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July 12, 2006

VIA ELECTRONIC FILING & FIRST CLASS MAIL

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

Re: UE 179 – In the Matter of Pacific Power & Light (dba PacifiCorp)

Request for a General Rate Increase in the Company's Oregon Annual Revenues

Dear Filing Center:

Please find enclosed the original and five copies of the DIRECT TESTIMONY OF DONALD W. SCHOENBECK ON BEHALF OF THE KLAMATH WATER USERS ASSOCIATION in the above-referenced docket.

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-179 Service List (via email & first class mail)

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

In the Matter of)	
)	
PACIFIC POWER & LIGHT)	
(dba PACIFICORP))	UE 179
)	
Request for a General Rate Increase in the)	
Company's Oregon Annual Revenues	j	

DIRECT TESTIMONY OF DONALD W. SCHOENBECK ON BEHALF OF THE

KLAMATH WATER USERS ASSOCIATION

1		BEFORE THE
2		PUBLIC UTILITY COMMISSION OF OREGON
3		Docket No. UE 179
4		Direct Testimony of Donald W. Schoenbeck
5		On behalf of the Klamath Water Users Association
6	INT	RODUCTION AND SUMMARY
7	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
8	A.	My name is Donald W. Schoenbeck. I am a member of Regulatory &
9		Cogeneration Services, Inc. ("RCS"), a utility rate and economic consulting firm.
10		My business address is 900 Washington Street, Suite 780, Vancouver, WA 98660.
11	Q.	PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.
12	A.	I've been involved in the electric and gas utility industries for over 30 years. For
13		the majority of this time, I have provided consulting services for large industrial
14		customers addressing regulatory and contractual matters. I have appeared before
15		the Public Utility Commission of Oregon ("Commission") on many occasions,
16		including proceedings regarding the establishment of charges for customers of
17		PacifiCorp. A further description of my educational background and work
18		experience can be found in Exhibit KWUA 101 in this proceeding.
19	Q.	ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?
20	A.	I am testifying on behalf of the Klamath Water Users Association ("KWUA").
21		KWUA is a nonprofit corporation comprised of approximately 20 public agencies,
22		most of which are irrigation districts, and many individuals and businesses located
23		in the Upper Klamath River Basin. KWUA's members receive water for irrigation

1		through facilities constructed or improved by the United States Bureau of
2		Reclamation as part of the Klamath Irrigation Project. Approximately 200,000
3		acres of farmland are irrigated by Klamath Irrigation Project facilities in both
4		Southern Oregon and Northern California. The KWUA members in Oregon
5		currently purchase power from PacifiCorp under Schedule 33 but will transition to
6		Schedule 41 as a result of PacifiCorp's last general rate proceeding, UE-170,
7		subject to the establishment of a rate credit as described in Order No. 06-172.
8 9	Q.	PLEASE BRIEFLY SUMMARIZE THE TOPIC YOU WILL ADDRESS AND YOUR RECOMMENDATION.
10	A.	In Order No. 06-172 issued in docket UE 170, the Commission rejected the
11		arguments of KWUA and other parties that the On-Project Irrigators, Off-Project
12		Irrigators and United States Bureau of Reclamation ("Project Irrigators") should be
13		a separate customer class, distinct from the irrigation customers served under
14		Schedule 41. Given this ruling, my testimony recommends that the Project
15		Irrigators should be included in the Company's cost-of-service study with all other
16		irrigation customers in order to determine the appropriate cost based rate level for
17		Schedule 41. Based upon the Company's cost-of-service methods, the inclusion of
18		the Project Irrigators lowers the cost-based rate level for Schedule 41. An
19		illustrative example shows a decrease of 1.1 cents/kWh under the Company's
20		proposed revenue increase.
21 22	Q.	ARE YOU ADDRESSING THE OVERALL REVENUE REQUIREMENT BEING SOUGHT BY PACIFICORP?
23	A.	No. I have focused solely on the proper rate spread as it impacts Schedule 41.
24		KWUA is relying on the OPUC Staff and other parties to address the overall rate
25		level sought by PacifiCorp. I have not analyzed every issue in the case to the

1 degree necessary to opine on the question of what would be a just and reasonable 2 overall rate increase, if any, that PacifiCorp should be granted. ORDER NO. 06-172 3 Q. IS ORDER NUMBER 06-172 RELEVANT TO THIS PROCEEDING? 4 I believe it is. In the recently concluded UE 170 proceeding, KWUA presented Α. 5 analysis indicating a cost differential of 1.6 cents per kilowatthour in serving 6 Project Irrigators versus PacifiCorp's other irrigation customers. Due in part to this 7 differential and the implementation of Senate Bill 81, KWUA argued for 8 maintaining the Project Irrigators on a separate tariff distinct from the other 9 irrigation customers. In Order No. 06-172 issued on April 12, 2006, the 10 Commission rejected this proposal. The Commission stated: 11 We are not persuaded by KWUA's claim that the On-Project irrigators should be treated as a separate class....Accordingly, we conclude that there are 12 13 no service differences that warrant a separate rate classification for the Klamath Basin irrigators. (See Order No. 06-172, page 11) 14 15 Further, the Commission ruling also addressed how SB 81 was to be implemented 16 in order to transition customers from the former contractual rate to the applicable 17 Schedule 41 base rate. The Commission's stated intent was to implement the 18 transition through a seven year period culminating in "the uniform cost-based rate 19 charged to other irrigators served by PacifiCorp." (See Order No. 06-172, page 24) 20 The Project Irrigators represent a significant amount of PacifiCorp's irrigation load 21 in Oregon—essentially equivalent to the load of the other Oregon irrigation 22 customers served under Schedule 41 (106,792 megawatthours versus 108,189 23 megawatthours). To properly implement this transition plan, the Project Irrigators

1 must be included in the Company's cost-of-service studies—along with the other 2 irrigation customers-- in order to derive a reasonable and accurate cost-based rate 3 that would be applicable to all irrigation customers. If this is not done, the targeted 4 Schedule 41 cost based rate would be too high. 5 **COST-OF-SERVICE COMPARISON** 6 Q. HAS PACIFICORP INCLUDED THE PROJECT IRRIGATORS IN ITS 7 **COST OF SERVICE STUDY?** 8 A. No. A review of Exhibits PPL/1005, PPL/1007, and PPL/1103 shows the Project 9 Irrigators have not been included in PacifiCorp's cost-of-service analysis. For 10 example, Exhibit PPL/1005, Anderberg/1, line 2, column K indicates the 11 megawatthours (MWhs) of irrigation load used in the cost study. The value is 12 108,189 MWhs. Exhibit PPL/1103, Griffith/5 presents the test period billing units 13 for Schedule 41 customers. The total secondary and primary energy usage for these 14 Schedule 41 customers is 108,189 MWhs. The Project Irrigators load of 106,792 15 MWhs is presented on page Griffith/6 of Exhibit PPL/1103. Accordingly, 16 PacifiCorp has not included the Klamath Irrigators in its cost-of-service analysis. 17 WHAT IS THE COST BASED RATE FOR SCHEDULE 41 EXCLUDING Q. 18 THE PROJECT IRRIGATORS? 19 Under PacifiCorp's cost study, the 20 year full marginal cost is 13.1 cents per A. 20 kilowatthour (cents/kWh). This is derived from Exhibit PPL/1005, Anderberg/1, 21 lines 11 and 2 (\$14.1 million / 108,189 MWh = 13.1 cents/kWh). This same 22 exhibit translates the full marginal costs into a targeted revenue requirement for 23 each class based upon the \$109.7 million revenue request PacifiCorp is seeking in 24 this proceeding. For Schedule 41, the class cost based target is 11.2 cents/kWh

1		(line 36 divided by line 2).
2 3 4	Q.	HAS PACIFICORP PREPARED A COST STUDY INCLUDING THE PROJECT IRRIGATORS WITH THE OTHER SCHEDULE 41 CUSTOMERS?
5	A.	Yes. In response to a KWUA data request 1.5, PacifiCorp prepared a cost study
6		which included the Project Irrigators. Exhibit KWUA 110 presents a
7		summary sheet from this study. For all irrigation customers, the full 20 year
8		marginal cost is 11.8 cents/kWh as shown by line 42 of Exhibit KWUA 110
9		compared to the PacifiCorp value of 13.1 cents/kWh. Thus the inclusion of the
10		Project Irrigators lowers the marginal cost rate by 1.3 cents/kWh for all irrigation
11		customers.
12 13	Q.	DOES THE INCLUSION OF THE PROJECT IRRIGATORS LOWER THE TARGETED COST BASED RATE AS WELL?
14	A.	Yes it does. Exhibit KWUA 120 illustrates the potential impact on the cost-
15		based irrigation rate assuming the same level of increase requested by PacifiCorp.
16		In order to achieve the same overall revenue increase, I increased the production
17		and distribution revenue requirement based upon the revenue recovery deficiency
18		from the Project Irrigators not being at full tariff rate charges. This example results
19		in a cost based rate of 10.1 cents/kWh (line 37 of KWUA 120) for Schedule
20		41 as compared to the PacifiCorp value of 11.2 cents/kWh. Thus the inclusion of
21		the Project Irrigators lowers the cost based rate for all irrigation customers since the
22		Project Irrigators cost less to serve on a per kilowatt basis.
23 24	Q.	WHY IS IT IMPORTANT TO INCLUDE THE PROJECT IRRIGATORS IN THE COST-OF-SERVICE STUDY NOW?
25	A.	It is the natural consequence of the Commission's decision in UE-170 to merge the

Project Irrigators and Off-Project Irrigators into Schedule 41 rather than retaining 1 2 Klamath Irrigators as a separate class of customers. As the Commission noted, it is 3 important to have the proper cost-based rate target that is applicable to all irrigation customers. This can only be done by including the Project Irrigators along with all 4 5 other irrigation customers in the rate setting steps PacifiCorp performs. As shown 6 by my example, if this is not done the generally applicable irrigation rate would be 7 too high for the expanded class of irrigation customers PacifiCorp is serving under 8 Schedule 41 in the aftermath of the Commission's decision in UE-170.

9 Q. WOULD THE OVERALL INCREASE FOR SCHEDULE 41 DECLINE IF THE COMMISSION ACCEPTED YOUR RECOMMENDATION?

- 11 A. Yes. The inclusion of the Klamath Irrigators loads should lower the overall increase for all Schedule 41 customers.
- 13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 14 A. Yes, at this time.

1		EXHIBIT A
2		QUALIFICATIONS AND BACKGROUND
3		\mathbf{OF}
4		DONALD W. SCHOENBECK
5	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
6	A.	Donald W. Schoenbeck, 900 Washington Street, Suite 1000, Vancouver,
. 7	,	Washington 98660.
, 8		
9	Q.	PLEASE STATE YOUR OCCUPATION.
10	A.	I am a consultant in the field of public utility regulation and I am a member of
11		Regulatory & Cogeneration Services, Inc. (RCS).
12		
13	Q.	PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
14		EXPERIENCE.
15	A.	I have a Bachelor of Science Degree in Electrical Engineering from the University
16		of Kansas and a Master of Science Degree in Engineering Management from the
17		University of Missouri.
18		From June of 1972 until June of 1980, I was employed by Union Electric
19		Company in the Transmission and Distribution, Rates, and Corporate Planning
20		functions. In the Transmission and Distribution function, I had various areas of
21		responsibility, including load management, budget proposals and special studies.
22		While in the Rates function, I worked on rate design studies, filings and exhibits for
23		several regulatory jurisdictions. In Corporate Planning, I was responsible for the

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

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

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

A.

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

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

PacifiCorp
Oregon Marginal Cost Study
20 Year Marginal Cost Including Mamath Project Imgators
December 2007 Dollars
(Dollars in 000's)

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Source: Tab 2.3 (Table 3:) '20 Year Costing Inputs and Customer Data Marginal Unit Costs' Tab 2.7 (Table 7-) 'Marginal Distribution & Billing Costs By Load Size'

Line 1 Generation (Table 3, Row 5) x (Table 3, Row 20)1000
Line 2 Transmission (Table 3, Row 6) x (Table 3, Row 21)1000
Line 3 Poles, Coriol., Subst. (Table 3, Row 6) x (Table 7, Row 4 - 3) x (1 + .3157) (Dist OM, Row 32)
Line 8 Transformer's (Table 3, Row 12) x (Table 3, Row 7) x (1 + .3157) (Dist OM, Row 32)
Line 8 Territy Related (Table 3, Row 12) x (Table 3, Row 26 - 27)
Lines 15-16 Energy Related (Table 3, Row 12) x (Table 3, Row 13 - 27) including O&M Adders

PacifiCorp
State of Oregon
December 31, 2007 Unbundled Revenue Requirement Allocation by Rate Schedule
Including Klamath Project Irrigators

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Percent Increase (Decrease) (Line 41 / Line 1)	ncrease or (Decrease) (Line 36 - Line ↑)	Ratio of Operating Revn to Revenue Requirement-(Target) (Line 1 / Line 36)	Regulatory & Franchise T Total	Embedded DSM - (mWh)	Customer - Other	Customer - Meterina	Ancillary Services	Distribution	Transmission	Generation	Functionalized Class Revenue Requirement - (Target)		Taxes (Revenue)	Regulatory & Franchise	Embedded DSM - (mWh)	Customer - Other	Customer - Metering	Customer - Billing	Ancillary Service	Distribution	Transmission	Generation	Functionalized 20 Year Full Marginal Costs - Class % of Total	Functional Revenue Requirement Allocation Factors		Total	Customer - Other	Customer - Metering	Cartomer - Balley	Distribution	Transmission	Generation	Functionalized 20 Year Full Marginal Costs - Class \$	51 0 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	lotal operating revenues	Total Casactina Bassassia	Description				
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16 25%	\$10,015	86.02%	\$1,640 \$71,634	\$	\$90	\$26 \$26	\$966	\$11,776	\$5,933	\$51,002				7 32%	79.50 0.00 0.00 0.00 0.00 0.00 0.00 0.00	0.50%	0 99%	0 14%	9.44%	4 54%	9 52%	9.44%			170'76¢	**************************************	\$101	920	\$12,390	\$13.500	8 1 2 2 B	\$75,674		\$1,247,416	\$61,619		(sec)	Sch 30	General Se	Ŧ	
16.45%	\$670	85.87%	\$108 \$4,739	\$ †	es 6	\$ \$2 \$ \$2	2	\$729	\$393	\$3,373			6,10,2	0.48%	200	2000	0.32%	0.01%	0.62%	0.58%	0 63%	0 62%			021,00	200	70,	; 4	. 6	679	2004	\$ 004		84,717	\$4,069		(pri)	٥	₹ •	<u>බ</u>	
19 82%	\$7,347	83 46%	\$986 \$44,419	\$	\$80	\$26	\$615	\$6,447	\$3,731	\$32,476				4 40%	200%	0.45%	0.29%	0 14%	601%	2 48%	5 99%	601%			906,706	\$33	4	\$20	260,06	94,120	\$ 5.00 5.00 6.00 6.00 6.00 6.00 6.00 6.00	186		798,829	\$37,072		(sec)			Ξ	
18.94%	\$13,578	84.08%	\$1,908 \$85,281	\$ 8	\$55 \$140	\$18	\$1,286	\$6,498	\$7,426	\$67,951			0.02.70	8.50%	13.150	0.31%	0.69%	0 10%	12 58%	2 50%	11.92%	12 58%			\$113,343	\$23	2112	\$14	96,940	40,430 60,430	45 A20	\$100 831		1,756,556	\$71,702		(pri)	Sch 48T	Power Servi	3	
17.90%	\$3,594	84.82%	\$534 \$23,675	5	<u> </u>	3 5	\$ 390	50	\$2,100	\$20,619			4	25°C	300	0.00%	0.00%	0.00%	3 60 60	0.00%	3.37%	3 82%			334,134	2	24	8	2	91,333 60	64 F36	\$20 KG2		560,680	\$20,081		3			S	
7.38%	\$1,486	93.13%	\$21,630	\$ 5	\$137	\$131	\$170	\$10,060	\$1,088	\$8,968				%0£ c										\$0.178	\$25,446	\$58	443	\$101	\$0,014	36.36	613,300	412 306		214,981	\$20.144			Sch 41	Irrigation	ŝ	
21.45%	\$655	82.34%	\$3,708	ខ	Š K	, <u>2</u> 2	\$15	\$2,705	<u>7</u>	\$807			0.00.0	0.19%	2 2 2	765.0	9100	0.18%	0 15%	104%	0.07%	0 15g			\$4,156	\$9	*	\$25	269,24	3 500	\$1,190	*1 100		\$24,870	\$3,053	ı		Sch 51 53 54	Street Lat	₽	

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 12th day of July, 2006, I served the foregoing

DIRECT TESTIMONY OF DONALD W. SCHOENBECK ON BEHALF OF KLAMATH

WATER USERS ASSOCIATION on the attached Service List obtained on this date from the Oregon Public Utility Commission's Website:

- [XX] by **MAILING** a full, true and correct copy thereof in a sealed, postage-paid envelope, addressed as shown on the attached Service List, and deposited with the U.S. Postal Service at Portland, Oregon, on the date set forth below;
- [XX] <u>and</u> by electronic mail ("e-mail") to those parties on the Oregon Public Utility Commission's Website Service List who listed an e-mail address.

DATED this 12th day of July, 2006.

EDWARD A. FINKLEA, OSB No. 84216 RICHARD G. LORENZ, OSB No. 00308

CABLE HUSTON BENEDICT HAAGENSEN & LLOYD LLP

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