

**EXHIBIT NO. ___(KRK-9)
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**

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

JULY 7, 2006

PUGET SOUND ENERGY-GAS
 STATEMENT OF OPERATING INCOME AND ADJUSTMENTS
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005
 RESTATING AND PRO FORMA ADJUSTMENTS

LINE NO.	REVISED									
	EXCISE TAX & FILING FEE 9.08	RATE CASE EXPENSES 9.09	PROPERTY & LIABILITY INS 9.10	PENSION PLAN 9.11	WAGE INCREASE 9.12	INVESTMENT PLAN 9.13	EMPLOYEE INSURANCE 9.14	INCENTIVE PAY 9.15	REVISED	
1	OPERATING REVENUES									
2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3										
4										
5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6										
7										
8	OPERATING REVENUE DEDUCTIONS:									
9										
10										
11										
12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13										
14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
15										
16										
17	\$ -	\$ -	\$ -	\$ -	\$ 52,213	\$ -	\$ -	\$ -	\$ -	\$ (16,503)
18					11,874					(3,336)
19					1,053,669					(295,165)
20					382,945					(109,708)
21					61,802					(21,935)
22						2,466,940			643,825	(173,563)
23										
24										
25										
26										
27										
28										
29										
30										
31										
32										
33										
34										
35										
36										
37										
38										
39										
40										
41										
42										
43										
44										
45										
46										

(Note) Amounts presented in bold italic type have changed since the February 15, 2006 original filing.

PUGET SOUND ENERGY-GAS
STATEMENT OF OPERATING INCOME AND ADJUSTMENTS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005
RESTATING AND PRO FORMA ADJUSTMENTS

LINE NO.	REVISSED										REVISSED TOTAL ADJUSTMENTS	REVISSED ADJUSTED RESULTS OF OPERATIONS	
	INTEREST ON CUSTOMER DEPOSITS 9,16	DEFERRED GAINS/ LOSSES PROP SALES 9,17	GENERAL OFFICE RELOCATION 9,18	LOW INCOME (MORTGIZATION) 9,19	D&O INSURANCE 9,20	EVERETT DELTA 9,21	DEPRECIATION 9,22	SALES TO CUSTOMERS	MUNICIPAL ADDITIONS	OTHER OPERATING REVENUES			
1	OPERATING REVENUES												
2	SALES TO CUSTOMERS	\$ -			\$ 284,055								\$ 114,574,814
3	MUNICIPAL ADDITIONS												(34,729,596)
4	OTHER OPERATING REVENUES												17,055,092
5	TOTAL OPERATING REVENUES	\$ -	\$ -	\$ -	\$ 284,055	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9.22	\$ 81,461,413	\$ 960,901,702
6													
7	OPERATING REVENUE DEDUCTIONS:												
8													
9													
10	GAS COSTS:												
11													
12	PURCHASED GAS	\$ -			\$ -								\$ 631,255,371
13													
14	TOTAL PRODUCTION EXPENSES	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9.22	\$ 91,599,470	\$ 631,255,371
15													
16	OTHER ENERGY SUPPLY EXPENSES												\$ 1,556,252
17	TRANSMISSION EXPENSE												454,076
18	DISTRIBUTION EXPENSE												34,066,423
19	CUSTOMER ACCTS EXPENSES	131,750								967			23,285,488
20	CUSTOMER SERVICE EXPENSES												1,579,785
21	CONSERVATION AMORTIZATION												
22	ADMIN & GENERAL EXPENSE												
23	DEPRECIATION												
24	AMORTIZATION												
25	AMORTIZATION OF PROPERTY LOSS												
26	OTHER OPERATING EXPENSES												
27	FAS 133												
28	TAXES OTHER THAN INCOME TAXES												
29	INCOME TAXES												
30	DEFERRED INCOME TAXES												
31	TOTAL OPERATING REV. DEDUCT.	\$ 131,750	\$ (456,881)	\$ 914,888	\$ (1,361,790)	\$ (3,192)	\$ 107,486	\$ -	\$ -	\$ 10,905	\$ 95,076	\$ 1,829,305	\$ 11,358,999
32													8,180,050
33	NET OPERATING INCOME	\$ (131,750)	\$ 456,881	\$ (914,888)	\$ 1,361,790	\$ 3,192	\$ 176,569	\$ -	\$ -	\$ 6,528,425	\$ -	\$ 1,111,176	\$ 1,180,351,743
34													
35	RATE BASE												
36													
37	RATE OF RETURN												
38													
39	RATE BASE:												
40	UTILITY PLANT IN SERVICE												
41	ACCUMULATED DEPRECIATION												
42	ACCUMULATED DEFERRED FIT - LIBERALIZED												
43	OTHER												
44	TOTAL NET INVESTMENT												
45	ALLOWANCE FOR WORKING CAPITAL												
46	TOTAL RATE BASE	\$ -	\$ -	\$ (1,746,177)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,111,176	\$ 1,180,351,743

(Note) Amounts presented in bold italic type have changed since the February 15, 2006 original filing.

**PUGET SOUND ENERGY-GAS
 CONSERVATION
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005
 GENERAL RATE INCREASE**

LINE NO. DESCRIPTION	ADJUSTMENT
1 <u>RESTATING</u>	
2 ACTUAL CONSERVATION TRACKER AMORTIZATION	\$ 2,811,260
3 RESTATED CONSERVATION TRACKER AMORTIZATION	-
4 INCREASE (DECREASE) AMORTIZATION EXPENSE	<u>(2,811,260)</u>
5 INCREASE (DECREASE) OPERATING EXPENSE	\$ (2,811,260)
6	
7 <i>ACTUAL NON TRACKER CONSERVATION EXPENSE</i>	\$ 279,572
8 <i>RESTATED NON TRACKER CONSERVATION EXPENSE</i>	-
9 <i>INCREASE (DECREASE) EXPENSE</i>	<u>(279,572)</u>
10 <i>INCREASE (DECREASE) OPERATING EXPENSE</i>	\$ (279,572)
11	
12 <u>PROFORMA</u>	
13 CONSERVATION REGULATORY ASSET-ACCT #18230422 WATER HEATER PRGM	642,901
14 CONSERVATION AMORTIZATION FOR RATE YEAR	-
15 INCREASE (DECREASE) AMORTIZATION EXPENSE	<u>(642,901)</u>
16 INCREASE (DECREASE) OPERATING EXPENSE	<u>(642,901)</u>
17	
18 INCREASE (DECREASE) EXPENSE	\$ (3,733,733)
19 INCREASE (DECREASE) FIT	1,306,807
20	35%
21 INCREASE (DECREASE) NOI	<u><u>\$ 2,426,926</u></u>

(Note) Amounts presented in bold italic type have changed since the February 15, 2006 original filing.

PUGET SOUND ENERGY-GAS
MISCELLANEOUS OPERATING EXPENSE
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005
GENERAL RATE INCREASE

LINE NO.	DESCRIPTION	ACTUAL	RESTATED / PROFORMA	ADJUSTMENT
1	<u>OPERATING EXPENSES</u>			
2	NYSE PSE COMMON STOCK FEES (STAFF DR 190)	0	0	0
3	AMORT OF DEFERRAL PURSUANT TO WUTC DOC # UG-051528		1,267,159	1,267,159
4	NORMALIZATION OF CARRYING COST ON LINE 4		153,724	153,724
5	<i>PENALTIES Remove From Above the Line</i>	<i>536</i>	0	<i>(536)</i>
6	DEP EXP ON CWIP IN SERVICE NOT TRANSFERRED TO PLANT		85,324	85,324
7				
8				
9	INCREASE (DECREASE) IN EXPENSE	\$ 536	\$ 1,506,207	\$ 1,505,671
10				
11	INCREASE (DECREASE) IN OPERATING EXPENSE			1,505,671
12	INCREASE(DECREASE) FIT @		35%	<i>(526,985)</i>
13				
14	INCREASE(DECREASE) NOI			<u>\$ (978,686)</u>
15				
16				
17	<u>RATEBASE</u>			
18	CWIP "IN SERVICE" BUT NOT TRANSFERRED TO PLANT			2,912,989
19	ACCUMULATED DEPRECIATION ON CWIP IN SERVICE			(55,636)
20				
21	TOTAL ADJUSTMENT TO RATEBASE			<u>\$ 2,857,353</u>
22				

(Note) Amounts presented in bold italic type have changed since the February 15, 2006 original filing.

PUGET SOUND ENERGY-GAS
PROPERTY TAXES
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005
GENERAL RATE INCREASE

LINE NO.	DESCRIPTION	AMOUNT
1	RESTATED PROPERTY TAX	\$ 12,158,947
2	CHARGED TO EXPENSE IN TY	12,881,140
3	INCREASE(DECREASE) EXPENSE	\$ (722,193)
4		
5	INCREASE(DECREASE) FIT @ 35%	252,768
6	INCREASE(DECREASE) NOI	\$ 469,425

(Note) Amounts presented in bold italic type have changed since the February 15, 2006 original filing.

PUGET SOUND ENERGY-GAS
PROPERTY & LIABILITY INSURANCE
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005
GENERAL RATE INCREASE

LINE NO.	DESCRIPTION	ACTUAL	PROFORMA	ADJUSTMENT
1	PROPERTY INSURANCE EXPENSE	\$ 527,181	<i>281,698</i>	\$ (245,483)
2	LIABILITY INSURANCE EXPENSE	886,977	<i>941,780</i>	54,803
3	INCREASE(DECREASE) EXPENSE	\$ 1,414,158	\$ <i>1,223,478</i>	\$ (190,680)
4				
5				
6	INCREASE (DECREASE) FIT @	35%		<i>66,738</i>
7	INCREASE (DECREASE) NOI			<u>\$ <i>123,942</i></u>

(Note) Amounts presented in bold italic type have changed since the February 15, 2006 original filing.

PUGET SOUND ENERGY-GAS
INCENTIVE PAY
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005
GENERAL RATE INCREASE

LINE NO.	DESCRIPTION	ACTUAL	PROFORMA RESTATE	ADJUSTMENT
1	INCENTIVE/MERIT PAY			
2	PRODUCTION MANUF. GAS	\$ 6,230	<i>\$ 5,162</i>	<i>\$ (1,068)</i>
3	OTHER GAS SUPPLY	32,932	<i>25,811</i>	<i>(7,121)</i>
4	STORAGE, LNG T&G	39,756	<i>31,442</i>	<i>(8,314)</i>
5	TRANSMISSION	16,911	<i>13,375</i>	<i>(3,536)</i>
6	DISTRIBUTION	1,435,055	<i>1,139,890</i>	<i>(295,165)</i>
7	CUSTOMER ACCTS	531,359	<i>421,651</i>	<i>(109,708)</i>
8	CUSTOMER SERVICE	69,720	<i>54,906</i>	<i>(14,814)</i>
9	SALES	32,932	<i>25,811</i>	<i>(7,121)</i>
10	ADMIN. & GENERAL	801,934	<i>628,371</i>	<i>(173,563)</i>
11	TOTAL INCENTIVE PAY	<u>\$ 2,966,829</u>	<u><i>\$ 2,346,419</i></u>	<u><i>\$ (620,410)</i></u>
12				
13	PAYROLL TAXES ASSOC WITH MERIT PAY	206,491	<i>163,311</i>	<i>(43,180)</i>
14	INCREASE(DECREASE) EXPENSE	3,173,320	<i>2,509,730</i>	<i>(663,590)</i>
15				
16	INCREASE (DECREASE) OPERATING EXPENSE			<i>(663,590)</i>
17				
18	INCREASE(DECREASE) FIT @		35%	<i>232,257</i>
19	INCREASE(DECREASE) NOI			<u><i>\$ 431,333</i></u>

(Note) Amounts presented in bold italic type have changed since the February 15, 2006 original filing.

PUGET SOUND ENERGY-GAS
GENERAL OFFICE RELOCATION
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2005
GENERAL RATE INCREASE

LINE NO.	DESCRIPTION	ACTUAL	PROFORMA RESTATED	ADJUSTMENT
1	OPERATING EXPENSES (PROFORMA)			
2	GENERAL OFFICE BUILDING - PROPERTY TAXES	\$ 79,692	\$ -	\$ (79,692)
3	GENERAL OFFICE BUILDING - PROPERTY INSURANCE	2,840	-	(2,840)
4	GENERAL OFFICE BUILDING - DEPRECIATION (EOP)	63,446	-	(63,446)
5	CROSSROADS BUILDING - PROPERTY TAXES	17,158	-	(17,158)
6	CROSSROADS BUILDING - PROPERTY INSURANCE	602	-	(602)
7	CROSSROADS BUILDING - DEPRECIATION (EOP)	63,839	-	(63,839)
8		<u>\$ 227,576</u>	<u>\$ 0</u>	<u>\$ (227,576)</u>
9				
10	OPERATING EXPENSES (RESTATED)			
11	PSE(E) - LEASE COSTS	\$ 45,564	<i>\$ 1,857,711</i>	<i>\$ 1,812,147</i>
12	PSE(E) - LEASEHOLD IMPROVEMENTS AMORTIZATION	(41,490)	(311,175)	(269,685)
13	PSE(E) - PROPERTY TAXES	-	<i>91,609</i>	<i>91,609</i>
14	PSE(E) - PROPERTY INSURANCE	-	1,025	1,025
15		<u>\$ 4,074</u>	<u>\$ 1,639,170</u>	<u>\$ 1,635,096</u>
16				
17	INCREASE(DECREASE) IN EXPENSE	\$ 231,650	<i>\$ 1,639,170</i>	<i>1,407,519</i>
18				
19	INCREASE (DECREASE) FIT @		35%	<u>(492,632)</u>
20	INCREASE (DECREASE) NOI			<u>\$ (914,888)</u>
21				
22	ADJUSTMENT TO RATEBASE			
23	GENERAL OFFICE BUILDING	\$ 1,913,663	\$ -	\$ (1,913,663)
24	ACCUM DEPRECIATION	(673,004)	-	673,004
25	DEFERRED INCOME TAX	(319,401)	-	319,401
26	NET GENERAL OFFICE BUILDING	<u>\$ 921,258</u>	<u>\$ -</u>	<u>\$ (921,258)</u>
27				
28	CROSSROADS BUILDING	\$ 1,900,568	\$ -	\$ (1,900,568)
29	ACCUM DEPRECIATION	(886,530)	-	886,530
30	DEFERRED INCOME TAX	(189,119)	-	189,119
31	NET CROSSROADS BUILDING	<u>\$ 824,919</u>	<u>\$ -</u>	<u>\$ (824,919)</u>
32				
33	TOTAL ADJUSTMENT TO RATE BASE	<u>\$ 1,746,177</u>	<u>\$ -</u>	<u>\$ (1,746,177)</u>

(Note) Amounts presented in bold italic type have changed since the February 15, 2006 original filing.