EXHIBIT NO. ___(SJK-3)
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**

SECOND EXHIBIT TO THE PREFILED DIRECT TESTIMONY OF STEVEN J. KRECKER ON BEHALF OF WASHINGTON STATE HEATING, VENTILATION AND AIR CONDITIONING CONTRACTORS ASSOCIATION

June 7, 2016

Ex. T-___ (JR-T)
Docket No. UG-920840
Witness: Jaime Ramirez

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant,	)	DOCKET NO. UG-920840
vs.	)	
WASHINGTON NATURAL GAS COMPANY, Respondent.	)	

TESTIMONY OF

JAIME RAMIREZ

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

APRIL 20, 1993

WUTC
Cause No. UG-920840
Exhibit # T-166
Witness Ramirez
Date 5-17-93

1 to Staff Data Request Nos. 35 and 436, and the
2 Company's Form 2 filed with the Commission, demon-
3 strates that in 1991 the Company only exposed pipeline
4 at 15,918 locations (4050 leaks, 10,935 stub exten-
5 sions, and 933 main extensions).
6 Q. Please explain the expenditures reflected on line 28 of
7 Exhibit No. 39.
8 A. Line 28 of Exhibit No. 39 reflects the estimated
9 expenditures to comply with paragraph 3L which requires
10 the Company to designate a qualified quality control
11 person to assure compliance with all state and federal
12 rules. Staff believes that this is a justifiable
13 expense. However, Staff recommends that these expendi-
14 tures receive the same treatment proposed by Ms. Thomas
15 in order to ensure that the Company's estimate is
16 accurate.

17 RENTAL EQUIPMENT ISSUE

18 Q. Mr. Ramirez, please explain Staff's recommendations in
19 regard to rental equipment services currently provided
20 by the Company under Schedule Nos. 71, 72, 74, and 75.
21 A. Staff recommends that the Commission order the Company
22 to:
23 1) freeze the tariff schedules under which it provides
24 rental services;
25 2) form a separate, non-regulated entity to manage its

1 rental operations; and

2 3) file, within three months of the date the order in

3 this proceeding is issued, a plan for Commission

4 approval to completely phase out the rental schedules

5 within five years.

6 I will elaborate on these recommendations later in

7 my testimony.

8 Q. Mr. Ramirez, please explain the circumstances under

9 which the Company's rental program and schedules were

10 authorized.

11 A. In an effort to market and encourage the utilization of

12 natural gas, the Company instituted in 1961 a program

13 to rent gas appliances, particularly water heaters and

14 conversion burners. The Commission approved the

15 Company's rental program and schedules. The approval

16 of these schedules created a cost subsidy from the

17 natural gas sales schedules to rental schedules. At

18 that time this was an acceptable policy because

19 increasing load and customers would provide benefits to

20 all customers. However, this subsidy is now

21 substantial. The Company's allocated cost study indi-

22 cates that the rental schedules are not even covering

23 debt service.

24 Furthermore, since the introduction of the rental

25 program, the market for gas service, particularly in

1 residential applications, has experienced steady, if
2 not spectacular, growth. Specifically, the Company
3 experienced tremendous growth beginning in 1986, and
4 the expectations are that this pattern of growth will
5 continue for the foreseeable future. This strong
6 growth in gas use is due, among other reasons, to the
7 price advantage that natural gas enjoys over its
8 competitors, principally electricity.

9 Q. Mr. Ramirez, is the subsidy between the gas sales
10 schedules and the rental schedules necessary in today's
11 environment?

12 A. No. The policy reasons that moved the Commission to
13 approve the rental program are no longer present and
14 valid because the conditions of the market environment
15 have changed, as I just explained. Therefore, it is
16 Staff's opinion that the subsidy to appliance rental
17 customers is no longer necessary to increase the
18 Company's customers and sales.

19 Q. Mr. Ramirez, are there any other reasons for your
20 recommendations?

21 A. Yes. As explained by Staff witness Thomas, the
22 Company tends to confuse its interests in the rental
23 tariffs with the interests of its regulated business
24 and its appliance marketing efforts. A direct
25 separation of the rental operations from the regulated

1 business as a stand alone operation is necessary. The
2 Company has been operating its businesses as if all of
3 its activities which support its rental and appliance
4 marketing activities are necessary to conduct its
5 business as a regulated seller of gas service. To the
6 extent to which this has allowed the Company to conduct
7 repairs, install appliances or other businesses at less
8 than fully allocated cost, and because it has not made
9 an attempt to deal with business except on an
10 incremental cost basis, it may have been able to price
11 its rental services below what other business enter-
12 prises charge. In summary, the Company should be
13 required to operate all of its business behind the
14 meter for customers served under the rental schedules,
15 as a non-regulated, non-tariffed operation, including
16 the repair and maintenance of the rented equipment.
17 Q. Mr. Ramirez, please elaborate on Staff's recommen-
18 dations to deregulate rental equipment.
19 A. The Staff's recommendations encompass several actions
20 to be taken by the Company. I will address these
21 actions separately.
22 FREEZE THE SCHEDULES. The Company should no
23 longer be authorized to provide, under rental
24 schedules, rental equipment services to new customers,
25 replacement of existing equipment, and repair and

1 maintenance services to rental equipment currently in
2 place.
3 FILE A PHASE OUT PLAN. The Company, within three
4 months of the date the order is issued in this proceed-
5 ing, should be required to file a plan for Commission
6 approval to phase out the rental schedules within five
7 years. This plan should include the available alterna-
8 tives for a customer currently renting equipment from
9 the Company. These alternatives would include buying
10 the equipment from the Company, continuing to rent but
11 from a non-regulated operation, or removal of the
12 equipment. The Company should also provide alterna-
13 tives to those customers that may need assistance in
14 purchasing the equipment. The plan should also provide
15 a detailed explanation of how the Company will advise
16 its existing rental customers of the changes prompted
17 by creating a separate, non-regulated operation.
18 FORM A SEPARATE NON-REGULATED OPERATION AND PHASE
19 OUT THE RENTAL SCHEDULES WITHIN FIVE YEARS. The
20 Company, in the test year in this case, has included
21 approximately $60 million associated with rental equip-
22 ment in its rate base. This includes the cost of the
23 appliances, the cost of the pipe and/or facilities
24 necessary to bring service from the customer's meter to
25 the appliance, and the cost of installing such facili-

1 ties. The Staff recommends that the Company remove
2 from rate base the plant associated with the appliances
3 in the following manner. First, the Company should
4 transfer the pipe and/or facilities which brings
5 service from the meter to the appliance, along with the
6 installation costs, to a separate subaccount of account
7 380, Services. The accumulated depreciation of the
8 pipe, the costs of installation and deferred taxes
9 should be transferred to its corresponding account.
10 Second, the net plant investment of the appliances
11 themselves should also be removed from rate base and
12 transferred to a below the line non-operations account.
13 Staff recommends that the below the line plant balance
14 be amortized over a five year period, consistent with
15 the phasing out of the rental schedules.

16 The Company should keep a separate account to
17 track the amortization of the below the line balance.
18 All sales proceeds from the sales of the appliances to
19 existing customers should be reflected or accounted for
20 in this account to ensure that the combination of both
21 the accumulated amortization and sales proceeds equals
22 the beginning balance in the below the line plant
23 account. In the case that a customer decides to
24 continue renting the equipment from the non-regulated
25 Company operations, the Company should reflect the net

1 book value of the appliance in the amortization
2 account. At the end of five years or full amorti-
3 zation, whichever comes first, the Company should file
4 to reduce rates by the amount of amortization included
5 in rates at that time.

6 Q. Please explain Staff's recommendation related to the amorti-
7 zation of the below the line plant balance.

8 A. Staff recommends that the below the line plant balance
9 associated with the cost of the appliances be amortized over
10 5 years at the same time that the Company attempts to sell
11 the appliances to customers or otherwise get customers off
12 its rental schedules. Staff's recommendation is to allow
13 the Company a declining amount of amortization as follows:
14 eighty percent of the annual amount in the first year, sixty
15 percent of the annual amount in the second year, forty
16 percent of the annual amount in the third year, twenty
17 percent of the annual amount in the fourth year and no
18 amortization in the fifth year. The annual amount of the
19 amortization is based on staff's estimated average net book
20 value of the equipment during the 1991 test year of
21 $30,488,196, divided by 5, or $6,097,639. Allowing the
22 Company to recover from all firm rate schedules only eighty
23 percent of the annual amount in the first year, or
24 $4,878,111, presents the Company with an incentive to remove
25 the plant from its books quickly and to sell the appliances

1 to current rental customers. As soon as the combination of
2 both accumulated amortization and sales proceeds equals the
3 average net book value of the equipment during the 1991 test
4 year, amortization will stop and the Company should file to
5 reduce rates by the amount of the level of amortization then
6 included in rates.

7 Q. Could you explain the treatment of the revenues associ-
8 ated with the rental schedules during the five year
9 phase out period?

10 A. The revenues generated by the rental schedules during
11 the phase out period will remain in the cost of service
12 to offset ratepayers' responsibility for the return and
13 depreciation expense allowed to the Company for the
14 investment transferred to the services account. The
15 Company's investment related to the rental operations
16 consists primarily of three parts: the cost of the
17 appliances, the cost of the pipe/or facilities neces-
18 sary to bring gas service from the customer meter to
19 the rented appliance, and the installation costs of
20 both of these items. The Staff recommendation is to
21 transfer the amounts of plant investment related to the
22 pipe and installation costs to a subaccount of account
23 380, Services, and the accumulated depreciation to a
24 corresponding subaccount. This pipe and installation
25 cost investment is the cost that, under a regulated

1 operation, would not be allowed for ratemaking
2 purposes. However, Staff recognizes that the rental
3 program and schedules were authorized by the Commission
4 at a time when it was good policy. Allowing the
5 Company to earn a return on this investment and expens-
6 ing its depreciation will make the Company whole.
7 Q. Mr. Ramirez, is it your opinion that Staff's recommen-
8 dation is balanced both to the rate-payer and the
9 Company?
10 A. Yes. The elimination of the subsidy from sales
11 schedules to the rental schedules will benefit rate-
12 payers in the form of lower rates. The Company will
13 recover its investment on the appliances over a five
14 year period through the amortization mechanism proposed
15 by Staff and it will continue to earn a return on the
16 plant investment related to the pipe and installation
17 costs.
18 Q. Mr. Ramirez, are there any other adjustments related to
19 this program?
20 A. Yes. Ms. Thomas addresses an adjustment to the
21 operation and maintenance costs associated with repair-
22 ing and maintaining the rental appliances. In addi-
23 tion, Ms. Thomas addresses the amortization of the
24 appliance investment. Mr. Parvinen addresses the rate
25 base calculation and allocations associated with

1 Staff's recommendation and Mr. Buckley addresses the
2 revenues and rate design components of this proposal.
3 Q. Does this conclude your testimony?
4 A. Yes, it does.
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