EXHIBIT NO. ___(EEE-6)
DOCKETS UE-151871/UG-151872
PSE EQUIPMENT LEASING SERVICE
WITNESS: ERIC E. ENGLERT

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

THIRD EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED REBUTTAL TESTIMONY OF ERIC E. ENGLERT ON BEHALF OF PUGET SOUND ENERGY

JULY 1, 2016

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

W. W. Cole, et al., Plaintiffs, vs. WASHINGTON NATURAL GAS COMPANY, Defendant.	)	CAUSE NO. U-9621 BRIEF ON BEHALF OF COMMISSION STAFF

PRELIMINARY STATEMENT

The material submitted herein will be confined to particular issues. The most basic will go to the question of the jurisdiction of this Commission over the lease or the rental of appliances. This relates to a number of issues raised by the amended complaint. Secondly, we will discuss the propriety of the "Dry-Out" rate prescribed in Schedule 55 of the tariff filed by Washington Natural Gas Company

At the outset it should be noted that we do not at this point take issue with the concept of an appliance rental program nor with the rental charges connected therewith except to the extent that such charges have been demonstrated on this record to be insufficient to recover associated costs. We do assert that the rental program is nothing more or less than merchandising or jobbing and should therefore be held pursuant to RCW 80.04.270 to be non-jurisdictional, subject to the economics of the marketplace and such laws as might bear on economic enterprises of this character.

We believe the dry-out rate to be inappropriate in that it is justified on this record on a cost basis which is inconsistent with sound regulatory rate making techniques. In addition, we urge the Commission to examine this rate in light of statutory prohibitions against rate discrimination, and undue preference and prejudice. Whether a gas distribution company should be permitted to offer with regulatory sanction a clearly promotional rate of this character is not presently before the Commission. However, the amended complaint does raise the issue of justification for the rate levels prescribed in Schedule 55 and it is to this question that our comments will be devoted.

LEASE-RENTAL PROGRAM

By RCW 80.01.040 the Commission is charged with the duty to regulate in the public interest the rates, services, facilities and practices of all persons within this state engaged in the business of supplying any utility service. At first blush it might seem that the sale or rental of appliances would be a service or practice falling within this broad framework of jurisdiction. However, it is clear that the legislature has seen fit to impose specific limitations on this grant. Among them is the language of RCW 80.04.270 which provides as follows:

> "Any public service company engaging in the sale of merchandise or appliances or equipment shall keep separate accounts, as prescribed by the commission, of its capital employed in such business and of its revenues therefrom and operating expenses thereof. 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."

It is clear from a long and well established line of cases that the Commission would not have jurisdiction to prohibit a utility company from merchandising such materials as might contribute to its proper utility functions. Capitol Gas and Electric Co. v. Boynton, 22 P. 2d 958 (Kansas-1934); State v. San Antonio Public Service Company, 69 S.W. 2d 38 (Texas-1934); Associated Contractors v. Arkansas, Louisiana Gas Company, 283 S.W. 2d 123 (Arkansas-1955). In addition there are many regulatory agency decisions holding that such agencies do not have the authority to restrict merchandising activities of a utility.

On the other hand, these merchandising activities are not entitled to the protection afforded by regulation. In the State of Washington the legislature by the above-cited section has declared specifically that the merchandising or jobbing functions performed by a public service company are non-jurisdictional. The net effect is to provide that whatever gains are derived from these activities operate to the benefit of shareholders. Any losses arising from such activities are not to be intermingled with rates charged to rate payers for utility service they require and to which they are entitled but shall be absorbed by the corporate stockholders.

There is no question whatsoever that the sale of a range, refrigerator, circulating heater, conversion burner unit

or water heater fall within the scope of the merchandising statute. In point of fact they are so treated by the company. The sole issue before this Commission insofar as the determination of its jurisdiction is concerned is whether the leasing of such property exempts the placement of gas burning facilities within a consumer's home from the otherwise applicable statute. We submit as a practical and a legal matter there is no distinction worthy of merit which would justify regulatory status for the lease of an appliance and a laissez-faire economic status where the same appliance is sold.

up to legislature.

As observed by Mr. Thorpe at page 1371 of the transcript, it is the primary purpose of the company to sell gas. With this we most heartily concur, and suggest that this is the utility function over which the legislature has given the Commission jurisdiction as to rates, services, facilities and practices. Under RCW 80.04.270, the disposition of merchandise, appliances, or equipment is not a utility function subject to Commission jurisdiction. The term "appliance" is defined by Webster's Third International Dictionary as follows:

> "(c) A tool, instrument, or device specially designed for a particular use; (d) a household or office utensil, apparatus, instrument, or machine that utilizes a power supply."

This does not make rental a sale.

Mr. Poor at pages 1724 and 1725 agreed that a circulating heater was a gas appliance. He also stated that a conversion burner would be an appliance and we suspect there can be no honest difference of opinion that a hot water heater is equally an appliance.

No confusion exists in the minds of the manufacturers providing these appliances to the company. Mr. Forrest Nelson, who appeared on behalf of A. O. Smith Company, stated when his company sold an automatic hot water heater to Washington Natural Gas Company, it was selling merchandise. (Tr. 784). Mr. Carl F. Peterson, described the relationship of his firm, which manufactures conversion burner units, to its local distributor and thence to the gas company, as one of manufacturer to wholesaler to retailer. (Tr. 1031). The company itself makes no differentiation in terms of practices where an appliance is leased rather than sold. Mr. Vaughn's testimony shows that sales are encouraged only when a sales promotion is going on, and further stated that insofar as his department (sales) is concerned, its functions are the same whether the appliance is leased or sold. (Tr. 441-442).

Since the inception of the leasing program, leases have virtually displaced sales of the particular appliances in question, a fact to which Mr. Poor testified specifically (Tr. 1722). This displacement is demonstrated by Exhibit 21 in which an analysis of the sales-lease ratio is presented as to conversion burner units, circulating heaters and automatic hot water heaters. To the extent pertinent, the exhibit may be summarized as follows:

EXHIBIT 21

(Sheet 1) Conversion Burner Units

Year	Sales	(Pct)	Leased	(Pct)
1961	153	7.0%	2,042	93.0%
1962	89	4.5%	1,871	95.5%
1963	83	2.8%	2,903	97.2%
1964	90	3.7%	2,342	96.3%
1965	105	5.3%	1,859	94.7%
1966	135	7.8%	1,631	92.2%

(Sheet 2) Circulating Heaters

1964	907	32.3%	1,897	67.7%
1965	573	15.9%	3,020	84.1%
1966	667	22.4%	2,380	77.6%

(Sheet 3) Hot Water Heaters

1964	1,615	60.7%	1,045	39.3%
1965	1,348	33.8%	2,636	66.2%
1966	850	22.3%	2,956	77.7%

It would be easy to speculate on the reasons for the pouplarity of this program, but the fact of sale displacement by leasing is not speculative. Leasing has been shown to be yet another method, related generically to sales, of placing merchandise, appliances, or equipment in the home of a gas consumer. It is inconceivable that such placement by sale should be non-jurisdictional, and the more modern methods which have virtually superseded it would exist and prosper under the protective aegis of this Commission.

The basic document in support of the rental charges prescribed by the company for lease service is Exhibit 42, which purports to show revenues and costs of the leasing program independent of gas revenues. In our judgment, it is improper to consider gas revenues in connection with the leasing of appliances

which must stand or fall on its own relative merits. One of the issues before the Commission in this proceeding is whether gas rate payers are subsidizing the lease-rental program. In order to make this determination, it is essential that the leasing practices be evaluated independently of what the placement of an appliance might be expected to produce in other revenues.

The expense column of Exhibit 42 is a masterpiece of understatement. Among relatively minor items excluded from the expense presentation of Mr. Thorpe are (1) promotional (advertising) expenses, although Mr. Thorpe agreed that a portion of the promotional efforts of the company are not only to build gas loads, they are also to place gas burning equipment in the homes of its customers (Tr. 1372); (2) clerical and supervisory expenses associated with maintenance functions (Tr. 1474); and (3) sales expenses associated with the rental program on the theory that none of the compensation paid to salesmen is for the physical act of getting a consumer to place an appliance in his home (Tr. 1368). Yet the record shows that sales employees of the company are paid commissions and bonuses for placement of leased facilities, and that outside installers receive commissions when they turn over a customer to the company for placement of a leased appliance.

Of greater significance was the exclusion from the portrayal in Exhibit 42 of $5.40 in annual customer and maintenance charges (Tr. 1476) covered by Account 879 (Service to Domestic Customers) of the Uniform System of Accounts for Class A

and B Gas Utilities, which have been adopted by this Commission as the accounting standard. Addition of this maintenance and service charge to the $1.09 actually employed by Mr. Thorpe in the construction of Exhibit 42 would produce an annual maintenance cost of $6.50 (Tr. 1476). This exclusion was justified on the theory that the $5.40 cost is incurred for all domestic customers whether they own or rent their equipment (Tr. 1477). Yet, Mr. Thorpe conceded that functions performed by company personnel and otherwise chargeable to Account 879 could readily be identified with the object being maintained (Tr. 1493). That being so, the maintenance charges identifiable with the rental program should properly be charged to that program. The exclusion of this cost item results in a pronounced understatement of the expenses associated with rentals. Inclusion of this amount in Exhibit 42 would have produced operating expenses in the amount of $22.94 against revenues of $23.40 for conversion burner units, for a net annual operating income of $0.56, and a resultant net operating income stated as a percentage of Average Net Investment (Rate of Return) of 0.33%. Inclusion of other cost elements previously discussed would unquestionably produce a negative rate of return.

The plant investment depicted for rental customers is similarly understated. It was established that the average distribution system investment per customer is approximately $650.00. Yet the only part of the distribution plant included in the calculations of Exhibits 41 and 42 were the reinforcement plant consisting of service line, meter and regulator set

installed to implement the program. At page 1363 Mr. Thorp agreed had he included general distribution plant it would have had the effect of increasing the portrayal of total plant investment on Sheet 3 of Exhibit 41.

The inconsistency of the company's approach in omitting any allocation of distribution plant (as distinguished from general plant) is demonstrated by Mr. Poor's testimony that the purpose of the rental program was to increase customer saturation on the existing system (Tr. 1683), and by Mr. Thorpe's responses to questioning regarding such omission as follows:

> "Q. So, whereas the effect of the lease program was to in effect increase the number of customers on the line and to increase the load factor and to spread the cost of the plant and the investment amongst a greater number of people and the expenses attributable thereto, you nonetheless feel that it is improper for the purpose of determining the cost attributable to the lease program to attribute any portion of the gas plant in or mains underground to the lease program, is that correct?
>
> "A. The only items of plant underground that should be attributed to the lease program are those items that were added because of the lease program. These include the service lines, the meters and regulators, the distribution system reinforcement plant, that was added by the company to take care of the increased send-out required by these customers.
>
> "Q. Yes, I understand your testimony as to what you've done. But your answer would be yes, then, you did not feel it necessary to allocate any of the other costs of the underground plant to such lease customers; is that correct?
>
> "A. That's correct. The only other item of

> plant included in these exhibits was distribution system reinforcement plant which represented the average additional investment per customer required in the distribution system for the peak day requirements of each rental appliance (Tr. 1389-1390)."

In order to accomplish the objective of better utilization of existing systems and spread the cost of the plant and investment among a greater number of people, it is totally inconsistent to employ an incremental cost approach thus exempting the rental customer from the obligation to absorb any allocable cost of the general distribution system from which he derives his service. The fatal defect in the manner in which the company has approached its cost analysis of the rental program is demonstrated at pages 1576 through 1578 of the transcript. Through exclusion of any distribution plant allocation the customer on the rental program may connect to an existing main and the only costs to which he is expected to contribute per company exhibits in this proceeding are those increments occasioned by reinforcement of the plant to which he will attach himself. According to the testimony of Mr. Wood he can do this any time after six months and the only charges against him reflected in the exhibits would be necessary reinforcement and service line, meter or regulator sets and an allocation to some extent of the general plant from which he benefits (Tr. 1576-1577). While admitting that the company stockholders expect a reasonable rate of return on distribution plant, Mr. Wood, following the

lead of Mr. Thorpe, does not see fit to charge any part of distribution plant investment to the rental customer (Tr. 1577-1578).

February 17, 1967, the Idaho Public Utilities Commission issued its Order No. 8500, in its Case No. U-1034-20, which involved the propriety of a gas equipment rental tariff sought to be approved by Intermountain Gas Company. The commission made the two following ultimate findings of significance in the present controversy:

"II.

"THAT The rental of appliances as proposed by the Respondent is not a necessary function of Respondent's operation as a public utility."

"V.

"THAT Rate Schedule REP-1 Gas Equipment Rental Service should be removed from the tariffs on file with this Commission, since the gas equipment rental activity of the Respondent is a non-utility function."

The Commission is also referred to a comprehensive discourse entitled "Regulatory Policy and Promotional Practice" which discusses jurisdictional aspects of rental programs presended by Henry Lippitt, 2nd, at the Western Conference of Public Utilities Commissioners at Lake Tahoe, Nevada, on June 14, 1967, and appearing in Gas Magazine, October 1967, commencing at page 61, in which an excellent rationale for holding such activities to be non-jurisdictional is set forth. We concur with the observations made therein, and with the result reached by the Idaho Commission, and urge that this Commission reject

lease-rental merchandising as a matter falling within its regulatory jurisdiction.

The merchandising statute adopted by the legislature (RCW 80.04.270) is subject to reasonable construction. We submit that "sales" should be construed by this Commission to mean sales and other similar methods of disposing of appliances and placing them within the homes or businesses of subscribers to utility service. The record demonstrates that as a practical matter it makes no difference whether an appliance is sold or leased. The record also shows conclusively that leasing has virtually displaced sales since it was initiated in 1961 for conversion burner units and for circulating heaters and hot water heaters since this methodology came into existence in 1964.

The Commission should not permit a narrow construction of the merchandising law to thwart the purpose and intention of the legislature to make non-jurisdictional the placement of appliances. The clear legislative intent was to permit utilities to merchandise appliances in competition with other retail outlets for the same appliances but at the same time preclude the investment, expenses and revenues associated with such enterprises from entering the utility operating statement of a public service company. The record shows that there are many distributors of conversion burner units, water heaters and circulating heaters in their service area with whom Washington Natural Gas Company is in active competition in the merchandising of gas burning appliances. The competition between Washington Natural Gas and

these distributors should be dictated by the law of the marketplace and no one of these distributors should be entitled to the protection afforded by the public service laws. This is particularly true where it appears on the basis of the record made here that costs associated directly with the lease-rental program are not being recovered under the rates prescribed for the appliances rented. The basic function of the company is to provide a necessary utility service. This is jurisdictional and the revenues derived from the sale of gas should neither be enhanced nor diluted by investment in merchandising or jobbing functions.

The complaint herein, insofar as it relates to the rental of appliances, should be dismissed for want of jurisdiction, and the company directed to remove schedules purporting to set rates and conditions for this service from their tariffs on file with this Commission.

DRY-OUT RATE

RCW 80.28.100 provides in pertinent part as follows:

> "No gas company . . . shall, directly or indirectly, or by any special rate, . . . charge, demand, collect or receive from any person or corporation, a greater or less compensation for gas . . . or for any service rendered or to be rendered, or in connection therewith . . . than it charges, demands, collects or receives from any other person or corporation for doing a like or contemporaneous service with respect thereto under the same or substantially similar circumstances or conditions."

RCW 80.28.090 provides in part:

"No gas company . . . shall make or grant any undue or unreasonable preference or advantage to any person, corporation, or locality, or to any particular description of service in any respect whatsoever, or subject any particular person, corporation or locality or any particular description of service to any undue or unreasonable prejudice or disadvantage in any respect whatsoever."

As pointed out in our preliminary statement, we urge the Commission to examine the rates in Schedule 55 of the tariffs filed by Washington Natural Gas Company, designated "Special Heating and Dry-Out Rate" in light of these statutory prohibitions, and in light of rates prescribed for residential space heating set out in Schedule 23 of the same tariffs. Among the factors which should be considered by this Commission in weighing the propriety of the rate levels as filed are (1) whether the peak energy demand for this service is coincident with the total system peak; (2) whether the uses for which gas is employed under this service is substantially similar to the uses for which charges are made under different rate schedules; (3) compare quantities of gas used; (4) the manner of service; and (5) the respective cost of furnishing the service. See: State ex rel. Model Water and Light Company v. Department of Public Service, 199 Wash. 24, 90 P. 2d 243 (1939); Ford v. Rio Grande Valley Gas Company, 174 S.W. 2d 479 (Texas-1943); Re Springfield Gas Light Company, 1 PUR 3d 65 (Mass.-1953); St. Michaels Utility Commission v. The Eastern Shore Public Service Company of Maryland, 63 PUR 3d 377, 65 PUR 3d 142 (FPC-1966).

If there is any unanimity in this record, it is in the fact that the system peak for the company is in the winter-time. Mr. Thorpe so testified (Tr. 1349-50), as did Mr. Ashby (Tr. 1168), and Mr. Poor concurred in the suggestion that the load structure under the dry-out schedule and residential space heating are similar (Tr. 1727). With this in mind, we may note that the dry-out rate is a uniform 7.4¢ per therm regardless of time or quantity of use, and show the following rate calculations for consumption up to 1000 therms under Schedule 23:

October-June (Peak)		July-September (Off-peak)	
First therm	$1.11	7 therms	$1.11
49 therms @ 13.4¢	6.57	43 therms @ 13.4¢	5.76
50 therms @ 11.7¢	5.85	50 therms @ 11.7¢	5.85
900 therms @ 10.9¢	98.10	900 therms @ 10.9¢	98.10
	$111.63		$110.82

The end rate set out in this schedule is 7.7¢ per therm, regardless of time of use. Thus the residential user never reaches a rate equivalent to the dry-out rate, no matter how much gas he uses. He does, however, realize a reduction of up to 81 cents in his monthly bill for off-peak consumption. Since this saving takes place in the second step of the rate, this 81 cents can be realized with consumption of 50 therms, making his bill $6.87 for 50 therms (13.7¢ per therm) during the summer months as opposed to $7.68 (15.4¢ per therm) at higher demand periods. On the other hand, for the same 50 therms of gas, on or off peak, the builder pays $3.70 under Schedule 55, less than half the residential rate at peak. Expanding the same calculation to 1000 therms consumption, we find that a residential customer pays $111.63

(11.2¢ per therm), while the builder is paying $74.00. We may observe in passing, that gas provided under Schedule 55 is firm gas (Tr. 1727), as is gas provided for residential space heating.

Comparison of Exhibit 38 with Column 2, sheet 2 of Exhibit 41 shows that the residential space heating consumption follows the same pattern as service under the dry-out schedule. For the six winter and spring months, January, February, March, April, November and December, the usage depicted on Sheet 2 of Exhibit 41 for residential space heating is 1,045 therms. Exhibit 38, Column 4, for the same periods shows an average delivery of 1,068 therms. In terms of annual consumption the figures are again remarkably similar. The average heating use for conversion burner units depicted on Exhibit 41 is 1,345 therms as opposed to 1,362.7 therms delivered to the average dry-out customer. These figures indicate that 78.4% of the gas sales for dry-out purposes take place when the firm gas demands are at their highest. This may be compared with 77.7% of space heating consumption during the same periods. Continuing the comparison between the dry-out rate and residential space heating loads we present the following table extrapolated from consumptions shown on Exhibit 38:

MONTH	THERMS	SCHEDULE 23		SCHEDULE 55	
January	204.6	$24.93	(12.2)	$15.14	(7.4)
February	201.3	24.57	(12.2)	14.90	(7.4)
March	183.1	22.59	(12.3)	13.55	(7.4)
April	145.4	18.48	(12.7)	10.76	(7.4)
November	112.3	14.87	(13.6)	8.31	(7.4)
December	221.3	26.75	(12.1)	16.38	(7.4)

These differentials appear in the tariffs in spite of the fact that the same firm gas is being supplied under both schedules at maximum demand periods, the same plant is in use, service is via the same type of appliance, the only distinction between them being one is used to dry out plaster and the other is devoted to more humanitarian purposes, an arbitrary distinction at best.

At page 1728 of the record, Mr. Poor expressed his belief that the residential space heating rates are justified on a cost basis. We take this to mean that this rate is calculated to recover what would amount to fully distributed costs associated with the service including the cost of gas, various overheads, and allocations of general and distribution plant, together with a reasonable return on invested capital. The differential between the 7.4 cents per therm for dry-out purposes and the space heating rates for occupied premises is compensation to the company for recovery of these costs.

Using the latest figures available, Mr. Ashby computed the 1966 cost of gas to Washington Natural Gas Company at 5.23¢ per therm (Tr. 1161). Deducting this from the prescribed dry-out rate leaves a differential of 2.17¢ per therm available for contribution to expenses and a return on investment. Mr. Wood calculated the average investment in distribution mains required for Washington Natural to add a residential customer on a new main extension of $352.00 (Tr. 1532). At 2.17¢ per therm, it would require the sale of 16,221 therms

of gas just to recover such an installation cost necessary to make a connection. At an average annual consumption of 1,362.7 therms (Ex. 38) it would take nearly 12 years to recoup this incremental investment, disregarding all other items of direct cost or other cost items properly allocable to the service contemplated under Schedule 55. At the 1964 gas cost figures depicted in this record (5.61¢ per therm) the margin would be even smaller.

Mr. Poor declined to assert that the dry-out rate covered its associated costs, but justified the rate on an incremental cost theory (Tr. 1729). In the economics of public utility rate making, the term marginal cost is substituted for incremental. Marginal costs are generally accepted as the setting of peak prices to reflect peak responsibility and expansion costs. It is obvious on the basis of this record that the dry-out rate does not reflect peak responsibility and expansion costs.

It was observed by William G. Shepherd in an article entitled "Marginal Cost Pricing: First Steps in American Electric and Telephone Rates", Public Utilities Fortnightly, July 21, 1966, at page 19:

> "The space heating and industrial power taken at system peak periods may cost the user only one cent per kilowatt-hour or less, while its real cost may be many times higher. On economic grounds, the widespread low rate for space heating and other uses which are likely to come at peak times are particularly suspect. Only too well they seem to increase peak consumption and required capacity."

See also Davidson, Price Discrimination in Selling Gas and Electricity, Johns Hopkins Press, 1955, pages 150-151.

Since this record expresses the belief that residential rates are justified on a cost basis we may concern ourselves for the moment only with the dry-out rate under Schedule 55 and observe that usage under this schedule does come on at peak time and is therefore particularly suspect since it undeniably increases peak consumption and required capacity.

As noted Mr. Poor attempted to justify the dry-out rate on an incremental cost theory. The incremental cost approach used by Washington Natural Gas to justify the dry-out rate is not properly applicable to peak deliveries. The Commission is once again referred to the remarks of Henry Lippitt, 2d, who made the following astute observation as to the use of marginal or incremental costing at peak times. These observations have been published in Gas Magazine, October 1967, at page 61:

> ". . . Competition between gas and electric utilities involves not only rates for firm service, but off-peak electric rates, or interruptible industrial valley gas rates based on out-of-pocket cost plus a contribution to overhead and other costs. Thus, an electric utility which has a summer peak, will normally try to sell electricity for space heating to achieve greater utilization of its facilities and to increase its profits. A gas utility will try to sell 'summer' or 'weekend' valley gas. The normal practice in this connection is for the gas or electric utility to have a low 'tail' rate in its block rate schedule. As long as these off-peak rates result in incremental revenues in excess of incremental costs,

they would seem to be proper. This incremental cost approach for measuring the economic desirability of promotional programs has been recognized by commissions and courts across the country. [Citations omitted] Of course, if the additional loads come on at the peak, then different cost criteria would have to be used.

"Even with this, of course, the low promotional rate must be generally available on a non-discriminatory basis to any customer who can qualify for its use. Thus, a utility could not make a special low rate to General Motors in order to attract a large new General Motors installation, without making the rate available to every cement manufacturing plant, oil refinery, copper smelter, or Ford Motor plant buying equivalent amounts of gas and electricity. . ."

From these observations it is obvious that incremental costing, if it is to be applied at all, is properly applicable only to off-peak deliveries. However, the gas used for dry-out purposes is firm gas which must, of necessity, be computed into the system pipeline demand. This being so, different cost criteria are applicable and the cost criteria which should be employed is a full distribution of associated costs, including return on investment. There is no reason which readily comes to mind why space heating for purposes of contributing to human comfort should absorb these costs while space heating for the purpose of extracting water from plaster is exempted from them.

The essential characteristics of service under Schedule 55 and Schedule 23 are substantially similar. There is no rational distinction between the uses to which gas is put - both are used for space heating; quantities of gas used in the

residential space heating load and the dry-out load are within a few therms of each other; the same basic plant is involved; the same firm gas is used to supply each, and must be computed into the company's demand; and since the same billing procedures and overheads are involved, it cannot be said that there is a significant distinction in the cost of furnishing the respective services. In addition, both loads tend to peak at the same time.

The most remarkable phenomenon occurs when a house becomes a home. As a house it may receive gas service for some indefinite period at 7.4¢ per therm. The moment it becomes a home, the cost of gas service increases by nearly 100%.

CONCLUSION

The Commission is faced with complex issues in this proceeding. In one instance, interpretation of RCW 80.04.270 to reflect the intention of the legislature to make merchandising of equipment and appliances non-jurisdictional, would eliminate the need to make a determination as to leasing of appliances on the merits. We submit that the Commission should find leasing to be a non-utility function subject to the law of the marketplace rather than regulatory jurisdiction, not for the purpose of avoiding controversy but for the purpose of sound regulation of true utility functions.

Since the dry-out rate is identical in almost all respects with other space heating services offered by the company except as to rate, it would seem appropriate that the Commission require the company to justify on a cost basis consistent with sound rate making principles departure from other rate levels prescribed for service under substantially similar conditions and circumstances.

Respectfully submitted,

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Commission

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding by mailing a copy thereof, properly addressed with postage prepaid, to each party to this proceeding or his attorney or authorized agent.

DATED at Olympia, Washington, this 8th day of December, 1967.

JAMES R. CUNNINGHAM
Assistant Attorney General