

**EXHIBIT NO. ____ (MBM-22)
DOCKETS UE-151871/UG-151872
PSE EQUIPMENT LEASING SERVICE
WITNESS: MALCOLM B. MCCULLOCH**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY,

Respondent.

**Dockets UE-151871
UG-151872**

**FIFTEENTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED REBUTTAL TESTIMONY OF
MALCOLM B. MCCULLOCH
ON BEHALF OF PUGET SOUND ENERGY**

JULY 1, 2016

Proposed transition plan for Puget Sound Energy's Existing schedules 71, 72 and 74 rental customers

Transition of over 33,000 customers from one service to another will require careful coordination between PSE, the Commission and other key stakeholders to ensure a positive customer experience and to mitigate adverse impacts on market participants. This will include a detailed assessment of a various factors, including but not limited to service partner capacity, company staffing levels, and regional equipment stocks, which can be used to define appropriate staggered notification and transition activities. Upon approval of Schedule 75, PSE is willing to further review and define an expedited transition plan provided that it can be done in a manner that does not harm participating customers or result in the premature termination of assets which remain within their forecasted service lives.

Q. What is PSE's proposed transition plan for existing schedules 71, 72 and 74 rental customers?

A. Existing schedule 71, 72 and 74 rental customers will be given the option to; (i) continue their existing rental, (ii) terminate their existing rental and enter into a new lease agreement for new water heat or space heat equipment provided under Schedules 75, (iii) or terminate their existing rental. Options (ii) and (iii) noted above must be exercised upon either product failure or established equipment vintage characteristics.

Q. Has PSE specified product failure or equipment vintage characteristics, for equipment under existing Schedules 71, 72 and 74, which would trigger the aforementioned transition options (ii) and (iii)?

A. Yes, for all existing rental equipment under existing Schedules 71, 72 and 74, the specific definitions that will be used to trigger transition options (ii) and (iii) are detailed below:

- "Product failure" is defined as equipment that cannot be reasonably repaired to operate in a safe and efficient manner and therefore has reached the End of Unit Life.

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- “Equipment vintage characteristics” is defined by the date at which the equipment has met its service life.
 - For existing residential water heat equipment under existing Schedule 71 the current service life is **10 years**
 - For existing commercial water heat equipment under existing Schedule 72 the current service life is **12 years**
 - For existing conversion burner equipment under existing Schedule 74 the current service life is **13 years** for Residential equipment and **12 years** for Commercial equipment.

Q. Please explain under what circumstances a customer would be given the option to continue their existing rental.

A. Existing schedule 71, 72 and 74 rental customers, whose product has neither failed or met its current service life, as defined above, will be given the option to continue their existing rental.

Q. Does PSE anticipate any changes to Schedules 71, 72 and 74 for those customers, who based on the qualifying parameters noted above, and at their option, choose to remain on existing Schedules 71, 72 or 74?

A. PSE will modify Schedules 71, 72 and 74 to define the transition options , noted above, but does not anticipate changing the existing Lease Agreements or rates, other than those determined appropriate as part of a general rate case filing.

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- Q. What happens to those customers who continue to rent equipment under the existing Schedules 71, 72 and 74?**
- A. For those customers who continue to rent equipment under existing Schedules 71, 72 and 74, the existing rates and tariff schedules will remain in place until all existing equipment either fails, reaches its service life, or the participating customer population represented by these schedules no longer allows for the Company to operate the service under these Schedules in a cost-effective manner without further burdening the company or non-participating customers.
- Q. Why does PSE believe it is appropriate to modify and maintain existing Schedules 71, 72 and 74?**
- A. PSE has identified that approximately 15,603 installed water heaters and approximately 160 installed conversion burners have not yet reached their service life. Modifying and maintaining the existing Schedules 71, 72 and 74 will provide existing customers with transition options and will also allow a majority of these assets deployed at customer premises to realize their full service life. Terminating Agreements for operable equipment, which has not yet reached its service life, prematurely will require that the undepreciated value be either charged back to participating customers or born by all customers as an uncollected expense.
- Q. What is PSE's transition plan for existing rental customers, under Schedules 71, 72 and 74, who experience product failure?**
- A. Customers who experience product failure will be given the aforementioned options to either (ii) terminate their existing rental and enter into a new lease agreement for new

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water heat or space heat equipment provided under this Schedules 75, or (iii) terminate their existing rental.

Q. If an existing rental customer, under Schedules 71, 72 and 74, experiences product failure and chooses option (ii) to terminate their existing rental and enter into a new lease, how will that transaction be handled?

A. Once the customer has reviewed and selected the energy-efficient and/or connected equipment option available under Schedule 75 that best meets their needs, and has entered into a new lease Agreement for the new equipment at the then current monthly lease payment and Lease Term, PSE will replace the older equipment with the new product selected.

Q. If an existing rental customer, under Schedules 71, 72 and 74, experiences product failure and chooses option (iii) to terminate their existing rental, how will that transaction be handled?

A. A customer who experiences product failure may terminate their existing Lease Agreement without further liability, other than for payment of any lease payments due and owing through the date of termination. Additionally, the Customer may exercise the right to return the Equipment to PSE, and permit PSE or its agents to enter the Premises where the Equipment is located for the purpose of removing the same for no costs other than those expressed in the customer's existing Lease Agreement.

Q. What is PSE's transition plan for existing rental customers, under Schedules 71, 72 and 74, whose product meets its service life?

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A. Customers whose product meets its service life will be given the aforementioned options to either; (ii) terminate their existing rental and enter into a new lease agreement for new water or space heat equipment provided under Schedules 75, or (iii) terminate their existing rental.

Q. If an existing rental customer, under Schedules 71, 72 and 74, whose product meets its service life, chooses option (ii) to terminate their existing rental and enter into a new lease, how will that transaction be handled?

A. Once the customer has reviewed and selected the energy-efficient and/or connected equipment option available under Schedule 75 that best meets their needs, and has entered into a new lease Agreement for the new equipment at the then current monthly lease payment and Lease Term, PSE will replace the older equipment with the new product selected.

Q. If an existing rental customer, under Schedules 71, 72 and 74, whose product meets its service life, chooses option (iii) to terminate their existing rental, how will that transaction be handled?

A. The Customer may terminate their existing Lease Agreement without further liability, other than for payment of any lease payments due and owing through the date of termination. Additionally, the Customer may exercise the right to return the Equipment to PSE, and permit PSE or its agents to enter the Premises where the Equipment is located for the purpose of removing the same for no costs other than those expressed in the customer's existing Lease Agreement.

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Q. Does PSE anticipate notifying customers about the transition?

A. All existing rental customers, served under existing Schedules 71, 72 and 74, will be notified of the transition plan and the new service, including available options, service features, and benefits, through either telephone, electronic or hard copy communication, on predetermined notice periods.

Q. Please advise whether PSE has established “predetermined notice periods”?

A. Yes, PSE has established “predetermined notice periods”. Other than those existing customers, served under schedules 71, 72 and 74, who experience product failure, predetermined notice periods will be based on the year at which the installed existing water heat or conversion burner equipment reaches its service life.

Q. Does PSE have specific termination notice data, based on “predetermined notice periods”, for existing customers under Schedules 71 and 72?

A. Below, please find figure 2, which outlines the estimated count of water heaters under existing Schedules 71 and 71, and the years in which they will reach their service lives. This data was extracted from PSE’s Customer Information Systems on February 3rd, 2016.

Figure 2

Service Year Anniversary	Count of Schedule 71 Residential Water Heaters	Count of Schedule 72 Commercial Water Heater	Annual Transition Total
2017	13,785	1,015	14,800
2018	1,741	77	1,818
2019	1,587	96	1,683
2020	1,639	127	1,766

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2021	1,338	135	1,473
2022	1,443	129	1,572
2023	1,434	140	1,574
2024	1,545	150	1,695
2025	1,503	201	1,704
2026	1,608	177	1,785
2027	110	213	323
2028		200	200
2029		10	10
Total	27,733	2,670	30,403

Q. How many existing customers under Schedules 71 and 72 does PSE anticipate providing notice of transition to in the first five years of service under Schedule 75?

A. Commencing in 2017, PSE anticipates that approximately **21,540** existing customers, under Schedules 71 and 72 will be provided notice of transition in the first five years of service under Schedule 75.

Q. Does PSE have specific termination notice data, based on “predetermined notice periods”, for existing customers under Schedule 74?

A. Figure 3, below, outlines the estimated count of conversion burners under existing Schedule 74 and the years in which they will reach their service lives. This data was extracted from PSE’s Customer Information Systems on February 3rd, 2016.

Figure 3

Service Year Anniversary	Count of Schedule 74 Conversion Burner
2017	3,112

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2018	19
2019	24
2020	11
2021	15
2022	9
2023	20
2024	16
2025	17
2026	14
2027	6
2028	5
2029	4
Total	3,272

Q. How many existing customers under Schedules 74 does PSE anticipate providing notice of transition to in the first five years of service under Schedule 75?

A. Commencing in 2017, PSE anticipates that approximately **3,181** existing customers, under Schedules 74 will be provided notice of transition in the first five years of service under Schedule 75.

Q. How will PSE use these metrics and other inputs to inform annual notice and transition activities?

A. PSE will, in the fourth quarter of each year that existing Schedules 71, 72 and 74 remain active, conduct an analysis to understand the current count of equipment that is expected to meet its service life. It will pair this data with other inputs, such as service partner

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capacity, staffing levels, and regional equipment stocks to define staggered notification and transition activities.

Q. How long does PSE believe it will take to fully implement this transition plan for Schedules 71, 72 and 74?

A. Based on the above "predetermined notice period" parameters, it could take approximately 12 years, 2017 through 2029, for the existing customers served under Schedules 71, 72 and 74 to be fully transitioned in a responsible manner so that any undepreciated value of the existing rental equipment isn't either charged back to participating customers or born by all customers as an uncollected expense due to premature termination.