

**EXHIBIT NO. ___(MBM-7HCT)
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**

**PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL)
OF MALCOLM B. MCCULLOCH
ON BEHALF OF PUGET SOUND ENERGY**

PUBLIC VERSION

JULY 1, 2016

PUGET SOUND ENERGY
PREFILED REBUTTAL TESTIMONY (HIGHLY CONFIDENTIAL)
OF MALCOLM B. MCCULLOCH

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PUGET SOUND ENERGY
PREFILED DIRECT TESTIMONY (HIGHLY CONFIDENTIAL)
OF MALCOLM B. MCCULLOCH

I. INTRODUCTION

Q. Are you the same Malcolm B. McCulloch who submitted prefiled direct testimony in this proceeding on February 25, 2016, on behalf of Puget Sound Energy (“PSE” or “the Company”)?

A. Yes.

Q. What is the purpose of your testimony?

A. My testimony responds to and rebuts assertions made by other parties in this case that: (i) PSE’s rates are not fair, just and reasonable; (ii) the survey used to inform this proposal was inaccurate; and (iii) PSE has not been acting in the best interests of its existing rental customers and has no plan to transition these customers to the new service.

Accordingly, my testimony will first detail how the proposed rates are fair, just, and reasonable. Next, I will demonstrate why the survey conducted by Cocker Fennessy, on behalf of PSE, was properly performed, fairly represents the interest of PSE’s diverse customer base, and was consistent with other surveys conducted by PSE in the development of the proposed Schedule 75. Finally, I will provide an explanation of PSE’s practices under the existing rental service and detail how

1 PSE plans to transition, upon approval of Schedule 75, those existing customers
2 currently taking service under existing equipment rental Schedules 71, 72 and 74.

3 **II. PROPOSED RATES ARE FAIR, JUST, AND REASONABLE**

4 **Q. Please summarize what you will address in this section of your rebuttal**
5 **testimony.**

6 A. This section of my testimony will discuss PSE’s proposed rates for new leased
7 equipment and will demonstrate that the filed rates are fair, just, and reasonable
8 by refuting the inaccurate claims made by parties opposed to this filing regarding
9 the appropriateness of the inputs used and the methodology employed in
10 calculating these rates. Opposing parties have inappropriately attempted to
11 evaluate Lease Solutions by comparing it to existing autonomous market options,
12 but have failed to present evidence of a similar, comparable comprehensive
13 service available in the market today. Thus, the opposing parties have conducted
14 flawed analyses that are neither complete nor accurate. My testimony will expose
15 these flaws and demonstrate that: (i) PSE’s cost inputs are accurate; (ii) PSE has
16 appropriately applied the use of non-standard installation costs; and (iii) PSE
17 appropriately calculated rates.

1 **A. PSE's Cost Inputs Are Accurate**

2 **Q. Ms. Kimball claims that it is impossible for the Commission to effectively**
3 **evaluate whether PSE's proposed lease prices are fair, just, and reasonable.**
4 **Do you agree?**

5 A. No, I strongly disagree with this statement. PSE has provided sufficient evidence
6 to demonstrate that the proposed rates are fair, just, and reasonable.

7 **Q. Has PSE worked with other parties to assist them in evaluating the proposed**
8 **rates?**

9 A. Yes. On February 21, 2016, PSE provided a copy of PSE's Highly Confidential
10 Lease Pricing Work Papers¹ to those parties, with the appropriate confidentiality
11 designation, for review. Further, PSE conducted workshops with WUTC Staff
12 and counsel from SMACNA on March 8, 2016, and with WUTC Staff and Public
13 Counsel on April 4, 2016, to review the mechanics of these Lease Pricing Work
14 Papers and to address questions. Additionally, through multiple data requests,
15 PSE has provided documentation and information that supports PSE's cost inputs
16 for its Lease Pricing Work Papers.

¹ O'Connell, Exh. No. ____ (ECO-5HC).

1 **Q. Ms. Kimball claims that the equipment cost inputs PSE used in its Lease**
2 **Pricing Work Papers are speculative. Do you agree?**

3 A. No. Despite Ms. Kimball’s claims that “PSE’s estimated equipment costs are
4 speculative,”² the inputs are based on actual market equipment costs submitted by
5 bidders responding to PSE’s Request for Qualifications (“RFQs”). In the past
6 year, PSE has conducted multiple RFQs³ and received responses from fifteen
7 water heating and heating, ventilation, and air conditioning (“HVAC”) equipment
8 manufacturers, distributors, and installation partners. Thus, the equipment costs
9 used in PSE’s pricing model accurately reflect costs of actual equipment currently
10 used in the market.

11 **Q. What information was contained in the RFQs?**

12 A. Attached as Exhibit No. ___(MBM-8HC) is PSE’s response to WUTC Staff Data
13 Request No. 016, which provides a full account of the two RFQs distributed by
14 PSE that: (i) provided bidders with a statement of need; (ii) outlined the
15 evaluation criteria; (iii) detailed the submittal instructions and schedule; (iv)
16 addressed how questions would be managed; and (v) provided several
17 attachments, including a detailed outline of pricing considerations, pricing
18 worksheets, a list of service zones, a draft service agreement and a non-disclosure
19 agreement. The pricing worksheets provided bidders with equipment
20 specifications (product size, input capacity, efficiency, system capabilities, and

² Kimball, Exh. No. ___(MMK-1HCT) at 11:8.

³ McCulloch, Exh. No. ___(MBM-1T) at 17:17-23.

1 performance qualifications), an explanation of standard versus supplemental
2 (“non-standard”) activities, and allowance for bids based on different partner
3 paths.

4 **Q. How did PSE convert the information obtained from the RFQs to actual**
5 **tariff rates?**

6 A. The rates for the various types of equipment proposed in this filing were built
7 using the costs PSE obtained from the RFQs, which represent the cost that will be
8 applied to customer leases upon approval by the Commission. As detailed in my
9 Prefiled Direct Testimony, PSE developed rates based on real market costs and
10 used bidder response inputs for each of the three service partner paths to establish
11 average costs for each product and the associated services.⁴

12 **Q. Were the RFQs meant to capture an exhaustive list of all costs for all**
13 **equipment options currently available in the market?**

14 A. No. As detailed in the Prefiled Direct Testimony of Mr. John van den Heuvel,
15 Gensco alone stocks approximately 389⁵ individual types of gas furnace
16 equipment, and he further states that “there are at least three times as many [other]
17 options available when we include other brands that consumers have access to
18 today.”⁶ Additionally, Ms. Kimball’s review of Home Depot’s website identified

⁴ McCulloch, Exh. No. ___(MBM-1T) at 19:19-22.

⁵ van den Heuvel, Exh. No. ___(JvdH-1T) at 5.

⁶ *Id.* at 6:6-7.

1 “23 models of natural gas standard vent hot water heaters.”⁷ Finally, Mr. Fluetsch
2 reinforces this point in his testimony by stating “[t]here are more options available
3 today than ever before.”⁸ To my knowledge, no contractor offers its customers
4 every possible brand or option available in the marketplace and PSE is no
5 different.

6 **Q. How do you respond to the Intervenors who have stated that presenting**
7 **customers with all of the available market options is better for customers and**
8 **that PSE’s program inappropriately limits market options?**

9 A. I do not agree with these claims. Those customers who prefer a more diverse set
10 of options are free to research the myriad of independent product lines, equipment
11 capabilities and contractors that might be able to address their water heating or
12 HVAC equipment needs. Lease Solutions is being provided as an optional
13 service for those customers that feel it better suits their circumstances. My
14 experience is, in some instances, more is not always better. Flooding customers
15 with “hundreds” of market options is not what all customers want or need. In his
16 Prefiled Direct Testimony, Ahmad Faruqui, Ph.D. referred to this as “imperfect
17 information and search costs”⁹ or “asymmetric information”¹⁰ which he identified
18 as one of the barriers to the consumer adoption of new, efficient products. PSE

⁷ Kimball, Exh. No. ___(MMK-1HCT) at 14:10-11.

⁸ Fluetsch, Exh. No. ___(BF-1T) at 6:2.

⁹ Faruqui, Exh. No. ___(AF-1T) at 5:5.

¹⁰ Faruqui, Exh. No. ___(AF-1T) at 9:7.

1 customer feedback is consistent with Dr. Faruqui’s analysis. For many customers,
2 the process for acquiring new water heating and HVAC equipment is
3 overwhelming and many prefer having a more straightforward selection of
4 options. Lease Solutions strives to provide this to customers.

5 **Q. Public Counsel has expressed concern that the Commission cannot effectively**
6 **evaluate the value of the equipment because PSE has not selected the**
7 **equipment to be leased. How do you respond to this concern?**

8 A. PSE has generally determined the equipment it plans to lease at the inception of
9 the lease service, and the rates it will charge based on costs received through the
10 RFQ process detailed above. However, PSE needs Commission approval of the
11 lease service before it can formally execute contracts with its partners regarding
12 approved equipment specifications and standard scopes of work.

13 **Q. Do market participants share PSE’s view that Commission approval of Lease**
14 **Solutions is needed before contracts can be finalized?**

15 A. Yes. In SMACNA-WW’s responses to PSE Data Requests Nos. 037 and 038, the
16 association detailed that “it does not know whether any of its members would
17 engage in contract negotiations with PSE prior to any Commission order
18 approving Schedule 75.”¹¹ Its supplemental response indicated that

¹¹ Exhibit No. ____ (MBM-9).

1 contemplating the negotiation and execution of contracts prior to Commission
2 approval “is premature.”¹²

3 **Q. Mr. Kreckler has testified that the “HVAC industry has shown little interest**
4 **in PSE’s proposal.” Do you agree with this statement?**

5 A. No. In fact, through two separate RFQs, bids were received from fifteen
6 individual companies interested in contracting with PSE to provide equipment and
7 fulfillment services. Participation could have been even higher had Mr. Kreckler’s
8 association not distributed repeated communications to its members encouraging
9 them not to participate in the Company’s RFQs.¹³ PSE anticipates that many
10 more contractors will seek to participate if Lease Solutions is approved.

11 **Q. Will the Company specifically select equipment to be leased during the**
12 **contracting process?**

13 A. Yes. The contracting process will result in a specific catalogue of equipment
14 detailing the make, model, product size, input capacity, efficiency, system
15 capability, and performance qualifications for all lease products.

16 **Q. Will this catalogue include multiple product models, which meet a specific**
17 **product size, input capacity, efficiency, system capability, and performance**
18 **qualifications, but have a wide range of prices, as claimed by Ms. Kimball?**

19 A. No. Through the contracting process, PSE will negotiate and contract fixed costs
20 for product models that meet the equipment requirements described above to

¹² Exhibit No. ____ (MBM-10).

¹³ See Exhibit No. ____ (MBM-11).

1 ensure that all customers who select a specific rate receive equipment and service
2 commensurate with their peers who select the same rate.

3 **Q. Will costs for other inputs used in developing PSE's proposed rates, such as**
4 **installation, maintenance, repair and replacement services be handled in a**
5 **similar fashion?**

6 A. Yes, PSE needs Commission approval of the service to establish contracted rates
7 for standard and non-standard installation, maintenance, repair and replacement
8 activities and general partnership terms and conditions.

9 **Q. Is PSE agreeable to updating rates before it begins offering the lease service?**

10 A. Yes. To address concerns expressed by Public Counsel and others that the cost
11 inputs used to build the lease rates may change once contracts are executed, with
12 its compliance filing, PSE will update rates based on the results of final contract
13 execution, after the Commission approves Schedule 75. PSE expects that it
14 should be able to complete negotiations and execute contracts in approximately
15 sixty days following Commission approval of these proposed schedules.

16 **Q. Is it possible that PSE may broaden its selection of equipment as part of the**
17 **contracting process?**

18 A. Yes. There may be an opportunity as a part of the contracting process for PSE to
19 diversify its selection of equipment aligned to those products already filed in these
20 schedules, for example, natural gas furnaces with higher BTU input ratings that
21 could serve larger homes. The purpose of Lease Solutions is to meet customer
22 need and demand. If additional equipment options will better address customer

1 need, then PSE will strive to provide those options to customers as the service
2 matures.

3 **Q. Will the equipment lease rates change as a result of this contracting process?**

4 A. Yes, I believe it is possible the equipment lease rates may change, but not
5 materially. Once the Commission approves the leasing service, it is likely that
6 new service partners will elect to engage with PSE, in addition to those bidders
7 who have already expressed interest.

8 **Q. Are PSE's projected equipment failure rates speculative and unsupported?**

9 A. No. As detailed in PSE's response to Public Counsel Data Request No. 21,
10 attached as Exhibit No. ____ (MBM-12), PSE used known data from its existing
11 natural gas water heat rental service to inform these inputs. Although Ms.
12 Kimball questions this failure rate, she provides nothing to refute these rates.
13 Further, PSE sent data requests to all parties asking for information relating to
14 equipment failure rates and no party provided any information refuting PSE's
15 failure rates. In sum, no evidence has been put forth in this case to show that the
16 failure rates PSE used in its pricing model are unreasonable or improper.

17 **Q. Are PSE's cost inputs appropriate?**

18 A. Yes. As detailed above, PSE has been fully transparent regarding the inputs and
19 methodology used to develop the proposed rates, and PSE has utilized current,
20 known input costs and failure rates that are appropriate for evaluating the products
21 and rates detailed on Schedules 75-A and 75-B.

1 **B. PSE Has Appropriately Applied the Use of Non-Standard Installation**
2 **Costs**

3 **Q. Is PSE excluding “non-standard costs” from the rates to create “an incentive**
4 **to cut corners” as claimed by Mr. Pinkey¹⁴, or to employ “bait and switch”**
5 **tactics as referenced by Mr. Kreckler,¹⁵ or to create a “loop-hole around**
6 **charging tariffed rates” as characterized by Mr. Cebulko¹⁶?**

7 A. No. PSE has a long standing history of providing safe, dependable and efficient
8 energy services for all of its customers, with strict oversight by the Commission.
9 The incendiary accusations of Mr. Pinkey, Mr. Kreckler and Mr. Cebulko are
10 inappropriate and unsubstantiated. In fact, PSE has expressly detailed on Sheet
11 75-L of this proposed tariff that, “Customer will be informed of any non-standard
12 installation costs prior to the Equipment being installed, and may elect at that time
13 to cancel the installation without cost.” Every customer situation is different.
14 Some customers will require no non-standard installation work and others may
15 require extensive non-standard installation work, a fact supported by Mr.
16 Cebulko’s statement that “non-standard installation costs may be a practical
17 reality of installing space and water heat appliances.”¹⁷ PSE does not typically
18 develop its rates based on worst-case scenarios. If PSE included all possible non-

¹⁴ Pinkey, Exh. No. ___(WEP-1T) at 4: 9-10.

¹⁵ Kreckler, Exh. No. ___(SJK-1T) at 7: 11-12.

¹⁶ Cebulko, Exh. No. ___(BTC-1THC) at 23: 7-8.

¹⁷ Cebulko, Exh. No. ___(BTC-1THC) at 23: 7-8.

1 standard costs in its rate schedule, it would inappropriately overcharge the vast
2 majority of customers who will not require non-standard installation costs, and it
3 will subsidize those customers who face high non-standard installation costs.

4 Under PSE's proposal, each individual customer will only pay non-standard
5 installation costs if their individual circumstances require such treatment.

6 **Q. Why is PSE distinguishing between “non-standard” and “standard”**
7 **installation costs?**

8 A. PSE has distinguished between “non-standard” and “standard” installation costs
9 to ensure all customer installations are predicated on a specific set of tasks to
10 allow for a consistent methodology for setting rates. This then mitigates the
11 potential of PSE inappropriately overcharging all customers for non-standard
12 installation costs they will not require.

13 **Q. What constitutes a non-standard installation cost?**

14 A. On Sheet 75-L of the proposed Schedule No. 75, PSE has defined “non-standard”
15 installation costs as follows:

16 [C]onditions which may result in excess installation charges
17 include, but are not limited to: installations which require
18 additional equipment or modifications as required by code,
19 additional man-power or special equipment, such as cranes or lifts,
20 or installations which require structural changes or non-standard
21 prep work, such as adding or removing walls or drywall, or adding,
22 moving or extending electrical wiring, changing the electrical
23 panel, venting, plumbing or Natural Gas lines.

1 Further, as a part of the RFQ process, PSE included in the bid solicitation package
2 detailed outlines of the activities that should be considered “supplemental” or
3 “non-standard” activities.¹⁸

4 **Q. How did PSE determine what should be included as a “non-standard”**
5 **installation cost and a “standard” installation cost?**

6 A. PSE consulted with licensed water heating and HVAC contractors as well as
7 internal PSE subject matter experts from our Gas First Response and Energy
8 Efficiency divisions to determine what should appropriately be considered a
9 “standard” and a “non-standard” installation. For example, Exhibit No. ____
10 (MBM-13HC), provides an email exchange between PSE and a local HVAC
11 provider, in which the HVAC provider stated, in reference to PSE’s initial draft of
12 standard versus supplemental installation activities that “this looks great, very
13 thorough. Your list of standard practices for installation are right on.”

14 **Q. Mr. Pinkey stated that PSE’s application of a “standard” installation fails to**
15 **account for different types of labor such as plumbers and electricians, in**
16 **addition to HVAC technicians. Do you agree?**

17 A. No. Mr. Pinkey admitted that he has not examined the details of the PSE
18 proposal,¹⁹ so his claim that PSE failed “to account for different types of labor”²⁰

¹⁸ Exh. No. ____ (MBM-8HC).

¹⁹ Pinkey, Exh. No. ____ (WEP-1T) at 2.

²⁰ *Id.* at 3:5-6.

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lacks merit. As described above, PSE noticed and collected costs from market participants for “standard installation” practices as a part of the RFQ processes.²¹ PSE’s RFQ process appropriately detailed to bidders the activities that should be included in “standard installation” costs. Each bidder was a licensed practitioner in the State of Washington. PSE is confident that it appropriately accounted for all tasks associated with a “standard installation” and that the bidders applied the types of labor necessary to carry out those tasks. An example of these activities is set forth in Exhibit No. ___(MBM-6), which details the specifications for a residential gas furnace installation and contains some of the very practices that Mr. Krecker incorrectly asserts have been excluded from the proposed service, such as “an on-site inspection.”²²

²¹ Exh. No. ___(MBM-8HC).

²² Krecker, Exh. No. ___(SKJ-1T) at 6:15.

1 **Q. Mr. Pinkey testified that “[i]mproper installations – and the resultant safety**
2 **risks created – inevitably give the entire HVAC industry a black eye.”²³**

3 **Further Mr. Cebulko states that “[m]onitoring whether PSE and its**
4 **contractors apply non-standard installation costs consistently and**
5 **appropriately will be a great challenge for the Commission.”²⁴**

6 **How does PSE respond?**

7 A. Providing a safe, dependable and efficient service is at the core of PSE’s
8 corporate values, and to ensure we deliver on those principles for our customers,
9 PSE will require its service partners to provide pre- and post-installation photos
10 for each customer installation. PSE will use that information in concert with data
11 collected through permit inspections conducted by local building officials,
12 customer feedback, as well as PSE’s own random quality assurance inspections,
13 to identify and address any improper installation practices.

14 **Q. Will the exclusion of non-standard costs from the tariff result in customers**
15 **paying for a service that bears no reasonable relationship to the rates they**
16 **are required to pay as suggested by Mr. Cebulko?**

17 A. No. The entire purpose of differentiating between “standard” and “non-standard”
18 installation costs is to ensure that customers only pay for the services they are
19 receiving.

²³ Pinkey, Exh. No. ___(WEP-1T) at 4:11-12.

²⁴ Cebulko, Exh. No. ___(BTC-1THC) at 23:9-10.

1 **Q. Does PSE currently charge customers for non-standard costs?**

2 A. Yes. PSE's existing natural gas water heater rental service charges customers for
3 "non-standard" costs that arise when a customer's equipment fails and needs to be
4 replaced. In these situations, it is not unusual to find that codes and building
5 standards may have changed since the equipment's original installation and that
6 additional work not included in the tariffed rate needs to be addressed. In these
7 instances, the customer is informed of the potential for additional costs prior to
8 equipment replacement. The customer is quoted costs for such "non-standard"
9 installations predicated on known and contracted costs which have been
10 negotiated between PSE and its current service partner Washington Energy
11 Services, as shown on Exhibit No. ___(MBM-14HC). Any costs for any non-
12 standard conditions can be paid directly to the service provider, or PSE can bill
13 the customer in up to three separate installments with no additional fees for this
14 option.

15 **Q. How does this process typically occur?**

16 A. To illustrate how this practice is applied, if a customer requires replacement of a
17 rental water heater in King County, and the equipment being replaced was
18 installed prior to the adoption of a code requiring the installation of an expansion
19 tank, the addition of the expansion tank is required to properly install the new
20 rental water heater.²⁵ This would constitute a non-standard installation cost. In
21 this scenario, PSE and/or its contractor advises the customer of this code

²⁵ <http://www.kingcounty.gov/healthservices/health/ehs/plumbing/waterheater.aspx>

1 requirement and the associated equipment and installation cost. As detailed in
2 Exhibit No. ___(MBM-14HC), PSE currently has a pre-tax contracted cost of
3 [REDACTED] to install a five-gallon expansion tank, which represents a fairly common
4 “non-standard” cost to the customer upon replacement of the existing tank. The
5 customer would be required to pay this cost to install the expansion tank, in
6 addition to their typical lease rate.

7 **Q. Are there other examples of regulated service in the region where the**
8 **practice of charging additional fees for non-standard costs are utilized?**

9 A. Yes. One such example is Cascade Natural Gas’ natural gas installation service.
10 For new customers who have questions regarding cost of installing gas, Cascade
11 explains on their website that cost “depends on the distance your home is from the
12 gas main, the natural gas appliances you select and other factors”.²⁶ This is similar
13 to PSE’s natural gas Facilities Extension Standards, Schedule No. 7, which details
14 both “standard” and “non-standard” costs for facilities extensions. In his rebuttal
15 testimony, Mr. Englert also discusses other common instances of non-standard
16 costs in various tariffs. See Exhibit No. ___(EEE-7).

17 **C. PSE Appropriately Calculated Rates**

PUBLIC VERSION

²⁶ <http://www.cngc.com/rates-services/residential-services>

1 **Q. In developing rates, did PSE group all customers into one class?**

2 A. No. Mr. Cebulko incorrectly states that customers “will be grouped within one
3 class and pay the same monthly price.”²⁷ Rates for each individual product are
4 predicated on the product size, input capacity, efficiency, system capabilities, and
5 performance qualifications, not customer class. For example, Sheets 75-A of the
6 proposed Schedule 75 detail rates for three distinct natural gas tank-style water
7 heaters. PSE developed these rates based on real market costs and used bidder
8 response inputs for each of the three service partner paths, to establish average
9 costs for each product and the associated services. As with PSE’s existing rental
10 rates, PSE bundled equipment based on aligned characteristics. This is not
11 uncommon from PSE’s other rate making practices for other customer-associated
12 installations, such as installing a new electric or natural gas service.

13 **Q. Is the use of costs based on averages appropriate?**

14 A. Yes. In Mr. Cebulko’s testimony he states that the equipment cost for a high-
15 efficiency air source heat pump under PSE’s program could vary from [REDACTED]
16 [REDACTED] Mr. Cebulko uses these figures incorrectly. The lowest cost represents
17 a potential baseline cost PSE might negotiate directly with the original equipment
18 manufacturer, while the higher cost represents a high water mark cost if PSE were
19 to contract directly with a service partner to handle the equipment procurement
20 activities in concert with customer acquisition and installation. PSE did not

²⁷ Cebulko, Exh. No. ___(BTC-1THC) at 25:16.

²⁸ Cebulko, Exh. No. ___(BTC-1THC) at 25:14-15.

PUBLIC VERSION

1 establish an average equipment cost for an air source heat pump based on these
2 two extremes; rather PSE utilized average equipment cost inputs from all three
3 partner paths of [REDACTED] for a 2.0 ton heat pump, [REDACTED] for a 2.5 ton heat
4 pump, and [REDACTED] for a 3.0 ton heat pump, resulting in an average equipment
5 cost of [REDACTED] for a 2.0 to 3.0 ton heat pump product bundle.²⁹

6 **Q. Does that mean a customer could vastly overpay for the appliance she**
7 **receives, and another could vastly underpay, as claimed by Mr. Cebulko?**

8 A. No. When substituting the current average bundled unit cost in PSE’s Pricing
9 Worksheet with the three distinct sized heat pumps, the proposed rates would vary
10 by plus or minus two percent, which falls within an acceptable “margin of error”
11 for parity ratios. To characterize the impact as “vast” is an overstatement.

12 **Q. Do you have other concerns with pricing issues discussed in Mr. Cebulko’s**
13 **testimony?**

14 A. Yes. Mr. Cebulko cited the Regional Technical Forum cost for a Tier 2 Air
15 Source Heat Pump of \$5,684³⁰ to support his assertion that PSE’s lease service is
16 not “affordable,” but he failed to point out that this cost is an estimate developed
17 in 2012. Also, this estimate provides no explicit detail as to what specific
18 materials or services are included in the scope of work associated with this cost.
19 Thus, the figures he relies on are outdated and do not account for all of the costs
20 associated with PSE’s proposal.

²⁹ O’Connell, Exh. No. ___ (ECO-5HC).

³⁰ Cebulko, Exh. No. ___ (BTC-1THC) at 24:1.

PUBLIC VERSION

1 **Q. Does PSE possess more current and complete cost data?**

2 A. Yes. Apart from the cost inputs used in PSE's Pricing Work Papers discussed
3 previously, Exhibit No. ___(MBM-15HC) details an average total cost invoiced
4 for a Tier 2 heat pump installations, based on over 996 rebate applications
5 received and processed by PSE for Tier 2 heat pumps installed in PSE's electric
6 service territory between January 1, 2015 through April 9, 2016. The average
7 cost for these installations, including equipment, labor, permits and taxes, is
8 [REDACTED].

9 **Q. How does this compare with the cost inputs used to inform PSE's lease rate**
10 **for comparable equipment?**

11 A. The cost inputs in PSE's Pricing Work Papers, including the capital cost for the
12 Tier 2 heat pump, is very comparable to the average actual installation costs
13 shown in Exhibit No. ___(MBM-17HC). The capital cost input PSE used in its
14 pricing worksheet is \$ [REDACTED], which includes the equipment cost of \$ [REDACTED]
15 and the standard installation cost of \$ [REDACTED]. Adding an illustrative sales tax of
16 9.5% results in a hypothetical total cost of \$ [REDACTED]. This hypothetical total cost
17 is on par with the average cost of \$ [REDACTED] found in Exhibit No. ___(MBM-
18 15HC). This demonstrates that PSE's capital cost inputs used to develop its
19 tariffed rate for a Tier 2 heat pump is more accurate than the figures cited in Mr.
20 Cebulko's testimony.

PUBLIC VERSION

1 **Q. Does Public Counsel’s testimony support the appropriateness of PSE’s**
2 **capital costs?**

3 A. Yes. Ms. Kimball’s informal research of water heater costs from Home Depot
4 actually validates the appropriateness of the equipment and installation rates PSE
5 set for water heaters. Exhibit No. ___(MMK-6) provides a sample of natural gas
6 standard vent tank style water heat equipment “at prices that range from \$379 to
7 \$799.” As Ms. Kimball states PSE’s rate for “this type of . . . water heater” is
8 predicated on an equipment cost of \$█, which is within the range of comparable
9 equipment detailed in Exhibit No. ___(MMK-6). Furthermore, Ms. Kimball
10 conducted an informal assessment of installation costs over the phone with Home
11 Depot on June 2, 2016, that details their costs for equipment and installation,
12 which range from “\$1,049 to \$1,279,” and she conceded that “these prices are
13 generally consistent with the”³¹ equipment and installation costs used in PSE’s
14 rates.

15 **Q. Ms. Kimball asserts that the range of cost for the equipment she found in her**
16 **research, which aligns with PSE’s standard water heat criteria, is wide. Will**
17 **PSE use such a range to the advantage of its shareholders?**

18 A. No. As detailed above, the contracting process will result in a specific catalogue
19 of equipment, and PSE will submit a compliance filing with updated rates for the
20 lease tariff schedules, based on the results of final contract execution.

PUBLIC VERSION

³¹ Kimball, Exh. No. ___(MMK-1HCT) at 27:1.

1 **Q. Has any party questioned PSE’s application of its weighted cost of capital in**
2 **calculating its allowed rate of return?**

3 A. No.

4 **Q. Has any party compared the rates of PSE’s proposed all-inclusive Lease**
5 **Solutions to the rates of a similar service?**

6 A. No, the parties have failed to compare the rates for PSE’s all-inclusive Lease
7 Solutions to a similar service. In response to PSE’s data request No. 038 to
8 Public Counsel, Public Counsel confirmed that “Ms. Kimball has not conducted a
9 study of comprehensive lease options for water heating and HVAC equipment in
10 Western Washington.”³² Mr. Fluetsch stated in his testimony that “I know of no
11 lease program in the residential sector in the State of Washington,”³³ and in
12 response to PSE’s data request No. 055 to SMACNA-WW, Mr. John van den
13 Heuvel stated “I am unaware of any HVAC equipment leasing programs offered
14 in Western Washington, so I believe that there isn’t any.”³⁴

15 **Q. Is PSE required to demonstrate that its rates are competitive to other market**
16 **options?**

17 A. No. There isn’t a comparable market option. Thus, PSE is not required to set its
18 rates to resemble a compilation of the various independent products, services and
19 financing options that may or may not be available to a customer in the existing

³² Exhibit No. ___(MBM-16).

³³ Fluetsch, Exh. No. ___(BF-1T) at 5:15.

³⁴ Exhibit No. ___(MBM-17).

1 market, as has been inappropriately argued by Public Counsel and other parties in
2 this case.

3 **Q. How do you respond to Public Counsel’s assertion that the premium**
4 **customers would pay for a standard vent tank is three times PSE’s assumed**
5 **capital costs?**

6 A. The fact that Ms. Kimball references a “premium” for “asserted benefits”³⁵
7 without including those benefits in her analysis speaks to the deficiencies in her
8 argument. She fails to include costs accounting for the all-inclusive repair,
9 maintenance and replacement components included in the service. Further,
10 inflation, the time value of money (NPV), and the value associated with
11 convenience are also absent from her analyses. When considering the full suite of
12 benefits afforded a customer taking this service, the proposed lease rate over the
13 lease term is appropriate and reasonable. Customers not only gain access to new,
14 efficient energy equipment, but they also acquire the assurance that the equipment
15 will provide its intended benefits throughout the term of the lease, that it will be
16 maintained at no cost, and should it need repair or replacement, the customer will
17 bear no additional costs. This assurance is invaluable to some customers and
18 cannot be acquired through a standard or financed purchase, even with an
19 extended warranty. It is untenable for Ms. Kimball to claim to do a dollars for
20 dollars analysis, without accounting for the significant differences in services that
21 she is comparing.

³⁵ Kimball, Exh. No. ___(MMK-1HCT) at 25:10.

1 **Q. Do you agree with the claims made by Public Counsel and Staff that PSE’s**
2 **“implicit” or “imputed” interest rates are excessive?**

3 A. Ms. O’Connell³⁶ and Ms. Kimball³⁷ submit tables in their testimony, both titled
4 “Table 5,” that use grossly incomplete and inaccurate inputs to develop their
5 hypothetical “implicit” or “imputed” interest rates that bear no relevance in this
6 case.

7 **Q. Commission Staff’s example claims an implicit rate for PSE of 12.77%. Is**
8 **this an appropriate comparison?**

9 A. Absolutely not. Ms. O’Connell states that “in order to compare the alternatives I
10 subtracted all PSE’s O&M costs after the first year of the lease, including
11 maintenance and servicing.”³⁸ However she decided to retain PSE’s first year
12 O&M costs, along with other PSE’s cost inputs, like customer acquisition,
13 permits, marketing and platform setup, property tax, the cost of bad debt, and cost
14 of early failure. She then used this hypothetical figure to compare it against
15 several simple financed purchases, which do not include the additional features
16 included in PSE’s rate. This apple-to-orange comparison should be disregarded
17 as inaccurate, irrelevant and inappropriate.

³⁶ O’Connell, Exh. No. ___(ECO-1THC) at 45.

³⁷ Kimball, Exh. No. ___(MMK-1HCT) at 5:1-2.

³⁸ O’Connell, Exh. No. ___(ECO-1THC) at 44:19-20, 45: 1-2.

1 **Q. Public Counsel’s example claims an imputed interest rate for PSE of 22.1%.**
2 **Is this an appropriate comparison?**

3 A. No, it is certainly not appropriate. As with Ms. O’Connell, Ms. Kimball admits
4 that “I am not specifically addressing maintenance and repair plans in my
5 testimony.”³⁹ However, she then uses PSE’s all-inclusive rate for its
6 comprehensive service in comparison to several simple financed purchases devoid
7 of the assurance and benefits included in PSE’s rate.

8 **Q. Has PSE demonstrated that its proposed rates are fair, just and reasonable?**

9 A. Yes. PSE has demonstrated that the proposed rates are based on current costs,
10 including inputs provided to PSE by fifteen bidders responding to PSE’s RFQs.
11 PSE has carefully incorporated all associated O&M costs in the lease rates so as
12 to avoid burdening non-participating customers. Despite unsubstantiated
13 allegations by Public Counsel that “PSE’s prices appear excessive,”⁴⁰ or WUTC
14 Staff that “the proposed leasing service is not affordable because the overall cost
15 of the service is very expensive,”⁴¹ these claims are not validated by facts but
16 rather are uninformed, subjective value judgments.

³⁹ Kimball, Exh. No. ___(MMK-1HCT) at 27:14-15.

⁴⁰ *Id.* at 5:1-2.

⁴¹ Cebulko, Exh. No. ___(BTC-1TH) at 23:11-12.

1 **III. THE COCKER FENNESSY SURVEY WAS PROPERLY PERFORMED**

2 **Q. How do you respond to the general criticisms of the Cocker Fennessy study?**

3 A. I am surprised at the criticisms. Cocker Fennessy is a well-established public
4 affairs research and communications firm with 25 years of experience managing,
5 conducting and reporting on public behaviors and opinions related to a wide
6 variety of regional issues. Its clients include local jurisdictions, state agencies,
7 utilities, private businesses, non-profits and tribes. Cocker Fennessy does not
8 design research to prove a pre-determined outcome. In fact, one of the reasons
9 PSE asked Cocker Fennessy to conduct the survey was so the survey process was
10 entirely removed from PSE. In addition, Cocker Fennessy’s data collection and
11 analysis partner, Pacific Market Research, is among the largest market research
12 data collection companies on the west coast. They manage projects for a wide
13 range of clients including Starbucks, WSDOT, the City of Seattle, the Bill &
14 Melinda Gates Foundation, the U.S. Internal Revenue Service and the U.S.
15 Department of Education. Ms. Kimball’s testimony and the other criticisms of the
16 Cocker Fennessy survey misrepresent the analysis and draw conclusions that are
17 not based on a firm understanding of industry-standard research methods and
18 techniques.

19 **Q. Has Public Counsel or any other party provided testimony or evidence from**
20 **an expert in the field of survey design and analysis claiming that the Cocker**
21 **Fennessy survey methodology was flawed?**

22 A. No.

1 **Q. Has Public Counsel or any other party conducted any market analysis to**
2 **refute Cocker Fennessy’s findings?**

3 A. No.

4 **Q. How do you respond to Ms. Kimball’s claim that the Cocker Fennessy survey**
5 **failed to fully and accurately disclose the total costs consumers would face**
6 **from the leased equipment?**

7 A. This is incorrect. The survey provided to respondents the average monthly
8 payment and term of the lease. PSE’s customer base is fully capable of
9 performing basic calculations. As typical in surveys, Cocker Fennessy presented
10 information succinctly, consistent with industry best practices to avoid respondent
11 confusion and fatigue. Across industries, and in marketing and market research,
12 presenting monthly payment costs and term of lease to consumers is a standard
13 approach, and one with which respondents on this study were familiar.

14 **Q. Does omitting the full amount paid over the term of the lease result in an**
15 **overstatement of the level of customer interest?**

16 A. No. As stated above, PSE customers were given the monthly cost and lease term.
17 Ms. Kimball does not provide any support for her conclusion that not including
18 the final lease price is a “critical flaw” and would result in lower customer interest
19 percentages when customers could easily perform this basic calculation. Thus,
20 there is no scientific basis for Ms. Kimball’s assumption that the total cost
21 information would decrease customer interest in the proposed service.

1 **Q. How do you respond to Ms. Kimball's assertion that the survey results were**
2 **incorrect because the survey failed to mention that at the end of the lease**
3 **term, PSE would own the equipment, not the customer?**

4 A. Again, Ms. Kimball provides no evidence or authority for her hypothesis. It is
5 commonly understood that a lease is an agreement to use property owned by
6 another in exchange for payment for a time period and at the end of the lease term
7 the property is returned to the owner. The term "lease" is sufficient to explain
8 that a person is agreeing to exchange property for a limited period of time in
9 return for payment and, within the context of this questionnaire, is certainly a
10 word with which respondents were familiar. Ms. Kimball's concern is entirely
11 unsupported and doesn't make sense nor does it somehow discredit the survey
12 results.

13 **Q. How do you respond to Ms. Kimball's assertion that because the survey was**
14 **conducted as an online survey, it yielded results that are not representative of**
15 **PSE's customer population?**

16 A. Again, Ms. Kimball is trying to invalidate the Cocker Fennessy survey without
17 any actual authority or evidence. All surveys are subject to potential biases,
18 whether they are phone, online, by mail or in-person. Stating that simply because
19 a survey was conducted online it is biased and, thus, not representative of PSE's
20 population, is flawed reasoning. Not all online surveys are created equal. Cocker
21 Fennessy intentionally designed the survey to use multiple online panels to
22 minimize potential biases. The companies that build and maintain these panels
23 recruit respondents using a wide variety of techniques and carefully monitor and

1 calibrate panels to create samples that are consistent when measured by
2 comparison with external benchmarks including the U.S. census and telephone
3 sample studies. The online survey respondents for the survey conducted on
4 behalf of PSE contained an accurate representation of PSE customers.

5 **Q. Do you believe the NEEA study conducted in 2012, to which Ms. Kimball**
6 **refers, is an appropriate metric by which to judge the reliability and**
7 **methodology of the Cocker Fennessy study?**

8 A. No. The NEEA study had an entirely different purpose, methodology and
9 timeframe. Its biases should not be generalized to the PSE study. For example,
10 the NEEA study surveyed a multi-state population, it did not conduct any online
11 panels, and it had a relatively small telephone sample size which could result in a
12 higher margin of error. Using a survey conducted in one context that utilized a
13 different methodology, assumptions, population base, and was for an entirely
14 different purpose, as a metric for evaluating another survey with totally different
15 circumstances is inappropriate and simply poor statistical analysis.

16 **Q. The NEEA study found a potential self-selection bias towards homeowners**
17 **who are interested in energy-efficiency and conservation. Could that also be**
18 **an issue with the Cocker Fennessy study?**

19 A. We are not aware of any inherent conservation bias associated with the online
20 survey panelists used by Cocker Fennessy. In addition, we have not done any
21 analysis of the NEEA study to assess if there were any inherit biases in that study.
22 It appears that the NEEA study invited people to participate in the study and
23 mentioned the survey topic. Sometimes disclosure of this information creates a

1 response bias. When Cocker Fennessy invited people to participate in the online
2 study, it was not disclosed that the survey was being conducted on behalf of PSE,
3 and they did not indicate the survey topic. Thus, there is no evidence of an
4 energy-efficiency or conservation bias in the Cocker Fennessy survey.

5 **Q. Do you agree with Ms. Kimball’s assertion that the online survey of PSE**
6 **customers likely reflected respondents with higher levels of income and**
7 **education and some bias toward conservation as compared to PSE’s general**
8 **customer base?**

9 A. No. Analysis of the data shows that there was no statistically significant
10 difference in program interest by income group. As a result, a high-income bias
11 would have minimal impact on the key study findings.

12 **Q. Ms. Kimball asserts that customer interest in an air source heat pump**
13 **“might have been lower” if PSE used the proposed monthly tariff rate of**
14 **\$116. Why was the price for an electric air source heat pump priced lower in**
15 **the survey than in the tariff?**

16 A. When the survey was conducted, PSE utilized modeled lease rates based on input
17 data available to PSE at that time, which were predicated on PSE purchasing
18 equipment through a wholesale distributor and then contracting with installation
19 partners to conduct the in-house services using PSE consigned equipment. (This
20 was referred to as the PSE Path in my Prefiled Direct Testimony.) The proposed
21 tariff rate reflects more current costs based on inputs received through PSE’s RFQ
22 process, which incorporated the wholesale purchase path detailed above as well as
23 two other potential acquisition paths proposed by PSE in recognition of feedback

1 PSE heard from parties engaged in this proceeding, which ultimately resulted in
2 higher costs inputs.

3 **Q. Does Ms. Kimball’s concern regarding the differential of air source heat**
4 **pump rates represent a large financial risk if customer acceptance does not**
5 **meet PSE’s market share assumptions?**

6 A. No. As detailed in Figure 1 of Exhibit No. ___(MBM-3) to my Prefiled Direct
7 Testimony, air source heat pumps represent only five percent of the primary
8 heating systems installed in single-family homes in the region. The market share
9 assumptions used in developing PSE’s proposed rates project that only two
10 percent of the total units PSE anticipates installing will be air source heat pumps.
11 Therefore, the financial risk is minimal if customer participation proves lower
12 than projected, and it is the Company and its shareholders who bear the risk of
13 under recovery. There is no risk for customers.

14 **Q. How do you respond to Ms. Kimball’s claims that “two of the three types of**
15 **equipment described in the survey . . . were the least efficient equipment**
16 **available.”⁴²**

17 A. Similar to what I have addressed above, when the survey was conducted PSE used
18 modeled rates based on inputs available at that time. Ms. Kimball is attempting to
19 compare those modeled rates to what has been proposed to suggest that customer
20 interest might have been different, without providing any independent survey,
21 analysis or data to support her theory.

⁴² Kimball, Exh. No. ___(MMK-1HCT) at 18:4-5.

1 **Q. Are the customer interest findings in the Cocker Fennessy study consistent**
2 **with past market research conducted by PSE?**

3 A. Yes. In fact, PSE conducted several customer surveys in the course of developing
4 the proposed service and the findings were consistent throughout each inquiry.
5 PSE's responses to SMACNA-WW Data Requests No. 028 and 030, detail the
6 survey questions and summary of findings captured in the surveys conducted
7 between May 2, 2014, and May 9, 2014,⁴³ and between December 31, 2015 and
8 January 11, 2016.⁴⁴

9 **Q. How do you react to Mr. Fluetsch's assertion that the survey was misleading**
10 **because the cost of the lease option over time is not similar to the cost of a**
11 **purchase plus maintenance?**

12 A. Like Ms. Kimball, Mr. Fluetsch is attempting to draw a simple comparison to a
13 disparate collection of services that are not packaged together as a single,
14 comprehensive service. While he did provide an estimated cost for installation
15 and maintenance for a 80% furnace, his calculation is not indicative of an average
16 financed purchase because he used an interest rate that would not be readily
17 available to all customers. He also fails to consider other necessary cost inputs
18 such as inflation, the time value of money (NPV), scheduled maintenance, repairs,
19 equipment replacement and the value associated with convenience.

⁴³ Exhibit No. ____ (MBM-18).

⁴⁴ Exhibit No. ____ (MBM-19).

1 **Q. As observed by Ms. Kimball, PSE’s pricing model assumes that one out of**
2 **every two customers surveyed who expressed interest in the lease service will**
3 **participate. Is this assumption reasonable?**

4 A. Yes. PSE used customer interest metrics gathered through the Cocker Fennessy
5 survey discussed in my Prefiled Direct Testimony as one input used to establish a
6 reasonable estimate of the total addressable lease market. As described above, the
7 Cocker Fennessy study determined the percentage of respondents that were
8 interested in each of the products categories provided through Lease Solutions.
9 PSE conservatively treated this percentage of respondents that were interested as
10 the addressable lease market, and PSE then applied a conservative assumption
11 that only 50% of the addressable lease market would participate in this proposed
12 service, rather than base the rates on 100% of the addressable lease market.
13 Based on the Cocker Fennessy and PSE’s past market analysis, plus the continued
14 strong customer participation in PSE’s existing lease program, PSE believes that
15 this is a reasonable and conservative methodology by which to estimate customer
16 participation.

17 **Q. What is the significance of Ms. Kimball’s statement that a survey performed**
18 **for NEEA by Evergreen Economics found only eight percent of purchasers**
19 **used loans to finance heat pumps?**

20 A. Ms. Kimball is referencing customer interest in financing the purchase of
21 equipment, rather than a comprehensive leasing service as proposed in Schedule
22 75. Therefore, it is speculative for her to draw a comparison of customer interest
23 between these two very different options.

1 **Q. Is it true that if participation is less than projected PSE may not fully recover**
2 **its costs?**

3 A. Yes, that is correct. However, PSE shareholders alone bear the risk of lower than
4 estimated participation. Customers are protected from that risk because only
5 participating customers pay the filed rates. Non-participating customers will not
6 pay for the lease service in their rates or be responsible for any risks of the
7 program.

8 **Q. Has PSE calculated the impact if fewer customers participate in the lease**
9 **service?**

10 A. Yes. As detailed in Exhibit No. ____ (MBM-20), and in Figure 2 below, PSE
11 calculated what impact there may be should actual customer participation prove
12 lower than anticipated by reducing its market share assumptions by an additional
13 50 percent. This modeled reduction would result in only one of every four
14 customers in the addressable lease market choosing to participate in the optional
15 service, as opposed to one in every two, as used in developing the rates proposed
16 in Schedule 75. The results of this analysis show that the proposed monthly rates
17 would be between two and nine percent lower than what would be necessary for
18 the Company to fully recover its regulated return, a variation of between \$1.63
19 and \$2.06 per month depending on the type of equipment leased. Over the lease
20 term this could result in an under-recovered amount of (\$250) to (\$340) per unit.
21 Again, should this occur, existing customers would not be required to pay higher
22 rates; it is the Company and its shareholders who will bear the risk of this under
23 recovery.

Figure 2: Shareholder Risk of Lower Customer Participation

Lease Equipment	Proposed Monthly Lease Price*	Adjusted Monthly Lease Price**	Impact over Lease Term
	(a)	(b)	(c)=(a-b)*lease term
Residential Water Heaters			
Standard Vent	\$19.13	\$20.88	\$(315.00)
Efficient Wi-Fi Standard Vent	\$22.63	\$24.38	\$(315.00)
Efficient Direct Vent	\$29.24	\$30.98	\$(313.20)
Wi-Fi Enabled	\$21.06	\$22.81	\$(315.00)
Efficient Wi-Fi Enabled	\$28.75	\$30.50	\$(315.00)
Commercial Water Heaters			
Efficient Wi-Fi Standard Vent	\$36.78	\$38.84	\$(247.20)
Efficient Large Volume Standard Vent < 199k Btu	\$76.00	\$78.05	\$(246.00)
Standard	\$42.73	\$44.79	\$(247.20)
Large Volume	\$46.93	\$48.99	\$(247.20)
Residential Heating and Air Conditioning			
Two Stage	\$58.19	\$59.86	\$(340.68)
Efficient Two Stage	\$67.68	\$69.35	\$(340.68)
Efficient Air Source	\$116.00	\$117.63	\$(352.08)

*Filed rates based on 1 in 2 customers identified as part of the addressable lease market taking service

**Modeled rate based on 1 in 4 customers identified as part of the addressable lease market taking service

1 **IV. IMPROPER TREATMENT OF AND TRANSITION OF EXISTING**
 2 **RENTAL CUSTOMERS**

3 **Q. Mr. Cebulko claims that in its existing rental service PSE “continues to**
 4 **comply with the Commission’s order to install water heaters with an efficiency**
 5 **of at least 0.6.”⁴⁵ Is this accurate?**

6 **A.** Yes. In fact, on April 15, 2016, the National Appliance Energy Act went into
 7 effect requiring all manufactures to produce products that meet increased
 8 efficiency standards, see figure 3 below.

9 **Figure 3: National Appliance Energy Act Standards**

GAS		Up to 55 Gallon Capacity			Greater than 55 Gallon Capacity		
Rated Storage Vol. (Gallons)	Tankless	30	40	50	60	65	75
Current Standard	.62	.61	.59	.58	.56	.55	.53
2015 Standard	.82	.63	.62	.60	.75	.75	.74

ELECTRIC		20-55 Gallon Capacity			Greater than 55 Gallon Capacity		
Rated Storage Vol. (Gallons)	20	30	40	50	65	80	120
Current Standard	.94	.93	.92	.90	.88	.86	.81
2015 Standard	.95	.95	.95	.95	1.98	1.97	1.92

Standards apply to U.S. only.

10
 11 PSE has worked with its existing distribution and installation partners to
 12 ensure that rental equipment being replaced is done so with equipment that meets
 13 or exceeds these standards.

⁴⁵ Cebulko, Exh. No. ___(BTC-1TH) at 16:10-11.

1 **Q. Mr. Cebulko claims that the equipment replaced by PSE in early 2016 was at**
2 **or only just above federal code. How do you respond?**

3 A. Mr. Cebulko’s statement is woefully misleading as it implies that PSE’s standard
4 practice has been to install equipment that just meets code; however, that is far
5 from the truth. As Exhibit No. ___(MBM-21) details, of the 141 residential units
6 replaced between January 1, 2016 and February 9, 2016, 110 of those units
7 exceeded current federal code. This represents 78% of the equipment that was
8 replaced with product that exceeds the code minimum. Thus, PSE remains
9 compliant with the intent to install energy-efficient water heaters.

10 **Q. Mr. Cebulko claims that the Company’s interests are being placed before the**
11 **customer’s best interest. Do you agree with this position?**

12 A. No. Mr. Cebulko’s claim that the Company is “incentivized to purchase and
13 install the cheapest appliances...[and] customers do not see any benefit”⁴⁶ is a
14 subjective and unsupported statement. As evidenced by Exhibit No. ___(MBM-
15 21), the Company has installed equipment that exceeds code, providing enhanced
16 benefit to those existing rental customers.

17 **Q. If this is true, why then isn’t the Company installing equipment that exceeds**
18 **code in all existing customers’ homes?**

19 A. There are some limitations associated with making the next step up in efficiency,
20 most specifically, equipment size. Higher-efficiency units are taller and larger in
21 diameter, and may not fit in existing tank locations. This may require that the

⁴⁶ Cebulko, Exh. No. ___(BTC-1THC) at 16: 19-20 and 17:1-2.

1 equipment be relocated or more. As explained in Mr. Pinkey’s testimony, “if the
2 existing appliance has no electrical component, but the new appliance does — as
3 many more energy efficient gas water heaters do — it is not, under state law, a
4 like in-kind replacement, and will require both a plumber and electrician, as well
5 as the HVAC technician dealing with the proper ventilation, among other
6 things.”⁴⁷ Ms. Kimball’s review of *Consumer Reports* also explains that “new
7 water heaters are more efficient, and that due to increased insulation and other
8 improvements, the new water heater may not fit in the same space as the
9 customer’s old water heater.”⁴⁸ The potential impacts and cost to a customer
10 under the existing rental service could be significant; therefore, while it is PSE’s
11 intent and goal to install equipment that exceeds code where possible, in some
12 situations, the application is just not appropriate or it is cost-prohibitive for the
13 customer.

14 **Q. Mr. Cebulko also asserts that the Company installed standard water heaters**
15 **in its existing rental program to benefit from, prior to the Commission’s 2013**
16 **decoupling decision, “increased throughput [that] would then add to the**
17 **Company’s revenues.”⁴⁹ Do you agree with this position?**

18 A. No. Again, Mr. Cebulko is making a subjective, uniformed and unsupported
19 accusation.

⁴⁷ Pinkey, Exh. No. ___(WEP-1T) at 3:12-16.

⁴⁸ Kimball at 13.

⁴⁹ Cebulko, Exh. No. ___(BTC-1THC) at 17: 2-5

1 **Q. According to Public Counsel, PSE’s pricing model provides that a significant**
2 **number of PSE’s existing water heater rental customers will be transitioned**
3 **to Lease Solutions. Is this correct?**

4 A. Yes. PSE plans to gradually transition its existing water heater rental customers
5 to Lease Solutions, if they are interested in participating in the service.

6 **Q. Upon approval of Schedule 75, will PSE file a means to end, or transition**
7 **existing rental customers under Schedules 71, 72 and 74?**

8 A. Yes, upon approval of Schedule 75 PSE will immediately implement a plan to
9 transition its approximately 33,675 existing rental customers served under
10 existing Schedules 71, 72 and 74, who are interested, to the Lease Solutions
11 platform, while also offering the option for new customers to access the service,
12 greatly accelerating the adoption of more efficient end-use equipment in the
13 region. Attached as Exhibit No. ___(MBM-22), is an outline of PSE’s proposed
14 transition plan for existing customers under Schedules 71, 72 and 74.

15 **Q. Would PSE be willing to expedite the transition plan for Schedules 71, 72**
16 **and 74 if required as a condition of approval of Schedule 75?**

17 A. Transition of over 33,000 customers from one service to another will require
18 careful coordination between PSE, the Commission and other key stakeholders to
19 ensure a positive customer experience and to mitigate adverse impacts on market
20 participants. This will include a detailed assessment of a various factors,
21 including but not limited to service partner capacity, company staffing levels, and
22 regional equipment stocks, that can be used to define appropriate staggered
23 notification and transition activities. Upon approval of Schedule 75, PSE is

1 willing to further review and define an expedited transition plan provided that it
2 can be done in a manner that does not harm participating customers or result in
3 the premature termination of assets which remain within their forecasted service
4 lives.

5 **Q. Could the implementation of the proposed transition plan for Schedules 71,
6 72 and 74 impact the rates proposed under Schedule 75?**

7 A. Yes. For example, by adding the proposed 2017 transition units associated with
8 schedules 71 and 72 to PSE's pricing workbook assumptions, the lease rate for the
9 proposed residential water heat equipment might be reduced by approximately
10 \$0.50 a month, representing a rate reduction of approximately 2%. The lease rate
11 for the proposed commercial water heat equipment might be reduced by
12 approximately \$0.60 a month, representing a reduction of approximately 1%.

13 **V. CONCLUSION**

14 **Q. Does this conclude your rebuttal testimony?**

15 A. Yes.