

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	Docket No. UE-100749
v.)	
)	
PACIFICORP d/b/a PACIFIC POWER)	
AND LIGHT COMPANY,)	
)	
Respondent.)	
)	
_____)	

RESPONSIVE TESTIMONY OF DONALD W. SCHOENBECK
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

October 5, 2010

I. INTRODUCTION AND SUMMARY

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

5 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.**

6 **A.** I have been involved in the electric and gas utility industries for over 35 years. For the
7 majority of this time, I have provided consulting services for large industrial customers
8 addressing regulatory and contractual matters. I have appeared before the Washington
9 Utilities and Transportation Commission (the “Commission”) on many occasions since
10 1982. A further description of my educational background and work experience can be
11 found in Exhibit No. ____ (DWS-2) in this proceeding.

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

13 **A.** I am testifying on behalf of the Industrial Customers of Northwest Utilities (“ICNU”).
14 ICNU is a non-profit trade association whose members are large industrial customers
15 served by electric utilities throughout the Pacific Northwest, including PacifiCorp (or the
16 “Company”).

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

18 **A.** I will address the Company’s rate spread proposal and Schedule 48T rate design. This
19 testimony will not address the revenue requirement increase the Company is seeking in
20 this proceeding. ICNU is submitting separate testimony regarding the appropriate
21 amount of costs the Company should be allowed to recover.

1 **Q. PLEASE BRIEFLY SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS**
2 **ADDRESSED IN THIS TESTIMONY.**

3 **A.** Based on my review of the Company’s cost-of-service study, the Company has
4 overstated the cost of serving the large industrial customers on Schedule 48T. However,
5 the sensitivity analysis I have conducted indicates the Company’s equal percentage rate
6 spread proposal is reasonable for the major customer classes.

7 Regarding Schedule 48T rate design, the Company is proposing to recover the
8 revenue increase assigned to this schedule by increasing the energy charges by a greater
9 percentage than the demand charges. The Company’s cost-of-service study indicates the
10 energy charges for Schedule 48T should not be increased to the extent proposed by the
11 Company. ICNU recommends that all 48T tariff charges should be increased by the
12 same percentage.

II. COST-OF-SERVICE ANALYSIS

13 **Q. HAVE YOU ANALYZED THE COST-OF-SERVICE STUDY PRESENTED BY**
14 **THE COMPANY IN THIS PROCEEDING?**

15 **A.** Yes. I analyzed the Company’s cost-of-service study submitted as Exhibit No. ____ (CCP-
16 5), reviewed the associated workpapers, and sought additional information through a
17 number of data requests and telephone conversations with the Company.

18 **Q. DO YOU AGREE WITH THE MANNER IN WHICH THE STUDY WAS DONE?**

19 **A.** I support the Company’s modification to its peak credit classification calculation which
20 takes into account the actual peaking resource relied upon by the Company in its western
21 control area. However, there is a significant area where I disagree with the approach
22 used by the Company. Specifically, I disagree with the use of 100 winter hours and 100
23 summer hours (“200 W/S CP”) for allocating system demand related costs.

1 **Q. WHY DO YOU DISAGREE WITH THE 200 W/S CP ALLOCATION FACTOR?**

2 **A.** The factor encompasses far too many hours for accurately assigning system demand
3 costs. This can be illustrated using the Company's load data as contained within the
4 costing model. The highest peak demand for the Company's western control area is
5 4,205 Megawatts ("MWs") and the lowest demand—for the 200th hour—is just 3,116
6 MWs, a difference of 1,089 MWs. The average demand of all 200 hours is just 3,437
7 MWs or 768 MWs lower than the peak demand. Thus, the lowest demand is just 74% of
8 the highest peak demand and the average demand for all 200 hours is just 82% of the
9 peak demand. Giving each and every hour equal weighting ignores the fundamental
10 driver of generation and transmission investment. The need for these facilities is
11 determined based on the peak demands placed on the system and not the average demand
12 over an extended period of time. Including other irrelevant demands in the derivation of
13 the class values simply causes a shift in cost responsibility to other classes in the cost
14 study.

15 The peak demand allocation factor should be determined considering only those
16 hours that are within 95% of the system peak hour. The Company's load data shows
17 there are 71 hours within 95% of the system peak with 48 summer hours and 23 winter
18 hours. To give each season equal weight, I recommend deriving a demand allocation
19 factor using the average hourly value from each season. In other words, the demand
20 allocation factor would be based on the average of all 48 summer hours and the average
21 of all 23 winter hours ("W/S CP"). The following table compares the Company's system
22 allocation factor with the CP factor I derived from the Company's load research data.

System Demand Comparison Major Customer Classes (MWs)			
Schedule	PacifiCorp 200 W/S	ICNU W/S	Delta
Schedule 16	302	302	0
Schedule 24	96	95	-1
Schedule 36	150	149	-1
Schedule 48T	107	107	0
Total:	655	653	-2

1 As shown by the above table, use of the W/S CP allocation factor—derived from 71
2 hours—results in virtually identical class demands for all other major customer classes as
3 compared to the Company study.

4 **Q. WHY DO YOU AGREE WITH PACIFICORP’S PEAK CREDIT**
5 **CLASSIFICATION CALCULATION?**

6 **A.** As explained in the pre-filed testimony of Mr. Paice, the Company does not use or rely
7 upon single cycle combustion turbines (“SCCT”) to serve peak loads in its western
8 control area. Consequently, the Company’s proposal to replace the SCCT peaking
9 resource with the Bonneville Power Administration Firm Capacity resource in the peak
10 credit calculation is appropriate. In addition, this modification makes the Company
11 approach to identifying the appropriate peaking resource consistent with the method
12 employed by Puget Sound Energy and Avista before this Commission.

13 **Q. HAVE YOU PERFORMED A COST-OF-SERVICE SENSITIVITY**
14 **INCORPORATING YOUR RECOMMENDED W/S CP SYSTEM ALLOCATION**
15 **FACTOR?**

16 **A.** Yes. The following table compares the revenue to cost ratio (or “parity ratio”) from the
17 Company’s study and the ICNU sensitivity study for the major customer classes. The
18 Commission has recognized for a substantial period of time that the parity ratio is the

1 most appropriate yardstick for determining whether the rate schedule charges are
 2 equitable to each customer class. It is a statistic that takes into account both the operating
 3 expenses and the rate base needed to serve each customer class. The relationship
 4 between operating expense and rate base will vary depending upon the utilization of
 5 facilities (or load factor) for each class. For example, a class with a low load factor will
 6 require a larger rate base investment relative to operating expense. On the other hand, a
 7 class with a high load factor will require more operating expense as compared to rate
 8 base investment. As the parity ratio includes both the return on rate base and the
 9 operating expenses of each class, it is the most accurate measure to use in rate spread
 10 determinations. A parity ratio less than 1.0 or 100% indicates a class is not paying its fair
 11 share of costs. Conversely, a ratio greater than 100% indicates the class is paying
 12 charges in excess of its cost responsibility.

Revenue to Cost Ratio Comparison Major Customer Classes (At Current Rates)		
	PacifiCorp	ICNU
Schedule	Study	Sensitivity
Sch 16	97%	97%
Sch 24	107%	107%
Sch 36	102%	102%
Sch 48	96%	96%
Sch 40	103%	104%

13 As shown by the table, the ICNU recommendations had a minor impact for the
 14 agricultural pumping service (Schedule 40) while the parity ratio for all other classes
 15 remained unchanged.

III. RATE SPREAD

1 **Q. HOW IS THE COMPANY PROPOSING TO RECOVER ANY REVENUE**
2 **INCREASE GRANTED BY THE COMMISSION IN THIS PROCEEDING?**

3 **A.** The Company proposal assigns the lighting class about one-fourth of the overall increase
4 with all other classes assigned the same percentage increase. Specifically, at the
5 Company's full request, the lighting class is assigned a 5% increase and the other classes
6 are assigned a 21% increase.

7 **Q. DO YOU SUPPORT THE COMPANY'S RATE SPREAD PROPOSAL?**

8 **A.** Yes. For many years, this Commission has used a number of considerations in
9 determining an equitable rate spread and has never moved all classes to the results of a
10 particular cost study. In fact, parties before this Commission have advocated a range of
11 reasonableness be applied to any cost study result in determining an equitable rate spread.
12 For example, in the past, Public Counsel has advocated that major customer classes
13 within a parity ratio range of 90% to 110% should receive the overall average system
14 increase. The cost-of-service evidence presented by the Company shows that all major
15 customer classes are within a parity ratio range of 96% to 107%. The Company's
16 proposal is consistent with past Commission practice of directing or approving equal
17 percentage increases for classes with similar parity ratio values. Further, the results of
18 the ICNU sensitivity supports the reasonableness of the Company's proposal.
19 Accordingly, the Company's rate spread proposal in this proceeding is appropriate for the
20 major customer classes and should be adopted by the Commission.

VI. SCHEDULE 48T RATE DESIGN

1 **Q. HOW IS THE COMPANY PROPOSING TO RECOVER THE REVENUE**
2 **INCREASE ASSIGNED TO SCHEDULE 48T CUSTOMERS?**

3 **A.** The Company’s Schedule 48T rate design increases all charges but the proposal increases
4 the energy charges by a larger percentage than the demand charges. Specifically, under
5 the Company’s full request, the energy charges are being increased by 24% while the
6 demand charges are increased by 17%.

7 **Q. DOES ICNU SUPPORT THIS RATE DESIGN PROPOSAL FOR SCHEUDLE**
8 **48T?**

9 **A.** No. The Company’s cost-of-service model aggregates the costs allocated to Schedule
10 48T into four categories that are extremely useful for rate design purposes. These
11 categories are: customer, load size (distribution related costs), energy, and demand. A
12 comparison of the per unit costs for the demand and energy categories from the cost
13 study with the per unit revenue recovery from the Schedule 48T demand and energy
14 pricing structure, provides valuable information on how to assign any schedule’s rate
15 increase. In the instant case, this comparison shows that in actuality—and contrary to the
16 Company’s proposal—the demand charges should be given a greater percentage increase
17 than the energy charges for Schedule 48T as shown by the following table.

Rate Design Comparison		
	Company Proposal	Cost-Based
Demand	17%	48%
Energy	24%	12%

1 **Q. WHAT IS YOUR SCHEDULE 48T RATE DESIGN RECOMMENDATION FOR**
2 **RECOVERING ANY REVENUE INCREASE IN THIS PROCEEDING?**

3 **A.** The Company's proposed 21% increase in this proceeding is extremely large. With this
4 great of an increase, it limits or restricts the ability to move towards a more cost-based
5 design due to individual customer impacts. For this proceeding, I recommend that all
6 Schedule 48T rate charges be increased by the same percentage. My rate design proposal
7 should also be made if the Commission grants a smaller (or no) rate increase. Under this
8 recommendation, every customer will receive the same percentage increase, an equitable
9 result in this instant proceeding.

10 **Q. IF THE COMPANY IS GRANTED APPROXIMATELY HALF OF ITS**
11 **PROPOSED REVENUE REQUIREMENT INCREASE, DOES THIS CHANGE**
12 **YOUR RECOMMENDATION?**

13 **A.** No. Even this revenue increase amount is a substantial increase in rate schedule charges.
14 Consequently, my rate design recommendation for Schedule 48T would not change.

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

16 **A.** Yes, it does.