

**EXH. WTE-1T  
DOCKETS UE-170033/UG-170034  
2017 PSE GENERAL RATE CASE  
WITNESS: WILLIAM T. EINSTEIN**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**Docket UE-170033  
Docket UG-170034**

**PREFILED REBUTTAL TESTIMONY  
(NONCONFIDENTIAL) OF  
WILLIAM T. EINSTEIN  
ON BEHALF OF PUGET SOUND ENERGY**

**AUGUST 9, 2017**

**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY  
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WILLIAM T. EINSTEIN**

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1 **PUGET SOUND ENERGY**

2 **PREFILED REBUTTAL TESTIMONY**  
3 **(NONCONFIDENTIAL) OF**  
4 **WILLIAM T. EINSTEIN**

5 **I. INTRODUCTION**

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

7 A. My name is William T. Einstein, and my business address is 10885 N.E. Fourth  
8 Street, Bellevue, Washington 98004. I am employed by Puget Sound Energy  
9 (“PSE”) as Director of Product Development and Growth.

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

12 A. Yes. It is the First Exhibit to my Prefiled Rebuttal Testimony, Exh. WTE-2.

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

14 A. My rebuttal testimony responds to the Response Testimony of Elizabeth C.  
15 O’Connell, Exh. ECO-1CT, witness for the Staff of the Washington Utilities and  
16 Transportation Commission (“Staff”), who recommends that PSE’s equipment  
17 rental program under Schedules 71, 72 and 74 be discontinued. Ms. O’Connell’s  
18 recommendation should be rejected because (1) she misunderstands long-standing  
19 Commission precedent upholding equipment leasing programs; (2) she ignores  
20 the tremendous value thousands of PSE customers derive from the program; and  
21 (3) her recommendations for closing the program would be detrimental to PSE  
22 and to customers.

1                                   **II.     RESPONSE TO STAFF’S RECOMMENDED**  
2                                   **TERMINATION OF PSE’S EQUIPMENT RENTAL PROGRAM**

3   **Q.     How do you respond to Ms. O’Connell’s suggestion that the Commission**  
4           **should order the phase out of PSE’s equipment rental program under**  
5           **Schedules 71, 72 and 74?**

6   A.     The program should not be discontinued. The Commission has approved of PSE’s  
7           equipment rental program for decades and the program continues to be utilized by  
8           approximately 30,000 customers. In addition, Ms. O’Connell’s methodologies and  
9           suggestions for phasing out the program reflect a fundamental misunderstanding  
10          of the program and would significantly harm PSE and customers.

11 **Q.     Can you briefly describe the history and origins of PSE’s equipment rental**  
12 **program?**

13 A.     PSE and its predecessor companies have offered equipment rental services to  
14          customers as a regulated service for more than half a century. In the 1940s, one of  
15          PSE’s predecessor companies, Puget Power & Light Co. (“Puget Power”), began  
16          providing customers an optional “Storage Water Heating Service,” which for a  
17          monthly charge, the company would furnish a time switch that connected to the  
18          customer’s water heater and would activate the water heater. In 1961, Washington  
19          Natural Gas (“WNG”) began offering customers natural gas conversion burners  
20          for rent. WNG later expanded its rental options to customers to include gas  
21          circulating heaters, furnaces, and water heaters, all as regulated services. In 1965,  
22          Puget Power began offering electric water heaters for lease. In 1997, WNG and

1 Puget Power merged, forming PSE. PSE discontinued the electric heater leasing  
2 program but continued the WNG equipment rental program. It has operated  
3 continuously since that time.

4 **Q. Do customers still rent equipment from PSE?**

5 A. Yes, under Schedules 71, 72 and 74, approximately 30,000 PSE customers still  
6 participate in PSE's equipment rental program. While in 2000, PSE closed the  
7 program to new customers, thousands of customers continue to rent equipment  
8 from PSE.

9 **Q. Has the Commission approved of PSE's rental program?**

10 A. Yes, over the years, several parties have challenged PSE's rental program,  
11 including Staff, only to be rejected by the Commission. For example, in the early  
12 1960s, industry participants and Staff challenged the legality of WNG's rental  
13 program. The Commission rejected the industry's and Staff's arguments that  
14 utilities should not be able to rent equipment and upheld the program as a  
15 legitimate utility practice. On appeal, the Washington Supreme Court affirmed the  
16 Commission's determination in the matter *Cole v. Washington Utilities &*  
17 *Transportation Commission*, 79 Wn.2d 302 (1971).

18 **Q. Has Ms. O'Connell accurately stated the Commission's Order in WNG's**  
19 **1992 General Rate Case in WUTC Docket UG-920840?**

20 A. No. In 1992, Staff again challenged the legality of the rental program which the  
21 Commission rejected. While it is true the Commission identified some

1 deficiencies with the program, including that the program was underearning, the  
2 Commission authorized the continued operation of the program, finding that  
3 “[rental] programs can provide customer benefit if they maximize efficient use of  
4 resources.”<sup>1</sup> WNG issued several proposals to remedy the underearning problem,  
5 which the Commission approved of, and the Commission also ordered WNG to  
6 offer rented water heaters for customer purchase at depreciated book value.<sup>2</sup>

7 **Q. At that time, did the Commission order WNG to not add new customers to**  
8 **the program as Ms. O’Connell claims?**

9 A. No. Ms. O’Connell is mistaken. In 1993, the Commission did not order PSE to  
10 not add new customers to the program. The Commission adopted WNG’s  
11 proposal to continue the existing program under conditions proposed by WNG.<sup>3</sup>

12 **Q. Since that time, has PSE offered to customers the option of purchasing**  
13 **rented water heaters, as required by the Commission?**

14 A. Yes. I am not sure what Ms. O’Connell is referring to when she states that “[t]he  
15 option to purchase is not published in PSE online resources or schedules.”<sup>4</sup> PSE’s  
16 website explains that customers may contact PSE regarding “Purchasing your

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<sup>1</sup> *Wash. Utils. & Transp. Comm’n v. Wash. Natural Gas*, Docket UG-920840, Order 04 at 16-17 (Sept. 27, 1993).

<sup>2</sup> *Id.* at 17.

<sup>3</sup> *Id.* at 16-17.

<sup>4</sup> O’Connell, Exh. ECO-1CT at 27:8-9.

1 water heater from PSE.”<sup>5</sup> Hundreds of PSE customers exercise this option every  
2 year. The fact that customers are required to contact a customer service  
3 representative if they want to purchase their equipment in no way indicates that  
4 PSE is not effectively communicating this opportunity to customers as Ms.  
5 O’Connell suggests. The Commission has never indicated to PSE that its methods  
6 for providing this information to customers is inadequate.

7 **Q. Do you agree with Ms. O’Connell’s assertion that transferring water heaters**  
8 **and gas conversion burners to customers once the plant has zero**  
9 **depreciation value “is a natural extension of the order”?**

10 A. No. Ms. O’Connell’s suggestion that automatically transferring ownership to  
11 customers is “natural extension” of the Commission’s order reflects a  
12 fundamental misunderstanding of PSE’s equipment rental program. Customers  
13 participate in the program not merely because of the equipment itself. Rather, the  
14 rental program is a comprehensive service program whereby PSE provides the  
15 rental equipment, plus parts, repair, and replacement. If a customer experiences  
16 failing equipment, PSE will repair or replace the equipment at no additional cost  
17 to the customer. This provides a tremendous peace of mind for many customers.  
18 Some PSE customers have participated in the program for decades because they  
19 value the service provided and predictability of cost. Replacing a failed water  
20 heater can be expensive and inconvenient for customers. Ms. O’Connell’s

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<sup>5</sup> <https://pse.com/ACCOUNTSANDSERVICES/YOURACCOUNT/Pages/Lease-Services.aspx>.



1 testimony totally fails to address this aspect of the rental program and the value  
2 many customers find in the program. Automatically transferring ownership of the  
3 equipment ignores the fact that many customers do not want to own the  
4 equipment because they participate in the program for the service PSE provides.  
5 Thus, there is nothing “natural” about Ms. O’Connell’s suggestion.

6 **Q. Would customers be harmed if the Commission ordered PSE to transfer**  
7 **ownership of “fully accrued”<sup>6</sup> equipment as proposed by Ms. O’Connell?**

8 A. Yes. Thousands of customers would be harmed as it would arbitrarily end a  
9 service in which these customers have chosen to participate for the services  
10 provided. The customer would then be required to bear the full burden of repair or  
11 replacement costs should the equipment fail, disallowing customers from availing  
12 themselves of the value of the service they invested in prior to such a forced  
13 transfer. In particular, this would adversely affect those low income or small  
14 business customers who do not have the resources to cover these large  
15 incremental costs which was one of the attractive aspects of the equipment rental  
16 in the first place.

17 **Q. Do you agree that the equipment program has rate design and overearning**  
18 **problems?**

19 A. No. Utility programs can underearn or overearn at varying degrees over time and  
20 rate cases are used periodically to correct any underearning or overearning issues.

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<sup>6</sup> O’Connell, Exh. ECO-1CT at 26:6.

1 This is typical of utility ratemaking. Over the decades of offering the service to  
2 customers, the program has had periods of underearning and overearning and each  
3 time, small adjustments were made to correct the rate design. For this rate case, in  
4 recognition that revenues currently exceed cost, PSE is proposing that rental  
5 customers experience no rate increase.

6 **Q. Does PSE receive a perpetual return on fully depreciated rate base?**

7 A. No. When assets are fully depreciated, their balance included in rate base is zero,  
8 and thus no return is calculated on those assets. The 18,544 appliances that Ms.  
9 O’Connell references in her testimony as being fully accrued have a zero net book  
10 value<sup>7</sup> and thus have no contribution to the revenue requirement for either rate  
11 base return or depreciation expense in this proceeding.

12 **Q. Do customers “pay for the asset indefinitely” as claimed by Ms. O’Connell?**

13 A. No. The customers who chose to participate in Schedules 71, 72 and 74 are not  
14 purchasing an asset; rather, as explained above, they are paying for a service with  
15 the assurance of continued hot water or heat as the Schedules provide not only the  
16 rented equipment, but also indefinite repair and replacement of the equipment  
17 throughout the rental term. And, as noted above, the revenue requirement no  
18 longer recovers a return on the assets or depreciation expense when appliances are  
19 fully accrued. This is a voluntary service, where customers are free to choose  
20 other vendors and can terminate service at any time. The fact that over 30,000

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<sup>7</sup> See, e.g., Spanos, Exh. JJS-3 at page 3, account 364, which indicates “fully accrued.”

1 customers still rely on PSE for these services demonstrates that for participating  
2 customers, the service provides a value for them.

3 **Q. What policy reasons are there for the program to continue?**

4 A. Ms. O’Connell suggests that there are no policy reasons for the program to  
5 continue. She is mistaken. First, there were numerous reasons why PSE and its  
6 predecessors began offering equipment rental programs. While it is true that one  
7 of the initial reasons was to promote greater use of natural gas, under Commission  
8 approval, the program has continued operating for decades after promoting the  
9 use of natural gas was no longer a primary motivating factor. Staff offered this  
10 same argument in Dockets UE-151871/UG-151872, which the Commission  
11 rejected.<sup>8</sup> As the Commission stated in the same paragraph from the Leasing  
12 Order that Ms. O’Connell cites, “We conclude that a water heating and HVAC  
13 equipment leasing program can be a tariffed utility service subject to Commission  
14 jurisdiction and regulation.”<sup>9</sup> Second, perhaps the most significant reason for  
15 continuing to offer the program is customer demand, which the Commission  
16 specifically referenced in the Leasing Order.<sup>10</sup> The program should continue  
17 because PSE customers derive a significant benefit from the program, and PSE  
18 continues to receive requests for customers to again offer equipment leasing.

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<sup>8</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-151871/UG-151872, Order 06 at ¶ 55 (2016) (“Leasing Order”).

<sup>9</sup> *Id.* at ¶ 61.

<sup>10</sup> *Id.* at ¶ 84.

1 PSE's customers have utilized PSE's various equipment leasing programs for  
2 decades because of the value they provide.

3 Finally, PSE's existing rental program does promote the use of more efficient  
4 equipment. In April 2016, the National Appliance Energy Act went into effect  
5 requiring all manufacturers to produce product that meet increased efficiency  
6 standards. PSE has worked with its distribution and installation partners to ensure  
7 that rental equipment being replaced is done so with equipment that meets or  
8 exceeds these standards. Typically, the primary reason PSE would not replace  
9 equipment with a higher efficiency model is only because of the constraints of the  
10 space; higher-efficiency units are taller and larger in diameter and may not fit in  
11 existing tank locations. Thus, contrary to Ms. O'Connell's suggestion, the existing  
12 program does promote measures to increase the use of more efficient equipment.

13 **Q. How do you respond to Ms. O'Connell's suggestion that PSE should replace**  
14 **a failing water heater and then immediately transfer the new equipment to**  
15 **the customer?**

16 A. Ms. O'Connell's suggestion would harm PSE by requiring it to effectively gift to  
17 customers new equipment without allowing PSE the ability to recover its costs.  
18 This could amount to a taking of PSE's property and might also provide an undue  
19 preference to those customers. This would also harm ratepayers who would bear  
20 the costs for this forced transfer.

1 **III. CONCLUSION**

2 **Q. Does this conclude your rebuttal testimony?**

3 A. Yes.