EXHIBIT NO. ___(KRK-7)
DOCKET NO. UE-06___/UG-06___
2006 PSE GENERAL RATE CASE
WITNESS: KARL R. KARZMAR

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____

SIXTH EXHIBIT (NONCONFIDENTIAL) TO THE
PREFILED DIRECT TESTIMONY OF
KARL R. KARZMAR
ON BEHALF OF PUGET SOUND ENERGY, INC.

FEBRUARY 15, 2006

PUGET SOUND ENERGY, INC.

SIXTH EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF KARL R. KARZMAR

Q. What is the purpose of this exhibit to your prefiled direct testimony?

A. This exhibit to my prefiled direct testimony describes how the Company performed the gas attrition calculations using the methodology for attrition allowances that is described in Mr. John Story's prefiled direct testimony, Exhibit No. ___(JHS-1T) and Exhibit No. ___(JHS-11). The results of this attrition calculation for PSE's gas operations are referenced in my prefiled direct testimony.

Q. How did the Company approach its gas attrition analysis?

A. Similar to the treatment of the PCORCs Mr. Story discusses in the electric analysis, we first addressed the impact of interim rate changes due to PGA Mechanism filings by removing the associated revenues and their underlying costs from the attrition analysis. For the trending analysis, we used the pro formed and restated income statement and ratebase from the last general rate case, as allowed, compared to the current income statement and ratebase as filed in this general rate case. These periods were chosen as they are current and have been adjusted for rate making purposes. We also had to adjust ratebase for "bonus tax depreciation" arising from the Job Creation and Worker Assistance Act of 2002.

During the years 2001 through 2004 the Federal government had allowed up to 50% bonus depreciation to be taken for certain capital expenditures. The bonus depreciation created additional deferred taxes that are a deduction from ratebase. This bonus depreciation is no longer available so the impact of this additional tax benefit was removed from ratebase before measuring the growth trend for ratebase. After determining the growth trend we applied the difference in ratebase growth from the two test periods to the ratebase for September 30, 2005.

Q. Would you please describe Exhibit No. ___(KRK-6)?

A. Yes. Page 6.01 of this Exhibit shows the income statement and ratebase for the September 30, 2003 and 2005 test periods including restating and proforma test year adjustments. The 2003 period is also adjusted for the allowed rate increase for that time period. The 2005 period is not adjusted for the requested rate increase in this current filing but, as discussed above, it is adjusted to remove the effects of the PGA changes since the 2003 period. Each line of the income statement was adjusted by the appropriate growth factors to arrive at the rate year equivalent amount for that line item. For example, line 5 shows this calculation for Other Operating Revenues. The compound annualized growth rate for the two year period between September 30, 2003 and September 30, 2005 is .136957. This annualized growth rate was then used to project the rate year which is 2.25 years from the current test period. Applying this growth rate to the $17,055,092 September 30, 2005 amount for this item on line 5, results in revenues of

$22,765,537 for the rate year. In most other cases, the annual growth rate is similarly calculated based on the change in test year revenues and expenses.

Sales to Customers, line 3, and Purchased Gas, line 9, were both adjusted similarly, but by the annualized growth rate of adjusted therm sales volumes instead of dollars. The annualized growth rate on line 1 represents the compound growth rate of sales volumes for the two year time period from September 30, 2003 to September 30, 2005. This annualized growth rate was then applied to the dollar amounts on lines 3 and 9 to project the rate year amounts 2.25 years out.

Some line items are not adjusted by growth rates as the line item is insignificant or is an item that reflects amortization that does not change between the periods so the current test period amount is carried over to the rate year. Amortization on lines 19 and 20 is an example of where the amounts reflect amortization that will not materially change between the current test period and the rate year.

For each line item that changes the current tax impact is calculated and the total tax change was added to line 25 Federal Income Taxes, as shown in the last column of this Exhibit. Ratebase was adjusted as shown on line 31. The growth rate for gas ratebase since the last general rate case was .063115 when adjusting for the bonus tax depreciation discussed earlier for both the 2003 and 2005 test periods. The trended analysis results in estimated ratebase of $1,354,619,126 in 2007 as shown on line 31 of this Exhibit.

The calculation of the actual attrition was the result of all of the above calculations. The adjusted ratebase was multiplied by the requested rate of return to determine the rate year net operating income required to earn the rate of return on line 33. This amount was then compared to the rate year net operating income shown on line 29 of the Exhibit which is the result of the adjustments that were made to the income statement. The difference shows that there is an under recovery in net operating income of approximately $60.0 million dollars in the rate year as shown on line 34 of this Exhibit. Subtracting the $25.1 million dollar test year deficiency on line 34 reveals the $34.9 million deficiency resulting from attrition.

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