

**EXHIBIT NO. ___(KRK-1T)
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

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

APRIL 19, 2006

PUGET SOUND ENERGY, INC.

PREFILED RESPONSE TESTIMONY OF KARL R. KARZMAR

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1 **PUGET SOUND ENERGY, INC.**

2 **PREFILED RESPONSE TESTIMONY OF KARL R. KARZMAR**

3 **I. INTRODUCTION**

4 **Q. Please state your name, business address, and present position with Puget**
5 **Sound Energy.**

6 A. My name is Karl R. Karzmar. I am the Director of Regulatory Relations at Puget
7 Sound Energy. My business address is 10885 N.E. Fourth Street, Bellevue,
8 Washington, 98009.

9 **Q. Would you please provide a brief description of your educational and**
10 **business experience?**

11 A. I have more than thirty years inter-disciplinary utility experience in financial
12 management and reporting, including extensive regulatory accounting study and
13 experience. Special study included completion of the Stone & Webster Utility
14 Management Development Course.

15 **Q. What is your educational background?**

16 A. I received a Bachelors of Arts degree in Accounting / Business from the
17 University of Washington.

1 **Q. Have you testified previously before the Commission?**

2 A. Yes. I have provided testimony and/or testified on behalf of the Company in
3 numerous general rate cases: Combined Cause Nos. U-82-22 and U-82-37, Cause
4 No. U-83-27, Cause No. U-84-60, Docket No. UG-920840, Docket No. UG-
5 931405, Docket No. UG-950278, Docket No. UE-991409, Docket No. UE-
6 011570 *et al.* (consolidated), Docket No. UG-040640, *et al.* (consolidated), and
7 Docket No. UE-060266 (consolidated).

8 **Q. What are your responsibilities in your present position?**

9 A. I am responsible for managing various regulatory matters with the WUTC
10 including the coordination and or preparation of various state regulatory filings
11 prepared on behalf of PSE.

12 **Q. What is the purpose of your response testimony?**

13 A. In accordance with the Prehearing Conference Order in this proceeding, this
14 testimony responds to the direct testimony filed by complainant Western Village,
15 LLC ("Western Village") on March 8, 2006, which was Western Village's direct
16 testimony on issues in which it has the burden of proof. On March 8, 2006,
17 Western Village filed the Declaration of Doug Anderson, the manager of Western
18 Village Estates mobile home park ("Anderson Decl."). My testimony responds to
19 assertions made by Mr. Anderson that are within my areas of knowledge and
20 expertise.

1 **II. PSE'S RATES ARE NOT SET TO RECOVER EXPENSES**
2 **RELATED TO UNDERGROUND SERVICE LINES AT MOBILE**
3 **HOME PARKS**

4 **Q. Mr. Anderson states that "PSE bills the residents of [Western Village mobile**
5 **home park] at a residential rate which is set by PSE's Tariff in an amount to**
6 **recapture PSE's expense to repair, maintain, and replace service facilities at**
7 **[Western Village mobile home park]." (Anderson Decl., ¶ 5) Is this correct?**

8 **A.** PSE bills the residents of Western Village pursuant to Schedule 7 of PSE's
9 electric tariff, Residential Service, as described in Mr. Lynn Logen's prefiled
10 response testimony, Exhibit No. ____ (LFL-21T). Thus, the residents are billed "at
11 a residential rate." However, that rate is not set in an amount sufficient to recover
12 the expenses of repairing, maintaining or replacing underground service lines at
13 Western Village, other mobile home parks, multi-family structures or other
14 structures or locations that are considered as having Non-Residential service lines
15 per PSE's tariff.

16 **Q. Please explain.**

17 **A.** PSE's general rates were last set by the Commission in Docket Nos. UG-040640
18 et al. (the "2004 General Rate Case"). In the 2004 General Rate Case, recovery
19 of PSE's costs related to its electric distribution system was based on the amount
20 of such costs incurred during an historic test year consisting of the twelve months
21 ending September 30, 2003, including amounts that PSE incurred to install,
22 maintain, repair and replace the facilities that make up PSE's underground electric

1 distribution system during the test year. *See, e.g.* Appendix B-2 (Electric
2 Revenue Requirements Summary) to *WUTC v. PSE, Docket Nos. UG-040640 et*
3 *al.*, Order No. 06 (Feb. 18, 2005) (the "2004 General Rate Case Order"); Exhibit
4 No. ___(KRK-2) (excerpts of the Prefiled Direct Testimony of John H. Story On
5 Behalf of PSE (Exhibit 231 (JHS-1T)) and Second Exhibit thereto (Exhibit No.
6 233C (JHS-E3C)), in Docket Nos. UG-040640 et al.); and Exhibit No. ___(KRK-
7 3) (excerpts of the Prefiled Direct Testimony of James M. Russell, Staff of the
8 WUTC (Exhibit 421 (JMR-1T)) and Exhibit No. 422C (JMR-2C), in Docket
9 Nos. UG-040640 et al.)

10 During the test year for the 2004 General Rate Case, PSE did not install,
11 maintain, repair or replace Non-Residential underground secondary service lines
12 such as those at Western Village or other mobile home parks, multi-family
13 structures, or other structures considered Non-Residential under PSE's tariff for
14 the reasons explained in PSE's prefiled direct testimony and exhibits filed March
15 8, 2006 in this proceeding and as confirmed by Mr. Greg Zeller's prefiled
16 response testimony, Exhibit No. ___(GZ-5T). Therefore, such costs are not
17 included in PSE's rates.

18 **Q. What about rates set in prior rate cases?**

19 A. The Company's rates set in prior rate cases generally have not included expenses
20 for maintenance, repair or replacement of underground service lines that are
21 considered Non-Residential under PSE's tariff for nearly three decades. As
22 described in Mr. Logen's prefiled direct testimony, Exhibit No. ___(LFL-1T), the

1 Company revised its tariff schedules in 1977 such that mobile home park owners,
2 developers and/or customers became responsible for underground service lines in
3 mobile home parks. From that time on, the Company would not have been
4 incurring expenses for maintenance, repair or replacement of service lines or
5 booking them in its accounts, thus such expenses would not have been included in
6 test year expense amounts in general rate cases before the Commission.

7 With respect to underground service lines at mobile home parks, the tariff
8 revision placing responsibility for underground service lines on the park owners,
9 developers and/or customers went into effect on October 21, 1977, as explained
10 by Mr. Logen in his prefiled direct testimony. The Company's first general rate
11 case test year after this tariff revision went into effect was for its 1980 rate case,
12 Cause No. U-80-10. Rates set in that case went into effect on January 10, 1981,
13 and were based on the test year ending on December 31, 1979. *See WUTC v.*
14 *PSE*, Cause No. U-80-10, Fifth Supp. Order (Jan. 2, 1981) (the "1980 General
15 Rate Case Order") at p. 5. For the parties' convenience, a copy of the 1980
16 General Rate Case Order is provided as Exhibit No. ___(KRK-4). Thus, the
17 Company's rates have not included expenses related to maintenance, repair or
18 replacement of underground service lines in mobile home parks since January 10,
19 1981. Limited exceptions to this general rule (for example, if Company field
20 crews repaired a service line notwithstanding the tariff revision) would have had
21 little impact on rates, as described below.

1 Please note however that subsequent rate cases would have continued to have
2 some level of cost built into general rates related to the Company's recovery of
3 capital costs invested in underground service lines at mobile home parks that were
4 installed prior to the 1977 tariff change until such capital amounts were fully
5 depreciated. Without such inclusion in rates, the Company would not have been
6 able to recover capital investments that had already been made in Non-Residential
7 secondary voltage underground service lines installed prior to 1977.

8 **Q. Please explain how this capital cost recovery works with respect to rates.**

9 A. When the Company's shareholders invest capital in the Company's electric
10 distribution system infrastructure, they recover that investment and a return on
11 that investment over time through addition of the capital costs to the Company's
12 rate base. An authorized return on the Company's electric rate base is included as
13 part of the revenue requirement established in general rate cases. The amount of
14 time over which the investment is recovered depends on the type of plant. In the
15 case of underground service lines, the amounts invested in such plant in the
16 month of October 1977 and still in service will be fully depreciated at the end of
17 approximately 30 years, based on the depreciation rates that have been in effect
18 since then. Most of the service lines installed prior to October 21, 1977 would
19 have been fully depreciated and recovered in rates by now and the last of such
20 electric utility plant service lines will be fully depreciated by the end of 2007.

1 **Q. To what extent has recovery of such historic capital costs for mobile home**
2 **park service lines impacted rates?**

3 A. The rate impact for underground service lines installed at mobile home parks
4 prior to 1977 has likely been very minimal. The Company's capital account for
5 underground service lines does not distinguish between service lines installed at
6 mobile home parks versus at other types of locations or even between
7 underground and overhead service lines. Thus, this capital account includes all
8 service lines that the Company has installed. Even so, as of, December 31, 1979,
9 which was the test year for U-80-10, the *total* capital invested in underground
10 service lines – including for single-family residences where the Company has and
11 continues to pay for such service lines and for all overhead service lines -- was
12 \$50,117,791. *See* Exhibit No. ___(KRK-5) (shown under Account Number 369 –
13 Services under the "Unrecovered Service Value" column). At that time, these
14 service lines had an estimated remaining service life of only 23.2 years on
15 average and comprised only 6% of the Company's total electric depreciable plant
16 in rate base in its 1980 General Rate Case of \$821,943,144. *See* Exhibit
17 No. ___(KRK-5) (shown on the "Total Depreciable Plant" line under the
18 "Unrecovered Service Value" column).

19 In subsequent rate cases, as described above, these amounts would have made up
20 ever smaller percentages of the Company's electric rate base as the capital
21 investments were depreciated over their useful life. By the time of the Company's
22 2004 general rate case, cited above, the capital amounts remaining to be

1 recovered (as compared to PSE's total electric rate base in the 2004 general rate
2 case of \$2,544,670,041) would have had no perceptible impact on PSE's rates.
3 *See* the 2004 General Rate Case Order at Appendix B-2.

4 **Q. What if, as you mentioned above, some Company field crews continued to**
5 **repair or replace underground service lines from time to time at mobile**
6 **home parks after 1977?**

7 A. Even if Company field crews repaired or replaced an individual underground
8 service line from time to time after 1977, the small dollar amounts involved in
9 such individual projects would have had no perceptible impact on rates given total
10 test year electric distribution system expenses that ranged from \$18,609,562 in
11 1979¹ to \$60,619,256 in 2003², and given total electric rate base of \$825,966,390
12 in 1979³ and \$2,544,670,041 in 2003⁴.

13 **III. CONCLUSION**

14 **Q. Does that conclude your testimony?**

15 A. Yes, it does.

16 [BA061070.048](#)

¹ *See* Exhibit No. ___(KRK-6) (FERC Form 1 for the year ended December 31, 1979) at line 125.

² *See* Exhibit No. ___(KRK-7) (workpaper for 2006 General Rate Case showing September 2003 test year restated results of operations per the 2004 General Rate Case Order).

³ *See* 1980 General Rate Case Order at pages 10 and 18.

⁴ *See* Appendix B-2 of the 2004 General Rate Case Order.