

**EXHIBIT NO. ___(KRK-3)
DOCKET NO. UE-051828/UE-051966
WITNESS: KARL R. KARZMAR**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WESTERN VILLAGE, LLC, D/B/A
WESTERN VILLAGE ESTATES,

Complainant,**

v.

**PUGET SOUND ENERGY, INC.

Respondent.**

Docket No. UE-051828

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,**

v.

**PUGET SOUND ENERGY, INC.,

Respondent.**

Docket No. UE-051966

**SECOND EXHIBIT TO THE PREFILED TESTIMONY OF
KARL R. KARZMAR
ON BEHALF OF PUGET SOUND ENERGY, INC.
IN RESPONSE TO THE
PREFILED TESTIMONY OF WESTERN VILLAGE, LLC
DATED MARCH 8, 2006**

APRIL 19, 2006

421
Exhibit T- ___ (JMR-1T)
Docket No. UG-040640, et al.
Witness: James M. Russell

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NO. UG-040640
DOCKET NO. UE-040641
(consolidated)

TESTIMONY OF

JAMES M. RUSSELL

STAFF OF THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION

**Electric Revenue Requirements, White River Accounting Petition, PCORC Accounting
Petition, Accounting for Catastrophic Storm Damage and the Virtual Right of Way
Program, and Gas Cost of Service**

September 23, 2004

1 Q. Please state your name and business address.

2 A. I am James M. Russell. My business address is 1300 S. Evergreen Park Drive
3 S.W., P.O. Box 47250, Olympia, WA 98504.

4

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Washington Utilities and Transportation Commission
7 as a Regulatory Analyst.

8

9 Q. How long have you been employed by the Commission?

10 A. Approximately 19 years, from June 1985 to the present.

11

12 Q. Would you please state your educational and professional background?

13 A. I graduated from Washington State University in 1983 receiving a Bachelor
14 of Arts in Business Administration with a major in accounting.

15 My work at the Commission generally includes financial, accounting, and

16 other analysis of general rate case and tariff filings, incentive proposals,

17 special contracts, least cost plans, and rulemaking proceedings involving

18 investor owned electric and natural gas utilities regulated by the

19 Commission. Over my career at the Commission I have provided testimony

1 in approximately 11 formal general rate case proceedings and have been
2 involved in numerous negotiated electric and natural gas general rate case
3 settlements. I have also presented Staff recommendations in many
4 Commission open public meetings.

5
6 **Q. Would you please list the Staff witnesses and their general area of**
7 **responsibility in this proceeding?**

8 A. Yes. The following is a list of Staff witnesses and the areas of their
9 responsibility:

10 James Russell – Electric Revenue Requirement and Adjustments, White River
11 Accounting Petition, PCORC Accounting Petition, Accounting for
12 Catastrophic Storm Damage and the Virtual Right of Way Program,
13 and Gas Cost of Service.

14 Michael Parvinen – Gas Revenue Requirement and Adjustments.

15 Yohannes Mariam – Electric Power Cost Adjustments, and Electric and Gas
16 Weather Normalization.

17 John Wilson – Rate of Return.

18 Joelle Steward – Electric Cost of Service, and Electric and Gas Rate Spread
19 and Rate Design.

20 Douglas Kilpatrick – Reliability Measurement and the Tree Watch Program.
21

1 Q. Please summarize Staff's recommendation with regard to the issues in
2 these consolidated electric and natural gas rate proceedings?

3 A. The details of Staff's recommendations are contained within each
4 individual's testimony, but the following is a brief summary: Staff
5 recommends that the Commission grant Puget Sound Energy, Inc. (PSE or
6 Company) an additional \$21,328,000 (1.5%) in retail electric service revenues
7 and an additional \$8,116,000 (1.1%) in retail gas service revenues. These
8 increases are based on an overall rate of return of 7.80% for both electric and
9 gas operations. Ms. Steward discusses Staff's electric and gas rate spread
10 and rate design proposals. Staff recommends that the Commission grant in
11 part and deny in part PSE's request in its White River Accounting Petition
12 (Docket No. UE-032043) that was consolidated with this proceeding. Staff
13 also recommends that the Commission deny PSE's request for authority to
14 defer PCORC rate case costs in its Accounting Petition (Docket No. UE-
15 031471) that was also consolidated with this proceeding. Finally, Staff
16 recommends that the Commission adopt a new set of criteria that triggers the
17 deferral of major storm damage expenses.

18

1 Q. Are you sponsoring any exhibits in this proceeding?

2 A. Yes, I am sponsoring the following exhibits:

3 Exhibit ___ (JMR-2C), Summary Result of Operations & Revenue

4 Requirement

5 Exhibit ___ (JMR-3C), Restating and Pro Forma Adjustment Calculations

6 Exhibit ___ (JMR-4), UE-032043 White River Accounting Petition

7 Exhibit ___ (JMR-5), UE-031471 PCORC Accounting Petition

8 Exhibit ___ (JMR-6), PCA Baseline Rate

9 Exhibit ___ (JMR-7), Gas Cost of Service

10

11 Q. Would you please begin by briefly describing your Exhibit ___ (JMR-2C),

12 Summary Results of Operations and Revenue Requirement?

13 A. Exhibit ___ (JMR-2C) summarizes Staff's electric restating and pro forma

14 adjustments and electric operations revenue deficiency of \$21,328,000 based

15 on an overall rate of return of 7.80%. For ease of comparison, the figures that

16 have been shaded on my exhibit pages indicate input differences from PSE's

17 direct case, as revised.

18

19 Q. Would you please describe Exhibit ___ (JMR-2C) in more detail?

20 A. Beginning on page 1 of Exhibit ___ (JMR-2C), the first column entitled "Actual

21 Results of Operations" reflects the test year (October 2002- September 2003)

22 amounts and indicates that PSE earned an actual rate of return of 8.64%

1 during the test period. The second and third columns incorporate the effects
2 of the "Conservation Trust" for ratemaking purposes. The fourth column,
3 entitled "Total Adjustments" is simply a tabulation of all the restating and
4 pro forma adjustments shown on pages 2 through 5. Finally, the column
5 entitled "Revenue Requirement Deficiency" shows the impact of Staff's
6 recommended \$21,328,000 retail revenue increase, given the overall rate of
7 return requirement of 7.80%.

8 The first line on pages 2 through 5 of this exhibit indicates which Staff
9 witness is responsible for the issues and the calculation of the amounts
10 indicated in each particular adjustment column.

11
12 **Q. Would you please describe Exhibit ___ (JMR-3C)?**

13 **A.** Exhibit ___ (JMR-3C) is a detail of all the electric restating and pro forma
14 adjustments (2.01 through 2.30). A detail of the rate of return components,
15 conversion factor, and calculation of the revenue deficiency is also included.

16 Each of the adjustments will be discussed later.

17

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Exhibit __ (JMR-2C)
Docket No. UG-040640, et al.
Witness: James M. Russell

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET NO. UG-040640
DOCKET NO. UE-040641
(consolidated)

EXHIBIT TO TESTIMONY OF

JAMES M. RUSSELL

STAFF OF THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION

Summary Results of Operations & Revenue Requirement

September 23, 2004

****REDACTED VERSION****

PUGET SOUND ENERGY-ELECTRIC
 RESULTS OF OPERATIONS
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003
 GENERAL RATE INCREASE

LINE NO.	ACTUAL RESULTS OF OPERATIONS	CONSERVATION TRUST	ACTUAL RESULTS OF OPERATION W/ CONSERVATION TRUST	TOTAL ADJUSTMENTS	ADJUSTED RESULTS OF OPERATIONS	REVENUE REQUIREMENT DEFICIENCY	AFTER RATE INCREASE
1	OPERATING REVENUES:						
2	SALES TO CUSTOMERS	\$ 1,250,593,645	\$ 11,716,081	\$ 1,262,309,726	\$ 152,315,832	\$ 1,414,625,558	\$ 1,436,133,443
3	SALES FROM REBAL-FIRM	364,717		364,717	92,726	457,443	464,912
4	SALES TO OTHER UTILITIES	198,186,464		198,186,464	(24,000,000)	174,186,464	174,186,464
5	OTHER OPERATING REVENUES	45,262,327		45,262,327	(12,290,771)	32,971,556	32,993,899
6	TOTAL OPERATING REVENUES	1,495,407,563	11,716,081	1,507,123,644	(3,711,025)	1,503,412,619	1,524,769,866
7	OPERATING REVENUE DEDUCTIONS:						
8							
9							
10	POWER COSTS:						
11	FUEL	\$ 64,236,514	\$ -	\$ 64,236,514	\$ 177,037,933	\$ 241,274,447	\$ 191,374,273
12	PURCHASED AND INTERCHANGED	769,384,600		769,384,600	(1,140,000)	768,244,600	768,244,600
13	WHOLESALE	39,868,912		39,868,912	(1,152,133)	38,716,779	38,716,779
14	RESIDENTIAL EXCHANGE	(172,382,420)		(172,382,420)	172,382,420	-	-
15	TOTAL PRODUCTION EXPENSES	701,107,606		701,107,606	82,898,828	784,006,434	784,006,434
16	OTHER POWER SUPPLY EXPENSES	\$ 46,832,153	\$ -	\$ 46,832,153	\$ 1,000,000	\$ 47,832,153	\$ 47,832,153
17	TRANSMISSION EXPENSE	3,409,865		3,409,865	3,409,865	6,819,730	6,819,730
18	DISTRIBUTION EXPENSE	58,327,849		58,327,849	58,327,849	116,655,698	116,655,698
19	CUSTOMER ACCOUNT EXPENSES	34,589,847		34,589,847	(2,336,102)	32,253,745	32,253,745
20	CUSTOMER SERVICE EXPENSES	8,700,615		8,700,615	(5,776,557)	2,924,058	2,924,058
21	CONSERVATION AMORTIZATION	29,421,865	10,967,322	40,389,187	(40,290,817)	98,370	98,370
22	ADMIN & GENERAL EXPENSE	59,296,783		59,296,783	(59,296,783)	68,981,903	68,981,903
23	DEPRECIATION	124,134,390		124,134,390	2,336,102	126,470,492	126,470,492
24	AMORTIZATION	24,086,070		24,086,070	(1,405,173)	22,680,897	22,680,897
25	AMORTIZ OF PROPERTY GAIN/LOSS	6,000,000		6,000,000	6,000,000	12,000,000	12,000,000
26	OTHER OPERATING EXPENSES	(3,438,725)		(3,438,725)	3,634,373	7,641,323	7,641,323
27	TAXES OTHER THAN P.L.T.	131,930,399		131,930,399	(3,000,000)	128,930,399	128,930,399
28	FEDERAL INCOME TAXES	(5,764,878)		(5,764,878)	(3,000,000)	(8,764,878)	(8,764,878)
29	DEFERRED INCOME TAXES	57,844,151		57,844,151	(30,411,356)	27,432,795	27,432,795
30	TOTAL OPERATING REV. DEDUCT.	1,276,517,888	10,967,322	1,287,485,210	29,203,321	1,316,688,531	1,324,766,376
31	NET OPERATING INCOME	\$ 218,889,675	\$ 748,759	\$ 219,638,434	\$ (72,914,246)	\$ 146,724,188	\$ 146,724,188
32	RATE BASE	\$ 2,534,407,389	\$ -	\$ 2,534,407,389	\$ 29,480,949	\$ 2,563,888,338	\$ 2,563,888,338
33	RATE OF RETURN	8.64%		8.07%		7.80%	7.80%
34	RATE BASE:						
35	UTILITY PLANT IN SERVICE	\$ 2,578,449,579	\$ -	\$ 2,578,449,579	\$ 27,246,225	\$ 2,605,695,804	\$ 2,605,695,804
36	DEFERRED DEBITS	334,433,269		334,433,269	(3,000,000)	331,433,269	331,433,269
37	DEFERRED TAXES	(11,569,864)		(11,569,864)	(11,569,864)	(23,139,728)	(23,139,728)
38	CONSERVATION TRUST	11,569,864		11,569,864	(11,569,864)	-	-
39	ALLOWANCE FOR WORKING CAPITAL	(32,417,645)		(32,417,645)	-	(32,417,645)	(32,417,645)
40	OTHER	2,334,407,389		2,334,407,389	29,480,949	2,363,888,338	2,363,888,338
41	TOTAL RATE BASE	\$ 2,534,407,389	\$ -	\$ 2,534,407,389	\$ 29,480,949	\$ 2,563,888,338	\$ 2,563,888,338

PUGET SOUND ENERGY-ELECTRIC
 STATEMENT OF OPERATING INCOME AND ADJUSTMENTS
 FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003
 RESTATING AND PRO FORMA ADJUSTMENTS

LINE NO.	Particular	Retail	Wholesale	Transmission	Generation	Retail	Retail	Retail	Retail
1	OPERATING REVENUES								
2	SALES TO CUSTOMERS								
3	SALES FROM REBAL-FIRM								
4	SALES TO OTHER UTILITIES								
5	OTHER OPERATING REVENUES								
6	TOTAL OPERATING REVENUES	3,08	2,10	2,11	2,12	2,13	2,14	2,15	
7									
8	OPERATING REVENUE DEDUCTIONS:								
9									
10	POWER COSTS:								
11	FUEL								
12	PURCHASED AND INTERCHANGED								
13	WHEELING								
14	RESIDENTIAL EXCHANGE								
15	TOTAL PRODUCTION EXPENSES								
16									
17	OTHER POWER SUPPLY EXPENSES								
18	TRANSMISSION EXPENSE								
19	DISTRIBUTION EXPENSE								
20	CUSTOMER ACCTS EXPENSES								
21	CUSTOMER SERVICE EXPENSES								
22	CONSERVATION AMORTIZATION								
23	ADMIN & GENERAL EXPENSE								
24	DEPRECIATION								
25	AMORTIZATION								
26	AMORTIZ OF PROPERTY GAIN/LOSS								
27	OTHER OPERATING EXPENSES								
28	TAXES OTHER THAN F.I.T.								
29	FEDERAL INCOME TAXES								
30	DEFERRED INCOME TAXES								
31	TOTAL OPERATING REV. DEDUCT.								
32									
33	NET OPERATING INCOME								
34									
35	RATE BASE								
36									
37	RATE OF RETURN								
38									
39	RATE BASE:								
40	UTILITY PLANT IN SERVICE								
41	DEFERRED DEBITS								
42	DEFERRED TAXES								
43	CONSERVATION TRUST								
44	ALLOWANCE FOR WORKING CAPITAL								
45	OTHER								
46	TOTAL RATE BASE								

FUGET SOUND ENERGY-ELECTRIC
STATEMENT OF OPERATING INCOME AND ADJUSTMENTS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003
RESTATING AND PRO FORMA ADJUSTMENTS

LINE NO.	Retail	Retail	Rate Case	Property	Property	Property	Wage	Investment	Employee
	Interest	Expenses	Expenses	Sales	Liability	Pension	Increase	Plan	Insurance
	2.16	2.18	2.19	2.20	2.21	2.22	2.23	2.24	
1 OPERATING REVENUES									
2 SALES TO CUSTOMERS	\$	\$	\$	\$	\$	\$	\$	\$	\$
3 SALES FROM REALE-FIRM									
4 SALES TO OTHER UTILITIES									
5 OTHER OPERATING REVENUES									
6 TOTAL OPERATING REVENUES	\$	\$	\$	\$	\$	\$	\$	\$	\$
7									
8 OPERATING REVENUE DEDUCTIONS:									
9									
10 POWER COSTS:									
11 FUEL	\$	\$	\$	\$	\$	\$	\$	\$	\$
12 PURCHASED AND INTERCHANGED									
13 WHEELING									
14 RESIDENTIAL EXCHANGE									
15 TOTAL PRODUCTION EXPENSES	\$	\$	\$	\$	\$	\$	\$	\$	\$
16									
17 OTHER POWER SUPPLY EXPENSES	\$	\$	\$	\$	\$	\$	\$	\$	\$
18 TRANSMISSION EXPENSE									
19 DISTRIBUTION EXPENSE									
20 CUSTOMER ACCTS EXPENSES									
21 CUSTOMER SERVICE EXPENSES									
22 CONSERVATION AMORTIZATION									
23 ADMIN & GENERAL EXPENSE									
24 DEPRECIATION									
25 AMORTIZATION									
26 AMORTIZ OF PROPERTY GAIN/LOSS									
27 OTHER OPERATING EXPENSES									
28 TAXES OTHER THAN F.I.T.									
29 FEDERAL INCOME TAXES									
30 DEFERRED INCOME TAXES									
31 TOTAL OPERATING REV. DEDUCT.	\$	\$	\$	\$	\$	\$	\$	\$	\$
32									
33 NET OPERATING INCOME	\$	\$	\$	\$	\$	\$	\$	\$	\$
34									
35 RATE BASE									
36									
37 RATE OF RETURN									
38									
39 RATE BASE:									
40 UTILITY PLANT IN SERVICE									
41 DEFERRED DEBITS									
42 DEFERRED TAXES									
43 CONSERVATION TRUST									
44 ALLOWANCES FOR WORKING CAPITAL									
45 OTHER									
46 TOTAL RATE BASE	\$	\$	\$	\$	\$	\$	\$	\$	\$

PUGET SOUND ENERGY-ELECTRIC
STATEMENT OF OPERATING INCOME AND ADJUSTMENTS
FOR THE TWELVE MONTHS ENDED SEPTEMBER 30, 2003
RESTATING AND PRO-FORMA ADJUSTMENTS

CONFIDENTIAL, per Protective Order in UG-040640

LINE NO.	Russell	Russell	Russell	Russell	Russell	Russell	Russell	Russell	Russell
	MONTANA CORP LICENSE TAX 2.28	STORM DAMAGE 2.36	FREDERICKSON PLANT 2.27 (Note 1)	LOW INCOME AMORTIZATION 2.28	REGULATORY ASSETS 2.19	PRODUCTION ADJUSTMENT 2.30	TOTAL ADJUSTMENTS	ADJUSTED RESULTS OF OPERATIONS	
1	OPERATING REVENUES								
2	SALES TO CUSTOMERS	\$	\$				\$ 192,515,852	\$ 1,414,825,978	
3	SALES FROM RESALE-FIRM						92,726	457,443	
4	SALES TO OTHER UTILITIES						(144,028,832)	55,157,632	
5	OTHER OPERATING REVENUES						(12,290,771)	32,971,966	
6	TOTAL OPERATING REVENUES	\$	\$				(7,711,025)	1,503,412,615	
7									
8	OPERATING REVENUE DEDUCTIONS:								
9									
10	POWER COSTS:								
11	FUEL								
12	PURCHASED AND INTERCHANGED								
13	WHHEELING								
14	RESIDENTIAL EXCHANGE								
15	TOTAL PRODUCTION EXPENSES	\$	\$				\$ 127,937,759	\$ 191,274,273	
16							(218,445,518)	\$ 50,939,082	
17	OTHER POWER SUPPLY EXPENSES						1,924,168	41,793,079	
18	TRANSMISSION EXPENSE						172,382,450	784,006,434	
19	DISTRIBUTION EXPENSE								
20	CUSTOMER ACCTS EXPENSES								
21	CUSTOMER SERVICE EXPENSES								
22	CONSERVATION AMORTIZATION								
23	ADMIN & GENERAL EXPENSE								
24	DEPRECIATION								
25	AMORTIZATION								
26	AMORTIZ OF PROPERTY GAIN/LOSS								
27	OTHER OPERATING EXPENSES								
28	TAXES OTHER THAN F.I.T.								
29	FEDERAL INCOME TAXES	1,955,000							
30	DEFERRED INCOME TAXES	(684,365)	197,295						
31	TOTAL OPERATING REV. DEDUCT.	\$ 1,270,635	\$ (466,405)				\$ 29,203,321	\$ 1,316,681,331	
32									
33	NET OPERATING INCOME	\$	\$ 366,405				\$ (32,914,346)	\$ 186,724,088	
34									
35	RATE BASE								
36									
37	RATE OF RETURN								
38									
39	RATE BASE:								
40	UTILITY PLANT IN SERVICE								
41	DEFERRED DEBITS								
42	DEFERRED TAXES								
43	CONSERVATION TRUST								
44	ALLOWANCE FOR WORKING CAPITAL								
45	OTHER								
46	TOTAL RATE BASE	\$	\$				\$ 29,480,949	\$ 2,563,888,338	7.28%

REDACTED