

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

**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
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

I. 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

1 network, and I disagree with their overwhelmingly negative depiction of the
2 service. With my experience and understanding of the market, I believe Lease
3 Solutions will bring value to customers and the general community as a whole,
4 while not damaging the existing market for HVAC/water heating equipment.

5 II. THE MARKET

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

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

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

18 A. For most customers, the purchase of HVAC/water heater equipment is reactive.
19 Because furnaces and water heaters do not beautify the home like a kitchen or
20 bath remodel, they are out of sight, out of mind. Homeowners usually only

1 replace HVAC/water heater equipment when it breaks down, or when it stops
2 providing customers the performance they desire or are used to.

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4 **customers in Western Washington are using outdated or inefficient water**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

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

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

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

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

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

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

19 A. It is incorrect to say there is no market gap. While I personally have not
20 quantified the gap, there is absolutely a gap. In my experience, there are many
21 customers that do not replace their equipment when they should and who are

1 using old, inefficient equipment that is at risk of breaking down. These customers
2 are not being addressed by the current market.

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

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

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

16 A. There is no question that many customers trust PSE. I have worked in this
17 community for nearly 30 years and I have seen the loyalty and trust many
18 customers place in their local utility. PSE provides reliable energy services for
19 them and this relationship builds trust. It cannot be overstated how impactful the
20 message is when PSE says, "your equipment is inefficient, past its useful age, and
21 you should consider replacement" and, "here are some options you might want to

1 consider.” Some customers will be more receptive to the message that “now is
2 the time to replace” when it comes from PSE, and they will likely consider
3 replacement options, including Lease Solutions.

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

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

15 **III. EVALUATION OF LEASE SOLUTIONS**

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

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

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

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

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

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

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

18 A. Because I have seen both sides of the table. For years I worked at Washington
19 Natural Gas leasing and selling water heating equipment to customers. I spoke to
20 thousands of customers during that time, many of whom leased or purchased from
21 the utility because they were looking for a straightforward solution to their water

1 heating needs. Today, my business is a nonregulated company who also sells
2 water heating and HVAC equipment to customers.

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

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

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

13 A. Yes. For some customers it may be possible to finance a maintenance and
14 warranty plan with their equipment purchase. However, the benefit of PSE's
15 service is that everything comes from one place. Customers will always be
16 assured that if they have equipment problems, PSE is available to answer
17 questions and resolve this issues. PSE will also likely send service reminders and
18 other correspondence to customers. My experience is, those types of customer
19 communications are not always provided by all contractors in the marketplace and
20 customers highly value these services. There are also many contractors who
21 strongly dislike providing warranty services because there is typically little profit

1 for the contractor for providing such services. This dislike can sometimes come
2 through in the service they provide, which customers observe. Finally, in the case
3 where the contractor goes out of business, finding a new contractor to service a
4 warranty or assume the maintenance obligations can be a cumbersome process.
5 With Lease Solutions, the customer has the benefit of knowing PSE will always
6 be there.

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

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

18 **Q. How would you define "useful life"?**

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

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

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

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

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

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

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

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

17 A. I believe that some customers will find that leasing makes sense for their
18 circumstances and that the one-stop shop for purchase, installation, maintenance,
19 and warranty process is worth the cost. For those customers that have the time
20 and interest to research all options on the marketplace, they may conclude that a
21 different option, including outright purchase or financing, is better for them. But
22 for the customers that do not want to go through that process, and do not want to

1 worry about their HVAC/water heating equipment, Lease Solutions is a good
2 option that should be available in the marketplace. Unfortunately with
3 HVAC/water heating equipment, when equipment breaks down, it is usually ill
4 timed and unpleasant, and customers do not always make the wisest, energy-
5 efficient choices under those circumstances. For some customers, peace of mind
6 is worth the cost, and I believe Lease Solutions will meet the needs of these
7 customers in a way that the HVAC/water heating market currently cannot do.

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

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

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

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

6 **Q. Could the contractors benefit from PSE's Lease Solutions?**

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

15 **IV. CONCLUSION**

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

17 A. Yes.