BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

NORTHWEST NATURAL GAS COMPANY

DOCKET NO.: UE-991606
DOCKET NO.: UG-991607

DIRECT TESTIMONY

OF

DONALD W. SCHOENBECK

ON BEHALF OF

NORTHWEST INDUSTRIAL GAS USERS

May 4, 2000

Exhibit T-_____

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
Docket No. UG-991607

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 1000, Vancouver, WA 98660.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I've been involved with the electric and gas utility industry for over 25 years. For the majority of this time, I have provided consulting services for large industrial customers addressing regulatory and contractual matters before numerous state commissions, public utility governing boards, governmental agencies, state and federal courts, the National Energy Board of Canada and the Federal Energy Regulatory Commission. I have appeared before the Washington Utilities and Transportation Commission (Commission) at least 20 times since 1982. A further description of my educational background and experience is included in Appendix A to my testimony submitted on behalf of Industrial Customers of Northwest Utilities in UE-991606.

Q. ON WHOSE BEHALF ARE YOU PRESENTING THIS TESTIMONY?

A. This testimony is submitted on behalf of the Northwest Industrial Gas Users (NWIGU). NWIGU is a nonprofit association comprised of large industrial

customers served by gas utilities throughout the Northwest, including Avista Utilities.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. The testimony addresses the design of Schedules 146 and 121. The testimony recommends modifications to the design of these schedules that address the Company's migration concern and, at the same time, reduces the substantial increase some Schedule 146 customers would experience under the Company's proposed rate level and charges.

The NWIGU rate design recommendations are based upon the Company's claimed revenue requirement and proposed rate spread. This should not be construed as an endorsement of the Company's filing. I have simply used the Company's proposed class revenue responsibility to allow for a straightforward comparison of the difference in rate designs between the Company and NWIGU. NWIGU testimony on rate spread is addressed in a separate document jointly sponsored by NWIGU, WUTC Staff and Public Counsel.

Q. PLEASE EXPLAIN THE COMPANY'S MIGRATION CONCERN AND ITS PROPOSED SOLUTION.

A. The Company is concerned with the potential for reduced margins from eighteen sales customers shifting to transportation service. Four of these customers receive sales service under Schedule 111 while the other fourteen customers are on Schedule 121. Analyzing just the margin

provided by these customers under the sales tariffs, the Company believes the exposure is $139,739 at current rates as compared to the margin that would be paid for transportation service under Schedule 146. Of this amount, $70,384 is attributable to the four Schedule 111 customers and $69,355 to the fourteen Schedule 121 customers.

As a result of this analysis, the Company is proposing to redesign Schedule 146 adding two rate blocks as shown by the following table, along with the corresponding charge.

Schedule 146 Comparison
(Volumetric Charges Cents/Therm)

Current Rate		Proposed Rate	
Customer	$164.88	Customer	$200.00
Volumetric First 500,000	4.864	First 10,000	8.95
Over 500,000	3.470	Next 40,000	6.40
		Next 450,000	4.30
		Over 500,000	3.50

In performing the same migration analysis under the proposed rate charges of Schedule 111, 121 and 146, the Company's calculated exposure is reduced to $91,483 under this Schedule 146 design.

Q. DO YOU AGREE WITH THE ANALYTICAL METHOD USED BY THE COMPANY TO QUANTIFY THE POTENTIAL MIGRATION LOSS?

A. No. In evaluating transportation service, a customer will consider both the transportation charges and the cost of the commodity he would now have to procure in lieu of the gas supplied under the otherwise applicable sales

tariff. In other words, the customer's evaluation would look at the total financial impact of switching from sales to transportation service. Since the Company's analysis ignored gas supply costs, it does not represent a reasonable estimate of migration potential or risk.

Q. WHAT ANALYSIS CAN BE DONE TO DETERMINE IF A CUSTOMER CAN ACHIEVE SAVINGS BY SWITCHING FROM SALES TO TRANSPORTATION SERVICE?

A. The most straight forward method is for the customer to contact any of the numerous gas marketers and request a service proposal. This simple and direct approach may well immediately reveal cost savings as some bidders will compare their proposal with the otherwise applicable local distribution company (LDC) charges. If this comparison is not provided, the customer can readily estimate the savings or penalty by comparing his expected cost under sales service to the supplier's bid. Since this is so easy to do, I suspect many, if not all, of the customers the Company has identified have undertaken this effort. The fact that the customers continue to receive sales service—years after Schedule 146 was first offered-- suggests the economic savings (if any) are inadequate to cause a change to transportation service. Hence, the Company's concern over the possible migration of these customers is probably unfounded.

By simply reviewing the monthly use of the customer one can obtain some indication of whether a customer has an economic incentive to switch

from sales to transportation service. If a sale customer's monthly usage is relatively flat or skewed toward the off-peak season of the company, the potential for gas savings may exist. If, on the other hand, the usage pattern is skewed toward the LDC's peak season, gas savings from switching to transportation service are unlikely or will be very limited.

Q. WHY?

A. Washington LDCs recover gas commodity costs through an annual determination or charge. This annual determination reflects the weighed average cost of gas for all sales customers. Since the overall seasonal pattern of these customers is heavily skewed to the peak heating season, the LDC's cost of gas is more weighed toward the market's peak period prices. Consequently, if a sales customer has the same general consumption pattern as the average LDC sales customer, cost savings from shifting to transportation service is not likely.

Q. DO ANY OF THE CUSTOMERS THE COMPANY HAS IDENTIFIED EXHIBIT A HEAVY PEAK SEASON USAGE PATTERN?

A. Yes. Three of the Schedule 111 customers exhibit a heavy seasonal usage pattern while the fourth customer has a more modest seasonal pattern. The aggregate seasonal pattern is shown in the following table using two methods. The first method shows the percentage of annual consumption used in each month for these four customers. Note that during the five winter months of November through March, 65% of the annual gas is

consumed leaving just 35% for the remaining seven months. For a flat pattern, these amounts would have been 42% during the winter period and 58% during the summer period. The second measure shows the ratio of the gas used in a particular month divided by the gas used in the lowest month. In this instance, the month with the lowest use is August. The gas used in the winter months is about five times the level used in the lowest month.

Either measure indicates a very high seasonal usage pattern for these customers. The usage pattern should really be of no surprise since the gas consumed by two of the four customers, accounting for 65% of the usage, is for residential housing. This simple fact, coupled with the load shape analysis indicates these customers are simply not good candidates for transportation service. Therefore, the Company's expressed concern over the possible margin loss from the migration of the Schedule 111 customers is unwarranted.

Schedule 111
Four Customer
Usage Pattern

Month	Monthly Usage	Ratio of Month's Use to Low Month
January	12.8%	4.8
February	15.4	5.8
March	13.0	4.9
April	8.3	3.1
May	7.0	2.6
June	3.6	1.4
July	2.8	1.1
August	2.7	1.0
September	3.5	1.3
October	6.6	2.5
November	12.4	4.7
December	11.7	4.4

Q. IS THE LOAD PATTERN OF THE FOURTEEN SCHEDULE 121 CUSTOMERS SIMILAR TO THE FOUR SCHEDULE 111 CUSTOMERS?

A. No. The consumption pattern of the identified Schedule 121 customers is relatively flat and similar to the pattern of the existing Schedule 146 transportation customers. The average usage of these customers is about 400,000 therms per year, a value similar to many of the current transportation customers on Schedule 146. Accordingly, transportation may—but not necessarily—be an economic opportunity to these customers.

Q. DO YOU SUPPORT THE COMPANY'S PROPOSED REDESIGN OF SCHEDULE 146 TO ADDRESS THE POSSIBLE MIGRATION OF THESE CUSTOMERS FROM SCHEDULE 121?

A. I do not believe the schedule should be redesigned simply to address a possible loss of margin from the migration of customers from sales service to transportation service. I do, however, support the redesign of rate schedules such that the revenue recovered from customers of similar size and usage characteristics would pay the same rate for the cost the Company incurs for delivering the gas, whether it is Company supplied gas or customer-owned gas. It is for this reason, I am in partial agreement with the Company's proposed redesign of Schedule 146.

Q. WHAT ARE YOUR COMMENTS WITH REGARD TO THE COMPANY'S PROPOSED REDESIGN OF SCHEDULE 146?

A. While I agree that additional rate blocks should be introduced for Schedule 146, the Commission should not accept the Company proposal due to its impact on individual customers. In addition, the Company's concern over the potential loss of margin revenue if customers were to migrate from Schedule 121 to Schedule 146 can be addressed by adding an additional block to Schedule 121.

Of the 29 customers on Schedule 146, 14 use less than 500,000 therms per year or about 42,000 therms per month. On the other hand, six customers use more than 2,000,000 therms per year and two of these customers use

in excess of 5,000,000 therms per year. Given this range of customer use, a different blocking structure for Schedule 146 is needed to equitably price the cost of delivery service on this tariff. An analysis of the monthly usage data suggests the Company's proposed blocking structure captures an important break point for customers with usage up to 50,000 therms per month. Almost one-half of the bills are for less than this amount of consumption so a break point at this level is appropriate. However, the Company is proposing only one block for usage between 50,000 therms and 500,000 therms per month, a substantial range. I recommend having two blocks within this range given the natural split that occurs in the bill frequency data within this broad range.

Just as important as the size of the block is the corresponding rate charge. The Company's proposed effective charge—including the customer charge—is a substantial increase as compared to the current tariff for customers using less than 50,000 therms per month. While the overall proposed increase to this rate schedule is 8.6%, customers who use less than 50,000 therms per month would see an increase of over 40%, or 4-5 times the average increase for this class.

In assigning revenue responsibility, this Commission considers the ramifications from assigning a large increase to a particular customer class. When necessary, the Commission will ameliorate or phase-in a rate

increase which otherwise would have been assigned to a class to prevent rate shock. This same gradualism principle is just as important, and should be employed, in considering the impact on an individual customer. I recommend the Commission adopt a more gradual redesign of Schedule 146 to address this issue. This can be done with the Company's proposed customer charge increase but having lower charges for the blocks covering the first 50,000 therms. The following table compares the Company's proposed redesign with my recommendation. Both designs reflect the recovery of the Company's proposed increase for this class.

Schedule 146 Comparison
(Volumetric Charges – Cents/Therm)

Company Proposal		NWIGU Design at 100% of the Company's Request	
Customer	$200.00	Customer	$200.00
Volumetric First 10,000	8.950	First 20,000	7.000
Next 40,000	6.400	Next 30,000	6.000
Next 450,000	4.300	Next 250,000	4.757
Over 500,000	3.500	Next 200,000	4.250
		Over 500,000	3.400

Q. HOW SHOULD YOUR RECOMMENDATION BE MODIFIED IF THE COMMISISON APPROVES A SMALLER INCREASE FOR THIS RATE SCHEDULE THAN THE COMPANY HAS PROPOSED?

A. Each NWIGU charge should be decreased by the same percentage subject to a gradualism limitation. For increases close to the level proposed by the Company, no individual customer should receive an increase greater than three times the overall class increase.

If the Commission determines the Company has not justified any increase in class rate charges, NWIGU questions the need to redesign Schedule 146 in this proceeding for two reasons. First, as noted earlier, the Company's worse case revenue loss calculation from Schedule 121 migration is only $69,355, a very modest sum. For a Company with gas revenues of $75.0 million, this loss is only 0.09% of total revenue. Second, the focus of the parties efforts in this proceeding have been on revenue requirements. Other than the Company, parties have not addressed cost-of-service. In addition, parties have been unable to conduct meaningful rate design discussions. Given the interrelationships and existing structure of Schedules 111, 121, 131 and 146 under current rate charges, a collaborative process or a rate design proceeding would be the best forum to fully discuss and address rate design proposals among the parties for all these tariffs.

Q. HOW SHOULD THE COMPANY'S CONCERN WITH REGARD TO SCHEDULE 121 MIGRATION BE ADDRESSED?

A. The migration concern can be easily and effectively addressed by introducing an additional block in the design of Schedule 121 for usage between 10,000 therms per month and 25,000 therms per month as shown by the following table.

Schedule 121 Blocking

Company Present & Proposed	NWIGU Recommendation
First 500 therms	First 500
Next 500	Next 500
Next 9,000	Next 9,000
Over 10,000	Next 15,000
	Over 25,000

Of the more than 4,600,000 therms of usage that would be in the over 25,000 therm tail block under the NWIGU recommendation, the usage of the potential migration customers make up 97% of this amount. For these customers, this usage block represents 81% of their total usage. Thus, reducing the margin paid at this consumption level with a modest increase to the lower blocks of the tariff can be used to address the migration concern. A comparison of the margin collected under the Company's rate design and my recommendation is shown in the following table, assuming the Company's full increase to this rate schedule.

Schedule 121
Margin Comparison

Block	Company Proposal	NWIGU Design at 100% of the Company's Request
First 500	21.274	24.07
Next 500	15.591	18.39
Next 9,000	10.156	12.96
Next 15,000	6.797	7.50
Over 25,000	6.797	6.00

When taken together, my recommended designs of Schedule 121 and 146 indicate a possible loss of margin of about $100,000 in the very unlikely event that all customers would migrate to Schedule 146. This value is slightly greater than the amount the Company believes it is exposed to under current rates for these same customers. To the extent the Commission approves an increase to this class that is less than the Company's request, an equal percent reduction should be applied to all of my recommended charges to achieve the targeted revenue level. With the introduction of an additional rate block for Schedule 121, the Company can address and minimize its migration problem while, at the same time, also minimize the rate impact to Schedule 146 customers.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

CERTIFICATE OF SERVICE

Docket No. UE-991606 and UG-991607

I hereby certify that I have date served a copy of the foregoing Northwest Industrial Gas Users Direct Testimony of Donald W. Schoenbeck on the parties of record in this proceeding by mailing a copy properly addressed with first class postage prepaid to the parties indicated on the official service list provided by the Washington Utilities and Transportation Commission.

Dated at Portland, Oregon this
4th day of May, 2000

ENERGY ADVOCATES LLP

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