

**EXHIBIT NO. _____ (KRK-G6T)
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.

**SUPPLEMENTAL DIRECT TESTIMONY OF KARL R. KARZMAR
ON BEHALF OF PUGET SOUND ENERGY, INC.**

AUGUST 7, 2002

1 **PUGET SOUND ENERGY, INC.**

2 **SUPPLEMENTAL DIRECT TESTIMONY OF KARL R. KARZMAR**

3
4 **Q: Please state your name, business address, and present position with**
5 **Puget Sound Energy.**

6 A: My name is Karl R. Karzmar and I am the Manager of Revenue Requirements
7 at Puget Sound Energy, Inc. ("PSE" or "the Company"). My business address
8 is 411 108th Avenue NE, Bellevue, Washington 98009-9734.

9 **Q: What topics will you be covering in this supplemental testimony?**

10 A: In this portion of my testimony, I will describe modifications to my original
11 testimony and exhibits that are required to incorporate the settlement of
12 issues common to electric and gas service that the Commission approved in
13 its Twelfth Supplemental Order of June 20, 2002 ("Electric and Common
14 Settlement").

15 **Q: Please summarize the adjustments to the gas revenue requirement that**
16 **result from the Electric and Common settlement?**

17 A: The gas revenue requirement deficiency has been reduced to \$39,584,003 as
18 shown on the Summary page of Exhibit No ___(KRK-G8) at Line No. 5,
19 based upon adjustments that are appropriate as a result of the Electric and
20 Common Settlement. Also shown on Exhibit KRK-G8, based on the agreed
21 upon authorized rate of return of 8.76%, is the total gas revenue requirement
22 of \$656,480,437 and the net operating income requirement of \$85,298,033.
23 Results and adjustments supporting the Summary page are included and
24 identified as Exhibit KRK-G8, pages G8-A, G8-B and G8-C.
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1 **Q: How does the gas revenue requirement deficiency of \$39,584,003 relate**
2 **to the cap to which the parties agreed as part of the partial settlement**
3 **that the Commission approved in its Ninth Supplemental Order in this**
4 **proceeding dated March 28, 2002 ("March Interim Settlement")?**

5 A: In the March Interim Settlement, the parties agreed to a cap of \$56,246,305
6 for PSE's gas revenue requirement deficiency request in this proceeding. The
7 Electric and Common Settlement reduced this cap by \$9,716,559, to
8 \$46,529,746, due to agreed changes in cost allocations between gas and
9 electric operations. These changes resulted in a net shifting of costs from

10 Accordingly, parties agreed that PSE would not be entitled to seek more than
11 \$46,529,746 as its gas revenue requirement deficiency in this proceeding.

12 The revenue requirement deficiency of \$39,584,003 set forth in Exhibit
13 KRR-G8 complies with the stipulated cap.

14 **Q: Please describe the changes made to the Company's revenue**
15 **requirement since the computation of the \$46,529,746 cap.**

16 A: The following Revenue Requirement adjustments have changed since the
17 computation of the revenue requirement cap of \$46,529,746, consistent with
18 the Electric and Common Settlement. These adjustments are summarized in
19 Exhibit No. ____ (KRR-G7).

20 **Real Time PEM Costs**

21 The computation of the cap included an adjustment to remove the real time
22 PEM costs that had been allocated to gas. It also included an adjustment to
23 transfer the real time PEM costs from gas to electric. This doubled up on the
24 amount to be removed from the gas side. The adjustment for PEM on page
25

1 2.07 in the Company's original filing has been corrected for this error. The
2 effect is to increase revenue requirement by \$5,251,287.

3 **SFAS 133**

4 The adjustment for SFAS 133 on page 2.03 in the Company's original filing
5 has been removed. The effect is to reduce revenue requirement by \$106,090.
6

7 **Incentive/Merit Pay**

8 The adjustment for Incentive/Merit Pay and the associated payroll taxes on
9 page 2.07 in the Company's original filing has been updated. The effect is to
10 reduce revenue requirement by \$8,682.

11 **SERP**

12 The adjustment for Supplemental Executive Retirement Plan on page 2.07 in
13 the Company's original filing has been updated. The effect is to reduce
14 revenue requirement by \$22,095.
15

16 **Personal Energy Management**

17 There was \$120,597 of test year gas Personal Energy Management ("PEM")
18 expenses and \$2,275,231 of pro forma gas PEM expenses that were excluded
19 from the determination of the revenue requirement deficiency. Instead of
20 providing for recovery of these PEM costs in general rates, they will instead
21 be recovered from customers through: 1) a monthly charge of \$.10 per Time
22 of Day ("TOD") customer collected through the conservation tariff rider; 2)
23 additional energy charges of \$.16 per month added to TOD rate schedules
24 and; 3) an additional \$1.00 per month flat charge for TOD meter reading
25 costs added to TOD rate schedules. The adjustment on page 2.07 has been
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updated to reflect this change. The effect is to reduce revenue requirement
by \$2,602,903.

1 **ADS Basic Services**

2 The adjustment for ADS Basic Services on page 2.07 in the Company's
3 original filing has been updated. The effect is to reduce revenue requirement
4 by \$1,334,373.

5 **Metering Network Services**

6 The adjustment for Metering Network Services on page 2.07 in the
7 Company's original filing has been updated. The effect is to reduce revenue
8 requirement by \$468,708.

9 **Meter Reading Costs**

10 The adjustment for Meter Reading Costs on page 2.07 in the Company's
11 original filing has been updated. The effect is to reduce revenue requirement
12 by \$761,346.

13 **Governance Costs**

14 An adjustment has been added for Governance Costs to page 2.07. The effect
15 is to reduce revenue requirement by \$131,061.

16 **Property Tax**

17 The adjustment for Property Tax on page 2.08 in the Company's original
18 filing has been updated. The effect is to reduce revenue requirement by
19 \$520,226.

20 **Wage Increase**

21 The adjustment for Wage Increase on page 2.12 in the Company's original
22 filing has been removed. The effect is to reduce revenue requirement by
23 \$2,714,689.

1 **Employee Insurance**

2 The adjustment for Employee Insurance on page 2.13 in the Company's
3 original filing has been removed. The effect is to reduce revenue
4 requirement by \$905,312.

5 **Investment Plan**

6 The adjustment for Investment Plan on page 2.14 in the Company's original
7 filing has been removed. The effect is to reduce revenue requirement by
8 \$96,759.

9 **Rate Case Expenses**

10 The adjustment for Rate Case Expenses on page 2.15 in the Company's
11 original filing has been updated. The effect is to increase revenue
12 requirement by \$335,984.

13 **Property and Liability Insurance**

14 The adjustment for Property and Liability Insurance on page 2.17 in the
15 Company's original filing has been updated. The effect is to increase revenue
16 requirement by \$539,385.

17 **NCR Revenue**

18 The adjustment for Revenue and Purchases Gas on page 2.01 in the
19 Company's original filing has been updated to reflect the New Customer Rate
20 Revenue. The effect is to decrease revenue requirement by \$788,445.

21 **Cost of Capital**

22 Cost of Capital was reduced from 8.94% to 8.76%. The effect is to decrease
23 revenue requirement by \$1,825,669.

Pro Forma Revenue

The adjustment for Revenue and Purchases Gas on page 2.01 in the Company's original filing has been updated to reflect the revised Pro Forma Revenue. The effect is to decrease revenue requirement by \$647,649.

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1 **Conversion Factor**

2 The Pro Forma Revenue adjustment above caused a change in the Conversion
3 Factor on page 4.03. The effect is to increase revenue requirement by
4 \$33,867.

5 **PEM Cost Allocation and Four-Factor Shifts**

6 The computation of the cap included an adjustment for the PEM cost
7 allocation shift and an adjustment for the four-factor shift. These amounts
8 were calculated during the electric settlement and used the electric
9 conversion factor. When the amounts are calculated using the gas model,
10 which uses the gas conversion factor there is a small difference. The effect
11 is to decrease revenue requirement by \$386,431.

12 **Tax Benefit of Pro Forma Interest**

13 The adjustment for Tax Benefit of Pro Forma Interest on page 2.05 in the
14 Company's original filing has been updated to reflect the rate base after the
15 four-factor shift. The effect is to increase revenue requirement by \$214,170.

16 **Q: Are the anticipated revenues associated with the Company's settlement**
17 **position sufficient?**

18 A: Yes. As shown on the Summary page of KRK-G8, the \$39,584,003 increase
19 in general gas rates will allow PSE an opportunity to earn a reasonable rate of
20 return.

21 **Q: Are the anticipated revenues associated fair, just and reasonable?**

22 A: Yes, the test year, as adjusted for normality and known and measurable
23 changes, is reasonable and appropriate for determination of the cost of
24 fulfilling the Company's public service obligations. The resulting revenue
25 requirement provides for fair, just and reasonable rates.
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Q: Does this complete your testimony?

A: Yes.

**EXHIBIT NO. _____ (KRK-G7)
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**EXHIBIT NO. _____ (KRK-G8)
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