

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	Docket No. UE-090134
TRANSPORTATION COMMISSION,	)	
Complainant,	)	Docket No. UG-090135
	)	
v.	)	Docket No. UG-060518
	)	
AVISTA CORPORATION d/b/a	)	
AVISTA UTILITIES,	)	
Respondent.	)	
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**DIRECT TESTIMONY OF DONALD W. SCHOENBECK  
ON BEHALF OF  
THE NORTHWEST INDUSTRIAL GAS USERS**

**August 17, 2009**

**I. 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, Washington 98660.

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

A. I've been involved in the electric and gas utility industries for over 35 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 Washington Utilities and Transportation Commission (the "Commission") on many occasions since 1982. A further description of my educational background and work experience can be found in Exhibit \_\_\_\_ (DWS-2) in this proceeding.

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

A. I am testifying on behalf of the Northwest Industrial Gas Users ("NWIGU"). NWIGU is a non-profit trade association whose members are large industrial customers served by local distribution utilities throughout the Pacific Northwest, including Avista Utilities ("Avista" or "Company").

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

A. I will discuss the gas cost-of-service study presented as Exhibit \_\_\_\_ (TLK-7), the Company's proposed rate spread presented in Exhibit \_\_\_\_ (BJH-7) and Schedule 146 rate design. This testimony will not address revenue requirement issues.

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

A. NWIGU supports the allocation of distribution mains used in the Company's cost-of-service study. The Company's segregation of distribution mains by size and in conjunction with class specific direct assignment is appropriate and consistent with past

studies performed by the Company. However, the demand allocation factor used in the Company's cost study should be modified to more accurately assign cost responsibility. Specifically, the three year-five day coincident peak demand factor ("15CP") for assigning demand-related costs should be replaced with a peak factor that takes into account the current number of customers and peak weather conditions.

The Company's rate spread proposal is based on its cost-of-service results. Classes with revenue to cost ratios less than 1.0 (or 100%) are given increases greater than the system average while the two classes with parity ratios greater than 1.0 are assigned increases less than the system average. Moving rates closer to cost is appropriate, and NWIGU supports the Company's rate spread proposal.

The Company's Schedule 146 rate design proposal increases every volumetric charge by the same percent (7.1%) while leaving the basic charge at its current level (\$200/month). NWIGU recommends that every charge—including the basic charge—be increased by the same percentage.

## **II. COST-OF-SERVICE**

**Q. HAS THE COMPANY USED THE SAME METHODS IN DETERMINING CLASS COST RESPONSIBILITY AS IT HAS DONE IN PRIOR PROCEEDINGS?**

**A.** Yes. As explained in Exhibit \_\_\_\_ (TLK-1T) pages 28 and 29, the Company's cost study uses the same methods as the last rate case. Further, the Company's segregation and allocation of distribution mains—a primary cost component—has been done in this same consistent manner for many years.

**Q. DO YOU AGREE WITH THE COMPANY'S METHOD OF ALLOCATING DISTRIBUTION MAINS?**

**A.** Yes. I agree with the Company's segregation of main investment into two groups based upon the diameter of the main: mains less than four inches and mains that are four inches

or larger. Larger customers are not assigned the cost of the smaller mains except through a direct assignment. This approach is appropriate and cost based as large customer loads cannot be met through smaller mains.

**Q. ARE THERE ASPECTS OF THE COST-OF-SERVICE STUDY WHERE YOU DISAGREE WITH THE COMPANY’S METHOD?**

**A.** Yes. The Company’s peak demand allocation factor is based upon the estimated class contributions to a “five-day sustained peak” for the last three heating seasons. I will refer to this demand allocator as a fifteen day coincident peak (“15CP”).

**Q. HOW HAS AVISTA CALCULATED THE 15CP CLASS DEMANDS USED IN ITS COST-OF-SERVICE STUDY?**

**A.** Avista first identifies the five day period in each of the last three heating seasons that contained the highest average load. The following table presents the Washington loads for these fifteen days along with the associated heating degree days (“HDD”). HDD indicate how the average daily temperature differs from 65 degrees Fahrenheit. The weather experienced during the fifteen day historical period was just 53 HDD, indicating an average temperature of 12 degrees.

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### Avista's 15CP Peak Day

Date	HDD	Peak Therms	Percent of Maximum
12/14/2005	45	1,486,286	81%
12/15/2005	53	1,624,863	89%
12/16/2005	52	1,646,112	90%
12/17/2005	53	1,585,429	87%
12/18/2005	51	1,569,030	86%
1/11/2007	49	1,643,676	90%
1/12/2007	59	1,791,155	98%
1/13/2007	59	1,824,795	100%
1/14/2007	62	1,758,375	96%
1/15/2007	56	1,734,612	95%
1/20/2008	44	1,491,534	82%
1/21/2008	53	1,662,350	91%
1/22/2008	55	1,716,915	94%
1/23/2008	55	1,728,909	95%
1/24/2008	51	1,610,514	88%
<b>Average:</b>	<b>53</b>	<b>1,658,304</b>	<b>91%</b>
<b>2005 Avg:</b>	<b>51</b>	<b>1,582,344</b>	<b>87%</b>
<b>2007 Avg:</b>	<b>57</b>	<b>1,750,523</b>	<b>96%</b>
<b>2008 Avg:</b>	<b>52</b>	<b>1,642,044</b>	<b>90%</b>

Avista then estimates the class contributions to these daily demand levels based upon available customer specific load data and peak load equations (using number of customers and heating degree days to project the expected class peak). Any difference between the actual peak experienced and the sum of the class estimated peaks (termed by Avista as a "loss and estimation error") is assigned to those classes that were estimated using the forecast equations.

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**Q. WHY DO YOU DISAGREE WITH THE COMPANY'S USE OF AN HISTORICAL 15CP FACTOR?**

**A.** Investment in a distribution delivery system is driven by the ability to serve all firm loads under peak load or cold weather conditions. For planning purposes, Avista uses a five day sustained peak that averages 68 HDD or an average temperature of minus three degrees for the Spokane area as shown by the following table. (Source: 2007 Natural Gas Integrated Resource Plan). This severe weather condition is reasonable considering that every winter month has experienced a low temperature of at least minus 21 degrees (November: -21; December: -25; January: -30; and February: -24). Under these temperature conditions, little if any interruptible load would be served.

<b>Planning HDD</b>	
<b>Day</b>	<b>HDD</b>
1	62
2	72
3	82
4	67
5	57
Average:	68

The historical temperatures used by the Company for the 15CP allocator averaged just 53 degrees or just 78% of the planning value. The HDD during the past three heating seasons are far too low to use for accurately assigning class peak load cost responsibility. Consequently, using class load estimates from this historical period dramatically understates the firm loads and overstates the interruptible loads that would be served under the peak planning weather conditions.

There is another aspect of the Company's approach that understates the test period peak demand responsibility. The 15CP allocator uses actual customer counts from the historical period in estimating class contribution levels. The following table presents the number of customers the Company has used in its peak demand estimation process.

**Customer Counts**

<b>Class</b>	<b>Dec 05</b>	<b>Jan 07</b>	<b>Jan 08</b>	<b>Difference</b>
Residential 101	123,861	127,286	129,776	5,915
Commercial 101	11,283	11,410	11,689	406
Industrial 101	92	86	92	0
Residential 111/112	232	251	237	5
Commercial 111/112	1,879	1,918	1,973	94
Industrial 111/112	50	40	44	-6
Commercial 121/122	23	26	27	4
Industrial 121/122	7	6	5	-2
Total:	137,427	141,023	143,843	6,416

By using these actual customer counts, the class demand contributions are too low simply because they do not adjust for the customer growth that has occurred over this three year period in order to match the test period values.

**Q. HAVE YOU PREPARED ALTERNATE CLASS DEMAND LEVELS THAT TAKE INTO ACCOUNT MORE PEAK LIKE CONDITIONS?**

**A.** Yes. I have calculated estimated class contributions using the January 2008 customer counts and 68 HDD reflecting the sustained peak planning measure. To be conservative, I have not altered the 15CP demands used by the Company for the large customer classes. That is, I assumed the interruptible load levels served during the historical period would continue to be met under much colder weather conditions. The following table compares the 15CP class demands with the more normalized demands I have calculated.

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**Peak Demand Comparison  
(Therms)**

Schedule	Avista	NWIGU	Difference
	15CP	CP	
101	974,271	1,151,564	177,294
111/112	363,757	425,739	61,982
121/122	36,314	42,644	6,330
131/132	3,291	3,291	0
146	117,088	117,088	0
148	163,583	163,583	0
Total:	1,658,304	1,903,909	245,606

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

A. Yes. Attached as Exhibit \_\_\_ (DWS-6) are the summary page results from a study I prepared with my recommended peak demand allocation factor. The following table compares the revenue to cost ratio (or “parity ratio”) from the Company’s study and the NWIGU recommended study. The parity ratio is the most appropriate yardstick for determining whether the rate schedule charges are equitable for each customer class. A ratio less than 1.0 or 100% indicates a class is not paying its fair share of costs. Conversely, a ratio greater than 100% indicates the class is paying charges in excess of its cost responsibility.

Schedule	Parity Ratio	
	Avista Study	NWIGU Study
101	100%	100%
111/112	99%	99%
121/122	97%	98%
131/132	101%	104%
146	105%	110%
Total:	100%	100%



As shown by the table, the peak demand recommendations had a relatively minor impact except for Schedule 146. For this class, there was an appreciable change as the parity ratio went from 105% up to 110%.

### **III. RATE SPREAD**

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

**A.** As explained in Exhibit \_\_\_\_ (BJH-1T), the Company is proposing to spread the increase to the base rates of the various customer classes using the results of its cost study as a guide. The Company's class specific margin increases are presented in the following table.

<b>Avista Rate Spread Proposal (\$000s)</b>				
<b>Schedule</b>	<b>Current Margin</b>	<b>Proposed Increase</b>	<b>Percent Increase</b>	<b>Percent of Overall</b>
Sch 101	\$39,606	\$3,587	9.1%	94%
Sch 111	\$8,848	\$1,082	12.2%	127%
Sch 121	\$879	\$132	15.1%	156%
Sch 131	\$65	\$5	8.3%	86%
Sch 146	\$1,696	\$116	6.9%	71%
Total:	\$51,094	\$4,923	9.6%	100%

**Q. DOES NWIGU SUPPORT THIS RATE SPREAD PROPOSAL?**

**A.** Yes. The Company's proposal recognizes the need to move rate schedule revenue responsibility toward the cost study results. NWIGU fully supports the proposal in this instant docket.

**IV. SCHEDULE 146 RATE DESIGN**

**Q. HOW IS THE COMPANY PROPOSING TO MODIFY THE SCHEDULE 146 CHARGES?**

**A.** As shown by the following table, the Company is proposing to increase all volumetric charges by the same percent of 7.1%. The Company is not proposing to modify the basic charge.

**Schedule 146 Rate Comparison**

	<b>Current</b>	<b>Proposed</b>	<b>Percent Increase</b>
Basic Charge:	\$200.00	\$200.00	0.0%
First 20,000	7.465¢	7.995¢	7.1%
Next 30,000	6.646¢	7.118¢	7.1%
Next 250,000	5.996¢	6.422¢	7.1%
Next 200,000	5.548¢	5.942¢	7.1%
Over 500,000	4.180¢	4.477¢	7.1%

**Q. IS THE COMPANY'S SCHEDULE 146 RATE DESIGN REASONABLE?**

**A.** NWIGU recommends a modest change to the Company's Schedule 146 rate design proposal. The Company's cost-of-service indicates a per unit customer cost of over \$700 per month (see Exhibit \_\_\_\_ (TLK-7, page 3 of 3, line 22)). As the existing basic charge is far below this level, NWIGU recommends an equal percentage increase be applied to all Schedule 146 charges, including the basic charge.

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

**A.** Yes, it does.