

Agenda Date: November 13, 2015
Item Numbers: A1 & A2

Dockets: UE-151871 & UG-151872
Company: Puget Sound Energy

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Recommendation

Issue a Complaint and Order suspending the tariff and set the matter for prehearing conference.

Background

On September 18, 2015, Puget Sound Energy (PSE or company) filed revisions to WN U-60 schedule 75 and WN U-2 schedule 175, to offer electric and natural gas equipment lease service to its customers. The stated purpose of the filings is to ‘stimulate the installation of additional energy efficient equipment, provide customers with simple and comprehensive turn-key solutions, provide broader more affordable access to services, and expand existing market activity.’¹

The company will install and maintain the equipment as part of a fixed monthly price over the lifetime of the lease. The company believes that a leasing service with maintenance meets an unmet need that is not currently available to its customers. The initial list of appliances available for leasing include

- residential and commercial gas and electric tank-style water heaters,
- residential gas furnaces, and
- residential electric air source heat pumps.

The company did not file rates for the appliances in these filings. Rather the company is asking the commission for a two-step approval. First, it is seeking approval to move forward with a new leasing program. Then, the company will sign contracts with vendors and contractors and file rates for commission approval at a later date. The company also intends to expand the equipment leasing service to products such as ductless heat pumps, solar, storage and batteries, and electric vehicle equipment in the future. This filing requests approval to expand the leasing service through this tariff at a later date.

Regulatory history

This commission has a long history with utility leasing programs. In 1962, the commission approved a natural gas appliance rental program for PSE’s predecessor company, Washington Natural Gas Company. In a 1993 rate case, the commission confirmed that leasing programs ‘can

¹ Dockets UE-151871 & UG-151872 Advice Letter.

provide customer benefit if they maximize efficient use of resources.’ In that order, the commission also required the company to increase its rental rates to reduce the level of program subsidy by the rest of the ratepayers. PSE’s leasing service was discontinued for new customers in 2000, because the company was unable to cost-effectively provide these services to new residential and commercial customers under the existing program and rate structure.

Discussion

The company provided staff with confidential work papers containing its expectations on number of customers, cost of service per appliance, as well as the other assumptions. Using these assumptions, staff is unable to determine if the program will be cost-effective, nor do we have confidence in the company’s customer count projections. Further, staff has identified several other basic assumptions that need further clarification and analysis.²

Competitive market

Staff is also concerned that the company will enter an apparently robust competitive market. The market for hot water heaters, furnaces, and heat pumps already includes a variety of retailers and contractors, with a variety of financing options. The company contends that its program, offering an appliance lease with maintenance, is meeting an unmet need in the market by offering an option to pay for a relatively expensive and efficient appliance on the utility bill. Perhaps it is unique, but it would certainly compete against alternative appliance options in the existing market. Customers who do not have ready access to capital to outright purchase appliances have the ability to finance their purchases through a variety of means, including retailers,³ banks and credit unions, and trade allies and contractors oftentimes at rates lower than the company’s rate of return.⁴ Last year, Northwest Natural Gas Company partnered with Craft3 to offer on-bill repayments for Craft3’s low-cost financing for energy efficiency appliances. Craft3 offers customers fixed interest rates of less than 5 percent.⁵ Staff has not seen a compelling reason why the company must offer this program through its regulated entity and could not offer it through an unregulated entity.

Public Interest

If the company wants to participate in an unregulated market, at a minimum it would need to demonstrate that the proposed program has a clear and substantial public benefit as compared to other relevant options. This filing has not met that requirement. The company states that this program is an additional method for delivering energy efficient appliances to a greater number of customers; essentially arguing that the company is pursuing all conservation savings, as required by the Energy Independence Act.⁶ However, the company already has a convenient and cheaper

² For example, the Company has included the expected percentage of bad debt in its confidential work papers. Staff is concerned that this number may not be representative of the bad debt that may be incurred as a result of this new program.

³ Retailers such as Home Depot and Lowe’s offer free 6-month financing if the customer applies for a store credit card.

⁴ According to the 2015 Commission Basis Report, the Company’s weighted average cost of capital is 7.77 percent.

⁵ Docket UG-143895 Northwest Natural 2015 Energy Efficiency Annual Plan, page 13.

⁶ RCW 19.285.040(1).

method for capturing the savings through its existing conservation rebate program. Furthermore, not all of the appliances offered through the leasing program are even eligible for energy efficiency rebates.

Demand Response Program

PSE states that it may be capable of coupling the appliances with a future demand response program. The company's draft 2015 Integrated Resource Plan does call for the company to acquire demand response over the next few years.⁷ Staff notes that Portland General Electric is launching a demand response pilot targeting residential customers who have Nest thermostats.⁸ Staff does not find the ability to offer a demand response program at some undetermined date to be a compelling reason to implement an appliance leasing program today.

Consumer Protection

Staff has multiple consumer protection concerns with this filing. First, staff is concerned that customers will not understand the total cost of the leasing program as compared to its alternatives. After discussions with the company, PSE agreed to post the total payment over the life of the lease on the equipment lease agreement. Staff is also concerned that the language in the tariff requires the customer to change the air filter four times per year, at their own expense, or risk voiding the warranty of the appliance. After raising these concerns, the company responded that service fulfillment partnerships will not be established until after approval of this filing. Staff is troubled that the company is asking for program approval prior to providing specific program requirements. The company should explicitly identify in the tariff those customer actions that void the warranty. Finally, an important feature of a third-party on-bill repayment program, such as Northwest Natural's, is the ability of the utility to remove bad debt from the customer's bill and send it to collection by the third-party. A customer's service cannot be disconnected due to non-payment of the appliance portion of its bill. PSE's proposed leasing program, however, would allow the company to disconnect a customer's service if she/he fell behind on the appliance payments.

Stakeholder feedback

Three organizations commented on the filing with two opposing and one not taking an official position. All of the organizations are concerned that the company's entrance into the market could result in unfair market competition.

- The Washington Chapter of the Air Conditioning Contractors of America and the Washington State Heating, Ventilation, Air Conditioning, and Refrigeration Association wrote a letter to the commission opposing these filings. The letter argues that the Company is using its monopoly power to compete in a competitive market and raises questions regarding antitrust issues.
- Utility Conservation Services, LLC, opposes the company's filing as is, and suggests that PSE develop an on-bill repayment mechanism for all participants as a complement to the

⁷ Presentation to Integrated Resource Plan Advisory Group, October 16, 2015.

⁸ 'PGE to Launch DR Pilot Using Nest Thermostats' Clearing Up Energy News Data, October 23, 2015. No. 1720.

proposed leasing program. The letter states that this could address anticompetitive concerns.

- The Northwest Energy Efficiency Council commented that the company's approach could increase the number of energy efficient consumer options, however, "it is important that the company do so in a manner that works collaboratively with the trade ally community and not in competition with it."

Conclusion

Given the level of uncertainty surrounding this filing and the various stakeholder comments, staff recommends that the commission issue a Complaint and Order suspending the tariff and set the matter for prehearing conference.