



The Energy To Do Great Things

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November 6, 2015

Mr. Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, Washington 98504-7250

RE: Docket No. UG-151872 (Advice No. 2015-24) – **Do Not Redocket**
Substitute Tariff Filing – Filed Electronically

Dear Mr. King:

Puget Sound Energy also known as Puget Sound Energy, Inc. (“PSE”) hereby submits in connection with Docket No. UG-151872, the following substitute attachment to replace the attachment accompanying PSE’s filing on September 18, 2015, under PSE’s Advice No. 2015-24. This substitute filing is pursuant to RCW 80.28.060 and Chapter 480-80 WAC and includes the following portion of PSE’s WN U-2, Tariff for natural gas service:

Attachment “A” to Natural Gas Schedule No. 75: Equipment Lease Service

The purpose of this substitute tariff filing is to include a field in the Equipment Lease Agreement (the “Agreement”) for the total amount paid in monthly charges at the end of the lease term as well as revise a term for clarity. These revisions are made at the request of the WUTC Staff. Additionally, PSE would like to provide record of, 1) how this service will strategically focus on the non-participant sector of the market, 2) the quantifiable benefits that support that this regulated service is in the public interest, 3) how PSE will rely on the expertise of service partners, 4) why this proposal is consistent with previous Commission decisions and existing PSE leasing services, and 5) PSE’s commitment to reporting leasing program achievements.

Clarify Total Lease Payment over the Lease Term

After discussions with the WUTC Staff and other interested parties, PSE proposed including information in the Agreement that provides a way for customers to compare the lease service to other options. The updated “Attachment “A” – Equipment Lease Agreement” contains the following revisions, 1) addition of a field for the “Total Lease Payment over Lease Term”, and 2) replacement of the term “PSE Equipment Number” with “PSE Lease Number”.

I. There is an Unmet Opportunity in the Market to Increase System-Wide Energy Efficiency

- a. Non-Participant Sector of the Market will be Strategic Focus** - This expanded optional energy equipment lease service will strategically focus on replacing inefficient equipment that has passed its useful life. Over the next 5 years, PSE will use this platform to strategically target and replace at least 28,000 of these antiquated units.

Current market actions and approaches are not fully realizing the public benefits they could. Despite robust efforts by the current market and activities supported by PSE, including connecting customers with approved vendors in its Contractor Alliance Network, providing access to available conservation incentives, and disclosing financing options available in the market, these efforts only motivate those customers actively engaging in normal market activities, not those who cannot, and/or choose not to participate due to financial constraints. By providing this additional option for customers to replace equipment that has passed its useful life, without the large upfront cost barrier that is generally limiting such replacements, PSE believes that expanded lease options as a regulated service will increase the existing market and elevate the level of energy efficiency in the market today.

As detailed previously, Northwest Energy Efficiency Alliance’s 2012 Residential Building Stock Assessment data excerpted below, demonstrates that approximately 40 percent of the products in service today, which PSE included in its expanded lease service, have exceeded their useful life.

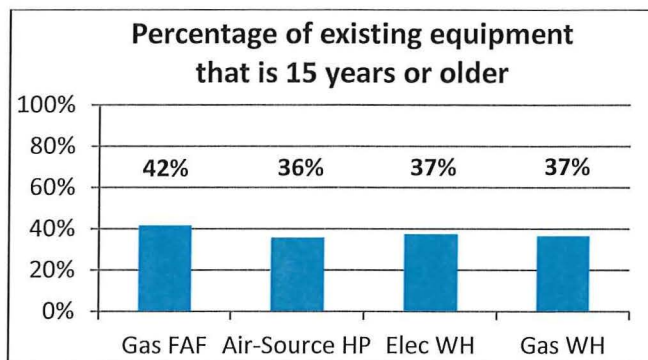
Gas Forced Air Furnace		
Vintage	Count	%
1966-1970	8,485	2%
1971-1975	1,525	0%
1976-1980	4,956	1%
1981-1985	15,063	3%
1986-1990	38,710	7%
1991-1995	54,317	10%
1996-2000	91,504	17%
2001-2005	131,222	25%
2006-2011	161,783	31%
Before 1966	5,053	1%
Unknown	15,510	3%
Grand Total	528,127	100%

Air Source Heat Pump		
Vintage	Count	%
1976-1980	0	0%
1981-1985	0	0%
1986-1990	4,956	7%
1991-1995	4,956	7%
1996-2000	14,869	21%
2001-2005	4,956	7%
2006-2011	34,695	50%
Unknown	4,956	7%
Grand Total	69,391	100%

Electric Storage Water Heaters		
Vintage	Count	%
1966-1970	1,525	0%
1971-1975	7,367	0%
1976-1980	24,023	1%
1981-1985	40,764	2%
1986-1990	120,073	5%
1991-1995	289,126	13%
1996-2000	357,250	16%
2001-2005	550,854	24%
2005-2011	710,826	32%
Before 1966	2,337	0%
Unknown	145,147	6%
Grand Total	2,249,291	100%

Gas Storage Water Heaters		
Vintage	Count	%
1966-1970	0	0%
1971-1975	0	0%
1976-1980	5,250	0%
1981-1985	20,669	1%
1986-1990	74,730	5%
1991-1995	196,946	12%
1996-2000	308,063	19%
2001-2005	471,073	28%
2005-2011	494,255	30%
Before 1966	0	0%
Unknown	88,070	5%
Grand Total	1,659,056	100%

A summary chart of the data in the tables above is provided below.



II. Expanded Lease Service will Achieve Quantifiable Public Benefits

a. Quantification of Benefits that Serve the Public Interest - The initial offerings of this expanded optional energy equipment lease service will result in several quantifiable categories of benefits that both support the expansion of this existing regulated service and serve the public interest for participants and non-participants.

Public Benefit Category	Five Year Cumulative Benefit
Therms Saved	3,842,810
kWh Saved	11,504,371
Energy Bill Savings	\$ 4,993,247
Deferred Capital	\$57,242,608

i. Energy Savings - The leasing platform provides another cost effective avenue for energy efficiency by targeting old and ailing equipment. PSE believes the lease platform provides increased public benefit by stimulating replacement of inefficient or unsafe energy equipment that has exceeded its useful life, with new high efficiency energy equipment. Strategically targeting and replacing at least 28,000 of these antiquated units over the next five years, translates into at least 3,842,810 therms of natural gas savings, and 11,504,371 kWh of electric savings.

This equates to delivering approximately 30% of equivalent equipment units targeted in PSE’s 2016-2017 Biennial Conservation Plan. Although the leasing platform was not proposed as a conservation program, it is believed that acquisition costs are commensurate with existing PSE conservation activities.

ii. **Energy Bill Savings** - The therm and kWh savings noted above translate into nearly \$5 million in energy bill savings over the next five years that would not likely have occurred otherwise. Therefore PSE believes that there are demonstrable, quantifiable financial public benefits.

Natural Gas Leased Equipment	Year 5 Cumulative Energy Savings (therms)	Year 5 Cumulative Energy Bill Savings (\$1.00/therm)
Residential Furnace		
Gas Furnace (95% AFUE)	3,063,060	\$ 3,063,060
Residential Water Heater (tank-style)		
Gas Water heater (\geq .62 EF)	87,102	\$ 87,102
Gas Water heater (\geq .65 EF)	104,522	\$ 104,522
Gas Water heater (\geq .67 EF)	89,037	\$ 89,037
Commercial Water Heater (Tank-Style)		
Restaurant Water Heater (EF \geq .93)	352,119	\$ 352,119
Laundry Water Heater (thermal efficiency \geq 92%)	146,969	\$ 146,969
5 Year Cumulative Totals	3,842,810	\$ 3,842,810

Electric Leased Equipment	Year 5 Cumulative Energy Savings (kWh)	Year 5 Cumulative Energy Bill Savings (\$.10/kWh)
Residential Furnace		
E2G Fuel Conv - Space Heat Only - Forced Air	4,375,800	\$ 437,580
Residential Water Heater (tank-style)		
Electric Water Heater ($>$.95 EF)	2,258,400	\$ 225,840
Electric-to-Gas Fuel Conv - Water Heat Only	3,387,293	\$ 338,729
Residential Heat Pump		
Air Source Heat Pump (9.0 HSPF, 14 SEER)	246,980	\$ 24,698
Heat Pump Sizing & Lock out Controls	733,950	\$ 73,395
Commercial Water Heater (Tank-Style)		
Electric Water Heater ($>$ 75 gallons, $<$ 100 gallons, $<$ 209 Btu/hr)	501,948	\$ 50,195
5 Year Cumulative Totals	11,504,371	\$ 1,150,437

iii. **\$57 Million in Deferred Capital Expenses for Washington Households and Businesses** - The expanded service will increase economic activity by stimulating participation by those not actively partaking due to economic constraints. This benefits all customers, associated residents and taxpayers by making the local and state economies more efficient. Over the next five years PSE estimates that deferred capital for households and business to be over \$57 million. This equipment lease service will allow Washington

households and businesses to use their scarce capital on investments that are more closely related to their basic standard of living expenses and core business functions. By allowing Washington businesses and households the option to devote their scarce capital on other investments in their own homes, product lines or manufacturing equipment, it will thus make the Washington state economy more efficient.

Leased Equipment	Estimated Capital Cost (unit)	Year 5 Cummulative Units	Year 5 Cummulative Deferred Capital
Residential Furnace	\$ 3,193.00	12,155	\$ 38,810,915
Residential Heat Pump (9.0 HSPF, 14 SEER)	\$ 5,919.00	880	\$ 5,208,720
Residential Water Heater (tank-style)	\$ 744.00	14,747	\$ 10,971,768
Commercial Water Heater (tank-style)	\$ 3,355.00	671	\$ 2,251,205
5 Year Cumulative Totals		28,453	\$ 57,242,608

b. Additional Reasons Why a Regulated Product is in the Public Interest -

PSE believes that extending the existing regulated lease capabilities to include these new equipment services will continue to benefit customers in three distinct ways.

- i. First the regulated environment affords assurance to customers that the price has been fairly set through the Commission approval process.
- ii. Second, the customer is afforded the dedicated consumer protection oversight the Commission provides, a key reason why PSE embedded the terms and conditions of the service within the tariff schedule.
- iii. Finally, providing this service in concert with our standard regulated offering allows the lease to be tied to the equipment service address, which provides customers the ability to easily transfer the lease when the property is sold.

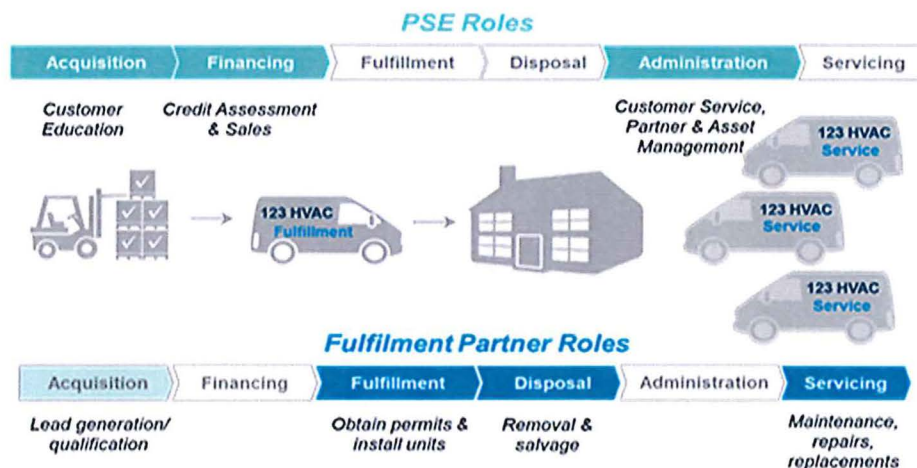
c. Important Channel for Natural Gas Conservation Savings -

Natural gas conservation savings are increasingly difficult to attain. PSE is very interested in finding additional avenues to address its natural gas energy efficiency goals, and believes the expanded Equipment Lease Service can provide another viable channel and may allow PSE to enhance future conservation goal setting activities. Increasing natural gas conservation savings is in the public interest.

III. Lease Service will Rely on Expertise of Service Partners

- a. **Service Partnerships Procurement** - As mentioned in the initial advice letter, it will be necessary for PSE to develop comprehensive distribution and installation channels to offer this platform of products. This optional energy equipment lease service will leverage key service partnerships, through a fair and equitable platform in which qualified parties submit proposals for participation, to facilitate the equipment distribution and in-home and business fulfillment tasks, including installation, repair and maintenance. Requests For Qualifications were distributed earlier to qualified equipment and fulfillment parties and PSE has started the process of assessing the proposals of prospective service partners, including conducting prospective partner interviews. To date eleven prospective service partners have participated in the process. Selection criteria include a combination of product capabilities, territory coverage, past performance, and price.

- b. **Service Partner Delivery Model** - As depicted below, PSE will retain primary customer management, acquisition, and financing responsibilities, while our service partners will be leveraged to source all materials and install and maintain leased equipment.



IV. Filing is Consistent with Previous Commission Decisions and Existing Leasing Services at PSE

- a. **Expansion of Current Equipment Lease Service Remains Consistent with Previous Commission Decision** - This expanded optional energy equipment lease service that will strategically focus on replacing inefficient equipment that has passed its useful life, is consistent with the Commission's past Order on the matter.

In the Fourth Supplemental Order of Docket No. UG-920840, the Commission concluded that, "...these [leasing] programs can provide customer benefit if they maximize efficient use of resources."

b. Proposed Equipment Lease Service is not so-called "Merchandising"-

This expanded optional energy equipment lease service provides customers comprehensive turn-key solutions that differ from a typical sale (so-called "merchandising"), as there is inclusion of repair and maintenance, based on defined terms, that provide customers with assurances that they will have access to heat and/or hot water. Additionally greater performance and persistence of energy savings over the term of the lease of the equipment is ensured.

It is also noteworthy to look at the Commission's Fourth Supplemental Order No. in UG-920840, in regard to the so-called "merchandising and jobbing" issue. Not only did the Commission uphold and approve the leasing program at that time, but it specifically told PSE to offer the customers the option to purchase the equipment.

"The Commission will therefore adopt the company's proposal to continue the existing program ... In addition, the Company should offer the leased water heaters for customer purchase..."

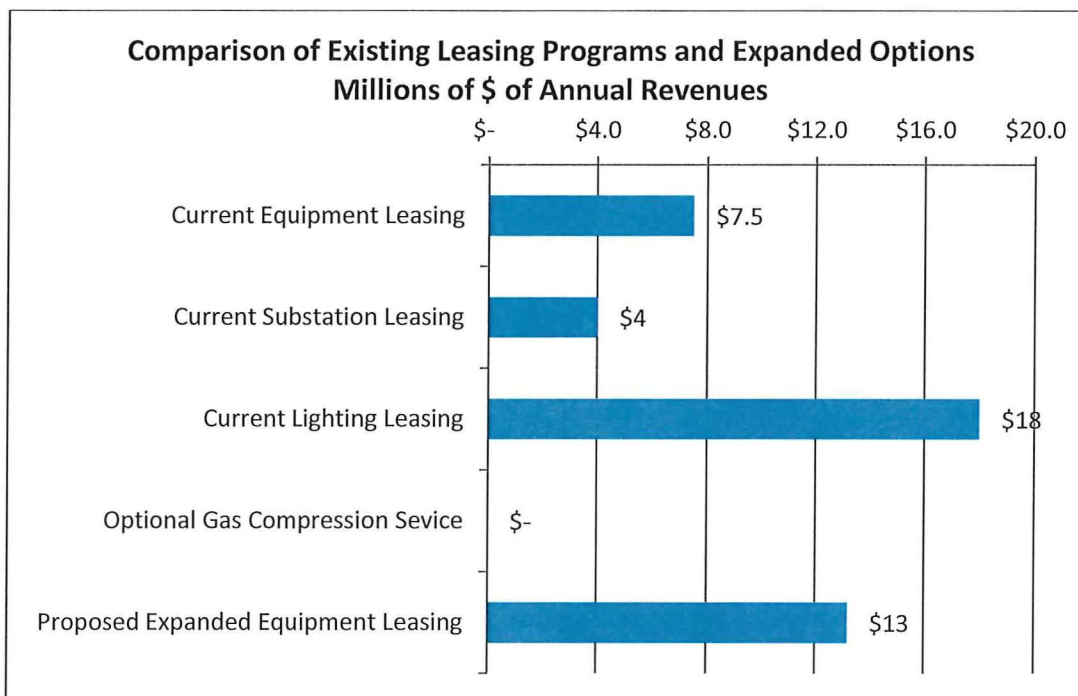
Also, PSE's Commission-approved Rule No. 2 (Sheet No. 12-A), Gas Service is defined to not only include "Rental of natural gas equipment", but also includes "Safety and inspection services", of which "repair" can certainly be thought of as an essential part of.

The current proposed service to enhance and expand this comprehensive turn-key solution as an option to eligible PSE natural gas and electric residential and commercial customers is consistent with the Commission's Fourth Supplemental Order No. in UG-920840, which allows customers the option to purchase the equipment (UG-151872, Sheet No. 75-R, Section 9).

c. Comparison to Existing Commission-Approved Leasing Services - As noted in the initial advice letter, PSE has offered an optional natural gas equipment leasing service for over half a century. Firstly, in 1962 the Commission approved the rental of natural gas equipment in the form of the currently effective, natural gas tariff Schedules 71, 72 and 74 which result in approximately \$7.5 million in annual revenue. More recently the Commission approved Natural Gas Schedule 54 which provides for an

Optional Gas Compression Service which is essentially the rental or lease of compression facilities. On the electric side, PSE has offered optional electric equipment leasing service for approximately 40 years. Firstly, PSE’s optional electric Schedule 62 Substation and Related Equipment Capacity makes capacity available for use (“lease”) to PSE customers that take service at high voltage under Schedules 46, 49, 449 and 459. PSE has leased substations and related equipment since at least 1975 and Schedule 62 has dozens of long-term “lease” customers. The approximate annual revenue from this service is \$4 million associated with approximately \$19 million in net leased plant. This Commission recently approved price updates to this schedule under Docket No. UE-151128. Secondly, PSE’s Commission-approved PSE-owned lighting programs result in approximately \$18 million in annual revenue. These provide for the rental of end-use electric equipment.

For comparison purposes, below is a chart that displays approximate annual revenues from current leasing products compared to the proposed expansion of leasing products (based on year 5 forecasted units).



- V. PSE is Committed to Reporting to Commission Achievements of Leasing -** Consistent with the initial advice letter, PSE wishes to emphasize that during the initial five-year period that the optional energy equipment lease service is available under Schedule 75, PSE will, at request of the UTC, submit a report to the UTC that details the type of equipment leased, the number of customers taking optional energy equipment lease service, unit failure rates, average

default rates any available customer satisfaction metrics and when available the vintage metrics for the equipment replaced. That latter suggested reporting element will help assess how this emphasis on replacing inefficient and unsafe energy equipment that has exceeded its useful life is progressing.

This substitution is provided for in WAC 480-80-111(a). The attachment described herein reflects the original issue date of September 18, 2015 and effective date of November 17, 2015.

Please contact Malcolm McCulloch at (425) 424-6530 or Eric Englert (425) 456-2312 for additional information about this filing. If you have any other questions please contact me at (425) 456-2110.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ken Johnson", with a long horizontal flourish extending to the right.

Ken Johnson
Director, State Regulatory Affairs

Enclosure

cc: Simon J. ffitich, Public Counsel
Sheree Carson, Perkins Coie