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May 19, 2005

VIA EMAIL & FIRST CLASS MAIL

Oregon Public Utility Commission
550 Capitol St. NE, #215
PO Box 2148
Salem, OR 97308-2148
Attn: Filing Center

Re: UE 170 – Pacific Power & Light (dba PacifiCorp) Request for a General Rate
Increase in the Company's Oregon Annual Revenues

Dear Filing Center:

Please find enclosed for filing in the above-referenced docket the original and five copies of the Direct Testimony of Donald W. Schoenbeck on Behalf of the Klamath Water Users Association.

Thank you for your assistance. Should you have any questions regarding this matter, please feel free to contact me.

Very truly yours,



Edward A. Finklea

cc: UE-170 Service List (via email & first class mail)

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

In the Matter of)	
)	
PACIFIC POWER & LIGHT)	UE 170
(dba PACIFICORP))	
)	
Request for a General Rate Increase in the)	
Company's Oregon Annual Revenues.)	

DIRECT TESTIMONY OF

DONALD W. SCHOENBECK

ON BEHALF OF THE

KLAMATH WATER USERS ASSOCIATION

May 19, 2005

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

Docket No. UE 170

Direct Testimony of Donald W. Schoenbeck
On behalf of the Klamath Water Users Association

INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Donald W. Schoenbeck. I am a member of Regulatory &
Cogeneration Services, Inc. ("RCS"), a utility rate and economic consulting firm.
My business address is 900 Washington Street, Suite 780, Vancouver, WA 98660.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I've been involved in the electric and gas utility industries for over 30 years. For
the majority of this time, I have provided consulting services for large industrial
customers addressing regulatory and contractual matters. I have appeared before
the Public Utility Commission of Oregon ("Commission") on many occasions,
including proceedings regarding the establishment of charges for customers of
PacifiCorp. A further description of my educational background and work
experience can be found in Exhibit A, KWUA 101, Schoenbeck/1, to this
testimony.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am testifying on behalf of the Klamath Water Users Association. KWUA is a
nonprofit corporation comprised of approximately 20 public agencies, most of
which are irrigation districts, and many individuals and businesses located in and

1 around the Klamath River Basin. KWUA's members receive water for irrigation
2 through facilities constructed or improved by the United States Bureau of
3 Reclamation as part of the Klamath Irrigation Project. Over 200,000 acres of
4 farmland are irrigated by Klamath Irrigation Project facilities in both Southern
5 Oregon and Northern California. The KWUA members in Oregon currently
6 purchase power from PacifiCorp under Schedule 33. In this proceeding, however,
7 PacifiCorp has proposed to migrate the KWUA members from Schedule 33 to
8 Schedule 41 as of April of 2006. Schedule 41 applies generally to all of
9 PacifiCorp's irrigation customers except for those currently on Schedule 33.

10 **Q. WHAT TOPICS WILL YOUR TESTIMONY ADDRESS?**

11 **A.** I will discuss the discovery that I have conducted with respect to Schedule 41 and
12 how the import of that discovery is necessarily related to the Commission's
13 resolution of Docket UE 171.

14 **Q. HAVE YOU CONDUCTED FACTUAL DISCOVERY RELATED TO**
15 **PACIFICORP'S MARGINAL COST OF SERVICE STUDY?**

16 **A.** Yes. I have submitted three separate data requests to PacifiCorp with respect to the
17 information contained in its rate filing including its cost of service study. This
18 discovery was targeted at PacifiCorp's cost of serving Schedule 41 and Schedule 33
19 customers.

20 **Q. HAVE YOU BEEN ABLE TO COMPLETE YOUR ANALYSIS OF**
21 **PACIFICORP'S COST OF SERVICE STUDY AS IT RELATES TO**
22 **SCHEDULE 41 AND SCHEDULE 33 CUSTOMERS?**

23 **A.** No. PacifiCorp's billing and revenue analysis assumes that the ratepayers under

1 Schedule 33 will be transferred to Schedule 41. I have been advised by legal
2 counsel that this is an open question that the Commission may or may not resolve
3 in Docket UE 171. I cannot complete my comparative cost and pricing analysis of
4 Schedule 41 and Schedule 33 until the Commission determines whether or not the
5 Schedule 33 customers will be moved to Schedule 41.

6 **Q. WHAT ANALYSIS HAVE YOU COMPLETED TO DATE WITH REGARD**
7 **TO SCHEDULES 41 AND 33?**

8 **A.** Since the Company's prefiled cost-of-service study did not include the Schedule 33
9 customers, I requested the Company re-run its Marginal Cost Feeder Model
10 ("Feeder Study") and the Marginal Cost of Service Study ("Cost Study") with the
11 Schedule 33 customers incorporated as a separate class in the two studies. While I
12 disagree with many of the assumptions employed by the Company in performing
13 these studies, there are two factors that make the Company's proposal of migrating
14 all the Schedule 33 customers to Schedule 41 inappropriate irrespective of the
15 legality of such a decision. First, as shown by the Company's own Cost Study, it
16 simply costs less to serve all Schedule 33 customers than Schedule 41 customers.
17 Based upon the Company's 20 year marginal cost results, the average cost of
18 serving all Schedule 33 customers is only 85% of the cost of Schedule 41 service.
19 Further, by appropriately imputing a commitment component into all the
20 hypothetical feeder segments in the Feeder Study, the difference in cost of service
21 becomes 80%. The results of just this one sensitivity indicates *current* Schedule 41
22 rate charges exceed the cost of serving Schedule 33 customers even under the now
23 dated assumption (due to the partial settlement) that the Company would receive

1 the entire rate increase it had initially sought. With this significant fact coupled
2 with the specific rate design of Schedule 41, I can only conclude Schedule 33
3 should be maintained as a separate tariff for the current Schedule 33 customers.

4 **Q. HOW DOES THE DESIGN OF SCHEDULE 41 IMPACT YOUR**
5 **RECOMMENDATION TO MAINTAIN A SEPARATE TARIFF?**

6 **A.** The design of Schedule 41 is such that the effective rate paid by Schedule 41 and
7 Schedule 33 customers is virtually identical (within 1% or 2%). Thus it is
8 inappropriate to migrate all Schedule 33 customers to Schedule 41 based upon even
9 the Company's faulty cost of service assumptions.

10 **Q. WHAT IS THE SECOND REASON WHY IT IS INAPPROPRIATE TO**
11 **SHIFT ALL SCHEDULE 33 CUSTOMERS TO SCHEDULE 41?**

12 **A.** Simply put, it is the rate shock of imposing a 1200% to 1600% increase on these
13 customers. Under Schedule 33-service, these customers pay about \$800,000 per
14 year for service. Even under the current Schedule 41 charges, these customers
15 would pay over \$7.7 million. If this does not constitute rate shock nothing does.
16 Schedule 33 should be maintained as a separate rate schedule in order to more
17 carefully and accurately price the service to these customers taking into account all
18 rate setting objectives including equity, cost of service and gradualism.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 **A.** Yes, at this time.

21

22

23

EXHIBIT A

QUALIFICATIONS AND BACKGROUND

OF

DONALD W. SCHOENBECK

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Donald W. Schoenbeck, 900 Washington Street, Suite 1000, Vancouver,
Washington 98660.

Q. PLEASE STATE YOUR OCCUPATION.

A. I am a consultant in the field of public utility regulation and I am a member of
Regulatory & Cogeneration Services, Inc. (RCS).

**Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I have a Bachelor of Science Degree in Electrical Engineering from the University
of Kansas and a Master of Science Degree in Engineering Management from the
University of Missouri.

From June of 1972 until June of 1980, I was employed by Union Electric
Company in the Transmission and Distribution, Rates, and Corporate Planning
functions. In the Transmission and Distribution function, I had various areas of
responsibility, including load management, budget proposals and special studies.
While in the Rates function, I worked on rate design studies, filings and exhibits for
several regulatory jurisdictions. In Corporate Planning, I was responsible for the

1 development and maintenance of computer models used to simulate the Company's
2 financial and economic operations.

3 In June of 1980, I joined the national consulting firm of Drazen-Brubaker &
4 Associates, Inc. Since that time, I have participated in the analysis of various
5 utilities for power cost forecasts, avoided cost pricing, contract negotiations for gas
6 and electric services, siting and licensing proceedings, and rate case purposes
7 including revenue requirement determination, class cost-of-service and rate design.

8 In April 1988, I formed RCS. RCS provides consulting services in the field
9 of public utility regulation to many clients, including large industrial and
10 institutional customers. We also assist in the negotiation of contracts for utility
11 services for large users. In general, we are engaged in regulatory consulting, rate
12 work, feasibility, economic and cost-of-service studies, design of rates for utility
13 service and contract negotiations.

14

15 **Q. IN WHICH JURISDICTIONS HAVE YOU TESTIFIED AS AN EXPERT**
16 **WITNESS REGARDING UTILITY COST AND RATE MATTERS?**

17 **A.** I have testified as an expert witness in rate proceedings before commissions in the
18 states of Alaska, Arizona, California, Delaware, Idaho, Illinois, Montana, Nevada,
19 North Carolina, Ohio, Oregon, Washington, Wisconsin and Wyoming. In addition,
20 I have presented testimony before the Bonneville Power Administration, the
21 National Energy Board of Canada, the Federal Energy Regulatory Commission,
22 publicly-owned utility boards and in court proceedings in the states of Washington,
23 Oregon and California.

CERTIFICATE OF SERVICE

I hereby certify that I have on this day served the **DIRECT TESTIMONY OF**
DONALD W. SCHOENBECK ON BEHALF OF THE KLAMATH WATER USERS
ASSOCIATION by electronic mail and/or mailing a copy properly addressed with first class
postage prepaid to the following:

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DATED in Portland, Oregon, this 19th day of May 2005.



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