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July 24, 2009

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Public Utility Commission of Oregon
Administrative Hearing Division

VIA ELECTRONIC FILING
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Oregon Public Utilities Commission
Filing Center
550 Capitol Street NE, Ste 215
Salem, OR 97301-2551

Re: UE-210 – Direct Testimony of Klamath Water Users Association

Dear Filing Center:

Enclosed for filing are the original and five copies of the Direct Testimony of Gary Saleba on behalf of the Klamath Water Users Association in the above-referenced proceeding.

Should you have any questions regarding this filing, please call.

Sincerely,

Richard Lorenz

Richard Lorenz

RGL/tb
cc: UE-210 Service List

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ORIGINAL

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

RECEIVED

JUL 27 2009

Public Utility Commission of Oregon
Administrative Hearing Division

In the Matter of	)	
	)	
PACIFICORP, dba PACIFIC POWER	)	
	)	**UE-210**
Request for a General Rate Revision	)	

DIRECT TESTIMONY

OF

GARY SALEBA

ON BEHALF OF THE

KLAMATH WATER USERS ASSOCIATION

July 24, 2009

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

Docket No. UE 210

Direct Testimony of Gary Saleba

On behalf of the Klamath Water Users Association

SECTION I – INTRODUCTION

My name is Gary S. Saleba. I am President of EES Consulting, Inc. My business address is 570 Kirkland Way, Suite 200, Kirkland, Washington 98033.

EES Consulting is a multidisciplinary management consulting and registered professional engineering firm that provides a variety of project solutions to clients involved with electric power, natural gas, water, wastewater and other energy-and natural resource-related businesses. EES staff has performed over five hundred electric, natural gas, water, wastewater and stormwater cost of service and rate design studies throughout the U.S. and Canada. We have earned an international reputation in these areas by assisting utilities, end use customers, associations and regulatory commissions. EES Consulting has conducted numerous time differentiated average embedded and marginal cost of service rate studies.

I have testified as an expert on numerous occasions before numerous state and national regulatory commissions, tribunals and courts of law throughout North America. A copy of my professional qualifications and educational background is attached to this testimony as Exhibit KWUA/101, SALEBA/1-8.

I am testifying on behalf of the Klamath Water Users Association (KWUA). KWUA is a nonprofit corporation comprised mostly of Schedule 41 irrigation districts, individuals and businesses located in the Klamath River Basin. KWUA's members and individual irrigators represented by KWUA and its members receive water for irrigation through facilities constructed or improved by the United States Bureau of Reclamation as part of the Klamath Irrigation Project, as well as facilities they have constructed themselves. In addition to the use of power to use and re-use water for irrigation, Klamath Project irrigators also use and pay for considerable power for the purpose of drainage pumping. Over 200,000 acres of farmland are irrigated by Klamath Irrigation Project facilities in both Southern Oregon and Northern California. The KWUA members in Oregon purchase power from PacifiCorp under Schedule 41. Although some KWUA members currently benefit from "rate shock" legislation, those members are transitioning to payment of the full Schedule 41 rate.

The purpose of this testimony is to address PacifiCorp's UE-210 rate filing. The setting of utility rates that are fair, just and reasonable is guided by generally accepted industry practice, rate setting principles and regulatory precedent. In general, PacifiCorp's UE-210 filing follows these guiding principles and complies with the general guidelines found in numerous Oregon Public Utility Commission (OPUC) decisions. However, there are many different, yet generally accepted, methods to perform a cost of service analysis (COSA). The difficult part of a COSA is to determine the most appropriate method to use for the specific utility system being evaluated, as the guiding principles of cost causation vary by utility. On the rate design side, judgment is required and factors outside of pure cost causation may come into play. In this testimony, I will address several aspects of PacifiCorp's analysis that appear to contribute to excessive rates for the irrigation class and result in an inequitable allocation of costs to different users of the system. The basic issue, as I explain in detail below, is that PacifiCorp wants to treat its irrigation customers like any other customer without accounting for the unique and highly seasonal nature of their energy usage.

This testimony is organized into the following sections. Section I is the Introduction. Section II provides a Review of PacifiCorp's UE-210 Filing. Section III discusses the Need for Additional Analysis and Justification. Section IV discusses Rate Design. Section V concludes with Conclusions and a Summary of my testimony.

SECTION II – REVIEW OF PACIFICORP's UE-210 FILING

On April 2, 2009 PacifiCorp filed an application for revised tariff schedules in the UE-210 rate case in Oregon. The tariffs would implement a general rate increase of $92.1 million, or 9.1 percent overall. The rate filing also proposes a 17.5 percent increase for Schedule 41 irrigation customers, while the residential class is only projected to increase by 6.3 percent. Rates for small and large non-residential customers are projected to increase by 13.7 percent, while the general service rates are projected to increase by 9.7 percent. EES Consulting, on behalf of KWUA, reviewed PacifiCorp's COSA in conjunction with this rate filing.

According to the filing, PacifiCorp functionalized revenue requirement by FERC account based on a methodology consistent with those approved in Order No. 01-787 and implemented in Advice No. 01-020. PacifiCorp's used a marginal cost study to classify and allocate revenue requirements to customer classes. According to the filing, this methodology is consistent with PacifiCorp's study presented and adopted in Docket No. UE 179.

PacifiCorp states that the required rate increase sought in this filing is driven largely by investment requirements in new generation, in particular in new wind resources and natural gas plants. In addition to the significant new investment in generation, PacifiCorp is also projecting some additional investments in the transmission and distribution systems. PacifiCorp also requests an 11 percent return of equity, an increase from the 6 percent return on equity earned for the test period based on present rates. As a point of reference, the allowed return on equity in the last three years has ranged between 10.36 percent and 10.46 percent.

The magnitude of the proposed increase of Schedule 41 irrigation rates triggers alarm. Rates should be designed so they are fair, just and reasonable. If it is true that the increased revenue requirement is driven largely by generation costs, then PacifiCorp's proposed rates appear to impose an unjustifiably large increase to Schedule 41 customers.

In setting generally-accepted electric utility rates, three separate, yet interrelated, analyses are performed. The three analyses contained within the rate setting process are revenue requirements, COSA, and rate design. Revenue requirements set the overall level of rates. The COSA is based on the principle that service should be provided at cost. A proper COSA driven by the principles of cost causation (i.e., costs are allocated to those who cause the cost to be incurred). The COSA is used to allocate the total utility revenue requirement to different classes of customer. Rate design concludes this rate setting process.

The final step in the rate study process rate design, takes into consideration the results of the revenue requirements and COSA. Rates can take many forms, but ultimately they should reflect the cost components that a utility incurs (demand-, energy- and customer-related costs), and collect the desired level of revenues.

These basic tenets and principles have considerable foundation in economic theory and in today's electric utility environment. They also serve as primary guidelines for rate design, and are used widely by utility regulators and other rate setting tribunals.

The following higher guiding principles are the basis around which utilities generally set rates:

- Rates should be cost-based and set at a level such that they recover the utility's total revenue requirement.
- Rates should be fair, just, and reasonable.
- Rates should promote the economically efficient use of electricity.
- Rates should be easy to understand and administer.
- Rates should be relatively stable, and sufficient to provide adequate revenues to meet the utility's financial requirements and provide a fair return.
- Rates should reflect cost causation principles.

SECTION III – NEED FOR ADDITIONAL ANALYSIS AND JUSTIFICATION

The COSA allocates costs to the various classes of customers (e.g., residential, commercial, etc.). The COSA should provide an equitable determination of the level of cost responsibility of each class of customer and the adjustments to revenues required to meet their COSA.

As the COSA is a zero sum game, it is important to review the allocation of costs among rate classes. While the PacifiCorp COSA appears to follow generally acceptable methods, there are specific facts, details and assumption in the COSA that warrant further analysis, critique and modification. As stated before, it is highly curious that the Schedule 41 irrigation class is facing a rate increase three times higher than the residential class and double the overall increase for the total system. PacifiCorp provided no evidence in the filing to support its contention that Schedule 41 power supply costs or non-power supply costs have increased disproportionately with other rate classes to warrant the proposed rate increase.

In addition, there are areas within the COSA where a comprehensive review of cost causation principles has not been undertaken. A summary of these areas follows below.

Seasonal and Diurnal Energy Usage

The marginal cost of energy varies by time of day and season depending on the cost of the marginal generating unit. In this filing, PacifiCorp has assumed that the marginal resource is always a combined-cycle combustion turbine. This assumption is reasonable for allocating power supply energy costs to customer classes that have a similar load profile over the year. However, Schedule 41 irrigation customers tend to use the majority of their energy during the summer months, while energy usage in other customer classes is generally either flat across months or higher in the winter due to winter heating loads. PacifiCorp does not provide sufficient evidence in its filing to support the conclusion that its marginal energy costs are the same across the year. Absent such a showing PacifiCorp must differentiate their energy cost allocation within the COSA by season.

In addition, during the irrigation season, Schedule 41 customers likely use a significant share of energy during the cheaper off-peak period as they tend to irrigate continually when operating.

PacifiCorp's model does not recognize the difference in marginal costs between on-peak and off-peak periods nor does PacifiCorp provide evidence in the filing to demonstrate that the diurnal usage pattern of the irrigation class is the same as the diurnal usage pattern of other customer classes.

Seasonal Demand Allocation

Similar to the lack of information regarding the seasonal marginal cost of energy, PacifiCorp has not provided evidence regarding the seasonal marginal cost of generation demand. Schedule 41 irrigation customers use very little capacity during the winter period, while the summer capacity requirements are approximately 5% of total system capacity requirements.

PacifiCorp allocates the demand related generation and transmission costs based on an annual 12 month average coincident peak. This allocation factor takes into account the high summer demand and the low winter demand from this customer class. This is an appropriate allocation factor only if the marginal capacity costs are relatively consistent between seasons. Where the marginal capacity cost is lower in the summer than in the winter, however, then the irrigation customers would be over charged by this allocation factor. No evidence has been provided by PacifiCorp to support an equal demand charge across all months in the year.

Distribution Classification and Allocation

A utility's distribution system is designed to extend service to all customers attached to the distribution system regardless of size, and also to meet the peak demands of each customer. As such, distribution capital and operation and maintenance (O&M) costs have customer and demand components.

Distribution costs are often split between demand and customer according to a zero intercept or minimum system methodology. These methodologies reflect the philosophy that the distribution system is in place in part because there are customers to serve throughout the service territory expanse, and that a zero or minimally-sized distribution system is needed to serve these customers even if they only have a 100 watt light bulb in their residences. This concept also assumes that any costs associated with a system larger than this minimal size are due to the fact that customers "demand" a delivery quantity of electricity greater than the minimum. These costs required to meet demands greater than those met by the minimum system are typically treated as demand-related.

PacifiCorp uses a hypothetical feeder model with seven branches to determine the poles, wires and feeder marginal cost. Each branch has different costs, density and customer placement. One of the most significant cost drivers in this feeder model, according to PacifiCorp, is the distance between the customer and the substation. According to the relevant documentation, the feeder model takes distance into account by assigning customers to the different branches of the feeder based on actual customer locations. Because the Schedule 41 irrigation customer class is not homogeneous (unlike the residential class), there are significant unresolved questions about how this model takes into account the individual irrigation customers and their location.

With respect to distribution costs, PacifiCorp has not provided sufficient information in its filing to support its use of a hypothetical feeder model for the irrigation class. Absent specific documentation regarding the size, location and density of the Schedule 41 irrigation customers, it is not possible to conclude that PacifiCorp's proposed allocation of distribution facilities to

Schedule 41 irrigation customers is fair, just and reasonable. In fact, based on the information that is available, we think this model likely over-allocates distribution costs to Schedule 41 customers.

SECTION IV – RATE DESIGN

Within the COSA, the Schedule 41 irrigation customers are treated like any other customer class. While there is a large amount of load research and standardized information available on how the residential customer class impacts the utility system, there is generally very little research or information on the irrigation customer class. In addition, irrigation use varies among the class based on the irrigation needs of the specific crop and local climate conditions. Therefore, standardized data applicable specifically to residential customers is likely to be inaccurate when applied to a customer class such as the Schedule 41 irrigation customers.

In many cases, a COSA shows the irrigation class has a revenue to cost ratio below 100%. Based on my experience, it is standard practice for utilities to set rates for irrigation customers below the 100% revenue to cost ratio. For example, Idaho PUC set Idaho Power irrigation rates at approximately 88% revenue to cost ratios in 2003 (13.95 percent rate increase rather than 25 percent based on COSA)[1]. In this case, there is insufficient evidence upon which to conclude that using a 100% revenue to cost ratio for irrigation customers fairly accounts for usage differences between different irrigation customers. While this approach may be sensible for other rate classes, irrigation consumers are often times dealt with differently given their usage patterns and their importance to local economies. PacifiCorp has offered no support to the theory that it is fair, just and reasonable to charge Schedule 41 irrigation customers at a 100%

[1] IPUC, CASE NO. IPC-E-03-13, ORDER NO. 29505

revenue to cost ratio.

SECTION V – CONCLUSION

The fact that PacifiCorp proposes to increase its irrigation rates twice as much as its average system rate increase should raise red flags for the OPUC. In my view, the problem is that PacifiCorp purports to allocate costs to irrigation customers as if their energy consumption is no different than residential or commercial customers. The reality is that the nature of the Schedule 41 power usage is unique among PacifiCorp's customer classes. PacifiCorp simply fails to account for these differences in its filing. Thus, PacifiCorp's filing does not contain sufficient evidence upon which to conclude that it is fair, just and reasonable to impose a disproportionately large rate increase on Schedule 41 irrigation customers as compared to other rate classes. Based upon my research, it appears the maximum fair, just and reasonable increase for Schedule 41 irrigation customers would be no more than the overall system increase of approximately 9.1%, as adjusted.

PROFESSIONAL EXPERIENCE AND BACKGROUND OF

GARY S. SALEBA

EDUCATION

MBA, Finance
Butler University
Indianapolis, Indiana

BA, Economics and Mathematics
Franklin College
Franklin, Indiana

EMPLOYMENT

October 1978 to Present	EES Consulting, Inc. 570 Kirkland Way, Suite 200 Kirkland, Washington 98033 Registered Professional Engineering and Management Consulting Firm
Position:	President
Responsibilities:	Overall supervision and quality control responsibilities for all of EES Consulting's electric, water, wastewater and natural gas engagements in the areas of strategic planning, financial analysis, cost of service, valuations, mergers and acquisitions, rate design, load forecasting, load research, management evaluation studies, bond financing, integrated resource planning and overall utility operations. Overall responsibility for firm's offices in Kirkland, Portland, Bellingham and southern California.
Activities:	Numerous testimony presentations before regulatory bodies on utility economics, strategic planning, finance and utility operations. Supervised several integrated resource planning studies, average embedded and marginal cost of service studies, technical assessments and financial planning studies for electric, water, gas and wastewater utility clients. Participated in comprehensive resource acquisition, strategic planning and demand side management analyses. Developed and verified interclass usage data. Conceptualized and implemented compliance programs for the Public Utility Regulatory Policies Act and the Energy Policy Act of 1992. Contract negotiation and energy conservation assessments. Presentation of management audit, forecasting, cost of service, integrated resource planning, financial management, and rate design seminars for the American Public Power Association, Electricity Distributors Association of Ontario, American Water Works Association, and Northwest Public Power Association. Past Board

member of Northwest Public Power Association and ENERconnect, Ltd. Past Chairman of Financial Management Committee and Management Division of the American Water Works Association. Project manager for construction of 248 MW gas turbine, and acquisition of over $500 million of utility service territory and equipment. Supervised engineer's report for over $5 billion in revenue bonds.

October 1977 to October 1978	National Management Consulting Firm
Position:	Supervising Economist
Responsibilities:	Analyzed various energy related topics to determine economic impacts. Reviewed utility financial activities.
Activities:	Participated in several utility rate/financial regulatory proceedings. Provided clients with critique of issues, position papers and expert testimony on the topics of cost of service, rate design, utility finance, automatic adjustment factors, sales perspectives and class load characteristics. Conceptualized load forecasting models and assisted in economic and environmental impact analyses.
June 1972 to October 1977	Indianapolis Power & Light Company P.O. Box 1595 B Indianapolis, Indiana 46206 Investor-owned Utility
Position:	Economist, Department of Rates and Regulatory Affairs
Responsibilities:	Provided general economic and rate expertise in Rates, Regulatory Affairs, Customer Service and Engineering Design Departments.
Activities:	Calculated retail and wholesale electric and steam class revenue requirements and rates. Prepared expert testimony and exhibits for state and federal agencies regarding rate design theory, application of rates and revenues generated from rates. Determined long range revenue and peak demand projections. Supervised comprehensive load research program. Supported thermal plant Environmental Impact Statements. Provided industrial liaison.

PARTIAL LIST OF CLIENTS FOR WHOM FINANCIAL, OPERATIONAL, STRATEGIC PLANNING AND ALLOCATIONAL/RATE ANALYSES PROJECTS HAVE BEEN PERFORMED BY GARY S. SALEBA

UNITED STATES OF AMERICA

Alabama

City of Birmingham Water and Wastewater

Alaska

City of Barrow
City of Wrangell
*Alaska Public Service Commission
*Municipal Light and Power
Alaska Village Electric Cooperative

Arizona

*Tucson Electric Power
City of Dodge
City of Page
Navopache Electric Cooperative

Arkansas

City of North Little Rock

California

City of Indian Wells
City of Palm Desert
City of Moreno Valley
*City of Corona
City of Redding
*Sacramento Municipal Utilities Board
City of Burbank
*State of California - Department of Water Resources
*Turlock Irrigation District
*City of Palo Alto
City of Anaheim
El Dorado Irrigation District
City of Glendale
*City of Pasadena
City of Roseville
Yucaipa Valley Water District
*Los Angeles Department of Water and Power
Nor–Cal Electric Authority
Jefferson JPA
City of San Marcos

California (cont'd)

City of Cerritos
Coachella Valley Association of Governments
California Power Authority
Santa Clara Valley Water District

Colorado

*CFI Steel
*Moon Lake Electric Association
City of Denver - Wastewater
*Denver Water Board

Connecticut

City of Groton

Florida

City of Pompano Beach
Florida Public Service Commission
Dade County Water and Wastewater Utilities

Idaho

Kootenai Electric
*Northern Lights
Salmon River Cooperative
Prairie Power and Light
*Department of Energy
City of Moscow
Fall River Cooperative
Lower Valley Power & Light
*Industrial Customers of Idaho Power
Clearwater Power & Light
City of Heyburn

Illinois

*City of Highland
City of Collinsville
City of Peru
City of Winnetka

Indiana

*Indianapolis Power & Light Company

Iowa

*City of Iowa City

Kentucky

*Kentucky-American Water Company

Minnesota

Polk-Burnett Electric Coop

Missouri

*General Motor, Inc.

Montana

PPL Montana
Montana Associated Cooperatives
Sun River Electric Cooperative
*Montana Power Company
Colstrip Community Center
Flathead Electric Cooperative
Glacier Electric Cooperative
Vigilante Electric Cooperative
Montana Electric Cooperative Association
Western Montana G&T
Northwestern Energy, Inc.
Yellowstone Valley Electric Cooperative

North Dakota

City of Watford City
Garrison Diversion Conservancy District

Oregon

*Emerald PUD
Clackamas Water District
Central Lincoln PUD
*Springfield Utility Board
Tri-Cities Service District
City of Portland
City of Gladstone
City of West Linn
City of Oregon City
*Public Power Council
Central Electric Cooperative
Warm Springs Energy Cooperative
Northern Wasco PUD
West Oregon Cooperative

South Dakota

Black Hills Electric Cooperative

Texas

City of League City
City of Brownsville
*City of Lubbock
Pedernales Electric Cooperative
City of San Antonio
*Texas Municipal Power Agency

Utah

*Moon Lake Electric Association
Utah Association of Municipal Power Systems

Washington

*Western Public Agencies Group
TrendWest Resorts
Weyerhaeuser Corporation
Costco
*Pend Oreille County PUD
City of Richland
Industrial Customers of Grant County
*Benton REA
Seattle City Light
*Clark Public Utilities
City of Blaine
*Snohomish County PUD
*City of Port Angeles
*Clallam County PUD
Chelan County PUD
*City of Tacoma Electric, Water and Rail Utilities
*Mason County PUD No. 3
*Peninsula Light Company
Washington Utilities and Transportation Commission
*Grays Harbor County PUD
*Pacific County PUD
City of Gig Harbor
Ferry County PUD
*City of Ellensburg
City of Redmond
Grant County PUD
*Klickitat County PUD
Cascade Natural Gas
*Building Owner's Management Association
City of Kennewick
Daishowa Corporation
Seattle Water Department

Washington (cont'd)

City of Bellingham
*US Ecology, Inc.
*Avista Corporation
*Cowlitz County PUD
*City of Cheney
*City of Yakima
City of Bellevue
City of Shoreline
Douglas County PUD
AT&T
WorldCom
City of Toppenish
City of Shoreline

Wisconsin

*Wisconsin Manufacturing Association
Polk-Burnett Cooperative

Wyoming

*Lower Valley Power and Light

CANADA

Alberta

*University of Alberta
*City of Lethbridge
*City of Red Deer
City of Medicine Hat
Ocelot Chemicals
Aqualta
City of Calgary—Water and Wastewater Utilities

British Columbia

*Fortis, BC
Alcan, Ltd.
*Princeton Power & Light
*West Kootenay Power
*Ministry of Fisheries
Crows Nest Resources
Highland Valley Cooperative
*Council of Forest Industries
Crestbrook Industries
Royal Oak Mines
UtiliCorp Canada
*Joint Industrial Electric Steering Committee
*British Columbia Transmission Corporation
*Terasen Gas

Manitoba

*Manitoba Legal Aid

Northwest Territories

*Northwest Territories Power Corporation

Ontario

ENERconnect, Inc.
Ontario Hydro
*Municipal Electric Association
North York Hydro
Toronto Hydro
*Ottawa Hydro
Electricity Distributors Association
Ontario Energy Board
*Association of Major Power Companies (AMPCO)

OTHERS

American Public Power Association
American Water Works Association
California Municipal Utilities Association
Northwest Public Power Association

*Prepared Expert Testimony

CERTIFICATE OF SERVICE

I CERTIFY that I have on this day served the foregoing **DIRECT TESTIMONY OF GARY SALEBA ON BEHALF OF THE KLAMATH WATER USERS ASSOCIATION** on all parties of the record listed on the Service list below, in this proceeding via electronic mail and/or via mailing a copy properly addressed with first class postage prepaid pursuant to OAR 860-13-0070.

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Dated in Portland, Oregon, this 24th day of July, 2009.

Tanya Bettmeski

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Klamath Water Users Association