

**EXHIBIT NO. ___(KRK-1T)
DOCKET NO. UE-060266/UG-060267
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-060266
Docket No. UG-060267**

**PREFILED DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KARL R. KARZMAR
ON BEHALF OF PUGET SOUND ENERGY, INC.**

REVISED JUNE 7, 2006

1 capital investment in natural gas infrastructure to address customer growth,
2 maintenance of its aging system, and increased safety regulations or other
3 requirements. As discussed by Ms. Sue McLain in her testimony, on average, the
4 Company has made investments (other than for new customer connections) of
5 approximately \$610 million in gas infrastructure each year since 2001. PSE
6 anticipates investments of \$113 million will be required in 2006 and \$89 million
7 in 2007 for similar types of gas infrastructure. This represents a 4536% increase
8 over PSE's 2004 and 2005 investments of \$1480 million, and system analysis
9 indicates that similar ongoing gas system investments will be needed for several
10 years beyond 2007

11 **Q. Why are these capital investments causing an attrition problem?**

12 A. The problem is largely caused by the lag between the time when the investments
13 are made and the time when rates reflecting such costs become effective. The
14 consequence is particularly acute with respect to replacement of PSE's aging
15 infrastructure, because plant put into ratebase twenty or thirty years ago has a
16 much lower average cost than the capital additions which are replacing it. For
17 example, as Ms McLain explains in her testimony, the cost to install one foot of
18 2-inch diameter plastic gas main has increased from \$3 per foot in 1974 to nearly
19 \$22 per foot in 2004. Contributing to this rise is the fact that not only have the
20 costs of materials and labor increased but current requirements for construction
21 permitting and inspection and preventative actions to minimize soil erosion have
22 also grown.