

**EXHIBIT NO. \_\_\_(KRK-10)  
DOCKET NO. UE-072300/UG-072301  
2007 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-072300  
Docket No. UG-072301**

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

**APRIL 11, 2008**

**PUGET SOUND ENERGY-GAS  
GENERAL RATE INCREASE  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2007  
GENERAL RATE INCREASE**

1	RATE BASE	<i>\$ 1,349,251,536</i>
2	RATE OF RETURN	<u>8.60%</u>
3		
4	OPERATING INCOME REQUIREMENT	<i>116,035,632</i>
5		
6	PRO FORMA OPERATING INCOME	<u><i>79,922,611</i></u>
7	OPERATING INCOME DEFICIENCY	<i>36,113,021</i>
8		
9	CONVERSION FACTOR	<u><i>62.19300%</i></u>
10		
11		
12	TOTAL REVENUE REQUIREMENT	<b><u><i>\$58,066,055</i></u></b>

**PUGET SOUND ENERGY-GAS  
PRO FORMA COST OF CAPITAL  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2007  
GENERAL RATE INCREASE**

LINE NO.	DESCRIPTION	PRO FORMA CAPITAL %	COST %	COST OF CAPITAL
1	DEBT	54.97%	6.80%	3.74%
2	PREFERRED STOCK	0.03%	8.61%	0.00%
3	EQUITY	45.00%	10.80%	4.86%
4	TOTAL	100.00%		8.60%
5				
6	AFTER TAX DEBT ( LINE 1 * 65%)	54.97%	4.42%	2.43%
7	PREFERRED	0.03%	8.61%	0.00%
8	EQUITY	45.00%	10.80%	4.86%
9	TOTAL AFTER TAX COST OF CAPIT/	100.00%		7.29%

**PUGET SOUND ENERGY-GAS  
CONVERSION FACTOR  
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2007  
GENERAL RATE INCREASE**

LINE NO.	DESCRIPTION	BASE	RATE	AMOUNT	
1	TOTAL OPERATING REVENUE			<u>1.00000</u>	
2					
3	OPERATING REVENUE DEDUCTION				
4	OTHER OPERATIONS			<i>0.00278</i>	
5	OTHER TAXES				
6	STATE UTILITY	1.00000			
7		<i>(0.00278)</i>			
8					
9	STATE UTILITY TAX	<i>0.99722</i>	0.03852	<i>0.03841</i>	
10	ALL OTHER (FILING FEE)			0.00200	0.95681
11	FEDERAL INCOME TAX:				
12	CURRENT	<i>0.95681</i>	0.35000	<i>0.33488</i>	
13					
14					
15	TOTAL OPERATING REVENUE DEDUCTIONS			<u><i>0.37807</i></u>	
16					
17	CONVERSION FACTOR			<u><u><i>0.62193</i></u></u>	