

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

DOCKET UG-200112

ORDER 04

FINAL ORDER APPROVING  
SETTLEMENT

**BACKGROUND**

- 1 On February 19, 2020, Puget Sound Energy (PSE or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-2 for natural gas service. The revised tariff would discontinue PSE's Water Heater Rental Service. Also on February 19, 2020, PSE filed an application seeking a Commission determination that its Water Heater Rental Service and associated assets are no longer necessary or useful under Washington Administrative Code (WAC) 480-143-180(2) (Application). In the alternative, PSE seeks Commission authorization for the sale of its Water Heater Rental Service to Grand HVAC Leasing USA LLC (GHL).
- 2 The Commission convened a prehearing conference in Lacey, Washington, on March 13, 2020, before Administrative Law Judges Rayne Pearson and Michael Howard. The Commission set an evidentiary hearing date of July 15, 2020.
- 3 On April 29, 2020, counsel for Commission staff (Staff)<sup>1</sup> contacted the presiding officers stating that the parties reached a settlement in principle. Staff requested the Commission suspend the procedural schedule in this matter and indicated no party objected to this request.

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<sup>1</sup> In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

- 4 On April 30, 2020, the Commission suspended the remainder of the procedural schedule with the exception of the evidentiary hearing date and required the parties to file the settlement and supporting documents by May 22, 2020.
- 5 On May 22, 2020, PSE submitted a Settlement Agreement and supporting Brief (Settlement Agreement). The Settlement Agreement resolves all of the issues in this proceeding and is joined by all parties. Although the parties did not reach agreement on whether the Water Heater Rental Service was necessary or useful property, the parties submitted that this was not necessary to the disposition of the case.
- 6 On June 18, 2020, the Commission held a virtual public comment hearing.
- 7 On June 29, 2020, the Commission issued Bench Request No. 1 (BR-1) to PSE. Among other points, the Commission requested historic rental prices, length of customer participation in the program, and any Better Business Bureau ratings for GHL. The Commission also requested a sworn statement from GHL indicating that GHL would commit to certain representations made in the underlying contract between GHL and PSE.
- 8 On July 13, 2020, PSE filed its response to BR-1. This included a declaration from GHL President and Chief Executive Officer William Lane, stating that GHL committed to the minimum service standards set forth by PSE, that GHL will not increase the monthly rental price for 24 months, and that any increases after the 24-month period would be capped at 4.9 percent annually.
- 9 On July 15, 2020, the Commission held a virtual settlement hearing.
- 10 David S. Steele and Sheree Strom Carson, Perkins Coie, LLP, represent PSE. Jeff Roberson, Assistant Attorney General, Olympia, Washington, represents Staff. Lisa W. Gafken, Nina Suetake, and Ann Paisner, Assistant Attorneys General, Seattle, Washington, represent the Public Counsel Unit of the Attorney General's Office (Public Counsel).

### SETTLEMENT

- 11 PSE, Staff, and Public Counsel (collectively Parties) are all signatories to the Settlement, which includes the following terms.
- 12 **Customer options and notices.** The Settlement Agreement provides that customers may continue Water Heater Rental Service through GHL, may have their water heater removed, or may purchase their water heater. PSE will distribute letters to customers describing the transition and contact any remaining undecided customers by telephone in

the fourth month of the transition. Customers with fully depreciated water heaters will receive a separate notice informing them that they can take ownership of their equipment at no cost. Customers with undepreciated water heaters will have the option of entering into a 12-month payment plan to pay the remaining balance and take ownership of their equipment or continuing to take rental service from GHL.

- 13 **Treatment of proceeds from the sale.** PSE will record all proceeds of the sale against a FERC 187 account (Deferred losses from disposition of utility plant). The balance of the FERC 187 account will be held until PSE's next general rate case, at which time PSE will request recovery through amortization. The Parties reserve any arguments related to the final disposition of any such gains or losses until that time.
- 14 **Whether the property was "necessary or useful."** While the Parties agree that the proposed sale to GHL is in the public interest and should be approved by the Commission, the parties did not reach agreement on whether the Water Heater Rental Service is necessary or useful property. PSE requests that the Commission determine the water heater service and assets are no longer necessary or useful, but Public Counsel and Commission Staff take no position on this issue.<sup>2</sup> The Parties believe this determination is not necessary to the final determination of this case.<sup>3</sup>

### DISCUSSION AND DECISION

- 15 The Commission will approve a settlement "when doing so is lawful, the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission."<sup>4</sup> The Commission may approve a settlement without conditions, approve it with conditions, or reject it.<sup>5</sup> After reviewing the Settlement Agreement and supporting evidence, we conclude that the resulting rates, terms, and conditions are fair, just, reasonable, and sufficient.
- 16 As an initial matter, we observe that the Settlement Agreement resolves the Commission's concerns with PSE operating a Water Heater Rental Service. When the Commission rejected PSE's proposal to expand its equipment leasing program in 2016, the Commission questioned whether leases were an appropriate method to pursue energy efficiency and noted that the entry of a regulated company into a competitive market

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<sup>2</sup> Settlement Agreement ¶ 12, n. 2.

<sup>3</sup> *Id.*

<sup>4</sup> WAC 480-07-750(2).

<sup>5</sup> *Id.*

deserved scrutiny.<sup>6</sup> The Settlement Agreement removes these longstanding concerns by approving the sale of the Water Heater Rental Service and thus discontinuing PSE's leasing operations.

- 17 The Settlement Agreement also provides sufficient assurances that this transaction will not harm customers. Although the Commission received a number of comments from the public expressing concern about changes that may occur as a result of this transaction,<sup>7</sup> the record evidence demonstrates that the terms of the Settlement Agreement adequately ensure that consumers will be properly informed and protected if the service is sold to GHL.
- 18 First, PSE presented testimony and evidence demonstrating that the Company selected the purchasing company, GHL, after an appropriate bidding and evaluation process. GHL has committed to maintaining current monthly rental prices for 24 months, to limiting any future increases to 4.9 percent annually, and to maintaining the minimum service standards set by PSE.<sup>8</sup> GHL has also partnered with FAST Water Heater, the same service company with which PSE has partnered, to continue to provide maintenance service to the customers affected by this transaction.<sup>9</sup> FAST Water Heater has an A+ rating from the Better Business Bureau.
- 19 Second, the Settlement Agreement requires PSE to provide appropriate notice to customers describing their options to continue service, leave the leasing program, or take ownership of their equipment. For example, PSE is required to send a separate letter to customers with fully depreciated equipment informing them that they may take ownership of the equipment at no cost. The Settlement Agreement also requires PSE to contact undecided customers by telephone in the fourth month of the transition to ensure that all customers are afforded an opportunity to make a fully informed decision.
- 20 Finally, the Settlement Agreement appropriately reserves the Parties' arguments regarding the use or distribution of the sale proceeds for PSE's next general rate case.
- 21 For these reasons, we find that the Settlement Agreement is lawful, supported by an appropriate record, and consistent with the public interest. The customers who continue

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<sup>6</sup> *WUTC v. Puget Sound Energy*, Dockets UE-151871, UG-151872 Order 06 ¶¶ 127-28 (Nov. 16, 2016).

<sup>7</sup> Exhibit BR-2.

<sup>8</sup> Exhibit BR-1.

<sup>9</sup> *Id.*

with the Water Heater Rental Service under GHL will continue under PSE's minimum service standards and will be adequately protected against unreasonable price increases. GHL is also partnering with the service provider used by PSE, FAST Water Heaters. Accordingly, we approve the Settlement Agreement without conditions.<sup>10</sup>

### FINDINGS AND CONCLUSIONS

- 22 (1) The Commission is an agency of the State of Washington vested by statute with authority to regulate natural gas companies in Washington, including PSE.
- 23 (2) The Commission has jurisdiction over PSE and the subject matter of this proceeding.
- 24 (3) The Settlement terms are lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the Commission.
- 25 (4) The rates, terms, and conditions in the Settlement are fair, just, reasonable, and sufficient.
- 26 (5) The Commission should approve the Settlement without condition.

### ORDER

#### THE COMMISSION ORDERS:

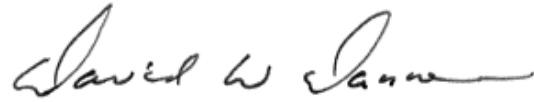
- 27 (1) The Commission approves the Settlement Agreement, which is attached as Exhibit A to, and incorporated into, this Order, and adopts the Joint Settlement Agreement as the final resolution of the disputed issues in this docket.
- 28 (2) The Commission retains jurisdiction to enforce the terms of this Order and delegates to the Executive Director and Secretary the authority to confirm compliance with this Order.

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<sup>10</sup> We agree with the Parties that it is not necessary to determine whether this property is "necessary or useful" under WAC 480-143-170. By approving the Settlement Agreement, we find that this transaction is consistent with the public interest regardless of whether the property is "necessary or useful."

Dated at Olympia, Washington, and effective July 29, 2020.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



DAVID W. DANNER, Chairman



ANN E. RENDAHL, Commissioner



JAY M. BALASBAS, Commissioner

**NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.**