

EXHIBIT NO. \_\_\_\_\_ (KRK-1GT)  
DOCKET NO. \_\_\_\_\_  
2001 PSE 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.**

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

**NOVEMBER 26, 2001**

1 **PUGET SOUND ENERGY, INC.**

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

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

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

8 **Q: What topics will you be covering in your testimony?**

9 A: In this portion of my testimony, I will present the calculation of rate base, working  
10 capital, conversion factor and the overall revenue requirement for the gas results  
11 of operations. I will also explain some of the various adjustments to the results of  
12 operations for the current test period and, after taking into account these  
13 adjustments, present the revenue requirement deficiency of \$89,188,160, as shown  
14 on Exhibit KRK-G3, including municipal additions, based on the adjusted test  
15 year.

16 **Q: Would you please provide a brief description of your educational and business experience?**

17 A: Please see Exhibit KRK-G2.

18 **Q: Please explain your Exhibit KRK-G3.**

19 A: The first page of this exhibit, Summary page, presents the unadjusted rate base for  
20 the Company as of June 30, 2001 calculated on an Average-of-the-Monthly-  
21 Averages basis. The rest of the exhibit is composed of two sections.

22  
23 Pages G3-A through G3-C present a summary schedule of all the pro  
24 forma and restating adjustments. The first column of numbers, on page G3-A, is  
25 the unadjusted net operating income for the year ended June 30, 2001 and the  
26

1 unadjusted rate base for the same period. Each column to the right of the first  
2 column represents a pro forma or restating adjustment to net operating income or  
3 rate base. Each of these adjustments has a supporting schedule, which is  
4 referenced by the page number shown in each column title.

5 Pages 2.01 through 2.05 are the supporting schedules for each of the  
6 adjustments shown on the summary schedule.

7 The last column, shown on page G3-C of the summary schedule,  
8 summarizes all of the adjustments and is the adjusted test year results used to  
9 calculate the revenue deficiency.

10 **Q: Please describe each adjustment, explain why it is necessary, and identify the**  
11 **effect on operating income or rate base.**

12 A: I will explain the adjustments that I am testifying to in the same order as they are  
13 shown on the summary schedule. Ms. Barbara A. Luscier explains the remaining  
14 adjustments in her testimony.

15 **Revenue and Purchased Gas**

16 This restating and pro forma adjustment, shown on Exhibit KRK-G3, page  
17 2.01, normalizes weather sensitive gas therm sales by eliminating the effect of  
18 temperature deviation above or below historical normals. It restates therms sold  
19 to reflect the weather normalized therms and then reprices the adjusted therms  
20 sold based upon the authorized weighted average cost of gas. Restating  
21 adjustments have been made to: remove propane sales and the associated revenue;  
22 reflect consumption under normal weather conditions; and reflect the revenue  
23 difference between the actual rates and the base rates in effect during the test year.  
24 A pro forma adjustment has been made to reprice the normalized monthly therms  
25 at current base rate levels, effective September 1, 2001.

1                   This adjustment, shown on page 2.01, decreases net operating income by  
2                   \$3,891,498.

3                   **SFAS 133**

4                   This restating adjustment, shown on Exhibit KRK-G3, page 2.03, removes  
5                   the effect of SFAS 133 which represents gains or losses recognized which have  
6                   not been realized for financial reporting purposes.

7                   The effect of this adjustment is to decrease net operating income by  
8                   \$63,473.

9                   **Federal Income Taxes**

10                  This adjustment, shown on Exhibit KRK-G3, page 2.04, adjusts actual  
11                  Federal Income Tax expense to the restated level based on the test year for this  
12                  case. As our normal tax year ends December 31st, this adjustment recalculates the  
13                  test year using expenses and tax adjustments for the twelve months ended June 30,  
14                  2001 and removes the current tax year estimates from the test period.

15                  The effect of this adjustment, shown on page 2.04, is to decrease net  
16                  operating income by \$337,078.

17                  **Tax Benefit of Pro forma Interest**

18                  This pro forma adjustment, shown on Exhibit KRK-G3, page 2.05, uses a  
19                  rate base method for calculating the tax benefit of pro forma interest. As adopted  
20                  by this Commission in prior rate cases, the customers receive the tax benefit  
21                  associated with the interest on debt used to support rate base and construction  
22                  work in progress that has associated tax deductible interest.

23                  The effect of this adjustment is to decrease net operating income by  
24                  \$3,807,425.

1                   **SFAS 106**

2                   The purpose of this pro forma adjustment, shown on Exhibit KRK-G3,  
3                   page 2.09, is to reflect the ten percent increase in other post employment benefit  
4                   expense that is expected in the rate year. This adjustment will be updated during  
5                   the course of the proceeding.

6                   The effect of this adjustment is to reduce net operating income by \$30,555.

7                   **Working Capital**

8                   The purpose of this calculation is to provide a return for the funds the  
9                   shareholder has invested in the Company, for utility purposes, over and above the  
10                  investment in plant and other specifically identified rate base items already  
11                  earning a rate of return.

12                  The first part of this adjustment calculates the total average invested  
13                  capital that has been utilized during the test year. From the average invested  
14                  capital, the operating investment, which is already earning a return, is deducted.  
15                  A second deduction is made for nonoperating assets and plant not in service. The  
16                  result is total working capital provided by the shareholder.

17                  This total working capital is then allocated between nonoperating working  
18                  capital and operating working capital using the method consistent with previous  
19                  rate cases. The resulting operating working capital represents the shareholder's  
20                  average investment which is required to provide utility service but which would  
21                  otherwise not earn a return.

22                  The working capital allowance calculation is shown on Exhibit KRK-G3,  
23                  page 4.01. There result shows that there will be no working capital allowance  
24                  included in rate base.

1                   **Cost of Capital**

2                   This schedule, shown on Exhibit KRK-G3, page 4.02, reflects the  
3                   projected capital structure for the Company during the rate year and the associated  
4                   costs for each capital category. The capital structure and costs are presented in the  
5                   testimony of Mr. D. E. Gaines' and Dr. Hadaway. The rate of return is 10.47%.

6                   **Conversion Factor**

7                   The conversion factor, shown on Exhibit KRK-G3, page 4.03, is used to  
8                   adjust the net operating income deficiency by revenue sensitive items and Federal  
9                   income tax to determine the total revenue requirement. The revenue sensitive  
10                  items are the Washington State utility tax, Washington WUTC filing fee,  
11                  municipal additions, and bad debts. The conversion factor used in the revenue  
12                  requirement calculation, taking into consideration the adjustments discussed  
13                  earlier, is 59.87%.

14                  **Allocation Methods**

15                  Common Utility Plant is that portion of utility operating plant that is used  
16                  for providing more than one commodity, i.e., electricity and gas to customers.  
17                  Thus, common plant includes costs associated with land, structures, and  
18                  equipment which are not charged specifically to electric or gas operations because  
19                  the assets are used jointly by both departments. The Company allocates its  
20                  common utility plant in determining rate base by using the four-factor allocation  
21                  method as authorized in the merger stipulation. Components of the four-factor  
22                  allocator include the number of customers, direct labor charged to O & M,  
23                  Transmission and Distribution O & M, and net classified plant (excluding general  
24                  plant).

25                  Common operating costs are those costs that are incurred on behalf of both  
26                  electricity and gas customers. The Company incurs common costs related to:

1 Customer Accounts Expenses; Customer Service Expenses; Administrative and  
2 General Expense; Depreciation/Amortization; Taxes Other Than FIT; and FIT.  
3 The most appropriate allocation method is applied consistently to each type of  
4 common cost. Allocation methods used include: (1) twelve month customer  
5 average; (2) joint meter reading customers; (3) non-production plant; (4) four  
6 factor allocator; (5) direct labor; (6) current tax.

7 For purposes of calculating the working capital allowance, the Company  
8 applies the most appropriate of the allocation methods to each common balance  
9 sheet accounts.

10 Allocation methods used and the calculations thereof are shown on Exhibit  
11 KRK-G3, page 4.04.

12 **General Rate Increase**

13 This schedule, shown on Exhibit KRK-G3, page 4.05, is a summary of pro  
14 forma and restated rate base and net operating income. Based on \$984,792,269  
15 invested in rate base and \$49,706,868 of net operating income, the Company  
16 would have a revenue deficiency of \$89,188,160, including municipal additions.

17 **Q: Does this conclude this portion of your testimony?**

18 A: Yes.

19  
20 [BA013250081]  
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**EXHIBIT NO. \_\_\_\_\_ (KRK-G2)**  
**DOCKET NO. \_\_\_\_\_**  
**2001 PSE 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.**

**PROFESSIONAL QUALIFICATIONS OF KARL R. KARZMAR  
ON BEHALF OF PUGET SOUND ENERGY, INC.**



1 **PUGET SOUND ENERGY, INC.**

2 **PROFESSIONAL QUALIFICATIONS OF KARL R. KARZMAR**

3  
4 **Q: Please state your name, business address, and occupation.**

5 A: My name is Karl R. Karzmar. My business address is 411 108th Ave N.E.,  
6 OBC-03W, Bellevue, WA 98004-5515. I am employed as Manager, Revenue  
7 Requirements of Puget Sound Energy ("the Company").

8 **Q: What are your qualifications?**

9 A: I have more than twenty-five years inter-disciplinary utility experience in financial  
10 management and reporting, including extensive regulatory accounting study and  
11 experience. Special study included completion of the Stone & Webster Utility  
12 Management Development Course.

13 **Q: What is your educational background?**

14 A: BA Accounting / Business, University of Washington, Seattle, WA.

15 **Q: Have you testified previously before the Commission?**

16 A: Yes. I have provided testimony and or testified on behalf of the Company in six  
17 previous general rate filings: Combined Causes U-82-22/37, Cause No. U-83-27,  
18 Cause No. U-84-60, Docket No., UG-920840, Docket No. UG-931405 and  
19 Docket No. UG-950278. I also testified before this Commission in Docket  
20 No. UE-991409.

21 **Q: What are your responsibilities in your present position?**

22 A: I am responsible for evaluating the financial statements of Puget Sound Energy in  
23 order to prepare internal and WUTC compliance reports and revenue requirements  
24 determination.

**EXHIBIT NO. \_\_\_\_\_ (KRK-G3)**  
**DOCKET NO. \_\_\_\_\_**  
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**WITNESS: KARL R. KARZMAR**

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

**EXHIBIT NO. \_\_\_\_\_ (KRK-G4)**  
**DOCKET NO. \_\_\_\_\_**  
**2001 PSE RATE CASE**  
**WITNESS: KARL R. KARZMAR**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
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