

EXHIBIT NO. ___(RJA-3)
DOCKET NO. UE-06 ___/UG-06 ___
2006 PSE GENERAL RATE CASE
WITNESS: RONALD J. AMEN

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

Docket No. UE-06 ___
Docket No. UG-06 ___

SECOND EXHIBIT (NONCONFIDENTIAL)
TO THE PREFILED DIRECT TESTIMONY OF
RONALD J. AMEN
ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 15, 2006

Cost of Service Model

A Proven Methodology for Evaluating Your Current Financial Situation

Navigant Consulting's Cost of Service Model provides clients with the methodology to evaluate their current financial situation by component, particularly for rate case purposes. This model can be used to examine four aspects:

- » The nature and performance of business functions,
- » Which markets and services can be leveraged into greater profitability,
- » How to improve cost recovery and financial performance, and
- » Where prices may need to be adjusted to more closely reflect costs.

A Microsoft Excel-based tool, the model takes user-provided inputs and processes them in a systematic and flexible manner to produce cost and financial information about business segments and rate classes. The majority of the processing occurs through the use of standard Excel formulas and functions, and the Visual Basic for Applications (VBA) macro. Structures within the model provide users with direction regarding the model's requirements. Within the calculation stage, the model combines factor data and account data to produce the calculated revenue requirements for each rate class. These results are captured in a series of reports that provide both detailed and summary information. The Cost of Service Model requires inputs of account level plant and expense data and external cost allocation factors. These factors are themselves the results of additional studies and/or reports, compiled outside the model.

To fully appreciate and utilize its capabilities, the model also requires that the user have analytical and strategic thinking to determine the types of data that should be

introduced into the model and how that data should be used. The Cost of Service Model is offered to clients on a one-time fee-based license. Specific details on the features of the model follow herewith.

Additional Components

The following components have been added during recent engagements to accommodate client needs:

- » Seasonalization of costs
- » Time of use/time of day rates
- » Functionalized revenues
- » Account category summary reports
- » Scenario comparisons
- » Multiple year comparisons
- » Proforma adjustments as a separate entry
- » Rate class "supergroups" (e.g., all commercial classes) calculations and reports

Basic Model Parameters

The Cost of Service Model is built to accommodate any utility-type account system including gas, electric, water, and waste water. More specifically, the basic model works within the following parameters:

- » 20+ rate classes
- » 15+ functions
- » 6+ classifications
- » Unlimited allocators
- » Unlimited account data
- » 2+ sets of account data and factoring (e.g., per book and test period adjusted data can be included in the same model)
- » Additional functional categories and customer groups
- » Variable rate of return by rate class
- » Additional functional categories and customer groups
- » Variable rate of return by rate class

Contact »

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About Navigant Consulting

Navigant Consulting, Inc. (NYSE: NCI) is an independent consulting firm providing specialized professional services to assist clients in identifying practical solutions to the challenges of uncertainty, risk, and distress. We focus on large industry sectors that are undergoing significant change.

Reporting Capabilities

The Cost of Service Model is highly flexible and can be formatted to meet specific internal information or regulatory requirements:

- » Provides both revenue requirements and earned return summary reports
- » Produces reports detailing fully distributed costs by function, classification, and rate class
- » Specific reports include: functionalized rate base, expenses, and revenue requirements
- » Produces unbundled unit costs based on embedded cost data
- » Detailed report available containing fully allocated accounts

Key Model Features

Model Controls Page. Rather than relying on memory for keyboard command macros, the initial model page contains buttons to initiate resizing the visual space, searching for errors, and running and printing the model.

Custom Toolbar. Many key user processes, including frequently used macros, are available on a custom-designed toolbar.

Centralized and Organized Inputs. To simplify data entry and deter the user from overwriting calculation cells, inputs are organized into separate spaces and setoff by an input cell style.

Flexibility. The analyst has the capacity to add, delete, and alter allocation factors and accounts with relative ease, providing flexibility in producing results.

Expandability. The model allows for more functions, allocators, classifiers, and rate classes as requirements change. Additional space beyond the preset sections for each of the factors is possible, in some cases with only minor adaptation.

Collapse and Expand. As noted above, the model has space to expand, but to keep this space hidden until it is needed, the model contains macros that allows the user to hide this extra space or alternatively to expand the model to see and use its full size.

Linked Sheets. Rather than transferring tables of data between individual worksheets, the Cost of Service Model uses the linking capabilities of Excel to allow the user to enter data once, and then reference the information later in the modeling process.

Style Guidelines. Rather than relying on a predetermined format, the model uses a style sheet.

Automated Processing. The model automatically changes allocation factor percentages. For example, whenever the user changes a functionalization, classification, or allocation factor of an account, there is no need to recode the allocation percentages.

Error Locator. To assist the user in locating calculation errors, the Cost of Service Model contains a macro that locates certain types of errors and produces a list that the user can use as a first step to troubleshooting.

Printing and Formatting. Pre-specified reports have automatic format and print buttons.

