

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.)	
)	
_____)	

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

November 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. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
6 **PROCEEDING?**

7 **A.** Yes. I submitted responsive testimony on behalf of the Industrial Customers of
8 Northwest Utilities (“ICNU”) on October 5, 2010 in this proceeding.

9 **Q. WHAT IS THE PURPOSE OF THIS CROSS ANSWERING TESTIMONY?**

10 **A.** I will address the rate spread proposals submitted by Mr. Tom Schooley on behalf of the
11 staff of the Washington Utilities and Transportation Commission (the “Commission”)
12 Staff and Mr. Steve Chriss on behalf of Wal-Mart Stores and Sam’s West, Inc.
13 (“Walmart”).

14 **Q. PLEASE SUMMARIZE YOUR CONCLUSION FROM HAVING REVIEWED THE**
15 **STAFF AND WALMART RATE SPREAD TESTIMONY.**

16 **A.** The Staff rate spread proposal is inconsistent with the Commission’s decisions regarding
17 rate spread for the past many years. Accordingly, Staff’s proposal should not be adopted
18 by the Commission. The Walmart rate spread proposal is very close to the Company’s
19 approach with deviations of less than plus or minus 0.1% for all rate schedules. While
20 the difference between the Walmart and Company proposals is very minor, I continue to
21 recommend the Commission adopt the Company’s rate spread proposal for the same
22 reasons that the Staff proposal should be rejected.

II. RATE SPREAD ANALYSIS

1 **Q. HAVE YOU REVIEWED THE RATE SPREAD TESTIMONY SUBMITTED BY**
2 **THE PARTIES IN THIS PROCEEDING?**

3 **A.** Yes. I reviewed and analyzed the Staff and Walmart testimony addressing cost-of-
4 service and rate spread matters. Staff accepts the Company's cost study stating it "fairly
5 presents the costs imposed on the system by the customers on each rate schedule."^{1/} Staff
6 then uses the cost-of-service study as the primary basis for its rate spread proposal.
7 Walmart's prefiled testimony does not include a comparable supportive statement with
8 regard to the Company's cost-of-service study. It states:

9 Walmart does not take a position on the Company's proposed cost of service
10 model at this time, and to the extent that alternative cost of service models or
11 modifications to the Company's model are proposed by other parties, Walmart
12 reserves the right to address any such changes in rebuttal testimony.^{2/}

13 However, Walmart's rate spread proposal presented on pages 4 through 7 of Exhibit No.
14 ___ (SWC-1T) appears to be based on the Company's cost of service study, indicating at
15 least tacit support for the study.

16 **Q. HAVE YOU PREPARED AN EXHIBIT COMPARING THE VARIOUS RATE**
17 **PROPOSALS IN THIS PROCEEDING?**

18 **A.** Yes. Exhibit No. ___ (DWS-4) compares the Company proposal (supported by ICNU)
19 with the Staff and Walmart proposals under an illustrative \$35 million increase amount.
20 This exhibit indicates a much broader range of class increases relative to the average
21 system increase under the Staff proposal (8% to 114%) as compared to the other two
22 proposals (24% to 101%).

^{1/} Exhibit No. ___ (TES-1T) page 29, lines 13 and 14.

^{2/} Exhibit No. ___ (SWC-1T) page 3, lines 15 to 18.

1 **Q. DO YOU AGREE WITH STAFF'S RATE SPREAD PROPOSAL?**

2 **A.** Not at this time. For many years, this Commission has rejected the mechanical
3 application of deriving cost-based increases from a single cost of service study in
4 recognition of the disputes that arise over such studies, the imprecision that is inherently
5 part of such studies, and the fact that the cost studies are generally performed at the full
6 revenue increase requested by the utility and not updated to reflect the actual cost levels
7 allowed by the Commission. So for many years, the Commission and the parties have
8 relied on a “range of reasonableness” in interpreting and applying the results of cost
9 studies. As noted in my direct testimony, applying this historic policy in this instant
10 proceeding justifies and supports the Company’s rate spread proposal. Most of the major
11 classes are within just a few percentage points of a cost-based level under the Company’s
12 study. Only one class—the lighting class—is well above the calculated cost assignment.
13 In this instant proceeding, the Company has correctly proposed that the lighting class
14 receive a modest increase (only 24% of the average increase) and, as all other classes are
15 relatively close to parity, the Company has applied an equal increase to all other classes.
16 If this Commission is now going to move to a policy where it will use a single cost study
17 to derive cost based class increases or decreases for classes that are just one, two or three
18 percent from a cost study result, all parties should be given adequate notice. For
19 example, if I had known of such a revised policy, I would have certainly recommended
20 additional adjustments to the Company’s study. Accordingly, the Commission should
21 not adopt the Staff’s rate spread approach in this proceeding.

1 **Q. DO YOU AGREE WITH WALMART'S RATE SPREAD PROPOSAL IN THIS**
2 **PROCEEDING?**

3 **A.** No. While I certainly recognize that the Walmart proposal is very close to the
4 Company's approach, I disagree with its acceptance by the Commission for the exact
5 same reasons I stated with regard to the Staff's proposal. Further, I find the Walmart
6 proposal somewhat disingenuous. On the one hand, Walmart disavows support for the
7 Company's cost study but yet on the other hand, points to it to justify the Walmart rate
8 spread proposal. The Walmart proposal should be rejected by the Commission.

9 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

10 **A.** Yes, it does.