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**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of the Application of
PUGET SOUND ENERGY
For an Order Determining Property Is
no Longer Necessary or Useful or
Alternatively Authorizing the Sale of
Puget Sound Energy’s Water Heater
Rental Service**

Docket UG-_____
APPLICATION

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I. INTRODUCTION

I. Puget Sound Energy (“PSE”) seeks to sell its optional water heater rental service, which currently provides service to customers under Schedules 71 and 72 (the “Water Heater Service”). In this Application, PSE requests an order from the Washington Utilities and Transportation Commission (the “Commission”) determining that the water heaters, related property, and rental agreements owned by PSE associated with the Water Heater Service (the “Water Heater Assets”), are no longer necessary or useful. Alternatively, if the Commission determines the Water Heater Assets are still used and useful, PSE requests an order authorizing the sale of the Water Heater Service because the sale is consistent with the public interest. The sale is pursuant to an Asset Purchase Agreement (the “Agreement”) executed by and between PSE and Grand HVAC Leasing USA LLC (“GHL”) on February 14, 2020 (the “Proposed Transaction”). The parties anticipate closing the Proposed Transaction on or before September 30, 2020. Therefore, to allow

1 sufficient time for customer transition from PSE to GHL, PSE respectfully
2 requests the Commission issue an order 90 days from filing, or by May 21, 2020.

3 2. Accordingly, in this Application, PSE respectfully requests that the
4 Commission issue an order

- 5 (i) determining that the Water Heater Assets are not
6 necessary or useful pursuant to RCW 80.12.020 and
7 WAC 480-143-180;
- 8 (ii) in the alternative, approving the Proposed
9 Transaction pursuant to WAC 480-143-120; and
- 10 (iii) approving the accounting treatment proposed by
11 PSE in this Application.

12 **II. DESCRIPTION OF THE PROPOSED TRANSACTION**

13 **A. The Applicant**

14 3. PSE is an investor-owned electric and gas utility service with
15 approximately 1,157,000 electric customers and 837,000 natural gas customers,
16 primarily in Western Washington. The full and correct name and business address
17 for PSE is as follows:

18 Puget Sound Energy
19 335 110th Avenue SE
20 P.O. Box 97034
21 Bellevue, WA 98009

22 4. PSE requests that all notices, correspondence and pleadings be sent to:

Jon Piliaris
Director, Regulatory Affairs
Puget Sound Energy
P.O. Box 97034 EST-07W
Bellevue, WA 98009-9734
Email: jon.piliaris@pse.com
Ph: (425) 456-2142

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Attorneys for Puget Sound Energy

1 **B. Background of the Water Heater Service**

2 5. PSE and its predecessor companies have offered water heater rental
3 services to customers for more than half a century whereby customers rent from
4 PSE natural gas water heaters. The Water Heater Service is currently provided by
5 PSE under Schedules 71 and 72 and currently has about 25,000 customers.

6 6. Commission Staff and other parties have been opposed to the Water
7 Heater Service for years. In 2000, PSE agreed to close the service to new
8 customers. In 2015, in Dockets UE-151871/UG-151872, PSE proposed several
9 tariff revisions that would expand the service, which Commission Staff, Public
10 Counsel, and other stakeholders opposed. Ultimately, the Commission denied
11 PSE's proposal to expand the service.

12 7. In PSE's 2017 general rate case in Dockets UE-170033/UG-170034,
13 Commission Staff recommended that the service end. In that case, the parties
14 entered into a Multiparty Settlement Stipulation and Agreement where PSE
15 agreed to enter a collaborative with Commission Staff and other stakeholders to
16 address the future of the service.

17 8. As part of the collaborative and after discussions with Commission Staff
18 and other stakeholders, PSE agreed to discontinue the Water Heater Service. To
19 maximize options for PSE customers, PSE has entered into the Agreement to sell
20 the Water Heater Service to GHL to provide customers who wish to continue their
21 water heater rental service the option of continuing their service with GHL.

1 **C. Overview of the Proposed Transaction**

2 9. On February 14, 2020, PSE and GHL entered into the Agreement whereby
3 PSE would sell the Water Heater Service to GHL. A summary of the material
4 commercial terms of the Proposed Transaction are as follows:

- 5 • Customers will be given the option of continuing their rental
6 service with GHL or terminating their rental agreement and either
7 (1) taking ownership of the water heater which may require paying
8 the undepreciated balance (if any); or (2) having PSE remove the
9 water heater at no cost to the customer.
- 10 • Customers that do not end their rental agreement prior to closing
11 will be transferred to GHL for a continuation of their rental
12 service. The sales price is based on the number of customers that
13 continue their service with GHL.
- 14 • Following issuance of a Commission order approving the Proposed
15 Transaction, PSE and GHL will provide a 120-day transition
16 period for customers to transition to GHL. Following closing, there
17 will be a 60-day, post-close true-up period.

18 **III. JURISDICTION AND AUTHORITY REGARDING SALE**

19 **A. Applicable Statutes and Regulations**

20 10. WAC 480-143-180 allows a public service company to dispose of certain
21 property that is not necessary or useful. WAC 480-143-180 defines “necessary or
22 useful” property as follows:

23 Necessary or useful includes all property except items that:

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- (1) Are substituted with or replaced by items of equal or greater value or usefulness;
- (2) Are surplus and unneeded assets for which full value is received;
- (3) Are obsolete; or
- (4) Are excluded from the public service company’s rate base by commission order, or otherwise.

The public service company must file an application for commission determination that the property is not necessary or useful, prior to disposing of such property, if the property to be disposed of has a market value that exceeds the greater of .1% of the public service company's rate base (for the applicable utility service) last established by commission order, or \$20,000.

11. In addition, under RCW 80.12.020 and WAC 480-143-120, a public service company must secure Commission approval prior to completing the sale of property necessary or useful in the performance of its duties to the public. Pursuant to WAC 480-143-170, the Commission shall approve the application for the sale of necessary and useful property if the transaction is consistent with the public interest.

B. Information Required by WAC 480-143-120

12. Attached to this Application are the following documents required by WAC 480-143-120:

- (i) Attachment A to this Application is a copy of PSE’s Form 10-Q for the quarterly period ended September 30, 2019—the current financial statements for PSE.
- (ii) Attachment B to this Application is a copy of the Agreement between PSE and GHL.

1 **C. The Proposed Transaction Complies with Washington Law**

2 13. PSE seeks a Commission determination that the Water Heater Assets are
3 not necessary or useful under WAC 480-143-180; or, in the alternative, approving
4 the Proposed Transaction pursuant to WAC 480-143-120.

5 **1. The Water Heater Assets are not necessary or useful under WAC 480-**
6 **143-180**

7 14. After PSE discontinues Schedules 71 and 72, the Water Heater Assets will
8 no longer be necessary or useful to PSE. Under WAC 480-143-180(2), the Water
9 Heater Assets will be “surplus” and “unneeded assets” for which PSE has
10 received “full value” because through the Proposed Transaction, PSE will receive
11 a payment for the Water Heater Service from GHJ based on the market value of
12 the Water Heater Service. Therefore, under RCW 80.12.020 and WAC 480-143-
13 180, PSE is able to dispose of the Water Heater Assets by selling the Water
14 Heater Service to GHJ.

15 15. PSE is filing this Application to request a Commission determination that
16 the Water Heater Assets are not necessary or useful because the market value of
17 the Water Heater Service will likely exceed “the greater of .1% of [PSE’s] rate
18 base (for the applicable utility service) last established by commission order, or
19 \$20,000,” which is \$1,765,437. WAC 480-143-180. As such, a Commission
20 determination that the property is no longer necessary or useful is required prior
21 to disposing of the property.

1 **2. Even if the Water Heater Assets are necessary and useful, the**
2 **Commission should authorize the Proposed Transaction because it is**
3 **consistent with the public interest**

4 16. Alternatively, if the Commission determines that the Water Heater Assets
5 are necessary and useful, the Commission should authorize the Proposed
6 Transaction because it is consistent with the public interest. Commission Staff and
7 other stakeholders have encouraged PSE to end the Water Heater Service for
8 years. The Proposed Transaction provides the best mechanism to end the service
9 while still protecting the interests of customers.

10 17. First, the Proposed Transaction is consistent with the public interest
11 because it provides customers with the ultimate choice on their water heater
12 service. As stated above, many customers desire a water heater rental service,
13 have been rental customers for decades and may wish to continue a rental service.
14 GHL will provide the comparable maintenance, repair and replacement service
15 that customers had with PSE but is also able to offer additional choice in
16 equipment and ancillary services to customers. In addition, GHL has agreed to not
17 change rental rates on existing equipment as of the execution date of the
18 Agreement for 24 months after closing. Customers who do not wish to continue
19 their rental service can terminate their rental agreement and can either (1) pay off
20 the remaining undepreciated value of their water heater (if any) and take
21 ownership of their water heater or (2) request that PSE remove the water heater.

22 18. Second, the Proposed Transaction is consistent with the public interest
23 because it allows PSE to receive market value for the Water Heater Service,
24 which will offset a portion of the remaining net book value of the existing assets.
25 This will maximize the financial benefits to all ratepayers by recovering value for

1 the Water Heater Service before the market value of the Water Heater Service
2 diminishes further due to customer attrition.

3 19. For the reasons discussed above, the Proposed Transaction is consistent
4 with the public interest, and the Commission should authorize the Proposed
5 Transaction if it determines that the Water Heater Assets are necessary and useful.

6 **IV. ACCOUNTING TREATMENT**

7 20. The proposed accounting treatment for the Proposed Transaction is set
8 forth in the Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT, filed in
9 support of this Application.¹ PSE will record all proceeds (from GHJ at close and
10 true-up and from customers who terminate their rental service) against a FERC
11 187 account (Deferred losses from disposition of utility plant).

12 21. Additionally, the pre-tax net book value of the Water Heater Assets will
13 be transferred from their respective natural gas plant accounts to the FERC 187
14 account at either rental service termination date or as of the date of closing. Any
15 direct selling costs, including costs for PSE to remove water heaters for
16 customers, will also be recorded in the FERC 187 account. The balance of the
17 FERC 187 account will be held until the next general rate case at which time PSE
18 will request recovery through amortization.

19 **V. TIMING**

20 22. As stated above, the closing date for the Proposed Transaction is
21 scheduled for September 30, 2020. In order to allow enough time to transition

¹ The water heater assets that are subject to the requested accounting are further defined in Free, Exh. SEF-1CT.

1 customers from PSE to GHL, PSE requests the Commission issue an order on this
2 Application within 90 days of filing, or by May 21, 2020.

3 **VI. PREFILED DIRECT TESTIMONY AND EXHIBITS ACCOMPANYING**
4 **APPLICATION**

5 23. The prefiled direct testimony and exhibits accompanying the Application
6 are:

7 i. **Prefiled Direct Testimony of William T. Einstein, Exh.**
8 **WTE-1CT.** Mr. Einstein will testify as to background of the Water
9 Heater Service, the alternatives PSE considered regarding the
10 future of the service, the principal commercial terms of the
11 Proposed Transaction, that the Water Heater Assets are not
12 necessary or useful, and how the Proposed Transaction is consistent
13 with the public interest. Exhibits to Mr. Einstein’s testimony
14 include:

- 15 • the First Exhibit to the Prefiled Direct Testimony of
16 William T. Einstein, Exh. WTE-2, which provides the
17 professional qualifications of Mr. Einstein;
- 18 • the Second Exhibit to the Prefiled Direct Testimony of
19 William T. Einstein, Exh. WTE-3C, which provides a copy
20 of the PSE–GHL Agreement;
- 21 • the Third Exhibit to the Prefiled Direct Testimony of
22 William T. Einstein, Exh. WTE-4, which provides the GHL
23 Business & Management Overview;
- 24 • the Fourth Exhibit to the Prefiled Direct Testimony of
25 William T. Einstein, Exh. WTE-5, which provides the PSE–
26 GHL Transition Plan.

27 ii. **Prefiled Direct Testimony of Susan E. Free, Exh. SEF-1CT.** Ms.
28 Free will address the current and requested accounting for the
29 closure of Schedules 71 and 72 and the sale of the Water Heater
30 Service. Ms. Free will also address accounting associated with
31 PSE’s now closed Schedule 74 conversion burner program.
32 Exhibits to Ms. Free’s testimony include:

- 33 • the First Exhibit to the Prefiled Direct Testimony of Susan
34 E. Free, Exh. SEF-2, which provides Ms. Free’s
35 professional qualifications.

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VII. REQUEST

24. For the reasons stated above, PSE requests a Commission order:

- (i) determining that the Water Heater Assets are not necessary or useful pursuant to RCW 80.12.020 and WAC 480-143-180; or
- (ii) in the alternative, approving the Proposed Transaction pursuant to WAC 480-143-120; and
- (iii) approving the accounting treatment proposed by PSE in this Application.

Respectfully submitted this 19th day of February, 2020.

Perkins Coie LLP

By 

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