**EXHIBIT NO. \_\_\_(SJK-1T )
DOCKETS UE‑151871/UG-151872
PSE EQUIPMENT LEASING SERVICE
WITNESS:  STEVEN J. KRECKER**

**BEFORE THE**

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| **WASHINGTON UTILITIES AND****TRANSPORTATION COMMISSION,****Complainant,** **v.****PUGET SOUND ENERGY,****Respondent.** |  | **Dockets UE-151871** **UG-151872** |

**PREFILED RESPONSE TESTIMONY OF**

**STEVEN J. KRECKER**

**ON BEHALF OF WASHINGTON STATE HEATING, VENTILATION AND AIR CONDITIONING CONTRACTORS ASSOCIATION**

**JUNE 7, 2016**

**WASHINGTON STATE HEATING, VENTILATION AND AIR CONDITIONING CONTRACTORS ASSOCIATION**

**PREFILED RESPONSE TESTIMONY OF
STEVEN J. KRECKER**

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**WASHINGTON STATE HEATING, VENTILATION AND AIR CONDITIONING CONTRACTORS ASSOCIATION**

**PREFILED RESPONSE TESTIMONY OF
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1. INTRODUCTION

Q. Please state your name, business address, and position with Washington State Heating, Ventilation and Air Conditioning Contractors Association

A. My name is Steven J. Krecker. The WSHVACCA business address is 5727 Baker Way NW, Suite 200, Gig Harbor, WA 98332. I am the President of the Washington State Heating, Ventilation and Air Conditioning Contractors Association, and the retired co-owner of Air Masters, Inc., in Port Orchard, WA..

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

A. Yes, I have. It isExhibit No. \_\_\_(SJK-2).

Q. What were your duties as co-owner of Air Masters, Inc.?

A. As co-owner of Air Masters, Inc I was in charge of commercial bidding, residential and commercial service and maintenance, customer service and complaints, education coordinator and helping my partner with residential sales and the day to day operations of the business. I was also the electrical administrator.
Air Masters Inc. is a certified Lennox Premier Dealer and a certified Mitsubishi Diamond Dealer. Both are the highest tier available.

Q. Please summarize WSHVACCA’s concerns regarding the Lease Solutions service PSE proposes in this case.

A. The concerns of the WSHVACCA center primarily around the damage to the market that could be done by PSE in trying to implement its proposed Lease Solutions, injuring not just the market and thus all market participants, but those ratepayers who will still be depending upon the market for their appliance needs. WSHVACCA notes that even under the very optimistic projections of PSE of 20% market penetration by the Lease Solutions proposal over twenty years, ratepayer/owners of 80% of the appliances will be dependent upon the market.

 PSE has not worked with the HVAC industry in designing the service. The HVAC industry has shown little interest in PSE’s proposal, and the history of poor relations between PSE and its predecessors, and the HVAC industry, leaves little reason to believe that PSE will be able to find sufficient partners to successfully implement its proposal. If the goal was to address a problem with too many energy inefficient water heaters and furnaces currently in place, there are better ways to approach such a problem- and without damaging the market.

In addition, PSE’s proposal indicates severe gaps in PSE’s knowledge of the requirements of the market, leading WSHVACCA to believe PSE will do significant damage to the market as while it fails in the implementation of its proposal. The PSE proposal does not appear to recognize the reality of the practical requirements for HVAC appliance installations. Finally, if the underlying concern of PSE is truly supposed gaps in the market for upgrading energy inefficient HVAC appliances, there are better ways to develop a solution that would have a better chance of success, without damaging the market. several

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a high-level description of WSHVACCA’s concerns regarding PSE’s proposed lease services. I will also discuss the history of the poor relationship between PSE and its predecessors, and the HVAC industry, some of the apparent the gaps in PSE’s knowledge of the market that have been identified, and how that could damage the market and ratepayers. I will describe one better approach to the issue of energy inefficient appliances currently being pursued by stakeholders. Additionally, I will introduce the other witness who is providing additional testimony on these topics.

1. HISTORY

Q. Please briefly describe the history of PSE and its predecessors in the market.

A. There is significant history regarding the leasing of HVAC appliances. Leasing of appliances was a means of building the base of ratepayers necessary to economically support the building of the natural gas delivery system. Half a century ago, it made sense for existing ratepayers to subsidize new ratepayers- it lowered the cost of natural gas delivery for all ratepayers. The leasing of conversion burners enabled a lower cost switch to a natural gas furnace than would have otherwise been possible.

In these early years, the competition for the utility was not with other providers of natural gas appliances, but with other forms of energy- oil, coal, even electricity. There was no market for natural gas appliances. However, in ensuing decades, that changed.

By the 1980’s, there existed a market for natural gas appliances, despite having to compete with appliance sales and leasing by the utility, subsidized by other ratepayers. After years of complaints about unfair competition, to both the Legislature and the Utilities and Transportation Commission, the proceedings of UG-920840 (followed by UG-931405 and others) led to, first, the utility spinning off a non-regulated subsidiary to conduct appliance merchandising, the sale of that subsidiary, and eventually the effective ending of even leasing by the utility.

At the time of UG-92-0840, staff even recommended the termination of the leasing program. *see*Exhibit No. \_\_\_(SJK-3). However, events overtook the Commission decision-making processes.

Between the time of UG-920840 and the decision by the utility to stop accepting new leasing customers, the Commission and its staff struggled with the problem of subsidization. No matter what steps were taken, the utility continued various indirect subsidies. When subsidies were finally effectively ended, the utility was unable to compete in the marketplace, and withdrew. With the exception of the legacy water heating leasing program, the utility had ended its involvement in the market.

Q. **Please briefly describe the history of PSE and its predecessors in their relationship with the HVAC industry.**

A. The utility had seriously damaged its relationship with the HVAC industry during the events leading up to UG-92-0840 and continued to damage its relationship with the industry in its aftermath. On top of the fight over unfair competition *see*Exhibit No. \_\_\_(SJK-4) came the poor treatment of industry “partners” *see*Exhibit No. \_\_\_(SJK-5). This kind of history is remembered by the participants in the HVAC industry, and fuels extreme skepticism of the utility to this day.

In addition, in the years since, PSE has often sought to exploit, rather than partner with, the HVAC industry. An example is the Tier 1 partnerships PSE has pursued. The primary requirement to be a Tier 1 partner is to be willing to pay PSE a 6% commission for any referral- and PSE does nothing more than include you on a list of three contractors given to a customer. A contractor is not even notified that they have been referred. A 6% commission represents a large part of a contractor’s profit on a job, in return for very little done by PSE. Very few contractors in the HVAC industry seek Tier 1 partnership status.

This poor history and poor current relationship bodes ill for PSE’s ability to gain sufficient partners in the industry to successfully implement their proposal.

1. THERE ARE SERIOUS GAPS IN PSE’S KNOWLEDGE OF THE REQUIREMENTS OF THE MARKET AND A SIGNIFICANT THREAT OF DAMAGE TO THE MARKET

**Q. Have you examined the details of the PSE proposal?**

A. No, not in detail. PSE has cloaked its pricing model and other critical details in confidential and highly confidential status, and thus these details have not been available to us to examine. WSHVACCA feels like the auto mechanic invited to inspect a car a friend is considering buying, but who is not allowed to lift the hood. All we can describe is the black smoke we see billowing out of the tailpipe- and try to explain what may be causing that black smoke.

**Q. What indicators of a problem have you noted?**

A. In what we have been able to observe, one problem indicator is PSE’s assumption of a “standard installation.” Among HVAC contractors, such a thing is unknown. Every installation of an appliance is unique. Before providing an estimate to any customer, an on-site inspection is necessary. Electrical, plumbing, and ventilation connections must be reviewed. Estimates of the different types of labor required must be made. Otherwise the cost of the replacement of an appliance will be underestimated, and if all of the necessary work is not properly done, the appliance may not work efficiently- or properly.

 An example is the installation of a highly efficient heat pump. A static pressure reading needs to be taken. The effects of static pressure on a heat pump system are critical. If there is an indication of too small of a duct system, the duct system needs to be upgraded- which can be very expensive- or there will be little, if any, gain in energy efficiency.

**Q. How will these problems affect the ratepayer?**

A, The additional cost of a proper installation will have to be paid by the customer. I m not aware of any financing options for such costs, This could be a significant upfront cost to the customer. A failure to do the complete installation, with such other upgrades as are necessary, will negate any hoped for energy efficiency gains from the upgrade of the appliance.

**Q. What would be the result of these problems?**

A. After the customer has been sold on a no upfront cost, low monthly all-inclusive lease, the contractor gets to inform the customer that despite what was claimed by PSE, there are in fact significant additional upfront costs the customer must pay. This is tantamount to a bait and switch, and most likely the HVAC contractor will be blamed by the customer.

**Q. How does this impact the market?**

A. When customers start to mistrust HVAC contractors because of the failure of PSE to be informing the customer of these additional costs upfront, and the customers complain to friends and neighbors, HVAC contractors and the HVAC industry unfairly gain a reputation for deceptive practices. Such damage to the reputation of the industry is damage to the market.

1. THERE ARE BETTER APPROACHES TO A SOLUTION

**Q. Are you familiar with other efforts to address the issue of energy inefficient HVAC appliances?**

A. Yes. An example is a project of the Bonneville Power Administration named “Air Northwest”. Air Northwest brings the HVAC industry together with the public power sector to improve the upgrading of HVAC appliances to increase energy efficiency. Air Northwest does not try and supplant the HVAC contractors, but instead seeks to partner as allies to tackle the problem. Air Northwest recently made a presentation to WSHVACCA members regarding the commercial market. *see*Exhibit No. \_\_\_(SJK-6) Air Northwest also works on the residential market. This true alliance, not seeking to supplant the HVAC contractor in any way, but instead empower the contractor, bodes better for the future success of that partnership in replacing energy inefficient HVAC appliances with energy efficient HVAC appliances.

**Q. Do you have additional details on WSHVACCA’s concerns?**

 A. The Prefiled Direct Testimony of William E. Pinkey provides additional detail on these concerns.

1. CONCLUSION

Q. Does this conclude your prefiled direct testimony?

A. Yes.