**EXHIBIT NO. \_\_\_(AJW-1T)
DOCKETS UE‑151871/UG-151872
PSE EQUIPMENT LEASING SERVICE
WITNESS:  ANDREW J. WIGEN**

**BEFORE THE**

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF**

**ANDREW J. WIGEN**

**ON BEHALF OF PUGET SOUND ENERGY**

**JULY 1, 2016**

**PUGET SOUND ENERGY**

**PREFILED REBUTTAL TESTIMONY (NONCONFIDENTIAL) OF
ANDREW J. WIGEN**

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**PUGET SOUND ENERGY**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
ANDREW J. WIGEN**

1. INTRODUCTION

Q. Please state your name, business address, and position.

A. My name is Andy Wigen. My business address is 906 Industry Drive, Tukwila, Washington 98188. I am the cofounder/owner of Emerald City Energy and McLendon Home Services.

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

A. Yes, I have. It is Exhibit No. \_\_\_\_ (AJW-2).

**Q. Please summarize your testimony.**

A. I have reviewed PSE’s Lease Solutions, which proposes to lease HVAC and water heating equipment, and I believe it will be a valuable addition to the marketplace. The offering will capture a market segment underserved, if not completely unserved, at this time.

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

A. The purpose of my testimony is to represent an unbiased opinion of the benefits of this program from a contractor’s perspective. The rebuttal testimony provided by the contractor associations does not represent the entirety of the contractor/dealer network, and I disagree with their overwhelmingly negative depiction of the service. With my experience and understanding of the market, I believe Lease Solutions will bring value to customers and the general community as a whole, while not damaging the existing market for HVAC/water heating equipment.

1. THE MARKET

**Q.** **How would you describe the water heating and HVAC market in Western Washington?**

A. It is important when talking about the HVAC/water heating market to separate “replacement” from “new construction.” PSE’s Lease Solutions is aimed at providing an alternative option in the market for customers that need to replace their existing HVAC or water heating equipment. In new construction, the home builder determines what HVAC or water heating equipment to install. Thus, the new home buyer does not have the ambiguity of timing and choice that replacement homeowners face. Currently, there are hundreds of dealers (contractors) that market, sell, and install HVAC and water heating replacement equipment in the Puget Sound area.

**Q. When do most customers typically purchase HVAC/water heater equipment?**

A. For most customers, the purchase of HVAC/water heater equipment is reactive. Because furnaces and water heaters do not beautify the home like a kitchen or bath remodel, they are out of sight, out of mind. Homeowners usually only replace HVAC/water heater equipment when it breaks down, or when it stops providing customers the performance they desire or are used to.

**Q. Some market studies have indicated that a significant percentage of customers in Western Washington are using outdated or inefficient water heating or HVAC equipment. How does your experience compare with these studies?**

A. I agree that as a result of the “if it’s not broke, don’t fix it” mindset that accompanies HVAC/water heating equipment, as described above, there are thousands of inefficient units throughout the region that may benefit from being replaced. In some cases, the failure to replace old HVAC/water heating equipment can even be dangerous for home owners.

**Q. What are the dangers of not replacing HVAC or water heating equipment at or near the end of its useful life?**

A. An older gas furnace can develop a crack in the heat exchanger. When this crack occurs, the barrier between products of combustion and the home’s conditioned air is breached. As a result, carbon monoxide can escape into the home. There is still a large percentage of homes with older furnaces that do not have carbon monoxide detectors, thus the risk is real for this unsafe situation. For water heaters, the most common breakdown is the tank corroding from within thus creating a leak. Gallons of leaking water, if not detected quickly, can cause a myriad of safety issues, as well as significant damage to homes.

**Q. Why don’t customers replace aging equipment before it breaks down?**

A As described above, because HVAC/water heating equipment is not an aesthetic part of the home, customers are disinclined to replace the equipment before they have to. Even if they try to replace older equipment, most homeowners have never purchased HVAC or water heating equipment before so they have no idea where to go or what to purchase. They hear advertising for “high efficiency” along with “manufacturer rebates” and lots of competing marketing messages that often create confusion to the point that many customers fail to act because they have no idea when they are supposed to replace their equipment, or who to purchase from. The cost of purchasing and installing HVAC and water heating equipment can also be prohibitive for some customers, and many procrastinate because of the cost. The bottom line is that many homeowners who should replace their old, inefficient, potentially unsafe equipment do not do so, either because they perceive no need, they are unsure what to do or where to go, or due to cost constraints.

**Q. What is your reaction to statements by the association witnesses that there is no market gap because of the multiplicity of HVAC contractors in the market place?**

A. It is incorrect to say there is no market gap. While I personally have not quantified the gap, there is absolutely a gap. In my experience, there are many customers that do not replace their equipment when they should and who are using old, inefficient equipment that is at risk of breaking down. These customers are not being addressed by the current market.

**Q. Why isn’t the current market addressing the market gap?**

A. Many customers do not trust the contractor market. While there are many reputable HVAC/water heater contractors in the market, as Operations Vice President for Washington Energy Services, I saw firsthand that not all contractors operate their business with a “customer first” mantra. Unfortunately, customers sometimes hear mixed messages in advertising and from in-home salespeople. Every dealer believes the manufacturer they represent is better than all competitors. Given that the vast majority of customers know nothing about HVAC/water heating equipment, they are often confused and frustrated with the process. Some customers do not replace their equipment because they do not trust the contractors that are trying to sell them the equipment. As with any technical product, people need to trust the party from who they are buying or leasing.

**Q. Why would customers turn to PSE instead of a contractor?**

A. There is no question that many customers trust PSE. I have worked in this community for nearly 30 years and I have seen the loyalty and trust many customers place in their local utility. PSE provides reliable energy services for them and this relationship builds trust. It cannot be overstated how impactful the message is when PSE says, “your equipment is inefficient, past its useful age, and you should consider replacement” and, “here are some options you might want to consider.” Some customers will be more receptive to the message that “now is the time to replace” when it comes from PSE, and they will likely consider replacement options, including Lease Solutions.

**Q. Are you aware of any specific efforts by HVAC contractors in the market to address the market gap?**

A. No. However, HVAC and water heating dealers are doing everything they can to reach as many customers as possible. They are advertising using every medium, including social media and traditional advertising. The market gap exists because some customers simply choose to not replace aging equipment, some cannot afford to replace, and some of these customers are frustrated by working directly with HVAC and water heating contractors. While Lease Solutions may not reach all customers within the market gap, Lease Solutions will likely reach some customers in this market gap with a message that resonates more clearly than the current HVAC/water heating market does.

1. EVALUATION OF LEASE SOLUTIONS

**Q. Have you reviewed PSE’s proposed tariff?**

A. Yes. I also reviewed PSE’s direct testimony and the testimony of the intervenor associations’ witnesses.

**Q. What is your reaction to PSE’s proposal?**

A. Lease Solutions presents a reasonable alternative for customers who are not currently ready, able or willing to replace old, inefficient, and potentially unsafe equipment by providing a straightforward option to replace the HVAC/water heating equipment in their homes. It is more likely to reach customers that currently are “paralyzed” by fear of the unknown, do not have the financial strength to cover the entire replacement cost, or are simply unaware of the necessity to replace prior to the equipment’s demise.

**Q. Do you think Lease Solutions could address the market gap discussed above?**

A. Absolutely. It is ridiculous to argue that a different approach, from a trusted source, would not reach some customers in the marketplace that are looking for other options. Simple economics tells us this is true. This, combined with the fact that the HVAC/water heating marketplace is one where consumers most often choose not to replace until they have to, and are often reluctant to do so due to their lack of knowledge and cost of the equipment and installation, makes it more likely that PSE offering to replace old, outdated products with new, more efficient products will be appealing to many customers.

**Q. How do you know that this type of program would appeal to customers?**

A. Because I have seen both sides of the table. For years I worked at Washington Natural Gas leasing and selling water heating equipment to customers. I spoke to thousands of customers during that time, many of whom leased or purchased from the utility because they were looking for a straightforward solution to their water heating needs. Today, my business is a nonregulated company who also sells water heating and HVAC equipment to customers.

**Q. Some of the parties to this case have suggested that Lease Solutions is unnecessary because customers who cannot purchase can finance with terms better than what PSE is proposing. What is your experience with financing water heating or HVAC equipment?**

A. There are certainly financing options available for some customers. However, not everyone can access financing and not everyone can use other methods such as a home equity line of credit. Also, the reality is, not everyone wants to finance for a variety of reasons. Leasing would simply be another option for customers.

**Q. Can customers purchase warranty and maintenance service from their HVAC/water heating contractor?**

A. Yes. For some customers it may be possible to finance a maintenance and warranty plan with their equipment purchase. However, the benefit of PSE’s service is that everything comes from one place. Customers will always be assured that if they have equipment problems, PSE is available to answer questions and resolve this issues. PSE will also likely send service reminders and other correspondence to customers. My experience is, those types of customer communications are not always provided by all contractors in the marketplace and customers highly value these services. There are also many contractors who strongly dislike providing warranty services because there is typically little profit for the contractor for providing such services. This dislike can sometimes come through in the service they provide, which customers observe. Finally, in the case where the contractor goes out of business, finding a new contractor to service a warranty or assume the maintenance obligations can be a cumbersome process. With Lease Solutions, the customer has the benefit of knowing PSE will always be there.

**Q. Does a warranty for HVAC or water heating equipment ensure the customer will have no out-of-pocket costs if they system needs to be serviced or replaced?**

A. No. Manufacturer warranties often do not cover replacement for the entire piece of equipment. For example, for a furnace, a warranty may cover the electric components for one duration and the heat exchanger for another, and many not cover other parts of the furnace. Many warranties also do not include labor costs. Customers typically do not understand these warranty limitations until it is too late. PSE’s proposed service is essentially providing a bumper-to-bumper warranty for the entire lease. Very rarely do manufacturer warranties provide this kind of coverage.

**Q. How would you define “useful life”?**

A. Useful life is the length of time equipment performs well, serves its intended purpose, and remains an effective/efficient solution relative to current technology.

**Q. Has PSE correctly defined and properly used “useful life” as a metric for the lease term in Lease Solutions?**

A. Yes. Of course, useful life is an average, and I believe PSE has landed on a reasonable useful life metric.

**Q. Some parties have criticized Lease Solutions for offering too few equipment choices to customers? Do you agree with this?**

A. PSE is trying to keep the equipment selection process simple, and its current offering will address the needs of many customers. As its service develops, like any service, PSE will need to continue to evaluate what additional products it can offer to ensure that it is fully meeting its customers’ needs. I believe PSE has indicated that although its initial tariff offering is limited, it intends to expand the models offered in the future, as needed. The associations’ suggestion that PSE needs to offer every possible equipment option in the marketplace is incorrect. For those customers that want geothermal heat pumps, equipment with zoning capabilities, or other specialty products, Lease Solutions may not be for them. But my experience is, most customers want a relatively straightforward water heater or furnace, which Lease Solutions provides.

**Q. Some parties have criticized PSE’s delineation of a “standard” and a “non-standard installation” and that customers would be responsible to pay for any non-standard installation costs. Do you agree with this criticism?**

A. No. It is entirely reasonable for a contractor to structure its service model this way. In my business, we sell HVAC/water heating equipment every day, sight unseen, after communicating by telephone or in store with customers. “Standard” installations will cover the vast majority of installs. Following the telephone call, our installers inspect the home to determine if any “non-standard” installation costs are required. Rarely do we have non-standard installs, and when we do, customers understand why and agree that it makes sense for the situation. The argument that “every installation is different” is just a smokescreen designed to elicit confusion for those outside the industry. For example, replacing water heaters typically has very few non-standard installation requirements. On average, the vast majority of installs fit into a tidy box of labor time and materials that can easily be described as “standard.” There are minor differences from job to job, but at the end of the day, HVAC/water heating contractors know they can easily come up with a standard installation cost that fits the overwhelming majority of installations.

**Q. Are the leasing rates for the service reasonable?**

A. I believe that some customers will find that leasing makes sense for their circumstances and that the one-stop shop for purchase, installation, maintenance, and warranty process is worth the cost. For those customers that have the time and interest to research all options on the marketplace, they may conclude that a different option, including outright purchase or financing, is better for them. But for the customers that do not want to go through that process, and do not want to worry about their HVAC/water heating equipment, Lease Solutions is a good option that should be available in the marketplace. Unfortunately with HVAC/water heating equipment, when equipment breaks down, it is usually ill timed and unpleasant, and customers do not always make the wisest, energy-efficient choices under those circumstances. For some customers, peace of mind is worth the cost, and I believe Lease Solutions will meet the needs of these customers in a way that the HVAC/water heating market currently cannot do.

**Q. After reviewing the contractor associations’ testimony, how would you describe their underlying concern?**

A. I believe some contractors are concerned PSE’s service will impact their bottom line and believe Lease Solutions will take market share from them. As a business owner in this market, I fully understand this concern. However, what is best for consumers is more choices. The associations state repeatedly that customers should have as many choices and options as possible, yet they oppose another option for replacing HVAC/water heating equipment in the marketplace. If some customers in the marketplace would prefer a leasing option, even if it is only a small percentage, why oppose such an option if it would be better for those customers? Ultimately, I believe some contractors are more concerned with their bottom line than they are for what is best for customers and the market and that is why they are opposing the service.

**Q. As a contractor in the market, are you concerned?**

A. No, I am not concerned because ultimately I do not think it will harm my business, and I believe customers should have choice. The current market is not addressing the needs of some customers, and if Lease Solutions can serve those customers, then this does not impact my business because I am not reaching those customers anyway.

Q. Could the contractors benefit from PSE’s Lease Solutions?

A. Yes, I believe they can benefit from Lease Solutions. First, PSE has several partnership paths that allow contractors to be a part of the business PSE is proposing. Second, PSE is proposing to open up a market segment that the contractors have not been able to adequately reach, and this will provide new business opportunities for these contractors. Third, in my experience, when a large and trusted entity like PSE is spreading the word about the importance of replacing older, inefficient equipment, and when it is providing additional options for consumers to engage in the market, the entire market can benefit.

1. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes.