of satisfaction with contractors across a wide range of areas including “initial customer service and convenience” (82 percent), “professionalism of technicians” (78 percent), “product quality” (84 percent), “overall

⁵ PSE Opening Brief ¶¶ 104-109.

⁶ PSE Opening Brief ¶¶ 104-105.

⁷ Malcolm B. McCulloch, Exhibit No. MBM-18 at 56 and 58.

cost” (74 percent), and “ongoing service and repair” (67 percent).⁸ This suggests that a turn-key, single-sourced option is not strongly needed.

5. PSE’s argument also implies that the customers that would find the leasing program appealing would be willing to pay a premium for the benefits offered.⁹ Public Counsel explains the price of this premium through an imputed interest illustration in Ms. Kimball’s testimony.¹⁰ Table 5 of Ms. Kimball’s testimony provides an illustrative comparison of financing costs from the customer’s perspective for a water heater with a six and 12-year warranty at different interest rates, as compared with PSE’s proposed leasing program.¹¹ PSE misconstrues the illustration to say Public Counsel imputes no value to customers from the benefits offered. The point being made in Ms. Kimball’s testimony is that the benefits offered by PSE come at a very high price. It cannot be disputed that evaluating the monthly cost of a lease versus a financed purchase is relevant in comparing PSE’s leasing proposal with other options currently in the market.¹²

6. PSE next argues that its proposed program is designed to assist credit-compromised customers obtain new equipment.¹³ This argument seems somewhat contrary to the argument that some customers are willing to pay a steep premium for the benefits offered under the program. In this argument, PSE asserts that the proposed leasing program offers an affordable option to credit-compromised customers who are not able to purchase equipment outright. However, in analyzing the cost of the proposed leasing program, Public Counsel is concerned that it places an undue economic burden on credit-compromised customers when other, more

⁸ McCulloch, Exhibit No. MBM-18 at 56.

⁹ Direct Testimony of Mary M. Kimball, Exhibit No. MMK-1HCT at 25:4 – 26:5; Exhibit No. MMK-4HC.

¹⁰ Kimball, Exhibit No. MMK-1HCT at 49:1-15.

¹¹ Kimball, Exhibit No. MMK-1HCT at 49:1-5.

¹² See Elizabeth C. O’Connell, Exhibit No. ECO-3HC at 7.

¹³ PSE Opening Brief ¶ 107.

affordable options could be offered that provide many of the same benefits claimed of the proposed leasing program.

7. For example, on-bill financing could provide many of the benefits PSE describes with respect to the multi-step financing process, while providing customers with a more affordable option than presented by PSE's proposed leasing program. Craft3 offers on-bill financing in partnership with Seattle City Light, and similar to PSE's proposal, customers who regularly pay their utility bill may be eligible to participate even if their credit score is not ideal.¹⁴ Thus, while PSE asserts that a benefit of its leasing proposal is that credit worthiness is determined by utility bill payment history rather than a full credit check, Ms. Kimball's testimony explains that the same approach can be utilized by on-bill financing, as shown by the Craft3 partnership with Seattle City Light.¹⁵ Further, the interest rate offered through on-bill financing could be as low as 3.49 percent for eligible households with limited income, providing a meaningful opportunity for such households to obtain energy efficient water and space heating equipment.¹⁶
8. On-bill financing also addresses the barriers to customer adoption to efficient products at substantially lower costs for consumers than PSE's proposed leasing program. In his direct testimony, PSE's witness Dr. Ahmad Faruqui describes five barriers to customer adoption of efficient equipment: credit constraints, myopic behavior, externalities that do not directly benefit adopters, risk aversion and imperfect information, and search costs.¹⁷ Dr. Faruqui demonstrates

¹⁴ Kimball, Exhibit No. MMK-5 at 4; Exhibit No. MMK-1HCT at 36:7 – 37:11.

¹⁵ Kimball, Exhibit No. MMK-1HCT at 36:7 – 37:11.

¹⁶ Kimball, Exhibit No. MMK-1HCT at 47:18-24.

¹⁷ Prefiled Direct Testimony of Dr. Ahmad Faruqui, Exhibit No. AF-1T at 4:15 – 12:20.

in Figure 1 of his rebuttal testimony that the Craft3 on-bill financing partnership addresses each of the five barriers to customer adoption of efficient equipment.¹⁸

9. Specifically, Dr. Faruqui has determined that the Craft3 on-bill financing partnership fully meets three of the five barriers (credit constraints, myopic behavior, and externalities that do not directly benefit adopters) and partially meets two of the five barriers (risk aversion and imperfect information, and search costs).¹⁹ Ms. Norton testified at hearing that PSE’s Energy Advisors assist customers with making decisions regarding water and heating equipment.²⁰ Therefore, PSE is well-equipped to provide needed assistance and information to customers to more fully address the two barriers of risk aversion and imperfect information and search costs, which Dr. Faruqui has indicated are already partially addressed by an on-bill financing partnership. PSE’s proposed leasing program is unnecessary to achieve these results.

10. Ms. Kimball’s testimony recommends that if PSE’s objective is to achieve conservation savings by encouraging customers to replace aging equipment, the Commission could direct PSE to engage the Conservation Resource Advisory Group (CRAG) in the design and development of such a program that would comply with the Commission’s standard practice for review of conservation programs.²¹ Ms. Kimball testified that “[p]rograms such as on-utility bill financing may enhance customer participation in PSE’s existing rebate programs, could be targeted to those customers that would benefit from replacement of aging equipment with the most efficient equipment available, at financing rates and total costs much lower than PSE’s leasing

¹⁸ Rebuttal Testimony of Dr. Ahmad Faruqui, Exhibit No. AF-4T at 13:5-7, Figure 1.

¹⁹ Faruqui, Exhibit No. AF-4T at 13:5-7, Figure 1.

²⁰ Liz Y. Norton, TR at 137:23 – 140:10.

²¹ Kimball, Exhibit No. MMK-1HCT at 52:20 – 53:3.

proposal.”²² This approach is sound and would result in a lighter economic burden on credit-constrained customers.

IV. PSE’S CUSTOMER SURVEYS PRODUCED VARYING RESULTS REGARDING LEASE LIKELIHOOD

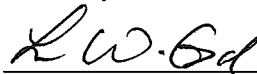
11. PSE states in its opening brief that the “results of the Cocker Fennessy survey demonstrated strong customer interest in the service and were consistent with PSE’s past surveys and market research.”²³ PSE provides the results of a 2014 PSE survey and the 2016 Cocker Fennessy survey presented in Exhibit No. MBM-4 and states, “the customer interest results were very similar.”²⁴ PSE fails to mention, however, that an earlier, “Phase 1” survey, which tested lease likelihood in the next five years, found that only eight percent were likely to lease HVAC equipment, and nine percent were likely to lease water heaters.²⁵ These results suggest that PSE’s earlier customer survey found results measuring lease likelihood that were very different from the surveys cited in PSE’s Opening Brief.

V. CONCLUSION

12. Public Counsel recommends that the Commission reject PSE’s proposed leasing tariffs for the reasons stated above and in its opening brief.

13. DATED this 19th day of September, 2016.

ROBERT FERGUSON
Attorney General



LISA W. GAFKEN
Assistant Attorney General
Public Counsel Unit Chief

²² Kimball, Exhibit No. MMK-1HCT at 53:3-7.

²³ PSE Opening Brief ¶ 30.

²⁴ PSE Opening Brief ¶ 31.

²⁵ McCulloch, Exhibit No. MBM-18 at 25.