

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	Docket Nos. UE-090134/
v.)	UG-090135 (<i>Consolidated</i>)
)	
AVISTA CORPORATION d/b/a)	
AVISTA UTILITIES,)	
)	
Respondent.)	
.....)	
)	
In the Matter of the Petition of)	
)	
AVISTA CORPORATION, d/b/a AVISTA)	Docket No. UG-060518
UTILITIES,)	(<i>Consolidated</i>)
)	
For an Order Authorizing Implementation of)	
a Natural Gas Decoupling Mechanism and to)	
Record Accounting Entries Associated With)	
the Mechanism.)	
_____)	

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

August 17, 2009

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’ve 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 Avista Utilities
16 (“Avista” or “Company”).

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

18 **A.** I will discuss the load research settlement agreement from Docket No. UE-070804,
19 Avista’s electric cost-of-service study presented as Exhibit No. ___ (TLK-4), the
20 Company’s proposed rate spread presented in Exhibit No. ___ (BJH-4) and Schedule 25
21 rate design. This testimony will not address revenue requirement issues, save for a brief

1 summary of a demonstrative exhibit I have sponsored. ICNU is submitting joint
2 testimony regarding cost of capital and other revenue requirement matters.

3 **Q. PLEASE BRIEFLY SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS**
4 **ADDRESSED IN THIS TESTIMONY.**

5 **A.** Pursuant to a settlement agreement in Docket No. UE-070804, the Company is in the
6 process of gathering updated load research data. Until that data can be analyzed and
7 reviewed, all customer classes should be assigned the average system increase resulting
8 from this proceeding. If, on the other hand, the Commission chooses to spread the
9 increase to customer classes using the results of a cost-of-service study, the demand
10 allocation factors used in the Company's base study should be modified to more
11 accurately assign cost responsibility. Specifically, the twelve monthly coincident peak
12 factor ("12CP") for assigning generation and transmission-related demand costs should
13 be replaced with a winter/summer peak factor. The twelve monthly non-coincident peak
14 factor ("12NCP") used by the Company for distribution-related demand costs should be
15 replaced with a class peak factor ("1NCP").

16 As noted, the ICNU rate spread recommendation is to give each class the system
17 average increase. If the Commission wishes to move classes closer to cost-based rate
18 levels, Schedules 31/32 should be given an increase that is five percentage points (5%)
19 greater than the system average and the additional revenue should be used to offset an
20 average increase assigned to Schedule 11/12 customers. All remaining classes should
21 receive the system average increase.

22 The Company's Schedule 25 rate design increases all energy charges by the same
23 percent (17.8%). However, the proposed percentage increases to the demand charges

1 reverses the historical declining price structure since the second block charge is increased
2 by 25% and the first block is only increased by 10%. The recommended ICNU design
3 maintains the historic declining demand charges and proposes some movement toward
4 cost-based voltage discounts and the tail block energy charge.

II. UE-070804 LOAD RESEARCH SETTLEMENT

Q. PLEASE EXPLAIN THE RELEVANCE OF LOAD RESEARCH DATA.

5 **A.** Load research data is the necessary foundation of any cost-of-service study. Most of the
6 meters installed for billing purposes do not have the capability to record customer usage
7 by time period (for example, at five minute intervals). Typical meters for residential
8 customers and small commercial customers simply record accumulated energy usage
9 (kilowatthours, or “kWhs”). The next most prevalent meters—installed for customers on
10 a tariff with demand charges—record the accumulated kWhs and the peak hourly value
11 for the billing period. Only for the largest customers—such as those on Schedule 25—
12 are “time-of-use” meters installed. These meters record energy usage at very small time
13 intervals—typically every five minutes. Consequently, it is necessary to undertake a load
14 research program and install time-of-use meters—generally through a sampling selection
15 process—to ascertain class demand levels and class contributions to system or local
16 peaks for almost all classes of customers. Absent this critical information, “guestimates”
17 must be made to derive the demand allocation factors used to assign class cost
18 responsibility within a cost-of-service study.
19

1 **Q. DOES AVISTA HAVE CURRENT LOAD RESEARCH INFORMATION FOR**
2 **ALL CUSTOMER CLASSES?**

3 **A.** No. As part of a settlement in UE-070804, Avista agreed to invest in a new load research
4 study to collect the necessary data and investigate the cost causality of the Company's
5 costs and the associated allocation of those costs within its cost-of-service study
6 ("Settlement Agreement"). The Settlement Agreement was approved by the Commission
7 in Order No. 5 in Docket No. UE-070804 (December 19, 2007).

8 **Q. HAS THIS EFFORT BEEN COMPLETED?**

9 **A.** No. As acknowledged in Exhibit No. ____ (TLK-1T), page 15, lines 1-2, the earliest the
10 analysis will be available is some time in 2010.

11 **Q. DOES THE ABSENCE OF THIS INFORMATION LIMIT THE USEFULNESS**
12 **OF THE COMPANY'S COST-OF-SERVICE RESULTS?**

13 **A.** I believe so. I have advocated that cost-of-service results should be used as the main
14 criterion for determining class revenue levels for many years. However, I am disinclined
15 to do so in the instant case because the load research data underlying the cost-of-service
16 study submitted by the Company is so stale—circa 1993—and new meaningful data is
17 just one year away. Prudence suggests waiting until the new data is available and has
18 been reviewed by all parties. Until that occurs, I recommend that all customer classes
19 receive the same percentage base rate increase.

20 **Q. HAVE PARTIES TO AVISTA'S RECENT PROCEEDINGS AGREED TO AN**
21 **EQUAL PERCENTAGE RATE SPREAD ALLOCATION?**

22 **A.** Yes. In recognition of the need to maintain the status quo until the new load data is
23 available, all parties in the Company's last two proceedings(Docket UE-070804 and UE-
24 080416) have agreed to use an equal percentage rate spread allocation. There is no

1 reason to adopt a different approach in this case.

2 **Q. AVISTA WITNESS TARA KNOX ARGUES THAT THE “CURRENT COST OF**
3 **SERVICE STUDY PROVIDES A SOUND FOUNDATION FOR RATE SPREAD/**
4 **RATE DESIGN PURPOSES IN THIS CASE.” EXHIBIT NO. ___ (TLK-1T),**
5 **PAGE 16. HER CONCLUSION IS BASED ON A SENSITIVITY STUDY THAT**
6 **ALLEGEDLY SHOWS THAT DEMAND DATA FROM A NEW LOAD STUDY**
7 **WOULD NOT LIKELY CHANGE THE PROPOSED ALLOCATION OF THE**
8 **REVENUE REQUIREMENT INCREASE. EXHIBIT NO. ___ (TLK-1T),**
9 **PAGES 15-26. CAN YOU RESPOND TO THIS ARGUMENT?**

10 **A.** The Company’s commitment in Docket UE-070804 was much more than simply
11 obtaining newer load research information. Specifically, the Settlement states:

12 “ . . . the Company agrees to prepare a new load study, and
13 will meet with and seek input from Commission Staff and
14 other interested parties prior to initiation of and during the
15 study. Additionally, the Company will further examine the
16 operating characteristics and associated costs of its electric
17 resources in conjunction with the allocation of costs within
18 its cost of service study. Finally, as part of the load study,
19 the Company will examine how rates should be designed to
20 properly allocate costs.”^{1/}

21 In presenting the sensitivity results, the Company has used their existing cost allocation
22 methods without producing any evidence on why these methods are still appropriate.

23 Until the Company produces analyses and evidence for all aspects of the Settlement
24 Agreement, ICNU recommends applying an equal percentage increase to all customer
25 classes.

^{1/} WUTC v. Avista, Docket Nos. UE-070804/UG-070805/UE-070311, Order No. 5 (December 19, 2007), Appendix A, Partial Settlement Stipulation, pages 3-4.

III. COST-OF-SERVICE PEAK DEMAND SELECTION

1 **Q. IF THE COMMISSION DISAGREES WITH YOUR RATE SPREAD**
2 **RECOMMENDATION, DO YOU HAVE ANY COMMENTS WITH REGARD TO**
3 **THE COMPANY’S COST-OF-SERVICE STUDY?**

4 **A.** Yes. I strongly disagree with the class demand allocation factors used by the Company in
5 its cost-of-service study.

6 **Q. HOW HAS AVISTA CALCULATED THE PEAK DEMANDS USED IN ITS**
7 **COST-OF-SERVICE STUDY?**

8 **A.** Avista’s study uses two basic demand (or peak) allocation factors for specific cost
9 assignments: class system coincident demands for generation and transmission costs and
10 class non-coincident demands for distribution costs. For each of these demands, Avista
11 derives the class value from all 12 months of a year (“12CP” and “12NCP”). Using this
12 average value dramatically understates the demand level of certain classes for two
13 reasons. First, giving each and every month equal weighting ignores the fundamental
14 driver of new generation, transmission or distribution investment. The need for these
15 facilities is determined based on the peak demands placed on the facility. Including other
16 irrelevant demands in the derivation of the class value simply causes a shift in cost
17 responsibility to other classes in the cost study. This latter point can be appreciated by
18 reviewing the following table containing the 12NCP data used by Avista for Schedule 1
19 to allocate distribution demand costs.

1

Table 1
Monthly Peaks for Schedule 1
(MW)

Month	NCP	Percent of Maximum
Jan	602	90%
Feb	670	100%
Mar	542	81%
Apr	533	79%
May	454	68%
Jun	371	55%
Jul	339	51%
Aug	465	69%
Sep	422	63%
Oct	366	55%
Nov	526	78%
Dec	539	80%
Average:	486	
Max:	670	

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Most of the months have demands substantially below the winter peak value that occurs in February. While distribution facilities typically have both a summer and winter capacity rating, the difference is far less than the almost two times factor between the winter and summer loads indicated in the above table. Thus, the inclusion of these irrelevant lower load months substantially understates the distribution demand related cost of serving this class. The following table compares Avista’s 12NCP demands with class 1 NCP demands I derived from Avista’s data. My recommended NCP class contributions contain class (or subclass) peaks from four months: January, February, August and September. It is readily apparent that use of a 12CP factor for distribution investment inappropriately shifts cost responsibility away from the very classes causing the demand costs to be incurred.

1

Table 2
Non-Coincident Demand Comparison
(MW)

Schedule	Avista 12NCP	ICNU 1NCP	Cost Responsibility	
			Avista	ICNU
Sch 1	486	670	45.8%	49.3%
Sch 11-12	93	112	8.8%	8.2%
Sch 21-22	317	382	29.9%	28.1%
Sch 25	135	144	12.7%	10.6%
Sch 31-32	23	45	2.2%	3.3%
Sch 41-49	7	7	0.6%	0.5%
Total:	1,061	1,360	100.0%	100.0%

2 To more accurately assess distribution demand cost responsibility, I recommend that the
3 ICNU class NCPs shown in the above table be used in the cost-of-service study.

4 **Q. ARE THERE LARGE DIFFERENTIALS IN THE MONTHLY SYSTEM PEAKS**
5 **AS WELL?**

6 **A.** Yes. The following table presents the monthly system peaks for Avista (both the states of
7 Washington and Idaho).

1

Table 3
Monthly System Peaks
(MW)

Month	CP	Percent of Maximum	Difference from Max
Jan	1,626	100%	0
Feb	1,438	88%	-188
Mar	1,322	81%	-304
Apr	1,282	79%	-344
May	1,182	73%	-444
Jun	1,508	93%	-118
Jul	1,447	89%	-179
Aug	1,570	97%	-56
Sep	1,185	73%	-441
Oct	1,294	80%	-332
Nov	1,448	89%	-178
Dec	1,529	94%	-97
Average:	1,403	86%	-223

2

The above table shows a dual peak with both the winter and summer peak months being relatively close to each other. However, there are many months when the associated peak is far below the winter and summer peak demand levels. These months should not be used in assigning system cost demand responsibility.

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The following table compares Avista's 12CP system class demands with the ICNU recommendation of using just the January and August peak demands for ascertaining production and transmission-related demand cost responsibility.

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8

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Table 4
Peak Demand Comparison
(MW)

Schedule	Avista 12CP	ICNU W/S CP	Cost Responsibility	
			Avista	ICNU
Sch 1	440	527	48.5%	50.6%
Sch 11-12	74	84	8.1%	8.0%
Sch 21-22	248	275	27.3%	26.4%
Sch 25	124	127	13.7%	12.2%
Sch 31-32	19	27	2.1%	2.6%
Sch 41-49	2	2	0.2%	0.1%
Total:	907	1,041	100.0%	100.0%

2 **Q. HAVE YOU PREPARED A COST-OF-SERVICE STUDY INCORPORATING**
3 **YOUR PEAK DEMAND RECOMMENDATIONS?**

4 **A.** Yes. Attached as Exhibit No. ____ (DWS-3) are the summary page results from a study I
5 prepared with my recommended peak demand allocation factors. The following table
6 compares the revenue to cost ratio (or “parity ratio”) from the Company’s study and the
7 ICNU recommended study. The parity ratio is the most appropriate yardstick for
8 determining whether the rate schedule charges are equitable to each customer class. A
9 ratio less than 1.0 or 100% indicates a class is not paying its fair share of costs.
10 Conversely, a ratio greater than 100% indicates the class is paying charges in excess of its
11 cost responsibility.

1

**Table 5
Revenue to Cost Ratio
Comparison
(At Current Rates)**

Schedule	Avista Study	ICNU Study
Sch 1	92%	91%
Sch 11-12	126%	128%
Sch 21-22	110%	112%
Sch 25	91%	92%
Sch 31-32	95%	85%
Sch 41-49	107%	110%
Total:	100%	100%

2

As shown by the table, the peak demand recommendations had a relatively minor impact

3

except for the pumping service schedules (31/32). For this class, there was an

4

appreciable change as the parity ratio went from 95% down to 85%.

V. RATE SPREAD

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Q. HOW IS AVISTA PROPOSING TO SPREAD THE RATE INCREASE?

6

A. As explained in Exhibit No. ____ (BJH-1T), the Company is proposing to spread the

7

increase to the base rates of the various customer classes using the results of its cost study

8

as a guide. The Company’s class specific base rate increases are presented in the

9

following table.

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Table 6
Avista Base Rate Increase
Proposal
(Dollars 000s)

Schedule	Amount	Percent
1	\$31,647	18.5%
11	\$6,264	15.0%
21	\$20,956	17.7%
25	\$8,318	18.1%
31	\$1,517	17.8%
41-48	\$1,061	18.7%
Total:	\$69,762	17.8%

2 **Q. HOW DO YOU RECOMMEND ANY INCREASE RESULTING FROM THIS**
3 **DOCKET BE SPREAD?**

4 **A.** As previously noted, ICNU recommends allocating any increase on an equal percentage
5 basis. The following table compares this recommendation with the Company’s proposal.

6

Table 7
Rate Spread Comparison
ICNU Equal Percent Recommendation
(Dollars 000s)

Schedule Number	Avista		ICNU Equal %		Difference Amount
	Amount	Percent	Amount	Percent	
1	\$31,647	18.5%	\$30,475	17.8%	-\$1,172
11	\$6,264	15.0%	\$7,465	17.8%	\$1,202
21	\$20,956	17.7%	\$21,077	17.8%	\$121
25	\$8,318	18.1%	\$8,214	17.8%	-\$103
31	\$1,517	17.8%	\$1,517	17.8%	\$0
41-48	\$1,061	18.7%	\$1,013	17.8%	-\$49
Total:	\$69,762	17.8%	\$69,762	17.8%	\$0

7 The ICNU recommendation results in most general service classes (Schedules 11 through
8 22) receiving a slightly larger increase while Schedules 1, 25 and 41-48 receive a slightly
9 lower increase.

1 **Q. IF THE COMMISSION CHOOSES TO MOVE RATES CLOSER TO COST-OF-**
2 **SERVICE, HOW WOULD YOUR RATE SPREAD RECOMMENDATION**
3 **CHANGE?**

4 **A.** Based on the results of the ICNU cost study, I would recommend giving an above
5 average increase to the pumping customers and a below average increase to the small
6 general service customers. An increase that is 5 percentage points higher than the system
7 average would bring the Schedule 31/32 parity ratio to about 90%, making it reasonably
8 aligned with all other customer classes. The additional revenue provided by Schedule
9 31/32 allows the small general service class (Schedule 11) to receive an increase only
10 slightly lower than the system average. I believe this is appropriate until all parties can
11 fully examine the results of the Company's studies called for under the Settlement
12 Agreement. All other customers should receive the system average increase. The
13 following table presents this rate spread comparison with the Company's proposal.

14 **Table 8**
Rate Spread Comparison
ICNU Cost Based Recommendation
(Dollars 000s)

Schedule	Avista		ICNU Cost Based		Difference
Number	Amount	Percent	Amount	Percent	Amount
1	\$31,647	18.5%	\$30,475	17.8%	-\$1,172
11	\$6,264	15.0%	\$7,040	16.8%	\$777
21	\$20,956	17.7%	\$21,077	17.8%	\$121
25	\$8,318	18.1%	\$8,214	17.8%	-\$103
31	\$1,517	17.8%	\$1,942	22.8%	\$425
41-48	\$1,061	18.7%	\$1,013	17.8%	-\$49
Total:	\$69,762	17.8%	\$69,762	17.8%	\$0

VI. SCHEDULE 25 RATE DESIGN

1 **Q. HOW IS THE COMPANY PROPOSING TO MODIFY THE SCHEDULE 25**
2 **CHARGES?**

3 **A.** As shown by the following table, the Company proposal increases every energy charge
4 by 17.8%. For the various demand charges and voltage credits, the Company has not
5 used a uniform percentage.

6 **Table 9**
Schedule 25 Base Rate Design Comparison

	Avista	Avista	Percent
	Current	Proposed	Change
Demand			
First 3,000	\$10,000	\$11,000	10.0%
Excess	\$3.00	\$3.75	25.0%
Energy			
First 500k	4.833	5.691	17.8%
Next 5,500k	4.348	5.12	17.8%
Over 6,000k	4.117	4.848	17.8%
Discounts			
11 kV	(\$0.20)	(\$0.20)	0.0%
60 kV	(\$0.80)	(\$0.80)	0.0%
115 kV	(\$1.00)	(\$1.00)	0.0%

7 Of particular note, the relatively low increase proposed for the first 3,000 kVa demand
8 charge has caused the effective rate for this block to be lower than the “excess” demand
9 charge (\$3.67 versus \$3.75 per kVa). This “inverted” rate design is a significant step
10 away from the historical practice of having declining block demand charges. For
11 example, under current rates, the effective price for the first block is \$3.33/kVa and all
12 “excess” demand is at \$3.00/kVa. In addition, the Company has not proposed any
13 modification to the three voltage discounts. Taken together, this proposal penalizes
14 larger, higher load factor customers on this schedule.

1 **Q. IS THE COMPANY'S SCHEDULE 25 RATE DESIGN COST BASED?**

2 **A.** No. For many years, the Company's per unit cost-of-service results have shown the
3 demand charges are too low and the energy charges are too high. Consequently, for
4 many years, larger high load factor customers have been paying too much relative to
5 other customers on this schedule. In addition, the 11 kV voltage discount is virtually
6 meaningless since, in my opinion, every customer is essentially served at primary
7 voltage. (The lowest Schedule 25 delivery voltage is 4,000 kV, which all other utilities
8 that I am aware of consider to be a primary delivery voltage.)

9 **Q. WHAT RECOMMENDATIONS DO YOU HAVE FOR SCHEDULE 25 PRICING?**

10 **A.** I have several recommendations to improve the Company's proposed rate design. First,
11 the first 3,000 kVa demand price should be increased to maintain a declining price
12 demand charge structure. Second, the per unit cost results presented in Exhibit No. ____
13 (DWS-3) indicate that larger sub-transmission (60 kV and higher) and transmission
14 (above 115 kV) discounts are warranted. Third, the intra-class subsidy from larger,
15 higher load factor customers to smaller customers should be eliminated by reducing the
16 increase to the tail block energy rate and increasing further the second energy block.

17 **Q. HAVE YOU PREPARED RECOMMENDED SCHEDULE 25 CHARGES**
18 **INCORPORATING ALL THESE CONCEPTS?**

19 **A.** Yes. The following table shows my recommended rate structure for a targeted average
20 system increase to Schedule 25 under the Company's full request.

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Table 10
Schedule 25 Rate Design Comparison

	Avista Current	ICNU Proposal	Percent Change
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Demand			
First 3,000	\$10,000	\$11,490	14.9%
Excess	\$3.00	\$3.75	25.0%
Energy			
First 500k	4.833	5.691	17.8%
Next 5,500k	4.348	5.186	19.3%
Over 6,000k	4.117	4.665	13.3%
Discounts			
11 kV	(\$0.20)	(\$0.20)	0.0%
60 kV	(\$0.80)	(\$1.00)	25.0%
115 kV	(\$1.00)	(\$1.20)	20.0%

2 **Q. HOW WOULD YOU PROPOSE TO DESIGN THE SCHEDULE 25 CHARGES IN**
3 **THE EVENT THE COMPANY IS GRANTED LESS REVENUE THAN IT HAS**
4 **REQUESTED?**

5 **A.** My recommended demand charges and voltage discounts should be retained. The energy
6 charges should be lowered to achieve the class revenue target in such a way as to
7 eliminate the intra-class subsidy. This should be done by setting the second and third
8 block energy charges at the correct level as I have illustrated in the above table.

VII. REVENUE REQUIREMENT

1 **Q. ARE YOU ALSO SPONSORING EXHIBIT NO. ____ (DWS-4), CONCERNING**
2 **AVISTA’S REVENUE REQUIREMENT?**

3 **A.** Yes. In Exhibit No. ____ (EMA-2), Avista filed general revenue requirement calculations.
4 In Exhibit No. ____ (DWS-4), I have replaced the company’s values in that exhibit with
5 power supply adjustments proposed by Staff witness Alan P. Buckley and myself, and
6 return on common equity and cap structure recommendations proposed by Public
7 Counsel and ICNU witness Michael P. Gorman. These result in a \$32 million reduction
8 in Avista’s electric revenue requirement. I am submitting Exhibit No. ____ (DWS-4) to
9 demonstrate the effect of these recommendations.

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

11 **A.** Yes, it does.