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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.)	

**DIRECT TESTIMONY OF
DONALD W. SCHOENBECK
ON BEHALF OF THE
KLAMATH WATER USERS ASSOCIATION**

July 12, 2006

**BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON**

Docket No. UE 179

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 KWUA 101 _____ in this proceeding.

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

A. I am testifying on behalf of the Klamath Water Users Association ("KWUA"). KWUA is a nonprofit corporation comprised of approximately 20 public agencies, most of which are irrigation districts, and many individuals and businesses located 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 **Q. PLEASE BRIEFLY SUMMARIZE THE TOPIC YOU WILL ADDRESS**
9 **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 **Q. ARE YOU ADDRESSING THE OVERALL REVENUE REQUIREMENT**
22 **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 **A.** I believe it is. In the recently concluded UE 170 proceeding, KWUA presented
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
12 should be treated as a separate class....Accordingly, we conclude that there are
13 no service differences that warrant a separate rate classification for the
14 Klamath Basin irrigators. (See Order No. 06-172, page 11)

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 **Q. WHAT IS THE COST BASED RATE FOR SCHEDULE 41 EXCLUDING**
18 **THE PROJECT IRRIGATORS?**

19 **A.** Under PacifiCorp's cost study, the 20 year full marginal cost is 13.1 cents per
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

(line 36 divided by line 2).

Q. HAS PACIFICORP PREPARED A COST STUDY INCLUDING THE PROJECT IRRIGATORS WITH THE OTHER SCHEDULE 41 CUSTOMERS?

A. Yes. In response to a KWUA data request 1.5, PacifiCorp prepared a cost study which included the Project Irrigators. Exhibit KWUA 110 ____ presents a summary sheet from this study. For all irrigation customers, the full 20 year marginal cost is 11.8 cents/kWh as shown by line 42 of Exhibit KWUA 110 ____ compared to the PacifiCorp value of 13.1 cents/kWh. Thus the inclusion of the Project Irrigators lowers the marginal cost rate by 1.3 cents/kWh for all irrigation customers.

Q. DOES THE INCLUSION OF THE PROJECT IRRIGATORS LOWER THE TARGETED COST BASED RATE AS WELL?

A. Yes it does. Exhibit KWUA 120 ____ illustrates the potential impact on the cost-based irrigation rate assuming the same level of increase requested by PacifiCorp. In order to achieve the same overall revenue increase, I increased the production and distribution revenue requirement based upon the revenue recovery deficiency from the Project Irrigators not being at full tariff rate charges. This example results in a cost based rate of 10.1 cents/kWh (line 37 of KWUA 120 ____) for Schedule 41 as compared to the PacifiCorp value of 11.2 cents/kWh. Thus the inclusion of the Project Irrigators lowers the cost based rate for all irrigation customers since the Project Irrigators cost less to serve on a per kilowatt basis.

Q. WHY IS IT IMPORTANT TO INCLUDE THE PROJECT IRRIGATORS IN THE COST-OF-SERVICE STUDY NOW?

A. It is the natural consequence of the Commission's decision in UE-170 to merge the

1 Project Irrigators and Off-Project Irrigators into Schedule 41 rather than retaining
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
4 customers. This can only be done by including the Project Irrigators along with all
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**
10 **THE COMMISSION ACCEPTED YOUR RECOMMENDATION?**

11 **A.** Yes. The inclusion of the Klamath Irrigators loads should lower the overall
12 increase for all Schedule 41 customers.

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

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

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.

Exhibit KMWUA 110

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), (Table 3, Row 20) Y000
Line 2	Transmission (Table 3, Row 5) x (Table 3, Row 21) Y000
Lines 4-6	Poles, Conn., Subst. (Table 3, Row 6) x (Table 7, Row 1) x (1 + 3157) (Dist OM, Row 32)
Line 8	Transformers (Table 3, Row 7) x (Table 7, Row 7) x (1 + 3157) (Dist OM, Row 32)
Lines 15-16	Transformers (Table 3, Row 12), (Table 3, Row 26 - 27)
Lines 20-29	Energy Related (Table 3, Row 15) x (Table 7, Row 13 - 27) including O&M adds

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] and 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.



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