EXHIBIT NO. ______ (KRK-4T)
DOCKET NO. UE-011570 and UG-011571
WITNESS: KARL R. KARZMAR

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DIRECT TESTIMONY OF KARL R. KARZMAR ON BEHALF OF PUGET SOUND ENERGY, INC. REGARDING ELECTRIC REVENUE REQUIREMENTS, COMMON COST ALLOCATION, AND OVERALL RATE OF RETURN SETTLEMENT

JUNE 7, 2002

PUGET SOUND ENERGY, INC.

DIRECT TESTIMONY OF KARL R. KARZMAR

**ELECTRIC REVENUE REQUIREMENTS,
COMMON COST ALLOCATION, AND
OVERALL RATE OF RETURN SETTLEMENT**

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

A: My name is Karl R. Karzmar. My business address is One Bellevue Center, Suite OBC-03W, 411 – 108th Ave. N.E., Bellevue, Washington 98004. I am the Manager of Revenue Requirements for Puget Sound Energy, Inc. ("PSE" or "the Company").

Q: What do your responsibilities as Manager of Revenue Requirements include?

A: I am responsible for compliance reporting to the WUTC and preparing various other regulatory reports. My duties currently include providing support with respect to revenue requirements and accounting issues for PSE's pending General Rate Case. I have participated in the collaborative for electric revenue requirement and will testify about the settlement with respect to electric revenue requirement, common cost allocation, and overall rate of return issues.

Q. Did you participate in the Revenue Requirement collaborative?

A. Yes. I represented the Company in this collaborative, along with Kimberly Harris, John Story, Barbar Luscier, and Jim Elsea. The Company had several representatives participating in the collaborative to enable the Company to engage in discussions covering a broad range of policy and technical issues. The agreement reached, and set forth in the Settlement Stipulation, reflects the hard work of the parties and reflects a compromise among the parties as to such policy and technical issues, for purposes of settlement.

Q: Please summarize the settlement reached with respect to overall cost of capital.

A: The parties who participated in the collaborative that addressed these issues agreed to an overall cost of capital of 8.76%. The elements of the Company's cost of capital (i.e., short term debt, long term debt, preferred and equity) are detailed in the Settlement Terms For Electric Revenue Requirements, Common Cost Allocation, And Overall Rate Of Return ("Settlement"). The Settlement presents a cost of capital that, for purposes of settlement, supports a capital structure that I believe appropriately balances the interests of safety and economy. Further, with respect to the Company's cost of capital, I believe that the Settlement provides an evidentiary basis for the Commission to determine a reasonable rate of return for the Company.

As negotiated, the electric revenue requirement deficiency was determined to be $58,832,832 and is shown on line 6 of the summary page to Exhibit No ___(KRK-5). This represents a reduction in the revenue requirement that PSE set forth in its original filing and is based on a variety of adjustments proposed by other parties in the collaborative to which, for settlement purposes, PSE agreed. I believe that the Commission can and should find that full recovery of this deficiency by an increase in electric rates is necessary to the establishment of sufficient rates.

Also, based on the negotiated rate of return of 8.76%, line 6 of the summary page to Exhibit No ___(KRK-5) shows the total electric revenue requirement of $1,420,212,893. Line 32 of the summary page to Exhibit No ___(KRK-5) shows the net operating income requirement of $230,443,916. Results and adjustments supporting the summary page to Exhibit No ___(KRK-5) are included and identified as pages E5-A, E5-B, E5-C, and E5-D of Exhibit No ___(KRK-5).

In addition to settling the electric revenue requirement and deficiency, the collaborative parties agreed to common allocations between electric and gas operations for purposes of settlement.

Q: Does the parties' settlement with respect to common cost allocation effect the Settlement Stipulation and Application for Commission Approval of Settlement dated March 20, 2002 ("March Settlement")?

A: Yes. The collaborative agreed upon changes in cost allocations between gas and electric operations. These changes resulted in a net shifting of costs from gas to electric, thereby lowering the revenue requirement for gas. The effect of this shift increased the electric cap of $89,725,197 that was agreed to in the March Settlement on electric revenue requirement and reduced the cap of $56,246,305 on gas operations revenue requirement by the same amount. The electric cap increased to $99,441,756, although the cap was not reached due to the parties' agreement on adjustments to electric revenue requirement. The cap now applicable for the gas revenue requirement is $46,529,746. This represents a reduction of $9,716,559 from the original stipulation cap of $56,246,305.

Q: Please describe the agreements regarding accounting matters that are associated with this settlement.

A: The Settlement Stipulation spells out important accounting determinations with respect to depreciation rates and amortization of storm damage expenses and other expenses, and I do not repeat those details here. The parties reached agreement on these issues based on the Commission's prior orders with respect to such issues, analysis of the Company's financial and accounting records, and the opinions of the parties' experts. In this regard, the Commission's order can and should include specific language approving the adjustments, and the accounting for such adjustments, set forth and described in paragraph 6 and in paragraph 7 of the Settlement Stipulation.

In addition, as a result of the settlement reached in the Time of Use (TOU) collaborative with respect to the funding of TOU, certain expenses associated with the Company's Personal Energy Management ("PEM") program will be funded in the new rates by TOU customers, and thus were removed from general rates.

Q: Are the anticipated revenues associated with this settlement sufficient for purposes of settlement?

A: Yes. As shown on page 1, line 6 of Exhibit No ___(KRK-5), the Company anticipates that the $58,832,832 increase in general rates plus the additional collections for TOU charges, as discussed in the preceding paragraph, will allow PSE an opportunity to earn a reasonable rate of return.

Q: Do you believe the anticipated revenues associated with this settlement provide the Commission a basis to determine if the resulting rates are fair, just and reasonable?

A: Yes. The test year, as adjusted in the collaborative for known and measurable changes, is reasonable and appropriate for determination of the cost of fulfilling the Company's public service obligations. The resulting revenue requirement negotiated and agreed upon by the parties therefore does provide an evidentiary basis for a rate that I believe the Commission can and should find to be fair, just and reasonable.

Q: Does this complete your testimony?

A: Yes.

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