

**EXHIBIT NO. \_\_\_\_ (MBM-1T )  
DOCKETS UE-151871/UG-151872  
PSE EQUIPMENT LEASING SERVICE  
WITNESS: MALCOLM B. MCCULLOCH**

**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  
MALCOLM B. MCCULLOCH  
ON BEHALF OF PUGET SOUND ENERGY**

**February 25, 2016**

**PUGET SOUND ENERGY**  
**PREFILED DIRECT TESTIMONY OF**  
**MALCOLM B. MCCULLOCH**

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**PUGET SOUND ENERGY**  
**PREFILED DIRECT TESTIMONY OF**  
**MALCOLM B. MCCULLOCH**

**I. INTRODUCTION**

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

A. My name is Malcolm B. McCulloch. My business address is 10885 N.E. Fourth Street Bellevue, WA 98004. I am the Manager, Leasing for Puget Sound Energy (“PSE” or the “Company”).

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

A. Yes, I have. It is Exhibit No. \_\_\_\_ (MBM-2).

**Q. What are your duties as Manager, Leasing for PSE?**

A. As Manager, Leasing, I am responsible for the management, coordination, profit and loss of all residential and commercial leased products and services. This includes coordination of all activities involved in leasing, including marketing, selling, purchasing, materials, billing, service and maintenance. Additionally, I am responsible for the development and deployment of the expanded Lease Solutions service options discussed in this testimony.

1 **Q. Please summarize your testimony.**

2 **A.** PSE's Lease Solutions service provides a turn-key service that allows residential  
3 and commercial customers to lease new efficient-energy products from PSE. This  
4 service builds off the Company's existing water heat rental service, which has  
5 been offered by PSE for over four decades, by implementing several key  
6 improvements to enhance both the scope of customer offerings and the long-term  
7 financial stability of the program.

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

9 **A.** My testimony will outline how PSE established market parameters and tested  
10 customer interest, describe the leasing service's features, discuss how it differs  
11 from the existing rental service, detail how the Company will establish service  
12 partnerships to conduct activities at customers' sites, and provide an explanation  
13 of the rates and rate structure of the program.

14 **II. MARKET AND CUSTOMER INSIGHTS**

15 **Q. How did PSE establish market parameters for PSE's proposed Lease**  
16 **Solutions service?**

17 **A.** In order to establish a detailed understanding of existing market  
18 conditions, an analysis was conducted to pinpoint the types of space heat and  
19 water heat equipment currently being used in the existing market. The Northwest  
20 Energy Efficiency Alliance's (NEEA) 2012 Residential Building Stock  
21 Assessment, NEEA's 2009 Commercial Building Stock Assessment, and PSE's  
22 2012 Fact book, were used as reference points for this exercise to ensure the data  
23 appropriately reflected customers within PSE's service territory.

1                    1.     Space Heat Equipment

2                    The findings for space heat equipment indicated that 70 percent of  
3                    PSE’s single-family residential customers use gas forced-air  
4                    furnaces or air-source heat pumps to heat their homes; 71% of PSE  
5                    customers use natural gas as their primary heat source. *See* Figure  
6                    1 in Exhibit No. \_\_\_\_ (MBM-3).

7                    2.     Water Heat Equipment

8                    As illustrated in Exhibit No. \_\_\_\_ (MBM-3), Figures No. 2 and 3,  
9                    the water heat markets in both the residential and commercial  
10                    sectors are largely dominated by tank-style water heaters. In  
11                    Washington State, 97 percent of single-family residential water  
12                    heat equipment is tank-style; 61 percent of PSE customers use  
13                    natural gas to heat their water while 35 percent use electricity. In  
14                    the commercial market, 80 percent of PSE customers also use self-  
15                    contained water heaters, and the largest sector within that is tank-  
16                    style; both natural gas (42 percent) and electricity (54 percent) are  
17                    used for fuel.

18    **Q.     Is there a gap in these markets that Lease Solutions is designed to address for**  
19    **these products? Please elaborate on this gap.**

20    A.     A significant portion of the market is utilizing furnaces, heat pumps and water  
21                    heaters that have far exceeded their useful life and this service will help either  
22                    increase or accelerate the rate of replacement of such equipment.

23    **Q.     What does PSE mean by “useful life”?**

1 A. “Useful life” was defined using the below industry useful life standards; taking a  
2 simple average of these standards results in a mean 15-year useful life.

Equipment	Useful Life (Years)
Residential Gas Furnace	18 <sup>1,2</sup>
Residential Heat Pump	15 <sup>3</sup>
Commercial and Residential Tank-Style Water Heater	12 <sup>4</sup>

3 **Q. How was this 15-year “useful life” standard used to define a gap in the**  
4 **market?**

5 A. Using the above useful life average, an assessment of the Northwest Energy  
6 Efficiency Alliance’s 2012 Residential Building Stock data was conducted to  
7 determine what percentage of installed equipment was installed on or before  
8 2000, which represents equipment that is 15 or more years old. As detailed in Mr.  
9 Teller’s testimony, this analysis revealed that approximately 40 percent of the  
10 products in service today have exceeded their useful lives.

11 **Q. Has PSE measured customer interest in PSE’s proposed Lease Solutions?**

12 A. Yes. PSE conducted customer surveys to determine specific customer  
13 preferences and interest with respect to leasing space heat and water heat  
14 equipment. Surveys were completed in partnership with PSE’s Customer

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<sup>1</sup> Energy Star Furnace Calculator Assumptions tab  
[http://www.energystar.gov/sites/default/uploads/buildings/old/files/Furnace\\_Calculator.xls](http://www.energystar.gov/sites/default/uploads/buildings/old/files/Furnace_Calculator.xls).

<sup>2</sup> Washington State Office of Financial Management, State Administrative & Accounting Manual (SAAM), 30.50 Capital asset class codes and useful life schedule <http://www.ofm.wa.gov/policy/30.50.htm>.

<sup>3</sup> Washington State Office of Financial Management, State Administrative & Accounting Manual (SAAM), 30.50 Capital asset class codes and useful life schedule <http://www.ofm.wa.gov/policy/30.50.htm>.

<sup>4</sup> Air Conditioning, Heating, and Refrigeration Institute [http://www.ahrinet.org/site/589/Homeowners/Save-Energy/Water-Heating-Products & Gas Tariff Increase Filing](http://www.ahrinet.org/site/589/Homeowners/Save-Energy/Water-Heating-Products%20&%20Gas%20Tariff%20Increase%20Filing), under WUTC Docket No. UG-101644.

1 Intelligence team, leveraging the existing residential customer panel, as well as  
2 with a third-party research consultant, Cocker Fennessy. As the Cocker Fennessy  
3 research survey is most recent and most specifically targeted to the product  
4 portfolio as currently filed, I describe their research methodology and survey  
5 findings below.

6 **Q. Please describe the Cocker Fennessy survey methodology?**

7 A. Cocker Fennessy conducted an online survey of PSE customers between January  
8 30 and February 4, 2016. Eligible respondents lived in the PSE service area, were  
9 homeowners and were responsible for or informed about household decisions  
10 about major appliance purchases. *See* Exhibit No. \_\_\_\_ (MBM-4).

11 **Q. What information was provided to customers taking the survey?**

12 A. To determine potential participation in a lease offer, customers were informed that  
13 PSE is considering offering a new service where customers would pay an all-  
14 inclusive, fixed monthly fee to lease various types of energy equipment. These  
15 monthly fees would cover the cost of the equipment, installation, permitting fees,  
16 and future maintenance and repair costs. Customers were further informed of the  
17 following lease components: No upfront cost, energy-efficient equipment, 24-  
18 hour customer service, ability to transfer the lease when you sell a home and the  
19 option to start a new lease when the term has ended. As an example, below is  
20 how customers were informed of the leasing program features for a residential  
21 natural gas furnace:  
22

**NATURAL GAS FURNACE**

<b>PROPOSED LEASING PROGRAM CHARACTERISTICS</b>	<b>Natural Gas Furnace</b>
Estimated Monthly Fee	\$60/month
Lease Term	17 years
Maintenance	Every 2 years

**Q. What were the key findings from this survey?**

A. There were five key findings from the survey, which are detailed below.

1. Customers expressed strong interest in the proposed leasing program.

- As shown in the table below, among all customers, 25 percent are interested in the water heater leasing program; 18 percent are interested in the natural gas furnace leasing program; and 13 percent are interested in the heat pump leasing program. In addition to those interested, there was a large share of customers that are neutral to the idea of leasing with 29 percent more in water heating, 22 percent more in natural gas furnaces, and 20 percent more in heat pumps. In total, 33-54 percent of customers are neutral to very interested in leasing.

<b>Lease Product</b>	<b>Interested</b>	<b>Neutral</b>
Residential Water Heater	25%	29%
Residential Gas Furnace	18%	22%
Residential Air Source Heat Pump	13%	20%

- Interest is significantly higher among customers with older equipment that has reached the end of its useful life: 32 percent of those with a water heater that is 11 years or older are interested in leasing; 25 percent of those with a gas furnace that is 16 years or older are



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interested; and 16 percent of those with a 16 year or older heat pump are interested.

2. The presence of a leasing program would accelerate equipment acquisition.

- If a leasing program were available, 17 percent of customers surveyed say that they “probably” or “definitely” would replace their home heating or hot water equipment earlier than if they had to make purchase decisions and maintain the equipment themselves. Another 27 percent say they “possibly” would accelerate their purchase.

3. Customers strongly support key concepts of the leasing program.

- 87 percent of customers surveyed expressed interest in the 24-hour customer service and same-day repairs; 72 percent of customers surveyed reported that the program’s maintenance and repair would provide added peace-of-mind; and 70 percent say it is important to help people switch to technologically-advanced equipment to help people save money on their energy bills.

4. Access to smart technology is appealing.

- 39 percent of customers said that if their leased water heater was equipped with the appropriate technology, they would enroll in a demand response program in exchange for a monthly incentive.
- 38 percent of customers said that if their leased furnace or heat pump was equipped with a web-enabled thermostat, they would enroll in a demand response program in exchange for a monthly incentive.

1                   5. PSE is trusted to deliver an equipment leasing program.

- 2                   • 66 percent of surveyed customers say PSE is trusted and will provide  
3                   customers with the information, equipment and services they need.

4 **Q. What did PSE learn from this survey?**

5 A. PSE learned that its customers view PSE as a trusted partner and that the Lease  
6 Solutions service can help meet customers' critical needs when faced with the  
7 task of replacing and managing their existing energy equipment. Additionally,  
8 the survey shows that customers value solutions that have low upfront cost,  
9 provide piece of mind through inclusive maintenance and repair, and provide the  
10 ability to save on their energy bills. Customers expressed a considerable interest  
11 in Lease Solutions, validating that the product portfolio, inclusive services, lease  
12 terms, and estimated monthly costs would provide value to many customers and  
13 that there is a clear market demand for this service.

14 **III. LEASE SOLUTIONS SERVICE AND TARIFF SCHEDULES**

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

16 A. The equipment leasing service is a turn-key, all-inclusive service where PSE will  
17 lease tank-style natural gas and electric water heaters, natural gas furnaces and  
18 electric air source heat pumps to customers. For one monthly lease payment, PSE  
19 will manage the installation of the equipment, provide ongoing maintenance, and  
20 perform any needed repairs or failed-equipment replacement throughout the lease  
21 term with no additional cost to the customer. The equipment leasing service  
22 removes barriers to the replacement of older, inefficient equipment by using a  
23 streamlined credit approval process, affordable access to energy-efficient and

1 connected equipment options, and a simple product selection model. To deliver  
2 this service, as described below, PSE will rely on the expertise of service partners  
3 in the market to install and maintain the equipment according to the service's  
4 parameters. Customers will have the convenience and peace of mind knowing  
5 that their heating and water heating equipment is efficient, dependable, and safe.

6 **Q. Does PSE currently offer tariffs that authorize the rental of water heaters**  
7 **and other end use equipment?**

8 A. Yes, PSE and a predecessor company, Washington Natural Gas, have offered  
9 rental of natural gas equipment since 1962. This includes Schedule 71 – Natural  
10 Gas Residential Water Heater Rental Service; Schedule 72 – Natural Gas Large  
11 Volume Water Heater Rental Service; and Schedule 74 – Natural Gas Conversion  
12 Burner Rental Service. PSE has approximately 35,000 customers that currently  
13 utilize this service. In 2000, these schedules were closed to new customers  
14 because at that time, PSE determined it was unable to cost-effectively provide  
15 these services to new residential and commercial customers under the existing  
16 program and rate structure.

17 **Q. Does PSE anticipate it can cost-effectively provide the Lease Solutions**  
18 **services that it proposes under Schedule 75?**

19 A. Yes, as discussed below, there are several significant differences between the  
20 Lease Solutions service PSE proposes to offer under Schedule 75 and the rental  
21 services offered in Schedules 71, 72 and 74.

1 **Q. Describe the specific features of PSE’s proposed Lease Solutions and how it**  
2 **differs from PSE’s existing equipment rental program.**

3 A. The Lease Solutions service differs from the existing rental tariff in several  
4 distinct categories. PSE has listened to input from various stakeholders and  
5 reviewed current market conditions. As a result, PSE has incorporated various  
6 components into the expanded lease service as outlined below.

7 1. Fixed-lease term.

8 The rental agreement for the existing rental program does not have a set  
9 end date while the Lease Solutions service will have specified lease terms  
10 for each product. With respect to the Lease Solutions service, at the end  
11 of the lease term, at the customer’s request and option (i) PSE will replace  
12 the equipment with identical or similar equipment, and the customer will  
13 enter into a new lease agreement for the new equipment at the then current  
14 monthly lease payment and lease term; or (ii) the customer can return the  
15 equipment to PSE, and permit PSE or its agents to enter the premises  
16 where the equipment is located for the purpose of removal. If the  
17 customer chooses replacement equipment, PSE will replace the leased  
18 equipment as soon as is commercially reasonable after PSE is notified by  
19 the customer. Prior to installation of the new equipment, PSE and the  
20 customer will execute a new equipment lease agreement containing the  
21 new lease terms.

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2. Fixed-lease price.

The existing rental rate is not fixed, as the service does not have a distinctive term, therefore a customer's rate may change over time. In contrast, the Lease Solution service rates are predicated on an all-inclusive fixed lease price that includes the equipment, installation, and operating and maintaining the equipment over the entire life of the lease. Lease rates can change over time for new customers entering into a new lease service but rates will not change for customers currently in a lease as the rates are fixed during the term.

3. Comprehensive maintenance and repairs.

Under the existing rental tariff, PSE gas service technicians provide all repair services for the program; however no scheduled preventive maintenance service is included. The Lease Solutions service is inclusive of both repair and preventive maintenance activities, which will be fulfilled by contracted service partners. If PSE cannot repair equipment, PSE will replace the equipment at no cost to the customer during the life of the lease term.

4. Broader product portfolio with energy-efficient equipment.

The existing rental service is restricted for all models of residential natural gas water heaters with energy factors less than .60. The existing rental service also includes commercial natural gas large volume water heaters. The Lease Solutions service includes a broader range of energy-efficient and connected equipment choices. Connected equipment options will

1 allow the Company, when there is a Demand Response Conservation  
2 Program available to customers, to leverage these deployed connected  
3 assets to quickly dispatch load control and energy storage capabilities for  
4 those customers who choose to enroll. The initial Lease Solutions  
5 portfolio will offer:

- 6 • Residential natural gas and electric tank-style water heaters
- 7 • Residential natural gas furnaces
- 8 • Residential electric air source heat pumps
- 9 • Commercial natural gas and electric tank-style water  
10 heaters

11 5. Access to energy-efficient rebates.

12 The Lease Solutions service, through this broader product portfolio, will  
13 complement PSE's Energy Efficiency (Conservation) Programs by  
14 promoting the installation of energy-efficient equipment and stimulating  
15 the replacement of inefficient equipment that has exceeded its useful life,  
16 beyond what PSE has been able to achieve through its Conservation  
17 Programs funded through Schedule 120. Since those choosing this service  
18 will be paying the incremental cost to access more efficient products, all  
19 eligible customers will have the benefit of applicable energy efficiency  
20 rebates, and the associated savings from these rebates will be accounted  
21 for under applicable approved Conservation Programs. Through the Lease  
22 Solutions service, all eligible customers will benefit from automated  
23 rebate dispensation, as well as other energy-efficiency related services.

1                   6. Lease Solutions is supported by only participating customers.

2                   In May 2000, PSE requested that tariff schedules for its rental of natural  
3                   gas equipment be closed to new customers, because at that time, the  
4                   Company was unable to cost-effectively provide rental services to new  
5                   residential and commercial customers under the existing program and rate  
6                   structure. This structure did not provide for appropriate ring-fencing of  
7                   the program financials, which resulted in unanticipated costs and revenue  
8                   adjustments as a result of general rate case activities. By appropriately  
9                   assessing all costs to this specific rate class under the Lease Solutions  
10                  service, the Company can assure that those customers who also elect to  
11                  use the expanded optional energy equipment lease service do not burden  
12                  other customers.

13       **Q.    How is Lease Solutions an improvement to PSE's existing rental programs?**

14       A.    Lease Solutions contains several important improvements to PSE's existing rental  
15       programs:

- 16           •    By providing a fixed-lease price for a specified lease term, the Lease  
17           Solutions service will provide customers with a clear understanding of the full  
18           costs of the service with which they can assess whether the optional service  
19           provides value and is appropriate for their needs.
- 20           •    The inclusive scheduled maintenance by a certified technician provides  
21           customers the additional peace of mind in knowing that their leased  
22           equipment will perform to the manufacturers' specification during the life of  
23           the lease and that they will not have to pay for any repairs. In the recent

1 survey, 72 percent of customers stated this was important to them and  
2 provided clear value.

- 3 • Having more product options available through the Lease Solutions service  
4 will allow customers to choose the equipment that is right for their individual  
5 needs.
- 6 • The inclusion of energy-efficient and connected equipment will help  
7 customers save more energy and money. Both of these features may not have  
8 been affordable absent the lease option. In the recent survey, 70 percent of  
9 customers said it is important to help people switch to technologically-  
10 advanced equipment to help people save money on their energy bills.  
11 Customers who choose this option should have access to applicable energy-  
12 efficiency rebates, allowing them to benefit from the rider funding to which  
13 they contribute.
- 14 • Finally, the structure of the rates provides long-term assurance that the service  
15 will remain a viable platform, and that both participating and new customers  
16 will continue to receive the above-mentioned benefits.

17 **Q. Will Lease Solutions incorporate demand response capabilities?**

18 A. Yes. The Lease Solutions portfolio will also include connected equipment  
19 options, so that when there is a Demand Response Conservation Program  
20 available to customers, the service will have optional products for participation in  
21 the program.



1 **IV. SERVICE PARTNERSHIPS**

2 **Q. How will PSE implement the Leasing Program?**

3 **A.** To effectively deliver a comprehensive lease service that will expand participation  
4 in the existing market, PSE will engage its valued service partners to facilitate the  
5 equipment distribution and in-home fulfillment tasks, including pre-installation  
6 site checks, permitting, installation, maintenance, and repair services. The service  
7 will ensure that the service partner who performs the initial site check will be the  
8 same service partner responsible for the equipment through installation,  
9 maintenance, and service. This promotes a greater sense of continuity from the  
10 customer's perspective while simultaneously increasing the potential for repeat  
11 business for PSE's service partners. If for some reason, the original contractor is  
12 unable to perform, PSE will place repair and maintenance work up for bid to all  
13 eligible PSE contractors.

14 **Q. Please describe the service partner models that will be utilized in support of**  
15 **this service.**

16 **A.** The Lease Solutions service will offer the flexibility for contracted service  
17 partners to source and manage the equipment, should that choice be preferred.  
18 Figures 1 through 5 on Exhibit No. \_\_\_\_ (MBM-5) illustrate the three service  
19 partner paths for which contractors may elect to contract with PSE, and the  
20 respective roles for contracted service partners under each of these paths. All  
21 paths are available to all service partners, and each service partner can determine  
22 through the procurement process whether to contract with PSE through one, two,  
23 or all three paths simultaneously.

1 PSE's goal is to create a partnership agreement and contract with local service  
2 partners who are capable of providing services for its leasing customers. PSE will  
3 identify service partners that can provide a high level of service at a competitive  
4 price while addressing an innovative approach. In order to provide flexibility and  
5 convenience for the service partner and the customer, there will be three possible  
6 service paths as shown in Figure No. 2 on Exhibit No. \_\_\_\_ (MBM-5).

7 1. The PSE Path

8 This path is triggered when a customer contacts PSE and expresses  
9 interest in the leasing service. The PSE Path will be supported by a three-  
10 year or five-year contract with a service partner to provide site inspection,  
11 permitting, installation, maintenance/repair services as well as supporting  
12 parts, and removal services for approved water heater and/or HVAC  
13 products. PSE will manage the customer acquisition, lease financing and  
14 administration activities, and all equipment selection and procurement  
15 processes. All equipment will be made available to contracted service  
16 partners on a consignment basis through local contracted distribution  
17 partners. PSE will manage any necessary equipment warranty processes  
18 directly with those distribution partners.

19 2. The Hybrid Path

20 This path is also triggered when a customer contacts PSE and expresses  
21 interest in the leasing service. The Hybrid Path will be supported by a  
22 three-year or five-year contract with a service partner to supply  
23 equipment, provide site inspection, permitting, installation,

1 maintenance/repair services as well as supporting parts, warranty  
2 management, and removal services for approved water heater and or  
3 HVAC products. PSE will manage the customer acquisition, lease  
4 financing and administration activities.

5 3. The Partner Path

6 This path is triggered when a customer contacts a Lease Solutions  
7 contracted service partner and expresses interest in the leasing service, or  
8 when a partner presents the Lease Solutions service option to an existing  
9 customer. The Partner Path will be supported by a three-year or five-year  
10 contract with a service partner to promote and manage customer  
11 acquisition, supply equipment, provide site inspection, permitting,  
12 installation, maintenance/repair services as well as supporting parts,  
13 warranty management, and removal services for approved water heater  
14 and or HVAC products. PSE will only manage the lease financing and  
15 administration activities in this path.

16 **Q. What steps has PSE taken to identify service partners?**

17 A. Requests for Qualifications (“RFQ”) were distributed to qualified service  
18 providers in both May 2015 and again in January 2016 after PSE expanded its  
19 service partner paths. PSE assessed proposals of prospective service partners and  
20 conducted a number of prospective partner interviews. Information gathered  
21 through this process was utilized to develop rates filed in support of this service.  
22 Selection criteria include a combination of product capabilities, territory  
23 coverage, past performance, and price.

1 **Q. How will PSE collaborate with the service partners to ensure that the service**  
2 **is successful and provides mutual benefit?**

3 A. PSE understands that the success of the Lease Solutions service is contingent on  
4 the flawless execution of the customer experience and believes that its service  
5 partners play a critical role in this process. PSE is committed to working with its  
6 partners to ensure the appropriate policies and processes are in place to support  
7 the success of the program and is committed to working collaboratively in the  
8 services' deployment and ongoing implementation.

9 **V. EXPLANATION AND SUPPORT OF RATES AND RATE STRUCTURE**

10 **Q. Can you explain how the monthly lease rates are calculated?**

11 A. The monthly lease price charged to a customer is calculated based on discounted  
12 cash flow methodology. The rates are built on estimates of all costs borne by the  
13 Company in installing, operating and maintaining the equipment over the life of  
14 the lease term. These costs are totaled and discounted to today's terms using the  
15 Company's approved cost of capital in order to calculate the Company's total  
16 revenue requirement in net-present value ("NPV"). This amount is then  
17 converted into a levelized monthly rate a customer must pay for the Company to  
18 earn its approved return for each specific leasing product. The levelized rate  
19 remains constant over the life of the lease and does not escalate or change.

20 **Q. Is PSE's weighted cost of capital assessed to the capital costs or the entire**  
21 **bundled service?**

22 A. In calculating the return on rate base for the annual revenue requirement, PSE's  
23 weighted cost of capital is assessed to the capital costs, which includes the leased

1 equipment and installation costs. The weighted cost of capital is also used to  
2 discount the total revenue requirement into NPV terms in order to calculate the  
3 levelized monthly lease rate.

4 **Q. What specifications were provided to ascertain equipment costs?**

5 A. The RFQs required bidders to provide flat rates, excluding taxes, for specific  
6 types of equipment based on product size, input capacity, efficiency, system  
7 capabilities, and performance qualifications.

8 **Q. How did PSE gather costs for installation and maintenance services?**

9 A. The RFQs required bidders to provide flat rates, excluding taxes, for services  
10 based on detailed work specifications for a standard installation. Figure 1 in  
11 Exhibit No. \_\_\_\_ (MBM-6), details the specifications provided for residential gas  
12 furnace installation service.

13 **Q. How did PSE determine what costs should be treated as supplemental  
14 expenditures for installation?**

15 A. The RFQs detailed what service tasks were to be considered out of scope. Figure  
16 2, in Exhibit No. \_\_\_\_ (MBM-6), details the excluded tasks provided for  
17 residential gas furnace installation service.

18 **Q. How did PSE use these costs inputs to inform the rates for each product?**

19 A. PSE used the individual bidder response inputs, as available for each of the three  
20 service partner paths, to establish average costs for each product and the  
21 associated services. Products were then bundled based on aligned characteristics  
22 and the average costs were then used in development of the rates filed on  
23 February 17, 2016.

1 **Q. Are these optional rates in addition to other service rates customers receive**  
2 **from PSE?**

3 A. Yes, the monthly lease price is in addition to the charges for natural gas and  
4 electric service billed in accordance with the rate schedule(s) on which the  
5 customer is served.

6 **Q. Does PSE intend to update the rates periodically?**

7 A. The rate inputs may be reviewed annually, or as deemed appropriate, to determine  
8 if certain rates require modification to ensure accurate monthly lease prices.

9 **Q. What type of input changes could result in re-calculated rates?**

10 A. Rate inputs that may change include, but are not limited to, equipment costs,  
11 installation costs, forecasted operation and maintenance costs, the Company's  
12 approved return and other pricing inputs.

13 **Q. What happens if a rate needs to be modified?**

14 A. If a rate needs to be changed, then PSE will file an update to the tariff with the  
15 necessary supporting documentation for WUTC approval. Upon approval, the  
16 rate would then be assessed to only new customers, or customers renewing their  
17 lease for the service.

18 **Q. Will future rate changes affect customers who already participate in the**  
19 **lease services prior to the rate modification?**

20 A. No, those customers who already participate in the lease service will not see a  
21 change in their monthly lease rate if a modification is submitted to and approved  
22 by the WUTC. Only those new customers who choose the leasing service after

1 the rate change would pay the new rate. Once a customer begins leasing  
2 equipment, the lease price is fixed for the term of the lease.

3 **Q. Has the rate structure been designed to ensure that customers choosing the**  
4 **Lease Solutions service pay the full cost of the service?**

5 A. Yes. PSE was deliberate in the design of the rates to ensure that those natural gas  
6 and/or electric customers who also elect to use the expanded optional energy  
7 equipment lease service, do not burden other customers. The prices in the tariff  
8 sheets filed on February 17, 2016, ensure that the Company recovers its expenses  
9 and its weighted average cost of capital approved by the WUTC effective upon  
10 the start date of the lease. Over time, the prices can be updated for new leases, as  
11 necessary to best reflect the current or expected costs of providing the service.  
12 This will also help ensure that the provision of this optional service will not  
13 unduly burden any non-participating customers.

14 **VI. CONCLUSION**

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

16 A. Yes.