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September 18, 2015

Mr. Steven V. King  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, Washington 98504-7250

RE: Advice No. 2015-24 – Natural Gas Tariff Filing – Filed Electronically

Dear Mr. King:

Pursuant to RCW 80.28.060, WAC 480-80-101 and -105, please find enclosed for filing the following proposed revisions to the WN U-2, tariff for natural gas service of Puget Sound Energy, Inc. (“PSE”):

**WN U-2, Natural Gas Service:**

Original Sheet No. 175 – Schedule No. 75: Equipment Lease Service  
Original Sheet No. 175-A – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-B – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-C – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-D – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-E – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-F – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-G – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-H – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-I – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-J – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-K – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-L – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-M – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-N – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-O – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-P – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-Q – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-R – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-S – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-T – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-U – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-V – Schedule No. 75: Equipment Lease Service (Continued)  
Original Sheet No. 175-W – Schedule No. 75: Equipment Lease Service (Continued)  
Attachment “A” to Natural Gas Schedule No. 75: Equipment Lease Service  
Attachment “B” to Natural Gas Schedule No. 75: Equipment Lease Service

The purpose of this filing and a companion electric proposal filed concurrently is to provide another energy equipment lease service option to eligible PSE natural gas and electric residential and commercial customers. Expanding PSE's leasing-type services will fill an unmet customer need. Enabling customers to have another option for accessing energy equipment will, 1) stimulate the installation of additional energy efficient equipment, 2) provide customers with simple and comprehensive turn-key solutions, 3) provide broader more affordable access to services, and 4) expand existing market activity. PSE believes that continuing to expand these offerings as regulated products is in the public interest as they help reduce overall energy demand, increase energy safety, and help reduce energy bills.

Customers look to PSE as a trusted energy partner to provide them with safe, dependable and efficient energy management options. This proposal delivers on this expectation by packaging the equipment, installation and hassle-free maintenance for the life of the lease, into one fixed monthly price, with no upfront cost.

### **Description of service**

The initial offerings of this expanded optional energy equipment lease service will include:

- Residential natural gas and electric tank-style water heaters
- Residential natural gas furnaces
- Residential electric air source heat pumps
- Commercial natural gas and electric tank-style water heaters

The structure of this expanded optional energy equipment lease service allows for flexibility to serve an evolving energy market, whereby additional products can be added to the tariff schedule over time, as the market, technology or customer needs change. Some future products that have been discussed are:

- Expanded residential HVAC, including ductless heat pumps & gas tankless water heaters
- Expanded commercial HVAC, including packaged heat/direct expansion cooling & boilers
- Solar
- Storage/batteries
- Electric vehicle equipment
- Back-up generators

### **Service option design is based on customer expectations**

PSE believes this expanded optional energy equipment lease service provides increased public benefit by stimulating replacement of inefficient or unsafe energy equipment that has exceeded its useful life, with new high efficiency energy equipment.

Many customers often lack the budget, time, and expertise to make energy efficiency decisions. Customers need help navigating the highly technical and costly retrofit process,



which often discourages the early replacement of energy-intensive systems. Even when replacement is necessary, the customer is often unequipped to make an informed decision to install more efficient products. Customers trust PSE as a key resource when making these decisions.

PSE based many components of the service on customer expectations, these include:

- Energy efficient equipment choices
- Inclusive maintenance and repairs
- 24 hour customer service
- 24-48 hour service window
- Ability to transfer the lease when the property is sold
- Replacement under warranty

### **Conservation Rebates**

This optional energy equipment lease service will serve as an additional delivery channel for PSE's Energy Efficiency (Conservation) Programs and thus will promote the installation of energy efficient equipment and stimulate the replacement of inefficient equipment that has passed its useful life. Since those choosing this service will be paying the incremental cost to access more efficient products, PSE believes that all eligible customers should have the benefit of applicable energy efficiency rebates and that associated savings should be accounted for under applicable approved Conservation Programs.

### **Current Commission-approved Natural Gas Tariff, already allows PSE to offer optional rental or lease of natural gas equipment in two ways**

PSE has offered an optional natural gas equipment leasing service for over half a century. Both the overall concept and the actual practice are already part of PSE's commission-approved tariff.

Firstly, in 1962 the Commission approved the rental of natural gas equipment in the form of the following, and currently effective<sup>1</sup>, tariff schedules which result in approximately \$7.5 million in annual revenue:

- Schedule 71 - Natural Gas Residential Water Heater Rental Service
- Schedule 72 - Natural Gas Large Volume Water Heater Rental Service
- Schedule 74 - Natural Gas Conversion Burner Rental Service

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<sup>1</sup> In May of the year 2000, PSE requested that these schedules be closed to new customers, because at that time, "The Company is unable to cost effectively provide these services to new residential and commercial customers under the existing program and rate structure." With the proposed expansion of service in Schedule 75, PSE believes that it can now provide these services under the terms and conditions and at rates that are cost-effective.

Secondly, in PSE's Commission-approved Rule No. 2 (Sheet No. 12-A), Gas Service is defined to include "Rental of natural gas equipment":

16. Gas Service: All services rendered to effect the initiation, administration or maintenance of:
  - a. Installation and operation of distribution facilities;
  - b. Sale or transportation of gas on the Company's system;
  - c. Rental of natural gas equipment;
  - d. Safety and inspection services;
  - e. Demand-side management (gas conservation) programs; or
  - f. Other utility services provided by the Company; and
  - g. The availability of natural gas for use by the Customer, irrespective of whether natural gas is actually used.

Therefore the rental of natural gas equipment is an intrinsic part of PSE's natural gas service.

**Current Commission-approved Electric Tariff, already allows PSE to offer optional rental or lease of electric equipment**

PSE has offered optional electric equipment leasing service for approximately 40 years. Both the overall concept and the actual practice are already part of PSE's commission-approved tariff.

Firstly, PSE's optional electric Schedule 62 Substation and Related Equipment Capacity makes capacity available for use ("lease") to PSE customers that take service at high voltage under Schedules 46, 49, 449 and 459. PSE has leased substations and related equipment since at least 1975 and Schedule 62 has dozens of long-term "lease" customers. The approximate annual revenue from this service is \$4 million associated with approximately \$19 million in net leased plant. This Commission recently approved price updates to this schedule under Docket No. UE-151128. Questions were never raised, from any party, as to whether PSE should be offering this optional service of leasing electrical equipment to eligible customers.

Secondly, PSE's Commission-approved company-owned lighting programs result in approximately \$18 million in annual revenue. These tariff schedules, as listed below, would also be considered the rental of electric equipment:

- Schedule 51 - LED Lighting Service Company Owned
- Schedule 52 - Custom Lighting Service Company Owned
- Schedule 53 - Street Lighting Service
- Schedule 55 - Area Lighting Service
- Schedule 56 - Residential and Farm Area Lighting Service
- Schedule 58 - Flood Lighting Service
- Schedule 59 - Residential and Farm Flood Lighting Service



### **Provisions of tariff schedule**

In addition to the Monthly Rates section, the proposed tariff schedule includes sections that describe such topics as: Availability, Company Obligations to and Obligations of Customers who Lease Facilities, Lease Terms and Conditions, Installation, Maintenance and Repairs, Equipment Replacement, Option to Purchase, Transfer of Premises, and Termination. In addition to the schedule itself are two attachments; Attachment A is the Lease Equipment Agreement and Attachment B is a general description of the Rate Methodology.

### **Proposed tariff schedule ensures that Equipment Leasing customers do not burden other ratepayers**

PSE was deliberate in the design of the pricing models to ensure that those natural gas and/or electric customers, who also elect to use the expanded optional energy equipment lease service, do not burden other customers.

The service is also designed in such a manner as to mitigate financial risk. For instance, participating customers will be required to have a credit rating acceptable to PSE prior to providing service. In addition, if the customer wishes to terminate service prior to the end of the term established in the service agreement, the customer shall have the option to purchase the equipment.

The pricing model ensures that by the conclusion of the lease the Company recovers its expenses and its weighted average cost of capital approved by the UTC effective upon the start date of the lease.

### **Phases of Multiple Filings**

This filing requests approval for PSE to expand optional energy equipment lease service to both electric and natural gas customers through the structure of the tariff schedule filed. While PSE has provided a description of the rate methodology, actual rates for equipment are not included at this time. After the current filing is approved and PSE has had time to contract and finalize the expected costs of providing the service, PSE will file updates to the tariff schedule with the monthly lease rates in accordance with the rate methodology description provided in this filing. Service under this Schedule will not be available until the Washington Utilities and Transportation Commission ("UTC") has approved said rates.

### **Interaction with Current Optional Service**

For natural gas customers taking one of the current optional rental service offerings, a means to end, or transition over to the proposed optional energy equipment lease service will be made available. This will be accomplished by a subsequent filing, after the current filing is approved, that will add language to the current tariff schedules for optional rental services.

### **Service Partnerships**

Given the scope of the initial product portfolio, it will be necessary for PSE to develop comprehensive distribution and installation channels. This optional energy equipment lease service will leverage key service partnerships, through a fair and equitable platform in which interested parties can submit proposals for participation, to facilitate the equipment distribution and in-home/business fulfillment tasks, including installation, repair and maintenance.

### **Demand Response**

At which time there is a Demand Response Conservation Program available to customers, the optional energy equipment lease service will evaluate commercially-available technologies and products for participation in said program.

### **Reporting Option**

Following the initial five-year period that the rates are in effect and the optional energy equipment lease service is available under Schedule 75, PSE will, at request of the UTC, submit a report to the UTC that details the type of equipment leased, the number of customers taking optional energy equipment lease service, unit failure rates, average default rates and available customer satisfaction metrics.

### **Stakeholder Interaction and Consultation**

For nearly a year-and-a-half PSE has been consulting with various stakeholders regarding the offering of the optional energy equipment lease service. PSE has interacted with the following stakeholders during the following timeframes:

<b>Stakeholders</b>	<b>Timeframe</b>
Northwest Energy Efficiency Council	May 15, 2014
Conservation Resource Advisory Group (CRAG)	June 5, 2014
Air Conditioning Contractors of America (WAACCA) - Washington Board of Directors	February 19, 2015
Market Participants	February 24-27, 2015
Conservation Resource Advisory Group (CRAG)	May 21, 2015
Attorney General of Washington, Office of Public Counsel	June 16, 2015
Washington Utilities and Transportation Commission Staff	June 19, 2015
The Energy Project, Opportunity Council	June 30, 2015
Northwest Energy Coalition	June 30, 2015
Attorney General of Washington, Office of Public Counsel & Northwest Energy Efficiency Council	August 5, 2015
Washington Utilities and Transportation Commission Staff	August 7, 2015
Washington Utilities and Transportation Commission Policy Staff	August 26, 2015

The tariff sheets described herein reflect an issue date of September 18, 2015, and an effective date of November 17, 2015. Posting of proposed tariff changes, as required by law and the Commission's rules and regulations, is being completed immediately prior to or coincident with the date of this transmittal letter through web, telephone and mail access in accordance with WAC 480-90-193 and WAC 480-100-193.

Please contact Malcolm McCulloch at (425) 424-6530 or Eric Englert (425) 456-2312 for additional information about this filing. If you have any other questions please contact me at (425) 456-2110.

Sincerely,



Ken Johnson  
Director, State Regulatory Affairs

Enclosure

cc: Simon J. ffitch, Public Counsel  
Sheree Carson, Perkins Coie