

**EXHIBIT NO. ___(JET-1T)
DOCKETS UE-151871/UG-151872
PSE EQUIPMENT LEASING SERVICE
WITNESS: JASON E. TELLER**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Dockets UE-151871
UG-151872**

**PREFILED DIRECT TESTIMONY OF
JASON E. TELLER
ON BEHALF OF PUGET SOUND ENERGY**

February 25, 2016

PUGET SOUND ENERGY
PREFILED DIRECT TESTIMONY OF
JASON E. TELLER

CONTENTS

I.	INTRODUCTION	1
II.	LEASING SOLUTIONS PROVIDES AN ALTERNATIVE SOLUTION TO ADDRESS ENERGY EQUIPMENT DECISIONS.....	3
III.	THERE IS A GAP IN THE MARKET AND A SIGNIFICANT NUMBER OF PSE CUSTOMERS ARE USING OLDER INEFFICIENT EQUIPMENT	7
IV.	CONCLUSION.....	11

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
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PUGET SOUND ENERGY
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JASON E. TELLER

I. INTRODUCTION

Q. Please state your name, business address, and position with Puget Sound Energy.

A. My name is Jason E. Teller. My business address is 10885 N.E. Fourth Street Bellevue, WA 98004. I am the Vice President, Customer Solutions for Puget Sound Energy (“PSE”).

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

A. Yes, I have. It is Exhibit No. ___(JET-2).

Q. What are your duties as Vice President, Customer Solutions for PSE?

A. As Vice President, Customer Solutions, I am responsible for leading all customer-focused development and growth of new and existing products, services, and programs. I also provide executive direction and oversight of the Energy Efficiency programs at PSE. The Lease Solutions group is part of my organization at PSE.

Q. Please summarize the Lease Solutions service PSE proposes in this case.

A. Lease Solutions, the optional equipment lease service proposed by PSE in this case, will benefit those customers who choose to lease equipment through the

1 service, as well as all PSE customers. Through this service, PSE offers customers
2 the option to lease electric and natural gas water heaters, natural gas furnaces, and
3 electric air-source heat pumps. Lease Solutions provides options to PSE's
4 customers for accessing energy equipment that will: (i) stimulate and support the
5 installation of energy efficient equipment; (ii) provide customers with simple and
6 comprehensive turn-key solutions for the acquisition and maintenance of energy
7 equipment; and (iii) expand existing market activity.

8 PSE has identified a gap in the market that Lease Solutions is designed to address.
9 Market research indicates that a significant number of customers have furnaces,
10 water heaters and heat pumps that are beyond their useful lives and are less
11 efficient than equipment offered today. PSE's Lease Solutions is designed to
12 encourage these customers to replace their older, inefficient equipment sooner,
13 before their equipment fails. By doing so, the customers will benefit by both
14 reducing their overall energy use and by avoiding the risks that come with failure
15 of their equipment. PSE's customers in general will benefit through this broader
16 use of energy efficient equipment and the savings that accompany it—avoided
17 energy costs, avoided electric capacity costs, as well as avoided CO₂ and other
18 emissions.

19 PSE has worked closely with service providers in designing the service. PSE
20 offers several paths, including one that would allow a customer to use a preferred
21 contractor to supply and install the equipment. There are many customers who
22 look to PSE as a trusted energy partner that provides them with safe, dependable
23 and efficient energy management options. Lease Solutions delivers on this

1 expectation by providing participating customers with new equipment,
2 installation, hassle-free maintenance, and repairs or failed-equipment replacement
3 for the life of the lease for one fixed monthly price, with no upfront cost. In sum,
4 Lease Solutions provides a simple and elegant optional service for customers to
5 replace their older, inefficient equipment sooner than is happening today, thus
6 providing direct benefits to those participating customers and broad system
7 benefits to all customers

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

9 A. The purpose of my testimony is to provide a high-level description of PSE's
10 proposed lease services. I will also discuss the gaps in the market that have been
11 identified and how Lease Solutions is designed to meet the existing need.
12 Additionally, I will introduce the other witnesses who are providing more detailed
13 testimony on these topics.

14 **II. LEASING SOLUTIONS PROVIDES AN ALTERNATIVE SOLUTION TO**
15 **ADDRESS ENERGY EQUIPMENT DECISIONS**

16 **Q. Please briefly describe the equipment leasing service proposed by PSE.**

17 A. Lease Solutions is a turn-key, all-inclusive service through which PSE will lease
18 natural gas furnaces, electric air-source heat pumps, and tank-style water heaters,
19 both natural gas and electric. All of these products will be offered to PSE
20 residential customers; only water heaters will be offered to PSE commercial
21 customers. As part of the lease cost, PSE will: (i) manage, in collaboration with
22 its service partners, the procurement and installation of the equipment; (ii) provide

1 ongoing maintenance; and (iii) perform any needed repairs or failed-equipment
2 replacement throughout the lease term with no additional cost to the customer.
3 The equipment leasing service removes barriers to the replacement of older,
4 inefficient equipment by using a streamlined credit approval process, affordable
5 access to energy efficient equipment, and a simple product selection model. To
6 deliver this service, PSE will rely on the expertise of service partners in the
7 market to install and maintain the equipment according to the service's
8 parameters. The streamlined, turn-key approach will increase customer
9 convenience and provide customers peace of mind that results from knowing that
10 their heating and water heating equipment is efficient, dependable, and safe.

11 **Q. Is PSE's proposed Lease Solutions a continuation of past rental services?**

12 A. Yes, PSE has offered rental water heaters and other optional end-use equipment in
13 the past. The Prefiled Direct Testimony of Eric E. Englert reviews the many lease
14 services and optional end-use equipment services that PSE is currently authorized
15 by the Commission to offer to its customers. However, Lease Solutions offers
16 several important enhancements to the water heater and conversion burner rental
17 services offered under Schedules 71, 72 and 74. The Prefiled Direct Testimony of
18 Malcolm B. McCulloch provides additional detail on the differences between the
19 Lease Solutions service proposed by PSE in this case and the existing water
20 heater rental tariffs.

21 **Q. Why does PSE want to provide this service?**

22 A. Customers turn to PSE every day to help them with their energy needs. These
23 inquiries seek PSE's input on such issues as how to save money on energy bills,

1 assistance with the selection and installation of energy efficient equipment, and
2 solutions to minimize their carbon footprint. Lease Solutions helps PSE better
3 respond to these important issues that customers raise. Lease Solutions will:

- 4 • Help customers access efficient equipment sooner by providing leasing
5 options to credit-constrained customers and by providing access to PSE's
6 expertise, thus raising overall energy efficiency in the system.
- 7 • Provide customers with enhanced ease and convenience when making
8 often difficult energy equipment decisions.
- 9 • Provide customers with increased peace of mind, knowing that their
10 equipment will be operable, regularly maintained, and promptly repaired
11 or replaced upon failure, all of which promote reliability, efficiency,
12 safety, and bill savings.

13 PSE is committed to providing customers solutions that meet their energy needs,
14 and this optional leasing service is another way we intend to serve our customers.

15 **Q. You mentioned this leasing service is “optional.” Can you please explain?**

16 **A.** PSE's Lease Solutions is an entirely voluntary service. No customer is required
17 to participate. Nothing comparable to the Lease Solutions service is currently
18 offered anywhere in the market and customers have no viable all-inclusive
19 alternatives. PSE fully recognizes that not all customers will choose to participate
20 in Lease Solutions. We know, however, that up to 25% of PSE's customers have
21 expressed interest in the service and therefore, PSE is providing a cost-efficient
22 solution that meets this customer sector's needs.

1 **Q. Is Lease Solutions a Conservation Program?**

2 A. No. Lease Solutions is distinguishable from PSE's conservation program in
3 which all PSE customers pay for the conservation measures. As such, cost
4 effectiveness tests used in the Conservation Program are not an appropriate
5 measure for the optional equipment leasing service. If customers view the leased
6 service as beneficial and reasonably priced for the benefits they receive, they can
7 elect to participate in the service. If not, they will choose to not participate. The
8 customers will perform their own cost-benefit analysis based on their own
9 preferences and needs. With Lease Solutions, only those customers who elect to
10 participate will bear the cost of the service, but all customers will benefit from
11 more efficient equipment installed by customers participating in the service.
12 Quantification of the many benefits that flow from this lease service is discussed
13 in the Prefiled Direct Testimony of Dr. Ahmad Faruqui, an economist and
14 principal with The Brattle Group.

15 **Q. You mentioned this leasing service addresses customer safety. Please explain**
16 **how—and to what degree—the energy equipment lease service offerings will**
17 **enhance energy safety.**

18 A. PSE's Lease Solutions service will help accelerate the replacement of old energy
19 equipment with new more efficient products. The equipment will be installed by
20 trained, certified professionals, who will ensure the installations are completed
21 according to manufacturers' specifications and all applicable codes. Additionally,
22 each installation or service visit will require that the service provider check all
23 safety operations to ensure the equipment is performing to the manufacturers'

1 specifications. This is especially important for natural gas equipment, as minor
2 gas leaks or carbon monoxide issues can present health and safety issues for
3 buildings occupants.

4 **III. THERE IS A GAP IN THE MARKET AND A SIGNIFICANT NUMBER**
5 **OF PSE CUSTOMERS ARE USING OLDER INEFFICIENT EQUIPMENT**

6 **Q. You testified that there is a gap in the marketplace that Lease Solutions is**
7 **designed to address. Please elaborate on this gap.**

8 A. A significant portion of the market is utilizing furnaces, heat pumps and water
9 heaters that have far exceeded their useful life. An analysis of the Northwest
10 Energy Efficiency Alliance's 2012 Regional Building Stock Assessment data
11 revealed that approximately 40 percent of the products in service today have
12 exceeded their useful lives as shown in Exhibit No. ___(JET-3).

13 Despite robust efforts by the current market and activities supported by PSE—
14 including connecting customers with approved vendors in its Contractor Alliance
15 Network, providing access to available conservation incentives, and disclosing
16 financing options available in the market—there remains a significant number of
17 customers who are not replacing their older, inefficient equipment. These
18 customers are either unable to replace the older, inefficient equipment due to
19 financial and other constraints, or have chosen not to replace their equipment
20 because there is no simple, turn-key option available in the market.

21 **Q. When customers do replace equipment, do they always install energy-**
22 **efficient equipment?**

1 A. No. Based on PSE's experience and discussions with vendors, approximately 40-
2 50 percent of the equipment being installed is just meeting current Washington
3 code. Despite the significant energy efficiency programs offered by PSE, barriers
4 to adopting the higher efficiency equipment remain. These purchase decisions are
5 leaving significant potential energy savings unachieved, and PSE and its
6 customers are losing out on system benefits that result from a broader use of high-
7 efficiency equipment.

8 **Q. What, if any, are the harmful or detrimental effects to customers using non-
9 energy-efficient equipment or equipment that has exceeded its useful life?**

10 A. The failure to replace inefficient equipment and the continued use of only code-
11 level equipment has numerous, detrimental effects. Older units use more energy,
12 they adversely impact peak load for generation and distribution infrastructure, and
13 they produce unnecessary pollution and carbon emissions.

14 There are also risks to customers that result when customers wait for furnaces and
15 water heaters to fail rather than replacing them proactively. Customers may find
16 themselves without heat in the winter if they wait for their furnaces to fail before
17 replacing them. Water heaters can fail and cause water damage to customers'
18 homes or leave them without hot water until replaced. Decisions made in these
19 times of urgent needs may not result in the best decision from either an energy
20 efficiency or financial perspective.

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1 **Q. Why don't customers replace equipment that has met or exceeded its useful**
2 **life?**

3 A. There are numerous reasons why customers do not replace equipment when it has
4 met or exceeded its useful life. Based on PSE's experience and the results of
5 customer surveys, most customers will delay the replacement of their equipment
6 until they encounter failure or significant degradation of performance. A primary
7 reason for delay is that customers do not want to take on the financial investment
8 of purchasing new equipment. For some it is because they simply cannot afford
9 it, and for others it is because they do not want to spend the money until they are
10 required to spend.

11 Other customers delay the replacement of their equipment because they do not
12 know what equipment to purchase or from whom to purchase the equipment.

13 Many homeowners have never faced the purchasing decisions related to replacing
14 furnaces or water heating equipment. For those faced with the need to replace
15 this essential equipment, the uncertainty as to what model to purchase can be
16 confounding; therefore, customers delay replacing water heaters, furnaces and
17 heat pumps until they have no choice but to do so. In addition, the proactive work
18 it takes to research options, make smart decisions, potentially apply for financing,
19 and manage the installation can be daunting and customers often choose to delay
20 these activities until they have no other choice. Dr. Faruqui provides additional
21 testimony on the barriers to replacement of this equipment in his prefiled direct
22 testimony.

1 **Q. Is waiting for equipment failure really that harmful?**

2 A. Yes. When customers are in emergent situations they will often make hasty and
3 short-sighted decisions. In general, they do not have the time to consider all
4 options and fully weigh costs and benefits. This may lead to looking at the
5 investment over a very short investment horizon or failing to consider longer-term
6 direct or indirect benefits that result from their decisions. This short-sighted view
7 may discourage investment in higher-efficiency equipment that often has a higher
8 upfront price. Decisions made in haste can result in selecting equipment that
9 lacks the desired performance and results in higher energy bills than planned.
10 These decisions can also have a negative impact on overall system efficiency.

11 **Q. How does PSE's Lease Solutions service address the market gap?**

12 A. PSE has conducted research with customers showing that affordability, simplicity,
13 reliability, and efficiency are key features valued by customers. The leasing
14 service addresses all of these.

- 15 • Affordability – Customers can acquire new equipment through monthly lease
16 payments with little or no upfront costs.
- 17 • Simplicity – PSE's equipment and installation selection model provides a
18 straightforward, uncomplicated way to choose equipment and ensure
19 appropriate installation. Customers with a good bill payment history to PSE
20 are credit-approved for a lease without additional applications or credit
21 checks.
- 22 • Reliability – Included throughout the term of the lease service is complete
23 maintenance and total repair or replacement in the event of failure.

