

EXHIBIT NO. ___(KRK-8T)
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 SUPPLEMENTAL
DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KARL R. KARZMAR
ON BEHALF OF PUGET SOUND ENERGY, INC.**

JULY 7, 2006

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PUGET SOUND ENERGY, INC.

**PREFILED SUPPLEMENTAL
DIRECT TESTIMONY (NONCONFIDENTIAL) OF
KARL R. KARZMAR**

I. INTRODUCTION

Q. Are you the same Karl R. Karzmar who prefiled direct testimony in this Docket on behalf of Puget Sound Energy, Inc. ("PSE" or "the Company") on February 15, 2006?

A. Yes.

Q. What topics are you covering in your supplemental direct testimony?

A. With respect to gas results of operations, I present the calculation of the adjusted test period taking into consideration an update to several proforma and restating adjustments for new information that has become available to the Company regarding costs that the Company had estimated in its original filing.

The result of these changes to the proforma and restating adjustments is to adjust the Company's revenue deficiency for gas operations from the \$40,439,958 set forth in PSE's February 15, 2006 filing to \$39,211,573, which is an average 4.15% increase over rates in effect as of July 1, 2006.

1 **Q. Would you please explain Exhibit No. ___(KRK-9)?**

2 A. Exhibit No. ___(KRK-9) presents the same information as Exhibit No. ___(KRK-
3 4) except for revisions resulting from the updated information described in my
4 supplemental direct testimony. The first page of Exhibit No. ___(KRK-4),
5 Summary page, presents the unadjusted gas operating income statement and
6 Average-of-the-Monthly-Averages ratebase for the Company as of September 30,
7 2005, in the column labeled Actual Results of Operation. The various line items
8 are then adjusted by the summarized proforma and restating adjustments, as shown
9 in the third column. This column is the source used to calculate the revenue
10 deficiency. In the second to last column the revenue deficiency is added to the
11 adjusted income statement and the impact on the operating income statement and
12 ratebase is presented in the final column. The rest of Exhibit No. ___(KRK-9) is
13 composed of two sections, described below.

14 Pages 9-A through 9-C of this Exhibit No. ___(KRK-9) present a summary
15 schedule of all the proforma and restating adjustments. The first column of
16 numbers, on page 9-A, is the unadjusted net operating income for the year ended
17 September 30, 2005 (the test year) and the unadjusted ratebase for the same
18 period. Each column to the right of the first column represents a proforma or
19 restating adjustment to net operating income or ratebase. Each of these
20 adjustments has a supporting schedule, which is referenced by the page number
21 shown in each column title. For each adjustment that is marked "**REVISED**" new

1 workpapers supporting the adjustment have been provided. The numbers that
2 changed in each adjustment as a result of this supplemental filing have also been
3 presented in bold and italic font. For the proforma and restating adjustments that
4 have not been revised, the workpapers for Exhibit No. ___(KRK-4) are still
5 appropriate for supporting the equivalent adjustment in Exhibit No. ___(KRK-9).

6 The second to the last column, shown on page 9-C of the summary schedule,
7 summarizes all of the adjustments and the final column shows the adjusted test
8 period results used to calculate the revenue deficiency.

9 **Q. Have you prepared a reconciliation between the revenue deficiency filed in**
10 **February, 2006 and the current revenue deficiency?**

11 A. Yes. The table presented below shows the impact of each of the proforma and
12 restating adjustments on the February 2006 revenue deficiency.

| Description | Adjustment | Revenue Deficiency |
|----------------------------|-------------------|---------------------------|
| As filed February 15, 2006 | | \$40,439,958 |
| Conservation | 9.04 | (292,345) |
| Misc. Operating Expense | 9.06 | (158,695) |
| Property Taxes | 9.07 | (801,325) |
| Property Insurance | 9.10 | (257,112) |
| Incentive Plan | 9.15 | 17,831 |
| General Office Relocation | 9.18 | 263,261 |
| Updated Revenue Deficiency | | \$39,211,573 |

1 **Q. Please explain the change to Adjustment 9.04, Conservation.**

2 A. This adjustment corrects for low income energy efficiency costs charged to gas
3 operating expenses that should have been charged to shareholders. In accordance
4 with Paragraph No. 34 of Exhibit F to Settlement Stipulation in PSE's General
5 Rate Case in WUTC Docket Nos. UE-011570 and UG-011571, approved and
6 adopted by the Commission in its Twelfth Supplemental Order on June 20, 2002,
7 the Company agreed to make available \$800,000 in Conservation & Renewable
8 Discount Funds and \$300,000 in shareholder funds annually for non-tracker/rider
9 low income energy efficiency programs. This correction reduces conservation
10 expense by \$279,572 and results in a revised Conservation adjustment that
11 increases net operating income by \$2,426,926.

12 **Q. Please continue your explanation of changes for the remaining adjustments.**

13 A. **Adjustment 9.06, Miscellaneous Operating Expenses**, corrects the February
14 filing for several items. The first change was to remove the New York Stock
15 Exchange Fee adjustment as this change in rate only applies to new stock issues.
16 The second adjustment is to remove an item that had been charged to operating
17 expenses that should have been reported below the line or as non-operating
18 expenses. As a result of this adjustment, net operating income is now decreased by
19 \$978,686 and the increase in ratebase remains unchanged at \$2,857,353.

1 **Adjustment 9.07, Property Taxes**, is being updated to current levy rates instead
2 of the estimated rates used in the February filing. Net operating income is
3 increased \$469,425 by this adjustment after reflecting the new levy rates.

4 **Adjustment 9.10, Property Insurance**, updates these estimated premium
5 amounts to actual since the February filing. This adjustment now increases net
6 operating income by \$123,942.

7 **Adjustment 9.15, Incentive Plan**, updates the 2005 plan payout to actual. The
8 adjustment now increases net operating income by \$431,333.

9 **Adjustment 9.18, General Office Relocation**, is being corrected to reflect the
10 lease cost associated with the rate year, 2007. In the original filing the lease cost
11 for 2006 had been mistakenly included in the adjustment. This adjustment now
12 decreases net operating income by \$914,888 and the decrease in ratebase remains
13 unchanged at \$1,746,177.

14 **Q. Please explain Exhibit No. ___(KRK-10).**

15 A. Exhibit No. ___(KRK-10) calculates the revenue deficiency after applying the
16 proforma and restating adjustments to the actual test year net operating income
17 and ratebase. This schedule shows the test period proforma and restated ratebase,
18 line 1, and net operating income, line 6. Based on \$1,180,351,743 invested in
19 ratebase, an 8.76% rate of return and \$79,024,887 of net operating income, the
20 Company would have a retail revenue deficiency of \$39,311,573.

1 Q. Does that conclude your supplemental direct testimony?

2 A. Yes.