



Oregon

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January 17, 2006

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
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RE: **Docket No. UE 170** - In the Matter of PACIFIC POWER & LIGHT (dba PacifiCorp) Request for a General Rate Increase in the Company's Oregon Annual Revenues. (Klamath Basin Irrigation Rates)

Enclosed for filing in the above-captioned docket is the Public Utility Commission Staff's Opening Testimony. This document is being filed by electronic mail with the PUC Filing Center.

/s/ Kay Barnes

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cc: UE 170 Service List - parties

**PUBLIC UTILITY COMMISSION
OF OREGON**

UE 170

**STAFF OPENING TESTIMONY
OF**

William A. McNamee

**In the Matter of
PACIFIC POWER & LIGHT (dba PacifiCorp)
Request for a General Rate Increase in the
Company's Oregon Annual Revenues
(Klamath Basin Irrigation Rates)**

January 17, 2006

CASE: UE 170
WITNESS: William A. McNamee

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 1500

Opening Testimony

January 17, 2006

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is William A. McNamee. I am employed by the Public Utility Commission of Oregon as a Resource Economist in the Electric and Natural Gas Division of the Utility Program. My business address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/1501.

Q. PLEASE SUMMARIZE THE PURPOSE OF THIS PROCEEDING.

A. Currently, under contracts that have been in effect for nearly 50 years, the United States Bureau of Reclamation and other eligible Klamath Basin irrigators pay electric rates that are less than one-tenth what other irrigators in PacifiCorp's Oregon service territory pay. In this proceeding, PacifiCorp seeks to move the Klamath Basin irrigation customers to standard tariff rates, effective April 16, 2006. In the first phase of this UE 170 remand proceeding, the Commission has determined that the statutory rate standard applicable for irrigators located in the Klamath Basin is the same "just and reasonable" standard applicable to rates set for all other customers in Oregon (see OPUC Order No. 05-1202).

Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A. In this testimony, I will address the two remaining primary issues relevant to determining the retail electric rate that PacifiCorp will charge Klamath Basin

1 irrigators. These issues, as listed in the Administrative Law Judge's August 17,
2 2005 ruling, are:

- 3 1. What are the appropriate rates PacifiCorp should charge the Klamath Basin
4 irrigators for electric service?
- 5 2. If any rate change affecting these customers is implemented, how and when
6 should these customers be transitioned from the rates established in the
7 historical contracts?

8 **Q. WHAT IS YOUR BASIC POSITION ON THE ABOVE ISSUES?**

9 A. As stated in UE 170, Staff/900, Breen/9-10, Klamath Basin irrigators who are
10 currently served under Schedule 33 (i.e., the historical contracts) should be
11 moved to PacifiCorp's standard irrigation tariff rate (*Schedule 41 for irrigators*
12 *with loads of less than 1000 kW and Schedule 48 for irrigators with loads of*
13 *greater than 1000 kW*). This rate change should become effective April 16,
14 2006. To mitigate rate shock, the move to standard tariff rates should be
15 phased-in over seven years as required by Senate Bill 81.

16 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

17 A. My testimony is organized as follows: (1) I will provide a general overview of
18 water resource issues within the Klamath Basin Watershed and summarize
19 some of the federal and state agency responsibilities and efforts to address
20 these issues. I believe this general overview will help to delineate issues and
21 provide insight on why the retail electric rate for irrigators is an important
22 variable influencing water resource allocation in the Klamath Basin; (2) Next, I
23 will discuss the scope of Oregon Public Utility Commission (OPUC) regulatory

1 review appropriate for determination of retail electric rates; and, (3) I will
2 present my recommendations concerning the appropriate electric rate to
3 charge Klamath Basin irrigators.
4

WATER RESOURCE ISSUES

5 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE KLAMATH BASIN.**

6 A. The Klamath Basin, by geographic definition, is the area drained by the
7 Klamath River and its tributaries. The Klamath River begins in the mountains
8 of Oregon and California east of the Cascade Range and continues to flow
9 southwesterly, entering the Pacific Ocean south of Crescent City, California.
10 The overall watershed encompasses an area twice the size of Massachusetts.
11 Generally, the area is separated into an Upper and Lower Basin. The Upper
12 Basin is upstream of PacifiCorp's Iron Gate Dam, which is only a few miles
13 below the Oregon-California border. In Oregon, the Upper Klamath Basin
14 occupies more than 5600 square miles and covers almost all of Klamath
15 County and smaller portions of Jackson and Lake Counties.
16 The terrain of the Upper Basin varies from timbered mountain slopes to broad
17 valleys and rolling sagebrush plains. The Cascade Mountains largely block the
18 eastward flow of moisture from the Pacific Ocean, creating arid conditions.
19 Until the early 1900s, however, much of the landscape was covered with vast
20 lakes and marshes, largely supplied by water flowing from the surrounding
21 mountains. The native tribes' traditional cultures and way-of-life relied on
22 fishing, hunting and gathering of edible roots, seeds, and berries. The marsh

1 plants (*primarily tule*) provided the native people with materials needed for
2 making clothing, baskets, and shelters.

3 Beginning in 1905, the United States Bureau of Reclamation (USBR) began
4 draining the Upper Basin's huge lakes and marshes and transforming the
5 landscape into farmland and pasture. Today, the USBR's Klamath Irrigation
6 Project (KIP) consists of roughly 210,000 acres of reclaimed land on which
7 nearly 1400 farms produce crop and livestock products that accounted for over
8 half of Klamath County's 2004 gross farm and ranch sales of \$180 million.

9 Pumping of water for drainage of KIP lands, a continual process, and the
10 irrigation of farmland during the arid summer growing season requires large
11 quantities of electricity (approximately 12 aMW for all of Klamath County). The
12 USBR has long maintained that the economic viability of the KIP is dependent
13 on low-cost electricity.

14 As a final note, in developing KIP, the USBR diverted the watershed's natural
15 flows so that today the Tule Lake and Lower Klamath National Wildlife Refuges
16 (*roughly 30,000 acres, both located in California*) are largely dependent on KIP
17 water deliveries. Federal Laws (*Kuchal Act and the Endangered Species Act*)
18 require that the KIP make minimum water deliveries to the refuges. Supplying
19 sufficient water to the refuges during recent low water years has been a
20 challenge.

21 **Q. WHAT IS THE CURRENT WATER SUPPLY SITUATION IN THE UPPER**
22 **KLAMATH BASIN?**

1 A. Today, the water demands for fish species listed under the Endangered
2 Species Act (ESA), the need to meet Tribal Trust responsibilities (*i.e., that*
3 *there be sufficient water for the traditional activities of fishing, hunting and*
4 *gathering*), and the requirements of the Klamath Irrigation Project compete for
5 a limited supply of water. For most years, water demands exceed supply.
6 Therefore, it is correct to conclude that, because of its scarcity, water is the
7 single most valuable resource in the Klamath Basin.

8 **Q. HOW ARE KLAMATH BASIN WATER RESOURCE CONFLICTS AND**
9 **TRADEOFFS BEING ADDRESSED?**

10 A. Many federal agencies within the Departments of Commerce, Agriculture, and
11 Interior, as well as several state natural resource agencies have specific
12 authority and responsibilities to address water resource and related issues.
13 For example, the Oregon Department of Water Resources (WRD) is
14 responsible for administering water rights, and the Oregon Department of
15 Environmental Quality (ODEQ) administers water quality regulations under the
16 federal Clean Water Act. In terms of fisheries issues, the United States Fish
17 and Wildlife Service (USF&W), the Fisheries Service of the National Oceanic
18 and Atmospheric Administration (NOAA Fisheries), and the Oregon
19 Department of Fish and Wildlife (ODFW) have authorities regarding
20 implementation of the Endangered Species Act.
21 In addition, several area Tribes, which are sovereign nations, have authorities
22 related to resource use on reservation and ceded lands. Local governments
23 are also involved in, and impacted by, water resource allocation decisions.

1 Furthermore, resource conflicts are often the subject of contested court
2 proceedings and rulings. Non-government organizations (NGOs), generally
3 representing environmental concerns, directly participate in government
4 processes and legal proceedings. In summary, it is safe to say that, in the
5 Klamath Basin, dealing with water allocation and related environmental
6 concerns involves many decision-makers, with no one entity having overall
7 control.

8 **Q. IN REGARD TO THE KLAMATH BASIN, PLEASE SUMMARIZE THE**
9 **CURRENT ACTIVITIES OF THE OREGON DEPARTMENT OF WATER**
10 **RESOURCES.**

11 A. The Oregon Department of Water Resources (WRD) is currently conducting an
12 adjudication process to determine water rights for parties with claims prior to
13 1909. The process will determine the priority date and quantity for each claim.
14 The priority date is critical in that under the state's appropriation doctrine, "first
15 in time, first in right" is the rule. The number of claims is large (730) and
16 includes: several federal agencies, irrigation districts, Tribes, individuals who
17 purchased tribal lands, and individuals who have farmed or ranched in the
18 Upper Klamath Basin for generations. WRD indicates that 77 percent of the
19 claims have been resolved and expects to complete the process during 2008.
20 The WRD findings of fact and final order will then go to the federal Circuit Court
21 for resolution of exceptions and issuance of the water right decree.

**Q. IN REGARD TO THE KLAMATH BASIN, PLEASE SUMMARIZE THE
CURRENT ACTIVITIES OF THE OREGON DEPARTMENT OF
ENVIRONMENTAL QUALITY.**

A. ODEQ is responsible for protecting Oregon rivers, streams and lakes for the use of all Oregonians. Section 303(d) of the Federal Clean Water Act requires that water quality standards be established to protect beneficial uses that depend on a water body. ODEQ is charged with identifying all impaired waters within the state and to establish a Total Maximum Daily Load (TMDL) for any water body that is designated as water quality limited. TMDLs are written plans with analysis that establishes the total amount of a pollutant (from all sources) that can enter a specific water body without violating water quality standards. Many of the waters in the Klamath Basin are water quality impaired. In the Upper Klamath Basin, Upper Klamath Lake and Agency Lake are both hypereutrophic (*i.e., aquatic environment that favors plant over animal life*). High nutrient loading of these waters promotes correspondingly high production of algae, which degrades the physical and chemical water quality characteristics and harms the survival of fish and other species populations that are dependent on the aquatic environment. In addition, both the Klamath and Link Rivers have temperature and nutrient problems that require interstate and interregional coordination to address. ODEQ has developed TMDLs for Upper Klamath Lake and its tributaries. In addition, ODEQ and the California North Coast Water Control Board are working cooperatively to develop TMDLs for the remaining water quality

1 impaired water bodies in the Klamath Basin, including the Lost River, Klamath
2 Straights Drain (*part of KIP*) and the Klamath River from the Link River to the
3 Pacific Ocean. The development of TMDLs encompasses a public process
4 that provides multiple opportunities for participation and input by interested
5 parties.

6 **Q. BRIEFLY SUMMARIZE THE ENDANGERED SPECIES ACT AND ITS**
7 **STATUS IN THE KLAMATH BASIN.**

8 A. The 1973 Endangered Species Act requires protection of those species listed
9 as “threatened” or “endangered” and includes strict enforcement provisions.

10 As mentioned, NOAA Fisheries and the USF&W Service, depending on listed
11 aquatic species, are the prime federal agencies responsible for implementing
12 the ESA. State fish and wildlife agencies, in Oregon the ODFW, also have
13 specified ESA responsibilities.

14 In the Upper Klamath Basin, the shortnose and Lost River suckers are listed as
15 endangered. In the Lower Klamath Basin, the Coho salmon is listed as
16 threatened. There are many ongoing scientific studies aimed at improving the
17 data and knowledge required to make informed decisions regarding how to
18 best manage the Klamath Basin’s scarce water resources for the recovery of
19 listed species. Integrating the learned science into law and policy has proven
20 to be a difficult and contentious endeavor. For example, at present, there is no
21 clear guidance on how to reconcile federal ESA requirements with state
22 established water rights.

**Q. SUMMARIZE PACIFICORP'S KLAMATH HYDROELECTRIC PROJECT
AND ITS RELATION TO KLAMATH BASIN WATER ISSUES.**

A. PacifiCorp's Klamath Hydroelectric Project (Hydro Project) is located on the upper Klamath River between River Mile 254 near the City of Klamath Falls in Klamath County, Oregon, and River Mile 190 in Siskiyou County, California. As currently configured, the Hydro Project consists of seven generating facilities (*Three in Oregon – 3.2 MW Eastside, .6 MW Westside, and 80 MW JC Boyle; and four in California – 20 MW Copco 1, 27 MW Copco 2, 2.2 MW Fall Creek, and 18 MW Iron Gate*) with a total nameplate capacity of 151 MW and average annual production of approximately 85 aMW. The current Federal Energy Regulatory Commission (FERC) operating license expires March 1, 2006.

For the last several years PacifiCorp has been working with interested parties to develop a relicensing application to submit to FERC. (*A large array of federal, state (Oregon and California), and local government agencies, several Tribes, environmental organizations, and other interested groups are participating in the FERC relicensing process.*) The relicensing process has needed to assess and address the Hydro Project's impacts on Klamath Basin water, fisheries, and terrestrial resources. ESA fisheries issues, water quality issues, and other environmental concerns have made for a complex and difficult relicensing process. Some parties have advocated that, for the enhancement of ESA listed fisheries, FERC should require PacifiCorp to decommission the Hydro Project and remove its

1 facilities from the river. PacifiCorp has not agreed to decommissioning and
2 on February 25, 2004, filed an application with FERC seeking renewal of its
3 operating license. The FERC review process requires at least two years.
4 The current FERC schedule anticipates a final license decision for
5 PacifiCorp's Klamath Hydro Project by January 2007.

6 **Q. BRIEFLY SUMMARIZE THE CURRENT SITUATION WITH THE BUREAU**
7 **OF RECLAMATION'S KLAMATH IRRIGATION PROJECT.**

8 A. As mentioned, construction of KIP began in the early 1900's as a federal
9 project to drain wetlands and create farm and pasture lands. KIP consists of
10 roughly 240,000 acres, including the Tule Lake and Lower Klamath wildlife
11 refuges. Most of the reclaimed KIP lands were offered for homesteads to
12 World War I and World War II veterans. Many of these families continue their
13 farming operations today.

14 As stated on the USBR's website, the need for more certainty in project
15 operations has been heightened by the drought conditions in recent years,
16 listings of species under the Endangered Species Act, and the need for
17 protection of Tribal trust resources. USBR states it is currently working with
18 agricultural, environmental, tribal, urban, and power interests to develop a long-
19 term operations plan to meet the competing demands for water in the Klamath
20 Irrigation Project area.

21 **Q. DOES THE OREGON PUBLIC UTILITY COMMISSION HAVE ANY**
22 **DIRECT RESPONSIBILITIES REGARDING THE FERC RELICENSING OF**
23 **PACIFICORP'S HYDRO PROJECT?**

1 A. No. The Hydro Project is relevant to the OPUC and PacifiCorp's customers as
2 a rate-based generating facility that provides important peaking and load
3 following capability to meet PacifiCorp's system needs in Southern Oregon and
4 Northern California. The OPUC Staff has participated in the PacifiCorp
5 relicensing process that resulted in the final application filed with FERC in
6 2004. Under the Federal Power Act, however, the decision on whether or not
7 to relicense a private hydro facility that is located on a navigable public
8 waterway is under FERC's jurisdiction.

9 **Q. DOES THE OREGON PUBLIC UTILITY COMMISSION HAVE ANY**
10 **DIRECT AUTHORITY AND RESPONSIBILITY REGARDING THE**
11 **KLAMATH BASIN WATER RESOURCE ISSUES SUMMARIZED ABOVE?**

12 A. No. As discussed above, ESA fisheries issues are the responsibility of several
13 federal and state natural resource agencies, water rights are regulated by the
14 Oregon WRD, and water quality requirements under the federal Clean Water
15 Act are the purview of the Oregon DEQ. Thus, Klamath Basin water resource
16 decisions involve multiple federal and state agencies and their respective
17 authorities and procedural processes.

SCOPE OF OPUC REVIEW**Q. WHAT IS THE OPUC'S RESPONSIBILITY REGARDING RESOURCE
ALLOCATION WITHIN THE UPPER KLAMATH BASIN?**

A. As will be discussed in this section, the OPUC's sole responsibility is to establish retail electric rates for PacifiCorp's Oregon customers that are cost-based and non-discriminatory. The appropriate pricing of electricity, however, will impact the efficient allocation of society's resources among different production possibilities. Therefore, via its responsibility to set retail electric rates for Klamath Basin irrigators, the OPUC will play an important role in regard to water management on irrigated lands in the Klamath Basin. If the Commission approves a significant rate increase, subsequent changes in water management designed to adapt to the higher cost of electricity will likely impact the social (*i.e., human activities and organizations*) and biological (*i.e., aquatic and terrestrial environments*) evolution of the Klamath Basin. This is why irrigators, tribes, and environmental organizations have a high interest in this UE 170 proceeding.

**Q. WHAT IS THE STATUTORY STANDARD APPLICABLE TO THE SETTING
OF ELECTRIC RATES FOR IRRIGATORS LOCATED WITHIN THE
KLAMATH BASIN?**

A. As established in OPUC Order No. 05-1202, the statutory rate standard applicable to irrigators in the Klamath Basin is the "just and reasonable" standard set forth in ORS Chapters 756 and 757.

Q. SUMMARIZE THE COMMISSION'S POWERS AND RESPONSIBILITIES.

A. The Commission's general powers (ORS 756.040) direct it to "represent the customers of any public utility ... and the public generally in all controversies respecting rates, valuations, service and all matters of which the Commission has jurisdiction." It also directs the Commission to use its powers "...to protect such customers, and the public generally, from unjust and unreasonable exactions and practices and obtain for them adequate service at fair and reasonable rates."

The general powers statute states that rates are just and reasonable if the rates provide adequate revenue for both the operating expenses and capital costs of the utility, and provide a return to the equity holder that is commensurate with other investments of similar risk. This general criteria is used by the Commission to evaluate the reasonableness of the rate schedules (tariffs) that each public utility is required to file with the OPUC (see ORS 757.205 through 757.266). These tariffs show all the rates, tolls, and charges for any service which the utility offers to its customers.

ORS 757.230 requires that the Commission adopt a customer classification system. Customers are grouped into classes based upon such factors as quantity of electricity used, the time when used, the purpose for which used, and any other reasonable consideration (see ORS 757.230(1)). The classification system adopted by the Commission is intended to ensure that similarly situated customers receive uniform service and rates and prevents

1 utilities from offering rate discounts or special services to “preferred”
2 customers.

3 The Commission's antidiscriminatory policies are established by ORS 757.310
4 and ORS 757.325. ORS 757.310 specifically prohibits a utility from charging
5 rates higher or lower than the rates charged “any other person for a like and
6 contemporaneous service under substantially similar circumstances.” ORS
7 757.325 prohibits a utility from giving “undue or unreasonable preference or
8 advantage to any particular person or locality” and from subjecting “any
9 particular person or locality to any undue or unreasonable prejudice or
10 disadvantage in any respect.”

11 **Q. WHAT FACTORS ARE CONSIDERED IN THE ESTABLISHMENT OF A**
12 **PERMISSIBLE RATE CLASSIFICATION?**

13 A. As mentioned, ORS 757.230 requires the Commission to adopt a customer
14 classification system. The criteria listed in the statute, however, are general in
15 nature, including the quantity of electricity used, the time when used, the
16 purpose for which used, and any other reasonable considerations. It is
17 possible for a group of similarly situated customers to contend that they merit a
18 separate classification if they can persuasively demonstrate unique differences
19 in the ORS 757.230 criteria, the cost of the utility's service, or conditions of
20 service.

21 In consideration of a new customer class, ORS 757.230 must be read in
22 conjunction with ORS 757.310(1)(b) that forbids utilities from charging different
23 rates for identical service under like conditions. Therefore, the rates the

1 Commission approves for a utility's Oregon ratepayers must be based on
2 reasonable classifications of service and the rates must be the same for
3 different customers served under like conditions. The Commission must
4 approve reasonable rates, and no discriminating rate is reasonable.

5 **Q. CAN THE COMMISSION ESTABLISH A RATE CLASSIFICATION BASED**
6 **ON SOCIAL POLICIES?**

7 A. No. The Commission's mandate is to establish electric rates that are just,
8 reasonable, and non-discriminatory to the utility's Oregon customers.
9 Discrimination for the purpose of achieving social goals, such as economic
10 development, is not permissible because the classification would not be
11 reasonably related to the purposes for which the Commission is authorized to
12 classify customers. The Commission is not authorized to advantage one
13 customer or a group of customers at the expense of the utility's other
14 customers. The appropriate body for addressing social policies is the state's
15 Legislative Assembly.

RECOMMENDATIONS**Q. WHAT ARE THE CURRENT ELECTRIC RATES PAID BY KLAMATH IRRIGATORS?**

A. As previously established in this proceeding, there are two separate agreements at issue in this proceeding: (1) The On-Project Contract (*i.e.*, *Project referring to KIP*); and (2) The Off-Project Contract (*see OPUC Order No. 05-726*).

The On-Project Contract is between the US Department of Interior and Copco (PacifiCorp's predecessor). Under this 1956 contract, Copco agreed to furnish electric power to On-Project irrigators at a rate of \$.006 (*i.e.*, 6 mills) per kWh. The contract is effective for a term of 50 years. The expiration date has been established as April 16, 2006. On-Project irrigators include the USBR and other eligible parties as specified in Exhibit "B" of the contract. Eligible parties are basically the irrigation districts and other water users that directly receive water from the USBR's KIP. Previous UE 170 testimony indicates that 1,368 On-Project contract accounts have annual consumption of 6.128 aMW (*see KOPWA/100, Iverson/7*). Lastly, the On-Project contract also provides that line extensions of more than 7.5 horsepower will be at PacifiCorp's expense.

The Off-Project contract is between Copco and the Klamath Basin Water Users Protective Association. Under this contract, Copco agreed to provide service to all Off-Project irrigators at a rate of \$.0075 (*i.e.*, 7.5 mills) per kWh. This 1956 contract contains no express termination date. Previous UE 170

1 testimony indicates that 682 Off-Project contract accounts have annual
2 consumption of 5.90 aMW (see *KOPWA/100, Iverson/7*). The Off-Project
3 contract does not provide for free line extensions.

4 **Q. ARE THE CURRENT RATES UNDER THE ON-PROJECT AND OFF-**
5 **PROJECT AGREEMENTS JUSTIFIABLE ACCORDING TO THE “JUST**
6 **AND REASONABLE” STANDARD?**

7 A. No. The fundamental theory of utility ratemaking is to place the cost of
8 providing service upon the cost causer and/or the class of customers benefiting
9 from the service that caused the cost. The cost for PacifiCorp’s system of
10 transmission, distribution, and generation facilities to serve the Klamath Basin
11 irrigators far exceeds the rates of the historical contracts.¹

12 Under PacifiCorp’s current standard tariff Delivery Service Schedule 41/Cost-
13 Based Supply Service Schedule 200, the sum of the Secondary Summer
14 Service charges for Distribution Energy Service, Transmission & Ancillary
15 Services, and Energy is 7.91 cents per kWh (i.e., 3.929¢ + .448¢ + 3.534¢).

16 The rates the On-Project and Off-Project irrigators are currently paying are less
17 than one-tenth this amount. The deficit in revenue requirement between what
18 Klamath irrigators would pay under standard Schedule 41/200 and the rates in
19 the historical contracts is being covered by PacifiCorp’s other Oregon
20 customers. This represents an annual transfer-of-wealth from PacifiCorp’s

¹ The On-Project and Off-Project rates are included in PacifiCorp’s Oregon Schedule 33 (*Klamath Basin Irrigation Contracts, Irrigation and Drainage Rates*). All other irrigation customers in PacifiCorp’s Oregon service territory take service under either Schedule 41 (*Agricultural Pumping Service, Delivery Service*) or Schedule 48 (*Large General Service – 1,000 kW and Over, Delivery Service*).

Oregon customers to Klamath Basin irrigators of \$7.7 million (*see PacifiCorp's response to Staff's Data Request 454*).

Given that the Schedule 41/200 rate is representative of the cost to serve irrigation customers within PacifiCorp's Oregon service territory, I conclude that the historical contracts do not satisfy the OPUC's "just and reasonable" standard set forth in ORS Chapters 756 and 757.

Q. SHOULD THE KLAMATH BASIN IRRIGATION CUSTOMERS BE INCLUDED IN THE STANDARD CLASS OF IRRIGATION CUSTOMERS, OR IS THERE SUBSTANTIAL AND REASONABLE BASIS FOR ESTABLISHING A SEPARATE AND DISTINCT CLASS OF IRRIGATION CUSTOMERS IN THE KLAMATH BASIN FOR PURPOSES OF SERVICE AND RATES (I.E., A SEPARATE SERVICE CLASSIFICATION UNDER ORS § 757.230)?

A. The Klamath Basin irrigation customers should be included in the standard class of irrigation customers. At this time, there is not sufficient evidence to establish Klamath Basin irrigators as a separate class of customers. Staff will carefully work to understand and review any analysis that the opening testimony of UE 170 parties may provide that suggests that Klamath Basin irrigators merit a separate classification from PacifiCorp's other irrigation customers. Regardless of customer classification, Klamath Basin irrigation rates must be cost-based, non-discriminatory, and economically justified.

Q. IF IT IS DETERMINED THAT KLAMATH BASIN IRRIGATORS SHOULD NOT BE INCLUDED IN THE SAME CLASS AS OTHER OREGON IRRIGATION CUSTOMERS AND A DIFFERENT RATE THAN THE

**STANDARD IRRIGATION TARIFF IS JUSTIFIED, WHAT IS THE
APPROPRIATE RATE?**

A. As stated above, Staff believes the Klamath Basin irrigators should be included in PacifiCorp's standard class of irrigation customers.

**Q. IF ANY RATE CHANGE AFFECTING THESE CUSTOMERS IS
IMPLEMENTED, HOW AND WHEN SHOULD THESE CUSTOMERS BE
TRANSITIONED FROM THE RATES ESTABLISHED IN THE HISTORICAL
CONTRACTS?**

A. Klamath Basin irrigators who are currently served under Schedule 33 (*i.e., the historical contracts*) should be moved to PacifiCorp's standard irrigation tariff rate (*Schedule 41 for irrigators with loads of less than 1000 kW and Schedule 48 for irrigators with loads of greater than 1000 kW*). This rate change should become effective April 16, 2006.

**Q. ARE THE PROVISIONS OF SB 81 APPLICABLE TO SUCH A RATE
CHANGE AND, IF SO, HOW SHOULD THIS LEGISLATION BE
IMPLEMENTED WITH RESPECT TO THESE CUSTOMERS?**

A. Yes. To mitigate rate shock, the move to standard tariff rates should be phased-in over seven years as required by Senate Bill 81.

**Q. IF THE PROVISIONS OF SB 81 ARE NOT APPLICABLE, DO ANY OTHER
RATE MITIGATION POLICIES, RULES, OR STATUTES APPLY AND, IF SO,
HOW SHOULD SUCH POLICIES, RULES, OR STATUTES BE
IMPLEMENTED WITH RESPECT TO THESE CUSTOMERS?**

1 A. No other rate mitigation policies, rules or statutes, other than the provisions of
2 Senate Bill 81, are applicable for the Klamath Basin irrigation customers who
3 are currently served under Schedule 33.

4 **Q. FINAL COMMENT.**

5 A. As discussed in this testimony, this UE 170 remand proceeding is the proper
6 forum for establishing the electric rates that PacifiCorp will charge Klamath
7 Basin irrigators. In making this decision, the Commission's mandate is to
8 protect the utility's electric customers and the general public interest in all
9 controversies respecting rates, valuations, service, and all matters of which the
10 Commission has jurisdiction (ORS 756.040). This proceeding is not the proper
11 forum for resolving Klamath Basin water resource allocation issues. Many
12 state and federal agencies, under their respective authorities, are working to
13 address the various aquatic and terrestrial resource issues within the Klamath
14 Basin.

15 **Q. DOES THIS CONCLUDE YOUR OPENING TESTIMONY?**

16 A. Yes.
17

CASE: UE 170
WITNESS: William A. McNamee

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 1501

Witness Qualification Statement

January 17, 2006

WITNESS QUALIFICATION STATEMENT

NAME: WILLIAM A. McNAMEE

EMPLOYER: PUBLIC UTILITY COMMISSION OF OREGON

TITLE: RESOURCE ECONOMIST

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EDUCATION: Ph.D. in Agricultural and Resource Economics from
Oregon State University
M.S. in Agricultural and Resource Economics from
Oregon State University
B.S. in Agricultural Business Management from California
State Polytechnic University, Pomona

WORK
EXPERIENCE: I've been employed by the Oregon Public Utility
Commission since 1986. My primary responsibility is to
conduct economic analysis of electric utility rate and
resource planning matters, including special contracts for
utility service, utility system costs, new resource
potential, and hydroelectric relicensing.

While completing my Ph.D. studies at Oregon State
University (OSU) (1980-1985), I was employed, via a
cooperative agreement with the U.S. Department of
Agriculture (USDA), as an agricultural economist on the
faculty of the OSU Department of Agricultural and
Resource Economics. My responsibilities involved
evaluating the economics of irrigation development,
water management, and erosion and sedimentation
control projects upon agricultural and forested lands in
the Pacific Northwest.

CERTIFICATE OF SERVICE

UE 170

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to all parties or attorneys of parties.

Dated at Salem, Oregon, this 17th day of January, 2006.



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UE 170
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