

**EXH. WTE-1CT
DOCKET UG-_____
WITNESS: WILLIAM T. EINSTEIN**

**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-_____

PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF

WILLIAM T. EINSTEIN

ON BEHALF OF PUGET SOUND ENERGY

REDACTED VERSION

FEBRUARY 19, 2020

PUGET SOUND ENERGY

**PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF
WILLIAM T. EINSTEIN**

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PUGET SOUND ENERGY

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EXHIBITS

- Exh. WTE-2 Professional Qualifications
- Exh. WTE-3C Asset Purchase Agreement
- Exh. WTE-4 Grand HVAC Leasing Business & Management Overview
- Exh. WTE-5 Puget Sound Energy-Grand HVAC Leasing Transition Plan

1 **PUGET SOUND ENERGY**

2 **PREFILED DIRECT TESTIMONY (CONFIDENTIAL) OF**
3 **WILLIAM T. EINSTEIN**

4 **I. INTRODUCTION**

5 **Q. Please state your name and business address.**

6 A. My name is William T. Einstein, and my business address is 355 110th Ave. NE,
7 Bellevue, Washington, 98004-5591. I am employed by Puget Sound Energy
8 (“PSE”) as Director of Product Development and Growth.

9 **Q. Have you prepared an exhibit describing your education, relevant**
10 **employment experience, and other professional qualifications?**

11 A. Yes. Please see the First Exhibit to the Prefiled Direct Testimony of William T.
12 Einstein, Exh. WTE-2.

13 **Q. What is the purpose of your testimony?**

14 A. My testimony describes PSE’s water heater rental service under Schedules 71 and
15 72 (“Water Heater Service”), the reasons for PSE’s decision to discontinue
16 Schedules 71 and 72 and sell the Water Heater Service to a third-party (the
17 “Proposed Transaction”), PSE’s process of selling the Water Heater Service and
18 its selection of a buyer, an overview of the Proposed Transaction and the
19 proposed process of transitioning PSE customers to the buyer. My testimony also
20 explains that due to the discontinuance of Schedules 71 and 72, the water heaters,
21 rental agreements, and other assets associated with the Water Heater Service (the

1 “Water Heater Assets”) will no longer be necessary or useful, and that the
2 Proposed Transaction is consistent with the public interest.

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

4 **A. Overview of the Water Heater Service**

5 **Q. Please describe the Water Heater Service.**

6 A. PSE and its predecessor companies have offered equipment rental services to
7 customers as a regulated service for more than half a century. In the 1940s, one of
8 PSE’s predecessor companies, Puget Power & Light Co. (“Puget Power”), began
9 providing customers an optional “Storage Water Heating Service,” which for a
10 monthly charge, the company would furnish a time switch that connected to the
11 customer’s water heater and would activate the water heater. In 1961, Washington
12 Natural Gas (“WNG”) began offering customers natural gas conversion burners
13 for rent. WNG later expanded its rental options to customers to include gas
14 circulating heaters, furnaces, and water heaters, all as regulated services. In 1965,
15 Puget Power began offering electric water heaters for rent. In 1997, WNG and
16 Puget Power merged, forming PSE. PSE discontinued the electric water heater
17 leasing service but continued the optional WNG natural gas water heater rental
18 service. It has operated continuously since that time under Schedules 71 and 72.
19 Under the Water Heater Service, by paying a monthly rental fee, customers can
20 call PSE to request an inspection, repair or maintenance of their rented water
21 heater. If the water heater cannot be repaired, PSE will replace the water heater.

1 **Q. What is the current status of the Water Heater Service?**

2 A. There are currently about 25,000 participating customers and that number
3 declines each year. As of December 31, 2019, the number of customers under
4 Schedules 71 and 72 are shown in Table 1.

5 **Table 1. Total Water Heater Customer Count**
6 **December 31, 2019**

Schedule	Customers
Schedule 71 - Residential Water Heater Rental Service	22,656
Schedule 72 - Commercial Water Heater Rental Service	2,312
Total Water Heater Customers	24,968

7 The total annual revenue collected from the rental services from January 1, 2019
8 through December 31, 2019, is \$ [REDACTED]. The net book value of the Water
9 Heater Assets as of December 31, 2019, is \$ [REDACTED].¹

10 **Q. Why is PSE discontinuing the Water Heater Service?**

11 A. PSE is discontinuing the Water Heater Service because the future viability of the
12 Water Heater Service for its customers is uncertain and ultimately, likely
13 unsustainable under the current regulatory and program operating conditions.
14 Commission Staff and other parties have been opposed to the Water Heater
15 Service for years. In 2000, following discussions about the accounting relating to
16 the Water Heater Service, PSE agreed with Commission Staff and other
17 stakeholders to close the Water Heater Service to new customers. In 2015, in

¹ This information should be treated as Confidential until PSE submits its Form 10-K on February 20, 2020.

1 Dockets UE-151871/UG-151872, PSE proposed several tariff revisions that
2 would expand the Water Heater Service, which Commission Staff, Public
3 Counsel, and other stakeholders opposed. Ultimately, the Commission denied
4 PSE's proposal to expand the Water Heater Service.

5 In PSE's 2017 general rate case in Dockets UE-170033/UG-170034, Commission
6 Staff again raised concerns with the Water Heater Service and recommended that
7 it be discontinued. The parties entered into a Multiparty Settlement Stipulation
8 and Agreement and as a part of that agreement, PSE agreed to enter into a
9 collaborative with Commission Staff and other interested stakeholders to address
10 the future of the Water Heater Service.

11 **Q. What was the outcome of the collaborative with Commission Staff and other**
12 **interested stakeholders?**

13 A. PSE had discussions with Commission Staff, Public Counsel and The Energy
14 Project regarding the future of the Water Heater Service. During that process, PSE
15 determined that the best course was for PSE to discontinue the Water Heater
16 Service under Schedules 71 and 72 and sell the Water Heater Service to a third
17 party.

18 **Q. Why did PSE reach this conclusion?**

19 A. After further consideration, PSE determined that without the ability to add new
20 customers to the Water Heater Service, opposition of the Commission and its
21 Staff to expanding the Water Heater Service, and with the Water Heater Service

1 continuing to experience customer attrition, the future economic viability of the
2 Water Heater Service for PSE and its customers is uncertain and ultimately, likely
3 unsustainable. Discontinuing the Water Heater Service will allow PSE, the
4 Commission, and other stakeholders the opportunity to focus on providing new
5 and emerging regulated products and services to customers, including other rental
6 products that benefit customers.

7 **Q. What is PSE's proposal for how to discontinue the Water Heater Service?**

8 A. PSE believes the best course for discontinuing the Water Heater Service is to
9 request Commission approval to discontinue the Water Heater Service under
10 Schedules 71 and 72 and to sell the Water Heater Service to a third-party.

11 **Q. Why has PSE decided that selling the Water Heater Service is the best
12 option?**

13 A. Selling the Water Heater Service is the option that best meets the needs of the
14 current rental customers and PSE. Many PSE customers strongly desire to
15 continue their water heater rental service as shown by the number of customers
16 who participate in the program year after year. The Water Heater Service is a
17 comprehensive program whereby PSE provides the rental equipment, parts,
18 repair, and replacement for a monthly rental rate. Customers value this rental
19 service due to the peace of mind, convenience, and predictability of costs that
20 comes with a worry-free guarantee of repair or replacement of their water heater.

1 Selling the Water Heater Service to a company that will continue the rental
2 service provides customers with the option to continue a water heater rental
3 service. For customers who do not wish to continue their rental service, they can
4 terminate their service and either (1) pay off the remaining undepreciated value of
5 their water heater (if any) and take ownership of their water heater or (2) request
6 that PSE remove the water heater. The Proposed Transaction provides customers
7 with the ultimate choice on their water heater service.

8 **Q. Are there other reasons why PSE decided to sell the Water Heater Service?**

9 A. Yes. Selling the Water Heater Service allows PSE to obtain fair market value for
10 the Water Heater Service to offset a portion of book value for the Water Heater
11 Assets.

12 **Q. Did PSE consider any alternatives other than selling the Water Heater
13 Service?**

14 A. Yes. PSE considered two alternatives in addition to selling the Water Heater
15 Service: 1) continue the Water Heater Service as it operates today with five to six
16 percent annual customer attrition, or 2) continue the Water Heater Service as it
17 operates today and create a plan to accelerate exiting the business to end in no
18 more than five years. Both alternatives were not in the best interest of PSE nor
19 customers, as the cost to run and manage the business would become burdensome
20 and uneconomic with a declining base of customers over time. These options also
21 do not provide customers who desire to rent a water heater a long-term option of
22 doing so.

1 **Q. Was management kept informed and did they approve of PSE's decision to**
2 **sell the Water Heater Service?**

3 A. Yes. The alternatives and the recommended option to sell the Water Heater
4 Service was developed by program management and reviewed with appropriate
5 directors and officers for approval.

6 **B. Overview of the Sale Process**

7 **Q. Please describe the process of selling the Water Heater Service.**

8 A. PSE selected a winning bidder through a formal auction process whereby PSE
9 sent out a Request for Interest, requested formal Letters of Intent, negotiated
10 terms of the sale, and ultimately executed an Asset Purchase Agreement ("APA")
11 to sell the Water Heater Service with the winning bidder.

12 **Q. How did PSE choose a winning bidder?**

13 A. PSE received three formal bids for the Water Heater Service. PSE evaluated the
14 bidders in the areas of purchase price, customer service, management and
15 business experience, operations, and commercial terms of the sale. The winning
16 bidder was selected based on its relative strength in the evaluation criteria.

17 **Q. Who did PSE choose as the winning bidder?**

18 A. PSE choose Grand HVAC Leasing ("GHL"). In selecting a bidder, in addition to
19 the sales price offered, it was important for PSE to choose a bidder that would
20 continue the Water Heater Service in a manner as similar as possible to PSE's
21 current service. GHL agreed to continue the Water Heater Service consistent with

1 or exceeding the current service provided. Importantly, GHL also committed to
2 maintaining the monthly rate on existing equipment for the Water Heater Service
3 applicable at the time of the execution of the APA for a minimum of two years.
4 These commitments, combined with GHL's experience and existing operations
5 model to support additional water heater rental customers, ensure that the
6 customer transition to a new service provider will be as seamless as possible.
7 These criteria are strong examples of why GHL was selected as the winning
8 bidder.

9 **Q. Why were the other bidders not selected?**

10 A. The other bidders had lower offer prices, shorter customer price protection, less
11 experience operating a rental service, and comparatively weaker commercial
12 terms. These components of their offers created additional risk and impact to PSE
13 and our customers when compared to GHL's offer.

14 **Q. Was management kept informed and did they approve of PSE's evaluation
15 process and ultimate selection of GHL?**

16 A. Yes. PSE management was kept informed during selection process and approved
17 the evaluation criteria discussed above and the selection of GHL as the winning
18 bidder. The APA was signed by David Mills, Senior Vice President for Policy and
19 Energy Supply. The Second Exhibit to my Prefiled Direct Testimony, Exh. WTE-
20 3C, is the executed APA.

1 **Q. What is GHL’s management and business experience?**

2 A. The founding partners of GHL have 75 years of combined business experience in
3 the heating, ventilation, and air conditioning (“HVAC”) industry. GHL has over
4 25 years of experience repairing, replacing, or removing commercial and
5 residential water heater equipment, and has a dealer network of over 400 installers
6 or technicians with an average industry experience of 25 years. In 2018, GHL
7 successfully transitioned a portfolio of water heater rental customers from a
8 regulated utility to their platform. In addition, GHL has partnered with 12 other
9 utilities in North America on water heater, HVAC, and generator leasing,
10 marketing, and rebate programs and operates its own leasing programs for water
11 heaters and other HVAC equipment across North America. In selecting GHL as
12 the winning bidder, GHL’s relevant experience was an important factor to
13 ensuring a smooth transition for customers and longevity in the leasing space. The
14 Third Exhibit to my Prefiled Direct Testimony, Exh. WTE-4, provides an
15 overview of GHL’s management and experience in this industry.

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

17 **Q. Please describe the financial terms of the Proposed Transaction.**

18 A. The APA sets out the financial terms of the Proposed Transaction. [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]. Customers that do not end their lease agreements and service

1 prior to closing will be transitioned to GHL for a continuation of their rental
2 service.

3 **Q. When do you expect the Proposed Transaction to be completed?**

4 A. PSE expects the Proposed Transaction to close 120 days after Commission
5 approval. A post-close true-up will occur 60 days after the close of the Proposed
6 Transaction to account for additional customers that enroll with GHL. Final
7 payment will be made to PSE at the end of the post-close transition period.

8 **D. Customer Notification and Transition Plan**

9 **Q. How will customers be notified of the sale of the Water Heater Service to**
10 **GHL?**

11 A. PSE will notify customers of the sale through direct mail and e-mail a minimum
12 of four times over the course of the customer transition period. The
13 communication materials will inform customers of their option to continue service
14 with GHL or terminate their service. The communication will include the
15 customer's payoff balance (if any) of their water heater, provide timelines, and
16 other information needed to guide them through the transition process. The Fourth
17 Exhibit to my Prefiled Direct Testimony, Exh. WTE-5, is the PSE-GHL
18 Transition Plan which describes the customer transition process, customer options
19 and draft communication.

1 **Q. What options will customers be given in the communication?**

2 A. Customers will have the same options they have today to terminate their rental
3 agreement but with the added option of transitioning their service to GHL.
4 Customers who choose to end their rental service will have the option of (1)
5 taking ownership of the water heater or (2) having PSE remove the water heater at
6 no charge. Customers who choose to take ownership of the water heater will be
7 required to pay the remaining undepreciated balance on their water heater tank (if
8 any). Customers that do not end their rental agreements with PSE prior to close
9 will be transitioned to GHL.

10 **Q. What is the process for customers to transition to GHL?**

11 A. Customers will be prompted to visit GHL's website or call GHL where they can
12 enroll in GHL's electronic billing and payment platform by providing their billing
13 information and signing GHL's rental terms (the "GHL Platform"). After close,
14 customers that have not enrolled with GHL and have not terminated their rental
15 agreement with PSE will transition to GHL. They will receive a paper bill and
16 will ultimately need to enroll in the GHL Platform to receive electronic billing
17 and make debit or credit card payments. All transitioned customers will receive a
18 welcome letter from GHL with information on how to contact GHL for any Water
19 Heater Service-related needs following the close date. Please see the Fourth
20 Exhibit to the Prefiled Direct Testimony of William T. Einstein, Exh. WTE-5, for
21 additional details on this process.

1 **Q. Will low income customers have the same options as other customers?**

2 A PSE has low income customers in the Water Heater Service and will provide the
3 same options to these customers, allowing them to choose whether to terminate
4 their rental agreement or transition to GHL.² If it is a hardship for a customer to
5 pay off their remaining undepreciated balance if they choose to terminate, PSE
6 will provide payment arrangements.

7 **Q. Is PSE transferring customers with fully depreciated assets to GHL?**

8 A. Yes, based on the customer's choice. Not providing the option would limit the
9 options available to a customer with fully depreciated equipment. As I explain
10 above, the Water Heater Service is a comprehensive program whereby PSE (and
11 eventually the proposed buyer) provides the rental equipment, parts, repair, and
12 replacement for a monthly rental rate. Customers value this rental service due to
13 the peace of mind, convenience, and predictability of costs that comes with a
14 worry-free guarantee of repair or replacement of their water heater. Customers
15 participate in the Water Heater Service not because they see it as a water heater
16 purchase program but because they prefer to rent the equipment rather than own
17 due to the value the rental service provides. These customers should have the
18 choice to continue the Water Heater Service with GHL for as long as the service
19 provides value to them. PSE does not believe it is appropriate for the Company or

² PSE had 251 water heaters in low income residential premises (customers that benefit from bill assistance programs or low-income weatherization) as of June 30, 2018.

1 any other party to make that decision for a customer as to whether they can or
2 should participate in a rental service.

3 **Q. How will customer information be protected throughout this process?**

4 A. Both PSE and GHL are committed to protecting customer information throughout
5 the customer transition process. Any customer service information needed for
6 GHL to continue the rental service will be transferred to GHL using a secure
7 transfer protocol. Only those customers whose service is transitioned to GHL will
8 have such information transferred. Any private customer information disclosed to
9 GHL by PSE will be for the sole purpose of providing service and service-related
10 information for customers who currently subscribe to the Water Heater Service in
11 order to allow them to continue their service with GHL after PSE no longer offers
12 the service.

13 In addition, under the APA, GHL has agreed to protect any customer information
14 obtained by GHL post-sale in a manner consistent with PSE's Privacy Policy.

15 **III. THE WATER HEATER ASSETS ARE NOT NECESSARY**
16 **OR USEFUL**

17 **Q. Are the Water Heater Assets necessary or useful?**

18 A. After PSE discontinues the Water Heater Service under Schedules 71 and 72, the
19 Water Heater Assets will no longer be necessary or useful to PSE. Under WAC
20 480-143-180(2), the Water Heater Assets will be "surplus" and "unneeded assets"
21 for which PSE has received "full value" because through the Proposed
22 Transaction, PSE will receive a payment for the Water Heater Assets from GHL

1 based on the market value³ of the Water Heater Service. PSE is requesting a
2 Commission determination that the Water Heater Assets are not necessary or
3 useful because the market value of the Water Heater Assets will likely exceed
4 “the greater of .1% of [PSE’s] rate base (for the applicable utility service) last
5 established by commission order, or \$20,000.”⁴ WAC 480-143-180. Thereby, if
6 the Commission agrees that the Water Heater Assets will no longer be necessary
7 or useful to PSE, PSE is able to dispose of the Water Heater Assets by selling
8 them to GHL.

9 **IV. THE PROPOSED TRANSACTION IS CONSISTENT WITH**
10 **THE PUBLIC INTEREST**

11 **Q. Is the Proposed Transaction consistent with the public interest?**

12 A. Yes. Even if the Commission determines that the Water Heater Assets are
13 necessary or useful to PSE, the Commission should approve the Proposed
14 Transaction because the sale of the Water Heater Service is consistent with the
15 public interest. It provides the best mechanism for PSE to discontinue the Water
16 Heater Service while still protecting the interests of customers and providing them
17 choice regarding their service.

18 As I explained previously, many customers still desire a water heater rental
19 service and the Proposed Transaction provides those customers with the choice to
20 continue their water heater rental service with GHL. GHL will provide

³ As supported by the sales price negotiated with the third-party purchaser, GHL.

⁴ \$1,765,437 for 2019.

1 comparable maintenance, repair and replacement service that customers had with
2 PSE. In addition, GHL has agreed to not change rental rates on existing
3 equipment for 24 months after closing at the levels in effect at the time the APA
4 was signed. GHL is also able to offer additional choice in equipment and
5 additional ancillary services to the customer which is in the customer's best
6 interest.

7 At the same time, customers that wish to take ownership of their water heater and
8 not continue with a rental program may do so by paying to PSE the remaining
9 undepreciated value of their water heater, if any. Or, a customer may ask PSE to
10 remove their water heater, which PSE will do. The Proposed Transaction provides
11 customers with the ultimate choice on their water heater service, which was an
12 important requirement in PSE's decision to discontinue the Water Heater Service.

13 Finally, as also described above, by selling the Water Heater Service, it allows
14 PSE to receive market value for the Water Heater Service, which will offset a
15 portion of the book value of the existing assets. This will maximize the financial
16 impact to all ratepayers by recovering as much value for the Water Heater Service
17 before the market value of the Water Heater Service diminishes further due to
18 attrition.

19 V. CONCLUSION

20 **Q. Does this conclude your prefiled direct testimony?**

21 A. Yes.