

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

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**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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1 Air Masters Inc. is a certified Lennox Premier Dealer and a certified Mitsubishi  
2 Diamond Dealer. Both are the highest tier available.

3 **Q. Please summarize WSHVACCA's concerns regarding the Lease Solutions**  
4 **service PSE proposes in this case.**

5 A. The concerns of the WSHVACCA center primarily around the damage to the  
6 market that could be done by PSE in trying to implement its proposed Lease  
7 Solutions, injuring not just the market and thus all market participants, but those  
8 ratepayers who will still be depending upon the market for their appliance needs.  
9 WSHVACCA notes that even under the very optimistic projections of PSE of  
10 20% market penetration by the Lease Solutions proposal over twenty years,  
11 ratepayer/owners of 80% of the appliances will be dependent upon the market.  
12 PSE has not worked with the HVAC industry in designing the service. The  
13 HVAC industry has shown little interest in PSE's proposal, and the history of  
14 poor relations between PSE and its predecessors, and the HVAC industry, leaves  
15 little reason to believe that PSE will be able to find sufficient partners to  
16 successfully implement its proposal. If the goal was to address a problem with  
17 too many energy inefficient water heaters and furnaces currently in place, there  
18 are better ways to approach such a problem- and without damaging the market.

19 In addition, PSE's proposal indicates severe gaps in PSE's knowledge of  
20 the requirements of the market, leading WSHVACCA to believe PSE will do  
21 significant damage to the market as while it fails in the implementation of its  
22 proposal. The PSE proposal does not appear to recognize the reality of the

1 practical requirements for HVAC appliance installations. Finally, if the  
2 underlying concern of PSE is truly supposed gaps in the market for upgrading  
3 energy inefficient HVAC appliances, there are better ways to develop a solution  
4 that would have a better chance of success, without damaging the market. several

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

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

14  
15 **II. HISTORY**

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

17 A. There is significant history regarding the leasing of HVAC appliances. Leasing  
18 of appliances was a means of building the base of ratepayers necessary to  
19 economically support the building of the natural gas delivery system. Half a  
20 century ago, it made sense for existing ratepayers to subsidize new ratepayers- it  
21 lowered the cost of natural gas delivery for all ratepayers. The leasing of

1 conversion burners enabled a lower cost switch to a natural gas furnace than  
2 would have otherwise been possible.

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

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

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

17 Between the time of UG-920840 and the decision by the utility to stop  
18 accepting new leasing customers, the Commission and its staff struggled with the  
19 problem of subsidization. No matter what steps were taken, the utility continued  
20 various indirect subsidies. When subsidies were finally effectively ended, the  
21 utility was unable to compete in the marketplace, and withdrew. With the

1 exception of the legacy water heating leasing program, the utility had ended its  
2 involvement in the market.

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

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

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

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

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

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

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

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

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

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



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**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.

**IV. THERE ARE BETTER APPROACHES TO A SOLUTION**

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

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

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

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

15

16 **V. CONCLUSION**

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

18 A. Yes.