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| SCHEDULE 75 |
| EQUIPMENT LEASING SERVICE |
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| Attachment “B” – Rate Methodology |

This Attachment “B” sets forth the methodology for the calculation of rates in Schedule 75. The provisions in this Attachment “B” have the same effect as if they were included in Schedule 75. Capitalized terms in this Attachment “B” shall have the same meaning as in Schedule 75 and the Rules And Regulations of the Company’s Tariff.

1. **Monthly Rate**

The monthly rate for each type of leased Equipment is calculated by the Model described below.

1. **Goal of the Leasing Model**  
   The goal of the Company Leasing Monthly Price Model (the “Model”) is to calculate the monthly lease price charged to Customers for leasing specific products from the Company. The Model is on file with the Commission.

These products initially include residential water heaters, commercial water heaters, and heating and air conditioning systems (gas forced air furnaces and air source heat pumps).

1. **Model Mechanics**

The lease price charged to a Customer is calculated based on discounted cash flow methodology.

The Model estimates all of the costs borne by the Company in installing, operating and maintaining the Equipment at the Customer site over the entire life of the lease. These costs are totaled and discounted back to today’s terms by using the Company’s approved cost of capital in order to calculate the Company’s total revenue requirement. This amount is then converted into a levelized monthly rate a Customer must pay for the Company to earn its approved return for each specific leasing product. The levelized rate remains constant over the life of the lease and does not escalate.

This monthly lease price is in addition to the charges for natural gas and/or electric service billed in accordance with the rate schedule(s) on which the Customer is served.

It is proposed that as appropriate the Model assumptions be updated approximately each year for new entering Customers in order to re-calculate an accurate monthly lease price as the installation costs, forecasted operation and maintenance costs, the Company’s approved return and other Model inputs change.

1. **Key Model Assumptions**  
   The key inputs which determine the lease price charged to each Customer are described in the table below:

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| **Assumption** | **Description** |
| Upfront Capital Cost | Based on the Company’s actual procurement costs, to include Equipment and installation expenses, for each specific leasing product. It is assumed within the levelized monthly rate that the Company is entitled to earn its rate of return on its depreciated capital cost for each year of the lease. |
| Upfront Operations and Maintenance (O&M) costs | Includes the Company’s estimate of Customer acquisition, marketing and permitting costs on a per unit basis. |
| Ongoing O&M costs | Includes the Company’s estimate of ongoing administration, servicing (maintenance and repair), labor and overheads on a per unit basis over the life of the lease product. Ongoing O&M does not include replacement. |
| State and Local Taxes | The lease cost will not include State sales tax or local utility tax, rather the Customer will be billed for these costs in addition to the lease cost based on jurisdictional treatments. The lease cost includes the State B&O tax for retailing business. |
| Property Taxes | Property taxes will be passed through in accordance with Schedule 140, Property Tax Tracker. |
| Depreciation | The annual depreciation of the upfront capital costs of each lease unit is included in the Company’s costs over the Lease Term. |
| Cost of Bad Debt | The average default rate per unit has been estimated and these costs have been included within the annual lease cost. |
| Unit Failure Rates | The average failure rate per unit has been estimated and the costs of failures prior to the end of each warranty period have been included within the annual lease cost. |
| Lease Term | Each leasing product is assumed to have a specific life. After this period the Model assumes that the Customer owns the leased product. |
| Rate of Return | The Company’s weighted average cost of capital approved by the Washington Utilities and Transportation Commission (WUTC) effective upon the start date of the lease is included within the lease cost. |