

**EXHIBIT NO. \_\_\_(BF-1T)  
DOCKETS UE-151871/UG-151872  
PSE EQUIPMENT LEASING SERVICE  
WITNESS: BRIAN FLUETSCH**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**Dockets UE-151871  
UG-151872**

**DIRECT TESTIMONY OF BRIAN FLUETSCH  
ON BEHALF OF SMACNA-WW**

**June 7, 2016**

**SMACNA-WW**  
**DIRECT TESTIMONY OF**  
**BRIAN FLUETSCH**

**CONTENTS**

<b>I.</b>	<b>Introduction.....</b>	<b>1</b>
<b>II.</b>	<b>History of Utility Involvement in the Lease Market in Washington..</b>	<b>2</b>
<b>III.</b>	<b>Current Market.....</b>	<b>4</b>
<b>IV.</b>	<b>PSE's Offerings Compared with Those in the Unregulated Market...7</b>	
<b>V.</b>	<b>The "Market Gap" .....</b>	<b>14</b>
<b>VI.</b>	<b>Comparison of Cost of Lease Versus Cost of Purchase.....</b>	<b>19</b>

**EXHIBITS**

**Ex. \_\_\_ (BF-2) Summary of Qualifications**

**Ex. \_\_\_ (BF-3) Article**

**Ex. \_\_\_ (BF-4) PSE Response to SMACNA-WW Data Request 024**

**Ex. \_\_\_(BF-5) Table comparing purchase options with lease options**

1 **I. INTRODUCTION**

2 **Q. Please state your name, professional position, and business address.**

3 A. My name is Brian Fluetsch. I am the President and Chief Executive Officer  
4 (CEO) of Sunset Air, Inc. Sunset Air is a full service energy services company,  
5 one of twelve in the State of Washington. We also sell heating, ventilation, and air  
6 conditioning (HVAC) equipment as one of over 1400 HVAC companies in the  
7 State of Washington. (The source of this number is the Testimony of John van  
8 den Heuvel.) This does not include large retailers such as Home Depot or Lowes.  
9 We perform both residential and commercial work, primarily in Western  
10 Washington. We sell all manner of HVAC equipment, as well as hot water  
11 heaters, and provide installation and maintenance services in both the residential  
12 and commercial markets. Our headquarters is located at 5210 Lacey Blvd SE,  
13 Lacey, Washington 98503. Sunset Air was founded in 1976, and I have worked  
14 for the company since its inception.

15 **Q. Please describe your role with the Sheet Metal and Air Contractors National**  
16 **Association – Western Washington (SMACNA-WW).**

17 A. Sunset Air has been involved with SMACNA-WW for many years. I currently  
18 serve as Vice President of the Board of Directors and also on the  
19 Labor/Management Committee and on the Joint Apprentices Training Committee.  
20 I have served in various other committees over the years both for SMACNA-WW  
21 and SMACNA national organization.

22 **Q. Besides what you have stated previously, please describe your experience in**  
23 **the energy services and HVAC industries.**

1 A. I worked in this industry for close to 40 years. In that time I have seen first-hand  
2 many facets of this field of work, both historically and in the current market. I  
3 have included a summary of my qualifications and work experience as Exhibit  
4 \_\_\_ (BF-2).

5 **Q. Have you reviewed PSE's proposed lease tariff and the testimony filed by**  
6 **PSE in support of its proposal?**

7 A. I have.

8 **II. HISTORY OF UTILITY INVOLVEMENT IN THE LEASE MARKET IN**  
9 **WASHINGTON**

10 **Q. Can you provide your past involvement with Washington Natural Gas**  
11 **Company (WNG)?**

12 A. WNG is one of the predecessor companies to Puget Sound Energy (PSE) and was  
13 acquired by PSE in the early or mid-1990s.

14 Our company worked with WNG for many years as it was the regulated natural  
15 gas company in our market area. WNG sold and leased gas appliances such as  
16 furnaces, gas fireplaces, barbecues hot water heaters and gas conversion burners  
17 to its customers in its service area. Gas conversion burners were popular because  
18 there was a lot of conversion from coal or oil to natural gas at the time.

19 Around the late 1980s, WNG decided to become more aggressive in selling  
20 appliances and HVAC products to its customers. As part of WNG's sales  
21 program, it entered into agreements with area contractors who were to actually  
22 install the equipment. Initially, we were reluctant to get involved in WNG's  
23 program as an installing contractor. However, in relatively short order, it became

1           apparent that WNG's customers were under the impression that WNG was where  
2           they needed to go to get gas appliances. Therefore, WNG's market share grew  
3           rapidly and companies like ours felt compelled to accept their terms and became  
4           an installing contractor for them.

5           WNG had a competitive advantage over independent contractors since they had  
6           unlimited access to data regarding their utility customers. They used that  
7           advantage to effectively become an unstoppable marketing machine. Many  
8           contractors, like us felt that we either needed to participate in WNG'S program or  
9           our residential retrofit gas appliance sales would diminish to nothing.

10       **Q.    How did WNG compete for customers in the market?**

11       A.    In my opinion, WNG exploited its monopoly position in the gas market. If a  
12       customer asked WNG about having equipment installed by a private company,  
13       WNG would reassure the customer that their contractor of choice was one of  
14       WNG's installers and they would make arrangements for them to do the install.  
15       That arrangement cut us out of selling the equipment and performing the service  
16       down the road. Many customers never knew how unhappy the installers were with  
17       this arrangement and that they could have purchased directly through their  
18       contractor.

19       The market power of WNG also was apparent when a customer sought new gas  
20       service or if a number of customers in a neighborhood sought a gas main  
21       extension. WNG turned these situations into a sales or leasing opportunity, cutting  
22       the contractors out of the picture.

23       **Q.    What became of the WNG program?**

1 A. Over time, contractors made many complaints to the Washington Utilities and  
2 Transportation Commission about unfair competitive conditions in the program.  
3 The UTC eventually found that many of the issues that the contractors were  
4 complaining about had merit. As I recall, the demise of the WNG program was  
5 caused by its use of ratepayer funds to fund the marketing program. The UTC  
6 then approved the cessation of the program. Attached as Exhibit \_\_\_(BF-3) is an  
7 article entitled “Washington Utility Ordered to Level the Playing Field” in the  
8 November 22, 1993, Air Conditioning, Heating and Refrigeration News that  
9 describes the termination of the program. The article describes the cross-  
10 subsidization issue I referenced above, quoting the UTC’s accounting adviser  
11 Merton Lott:

12 “The utility had been told, eight or nine years ago, to change its system of  
13 accounting from ‘incremental allocations’ to ‘fully allocated,’ but had not  
14 done so,” Lott said. “This year, there was pressure from contractors and  
15 consumer groups to eliminate the cross-subsidization.”  
16

17 The appliance program evolved into what is now Washington Energy Services  
18 (WES), which is now a private contractor operating in Western Washington  
19 selling, among others things, various types of heating systems and hot water  
20 heaters, as well as replacement windows and door. They do business, like the rest  
21 of us, on a level playing field.

### 22 III. CURRENT MARKET

23 **Q. Can you describe the current market for appliance sales, including hot water**  
24 **heaters and heating systems, specifically the types of equipment proposed to**  
25 **be leased by PSE?**

1 A. It is a very competitive and robust market. I do not know the number of  
2 competitors precisely, but in my conversations with one of our suppliers,  
3 Genesco, I learned that Gensco, an Tacoma based distributor and manufacturer of  
4 HVAC products (<https://www.gensco.com> ), has more than 1400 contractors that  
5 do at least \$500/month in purchases. One need only look at the yellow pages of a  
6 phone directory, or “google” any number of search terms to realize the large  
7 number of competitors in the market. They range from large contractors like  
8 Sunset, to big box stores like Home Depot and Lowes, too much smaller  
9 contractors run by one or two people.

10 **Q. What about the market for appliance leases?**

11 A. The only leasing of appliances I see in the market is in the commercial sector. I  
12 am not sure why this is. Over the years Sunset has had commercial lease options  
13 available but we have had very little interest in them from our customers.

14 **Q. What about the residential market for leases?**

15 A. I know of no lease program in the residential sector in the State of Washington.  
16 Furthermore, I do not perceive a demand for one in the area we serve.

17 **Q. What types of equipment are sold in the market in Western Washington?**

18 A. The PSE proposed tariff offering includes only a few: five types of residential hot  
19 water heaters (three gas and two electric); four types of commercial hot water  
20 heaters (two gas and two electric); and three types of residential heating and  
21 cooling systems (two gas and one electric). This is just a fraction of the products  
22 available from any number of contractors in Western Washington. There are  
23 literally hundreds of options available, including many different types and brands

1 of equipment, many different sizes, and many options for efficiency and fuel.  
2 There are more options available today than ever before.

3 **Q. What are some of the options you refer to?**

4 A. The website of one of our suppliers, Gensco, shows links to the websites of  
5 various manufactures of Gensco's offered products, most of which are available  
6 to Sunset's customers. <https://www.gensco.com/Products/Products.aspx>. The  
7 options available in the market are discussed in greater detail in the testimony of  
8 John van den Heuvel.

9 **Q. How do new and innovative products come into the market?**

10 A. Such new and innovative products are usually introduced through a distributor.  
11 The distributor typically introduces new products to contractors and together they  
12 bring it to the market.

13 **Q. What are some examples of some innovative products that have come into  
14 the market in recent years.**

15 A. There are almost too many to mention. There are a number of categories of  
16 equipment, such as ductless heat pumps, geothermal heat pumps, variable  
17 capacity furnaces, and various appliances with "zoning" capability. On top of that  
18 there are many electronic devices that can provide the customer with more options  
19 and more control. Remote access wi-fi enabled thermostats are an example;  
20 indoor air quality products are another.

21 **Q. What do you mean appliances with "zoning capability"?**

22 A. Zoning gives the customer the ability to heat or cool a given portion of the house  
23 to a desired temperature. Most conventional heating and cooling systems bring the



1 whole house to one temperature. That can be very inefficient and wasteful. The  
2 concept of zones is not new, but new appliances are capable of really making it  
3 more meaningful. For example, today you can install a ductless system that can  
4 provide individual comfort to many different spaces in a home. However, because  
5 of the different heating or cooling loads in each area, it is important to recognize  
6 that one size does not fit all. A thorough heat loss calculation is very necessary for  
7 proper sizing.

8 **Q. Is such abundant choice important in the market?**

9 A. Absolutely. A one size fits all mentality is not at all applicable today. Today, the  
10 market requires and demands many different solutions, not only to fit the  
11 particular characteristics of individual homes and businesses, but also to meet the  
12 desires of the home or business owners. That is why it is important to have many  
13 providers offering a wide variety of products/solutions.

14 **IV. PSE'S OFFERINGS COMPARED WITH THOSE IN THE**  
15 **UNREGULATED MARKET**

16 **Q. Given the need for customer choice, what is your view of the service offerings**  
17 **in the PSE tariff?**

18 A. In my view, the service offerings by PSE in its proposed tariff are very limiting  
19 for customers and not good for customers. There are more options on the market  
20 now than ever before. Offering just a few, like PSE proposes, would tend to  
21 channel customers away from the more innovative, more efficient, and more  
22 appropriate options.

1 Even the owner of a small home should have abundant choices. Typically, we  
2 provide a homeowner who calls us about a new system with several options.  
3 Depending on the home style, budget, and special needs, we will propose several  
4 variations. These can include single stage furnaces, two stage furnaces, highly  
5 energy efficient variable capacity furnaces (up to 98% in some cases), and just as  
6 many different heat pump configurations. We also may recommend a ductless  
7 heat pump or an in-floor radiant system. This is not to mention the countless  
8 number of accessories available on the market today.

9 The same is true for hot water heaters. There are a variety of sizes, venting  
10 configurations and tank less options available today. What is an appropriate  
11 choice depends on many factors, including configuration of the space where the  
12 appliance must be located, the energy efficiency desires of the customer, and the  
13 size of the house and family.

14 So, I have a concern that the menu of appliances PSE proposes to offer are just  
15 too limiting.

16 **Q. But won't PSE say that they will offer more appliances when this lease**  
17 **program gets off the ground, including some of the ones you mention?**

18 A. That may be PSE's intent, but I do not think "intent" to expand offerings will be  
19 of service for the consumers.

20 I see no way for PSE to expand its appliance offerings to anything close to the  
21 scope of appliance offerings and expertise now on the market. That is in part  
22 because there just so many options available and in part because new products are  
23 coming on the market all the time. Indeed, I meet with one or more sales

1 representatives almost every week to discuss new products that are available. If a  
2 product seems like one that would benefit our customers, we can make it available  
3 to them literally within days. Contrast this with the tariff process that PSE seeks  
4 to use. That process is simply too slow for customers wanting state-of-the-art  
5 equipment.

6 **Q. In your experience, how do customers acquire appliances?**

7 A. Customers typically have a need and or an interest and then they seek out the type  
8 of product they want to acquire. They generally contact more than one vendor to  
9 compare offerings and prices, as well as such things as warranties and service  
10 contracts.

11 In almost all cases, customers purchase through acquiring a bid from a number of  
12 vendors. Various contractors suggest solutions and then offer a price to install the  
13 equipment of choice. This also serves as an education process for the consumer.  
14 Most residential customers follow this path.

15 **Q. Don't customers just buy a hot water heater or a heating system and "plug it  
16 in"?**

17 A. No. That is just too simplistic. Certainly, some hot water heaters are relatively  
18 easy to install. However, heating systems are often complex, requiring custom  
19 installation, including such things as new duct work and engineering. That is one  
20 reason why bids are important – the installation costs can vary significantly, and  
21 customers need to weigh various bids that include installation costs with the basic  
22 cost of the equipment and other factors.

23 **Q. What factors do consumers consider when making a purchase.**

1 A. In my almost forty years of experience, I have found that customers look at the  
2 price of the equipment and the price of the installation (typically quoted together),  
3 reputation of the brand, whether the product has some new or innovative features  
4 that are important to them, energy efficiency, applicable warranties, service  
5 arrangements, the reputation of the seller, the proximity of the seller to the  
6 customer, financing, and whether the contractor is a union shop. There are lots of  
7 variables, and the customer is balancing these and perhaps other factors in sorting  
8 out the numerous options.

9 **Q. Is financing available?**

10 A. We help the customer obtain financing from a manufacturer, credit union, or other  
11 lender. The terms can be very favorable, most recently in the 3 to 3 1/2 percent  
12 range. The manufacturers also offer financing and sometimes are willing to make  
13 an offer that includes 3, 6 and even 12 months the same as cash.

14 **Q. In general, over what time period is the financing, and what is included in it?**

15 A. Besides what I listed above, generally lenders will finance acquisitions for up to  
16 10 years depending on the size of the loan. They finance the cost of the appliance  
17 plus all installation costs, taxes and permit fees. This is in contrast to the PSE  
18 proposal, where the lease rate covers only appliance and "standard" installation.  
19 Any special installation costs must be covered by the customer upfront.

20 **Q. How would that impact customers?**

21 A. It would make it more difficult for customers because in a great many cases there  
22 will be special installation costs. Forcing those to be fronted by the customer will  
23 make it more difficult for them to acquire the appliance. Also, what about costs

1 that are not discovered until the installation process has commenced? This may be  
2 a big problem for the unaware customer.

3 **Q. You said that the price of the equipment and the price of the installation are**  
4 **typically quoted together. Why is that?**

5 A. Typically, the customers really want to know the bottom line and what it will cost  
6 when everything is all installed and in operation.

7 **Q. Do you charge taxes on your sales and on your service contracts? Do you**  
8 **pass on state and local taxes that are imposed on your company?**

9 A. We charge state and local sales tax on the sales of equipment and on service  
10 contracts. We don't charge any state or local utility taxes, because they are not  
11 applicable to our products and services. We do pay state and local business and  
12 occupation taxes and sales taxes, but we do not separately pass those on to our  
13 customers. They are included as part of our overall cost of doing business.

14 **Q. When shopping for heating systems or for hot water heaters, do customers**  
15 **express an interest in ascertaining cost-effectiveness of the various options?**

16 A. Absolutely.

17 **Q. How do customer figure that out?**

18 A. It can be very complicated. It requires knowledge of the current energy efficiency  
19 of existing appliances, the expected remaining lives of the existing equipment, the  
20 options for prices and efficiency of the new equipment, financing costs and  
21 options, and other factors including the cost of the fuel.

22 **Q. In its testimony, PSE indicates that the cost-benefit analysis would be left to**  
23 **the customer. Do you leave it to the customer as well?**

1 A. Ultimately, it is the customer's decision, but we do NOT relegate all the  
2 evaluation to the customer. When we meet with a homeowner, or a business  
3 owner, we spend a considerable amount of time to understand that customer's  
4 needs. That can include whether the customer needs financing or can pay up  
5 front, whether the customer is comfortable doing some of the servicing, such as  
6 changing air filters, whether keeping the existing equipment exposes the customer  
7 to risks of equipment failure, and how important it is to save energy. Once that is  
8 accomplished, we perform an energy analysis to understand the needs of the  
9 home. That can include an evaluation of costs of various installation options, the  
10 size of the house and number of occupants (which can impact what size  
11 equipment), and whether there are other possible solutions, such as more  
12 insulation or new windows.

13 **Q. Is this true with other contractors?**

14 A. I cannot say if all contractors attempt to assist customers in their evaluation of  
15 options, but I know that we do and many other contractors do as well.

16 **Q. PSE proposed to offer only a few equipment offerings to their customers.  
17 Doesn't that make the selection process easier?**

18 A. I suppose that it may be easier to pick among a handful of options, instead of  
19 surveying the entire marketplace. But, as I noted earlier, that would cause a  
20 disservice to customers. Right or wrong, good or bad, many customers trust their  
21 utility. Indeed, in their testimony, PSE witnesses refer to PSE as a "trusted  
22 provider." But in this case, that trust can be self-serving for the utility.

1 Shoehorning customers, with limited knowledge, into a narrow offering can be  
2 detrimental to the customers' interests

3 **Q. PSE contends that by leaving older equipment in place, customers are setting**  
4 **themselves up for a problem with emergency replacement. Is that realistic?**

5 A. I disagree with PSE's argument here for two reasons.

6 First, emergency replacements will happen even for customers who lease  
7 equipment. Equipment sometimes break down. Indeed, the lease program could  
8 lead to a complacency that the lease program will take care of everything so the  
9 customers would not be as concerned about looking after their systems. The  
10 customers would view themselves as being off the hook for looking for, and  
11 attending to, any possible malfunctions. This can be especially true given that the  
12 maintenance schedule built into the PSE program, for some equipment, is less  
13 than what the manufacturer suggests is appropriate. Carrier is one of the major  
14 brands of HVAC equipment. A recent Carrier product manual states this about  
15 the need for servicing furnaces:

16 CARE AND MAINTENANCE

17 For continuing high performance and to minimize possible furnace  
18 failure, it is essential that maintenance be performed annually.

19 Consult your local dealer for maintenance and maintenance  
20 contract availability

21  
22 So, customers may be opting into an inadequate service schedule, thereby  
23 increasing the danger of breakdowns and the need for emergency repairs.

24 Second, the implication is that customers who purchase their equipment do not  
25 have access to emergency repairs. That is simply not true. Most contractors have

1 service technicians on call twenty-four hours a day, seven days a week for the  
2 explicit purpose of handling emergencies.

3 Let me add one thing. The fact that a piece of equipment is older than a certain  
4 date does not mean that it is in the customer's best interest to replace it. It may be  
5 working just fine, and replacement just adds expense that could be avoided. So,  
6 having the utility, trusted by the customer, market a new system with a limited  
7 menu of equipment options to a customer who may not need it can be counter to  
8 the customer's best interest.

#### 9 V. THE "MARKET GAP"

10 **Q. PSE suggests that there is a market "gap" in that there is an unmet need for**  
11 **replacement of HVAC and water heater equipment. What is your response to**  
12 **that?**

13 A. There certainly is not a market "gap." There are many competitors that make this  
14 a robust market. If there is a gap in the market, I don't recognize it. Any gap, if it  
15 exists, can be served by many means in today's broad market offering. There are  
16 more businesses serving the HVAC market today than in any time in my memory.

17 **Q. But what about PSE's concerns that there is equipment being used that is**  
18 **"beyond the useful life" of the equipment?**

19 A. The term "useful life" is not used in a precise manner. If a hot water heater has a  
20 "useful life" of 12 years, that does not mean that a hot water heater operating in  
21 its 13th year is not "useful." There are many automobiles on the road that are  
22 beyond anyone's notion of a normal life for that automobile. But people still  
23 drive them, as the most economic means of transportation.



1 And replacing an older appliance with a newer one does not necessarily lead to  
2 increased energy efficiency. It really depends on the existing appliance. If you  
3 replace an electric water heater with a new electric water heater there isn't a  
4 whole lot of efficiency gain. The same goes with an older gas furnace that may be  
5 90% efficient and you replace it with a new 90+% efficient gas furnace. There  
6 isn't much energy efficiency gain to be had. Contrary to that you might have a  
7 70% efficient gas furnace that is 12 years old and a new furnace could be 90% or  
8 greater in efficiency. Then the operating cost could be dramatically affected.  
9 Again, this is an example of "one size doesn't fit all" contrary to what appears to  
10 be the thrust of the PSE proposal.

11 **Q. PSE produced survey data stating that 25% of customers would be**  
12 **"interested" in leasing a residential hot water heater. Does that support**  
13 **PSE's claim that there is a market need for that service?**

14 A. As discussed in more detail below, I do not think there would be such an interest.  
15 I am confident that if contractors were able to lay out the difference in monthly  
16 cost of leasing a hot water heater and the cost of purchasing one using available  
17 financing, the customers' interest in leasing would diminish.

18 **Q. That same PSE survey indicated that 87% are interested in same-day**  
19 **repairs. Doesn't that support PSE's argument?**

20 A. No. We offer same-day repair service, as do other contractors. What impacts the  
21 promptness of service is how busy the contractor may be, and that is in part a  
22 function of the weather. Contractors working for PSE would be subject to the  
23 same constraint. PSE knows this. When customers lose power, PSE cannot

1 always get service restored the same day. I am sure the same would be true with  
2 their appliance contractors. It's a nice thing to talk about, but it's another to  
3 accomplish.

4 **Q. PSE witness Teller, at page 4 of his testimony, indicates that customers will**  
5 **get “peace of mind” when taking the leasing program. What is your reaction**  
6 **to that assertion?**

7 A. That claim is disturbing to me. I don't know that customers get peace of mind  
8 just because they have a lease deal with a regulated utility versus dealing with an  
9 unregulated contractor. We think that we give customers peace of mind by giving  
10 them good, fair, and consistent treatment they can trust and providing the  
11 equipment and servicing at a fair price.

12 **Q. Let me ask you about the equipment options being offered by PSE.**

13 A. The equipment offerings are very limited in number and type given the wide  
14 range of system options and configurations available in the market today. Indeed,  
15 capacity of heating systems is very limited and may not be adequate for many  
16 larger homes. The concern for consumers, of course, is that they may not have  
17 the optimal options available to them and may settle for something less than  
18 optimal.

19 **Q. What about the fact that some of the offerings are “wifi compatible.” Isn't**  
20 **that cutting edge?**

21 A. At one point it may have been cutting edge. But now it is a fairly standard option.  
22 And even if that capability is not included in the appliance, it is a functionality  
23 that can be added later. For instance, we can add a Wi-Fi communicating

1 thermostat to a system for approximately \$70 to \$100 over the price of a  
2 conventional programmable thermostat.

3 **Q. There is an existing PSE referral process to contractors, is that right?**

4 A. Yes. If a PSE customer contacts PSE inquiring about getting a new furnace, PSE  
5 has a list of contractors to whom it makes referrals.

6 **Q. How does that referral process work?**

7 A. As part of the contractor-PSE agreement, the contractor would have to pay PSE a  
8 referral fee if a customer came to the contractor through a PSE referral. I  
9 understand that the fee is 6% of the entire job. When a customer contacts a  
10 contractor that is on PSE's list, the contractor has to figure out if it was a PSE  
11 referral or if the customer learned of the contractor by other means. And a  
12 customer may not inform the contractor that PSE made the referral.

13 So, as a result, there are times when PSE, after the fact, will tell the contractor that  
14 a given customer was a referral from PSE. This added a cost to the job that was  
15 not part of the initial bid offered to the customer and not something you can  
16 recover after the fact. For some contractors this eats up the net profit they would  
17 have earned.

18 **Q. In his testimony, Mr. Teller argues that the proposed leasing program will**  
19 **make equipment more "affordable" to customers. How do you respond to**  
20 **that?**

21 A. That is simply wrong. As stated below, the overall price of purchased equipment  
22 is less than a long-term lease as PSE argues. Further, PSE would require non-

1 lease costs to be paid up front, such as special or non-standard installation costs.  
2 We can and do arrange financing for those costs.

3 **Q. Mr. Teller also states that the PSE program makes it simpler for the**  
4 **consumer. Do you agree with that?**

5 In a sense, it is easier if one has fewer options. But is that the best for consumers?

6 It is such a limited menu of options, that I do not think it serves the consumer's  
7 interests. The business is more complex than ever, with more options than ever  
8 before, as is demonstrated by the testimony of John van den Heuvel.

9 And navigating the PSE leasing program would not be simple for the customer.

10 A customer seeking to evaluate the full range of options, including purchasing  
11 equipment, would have to interact with various entities. If the contractor referred  
12 by PSE wanted to charge special installation costs, in addition to the "standard"  
13 costs included in the tariff, the customer would either have to accept those or shop  
14 for other bids from other contractors. Further, as I understand it, neither PSE nor  
15 its contractors will help the customers with analyzing the costs and benefits of a  
16 lease versus purchase decision. (Testimony of Jason Teller, Ex. JT-1T, page 6,  
17 lines 13-17.) So if a customer needed help with that economic decision, that  
18 customer would have to seek help elsewhere.

19 **Q. If PSE is allowed to enter this market, what competitive advantages would**  
20 **they have?**

21 A. There are a number. First, I would assume PSE would have access to all its  
22 customers' usage data. It would be an amazing advantage to have that information  
23 in making business decisions.

1 Second, PSE would be able to use its website and billing operation to market their  
2 products.

3 Third, PSE may be able to leverage its reputation as a “trusted provider” and state  
4 that its prices are deemed “fair, just, and reasonable” by state regulators (who also  
5 are trusted by the public) to provide customers with a false sense of getting a  
6 bargain, when they are not.

## 7 VI. COMPARISON OF COST OF LEASE VERSUS COST OF PURCHASE

8 **Q. Have you reviewed PSE’s argument that, based on survey data, many**  
9 **consumers would be interested in leasing HVAC or water heating equipment**  
10 **instead of purchasing that equipment?**

11 A. I have. Contrary to PSE’s assertion, I firmly believe that consumers, if given  
12 accurate cost information, would opt to purchase the equipment instead of leasing  
13 it as PSE proposes.

14 In Data Request No. 028, SMACNA-WW asked for a copy of the survey  
15 questions used by PSE to determine the demand for leasing HVAC products.

16 Attachment A.01 to PSE’s response included the question that was used to  
17 determine the consumer interest in leasing the equipment. Here is the question,

18 with some language that I have emphasized:

19 Instead of purchasing space heating or cooling equipment, imagine you  
20 were given the option to lease the equipment instead.  
21 You would pay a monthly fixed and all-inclusive charge, and *the sum of*  
22 *those charges would be similar to the combined costs of the upfront*  
23 *equipment purchase, installation and permitting fees, maintenance, repair,*  
24 *and future disposable costs.*

25 The leasing program would include:

- 26 • No upfront cost

- Maintenance (repairs and replacement)
- 24-hour customer service
- Same-day repairs
- An energy-efficient product
- The ability to transfer the lease when you sell your home

The contract duration would be 17 years, and the estimated monthly charge is \$60. This is compared to the cost of purchasing the product outright (at around \$1,500, with a \$650 installation cost) and paying for maintenance out of pocket.

The emphasized language tells the respondent that the cost of the lease option would be “similar to” the cost of the sales option. The survey in effect states that paying \$60 per month for 17 years (the sum of payments would be \$12,240) is “similar to” an upfront cost of \$2,150 plus the costs of recommended maintenance.

However, to be fair, I think that PSE made a mistake in its question. I do not think it is realistic for PSE to acquire HVAC equipment for an installed cost of \$2,150. I think that a more reasonable installed cost would be \$4,500. Indeed, in a subsequent survey (provided as Att. A.01 to SMACNA-WW DR 030), a similar survey question used the figure of \$4,750 as an installed cost. Further, the final proposed tariff listed \$58.19 as the monthly lease rate.

So, giving PSE the benefit of the doubt, I will compare the cost of the lease at the tariffed rate of an 80% gas furnace for 17 years to the \$4,500 cost of purchasing such equipment installed.

Assuming financing at 3.9%, which I understand to be a reasonable and available rate, the customer could purchase that equipment outright in 84 months at \$61.30

1 per month. In other words, the purchase would be complete in 7 years, compared  
2 to the 17-year lease rate.

3 There would be maintenance costs in addition, of course. Annual check and  
4 service costs would be between \$75 and \$150 for HVAC equipment.

5 **Q. What about taxes?**

6 A. The purchaser would pay state and local sales tax on the purchase price. If the  
7 sale were in Thurston County, where the combined state and local rate is 8.8%,  
8 the sales tax would be \$396. Compare this to the sales tax on the lease payments  
9 of \$58.19 per month, which be \$5.12 per month. Over the 17-year life of the  
10 lease, that would amount to \$1,044.48.

11 Further, I understand the lease payments (but not the sale) would be subject to a  
12 9% local utility tax. According to PSE's response to SMACNA-WW DR 024 (a  
13 copy of which is filed as Exhibit \_\_ (BF-4), the effect of this tax ("grossed up" to  
14 account for tax on the tax) would be 9.89%. The net of those payments over the  
15 17-year life of the lease would result in another \$1,174 in taxes charged to the  
16 consumer.

17 **Q. So, do you have an opinion about the validity of the question in the survey**  
18 **discussed above?**

19 A. Yes. There is no way that one can say that the cost of the lease option over time,  
20 as proposed by PSE, is "similar to" the the cost of a purchase plus recommended  
21 maintenance on that equipment. In other words, the survey did not communicate  
22 accurate cost information to the customer.

23 **Q. Have you analyzed other lease versus purchase options?**

1 A. Yes, attached as Exhibit \_\_\_(BF-5) is a table showing various purchase and  
2 financing options as compared to the lease options listed in PSE's proposed tariff.  
3 Again, this table does not include the effect of taxes.

4 **Q. Does this conclude your testimony?**

5 A. Yes, it does.