

**EXHIBIT NO. \_\_\_(JvdH-1T)  
DOCKETS UE-151871/UG-151872  
PSE EQUIPMENT LEASING SERVICE  
WITNESS: JOHN VAN DEN HEUVEL**

**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  
JOHN VAN DEN HEUVEL  
ON BEHALF OF SMACNA-WW**

**June 7, 2016**

**SMACNA-WW**

**DIRECT TESTIMONY OF  
JOHN VAN DEN HEUVEL**

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1 **I. INTRODUCTION**

2 **Q Please state your name and your position.**

3 A My name is John van den Heuvel. I am the Vice President of Supplies and Sales  
4 at GENSCO, an HVAC Distributor serving the states of Washington, Oregon,  
5 Montana, Idaho, and Alaska. I work out of the main distribution center in Fife,  
6 Washington, which serves all five states.

7 **Q What has been your role in the HVAC industry?**

8 A I have worked at GENSCO for 37 years. During that time, I have been part of  
9 several Manufacturer’s Distributor Advisory Councils, including Honeywell, Heat  
10 and Glo, Trane and, most recently, Mitsubishi. These councils are designed to  
11 understand the changing needs of consumers and to devise and create products  
12 and programs that provide solutions for those consumers.

13 **Q Please describe GENSCO, its role in the HVAC industry and its relationship**  
14 **to contractors and others selling HVAC Equipment?**

15 A GENSCO is a “One Stop Shop” HVAC Distributor, providing almost everything  
16 an HVAC contractor would need to complete a Residential or Commercial HVAC  
17 installation.

18 **Q Can you provide some idea of the size and scope of GENSCO’s operation?**

19 A. Yes. Our Fife Distribution Center includes 436,034 square feet of warehouse  
20 space. We receive equipment from manufacturers and then ship it to contractors  
21 with whom we do business. We provide approximately 30% of the equipment  
22 sold in our trading area.

23 **Q How to you know that?**

1 The manufacturers of HVAC heating and cooling products report their shipments  
2 of units to the distributors in each market, specified by product family and by  
3 “efficiency rating”. The Air Conditioning, Heating & Refrigeration Institute  
4 (AHRI) gathers this data to provide accurate, objective “market share”  
5 information.

6 **Q What equipment does GENSCO stock and distribute?**

7 We stock all types of HVAC Equipment, including gas furnaces, heat pumps,  
8 ductless heat pumps, and air conditioners from the following manufacturers:

9 Trane, American Standard, Rheem and Ameristar for gas furnaces, air  
10 conditioners, and heat pumps, and Mitsubishi for ductless heat pumps.

11 GENSCO also distributes installation supplies. These encompass everything an  
12 HVAC contractor would use in the installation of HVAC Systems and water  
13 heaters, including ductwork, venting, linesets (which carry refrigerant from the  
14 outdoor HVAC unit to the indoor unit), pads, condensate pumps, etc.

15 GENSCO has between a 40% and 55% market share in installation supplies  
16 throughout our trading area, though it varies depending on the specific area. This  
17 is a subjective measure, based on interviews done with the manufacturers (our  
18 suppliers) on their market share and our portion of that.

19 **II. HVAC MARKET IN WESTERN WASHINGTON**

20 **Q Are there other brands of HVAC equipment in the market in Western**  
21 **Washington?**

22 A. Yes, a number of them, but they are distributed by other companies.

23 **Q Does GENSCO also distribute hot water heaters?**

1 A. Yes. However, we are a minor player in the traditional hot water (tank) heater  
2 market. By “traditional” I mean water heaters that simply heat water and keep it  
3 heated at all times, even when there is not a demand for it. However, we are a  
4 reasonable-sized player in the efficient tankless water heating business.

5 **Q Please describe tankless hot water heaters.**

6 A Tankless heating solutions provide high efficiency and do not heat water without  
7 any demand. This segment of the marker is growing dramatically, as consumers  
8 understand the waste associated with heating water just “in case” they may have  
9 to use for it.

10 **Q Please describe the current market for HVAC products, both electric and**  
11 **gas, in the Puget Sound Energy service territory.**

12 A. The current market for HVAC products, both electric and gas, in Western  
13 Washington, essentially the Puget Sound Energy service territory, is competitive  
14 and robust, due to the number of contractors providing an extensive variety of  
15 HVAC solutions to those consumers. There is no unmet demand.

16 **Q Do you know the number of HVAC contractors doing business in the PSE**  
17 **service territory.**

18 A Yes, I have researched that question. Using zip codes that match the counties in  
19 which PSE does business, there are over 1400 contractors. These range in size  
20 and are broken down as follows:

- 21 • 633 contractors buying between \$500 and \$1000 worth of product
- 22 from GENSCO each month;

- 1                   • 517 contractors buying between \$1,000 and \$5000 of product each  
2                   month; and  
3                   • 260 contractors buying \$5000 or more worth of product each month.

4                   These dollar figures are wholesale prices, not the retail prices the contractors  
5                   charge to their customers.

6                   **Q     Let’s explore the evolution of the market for HVAC equipment. What was  
7                   the market like when you got into this industry?**

8                   A     Back in 1979 when I first started in this industry, the choices on HVAC  
9                   equipment were very limited for consumers. Standard equipment included a  
10                  standing pilot gas furnace (with an efficiency less than 70%), oil furnaces, and a  
11                  fledgling heat pump. The latter was quite inefficient, but it offered cooling. We  
12                  also had the standing pilot tank water heater  
13                  There were not any choices of efficiency, comfort, sound, quality, reliability, and  
14                  longevity of systems. The manufacturer made the equipment, and the customers  
15                  just chose among the very few options that were available.

16                  **Q     How has that evolved to today?**

17                  A     In today’s consumer market, in which HVAC is a significant segment (as the  
18                  consumer’s 3<sup>rd</sup> largest purchase in their life usually falls under this market  
19                  segment behind buying a house and buying a new car), the solutions for HVAC  
20                  have grown dramatically and the pace of new options is mind-boggling. Further,  
21                  the consumer now is a driving force in what the manufacturers make. This is  
22                  driven in part by the Internet, which has given the the consumer the unique ability

1 to conduct research and learn of options for different solutions to their heating,  
2 cooling, comfort and healthy indoor climate needs.

3 **Q Give us a picture of the number and types of options available today.**

4 A The list includes many different types of heating and cooling equipment and hot  
5 water heating equipment. There are “zoned system” and those with “traditional”  
6 zoning. There is equipment with controls to allow programming, even remote  
7 programming. There is a full array of options for indoor climate control,  
8 including air cleaning (electronic and media filters) and pathogen eradicators  
9 (plasma ionizers and ultraviolet), humidification and dehumidification. I don’t  
10 believe that these system enhancements are included in the PSE tariff, and some  
11 of these are installed on almost every HVAC installation. It would seem that this  
12 cost would be paid separately by the consumer to the installing HVAC contractor,  
13 which creates additional complexity compared to any other HVAC transaction  
14 today.

15 The following table summarizes the products we carry and are supplied to us by  
16 Trane, American Standard, Rheem, Ameristar and Mitsubishi. This list includes  
17 just the main equipment, not accessories. The term “SKU” stands for “stock  
18 keeping unit” which simply means individual types of equipment.

<b>Type of Equipment</b>	<b>Number of Product Families</b>	<b>Number of SKUs (individual products)</b>
Gas furnaces	30	389

Air conditioners	23	126
Heat pumps	23	121
Air handlers	20	113
Ductless heat pumps	30	233

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In other words, we offer over 980 individual products that are available to consumers to day. And this product offering continues to expand. Please understand, that this is a synopsis of the brands that we offer, which, as I indicated above, covers 30% of the Unitary HVAC residential market. This means that there are at least **three times as many options available** when we include the other brands that consumers have access to today.

Filed with my testimony are Exhibits Nos. \_\_\_ - \_\_\_ (JvdH-2 through 6) are current product lists for Rheem, American Standard, Ameristar, Mitsubishi, and Trane, respectively.

**III. DUCTLESS HEAT PUMP SYSTEMS**

**Q Please describe the evolution of ductless heat pump systems in the market.**

A In 2007 in our trading area ductless heat pumps represented 5% of all HVAC installed systems. In 2015, this market segment was 25% of all HVAC installed systems. And that market segment continues to grow.

**Q Do you have an opinion as to why we are seeing such large growth in the ductless heat pump market in Western Washington?**



1 A We can debate about why this is the case, and, no doubt, some of the electric  
2 utility rebates have helped. However, here are some other facts:

- 3 • The Northwest Energy Efficiency Alliance (NEEA) is an alliance representing  
4 140+ Northwest utilities to accelerate the innovation and adoption of energy  
5 efficient products in the Pacific Northwest
- 6 • NEEA reports that in 2015, 9,539 ductless systems were rebated in our five-  
7 state trading area. However, for that year, AHRI reports that 42,402 ductless  
8 units went into that trading area.
- 9 • This means that one unit in four was sold with the aid of a rebate and **three**  
10 **out of four (75%) were sold by HVAC contractors based strictly on the**  
11 **merits of the product.**
- 12 • These ductless systems offer zoned solutions, which means that various parts  
13 of the house can be conditioned (heated or cooled) as the consumer decides  
14 without the necessity to heat or cool the entire dwelling.
- 15 • The systems are extremely efficient and are shown in AHRI in the highest  
16 efficiency category under heat pumps.
- 17 • In 2007, there were basically three main suppliers of this product to the US  
18 market: Mitsubishi, Daikin, Fujitsu
- 19 • Today, there are approximately 30 suppliers of these products in the US  
20 market

21 Consumers want choices, and their demands for solutions have driven  
22 manufacturers to make products to solve the consumer's needs. The ductless  
23 example above is how a robust market is created where a variety of contractors

1 and a variety of manufacturers (brands) set out to give the consumer what they  
2 need and what they deserve.

3 **Q How does this history of the expansion of the ductless heat pump market**  
4 **relate to PSE's proposed lease tariff?**

5 A In my opinion the PSE proposal would limit the choices that the current  
6 unregulated market provides. The tariff offers very limited choices for the  
7 consumer in both brands and solutions. Some of the most innovative products,  
8 such as the ductless heat pump with zoned solutions, is not on the limited menu of  
9 options that PSE proposes to offer. It seems to me that this unduly limits the  
10 choices for consumers, no matter if they are educated, internet savvy, or not!  
11 Consumers in America expect and deserve choices, and this proposal undermines  
12 that expectation. In addition, and perhaps more distressing to a consumer who  
13 uses both electric and natural gas provided by PSE, is the fact that they may not  
14 be offered the best solution for them, but instead a convenient solution for the  
15 utility. This should not be allowed to happen.

16 **IV. NEED FOR LEASING SERVICES IN PSE SERVICE TERRITORY**

17 **Q. Please describe your understanding about the need for leased HVAC or hot**  
18 **water heater equipment in the PSE service territory.**

19 A I do not believe that there is a need for a leasing service. Consumers are savvy  
20 when it comes to buying something that's going to last for 10 to 15 years, their  
21 research of products, benefits and solutions they will be receiving, and also on  
22 financing options.

1 Financing is a natural part of consumer purchases today, and consumers, if they  
2 need to finance, will go to a credit union or use a financing option provided by the  
3 contractor which is through a third party company. The manufacturers of HVAC  
4 gear (Trane, AMS, Rheem, Lennox, Carrier, Mitsubishi, etc.) offer programs that  
5 “buy down” the interest rate, making it easier for consumers to buy their product.  
6 Also, it is becoming more prevalent that the consumer will access the equity of  
7 their home to make improvements to their home via a second mortgage and that is  
8 at a very reasonable interest rate, where their utility savings with their new HVAC  
9 system, will help them make that payment.

10 **Q Does this conclude your testimony?**

11 **A Yes.**