

**EXHIBIT NO. ___(SJK-4)
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**

**THIRD 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

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Thermal Storage

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Thermal storage

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Reader Action Card

The Reader Action Card is stitched between pages 4 and 5, and 20 and 21. Circle the appropriate numbers for literature and product information and mail the card.

WASHINGTON UTILITY ORDERED TO LEVEL THE PLAYING FIELD

by Irene Clepper

OLYMPIA, Wash. — Washington hvac contractors have gained some yardage in their struggle for a level playing field for utility competition.

What's more, residential customers have been saved an average rate hike of \$7.60 a month; in fact, they will enjoy an average decrease of \$2.25 a month as a result of a Public Utilities and Transportation Commission (PUTC) order.

The order, dated Sept. 27, requires the elimination of cross-subsidization by Washington Natural Gas Co., estimated at \$6.6 million annually for promotion, advertising, and incentive plans to boost the non-regulated side of its activities.

The utility serves about 425,000 residential and non-residential ratepayers in the five-county Puget Sound area. The utility not only lost its request for a \$41.4 million rate increase, but also suffered a rollback of rates by \$16.9 million a year.

As of Oct. 1, the utility set up a separate company for appliance sales, whose expenses must be allocated and free from ratepayer subsidization.

New subsidiary

Utility spokesperson Bob Adams said the creation of Washington Energy Services, the new subsidiary of parent Washington Energy Co., brings together all the sales activities, including home heating, energy conservation, home security, and vinyl siding for homes, which had come to be "a fairly sizable operation."

Dorothy Bracken, another utility spokesperson, said, "People have always been able to buy gas appliances from any dealer, but ordering from Washington Natural Gas allowed the customer to pay for the appliance over time on a gas bill. Now customers will have to go through a separate credit application process to pay for their appliances over time.

"We'll now have a system where, when someone calls for a natural gas

hookup, he or she will be given a list of authorized heating appliance dealers that will include Washington Energy Services Co., but also other dealers in the area."

In its order, the PUTC expressed concern about the new subsidiary.

"The separate subsidiary, as described by the company, would encompass only the more-profitable merchandising (sales) function. The company would leave jobbing (diagnostic and repair) in the regulated utility.

"Some of the jobbing costs are safety-related and an important fact of the regulated operation. The company failed to include any of these costs in the subsidiary and would apparently seek to recover all jobbing expenses from the ratepayer."

Slow simmer

The cross-subsidization issue had been simmering for almost a decade, according to Merton Lott, accounting advisor to the commission.

"The utility had been told, eight or nine years ago, to change its system of accounting from 'incremental allocations' to 'fully allocated,' but had not done so," Lott said. "This year, there was pressure from contractors and consumer groups to eliminate cross-subsidization.

"The utility's position was that, in the early days, it was the only source of hvac appliances and installation, so it was not necessary to separate costs

and allocate them precisely," he said. "The incremental system had simply been continued."

Utility defense for its sales-service practices as "the only source in small towns and outlying areas" is a familiar one in many parts of the country, Lott said. But there is at least one Washington contracting company well over 100 years old, and other companies dating back to the 1940s.

What brought the issue to a head was the gas company's application for a \$41.4 million rate increase.

"We kept checking to be sure that the

Washington Natural Gas sells 700 units to trade

OLYMPIA, Wash. — Last week, as part of its departure from the merchandising business, Washington Natural Gas Co. held a one-day "Everything Must Go" sale of more than 700 hvac and water heater units from its inventory of hvac equipment.

Prices ranged from 30% to 75% off wholesaler cost, along with an additional 5% cash discount. Selling out of its "Master Mover Warehouse," the utility offered more than 150 furnaces (Payne, Tempstar, and Coleman); residential and light commercial central air conditioners; water heaters (A.O. Smith, Ruud, State); and gas barbecues (Charmglow).

Also offered were 50 boilers (A.O. Smith, Burnham); 50 wall furnaces (Perfection-Schwank, Williams); plus fireplace inserts, ranges, unit heaters, circulating heaters, and conversion burners.

dates for public hearings would not escape us," said Baron Derr, executive, Western Washington Chapter, Sheet Metal and Air Conditioning Contractors' National Association. "We were not alone. Citizen groups testified."

At one point the utility lowered its request to \$14.8 million, not just because of the ratepayer issue, but for other expenses viewed as disallowable — for instance, a proposal to charge all ratepayers to build 16 refueling stations to dispense compressed natural gas as a motor fuel.

And, although a pension expense was included in the 1991 test year, the

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The order requires the elimination of cross-subsidization by Washington Natural Gas, estimated at \$6.6 million annually for promotion, advertising, and incentive plans to boost the non-regulated side of its activities.

MAILING LABEL

Wash. utility ordered to level playing field

(Continued from Page 1)
company did not make a contribution.

"The plan is overfunded and the company has no current obligation to make contributions," the commission reported.

Never say never

The utility has not given up. Early this month, it planned to file a "make-whole" rate increase request, "to cover increased operations and maintenance costs and the additional utility plant placed in service since the 1991 test year that formed the basis of the recent rate order."

In the first billing since establishment of the subsidiary, Lott

noted that his gas bill contained an ad for appliances.

"Presumably, Washington Energy Services paid for this insert," he said. "The commission will be looking at how these expenses are allocated."

"The Sept. 27 order notes that the company has not yet explained specifically how many employees will go to the subsidiary, and what will happen to the space they vacate."

The commission also found:

- Many of the marketing expenses the company would include in rates, such as season tickets to sporting events and hosted weekends out of town for builders and dealers, are not customer service

expenses.

- The utility's expert argued that the commission should not listen to the words of some advertisements, but rather to the studies of listener feelings and beliefs, to determine the advertisement's true meaning.

- A gas utility may recover the expenses of promotional or political advertising only from its shareholders, not from ratepayers.

- The advertising the company proposed is indeed designed to encourage consumers to select the utility's services. The ads do not encourage the use of efficient appliances, nor do they provide information on how to conserve energy or reduce peak demand.

- The utility's theory that the advertisements promote energy conservation because they promote the use of gas over electricity is novel, but would allow the promotional advertising that the rule

specifically forbids.

- Far from conveying the message to "use less gas," the advertising included illustrations of increased consumption.

ARI, UL get approval to certify recovery and recycling units

WASHINGTON — Two groups have been approved by EPA to certify refrigerant recovery and recycling equipment under the agency's final rule: The Air-Conditioning and Refrigeration Institute (ARI), and Underwriters Laboratories (UL).

EPA also approved requests by ARI and UL to certify equipment that was previously tested by them for compliance with the rule.

The rule requires that recovery-recycling equipment manufactured before Nov. 15, 1993, be tested by an EPA-approved organization. Such equipment, other than that used for small appliances, must be tested under the ARI Standard 700-1993 test protocol, which is part of the final rule.

Recovery equipment for small appliances must be tested under either the ARI standard or Appendix C of the final rule.

ARI has been approved to test under Appendix B; UL has been approved to test equipment under both Appendix B and C.

Equipment manufactured before Nov. 15, 1993, need not be certified by an EPA-approved testing organization, even if purchased after that date. However, buyers of uncertified equipment should check the date of manufacture, to ensure that certification is not required.

Buyers should also ensure that pre-November 15 equipment can achieve the required vacuums for "grandfathered" equipment, 80% recovery efficiency for equipment used on small appliances; 4 in. of vacuum for equipment used with high-pressure appliances; and 25 in. of vacuum for equipment used on low-pressure appliances.

Both ARI and UL publish directories of certified equipment.

Clarification

The source of data supplied for illustrations accompanying an article in the November 8 *News*, "Humidity control, proper hvac essential to good IAQ in Southeast," was Healthy Buildings International, Fairfax, Va.

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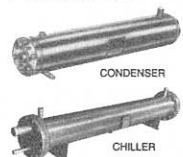
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