Exhibit No. BTC-1THC
Dockets UE-151871/UG-151872
Witness: Bradley T. Cebulko
REDACTED VERSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	DOCKETS UE-151871/UG-151872

TESTIMONY OF

BRADLEY T. CEBULKO

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Policy Testimony in Opposition to Puget Sound Energy's Proposed Leasing Program

June 7, 2016

REDACTED VERSION

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Bradley Thomas Cebulko. My business address is 1300 S. Evergreen Park Drive S.W., P.O. Box 47250, Olympia, WA 98504.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst in the Conservation and Energy Planning section of the Regulatory Services Division.

Q. How long have you been employed by the Commission?

A. I have been working for the Commission since September 2013.

Q. Would you please state your educational and professional background?

A. I have a Master's degree in Public Administration from the Daniel J. Evans School of Public Policy and Governance at the University of Washington, and a B.A. degree in political science from Colorado State University. I attended the National Association of Regulatory Utility Commissioners' Annual Regulatory Studies Program in August 2014, EUCI's cost of service and rate design training in March 2015, New Mexico State University's rate case basics workshop in May 2015, as well as other sector-specific workshops, trainings, and conferences.

Q. Have you previously submitted testimony to this Commission?

A. Yes. I previously filed testimony in Avista's 2014 and 2015 general rate cases,[1] on service quality and reliability. I also filed joint testimony in support of a multi-party settlement resolving Avista's 2015 conservation cost-recovery filing.[2]

II. SCOPE AND SUMMARY OF TESTIMONY

Q. Please describe the scope of your testimony.

A. I present Staff's recommendation and I introduce the other Staff witnesses testifying in these dockets.

Q. Please summarize Staff's testimony.

A. The Commission should reject Puget Sound Energy's (PSE) leasing proposal. Staff's review demonstrates that the proposed optional leasing service is a distinct departure from the Company's past and present utility services. Unlike PSE's legacy rental programs, the proposed optional leasing service lacks the general ratepayer benefit, such as lower system costs, that was critical to the approval of the legacy program. And unlike PSE's present optional services, the program is not necessary to meet an unmet need due to a limited competitive market. In essence, the proposed leasing program is a financing and insurance service for acquiring end-use appliances. Staff

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[1] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, cons. Dockets UE-140188 & UG-140189; *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, cons. Dockets UE-150204 & UG-150205.
[2] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket UE-151148.

believes the program is an inappropriate expansion of what constitutes a utility service and is well outside the traditional regulatory framework.

The proposed optional leasing service is bad for PSE's customers. It is an expensive service that does not comport with traditional cost-of-service ratemaking principles. The proposed rates are not based on known and measureable costs and are designed in a manner that will require certain customers to subsidize the costs of others. Moreover, the proposed leasing service raises a number of consumer protection issues that are not easily resolved. Ultimately, the Company has failed to demonstrate that the proposed service is in the interest of its customers.

Q. How did Staff construct its review of PSE's proposed leasing service?

A. Staff reviewed the proposal to determine whether it meets applicable regulatory standards for a tariff-based service. Staff based its review on current laws, policies, accounting rules, and regulatory principles, as well as the history of the Company's legacy rental programs. Staff sought to determine whether the proposal was an extension of the Company's past or current practices, as well as whether the benefits to the participants and general ratepayers outweigh the costs and risks of the proposed service.

Q. Why must the proposed leasing service meet applicable regulatory standards if the service is optional: won't PSE's customers determine for themselves whether the leasing service is right for them?

A. A regulated, tariffed-based service must meet applicable regulatory standards whether or not the service is optional because the Commission is responsible for ensuring that all rates charged are "just, fair, reasonable and sufficient."[3] The Commission is also responsible for supervising the services, facilities, and practices of PSE to ensure adequate quality of service, reliability, and consumer protection.[4] The Commission is further responsible for enforcing such standards when the Company fails to live up to its public services obligations.

Moreover, Staff is concerned that customers would (and should) interpret Commission approval to mean that the benefits of the proposed leasing program outweigh the costs. The Company proposes an "optional service" that customers can elect to participate in "if [they] view the leased service as beneficial and reasonably priced for the benefits they receive."[5] In other words, the Company seeks to offer a regulated, tariff-based service that will be evaluated by customers for sufficient benefits—with the assistance of PSE as the "trusted energy partner"—rather than Commission-established regulatory standards. It is inappropriate to substitute the Commission's judgement for that of the customer.

Q. Please introduce the other Staff witnesses testifying in this proceeding and the subjects of their testimony.

A. The following witnesses present testimony and exhibits for Staff:

[3] RCW 80.28.010.
[4] RCW 80.01.040(3).
[5] Teller, Exh. No. JET-1T at 6:5-7.

Ms. Elizabeth O'Connell will testify that the proposed leasing program is identical to the financial services of credit unions and banks and does not constitute a regulated utility service. She also presents analysis pertaining to the proposed accounting treatment of the appliances, and addresses concerns regarding the asymmetry of information between PSE and its customers.

Mr. Andrew Roberts discusses the contractual relationship between PSE and participating customers, and whether the program has adequate consumer protections in place.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes, I have 10 exhibits in addition to my testimony. They are exhibits Exhibit No. BTC-2HC through Exhibit No. BTC-12.

III. PSE'S LEASING PROPOSAL IS NOT AN APPROPRIATE UTILITY SERVICE

Q. Please summarize PSE's leasing proposal.

A. PSE seeks Commission approval to launch a new regulated, tariff-based service for acquiring and maintaining end-use energy-related equipment. The Company proposes to initially offer a variety of commercial and residential space and water heat appliances; however, it intentionally designed a platform with the flexibility to support additional product offerings, such as solar panels, batteries, electric vehicle equipment, and generators.[6] Under PSE's proposal, customers would pay a fixed monthly rate for the entire lease term (10-18 years based on the projected life of the particular appliance) for the use, installation, maintenance, repair, and replacement of the appliance.

PSE will primarily manage customer acquisition, lease financing and administration activities, and all equipment selection and procurement activities. PSE plans to engage "service partners [to] facilitate the equipment distribution and in-home fulfillment tasks, including pre-installation site checks, permitting, installation, maintenance, and service repair."[7]

Q. What is the core purpose of the leasing program?

A. The core purpose of the Company's proposal is an "optional service" that customers can elect to participate in "if [they] view the leased service as beneficial and reasonably priced for the benefits they receive."[8] PSE's proposed leasing service is not designed to deliver public benefits to its entire system or customer base. Instead, PSE claims the program benefits all customers by encouraging the replacement of old, inefficient appliances before they fail.[9] Fundamentally, Staff finds PSE's proposed leasing program to be little more than a merchandising and financial service—neither of which are appropriate utility functions.

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[6] *Wash. Utils. & Transp. Comm'n v. Puget Sound* Energy, Dockets UE-151871 & UG-151872, Advice No. 2015-23, September 18, 2015, at 2.
[7] McCulloch, Exh. No. MBM-1T at 15:3-6; *See also* 16:7-17:15.
[8] Teller, Exh. No. JET-1T at 6:5-7.
[9] Teller, Exh. No. JET-1T at 2:8-13.

Q. How do you respond to the Company's claim that the proposed leasing service will address an unmet need in the market?

A. PSE's leasing program will compete with existing services such as long-term financing, maintenance packages from contactors, and extended warranties. The suite of packages available to a customer from the existing market are more flexible than a regulated, tariff-based service, which is unable to swiftly adapt to a changing market. The Company clearly has the burden to prove that the "unmet need" is a problem whose solution must be addressed through regulation. The Company has not carried this burden as the "unmet need" they cite can be met by various commercial vendors that have experience in offering equipment, maintenance and financing solutions selected by end users. Staff disagrees that PSE's ratepayers should be responsible for the risk of PSE trying to ameliorate the issue of "unmet need" through its proposed program.

Q. Is PSE's proposed leasing service materially different from other services currently available today?

A. No. PSE claims no comparable service is otherwise available in the appliance market.[10] However, similar appliances, installation, maintenance and repair services, and long-term financing options are all available through numerous competitive retail providers, financial institutions, and service contractors. Ultimately, the only truly unique aspect of PSE's proposed service is the on-bill repayment. On-bill repayment, however, does not necessarily need to accompany merchandising,

[10] Teller, Exh. No. JET-1T at 5:17-20.

installation, maintenance, and repair of the appliance.[11] In other words, if on-bill repayment is an important service to offer PSE customers, it is possible for the Company to do so without becoming the merchandiser and financer of the equipment.

Q. Does the Company's proposed new service meet the requirements of any public service law?

A. Staff is not aware of any public service law that promotes the policy of offering a merchandising and financial service. On the contrary, RCW 80.04.270 expressly provides:

> Any public service company engaging in the sale of merchandise or appliances or equipment shall keep separate accounts . . . . The capital employed in such business shall not constitute a part of the fair value of said company's property for rate making purposes, nor shall the revenues from or operating expenses of such business constitute a part of the operating revenues and expenses of said company as a public service company.

The public service laws indicate that PSE's proposed leasing service is more appropriately offered as an unregulated service rather than a regulated service.

Q. Does PSE's proposed leasing program more closely resemble a lease or a sale?

A. As discussed in Ms. O'Connell's testimony, it is a sale.[12]

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[11] In fact, RCW 80.28.065 explicitly allows on-bill repayment for energy conservation measures, services or payments. Later developments have found better ways to make on-bill repayment effective, but the principle remains the same.

[12] O'Connell, Exh. No. ECO-1THC at 29:14-21.

Q. Has PSE explained why its proposed leasing service should be offered as a regulated service as opposed to an unregulated service?

A. No. PSE did not address the issue in its initial testimony and objected to the question in discovery. The Company's internal documents, however, reveal that the Company hopes to [redacted]

PSE's plans for the leasing service platform are ambitious in scope. In testimony, the Company claims that "up to 25% of its customers have expressed interest in the service."[14] However, [redacted].

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[13] Cebulko, Exh. No BTC-2HC, (Highly Confidential - PSE response to Public Counsel Data Request 19 Attachment A.26).
[14] Teller, Exh. No. JET-1T at 5:20-22.
[15] Cebulko, Exh. No BTC-2HC, (Highly Confidential - PSE response to Public Counsel Data Request 19 Attachment A.26).
[16] Cebulko, Exh. No BTC-2HC, (Highly Confidential - PSE response to Public Counsel Data Request 19 Attachment A.26).

Q. Does Staff believe the Company's proposed lease service should be offered as a regulated service?

A. No. Regulated utility service most appropriately ends at the customer meter. There are some situations where there is a clear state policy to the contrary, as articulated in the public service laws, that provide exceptions to this rule, but the proposed program is not one of them. It may also be appropriate if the Company is in a unique position to offer equipment or a service that is not widely available, or if there are compelling net benefits for all of the utility's customers.

Electric and gas utilities are considered natural monopolies that provide essential services and are thus affected with the public interest. There is no similar cost advantage resulting from a single entity marketing end-use appliances. The utility meter provides an intuitive and practical demarcation for where regulated service should end and unregulated competitive market services should begin.[17]

IV. PSE'S PROPOSED LEASING SERVICE IS NOT AN EXTENSION OF ITS PAST OR PRESENT SERVICES

A. The Proposed Leasing Service Is Not an Extension of PSE's Legacy Rental Service.

Q. PSE claims that its proposed leasing service is a continuation of its legacy leasing services.[18] Does Staff agree?

[17] Such a demarcation is similar to the precedent of the telecommunication industry. In the late 1970s, the Federal Communications Commission ruled that telecommunications carriers could no longer bundle customer-premises-equipment (CPE) with telecommunications service, uncoupling the telecommunications service monopoly from the CPE market, and creating a competitive CPE market.
[18] Teller, Exh. No. JET-1T at 4:11-20.

A. No, the proposed leasing service lacks the principle enabling purpose of the legacy water heater rental (or leasing) program—delivering public benefits to PSE's entire customer base. Instead, the Company designed the proposed leasing service to more closely resemble "current market conditions."[19] PSE's proposed leasing service is very different in design, purpose, and scope from its legacy rental services.

Q. Has Staff researched the origins and history of the Company's prior leasing services?

A. Yes, PSE (including its predecessor companies) has a long and controversial history with offering end-use appliance rental or leasing services. Staff's research unveils important lessons for the Commission to consider. In particular, PSE's prior leasing services have always been justified as a utility service based on delivering public benefits to the Company's entire customer base. The Company neither claims nor demonstrates that its program will provide system-wide quantifiable net-benefits to its customers.

Q. When did the Company first begin offering leasing services?

A. The Company began offering end-use appliance leasing services in 1961.[20] In that year, the Commission allowed PSE's predecessor, the Washington Natural Gas Company, to implement a natural gas water heater rental program (legacy program) as a means to encourage fuel switching and increase the natural gas distribution

[19] McCulloch, Exh. No. MBM-1T at 10:1-6.
[20] *Cole v. Wash. Nat'l Gas Co.*, Cause No. U-9621, Final Order (Nov. 1, 1968).

system's load factor.[21] The Commission's authority to regulate such rentals was challenged, and ultimately affirmed, in *Cole v. Washington Utilities & Transportation Commission*, 79 Wn.2d 302 (1971). While the legacy program has been closed to new customers since 2000, the Company still manages a natural gas water heater rental program for about 35,000 legacy customers.[22]

Additionally, PSE's electric predecessor, Puget Sound Power and Light Company, offered an electric water heater rental program on and off since 1965. The Company, however, has not offered such a service in over twenty years, and it no longer manages any electric water heaters for its customers.[23]

Q. On what basis did the Commission approve the legacy program?

A. The Commission determined that the legacy leasing program was a legitimate utility function because "the purpose of the public utility [was] not the sale of the appliance but [rather the purpose was] to build load to gain gas customers and to give prospective gas customers who could not afford to purchase the necessary equipment the opportunity to have gas service within their means without the necessity of purchasing the appliances."[24] Moreover, the Commission found that the evidence in the record proved that the program accomplished its purpose.[25]

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[21] *Wash. Utils. & Transp. Comm'n v. Wash. Nat'l Gas Co.*, Docket No. UG-920840, Ramirez Exh. T JR-T at 18:11-23.
[22] UG-000763, Advice No. 2000-09 Natural Gas Filing Water Heater Rental Service, May 18, 2000. Approved No-Action on June 16, 2000.
[23] Puget Sound Energy, Electric Tariff G, Fourth Revised Sheet No. 84, effective April 11, 1997.
[24] *Cole v. Wash. Nat'l Gas Co.,* Cause No. U-9621, Commission Proposed Order at 17 (Nov. 16, 1965).
[25] *Id.* at 17:43-45.

Since its inception, the legacy program was structured so that the appliances were offered below-cost to encourage fuel switching.[26] At the time, the policy was reasonable because the natural gas distribution system was significantly under-used, so fuel switching had the "beneficial effect of gas load building with resulting benefits to other rate payers."[27] In fact, the Company voluntarily made rate reductions from 1961 – 1966 of $1.69 million each year.[28] Accordingly, the Commission found the legacy program "has been of benefit to all of its customers."[29]

Q. Did the legacy program continue to provide substantial benefits to all of the Company's customers?

A. No, after initial success, over time the legacy program only benefited the Company's shareholders. By 1992, the natural gas system was no longer under-used, and PSE's residential ratepayers were subsidizing the residential water heater program by approximately $7.4 million. PSE would have been required to increase program rates by 187 percent in order to achieve the Company's proposed overall rate of return.[30] Without question, the legacy program ultimately became a significant burden to PSE's customers.

In PSE's 1992 general rate case, Staff recommended discontinuing the gas water heater rental program because PSE's rate did not cover its cost. Staff testified

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[26] *Wash. Utils. & Transp. Comm'n v. Wash. Nat'l Gas Co.*, Docket No. UG-920840, Ramirez, Exh. T JR-T at 18:17-23.
[27] *Cole v. Wash. Nat'l Gas Co.,* Cause No. U-9621 Commission Proposed Order at 45(Nov. 16, 1965).
[28] *Id.* at 31.
[29] *Id.*, (emphasis added).
[30] Cebulko, Exh. No BTC-3, (Washington Natural Gas Company response to WUTC Staff Data Request 740) (The commercial water heater program was subsidized at approximately $1.2 million, requiring an 85 percent rate increase to achieve the Company's proposed overall rate of return.).

that the program's policy purpose—to build out load—was no longer valid.[31] Staff also raised concerns about the program's growth. At that time, the program represented about 15 percent of the Company's rate base.[32] Staff proposed freezing additional customers, phasing out the program in five years, and forming a separate, non-regulated entity to manage PSE's rental operations.

Public Counsel proposed that the program should either be discontinued or the rates should be raised to cover the costs of the program. Public Counsel also proposed a penalty of $9.00 per year for every inefficient water heater (less than 0.6 heat factor) that the Company had leased since 1990 when it was cautioned that more efficient and cost-effective water heaters were available.[33]

The Company continued to defend the program as a benefit for all ratepayers because "it helps us 'fill in' our summer season 'valley' demand and enables us to make more economic gas purchases for our overall requirements."[34] In rebuttal, the Company proposed to 1) immediately increase rates, 2) raise rates by increments in subsequent years, 3) insure that all gas water heaters installed or replaced would have an efficiency of at least 0.6 heat factor, 4) eliminate the installation cost allowances, and 5) deemphasize the lease program and encourage customers to voluntarily purchase their leased appliances.[35]

[31] *Wash. Utils. & Transp. Comm'n v. Wash. Nat'l Gas Co.*, Docket No. UG-920840, Ramirez Exh. T JR-T at 19:12-18.
[32] *Wash. Utils. & Transp. Comm'n v. Wash. Nat'l Gas Co.*, Docket No. UG-920840, Fourth Supplemental Order at 16:4 (Sept. 27, 1993).
[33] *Id.*
[34] *Wash. Utils. & Transp. Comm'n v. Wash. Nat'l Gas Co.*, Docket No. UG-920840, Exh. DHG-Rebuttal at 17:23-28.
[35] *Id.* at 17:4-15.

Ultimately, the Commission agreed that the program was flawed, including the rental of inefficient water heaters, but said that these types of programs can still provide customer benefit if they maximize efficient use of resources.[36] The Commission then ordered the Company to comply with the solutions it proposed in rebuttal.[37]

It is important to also note that in 1992, the Company's conservation program was considerably smaller than it is today, and there wasn't a statute like the EIA governing conservation acquisition. Today, a leasing program is not necessary to maximize conservation benefits.

Q. Did the Company's proposed solutions fix the flawed legacy program?

A. No, until PSE filed to discontinue the program for new customers, PSE was unwilling to eliminate the customer subsidization of the gas water heater rental program. Finally, in 2000 the Company filed to discontinue the program for new customers, arguing that it was "unable to cost effectively provide these services to new residential and commercial customers under the existing program and rate structure."[38] The Commission allowed PSE's proposal to take effect in an Open Meeting. In the end, both PSE and the Commission agreed that extending the rental program was unworkable.[39]

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[36] *Wash. Utils. & Transp. Comm'n v. Wash. Nat'l Gas Co.*, Docket No. UG-920840, Fourth Supplemental Order at 16:4 (Sep. 27, 1993).
[37] *Id.* at 17:4.
[38] Docket No. UG-000763 Advice No. 2000-09 Natural Gas Filing Water Heater Rental Service (May 18, 2000).
[39] Today, the water heater rental rates have been increased so that the subsidy flows in the other direction.

Q. Does the Company continue to replace water heaters in its legacy water heater rental program?

A. Yes, the Company still has approximately 35,000 natural gas water heater rental customers. For these customers, the lease continues indefinitely. In 2015, the Company replaced almost 2000 water heaters.[40] In 2016, PSE is replacing water heaters at a rate of more than 4 per day.[41]

Q. Has PSE continued to deliver on its promise to install energy efficient appliances in its legacy rental program?

A. While the Company continues to comply with the Commission's order to install water heaters with an efficiency of at least 0.6, it is no longer compliant with the intent to install energy-efficient water heaters. Of the 167 water heaters installed between January 1, 2016, and February 9, 2016, at least 144 were at or only just above federal code.[42] A brief review by Staff of the nearly 2000 water heaters installed in 2015 resulted in a similar conclusion.[43] It is clear that PSE is not installing the most efficient water heaters in customers' homes.

PSE's decision to install non-energy-efficient models has two self-serving purposes. First, PSE will charge customers the same monthly tariffed rate regardless of the product installed and therefore, it is incentivized to purchase and install the cheapest appliances. This keeps the Company's water heater purchase costs low and

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[40] Cebulko, Exh. No. BTC-4, (PSE Response to Staff Data Request 18 Attachment A).
[41] *Id.* (167 / 40 = 4.175).
[42] *Id.* (Staff understands that the following models have efficiency factors between .6 - .62: Bradford White RG250T6N; RG240T6N; RG250H6N; RUUD PROG5036NRU60DV; PROG5038NRU60; and PROG2932NRU62. Staff is unable to determine if the other models installed are energy efficient.).
[43] Cebulko, Exh. No. BTC-4, (PSE Response to Staff Data Request 18 Attachment A).

any cost savings is pocketed by the Company. The customers do not see any benefit from such cost cutting. Second, the Company's standard-efficiency water heaters use more natural gas than an energy-efficient model. Prior to the Commission's 2013 decoupling decision, the resulting increased throughput would then add to the Company's revenues. Under both scenarios, the Company's interests were placed before the customer's best interests.

Q. Is the original justification for the legacy program still valid today?

A. No. The Commission approved the legacy program to increase the load factor of an under-utilized distribution system.[44] Thus, the program provided benefits to all customers, as evidenced by substantial annual rate decreases.[45] In this case, the Company does not purport that its natural gas or electric systems are under-utilized or in need of load factor support. Therefore, the policy reasons supporting the legacy rental program no longer exists.

Q. Do you believe the new proposed service will be plagued by the problems that plagued the legacy program?

A. Yes, and the Company has provided no reason to believe otherwise. When addressing cross-subsidization, PSE provides nothing more than one witness's statement that the Company "appropriately assessed all costs to this specific rate class" so as not to burden other customers.[46] PSE provides no study demonstrating

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[44] *Wash. Utils. & Transp. Comm'n v. Wash. Nat'l Gas Co.,* Docket UE-920840, Ramirez Exh. T JR-T at 18:11-15.
[45] *Id.* at 18:15-20.
[46] McCulloch, Exh. No. MBM-1T at 13:9-20.

that this leasing program would avoid cross-subsidization. Furthermore, the Company provides no assurance that it would otherwise protect its customers from such cross-subsidization by, for example, investor contributions or early program termination. The Company must step forward to provide the Commission assurance that this program can economically stand on its own. Without such an assurance, Staff cannot recommend to the Commission that PSE's program sufficiently protects the general ratepayer from the risk of subsidization.

Q. Should the Commission accept the legacy rental program as a justification for the proposed leasing service?

A. No, for the reasons stated in this testimony.

B. Proposed Leasing Service Is Not An Extension of PSE's Current Services

Q. How does Staff respond to Mr. Englert's testimony that the proposed service is simply an extension of the Company's current services?

A. Mr. Englert overreaches with his claim. He testifies that the Company has been offering PSE-owned end-use equipment for years, and that the leasing program is "simply an extension of these services".[47] To support his claim he cites a number of services, including electric lighting schedules, substation rentals, and the legacy water heater rental program. These services are all distinguishable from the service that the Company now proposes.[48]

[47] Englert, Exh. No. EEE-1T at 2:4-8.
[48] *Id.* at 3:11.

Q. What are these other Company-owned end-use equipment services?

A. PSE currently leases equipment that falls under one of three categories: (1) equipment that is located on the Company-side of the meter; (2) equipment that the Company is uniquely positioned to offer and where a limited market for these services exists; and (3) legacy rental programs that have been frozen to new customers or discontinued for failing to benefit all customers.

Q. Will the leased equipment be located on the Company's side of the meter?

A. No, the Company leased equipment and services will be located on the customer's side of the meter, which is fundamentally different from a piece of equipment that is located on the Company's side of the meter. In the electric lighting schedules discussed by Mr. Englert,[49] PSE owns the pole and everything up to it, including meters where they exist.[50] Rates for these schedules are typically based on hours of daylight, so PSE knows exactly when the lights come on, and the rates for the lights are based on the cost of service. This is fundamental cost causation. It is not burdening any other lighting customer, or the general ratepayer.

Q. Is the Company in a unique position to offer appliance leasing?

A. No. As previously said, there is a healthy, existing market for appliances and financing options. The substation equipment and compression services discussed by

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[49] *Id.* at 7:4-26.

[50] Puget Sound Energy, Schedules 51, 52, 53, 54, 55, 56, 58, and 59.

Mr. Englert[51] is in no way similar to appliances. Many of the items are custom-designed for the specific purpose, and meet an unmet need in a limited competitive market.

V. THE PROPOSED LEASING SERVICE DOES NOT BENEFIT PSE'S CUSTOMERS

Q. How does the Commission typically decide whether a program is in the public interest?

A. The Commission has routinely stated that the demonstrable benefits to the system should outweigh the costs and risks. The Commission thus requires a basic demonstration of cost-effectiveness. Benefits and costs can be quantifiable or qualitative; however, quantitative benefits and costs are more easily demonstrated. The Company has the burden to prove that the benefits outweigh the costs and thus result in a net benefit to its customers.

Q. Has PSE demonstrated that the proposed leasing service will result in a net benefit to its customers?

A. No, Staff does not believe that the proposed leasing service will adequately benefit either program participants or non-participants (i.e., general ratepayers). Staff does

[51] Englert, Exh. No. EEE-1T at 7:4-26.

expect, however, that the Company would significantly benefit by adding new increments of regulated capital to its rate base.

Staff has serious concerns that the Company's interests in this program are not adequately aligned with its customers—neither the participant nor the non-participant. Staff is further concerned that the proposed program could result in real harm to customers. For program participants, the cost of the program is expensive, there will be intra-class subsidization, and the rates are not based on the known and measurable costs of the service provided. The proposed leasing service also raises a number of significant consumer protection concerns. For non-participants, the Company's proposed benefits are highly questionable and the risk of subsidization is pronounced

A. Participant And Non-Participant Benefits And Costs

1. Participant Benefits and Costs

Q. How does PSE claim that its proposed program will benefit participants?

A. The Company generally claims that its program will provide an affordable new option to its customers for acquiring appliances, and that will, in turn: "(i) stimulate and support the installation of energy efficient equipment; (ii) provide customers with simple and comprehensive turn-key solutions for the acquisition and maintenance of energy equipment; and (iii) expand existing market activity."[52] More specifically, the Company also claims that the leasing program will "lower utility

[52] Teller, Exh. No. JET-1T at 2:4-7.

bills, increase comfort and quality of life due to better equipment performance, peace of mind due to the maintenance feature of Lease Solutions, and greater control over their energy usage."[53]

Q. Does Staff agree with the Company's evaluation of how the program will benefit participants?

A. No. The offering of a new service to customers for acquiring equipment is not in and of itself a material benefit. The proposed service is expensive and requires an inflexible long-term commitment. The Company's claim that the proposed leasing service benefits will "lower utility bills" is both misleading and an assertion without proper documentation.[54] In order for the service to lower utility bills, the installed equipment would need to be energy efficient and there is no guarantee that energy-efficient appliances will be installed. Secondly, the fact that the lease includes maintenance service may not actually be a financially sound decision by the customer. Finally, Staff does not think it is reasonable for ratepayers to take on the risk of the Company expanding into an already robust existing market. In total, PSE failed to demonstrate that the benefits outweigh the costs and risks of the proposed leasing service.

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[53] Faruqui, Exh. No. AF-1T at 2:2-11.
[54] *Id.* at 2:7-11.

Q. Does Staff agree with the Company's claims that the service is affordable?

A. No, the absence of up-front costs *does not* make the program affordable. In fact, the Company's claims of no upfront costs are overstated. In all likelihood, a significant percentage of installations will include "non-standard conditions" that customers will have to pay for upfront.[55] PSE or its contractor will determine installation costs for non-standard conditions upon inspection of the premise.[56] While non-standard installation costs may be a practical reality of installing space and water heat appliances, it also provides a loop-hole around charging tariffed rates. Monitoring whether PSE and its contractors apply non-standard installation costs consistently and appropriately will be a great challenge for the Commission.

Moreover, the proposed leasing service is not affordable because the overall cost of the service is very expensive. The proposed leasing service is characterized by high interest rates (i.e., the Company's costs of capital) and high maintenance and repair costs (an insurance product).[57] The great expense of PSE's proposed leasing service is easily demonstrated. For example, according to the Regional Technical Forum, the average total capital cost[58] for a Tier 2 Air Source Heat Pump

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[55] [Proposed] Schedule No. 75, Original Sheet No. 75-L, 6 ("Customer will be responsible for payment of installation costs for any non-standard conditions, as discovered by PSE or its contractor upon inspection of the Premises. PSE will bill Customer for any excess installation charges.").
[56] *Id.*
[57] *See* O'Connell, Exh. No. ECO-1THC.
[58] Unit cost plus installation.

is $5,684.[59] According to the Company's rate model, [redacted][60] Even if the customer chose to finance her purchase, readily available market financing alternatives start under $13,000 over the life of the lease.[61]

In addition, PSE designed the proposed rates on cost estimates rather than cost-of-service ratemaking principles, and provides no mechanism for true-up. This virtually ensures that customers will not receive service commensurate with the costs.

Q. Why is Staff concerned that participating customers will not receive service commensurate with the costs?

A. PSE designed its proposed rates in a manner that will virtually necessitate a cross-generational subsidy within the class of participating lease service customers. This is because PSE proposes fixing rates based upon cost estimates, and not on costs that are known or measurable. This is particularly problematic because, as Company witness Malcolm McCulloch explains:

> [T]he Lease Solutions service rates are predicated on an all-inclusive fixed lease price that includes the equipment, installation, and operating and maintaining the equipment over the entire life of the lease. Lease rates can change over time for new customers entering into a new lease service but rates will not change for customers currently in a lease as the rates are fixed during the term.[62]

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[59] Cebulko, Exh. No. BTC-5, (Excerpt of RTF Standard Information Workbook v2.6 – Pending QC. http://rtf.nwcouncil.org/measures/support/files/Default.asp).
[60] O'Connell, Exh. No ECO-5HC. (Highly Confidential – PSE Pricing Worksheet, tab '34(HC)').
[61] O'Connell, Exh. No. ECO-1THC at 43:7.
[62] McCulloch, Exh. No. MBM-1T 11:4-9.

Mr. McCulloch points out that PSE's rates are determined by using PSE's estimates but will never be trued up with actual expenses over the life of the agreement. Any difference between PSE's estimates and actuals are therefore necessarily borne by either other customers or shareholders. This is a serious and unacceptable flaw in PSE's proposed program.

Additionally, PSE will charge customers a common lease rate within a single appliance category for a variety of sizes and models of the appliance. The result is that customers will either pay more or less than the value of the appliance they are receiving from the Company. Under PSE's proposal, each appliance category (e.g. electric heat pumps, 80 percent efficient gas furnace) would include multiple contracts with different vendors for different brands and models. These vendors, brands, or models all offer products at different prices. However, PSE's rates would not reflect these highly varied appliances and prices. According to Staff witness Ms. O'Connell's analysis, [redacted][63] but all customers will be grouped within one class and pay the same monthly price. As a result, one customer could vastly overpay for the appliance she receives, and another could vastly underpay. This cost differential raises significant questions about the preferential treatment some customers may receive from PSE and the legality of the proposed rates.[64]

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[63] O'Connell, Exh. No. ECO-6HC (Highly Confidential PSE response to Staff Data Request 59, Attachment A)
[64] *See* RCW 80.28.090.

PSE's rate design also raises critical consumer protection concerns because PSE or its contractors ultimately choose which size or model of the appliance within each category is appropriate for each particular customer. Thus, the vast price differentials create an incentive for the Company to install the cheapest appliance even if it is not the most appropriate appliance for a particular customer. Again, participating customers could end up paying PSE for a service that bears no reasonable relationship to the rates they are required to pay.

Q. Is the leasing program a reasonable approach to addressing the underlying financial constraints that lead consumers to keep appliances past their useful and cost-effective life?

A. No. The Company states that the leasing program solves the financial constraints that prevent customers from purchasing new appliances. Certainly, buying a new furnace or a heat pump is a significant cost. However, there are numerous competing financial service offers with much better terms available to customers. HVAC contractors partner with credit unions and cooperatives to finance appliance purchases at significantly lower interest rates than the Company's interest rate of its pre-tax rate of return.[65] One Northwest credit union is partnering with Washington utilities, such as Seattle City Light and Northwest Natural Gas Company, to provide an on-bill repayment loan at interest rates significantly lower than the Company's interest rate, and offering it to customers with credit scores as low as 590.[66] The

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[65] O'Connell, Exh. No. ECO-1THC at 43:6-7.
[66] Cebulko, Exh. No. BTC-5 (Available Appliance Finance Options).

credit union also offers reduced rates for households earning up to 80 percent of the Area Median Income.

Q. Does Staff agree that the proposed leasing service will reduce customers' utility bills?

A. No. The Company's claim that the proposed leasing service will reduce a customer's utility bill is an assertion without documentation. The Company is only conveying the benefits of a possible reduction of electric or natural gas usage. In fact, customer's monthly utility bills will certainly go up with the addition of the lease rate and applicable taxes. Whether the volumetric portion of customer's energy bill goes down, and by how much, is highly dependent on a variety of factors particular to that individual, including the specifications of the replaced appliance and the amount of energy the customer typically consumed. From the customer perspective, benefits from reduced energy use over time should be worth more than the increased upfront costs. The Company has not demonstrated that the reduced energy use will offset the costs.

Q. How does Staff typically determine if installing an energy-efficient appliance is cost-effective?

A. Staff typically determines if installing an energy-efficient appliance is cost-effective by reviewing the Company's conservation cost-effectiveness test results filed in its Biennial Conservation Plan or Report. Unfortunately, the Company states that cost-effectiveness is "neither relevant to the issues in this proceeding nor reasonably calculated to lead to the discovery of admissible evidence since the Equipment Leasing Service is not filed as a Conservation program subject to Northwest Power and Conservation Council methodology."[67]

The Company misses the point. A conservation cost-effectiveness test is only one tool for demonstrating prudence. If the Company does not use that test, the program still requires a quantitative analysis of the costs and benefits before the Company should proceed.

Q. Does the Company view its proposed leasing service as a conservation program?

A. No. Despite PSE's attempts to justify the program in-part on the basis of conservation savings, the Company takes great pains to assert that the program is not a conservation program.[68] The Company testifies that the proposed leasing service instead is: "an optional, Company-owned, end-use equipment service that will have the *additional feature* of achieving conservation savings and other quantifiable public benefits ..."[69] PSE further claims it is not a conservation program because it was not filed as a conservation program in schedules 200-299,[70] even though the Company states that this program is an "innovative channel that promotes energy efficiency equipment,"[71] that it will achieve electric and natural gas conservation savings,[72] that it can support what the Company calls Demand Response

[67] Cebulko, Exh. No. BTC-6 (PSE Response to Staff Data Request 33).
[68] Englert, Exh. No. EEE-1T at 8:12–9:22.
[69] *Id.* at 8:19-22 (emphasis added).
[70] *Id.* at 8:16-18.
[71] *Id.* at 8:12-14.
[72] UE-151871 & UG-151872, Advice 2015-23 Substitute Cover Letter, filed (Nov. 16, 2015), page 3, II.

Conservation,[73] and the Company's presentations to the Conservation Resources Advisory Group discussed the value of the program to energy efficiency.[74]

Q. If PSE insists that the leasing service is not a conservation program, why is it important to consider cost-effectiveness?

A. Cost-effectiveness applies broadly across all resource acquisitions – not just conservation. Whether or not the Company applies the total resource cost test, it must convincingly support that benefits outweigh the costs and risks of the proposed leasing service. The Company failed to do so in its filing and testimony

Q. But if the participant willingly chooses to pay the costs of the program, doesn't a cost-effectiveness test no longer matter?

A. The Commission's role is to ensure that rates are just, fair, reasonable and sufficient. If PSE wants to offer the proposed leasing service as a regulated, tariff-based service, the judgement of the customer cannot be substituted for the Commission's judgement. Staff is concerned that the Commission's approval of this program implicitly endorses the program costs to the ratepayer, thus implying that the leased appliance is cost-effective. Staff has seen no evidence that the proposed appliances are cost effective for the program participants. The argument that the individual is free to make a decision on what the appliance is worth to her is contradictory to the purpose of the Commission to set rates that are fair and just.

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[73] McCulloch, Exh. No. MBM-1T at 15:4-8.
[74] Cebulko, Exh. No. BTC-7 (PSE Response to Public Counsel Data Request 13, Attachment C, at 10:1-11:2).

Q. Is the proposed leasing service available to all of PSE's customers?

A. No. PSE plans to limit the availability of the program based on customer's location and credit worthiness. In a good effort to consider the broadest group of qualified customers, the Company devised its own credit worthiness standard for eligibility by relying upon a customer's history of bill payments.[75] Unfortunately, PSE also reserved the right to limit availably of the proposed leasing service[76] if it cannot secure suitable contracts with partners in a specific portion of its territory.[77] Since the Company has not signed contracts with service partners, Staff does not yet know what parts of the service territory will not have the option to participate.

Staff is appreciative of the Company's attempt to serve customers who may have shallow, but good credit. However, the Company's reservation to limit availability due to location raises concerns for Staff with respect to undue preference and discrimination.[78]

2. Non-participant Benefits and Costs

Q. How does PSE claim that its proposed service will benefit non-participants?

A. PSE claims that it has identified a gap in the market relating to old inefficient equipment, and that its program will address this gap by hastening replacement of these appliances.[79] The Company alleges that benefits to all customers will include

[75] Teller, Exh. No. JET-1T at 10:17-21.
[76] [Proposed] Schedule 75, Sheet No. 75 (first page), Clause 2.
[77] Cebulko, Exh. No. BTC-12 (PSE Response to Staff Data Request 23).
[78] RCW 80.28.090 and RCW 80.28.100.
[79] Teller, Exh. No. JET-1T at 2:1-7.

"conservation of both electricity and natural gas, reduced greenhouse gas emissions and pollution, and deferred capacity investments."[80]

Q. Does Staff agree with the Company's evaluation of how the program will benefit non-participants?

A. No, the Company has failed to demonstrate that the benefits to ratepayers outweigh the costs and risks of its proposed service. Moreover, the benefits cited by the Company are all "additional features" that have significant caveats.

Staff has a number of issues with the Company's alleged benefits to non-participants. First, merely offering a new service for acquiring appliances is not sufficient to justify the program. Second, many of the appliances the Company proposes to offer produce <u>no conservation benefits</u>. Those that are energy efficient are unlikely to produce cost-effective conservation savings because of the significant cost of financing. Third, deferred capacity investments resulting from conservation are only acceptable if the conservation savings were acquired cost-effectively. Finally, as with the legacy water heater rental program, cross-subsidization remains a risk.

Q. Please elaborate on Staff's concern that the program will require cross-subsidization from non-participating customers.

A. Staff remains concerned that the Company has not sufficiently ring-fenced the proposed program from the general body of ratepayers. Specifically, Staff is

[80] Faruqui, Exh. No. AF-1T at 2:5-7.

concerned that the general ratepayer will subsidize certain costs such as administration, billing, program development, and customer service. These indirect costs and the direct costs associated with purchasing, installing, and servicing the appliances must be properly allocated to the leasing program.

Q. Why does Staff have concerns about the Company's claimed conservation benefits?

A. Although the proposed program may produce some conservation benefits to the system, the Company has not demonstrated that those savings will be achieved cost-effectively. This is important because the general ratepayer should not benefit at the expense of participants paying unreasonable rates.

Moreover, Staff is deeply concerned that a number of the offered appliances are not energy-efficient models, and thus would not produce any conservation benefits.[81] As I will explain later, Staff believes that offering standard-efficiency appliances conflicts with the Company's obligation to pursue all cost-effective conservation as required by the Energy Independence Act (EIA).[82]

B. PSE's Survey and Benefit Claims are Not Reliable.

Q. How did the Company derive its estimated conservation benefits?

A. In January 2016, more than a month after the filing had been suspended by the Commission and set for hearing, the Company hired a consultant to survey its

[81] [Proposed] Schedule 75, Sheet 75-A and 75-B.
[82] Chapter 19.285 RCW.

customers on their interest in a hypothetical appliance leasing program. The percentage of customers who said that they were possibly or definitely interested in a leased appliance was then used as the basis of Dr. Faruqui's benefits testimony. Dr. Faruqui's testimony on benefits is the Company's source for conservation savings claims. Staff does not believe that the Commission should draw appliance uptake conclusions from the survey.

Q. Why is Staff skeptical of drawing conclusions from this study?

A. The survey asked customers a series of hypothetical questions to reveal his or her stated preference. The customer was not faced with an actual choice about how to purchase a new water heater or furnace. For example, the survey gave natural gas and electric estimates for a monthly fee, a lease term, maintenance schedule, and warranty. Then it asked the customer, "Which of the following best describes your interest in the Natural Gas or Electric Tank-Style Water Heater leasing program?"[83] 8 percent of customers said they were "very interested" and 17 percent "interested" for a total of 25 percent of customers stating some level of interest. Conversely, 75 percent of customers said that they were neutral or uninterested.[84] Dr. Faruqui used the 25 percent of customers who stated some level of "interest" and assumed that all 25 percent would lease a water heater from the Company.

During the course of the survey, it would have been unlikely for a customer to do extensive research on prices and functionality of a water heater, especially if she did not face the decision on how to meet her water heat needs or how to pay for

[83] McCulloch, Exh. No. MBM-4, at 6.
[84] *Id.*

it now. The Company wasn't asking a customer in the market if she wanted to pay a specific price, for a specific appliance, for 15 years, with all the caveats and agreements that come with it, at that moment.

Q. Did the survey leave out any critical information?

A. Yes. The survey did not disclose the total lifetime cost of the lease, the interest rate, or exit terms. Nor did PSE ask its customers if they want the Company to offer the program with the risk of cross-subsidization from other PSE customers. I imagine a survey with those caveats would yield a different result.

Q. How do you respond to Dr. Faruqui's testimony and exhibits?

A. Dr. Faruqui makes strong conclusions from weak data. First and foremost, it is inconsistent with Commission practice to recognize only the benefits of a program without consideration of the costs. It is an unbalanced analysis that isn't helpful for determining the value of a proposal. Second, his benefits estimates are merely estimates; the Company does not know if the customer will choose an energy-efficient appliance over the cheaper, baseline model. Finally, the analysis includes incremental conservation benefits from converting appliances below code up to code. Counting incremental savings from upgrading appliances up to code is inconsistent with regional and Commission conservation achievement counting practices.

Q. What are Dr. Faruqui's claims about how the leasing program will overcome the barriers to adoption of new, efficient products?

A. Dr. Faruqui cites five key barriers including, "credit constraints, risk aversion, imperfect information and search costs, myopic behavior (hyperbolic discounting), and externalities that do not directly benefit those customers who purchase new, more efficient products."[85] Despite his deep and interesting dive into the academic literature, his testimony is rather short on how the proposed leasing program overcomes these key barriers.

Dr. Faruqui testifies that the leasing program is well suited to help customers overcome credit constraints or risk aversion, but doesn't address how it would do a better job compared to existing financial services in the marketplace. He also merely cites positive externalities as an ancillary benefit of installing more efficient products, but as noted, the Company will be offering a variety of standard-efficiency appliances that would have been installed no matter how a customer chose her next new appliance.

Q. How do you respond?

A. The leasing program is unlikely to stimulate very little in the way of energy-efficient products. Staff is also concerned that the "benefit of reduced search costs" is not a benefit if the Company uses its self-proclaimed "trusted status" to push products and services that may not be in the interest of the consumer. There is a serious risk that the Company's financial interests do not align with its customers' interests, but

[85] Faruqui, Exh. No. AF-1T at 5:3-7.

customers perceive the Company's program as beneficial because they trust the Company.

Q. The Company argues that there are risks that come with the failure of old appliances. Does the leasing program solve the risk of appliance failure?

A. No. Company witness Mr. Teller states that customers risk going without heat in the winter if a furnace fails, that water heaters can fail and cause damage to homes, and that decisions made during urgent times may not result in the best decision making.[86] Staff notes that all of these are current problems which will also undoubtedly continue to occur despite a PSE appliance leasing program. Customers with PSE leased appliances that fail during the winter may also be without heat or hot water for 48 hours, as that is the acceptable amount of time allowed by the tariff PSE filed.[87] PSE identifies a real problem, but neither the existence of its proposed leasing services, nor its own 48-hour stipulation, are reasonable solutions to the identified issue.

VI. NOT PURSUANT TO ENERGY INDEPENDENCE ACT

Q. What is the context of the conservation guidance under which PSE operates?

A. The Energy Independence Act (EIA) requires the Company to "pursue all available conservation that is cost-effective, reliable, and feasible."[88]

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[86] Teller, Exh. No. JET-1T at 8:14-20.
[87] [Proposed] Schedule 75, Sheet No. 75-P, Clause 7(f).
[88] RCW 19.285.040(1).

Q. How does the Company's obligation to pursue all cost-effective conservation impact the Company's proposed leasing program?

A. Staff interprets the EIA to mean that the Company cannot promote or install appliances that are less than energy efficient if there are available cost-effective alternatives. To do otherwise would both destroy the underlying premise of the law and squander an opportunity for cost-effective conservation.

Q. Is the leasing program offering appliances that are not energy-efficient?

A. Yes, the Company is offering a variety of appliances that are not energy-efficient. According to the Company's forecasted install rates, [redacted][92]

Q. How does Staff know whether an appliance is energy efficient?

A. For electric measures, Staff primarily relies on the lists of energy-efficient appliances available from the Northwest Power and Conservation Council's Regional Technical Forum.[93] If a measure is not on the list, or if it is a natural gas measure, it must be the most cost-effective choice using the Company's existing conservation program

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[89] O'Connell, Exh. No ECO-5HC, (Highly Confidential – PSE Pricing Worksheet, tab 'Price Summary' Product number 32).
[90] O'Connell, Exh. No ECO-5HC, (Highly Confidential – PSE Pricing Worksheet, tab 'Price Summary' Product number 39).
[91] O'Connell, Exh. No ECO-5HC, (Highly Confidential – PSE Pricing Worksheet, tab 'Price Summary' Product numbers 44 and 45).
[92] Cebulko, Exh. No. BTC-8 (PSE Response to Public Counsel Data Request 6, Attachment A) (These are Company estimates of customer uptake; they do not represent what will actually happen if proposed program goes into effect.).
[93] *See* Regional Technical Forum: RTF Unit Energy Savings (UES) Measures: http://rtf.nwcouncil.org/measures/Default.asp

guidance. When compared to this list, numerous appliances included by PSE in the proposal are standard efficiency, meaning they are among the least efficient new appliances available for purchase in the market.

Q. Why is the installation of standard-efficiency appliances problematic?

A. Staff believes it would violate the EIA for the Company to acquire and install any equipment that is not both cost effective and energy efficient, where such a choice exists.

Q. Does the proposed program design increase or decrease the installation of standard efficiency appliances?

A. The proposed leasing program is likely to increase the installation of standard efficiency appliances. The design of the program actually makes it cheaper at the beginning of the lease to get a standard efficiency appliance. One of the differences between standard efficiency and energy efficient gas appliances is the venting requirements. Changes in venting are typically required to install an energy efficient version of an existing gas appliance.[94] By including additional charges for nonstandard installation in the program design, the Company actually increases the barriers to the adoption of energy-efficient appliances. The Company has not conducted an analysis to determine what percentage of installation would likely require non-standard installation.[95] Even if a customer wanted to get the energy-

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[94] Cebulko, Exh. No. BTC-10 (Excerpt Residential Furnace Life-Cycle Cost and Payback Period Analysis).
[95] Cebulko, Exh. No. BTC-11 (PSE Response to Staff Data Request 76).

efficient model, they would have to come up with an up-front payment, which PSE has identified as a significant barrier.

VII. FUTURE OF THE UTILITY

Q. Given the problematic history of the legacy water heater rental program, why do you think the Company is trying to re-enter the end-use appliance business?

A. For PSE, load growth is anemic, and energy use-per-customer is declining.[96] Since 2013, the Company has had revenue decoupling, which means it has a pre-determined revenue stream from its core regulated business. Although decoupling provides revenue certainty, losing the throughput incentive deprives the Company of one of its few paths for increasing revenue. The Company is also seeing an increase in distributed generation, supported by state and federal policy, which competes with its own generating resources. In sum, PSE has entered an era of low load growth, declining use-per-customer, pre-determined revenue, and customer-generation. It is looking outside the traditional regulatory framework for new revenue opportunities.

Q. Are these circumstances unique to Puget Sound Energy?

A. No. The Company's circumstances are reflective of the utility business as a whole – in particular the electric utility industry. It is an industry generally regarded as undergoing a massive transformation with an uncertain future.[97] For the last few

[96] Dockets UE-141169 & UG-141170, *Puget Sound Energy 2015 Integrated Resource Plan*, at 5-22.
[97] '*Sustainable Energy in America Factbook: Understanding the U.S. Energy Transformation.*' Bloomberg New Energy Finance, NARUC ERE & Electricity Committee Webinar (March 30, 2016) available at

years there has been a robust discussion across the country regarding "the utility of the future," also known as utility 2.0.[98]

Q. What is generally meant by the term "utility of the future?"

A. The discussion has revolved around the generally accepted notion that the utility business model will have to evolve if it is to survive this transformation. Customer demand is slowly moving away from electricity produced from centralized generation and toward decentralized generation and non-energy services.

In response to the general excitement and concern, utilities and commissions are proactively considering the future of the utility business. For example, New York is leading an initiative called "Reforming the Energy Vision" that will likely substantially overhaul the current structure of the electric industry into a distributed system platform. They recently approved new forms of revenue generation for the utilities, including earning returns on customer photovoltaic solar panels, grid services to distributed energy resource developers, and energy efficiency.[99] California has been reforming its utility market for years through proceedings that consider utility services such as demand response programs, energy storage, and time-of-use rates.[100]

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http://www.bcse.org/images/2016Factbook/FNL_Presentation_BCSE%20NARUC%20ERE%20&%20Electricity%20Slides%203.30.2016.pdf.

[98] *Reinventing the Grid*, Fortnightly Magazine, March 2014, available at http://www.fortnightly.com/fortnightly/2014/03/reinventing-grid.

[99] '*New York PSC Enacts New Revenue Models for Utilities in REV Proceeding.*' Utility Dive, published May 20, 2016. Available at http://www.utilitydive.com/news/new-york-psc-enacts-new-revenue-models-for-utilities-in-rev-proceeding/419596/.

[100] '*California's Chief Utility Regulator: The Future Grid is All About 'Distributed Decision-Making"*. Greentech Media, November 18, 2015, http://www.greentechmedia.com/articles/read/californias-chief-utility-regulator-the-future-grid-is-all-about-distribute.

Q. Is appliance leasing part of the utility of the future?

A. Not as currently proposed by PSE. It is reasonable to assume that the utility of the future will have grown beyond its historical core business model and will have created new revenue streams, but not necessarily as regulated products. With this leasing service proposal, the Company is certainly attempting to move beyond the historical scope of its revenue sources. However, as discussed in this testimony, this proposal is not in the public interest. Any expansion of the regulated utility business must still conform to the core principles underlying public service regulation, which implicitly delivers benefits that are greater than the costs. This leasing proposal does not.

Q. How can the Commission contribute to the conversation about the future of the utility?

A. The Commission could convene a workshop, or series of workshops, to discuss the utility of the future in general. There are a number of potential growth opportunities for the utilities that fit neatly inside the traditional regulatory framework. Energy storage and smart grids are just two examples. But there may also be new growth opportunities that may not fit as neatly into the traditional regulatory framework, and may not be clear when, or whether, these opportunities should be subject to Commission regulation. It may be necessary that the Commission evolve from its traditional regulatory framework to accommodate an industry in transition.

However, without clearer parameters defining the Commission's statutory and practical limitations with respect to regulating non-traditional utility services, the

Commission will remain in a position of evaluating individual ventures on an ad hoc basis. A thorough exchange of ideas between the Commission and industry stakeholders would be an invaluable first step in clarifying those parameters.

Q. Does this conclude your testimony?

A. Yes.