

**EXHIBIT NO. _____ (JOINT-1T)
DOCKET NO. UE-011570 and UG-011571
WITNESSES: KARL R. KARZMAR
MICHAEL P. PARVINEN
JIM LAZAR**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

**JOINT TESTIMONY OF KARL R. KARZMAR, MICHAEL P. PARVINEN AND
JIM LAZAR REGARDING REVENUE REQUIREMENTS SETTLEMENT**

AUGUST 20, 2002

1 Corporation; Docket No. UG-931405 - Washington Natural Gas Company;
2 Docket No. UG-920840 - Washington Natural Gas Company; Docket No. UG-
3 911246 - Cascade Natural Gas Corporation; Docket No. UE-900093 - The
4 Washington Water Power Company; Docket No. U-89-2688 - Puget Sound
5 Power & Light Company; Docket No. D-2576 - Bremerton-Kitsap Airporter,
6 Inc.; and Docket No. U-88-2294-T - Richardson Water Companies. I have also
7 analyzed or assisted in the analyses of numerous transportation and utility rate
8 filings. I have attended the Seventh Annual Western Utility Rate Seminar in
9 1987, and the 1988 Annual Regulatory Studies Program, sponsored by the
10 National Association of Regulatory Utility Commissioners (NARUC).

11
12 **QUALIFICATIONS OF JIM LAZAR**

13 **Q. Have you testified in this proceeding on behalf of Public Counsel?**

14 A. Yes. My qualifications were presented in Exhibit 551.
15

16 **JOINT TESTIMONY**

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

18 A: This testimony describes modifications to PSE's gas revenue requirement that are
19 required to incorporate the settlement of issues common to electric and gas service
20 that the Commission approved in its Twelfth Supplemental Order of June 20,
21 2002 ("Electric and Common Settlement"), and to incorporate the final agreement
22 between the parties reached through the gas collaborative settlement process that
23 is described in Exhibit A of the Settlement Stipulation for Remaining Natural Gas
24 Issues and Application for Commission Approval of Settlement dated August 15,
25
26

1 2002 ("Gas Settlement Stipulation"). It also explains the parties' agreement
2 regarding gas line extensions.

3 **Q: Please summarize the adjustments to the gas revenue requirement?**

4 A: The gas revenue requirement deficiency was reduced to \$39,584,003 based upon
5 adjustments that are appropriate as a result of the Electric and Common
6 Settlement, and its changes in common cost allocation between electric and gas
7 operations. The parties then negotiated and agreed to an additional adjustment for
8 Administrative and General Expense in the amount of \$3,681,779, which further
9 reduced the gas revenue requirement resulting in a total gas revenue requirement
10 deficiency of \$35,584,003. These adjustments are shown in Exhibit A of the Gas
11 Settlement Stipulation, Appendix 1, page 1 of 2.

12 Also shown in Exhibit A of the Gas Settlement Stipulation, Appendix 1,
13 page 2 of 2, based on the agreed upon authorized rate of return of 8.76%, is the
14 total gas revenue requirement of \$652,480,437 (Line 5) and the net operating
15 income requirement of \$85,298,033 (Line 31). Results and adjustments
16 supporting Exhibit A, Appendix 1, page 2 of 2 are found at Exhibit No. ____ (Joint-
17 2), pages J2-A, J2-B and J2-C.

18 **Q: How does the gas revenue requirement deficiency of \$35,584,003 relate to the**
19 **cap to which the parties agreed as part of the partial settlement that the**
20 **Commission approved in its Ninth Supplemental Order in this proceeding**
21 **dated March 28, 2002 ("March Interim Settlement")?**

22 A: In the March Interim Settlement, the parties agreed to a cap of \$56,246,305 for
23 PSE's gas revenue requirement deficiency request in this proceeding. The Electric
24 and Common Settlement reduced this cap by \$9,716,559, to \$46,529,746, due to
25 agreed changes in cost allocations between gas and electric operations. These
26 changes resulted in a net shifting of costs from gas to electric, thereby lowering
the revenue requirement for gas. Accordingly, parties agreed that PSE would not

1 be entitled to seek more than \$46,529,746 as its gas revenue requirement
2 deficiency in this proceeding. The revenue requirement deficiency of \$35,584,003
3 set forth in Exhibit A of the Gas Settlement Stipulation complies with the
4 stipulated cap.

5 **Q: Please describe the changes made to the Company's gas revenue requirement**
6 **as a result of the Electric and Common Settlement.**

7 A: The following Revenue Requirement adjustments changed due to the Electric and
8 Common Settlement.

9 **Real Time PEM Costs**

10 The computation of the cap included an adjustment to remove the real time PEM
11 costs that had been allocated to gas. It also included an adjustment to transfer the
12 real time PEM costs from gas to electric. This doubled up on the amount to be
13 removed from the gas side. The adjustment for PEM on page 2.07 in the
14 Company's original filing has been corrected for this error. The effect is to
15 increase revenue requirement by \$5,251,287.

16 **SFAS 133**

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

19 **Incentive/Merit Pay**

20 The adjustment for Incentive/Merit Pay and the associated payroll taxes on page
21 2.07 in the Company's original filing has been updated. The effect is to reduce
22 revenue requirement by \$8,682.

23 **SERP**

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

4 **Personal Energy Management**

5 There was \$120,597 of test year gas Personal Energy Management ("PEM")
6 expenses and \$2,275,231 of pro forma gas PEM expenses that were excluded
7 from the determination of the revenue requirement deficiency. Instead of
8 providing for recovery of these PEM costs in general rates, they will instead be
9 recovered from electric customers as described in the stipulation previously
10 approved by the Commission on June 20, 2002 in Docket UE-011570. The
11 adjustment on page 2.07 has been updated to reflect this change. The effect is to
12 reduce revenue requirement by \$2,602,903.

13 **ADS Basic Services**

14 The adjustment for ADS Basic Services on page 2.07 in the Company's original
15 filing has been updated. The effect is to reduce revenue requirement by
16 \$1,334,373.

17 **Metering Network Services**

18 The adjustment for Metering Network Services on page 2.07 in the Company's
19 original filing has been updated. The effect is to reduce revenue requirement by
20 \$468,708.

21 **Meter Reading Costs**

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

24 **Governance Costs**

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

3 **Property Tax**

4 The adjustment for Property Tax on page 2.08 in the Company's original filing
5 has been updated. The effect is to reduce revenue requirement by \$520,226.
6

7 **Wage Increase**

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

10 **Employee Insurance**

11 The adjustment for Employee Insurance on page 2.13 in the Company's original
12 filing has been removed. The effect is to reduce revenue requirement by
13 \$905,312.
14

15 **Investment Plan**

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

18 **Rate Case Expenses**

19 The adjustment for Rate Case Expenses on page 2.15 in the Company's original
20 filing has been updated. The effect is to increase revenue requirement by
21 \$335,984.
22

23 **Property and Liability Insurance**

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

1 **NCR Revenue**

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

5 **Cost of Capital**

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

8 **Pro Forma Revenue**

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

12 **Conversion Factor**

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

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

16 The computation of the cap included an adjustment for the PEM cost allocation
17 shift and an adjustment for the four-factor shift. These amounts were calculated
18 during the electric settlement and used the electric conversion factor. When the
19 amounts are calculated using the gas model, which uses the gas conversion factor
20 there is a small difference. The effect is to decrease revenue requirement by
21 \$386,431.

22 **Tax Benefit of Pro Forma Interest**

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

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

6 A: Yes. As shown on the Summary page of Exhibit No. ____ (Joint-2), the
7 \$35,584,003 increase in general gas rates will allow PSE an opportunity to earn a
8 reasonable rate of return.

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

10 A: Yes, the test year, as adjusted for normality and known and measurable changes,
11 is reasonable and appropriate for determination of the cost of fulfilling the
12 Company's public service obligations. The resulting revenue requirement
13 provides for fair, just and reasonable rates.

14
15 **ACCOUNTING MATTERS**

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

18 A: The Gas Settlement Stipulation spells out important accounting determinations
19 with respect to depreciation rates and amortization. As with the Electric and
20 Common Settlement, the parties have agreed to depreciation rates for natural gas
21 plant in accordance with the Company's original filing in this proceeding,
22 including a specific provision for rentals as set forth in the Stipulation. The
23 parties reached agreement on this and the amortization issues set forth in the Gas
24 Settlement Stipulation at Exhibit A, paragraphs 6 and 7, based on the
25 Commission's prior orders with respect to such issues, analysis of the Company's
26 financial and accounting records, and the opinions of the parties' experts. In this

1 regard, the Commission's order can and should include specific language
2 approving the adjustments, and the accounting for such adjustments, set forth and
3 described in Exhibit A, paragraphs 6 and 7, of the Gas Settlement Stipulation.
4

5 **LINE EXTENSIONS**

6 **Q: Why is the settlement regarding gas line extensions fair, just and reasonable?**

7 A: During the collaborative, questions were raised regarding the appropriateness of
8 the Company's proposed tariff sheets regarding gas line extensions, both by parties
9 to the proceedings and others who had not intervened in the case. The parties
10 decided that it would be best to address such issues later, through a separate filing
11 concerning proposed gas line extensions that the Company intends to make in the
12 near future. In the meantime, the parties all recognize that PSE's costs for gas line
13 extensions have gone up since the existing rates were approved. The agreement to
14 a 15% surcharge to existing rates will provide better cost recovery for the
15 Company pending a full review of gas line extension matters.
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17 **Q: Does this complete your joint testimony?**

18 A: Yes.
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EXHIBIT NO. _____ (JOINT-2)
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