



Oregon

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February 6, 2006

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 2148
SALEM OR 97308-2148

RE: **Docket No. UE 170** - In the Matter of PACIFIC POWER & LIGHT (dba PacifiCorp) Request for a General Rate Increase in the Company's Oregon Annual Revenues. (Klamath Basin Irrigation Rates)

Enclosed for filing in the above-captioned docket is the Public Utility Commission Staff's Rebuttal Testimony. This document is being filed by electronic mail.

/s/ Kay Barnes

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cc: UE 170 Service List - parties

**PUBLIC UTILITY COMMISSION
OF OREGON**

UE 170

STAFF REBUTTAL TESTIMONY

OF

William A. McNamee

**In the Matter of
PACIFIC POWER & LIGHT (dba PacifiCorp)
Request for a General Rate Increase in the
Company's Oregon Annual Revenues
(Klamath Basin Irrigation Rates)**

February 6, 2006

CASE: UE 170
WITNESS: William A. McNamee

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 1502

Rebuttal Testimony

February 6, 2006

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is William A. McNamee. I am employed by the Public Utility
4 Commission of Oregon as a Resource Economist in the Electric and Natural
5 Gas Division of the Utility Program. My business address is 550 Capitol Street
6 NE Suite 215, Salem, Oregon 97301-2551.

7 **Q. HAVE YOU PREVIOUSLY PROVIDED DIRECT TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes.

10 **Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?**

11 A. In this testimony, I will respond to issues raised in the opening testimony of the
12 Klamath Off-Project Water Users (KOPWU), the Klamath Water Users
13 Association (KWUA), and the United States Fish and Wildlife Service (USFWS)
14 and Bureau of Reclamation (USBR) regarding: (1) The appropriate rates that
15 PacifiCorp should charge the Klamath Basin irrigators for electric service; and,
16 (2) The implementation of any rate change under Senate Bill 81.

17 **Q. HAS YOUR POSITION ON THE ABOVE ISSUES CHANGED FROM THAT**
18 **STATED IN YOUR JANUARY 16, 2006, UE 170 OPENING TESTIMONY?**

19 A. No. My recommendation remains that Klamath Basin irrigators who are
20 currently served under Schedule 33 (i.e., KOPWU, KWUA, and USBR) should
21 be moved to PacifiCorp's standard irrigation tariff rate (*Schedule 41 for*
22 *irrigators with loads of less than 1000 kW and Schedule 48 for irrigators with*
23 *loads of 1000 kW and over*). This rate change should become effective April

1 17, 2006.¹ To mitigate rate shock, the move to standard tariff rates should be
2 phased-in over seven years as required by Senate Bill 81.

3 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

4 A. My testimony is organized as follows: (1) I will provide a summary of my
5 understanding of the proposals presented by KOPWU and KWUA regarding
6 the appropriate rate that PacifiCorp should charge Klamath Basin irrigators; (2)
7 I will discuss the USFWS and USBR testimony; (3) I will present my review of
8 the irrigators' rate proposals; and, (4) I will present my recommendations
9 concerning the appropriate electric rate to charge Klamath Basin irrigators.

RATE PROPOSALS OF KWUA AND KOPWU²

10 **Q. PLEASE PROVIDE A SUMMARY OF THE KOPWU RATE PROPOSAL.**

11 A. The KOPWU proposal has two components: (1) A cost of service component,
12 related to the KOPWU assertion that Off-Project irrigators are approximately 15
13 percent less costly to serve than PacifiCorp's other irrigation customers. This
14 assertion is based on data that shows that the average per customer electric
15 usage of Off-Project irrigators is greater than that of standard tariff irrigators;
16 and, (2) A benefit component, relating to the assertion that the irrigation and
17 drainage of Off-Project lands increases the water supply in the Klamath River
18 available for electric generation by PacifiCorp's Hydro Project.

¹ The On-Project contract expires April 16, 2006, therefore, the effective date for standard rates for all Schedule 33 customers should be April 17, 2006.

² This section contains my summary understanding of the KOPWU and KWUA proposals. My review of the proposals is presented later in this testimony.

1 In calculating the benefit component, KOPWU first estimates that the average
2 increased water supply provided by Off-Project agricultural operations is
3 131,000 acre-feet per year. KOPWU then calculates that the increased water
4 supply would allow PacifiCorp to generate 81,000 MWh. Valuing this
5 generation at \$68.86 per MWh, KOPWU estimates the annual benefit to
6 PacifiCorp to be slightly over \$5.5 million (KOPWU/300, Iverson/7).

7 Assuming Off-Project annual electric usage of 44,445 MWh and a PacifiCorp
8 rate increase to a cost-of-service rate of \$79.5 per MWh, KOPWU estimates
9 that PacifiCorp's annual revenues from Off-Project irrigation and drainage
10 would be \$3.5 million (KOPWU/300, Iverson/7). KOPWU next indicates that
11 its calculated benefit value exceeds its calculation of PacifiCorp's cost of
12 service revenues by approximately \$2 million (i.e., \$5.5 million - \$3.5 million).
13 Therefore, KOPWU concludes that, because its agricultural operations benefit
14 PacifiCorp, the Off-Project irrigators should not be transitioned to standard
15 rates and that, in the alternative, a cost-based Schedule 33 rate should be
16 developed in PacifiCorp's 2007 general rate case.

17 **Q. WHAT DOES KOPWU STATE REGARDING THE IMPLEMENTATION OF**
18 **SENATE BILL 81?**

19 A. Consistent with its rate proposal discussed above, KOPWU assumes its
20 current Schedule 33 rate of .75 cents per kWh. KOPWU then applies
21 Schedule 90 (*Summary of Effective Rate Adjustments*) adjustments to this rate
22 and calculates that the net rate currently applicable to Off-Project irrigators is
23 .3175 cents per kWh (KOPWU/300, Iverson/10). Using this same calculation

1 method, and assuming that the Senate Bill 81 limit of 50 percent to any annual
2 rate increase is applicable to the net rate of .3175 cents per kWh, KOPWU
3 calculates that the current base rate of .75 cents per kWh can be increased to
4 no more than .904 cents per kWh. (see KOPWU/300, Iverson/9-10).

5 **Q. PLEASE PROVIDE A SUMMARY OF THE KWUA RATE PROPOSAL.**

6 A. This proposal is similar to the KOPWU proposal in that it has a cost of delivery
7 service component and a benefit component. KWUA estimates a cost of
8 delivery service differential between On-Project customers and PacifiCorp's
9 other Schedule 41 irrigation customers of 1.6 cents per kWh (KWUA/102,
10 Schoenbeck/2). For the benefit component, KWUA estimates that the
11 introduction of water to the Klamath River from KIP developments is
12 approximately 261,000 acre-feet per average water year (KWUA/300, Van
13 Camp/3). KWUA, stating that it is using current forward prices, estimates that
14 this water has an annual value to PacifiCorp of \$10.8 million (KWUA/102,
15 Schoenbeck/3).

16 KWUA states that, with its calculation method, the combined value of the cost
17 of delivery service component and the benefit component results in a rate
18 credit for On-Project Irrigators of 6.4 cents per kWh. Assuming a "gross" cost-
19 based rate from PacifiCorp of 7.7 cents per kWh, KWUA states that its
20 members should be charged a net cost-based rate of 1.3 cents per kWh
21 (KWUA/102, Schoenbeck/3). KWUA concludes that, rather than moving
22 KWUA customers to standard tariff rates, the Commission should order

1 PacifiCorp to conduct a collaborative Schedule 33 rate design investigation,
2 allowing all interested parties to participate (KWUA/102, Schoenbeck/14-15).

3 **Q. WHAT DOES KWUA STATE REGARDING THE IMPLEMENTATION OF**
4 **SENATE BILL 81?**

5 A. KWUA recommends that a 50 percent increase cap should be applied on a
6 customer-by-customer basis. By this KWUA states that it means: "... that each
7 and every customer will receive a net increase that is precisely 50 percent over
8 what was paid the prior year until the tariff's cost-based cap is reached." (see
9 KWUA/102, Schoenbeck/13-14).³

10 **SUMMARY OF USBR AND USFWS TESTIMONY**

11 **Q. PLEASE PROVIDE A SUMMARY OF THE USFWS AND USBR TESTIMONY.**

12 A. The USFWS (Reclamation/Service/1, Cole/1-4) states that an electric rate
13 increase could potentially limit the availability of water to the Tule Lake and
14 Lower Klamath National Wildlife Refuges.⁴ The USFWS states that the water
15 source for the refuges has historically been surplus KIP irrigation water
16 (Reclamation/Service/1, Cole/2). The USFWS expresses the concern that if
17 electric rates increase and, thereby, induce water conservation by the On-
18 Project irrigators, then the amount of surplus water available to the refuges
19 could be drastically diminished. The USFWS states that the proposed rate

³ Staff is unclear precisely what KWUA means by a 'customer-by-customer' basis. Also, Staff assumes the tariff's cost-based cap is the 1.3 cents per kWh mentioned above. Staff's SB 81 recommendations are discussed later in this testimony.

⁴ Staff notes that the majority of the historic natural flows to Tule and Lower Klamath Lakes have been diverted by KIP in order to drain the land for agricultural production purposes.

1 increase would increase the refuges' annual operating cost from \$142,000 to
2 between \$690,000 and \$1.2 million.⁵

3 The USBR (Reclamation/Service/2, Lesley/1-7) summarizes the background of
4 the Klamath Irrigation Project and discusses KIP's historical relationship with
5 the development of PacifiCorp's Klamath Hydro Project. The USBR indicates
6 that KIP drainage facilities provide an average annual increase to the Klamath
7 River's water flow at Keno of over 270,000 acre-feet (Reclamation/Service/2,
8 Lesley/6).⁶ The USBR maintains that without these added drainage flows there
9 would be a substantial reduction in water available for electric generation by
10 PacifiCorp's Hydro Project. The USBR states that if PacifiCorp's proposed rate
11 increase is allowed to go into effect that the average annual cost to the USBR
12 for drainage pumping would increase from the current range of \$53,000 to
13 \$80,000 per year to between \$900,000 and \$1.3 million per year
14 (Reclamation/Service/2, Lesley/7).⁷

15 **REVIEW OF KOPWU AND KWUA PROPOSALS AND**
16 **THE USFWS/USBR TESTIMONY**

17 **Q. DO YOU AGREE WITH THE KOPWU AND KWUA RATE PROPOSALS?**

18 A. No. As I will discuss in this section, the method of calculation for both the cost
19 of delivery service component and the water supply component of the KOPWU
20 and KWUA proposals contain errors of omission that render them inappropriate

⁵ Staff notes that most of the refuges' electricity rates are under the jurisdiction of the California PUC.

⁶ Staff notes that this number is close to the KWUA estimate of 261,000 acre-feet.

⁷ Staff notes that a portion of the USBR's pumping facilities are located in California and, therefore, the associated electric rates are under the jurisdiction of the California PUC.

1 for utility ratemaking. Similarly, the USBR contention that its drainage pumping
2 is adding additional flow to the Klamath River that contributes to PacifiCorp's
3 hydro generation is misplaced.

4 **Q. WHAT IS YOUR REVIEW OF THE COST OF DELIVERY SERVICE**

5 **COMPONENT OF THE KOPWU AND KWUA PROPOSALS?**

6 A. Both KOPWU and KWUA indicate that the average use per Klamath irrigation
7 customer is greater than the average use of Schedule 41 customers. The
8 following comparison was provided in KOPWU/300, Iverson/4:

| | <u>Annual MWh</u> | <u>No. of Customers</u> | <u>Avg MWh per Customer</u> |
|-------------|-------------------|-------------------------|-----------------------------|
| Schedule 41 | 123,272 | 6,281 | 19.63 |
| On-Project | 53,684 | 1,368 | 39.24 |
| Off-Project | 51,686 | 682 | 75.79 |

9
10
11
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16 Source: USBR Break-Out.xls provided by PacifiCorp on Feb 14, 2005
17

18 The above data shows that electric consumption per customer is greater for
19 Schedule 33 customers than Schedule 41 customers.⁸ As stated in
20 KWUA/102, Schoenbeck/7, distribution costs are largely fixed. This implies that
21 the per unit cost of delivery service will decline as consumption increases.
22 Using this mathematical relation, both KOPWU and KWUA calculate that the
23 per unit cost of delivery service is less for Schedule 33 customers than
24 Schedule 41 customers. Given the difference in the calculated cost of delivery
25 service, the parties contend that they merit a separate classification from other
26 irrigators in PacifiCorp's Oregon service territory.

⁸ The difference in consumption between the On-Project and Off-Project consumers may in part be due to the extensive use of deep water wells on the Off-Project lands.

1 **Q. DO YOU AGREE THAT THE CLAIMED DIFFERENCE IN THE COST OF**
2 **DELIVERY SERVICE MERITS A SEPARATE CLASSIFICATION?**

3 A. No. PacifiCorp has provided testimony showing that the usage characteristics
4 of Klamath Basin irrigators are similar to current Schedule 41 customers (see
5 PPL/1214, Griffith/6-7). Exhibit PPL/1215 shows the percentage of Schedule
6 33 and Schedule 41 customers by range of annual kWh consumption. The
7 distributions are similar, with both schedules including small to high usage
8 customers. As discussed in PPL/1700, Anderberg/5, the usage of both
9 Schedule 33 and Schedule 41 customers is seasonal, with the majority of
10 electric consumption occurring during the summer. Mr. Anderberg also states
11 that aggregate annual load factors are similar, with both between 12 and 13
12 percent..

13 As indicated in PPL/1214, Griffith/7, the average size of Schedule 33
14 customers is larger than that of Schedule 41 customers. I note, however, that
15 there is a huge price difference between the electric rates paid by Klamath
16 irrigators and PacifiCorp's other irrigation customers. Assuming the existence
17 of a negatively sloping demand curve for electricity, the higher consumption by
18 Klamath irrigators is significantly correlated to the very low price they pay for
19 electricity.

20 Consideration needs to be given to the impact on electricity consumption of a
21 price change. In economics, this concept is called the price elasticity of
22 demand. Neither the KOPWU or KWUA mathematical analysis regarding cost

1 of delivery service gives consideration to how electric price changes would
2 affect the consumption patterns of Klamath Basin irrigators.

3 Economic theory would suggest that it is likely that a large increase in the price
4 of electricity (*i.e., potentially over ten-fold in this case*) will lower consumption.

5 The testimony of KOPWU/100, Bartell/9-12 supports this conclusion. As Mr.

6 Bartell discusses, irrigation practices would need to adapt to Schedule 41

7 rates. In some instances, irrigation of land from deep water wells may no

8 longer be economic and other water management techniques that rely less on

9 electric power would need to be employed. I believe similar adaptations would

10 also occur on the KIP (*i.e., On-Project*) lands.

11 Assuming standard tariff rates were in effect, water management techniques in

12 the Klamath Basin would adapt accordingly and the per customer irrigation

13 usage between the Klamath Basin customers and PacifiCorp's other irrigation

14 customers would become similar. Therefore, because the KOPWU and KWUA

15 mathematical analysis of the cost of delivery service omits consideration of the

16 price elasticity of demand, the parties' conclusion that Klamath Basin irrigators

17 merit a separate rate classification is inaccurate.

18 In addition, as mentioned above, PacifiCorp has provided testimony and

19 exhibits showing that the usage characteristics of Klamath Basin irrigators are

20 similar to current Schedule 41 customers. There is not a persuasive rationale

21 why a Klamath Falls irrigator should pay a different price for electricity than an

22 irrigator located in a different area of PacifiCorp's Oregon service territory.

23 Given that ORS 757.310(1)(b) prohibits utilities from charging different rates to

1 customers with substantially similar service requirements and conditions, the
2 Klamath Irrigators contention that they merit a separate customer classification
3 should be rejected.

4 **Q. WHAT IS YOUR REVIEW OF THE WATER SUPPLY COMPONENT OF**
5 **THE KOPWU AND KWUA PROPOSALS?**

6 A. As previously discussed, both parties contend that their irrigation and drainage
7 operations contribute significant additional flows to the Klamath River (*i.e.*,
8 *131,000 acre-feet and 261,000 acre-feet by KOPWU and KWUA, respectively*).
9 Next, through partially documented methods, the parties estimated the amount
10 of energy generation the additional flows allow PacifiCorp's Klamath Hydro
11 Project to generate. Finally, KOPWU and KWUA estimate a value for the
12 assumed additional energy generation (*i.e.*, *\$5.6 million and \$10.8 million for*
13 *KOPWU and KWUA, respectively*).

14 The above calculations are fundamentally flawed in that the additional flows
15 claimed by the parties do not take into consideration the water withdrawals
16 (*from both surface waters and ground aquifers*) that Off-Project and On-Project
17 agricultural operations require. By its very nature, agricultural irrigation is a
18 consumptive process (*e.g., crops utilize water and additional losses are*
19 *incurred via evaporation*). While it is accurate that, for most agricultural
20 irrigation projects, a portion of the irrigation water withdrawals will eventually
21 return to the watershed's natural flow of surface and ground waters, it will
22 always be something less than 100 percent. In essence, it appears that the
23 Klamath irrigators are claiming that PacifiCorp should compensate them for

1 return flows to the Klamath River that are less than their water withdrawals
2 from the watershed's surface water and ground aquifers.

3 **Q. DOES ANY REGULATED OREGON ELECTRIC UTILITY COMPENSATE**
4 **IRRIGATORS THAT ARE LOCATED UPSTREAM OF AN EXISTING**
5 **UTILITY HYDRO PROJECT FOR INSTREAM WATER FLOWS THAT MAY**
6 **DERIVE FROM UPSTREAM IRRIGATION OR DRAINAGE OPERATIONS?**

7 A. Staff is not aware of any regulated Oregon electric utility that compensates
8 irrigators via reduced rates for return flows that may result from upstream
9 irrigation and/or drainage operations. For example, Idaho Power does not
10 reduce rates for irrigators along the Snake River, even though a portion of
11 irrigation water eventually returns to the Snake River. Portland General
12 Electric does not compensate irrigators located upstream from Pelton-Round
13 Butte for any potential return flows to the Deschutes or Crooked Rivers.

14 **Q. PLEASE ELABORATE ON YOUR CONTENTION THAT THE**
15 **IRRIGATOR'S WATER WITHDRAWALS EXCEED RETURN FLOWS.**

16 A. Statements in the testimony of KWUA seem to support my contention that
17 withdrawals from the watershed exceed return flows. For example:

- 18 ▪ "Natural flows are diverted into the delivery systems." (KWUA/300,
19 Van Camp/5)
- 20 ▪ "...water in excess of needs in the Project is returned to the Klamath
21 River at Lake Ewana upstream of Keno." (KWUA/300, Van Camp/5)
- 22 ▪ "Water is diverted from the Klamath River system for use in the
23 Klamath Project." (KWUA/300, Van Camp/7)

1 In addition, as shown in the following table, the USBR's Klamath Project 2005
2 Operations Plan indicates that the average historic (1961 to 2004) water
3 delivery from Upper Klamath Lake was 322,700 acre-feet. The Plan predicts
4 that for a dry 2005 year the water delivery would be 299,000 acre-feet. This
5 indicates that KIP water withdrawals, even in a dry year such as 2005, exceed
6 the average annual return flows predicted by KWUA (i.e., 261,000 acre-feet).

7 Table 7. Comparison of Estimated 2005 Project Water Supply to Historic Deliveries

| | 2005 Estimated Supply (1000 acre-feet) | Historic Delivery (1961-2004) During DRY Water Year Types (1000 acre-feet) |
|---------------------------|---|--|
| UKL Delivery Area | 299.0 | Ave = 322.7 (299.0 to 344.8) |
| National Wildlife Refuges | 25.0 | Ave = 41.9(25.5 to 63.2) |
| East Side Delivery Area | 19.0 | Ave = 68.6(46.4 to 84.9) |

8 Source: USBR's Klamath Project 2005 Operations Plan (April 7, 2005), Table 7 on pg 5.
9

10 For the Off-Project lands, KOPWU testimony indicates that most of the return
11 flows are derived from: "...water supply produced by pumping of groundwater
12 for irrigation use of Off-Project lands and by drainage of former marsh lands
13 and open water areas that are now Off-Project irrigated agricultural lands."
14 (KOPWU/200, Rozaklis/2). Mr. Rozaklis estimates that the groundwater
15 supplied via wells to Off-Project lands is approximately 193,000 acre-feet per
16 year. Mr. Rozaklis estimates that 73,000 acre-feet of this amount returns to the
17 surface water flows (see KOPWU/202, Rozaklis/13). The remainder of the
18 estimated 131,000 of return flow (i.e., 58,000 acre-feet) is derived from
19 pumped drainage necessary to convert marsh lands and open water areas to

1 agricultural land (see KOPWU/200, Rozaklis/4). Therefore, on the Off-Project
2 lands the water withdrawals from the watershed exceed the estimated return
3 flows by a substantial amount (*i.e.*, 193,000 acre-feet minus 131,000 acre-
4 feet).

5 **Q. WHAT IS YOUR REVIEW OF THE USBR CONTENTION THAT ITS**
6 **OPERATIONS ARE PROVIDING RETURN FLOWS THAT ARE**
7 **BENEFITING PACIFICORP?**

8 **A.** My review is essentially the same as for the KWUA. The return flows to the
9 Klamath River, estimated at 270,000 acre-feet (Reclamation/Service/2,
10 Lesley/6), are less than KIP's water withdrawals from the watershed's
11 surface water and ground aquifers. In addition, I believe that the USBR and
12 other irrigators should not be compensated for return flows resulting from
13 drainage and flood control practices that are necessary to maintain the
14 agricultural usefulness of the KIP lands. These are not activities that the
15 irrigators are directly undertaking for PacifiCorp's benefit.

16 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.**

17 **A.** As discussed above, both the cost of delivery service component and the water
18 supply component of the KOPWU and KWUA proposals, and the water supply
19 contention of the USBR, contain errors of omission that render them
20 inappropriate for utility ratemaking.

21 The KOPWU and KWUA cost of delivery service proposals do not consider the
22 price elasticity of demand. If standard irrigation rates were in effect for Klamath
23 irrigators, water management techniques in the Klamath Basin would adapt

1 accordingly and the per customer irrigation usage between the Klamath Basin
2 customers and PacifiCorp's other irrigation customers would become similar.

3 In addition, PacifiCorp has provided testimony showing that the usage
4 characteristics and service requirements of Klamath Basin irrigators are similar
5 to current Schedule 41 customers. Therefore, the Klamath irrigators are not
6 uniquely different from PacifiCorp's other irrigation customers and under the
7 "just and reasonable" standards set forth in ORS Chapters 756 and 757 should
8 be subject to the same standard tariff rates.

9 In regard to the KOPWU and KWUA analyses supporting the claimed return
10 flows and associated value to PacifiCorp, I will offer the following general
11 concerns:

- 12 ▪ The hydrologic analysis necessary for determining the size of the return
13 flows to the Klamath River is complex and limited by available data. I
14 believe the return flow estimates provided by the irrigators must be
15 considered to have a high variance.
- 16 ▪ In addition, the irrigators' attempts to value the return flows contain
17 what I will call "optimistic" hydro generation estimates and electric
18 prices.

19 These concerns need not be further debated, however, because the estimated
20 return flows to the Klamath River are less than the irrigators' water withdrawals
21 from the watershed's surface water and ground aquifers. Therefore, the claim
22 of the parties that they are contributing increased flow to the Klamath River that
23 is benefiting PacifiCorp is fundamentally flawed and unpersuasive. It is likely

1 that the irrigation activities are reducing the flow of the Klamath River,
2 especially during the summer months. In fact, low summer flows are an
3 important variable in regard to the ESA fisheries and water quality issues that I
4 mentioned in my opening testimony (see Staff/1500/, McNamee/3-10). The
5 proposal that PacifiCorp should compensate the irrigators for return flows to
6 the Klamath River is ill-conceived and incorrect.

7 **RECOMMENDATIONS**

8 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE APPROPRIATE** 9 **RATE TO CHARGE KLAMATH BASIN IRRIGATORS?**

10 A. As discussed in my opening testimony, the current Schedule 33 rates do not
11 satisfy the OPUC's "just and reasonable" standard set forth in ORS Chapters
12 756 and 757 (Staff/1500, McNamee/16-20). As discussed in this testimony,
13 the Klamath Basin Irrigators have not demonstrated that they merit a separate
14 classification from PacifiCorp's other irrigation customers. Furthermore, the
15 drainage pumping and irrigation practices of the Klamath irrigators do not
16 provide a benefit to PacifiCorp's hydroelectric generation. Therefore, I
17 recommend that Klamath Basin irrigators who are currently served under
18 Schedule 33 (*i.e.*, *KOPWU*, *KWUA*, and *USBR*) should be moved to
19 PacifiCorp's standard irrigation tariff rate (*Schedule 41 for irrigators with loads*
20 *of less than 1000 kW and Schedule 48 for irrigators with loads of 1000 kW and*
21 *over*). This rate change should become effective April 17, 2006.

1 **Q. HOW SHOULD THE SENATE BILL 81 LEGISLATION BE IMPLEMENTED**
2 **WITH RESPECT TO THESE CUSTOMERS?**

3 A. As discussed in my opening testimony, the appropriate body for addressing
4 social policies is the state's Legislative Assembly (Staff/1500, McNamee/15).
5 Senate Bill 81 was passed by the Oregon Legislature as a means to mitigate
6 rate shock effects associated with the potential transitioning of Klamath Basin
7 irrigation customers to standard tariff rates. The legislation provides that the
8 move to standard tariff rates should be phased-in over seven years, with a 50
9 percent limit on annual increases.

10 For billing purposes during the Senate Bill 81 transition period, I recommend
11 that PacifiCorp should calculate the monthly bill by applying the appropriate
12 standard tariff charges, including any Schedule 90 adjustments. If the result of
13 this calculation (*i.e., net standard rate*) results in an annual rate increase that
14 exceeds by 50 percent the current Schedule 33 rate, then by law Pacific will
15 need to limit the rate increase to 50 percent. SB 81 requires that this be
16 accomplished by providing the Klamath irrigation customers a rate credit. I
17 recommend that the rate credit should be equal to the difference between the
18 net standard rate and the historical contract rate (*i.e., 6 mills and 7.5 mills for*
19 *On-Project and Off-Project irrigators, respectively, with the annual 50 percent*
20 *increase*). For overall ratemaking purposes, PacifiCorp will need to spread the
21 cost of the rate credit equally among its other Oregon customers. In response
22 to Staff Data Request 454, PacifiCorp provided the following estimate of what

1 the overall rate impact would be for PacifiCorp's customers during the seven
2 year implementation of SB 81.

| Year | Rate Credit (\$ million) | Percent of Oregon Revenues |
|------|-----------------------------|----------------------------|
| 1 | \$7.7 | 0.9 |
| 2 | \$6.9 | 0.8 |
| 3 | \$6.2 | 0.7 |
| 4 | \$5.2 | 0.6 |
| 5 | \$3.7 | 0.4 |
| 6 | \$1.4 | 0.2 |
| 7 | \$0.1 | 0.01 |
| 8 | \$0 | 0 |

Assumes no rate changes for 8 years and Oregon revenue of \$835 million.

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

16 A. Yes.

CERTIFICATE OF SERVICE

UE 170

I certify that I have this day served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-13-0070, to all parties or attorneys of parties.

Dated at Salem, Oregon, this 6th day of February, 2006.



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UE 170
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