

**EXHIBIT NO. ___(DWH-1T)
DOCKET NO. UE-060266/UG-060267
2006 PSE GENERAL RATE CASE
WITNESS: DAVID W. HOFF**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.,

Respondent.

**Docket No. UE-060266
Docket No. UG-060267**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
DAVID W. HOFF
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JULY 7, 2006

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**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
DAVID W. HOFF**

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF**
3 **DAVID W. HOFF**

4 **I. INTRODUCTION**

5 **Q. Please state your name, business address, and position with Puget Sound**
6 **Energy, Inc.**

7 A. My name is David W. Hoff. I am Manager, Pricing and Cost of Service with
8 Puget Sound Energy, Inc. ("PSE" or the "Company"). My business address is
9 10885 NE 4th Street, P.O. Box 97034, Bellevue WA 98009-9734.

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

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

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

14 A. I adopt as my testimony the prefiled direct testimony of Mr. James A. Heidell,
15 Exhibit No. ___(JAH-1T), submitted for the Company on February 15, 2006. In
16 addition, I update the Company's electric cost of service study based on the
17 revised revenue requirement provided by Mr. John H. Story in his supplemental
18 direct testimony, Exhibit No. ___(JHS-15T).

1 This is the update that Mr. Heidell explained would be conducted after the update
2 to the 2005 power cost-only rate case ("PCORC") power cost baseline in his
3 prefiled direct testimony page 45, line 5 – 7 of Exhibit No. ___(JAH-1T).

4 **II. ELECTRIC COST OF SERVICE**

5 **Q. Please summarize the purpose of the update to the cost of service study.**

6 A. Mr. Heidell's prefiled direct testimony, which I have adopted, states as follows:

7 Once the New Schedule 95 rate is approved, the Company will file
8 an updated cost-of-service study to reflect any resulting changes in
9 power costs and the new proforma revenues.

10 Exhibit No. ___(JAH-1T), p. 45, ln. 5 – 7.

11 This is the filing of the updated cost-of-service. The update is attached as Exhibit
12 No. ___(DWH-3), Exhibit No. ___(DWH-4) and Exhibit No. ___(DWH-5).

13 These exhibits update Exhibit No. ___(JAH-4), Exhibit No. ___(JAH-5) and
14 portions of Exhibit No. ___(JAH-6).

15 **Q. Please describe how you updated the cost of service analysis**

16 A. The analysis was updated by replacing costs associated with the revenue
17 requirement initially presented by Mr. Story in Exhibit No. ___(JHS-4) with costs
18 associated with the revised revenue requirement presented by Mr. Story in Exhibit
19 No. ___(JHS-16), and replacing the revenues under existing rates presented in

1 Mr. Story's initial exhibit with revenues under existing rates incorporating
2 Schedule 95 revenues that went into effect July 1, 2006.

3 **Q. Please summarize the result of that updated analysis.**

4 A. The cost of service update resulted in a very small change from the original filing,
5 since the updated rate schedule revenue requirement is almost identical in both
6 magnitude and classification as the original rate schedule revenue requirement when
7 the Schedule 95 update and general rate case cost are viewed as a whole.
8 Compare Exhibit No. ___(DWH-3), page 1, line 33 with Exhibit No. ___(JAH-4),
9 page 1, line 33. The Schedule 95 proforma revenue update was substantial, adding
10 approximately \$96 million in proforma revenues, and these revenues were
11 allocated to the rate classes in a slightly different manner under the 2005 PCORC
12 update rate spread settlement than if they had allocated as a result of the cost of
13 service run. The following table derived from data at Exhibit No. ___(DHW-5),
14 page 1, show the results of the update on electric parity ratios, using both the PSE
15 Preferred cost of service and the Commission Basis cost of service as well as the
16 original and corrected numbers from the Heidell testimony.

Line	Rate Class	Schedule	PSE Preferred COS			Commission Basis COS		
			JAH-4 As Filed	JAH-4 Corrected	DWH-3	JAH-5 As Filed	JAH-5 Corrected	DWH-4
1	Residential	7	0.99	0.96	0.97	1	1.01	1.02
2	Secondary Voltage - Small	24	1	1	1	1	1	1
3	Secondary Voltage - Medium	25 / 29	1.05	1.12	1.12	1.01	1.03	1.03
4	Secondary Voltage - Large	26	1.03	1.09	1.08	0.98	0.96	0.95
5	Primary Voltage General Service	31	0.97	0.94	0.94	0.94	0.87	0.87
6	Campus	40	1	0.99	0.93	1.01	1.02	0.96
7	Primary Voltage Interruptible	43	0.97	0.94	0.93	0.91	0.8	0.79
8	High Voltage	46 / 49	1.03	1.08	1.1	1.01	1.04	1.05
9	Lighting	50 - 59	0.99	0.97	0.95	0.98	0.96	0.94
10	Transportation HV	449 / 459	1.1	1.23	1.16	1.11	1.2	1.19
11	Firm Resale		1.3	2.29	2.05	1.29	2.23	1.99

1 **Q. Please summarize updates made to the rate spread.**

2 A. I followed the basic rate spread proposed in the original Heidell testimony at pages
3 27 – 29 of Exhibit No. ___(JAH-1T), as applied to the revised revenue deficiency.

4 The process which I followed was to:

5 (1) assign the Schedule 31 class 110% of the average rate increase and
6 Schedule 26 slightly less than the average such that both classes
7 together receive the average rate increase;

8 (2) assign half the average rate increase to the retail wheeling class;

9 (3) assign no increase to the wholesale for retail class;

10 (4) increase rates on Schedule 40 based upon the tariff design
11 developed in the 2004 general rate case; and

12 (5) apply the average rate increase to all other classes.

13 A summary of the proposed rate spread proposal follows and the detailed
14 worksheet is page 2 of Exhibit No. ___(DWH-5).

Customer Class	Rate Schedule	Parity Ratio	Proposed Rate Increase
Residential	7	97%	2.56%
General Service < 51 kW	24	100%	2.56%
General Service 51 - 350 kW	25	112%	2.56%
General Service, >350 kW	26	108%	2.39%
Primary Service	31 / 35	94%	2.82%
Campus Rate	40	93%	0.77%
All Electric Schools	43	93%	2.56%
High Voltage	46 / 49	110%	2.56%
Lighting Service	51 - 59	95%	2.56%
High Voltage – Retail Wheel	448 / 449	116%	1.28%
Firm Resale	5	205%	0%
System Total / Average		100%	2.51%

2 **Q. Has the Company developed new rates based upon the power costs that are**
3 **updated pursuant to the 2005 PCORC, with Schedule 95 being set to zero?**

4 A. Not at this time. As stated in Mr. Heidell's testimony, the cost of service and rate
5 spread presented in the direct testimony reflects the current projections of rate year
6 power costs. Mr. Heidell also stated that the Company's rate design in this general
7 rate case assumes that Schedule 95 will be set to zero at the time new rates
8 approved in this case go into effect. See Exhibit No. ___(JAH-1T), page 44. As

1 the total revenue requirement filed in Mr. Story's update is almost identical to the
2 total revenue requirement filed in Mr. Story's prefiled direct testimony, and the
3 spread of Schedule 95 revenues to classes under the Schedule 95 settlement is
4 almost identical to the spread that Mr. Heidell proposed for general rates in his
5 prefiled testimony, it is assumed that new rates would be virtually the same as the
6 rates proposed in Mr. Heidell's prefiled direct testimony. As in other cases, the
7 Company will ultimately be filing new tariff sheets in its compliance filing at the
8 conclusion of this Docket that are consistent with the Commission's final order.

9 **III. CONCLUSION**

10 **Q. Does this conclude your prefiled direct testimony?**

11 **A. Yes.**