

**EXHIBIT NO. ___(LYN-1T)
DOCKETS UE-151871/UG-151872
PSE EQUIPMENT LEASING SERVICE
WITNESS: LIZ Y. NORTON**

**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 (NONCONFIDENTIAL) OF
LIZ Y. NORTON
ON BEHALF OF PUGET SOUND ENERGY**

JULY 1, 2016

PUGET SOUND ENERGY
PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
LIZ Y. NORTON

CONTENTS

I. INTRODUCTION1

II. LEASE SOLUTIONS PROVIDES A PATHWAY TO THE UTILITY OF THE FUTURE3

III. PSE’S LEASE PROPOSAL IS A LEGITIMATE UTILITY FUNCTION.....10

 A. Lease Solutions Responds To Customer Need, Addresses A Significant Market Gap, and Diversifies the Company10

 B. Lease Solutions Is An Appropriate Program For A Regulated Utility15

 C. Lease Solutions Will Provide Benefits To Both Participating And Non-Participating Customers.....23

IV. PSE IS UNIQUELY POSITIONED TO OFFER LEASE SOLUTIONS AND IT IS LIKE NOTHING AVAILABLE TODAY28

V. CONCLUSION.....30

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

PUGET SOUND ENERGY
PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
LIZ Y. NORTON

I. INTRODUCTION

Q. Please state your name, business address, and position with Puget Sound Energy.

A. My name is Liz Y. Norton. My business address is 10885 N.E. Fourth Street Bellevue, WA 98004. I am the Director, Product Marketing & Growth for Puget Sound Energy (“PSE” or the “Company”).

Q. Have you prepared an exhibit describing your education, relevant employment experience, and other professional qualifications?

A. Yes, I have. It is Exhibit No. ___(LYN-2).

Q. What are your duties as Director, Product Marketing and Growth for PSE?

A. I am responsible for leading the management, delivery, and evolution of our various products and services including our existing rental service, our street and area lighting services, our compressed natural gas services, our billing and payment solutions, and our work to make natural gas service affordably available to more customers. I also am responsible for our Energy Advisor team that works directly with over 80,000 customers annually to assist them with their energy needs.

1 **Q. Please summarize your testimony.**

2 A. PSE's Lease Solutions is a legitimate utility function that will provide broad
3 ratepayer benefits by addressing a current market gap. PSE is uniquely positioned
4 as a regulated utility to offer this service and make it easier for customers to move
5 forward with their efficient energy decisions. It is a solution that is not available
6 in the market today, as parties to this case admit, and it is a service desired by our
7 customers. PSE's Lease Solutions is consistent with Washington law as well as
8 past and current regulatory decisions. It will provide a pathway for our further
9 work to evolve PSE to a utility of the future while providing benefits to all
10 customers.

11 **Q. What is the purpose of your testimony?**

12 A. The purpose of my testimony is to adopt the testimony of Jason E. Teller who is
13 no longer employed by PSE and to respond to the following issues raised by other
14 parties in their testimony: First, I address the utility of the future, as discussed by
15 Staff witness Cebulko and explain how Lease Solutions is an important feature in
16 PSE's transition to becoming the utility of the future. Second, I respond to
17 testimony from Commission Staff asserting, without support, that leasing is not an
18 appropriate function for a regulated utility. Third, I address testimony from
19 intervenors and Commission Staff about the 1992 Washington Natural Gas
20 ("WNG") case, which confuses WNG's non-regulated merchandising program
21 from the regulated equipment rental service that WNG offered. I discuss how the
22 Commission rejected Staff's proposal to discontinue the tariffed rental program,

1 and I note that Staff relies on the same failed arguments in this case. Fourth, I
2 respond to testimony from various parties who deny the need for PSE's proposed
3 leasing service. Lastly, I share how PSE is uniquely positioned to offer Lease
4 Solutions to meet this unmet market need.

5 **II. LEASE SOLUTIONS PROVIDES A PATHWAY TO THE UTILITY OF**
6 **THE FUTURE**

7 **Q. Mr. Cebulko discusses the massive transformation in the utility business and**
8 **testifies that utilities must evolve into the utility of the future if they are to**
9 **survive this transformation. Please explain what the “utility of the future”**
10 **looks like to PSE.**

11 A. The utility of the future offers customers choices. These choices will range from
12 how they want to interact with the utility amid a growing array of
13 communications channels to how they want to manage, use or produce energy.
14 The “utility of the future” will be well-positioned to play a key role in meeting
15 these customers' evolving energy needs by (i) providing end use energy solutions;
16 (ii) integrating end use equipment with management and communications systems
17 to monitor, track, and respond to market conditions; and (iii) operating equipment
18 and infrastructure in a manner that delivers reliability and sustainability. This
19 integrated energy network relies on various market participants, energy services
20 partners, and regulators. The “utility of the future” transitions the industry in a
21 way that responds to customers' needs while maintaining a viable, strong,
22 responsive utility.

1 PSE agrees with Mr. Cebulko that the utility industry is undergoing a huge
2 transformation that will require utility companies to evolve if they want to
3 survive. This not only causes uncertainty for utilities and their regulators but also
4 uncertainty for their customers. As Mr. Cebulko states, “PSE has entered an era
5 of low load growth, declining use-per-customer, pre-determined revenue, and
6 customer generation.”¹ PSE is not unique in this respect and believes it must be
7 focused on both becoming more efficient in its core business while at the same
8 time looking for ways to diversify in order to mitigate the potential transitional
9 impacts on customers. As Mr. Cebulko testifies, “utilities and commissions are
10 proactively considering the future of the utility business”² across the country.
11 Lease Solutions is one step for our customers, our Company, and our regulators to
12 begin testing and piloting solutions that will help lead us to our future.

13 **Q. What role does the Commission play in this transition?**

14 A. The Commission plays a pivotal role in this transition by fostering a regulatory
15 environment that allows the utility to be flexible and innovative in its business
16 model while meeting customers’ evolving energy needs and expectations.
17 Regulators provide consumers with confidence. This confidence spurs market
18 transformation by providing certainty, predictability and fairness as consumers
19 choose new energy products or services. By taking a proactive role, the

¹ Cebulko, Exhibit No. ___(BTC-1THC) 39:14-15.

² *Id.* 40:10.

1 Commission has the ability to support both the customers and the utilities through
2 this transition to the “utility of the future.”

3 **Q. Has the Commission provided any direction or guidance on the transition to**
4 **the “utility of the future”?**

5 A. Yes. In the Commission’s 2014 Interpretative Statement Concerning Commission
6 Jurisdiction and Regulation on Third-Party Owners of Net Metering Facilities, the
7 Commission encouraged “incumbent utilities to develop a strategy and business
8 plan to compete more fully in the distributed energy resources market on either a
9 regulated or unregulated basis.”³ PSE’s proposed leasing service is a direct
10 response to the Commission’s request for the development of a strategy and
11 business plan. In its initial September 18, 2015 filing of Schedule 75, PSE made
12 clear that Lease Solutions is intended to be flexible to serve customer needs in an
13 evolving energy market and to explore the viability of including a variety of
14 emerging end use equipment and services such as solar, battery storage, and
15 electric vehicle charging.

16 The Leasing Service meets the Commission’s request because: 1) it clearly
17 provides a structure for “the strategy and business plan”; 2) it allows utilities to
18 “compete more fully... in the market”; and 3) it allows utilities to do so on a
19 regulated basis. The Commission indicated it looked “forward to reviewing”

³ *In re Amending and Repealing Rules in WAC 480-108 Relating to Electric Companies-
Interconnection With Electric Generators*, Docket UE-112133, Interpretive Statement
Concerning Commission Jurisdiction and Regulation of Third-Party Owners of Net Metering
Facilities, p. 33-34 n. 100 (July 30, 2014).

1 these structures “in the near future”; the near future is here now and we eagerly
2 encourage the Commission to approve Lease Solutions, which allows PSE to
3 compete more fully in markets with regulated products – just as the Commission
4 envisioned in July of 2014.

5 **Q. Does Mr. Cebulko recognize the need to encourage flexibility to address an**
6 **industry in transition?**

7 A. Yes, Mr. Cebulko concedes, in the abstract, that “it may be necessary that the
8 Commission evolve from its traditional regulatory framework to accommodate an
9 industry in transition.”⁴ However, when addressing PSE’s Lease Solutions, which
10 is designed to facilitate the offering of options for customers that enhance energy
11 efficiency and customer choice while also allowing PSE to put in place a platform
12 for distributed generation and other future offerings, Mr. Cebulko seems
13 unwilling to accept any flexibility on the part of PSE or the Commission. Instead
14 he attacks PSE’s proposed Lease Solutions using ratemaking principles that have
15 no relevance to new offerings, such as the known and measurable standard for pro
16 forma accounting adjustments in general rate cases. PSE responds more fully to
17 this in the rebuttal testimonies of Mr. Englert and Mr. Marcelia. In summary,
18 while Commission Staff recognizes the Commission’s need and desire to be
19 proactive, flexible, and encourage new models as the utility of the future evolves,
20 Commission Staff’s position in this case is out of step with this need. Instead,
21 Commission Staff criticizes Lease Solutions for not being forwarding thinking

⁴ Cebulko, Exhibit No. ___(BTC-1THC) 41:20-21.

1 enough, while in the same breath not being similar enough to past models and
2 falls back on failed arguments against leasing that the Commission rejected last
3 century. Commission Staff's inconsistency in position is difficult to reconcile.

4 **Q. Is the “utility of the future” completely clear to PSE?**

5 A. No, the path forward is not completely clear to PSE; however, what we do know
6 is that it needs to be about customers and meeting their evolving energy needs in a
7 reliable, flexible, affordable, and efficient manner. It also needs to provide
8 utilities with flexibility in the manner in which they operate in order to meet
9 customers' changing needs. The Company is ready to embark on the journey with
10 its customers, with its regulators, and with its trade partners. The Company
11 believes the proposed Lease Solutions is a low risk opportunity to provide
12 benefits to all customers, and to move toward the “utility of the future.”

13 **Q. How can the proposed Lease Solutions provide a pathway to the “utility of
14 future”?**

15 A. PSE's proposed leasing service is one step toward the future. It provides
16 immediate benefits to PSE's customers, both participants and non-participants. It
17 offers a platform to test and learn from pilots and new product offerings that
18 promote sustainability and energy efficiency and respond to the changing needs of
19 our customers in this rapidly evolving industry.

1 **Q. Does PSE have specific proposals as to how Lease Solutions can further the**
2 **transition to the utility of the future?**

3 A. Yes. The Company's specific proposal is detailed in Exhibit No. ___(LYN-3).

4 The proposed Lease Solutions will be a low risk step forward that will give the
5 Commission as well as PSE the ability to:

- 6 • Increase overall system energy efficiency through customer choice. This will
7 be demonstrated by tracking and annually reporting to the Commission, and
8 implementing an aggressive plan to transition the existing rental program.
- 9 • Pilot, customer generation, and energy storage. This will occur by utilizing
10 the leasing service to provide the equipment and potential customer
11 participants for planned demand response/load control pilots as well as other
12 potential storage and site generation studies.
- 13 • Leverage the leasing program as a real pilot to study and develop further
14 regulatory policy to help shape the "utility of the future."

15 **Q: Are there other commitments PSE is making in response to concerns**
16 **expressed by other parties?**

17 A. Yes. As discussed in more detail in the Prefiled Rebuttal Testimony of Mr.
18 Malcolm B. McCulloch and also included in Exhibit No. ___(LYN-3), PSE will
19 agree to the following commitments to address concerns raised by parties to this
20 case:

21 Upon approval of Schedule 75 PSE will:

- 1 • As part of its compliance filing, update rates for the lease tariff schedules, and
2 equipment options aligned to those products already filed in these schedules
3 (i.e. include higher input capacity natural gas furnaces).
- 4 • PSE will report additional value of the leasing platform and its contribution to
5 other policy priorities such as affordable access to natural gas service,
6 potential financial value of the leasing platform to ratepayers, and possible
7 core service reliability.

8 **Q. Please summarize this section of your testimony**

9 A. Lease Solutions provides a low risk pathway to begin the transition toward the
10 “utility of the future.” The Commission is a valued partner in this transition and
11 Lease Solutions is consistent with the Commission Interpretive Statement from
12 2014. The service is anchored in providing additional customer choice while
13 simultaneously providing public benefit to all customers. Lease Solutions:

- 14 • enables the pathway of choice and benefit for our customers,
15 • provides a responsible and affordable transition for customers to the future,
16 and
17 • provides a sustainable business model for its utilities.

18 While the future is not completely clear, what is certain is that we must begin and
19 the leasing service is one simple step forward.

1 **III. PSE’S LEASE PROPOSAL IS A LEGITIMATE UTILITY FUNCTION**

2 **A. Lease Solutions Responds To Customer Need, Addresses A Significant**
3 **Market Gap, and Diversifies the Company**

4 **Q. Several parties have questioned whether there is a need for PSE’s Lease**
5 **Solutions. Why is PSE proposing to offer this service?**

6 A. PSE wants to offer this service for three primary reasons:

- 7 • We want to provide choices to our customers that are valued and aligned with
- 8 their evolving and expressed needs,
- 9 • We want to address a gap in the market and drive enhanced levels of energy
- 10 efficiency that will result in broad customer benefits, and
- 11 • We want to evolve our business in ways that diversifies the Company while at
- 12 the same time provides benefits to all customers.

13 **Q. Mr. van den Heuvel does not believe there is a need for Lease Solutions.⁵**
14 **Why does PSE believe the service would be valued by customers and meet**
15 **their evolving needs?**

16 A. The undisputed data from Northwest Energy Efficiency Alliance (“NEEA”) set
17 forth in Jason Teller’s direct testimony and in Exhibit No. __ (JET-3) revealed that
18 over 40% of the relevant equipment in the market today is beyond its useful life.
19 This significant share demonstrates a clear market need that is not being met by
20 Mr. van den Heuvel’s contractor customers or other market participants or
21 offerings. One only needs to review the consistent results of PSE’s research and

⁵ van den Heuvel, Exhibit No. __ (JdvH-1T) 8:19.

1 review what is happening in the market around us to realize that customers' needs
2 continue to evolve and they are aligned with the benefits Lease Solutions will
3 provide. Convenience and one stop shopping is changing the way companies are
4 positioning themselves. Companies like Amazon, Starbucks, and Expedia are
5 great local examples of providing simple one stop solutions for customers. Lease
6 Solutions meets those same needs. It simplifies the entire equipment selection
7 process with a one-stop turnkey solution with:

- 8 • a product selection model that provides enhanced ease and convenience when
9 making the often difficult and complex energy equipment decisions;
- 10 • a streamlined credit approval process that provides immediate determination
11 of service availability;
- 12 • affordable access to high efficiency equipment;
- 13 • a flexible installation partner selection process that can be completely hands
14 off or hands on by the customer; and
- 15 • complete inclusion of maintenance, repair, and replacement as a part of the
16 service.

17 **Q. What kind of market analysis did PSE do to determine what its customers**
18 **needed?**

19 A. Over the last few years, PSE conducted three customer surveys to test customers'
20 interest and help design the leasing proposal. The results are summarized in Mr.
21 McCulloch's direct and rebuttal testimonies. What is notable is all three surveys,
22 taken at different times over the last two years and using different survey panels,

1 have a consistent conclusion — there is a large share of customers interested in
2 Lease Solutions. As shown in the table below from our most recent survey, up to
3 25 percent of customers surveyed expressed interest in the service. The number
4 of potential lease customers could grow to up to 40 percent of PSE customers if
5 one-half of those who are neutral Lease Solutions decide to participate.

6 **Table 1: Level of Customer Interest in Leasing**

Lease Product	Interested	Neutral	Uninterested
Residential Water Heater	25%	29%	46%
Residential Gas Furnace	18%	22%	60%
Residential Air Source Heat Pump	13%	20%	67%

7 Source: McCulloch, Exhibit No. ___(MBM-4).

8 **Q. Are these surveys a good indicator of customer interest?**

9 A. Yes. Customer surveying is used routinely in business, politics, and government
10 to measure customer interest in many areas such as testing desirable product
11 features; understanding customer opinions; and forecasting potential participation.
12 It is a common commercial practice that companies employ to help them direct
13 their business and their strategy. As discussed in Mr. McCulloch’s rebuttal
14 testimony, PSE is confident that Cocker Fennessy presented survey information
15 succinctly and consistent with industry best practices to avoid respondent
16 confusion and fatigue, and that the data can be relied on to develop business
17 plans.

1 **Q. Other parties have questioned whether there is really a “market gap.” How**
2 **do you respond to this?**

3 A. As reported in Jason Teller’s direct testimony and summarized in Exhibit No.
4 ___(JET-3), an analysis of NEEA 2012 Building Stock Assessment revealed that
5 40% of the relevant equipment in the market today has exceeded its useful lives.
6 While both Mr. Fluetsch and Mr. van den Heuvel suggest that because there are
7 so many contractors working in the region there is no possible gap, the data from
8 NEEA shows this is not so. There clearly is no correlation between the number of
9 contractors and market gap. Customers are clearly delaying the replacement of
10 old inefficient equipment as long as possible.

11 **Q. Has Mr. Fluetsch, Mr. van den Heuvel, Mr. Cebulko or any other witness**
12 **provided any other data to suggest that this “market gap” does not exist?**

13 A. No.

14 **Q. Why does PSE believe that Lease Solutions will address this market gap?**

15 A. PSE believes that one way to replace old, inefficient equipment is to make it
16 easier for customers to acquire new, energy efficient equipment. As Mr. Fluetsch
17 points out in his testimony, the decision to purchase a water heater or HVAC
18 equipment “can be very complicated. It requires knowledge of the current energy
19 efficiency of existing appliances, the expected remaining lives of the existing
20 equipment, the options for prices and efficiency of the new equipment, financing

1 costs and options, and other factors including the cost of the fuel.”⁶ While some
2 customers may enjoy navigating the complex decision-making tree Mr. Fluetsch
3 describes, many customers find that coordinating all the different aspects of a
4 purchase decision can be overwhelming and can paralyze their movement
5 forward. All this complexity will be simplified for the customer through PSE’s
6 simple product analysis and selection model, streamlined credit approval, installer
7 selection options, instant energy efficiency rebates, and inclusive maintenance,
8 repair, and replacement plans. As a result, Lease Solutions will help to address
9 the market gap through enhanced customer participation and thus raise the overall
10 efficiency in the system and deliver overall ratepayer benefits.

11 **Q. How does Lease Solutions help PSE evolve in a way that diversifies the**
12 **Company while at the same time provides more affordable service for all**
13 **customers?**

14 A. As discussed previously in my testimony, the utility industry is undergoing a huge
15 transformation that will require utility companies and their regulating bodies to
16 evolve if they want to survive and mitigate this transitional impact on customers.
17 PSE, like many other utilities, is considering additional valued services for their
18 customers that meet their evolving needs while at the same time provide overall
19 benefits. Beyond the immediate benefit of increased system efficiency that will
20 reduce long term energy costs, diversification will also provide new revenue and
21 earnings opportunities that will provide the utility greater financial stability.

⁶ Fluetsch, Exhibit No. ___(BF-1T) 1:18-21.

1 Lease Solutions is an additional step in this diversified direction where the service
2 provides not only participant benefits but broad system benefit at the same time.

3 **B. Lease Solutions Is An Appropriate Program For A Regulated Utility**

4 **Q. How do you respond to Mr. Cebulko’s assertion that PSE has the “burden to**
5 **prove that the ‘unmet need’ is a problem whose solution must be addressed**
6 **through regulation?”⁷**

7 A. PSE has proven that there is a gap in the market whereby 40% of the equipment is
8 not being replaced and is beyond its useful life. PSE has proven that over 25% of
9 customers are interested in Lease Solutions that provides them affordable access
10 to high efficient equipment and inclusive maintenance, repair, and replacement
11 features. PSE has proven that there is no other all-inclusive offer in the market
12 that can overcome many of the barriers that are preventing customers from taking
13 energy actions. PSE has proven that it is uniquely positioned as a regulated utility
14 working with customers every day with a business model that is conducive to
15 Lease Solutions. Lastly, and most importantly, PSE has proven that it can provide
16 Lease Solutions which will immediately provide broad customer net benefits. I
17 believe PSE has surpassed the burden of proof.

⁷ Cebulko, Exhibit No. ___(BTC-1THC) 7:7-8.

1 **Q. Commission Staff have testified that they do not believe that this leasing**
2 **proposal should be a regulated service. Do you agree?**

3 A. No. I do not agree. Leasing is a legitimate utility function. PSE and its
4 predecessors have provided equipment lease options to customers since 1961.
5 Throughout the years, Commissions and courts have approved of and upheld
6 leasing as legitimate utility functions. Today, PSE has over 33,000 customers
7 who currently lease water heaters, conversion burners, and as described in the
8 testimony of Eric E. Englert, PSE offers various other similar equipment leasing
9 options. All of these have repeatedly been upheld as legitimate utility functions.
10 For Commission Staff and others to claim that leasing is not an appropriate
11 regulated service when PSE has leased for decades and currently leases various
12 kinds of equipment to customers ignores history and legal precedent.

13 **Q. How do you respond to Staff’s suggestion that regulated service “most**
14 **appropriately ends at the meter?”**

15 A. PSE is not aware of any legal basis or controlling authority for this distinction and
16 this statement simply does not reflect how PSE and other utilities have historically
17 provided services. PSE currently offers a variety of regulated services, as Mr.
18 Englert discusses in his testimony, that are on the customer’s side of the meter. In
19 addition, PSE has a long history of providing leasing services where the meter as
20 a natural demarcation was never a consideration for the Commission.

1 **Q. Do you agree with Mr. Cebulko’s suggestion that Lease Solutions should not**
2 **be regulated because there is “no cost advantage from a single entity**
3 **marketing end-use appliances?”**

4 A. PSE does not believe having a cost advantage is a requirement of regulation nor
5 does it ever claim that Lease Solutions would have a cost advantage over other
6 offers in the market. The proposal is about offering an alternative to the market
7 that is not present today.

8 **Q. How do you respond to Mr. Cebulko’s hypothesis that the**
9 **telecommunications industry is a good model for the energy industry?**

10 A. Mr. Cebulko’s belief, based on a 1970 Federal Communications Commission
11 (“FCC”) ruling, that unbundled customer-premise-equipment (“CPE”) from
12 telecommunications service is a good model for the energy industry is completely
13 backward.⁸ During that time, the telecommunications companies had complete
14 control over CPEs before the 1970 FCC ruling. That has never been the case in
15 the energy industry nor is it planned to be in the future. In addition, as a result of
16 the FCC ruling, telecommunications companies were not prohibited from
17 participating in the CPE market as Mr. Cebulko seems to be suggesting should be
18 the case in energy. Lease Solutions is about introducing another option to
19 customers and contractors to address a known gap. It is not about being a sole
20 source provider of equipment in customers’ homes. Again, Mr. Cebulko appears

⁸ Cebulko, Exhibit No. ___(BTC-1THC) 10:1-13.

1 to be attempting to interpose his personal belief for how the energy industry
2 should operate without any actual precedential authority for his viewpoints.

3 **Q. Has Staff previously argued that water heater rental should be a non-**
4 **regulated service?**

5 A. Yes, in the 1992 WNG rate case Staff argued that the existing water heater rental
6 program, that had been in place as a regulated service for decades, should be
7 separated from the regulated business. Staff proposed that the Commission freeze
8 the tariff schedule and eliminate future replacement of equipment as it becomes
9 obsolete. Staff took very similar positions in that case to the positions it takes
10 today. The Commission, however, rejected Staff's suggestion for treating
11 equipment rentals as non-regulated service in the 1992 WNG case. Since that
12 time, PSE has continued its water heating rental program.

13 **Q. What were the arguments made by Staff in the 1992 WNG case in support of**
14 **its position that the equipment rental service should be a non-regulated**
15 **service?**

16 A. Just as in this case, Staff took the position that equipment rental should be a non-
17 regulated service because it occurred on the customer side of the meter.

18 According to Staff witness James Russell:

19 The appropriate test for the determination of a utility's allowable
20 costs for ratemaking purposes parallels the Commission's
21 jurisdiction, which ends at the meter (recognizing however, that
22 there is a safety aspect to natural gas service.) Any activity beyond

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20

the meter is a competitive service, the costs of which should not be included in the utility’s operating or capital accounts.⁹

In the 1992 WNG case, Staff failed to provide any support for its theory that the Commission’s jurisdiction ends at the meter, just as it fails to provide support for this theory today.

Q. Is Staff relying on other failed arguments from the 1992 WNG case?

A. Yes, in the 1992 case, just as today, Staff claims that the market has changed from 1961 when the Commission first authorized the tariffed equipment rental service and that the equipment rental program is no longer needed.¹⁰ In the 1992 case, Staff witness Jaime Ramirez testified that “the policy reasons that moved the Commission to approve the rental program are no longer present and valid because the conditions of the market environment have changed.”¹¹

Q. Did the Commission accept Staff’s view that WNG’s rental activity should be a non-regulated service in the 1992 case?

A. No. The Commission rejected Staff’s proposal and allowed WNG to continue renting water heaters as part of its regulated business. The Commission stated that tariffed water heater rental programs can provide benefits to customers if the company maximizes efficient use of resources. The Commission noted that Puget Sound Power & Light also offered a tariffed water heater rental program. The Commission accepted WNG’s proposal for steps to take to correct flaws in the

⁹ *WUTC v. WNG*, Docket UG-920840, Russell, Exhibit T-183, p. 10:16-22.

¹⁰ Krecker, Exhibit No. ___(SJK-3) (Testimony of Jaime Ramirez at 18-19).

¹¹ *Id.* at 19.

1 rental program, including increasing rates for water heater customers to better
2 reflect the cost of that service, rather than being subsidized by other customer
3 classes.¹²

4 **Q. How do you react to Mr. Fluetsch and Mr. Kreckler's accounts of WNG's**
5 **involvement in renting equipment such as water heaters in the 1980s and**
6 **1990s?**

7 A. Both Mr. Kreckler and Mr. Fluetsch seem to confuse WNG's past merchandising
8 program with its leasing program. These were two separate programs. The
9 article from "The Air Conditioning, Heating and Refrigeration News" that Mr.
10 Fluetsch and Mr. Kreckler both include as an exhibit to their respective
11 testimony¹³ does not address WNG's rental program. The same is true for Exhibit
12 No. ___(SJK-5). These exhibits address WNG's merchandising program and are
13 irrelevant to the proposed Lease Solutions before the Commission in this case.

14 **Q. How was WNG's merchandising program different from its equipment**
15 **leasing program?**

16 A. WNG's merchandising program was a non-regulated service that focused on the
17 sale of various appliances such as windows, doors, vinyl siding, HVAC
18 equipment and home security. The customer was the owner of the equipment and
19 had complete responsibility for its maintenance and repair. In contrast, the
20 leasing program was a tariffed service more limited in scope and included water

¹² *WUTC v. WNG*, Docket UG-920840, Fourth Supp. Order p. 16-17 (Sept. 27, 1993).

¹³ Fluetsch, Exhibit No. ___(BF-3); Kreckler, Exhibit No. ___(SJK-4).

1 heaters and conversion burners. It was an ongoing service whereby WNG owned
2 the equipment and was completely responsible for maintenance and repair.

3 **Q. How were these two separate programs treated by the Commission in the**
4 **1992 WNG rate case?**

5 A. In the 1992 WNG rate case, WNG proposed in its rebuttal testimony to move its
6 merchandising service to an unregulated affiliate, due to concerns that the
7 regulated utility customers were subsidizing this service. WNG ultimately did
8 create a separate non-regulated affiliate for its merchandising service. However,
9 the Commission authorized WNG to keep its equipment rental service as a
10 regulated service, despite the proposal from Staff that the equipment rental service
11 should be a non-regulated service.

12 **Q. Should the Commission be concerned that PSE's proposed Lease Solutions**
13 **will be subsidized by other customers, as was the case with WNG's**
14 **merchandising program?**

15 A. No, as described in significant detail in the testimony of Mr. McCulloch and Mr.
16 Englert, PSE has taken care to design its current lease service to avoid cross
17 subsidization by non-participating customers. The rates will not be set as part of
18 the revenue requirement and rate spread/rate design in a general rate case. Rather,
19 all costs associated with the Lease Solutions will be paid for by customers who
20 lease the equipment. If the rates set by PSE in the tariff fail to fully recover all
21 costs, it is the Company and its shareholders that bear the risk; non-participating
22 customers do not bear the risk.

1 **Q. Does this method of establishing rates differ from the method utilized by**
2 **WNG in its equipment rental program?**

3 A. Yes, the rates for WNG's leasing program were set in general rate cases and the
4 program was initially established with subsidization by other non-participating
5 customers because of the significant load-building benefits that all customers
6 experienced as a result of the program. This starkly contrasts with PSE's
7 proposed Lease Solutions, where only the customers who choose to lease
8 equipment will pay for the service.

9 **Q. Do you have any further comments about the testimony and exhibits filed by**
10 **Mr. Krecker?**

11 A. Yes. First, I think it is important to note that the Second Exhibit to Mr. Krecker's
12 testimony, Exhibit No. ___(SKJ-3), reflects the proposal by Commission Staff
13 witness Jaime Ramirez that was rejected by the Commission in the 1992 WNG
14 case. Mr. Ramirez had proposed that the Commission freeze the rental tariff,
15 require the formation of a separate non-regulated entity to manage rental
16 operations, and order a plan to phase out rental schedules within five years. As
17 previously noted, the Commission rejected these proposals by Commission Staff
18 and allowed WNG to continue offering its rental service as a tariffed service.
19 Second, I find it puzzling that Mr. Krecker includes Exhibit No. ___(SKJ-5).
20 This exhibit is a Tacoma News Tribune article describing how individual HVAC
21 contractors suffered after WNG set up an unregulated affiliate to operate its
22 merchandising business, rather than operating the business as part of the regulated
23 utility. As previously mentioned, this article relates to the merchandising

1 program that WNG operated, which is a completely different service than the
2 proposed Lease Solutions. Further, I find it interesting that the same contractors
3 who praised the decision to end subsidization of merchandising by the regulated
4 utility in Exhibit No. ___(SKJ-4), were complaining a year later that the non-
5 regulated merchandising company was no longer utilizing the services of certain
6 HVAC contractors. Apparently the regulated service was more financially
7 beneficial to these HVAC companies than the non-regulated company.

8 **Q. Do parties admit that the existing rental program was a legitimate and**
9 **reasonable utility service?**

10 A. Absolutely. Mr. Cebulko testifies that “the policy was reasonable” because it
11 “provided benefits to other rate payers.”¹⁴ As with the existing program, Lease
12 Solutions will do the same – provide ratepayer benefits.

13 **C. Lease Solutions Will Provide Benefits To Both Participating And Non-**
14 **Participating Customers**

15 **Q. Does Staff or Public Counsel believe there are ratepayer benefits associated**
16 **with Lease Solutions?**

17 A. Surprisingly, no. PSE has demonstrated 40% of the relevant equipment in the
18 market today is old and inefficient. If the proposed service were to replace even
19 just one existing system with a high efficiency system, there would be ratepayer
20 benefits. It is surprising to PSE that neither Mr. Cebulko nor Ms. Kimball can
21 accept this potential benefit when they themselves have not put forth any data to

¹⁴ Cebulko, Exhibit No. ___(BTC-1THC) 13:2-3, 5.

1 dispel there is a gap/opportunity to increase system efficiency. They have not
2 presented any data to dispel significant customer interest and have ignored the
3 33,000 existing rental customers that choose to continue renting equipment every
4 day. They have not suggested any definition of what is an adequate measure of
5 public benefit. Instead, they fall back on the argument that if the service is not a
6 traditional conservation program, it could not conceivably provide broad customer
7 benefit. This disregards legal decisions of the past. Programs that are not
8 traditional conservation programs are capable of providing broad system benefits.

9 **Q. Mr. Cebulko testifies that “Staff does not believe that the proposed leasing
10 service will adequately benefit either program participants or non-
11 participants.”¹⁵ Has Mr. Cebulko provided any definition as to what
12 constitutes “adequate” benefits?**

13 A. Not really. Mr. Cebulko makes inconsistent statements in his testimony on this
14 topic. In fact, Staff has struggled to articulate a clear standard by which PSE’s
15 program should be evaluated. On one hand, he states that a program is in the
16 public interest if the demonstrable benefits to the system outweigh the “costs and
17 risks” and that PSE has the burden to prove that “the benefits outweigh the costs
18 and thus result in a net benefit to its customers.”¹⁶ On the other hand, he makes
19 subjective statements that the proposed Lease Solutions does not provide adequate
20 benefits, without quantifying what constitutes adequate benefits. Although Staff

¹⁵ Cebulko, Exhibit No. ____ (BTC-1THC) 20:19-20 (emphasis added).

¹⁶ *Id.* 20:10-15.

1 and Public Counsel were encouraged to consider what constitutes “adequate”
2 benefits at the Open Meeting in November 2015, they have failed to provide any
3 real analysis to support their view that PSE’s proposed Lease Solutions does not
4 provide adequate benefits to customers.

5 **Q. Are there net public benefits to customers as a whole as a result of the**
6 **proposed Lease Solutions?**

7 A. Yes. With respect to the customers who choose to participate in the optional lease
8 service, they will benefit from the all-inclusive service that provides ease of
9 replacement of older, inefficient units, less intrusive and accelerated credit
10 screening, as well as the peace of mind that results from maintenance, repair, and
11 replacement for the lease term. The service is completely optional and customers
12 will judge for themselves if the price is fair for the services offered. We can
13 assume that for the customers who choose to participate in the service, the
14 benefits will equal or outweigh the costs. In this regard, it is important to
15 recognize that approximately 33,000 existing customers participate in PSE’s
16 existing rental service. They are free to cancel at any time, but apparently see a
17 continued benefit in leasing, rather than owning this equipment.

18 With respect to the customers who choose not to participating in Lease Solutions,
19 there are no costs they will bear; therefore, all benefits from Lease Solutions will
20 be net benefits enjoyed by all customers. As Mr. McCulloch testifies, all costs for
21 Lease Solutions are included in the proposed rates and paid for by participants.
22 PSE has taken care to design the service to avoid cross subsidization by non-

1 participating customers. The rates were not set as part of the revenue requirement
2 and rate spread/rate design in a general rate case, nor will they be in the future.

3 **Q. Do you agree with Staff's suggestion that customers will interpret**
4 **Commission approval of Lease Solutions to mean that the benefits outweigh**
5 **the costs for each individual customer?**

6 **A:** Absolutely not. PSE makes available many tariffed services that customers
7 evaluate, based on their own situation and needs, and determine whether or not it
8 is right for them. PSE is not asking the Commission to substitute its judgment for
9 that of the customer, as Mr. Cebulko claims.¹⁷ To the contrary, PSE is asking the
10 Commission to give each customer the option to choose a service that reflects the
11 individual customer's value system. Some customers are willing to pay more in
12 the long term for ease, convenience, and peace of mind that comes with a leasing
13 service. It is Mr. Cebulko who is substituting his judgment for the customer, and
14 asking the Commission to do the same by precluding this option that customers
15 have requested.

16 For nearly every service PSE offers, customers choose for themselves whether the
17 service is beneficial and reasonably priced for the benefits they receive. For
18 example, customers are deciding every day if converting to natural gas is right for
19 them, deciding if participation in an energy efficiency program meets their needs,
20 deciding if they value and are interested in purchasing green power, and deciding
21 if they would like PSE to operate and maintain the street lights in their city.

¹⁷ Cebulko, Exhibit No. ___(BTC-1THC) 4:15-16.

1 Frankly, it is offensive to customers and absurd to suggest that customers are not
2 capable of making these types of judgments for themselves, as Mr. Cebulko
3 suggests.

4 **Q. How can Staff be assured that there will be net public benefits as a result of**
5 **approval of Lease Solutions and that those benefits outweigh the costs?**

6 A. As I summarized previously and is included as Exhibit No. ___ (LYN-3), the
7 Company is prepared to report to the Commission annually the age and efficiency
8 of the removed equipment and the efficiency rating of all new leased equipment.
9 This will demonstrate how the proposed Lease Solutions is providing benefits.

10 **Q. Can you please summarize this section?**

11 A. Yes, PSE's Lease Solutions is an appropriate regulated service that provides
12 broad customer benefits. The Commission and the Washington Supreme Court
13 have ruled that leasing equipment is within the jurisdiction of a regulated utility.
14 Lease Solutions helps address a significant market gap by providing an all-
15 inclusive optional service that customers have expressed interest in and is like no
16 other offer in the market today. Lease Solutions will provide simultaneous
17 benefits to both participating customers and non-participating customers while
18 providing PSE an additional diversified service that helps contribute to its
19 financial stability amid an uncertain transitional time.

1 **IV. PSE IS UNIQUELY POSITIONED TO OFFER LEASE SOLUTIONS AND**
2 **IT IS LIKE NOTHING AVAILABLE TODAY**

3 **Q. What is so unique about PSE’s proposed leasing service?**

4 A. The proposed Lease Solutions is unique as it is an all-inclusive turnkey service
5 that streamlines the entire decision making and equipment management process
6 for customers. It addresses many of the barriers that prevent customers from
7 moving forward with energy decisions – lack of time, lack of money, lack of
8 research, and lack of confidence, to name a few. Lease Solutions is a
9 comprehensive solution to help customers navigate, select, afford, and maintain
10 new efficient energy equipment and it is unparalleled by what others offer in the
11 market today.

12 **Q. Is there any similar leasing option available to PSE customers today?**

13 A. No. There are no similar all-inclusive options in the market today. Mr. Fluetsch,
14 who owns a full service energy company, agrees as he testified that he “know[s]
15 of no lease program in the residential sector in the State of Washington.”¹⁸ There
16 are a variety of contractors, distributors, lenders, and warranty companies that
17 each provide a different aspect of a customer’s purchasing decision. However, no
18 one has packaged all the aspects of the purchasing decision in a simple,
19 affordable, reliable, and efficient manner for the customer except PSE in Lease
20 Solutions. While other parties recognize there is no similar service, they dismiss

¹⁸ Fluetsch, Exhibit No. ___(BF-1T) 5:15-16.

1 the need. PSE cannot dismiss the need because we have heard directly from our
2 customers that they are interested in leasing equipment and find PSE's proposal
3 attractive.

4 **Q. Is PSE in a good position to offer Lease Solutions?**

5 A. Absolutely. PSE is uniquely positioned as a regulated utility to provide this
6 service. First, PSE works with customers every day: (i) on ways to manage their
7 energy and save money on their bills, (ii) to identify what efficiency measures are
8 available and recommended, (iii) to refer them to contractors who can assist them,
9 and (iv) to identify what financing options are available. Our customers turn to us
10 every day for assistance and guidance. This optional service is a natural extension
11 of our current services. Second, PSE's regulated business model is one where we
12 make investments and earn a regulated return over long periods of time. This
13 helps customers afford services by paying for them slowly over time similar to
14 how they do every day on gas and electric service, street lights, compression
15 facilities, and transformers. Third, we know our customers and are able to
16 quickly and seamlessly assess their credit worthiness on optional services. Lastly,
17 we can leverage these types of services to continue to learn and test various paths
18 for the future utility model in a way that makes the evolution fair and reasonable
19 to all ratepayers.

20 **Q. Can you please summarize this section?**

21 A. Lease Solutions is unlike any other offer in our market today. It enables
22 customers to more easily move forward with their efficient energy equipment

1 decisions because it provides a simple, convenient, affordable, and efficient path
2 to do so. Customers have repeatedly expressed their interest in the service and it
3 is expected to help address the large share (~40%) of older inefficient equipment
4 in the market today. PSE is perfectly positioned to offer this service to customers
5 due to our current relationship with our customers, the knowledge we have to
6 quickly and seamlessly assess the business risk, the business model to affordably
7 offer the solution to customers, and the willingness to ensure all ratepayers benefit
8 from this service, not just participants.

9 **V. CONCLUSION**

10 **Q. Does that conclude your testimony?**

11 **A.** Yes, it does.