

Docket: : A. 05-11-022
Exhibit Number : _____
Commissioner : Comm. G. Brown
Admin. Law Judge : ALJ M. Galvin
Witnesses : M. K. Bumgardner
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**DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**Rebuttal Testimony
on the Transition Rate
for Klamath Irrigators**

San Francisco, California
February 24, 2006

Testimony of DRA in Response to the Testimony of PacifiCorp and the Klamath Water Users Association and the Related Agreement on Transition Rates

Executive Summary

PacifiCorp and the Klamath Water Users Association (KWUA) representing the Klamath River Basin (Klamath) irrigators covered by an expiring special service contract between the United States Bureau of Reclamation (USBR) and PacifiCorp,¹ request a transition from the Klamath irrigators' current low rate to tariff rates. The transition to the tariff rate² paid by other irrigators would be phased-in over a four year period. These parties propose (1) the creation of a new memorandum account, which would track the revenue shortfall created by continuing the rate subsidy for the Klamath irrigators and (2) shifting allocation of the entire subsidy for Klamath irrigator to California ratepayers. Historically, the Klamath irrigators' subsidy was allocated to and paid by ratepayers in all the jurisdictions that PacifiCorp serves.

The Division of Ratepayer Advocates (DRA) opposes the creation of a memorandum account to track the subsidy, and object to PacifiCorp's and the KWUA's proposal to shift and allocate the entire subsidy to California ratepayers during the phase-in period. PacifiCorp unilaterally agreed to eliminate the allocation of the subsidy to other states and to phase-in the subsidy over a four-year period. There is no justification for allocating the entire shortfall created by the subsidy to only California jurisdiction in contrast to the historical method of allocation to all jurisdictions. The transition rate is an extension of the historical subsidy, so California ratepayers should be responsible for no more than their

¹ The parties to the 1956 contract were the USBR and Copco, PacifiCorp's predecessor in interest.

² KUWA reserves the right to present testimony on whether their "unique historical, operational and legal circumstances" justify a different rate from that paid by other irrigators served under PacifiCorp's tariff PA-20 in the part of this GRC that considers issues beyond the transition rate for irrigators. Direct Testimony of Steven Kandra, p. 5: 5-6.

historical jurisdictional allocation of the subsidy, which is about 2% and is already embedded in the current revenue requirement. PacifiCorp's unilateral decision to eliminate the allocation of this rate subsidy to other jurisdictions is a corporate decision that should not be forced upon California ratepayers and should not be adopted by the Commission.

Background

This Commission approved a 1956 contract between PacifiCorp and the USBR that allows certain Klamath irrigators represented by the KWUA to purchase electricity at a rate of 6 mills per kilowatt hour (kWh), a rate that is lower than that under the prior 1917 contract between PacifiCorp and USBR.³ The USBR receives an even steeper discount under a time of use rate of 5 mills per kWh for on peak use, and 3 mills per kWh off peak use. This is in sharp contrast to the current (average) tariff rate of approximately 79 mills per kWh under Schedule PA-20. The result of the subsidy is that the Klamath irrigators pay only 7.6% of the tariff rate of electricity. The remaining 92.4% of the costs have been allocated to and paid by ratepayers in all of PacifiCorp's jurisdictions. USBR pays an even smaller portion of the cost of the power it uses, with ratepayers picking up more than 92.4% of the costs. Thus, the other ratepayers paid approximately \$3.4 million annually of the Klamath irrigators' electricity costs, of which California ratepayers are allocated approximately \$68,000 annually.

The contract expires on April 16, 2006. PacifiCorp and the KWUA request, among other things, that the Commission authorize a four year phase-in to tariff rates for the Klamath irrigators and create a memorandum account to record the difference between the negotiated rate and the otherwise applicable tariff rate.⁴

PacifiCorp and the KWUA are proposing to shift the historic subsidy that was allocated to the PacifiCorp jurisdictional states exclusively to California's

³ Commission Decision 53658, p. 3.

⁴ Testimony of Robert C. Lively on Behalf of PacifiCorp, pp.7-8.

ratepayers. PacifiCorp is seeking a memorandum account that would track not just the (\$68,000) California portion of the historic subsidy, but the entire subsidy of \$3.4 million, an increase in the subsidy from California ratepayers of 5,000%. Over the proposed four-year phase-in, PacifiCorp expects California's ratepayers to pay a total subsidy of approximately \$7 million. Historically, ratepayers in all of the PacifiCorp service territories absorbed the revenue shortfall that resulted from providing Klamath irrigators' below-cost power.⁵ It is inequitable, discriminatory and inconsistent with past precedent and policy to place the entire burden of the subsidy upon California, especially given the historical allocation to other states.

California ratepayers should be responsible for an allocation of the subsidy to the KWUA irrigators no higher than their historical allocation of the subsidy, but other PacifiCorp jurisdictions should continue to pay their share. If PacifiCorp continued to allocate an appropriate share of the subsidy to all jurisdictions during the transition period, consistent with past precedent, then all jurisdictions would see a pro rata reduction in their share of the subsidy over this period. Instead, PacifiCorp unilaterally proposes to burden California ratepayers with the entire subsidy during the transition period, while absolving the other jurisdictions of their historic share of the subsidy.

Having jumped the proverbial gun and unnecessarily eliminated the entire subsidy from other states rates, PacifiCorp (and the KWUA) now proposes to allocate the amount entirely to other California ratepayers. The Commission should deny PacifiCorp's request for a memo account, and authorize cost recovery for no more than California's historic share of the subsidy during the transition period. If PacifiCorp opts to waive its right to recover the subsidy from other states, or has already forgiven other states from contributing to the recovery of the subsidy, decision and it should not be left to California to pick up the burden.

⁵ Testimony of Robert C. Lively on Behalf of PacifiCorp, p. 9: 12-14.

No new, unique benefit to California ratepayers has been shown.

No party has identified any new or unique quantifiable benefits enjoyed only by California ratepayers as a result of continuing to subsidize the Klamath irrigators for the next four years. Robert C. Lively stated that “. . . nor is the Company [PacifiCorp] convinced that the Project provides quantifiable operational benefits to the PacifiCorp system.”⁶ Marc E. Van Camp, testifying for KWUA and the Klamath Irrigators does not attempt to show any unique benefits to California’s ratepayers indicating,

“That is the subject of my testimony before the Oregon Public Utilities Commission. It is my understanding that this issue will be dealt with at a later point in this proceeding. The purpose of my testimony today is simply to explain how the Klamath Irrigation Project works.”⁷

Without any showing of any new or unique benefit(s) to only California’s ratepayers vis-à-vis any historical benefits, the PacifiCorp request to create a memorandum account that shifts the Klamath irrigators’ subsidy entirely to California’s ratepayers is without merit. The proposed memorandum account will serve to guarantee that PacifiCorp’s California ratepayers will be held solely responsible for the total system’s subsidy without any unique or new proven benefits to California, relative to any historic benefits.

PacifiCorp chose to release other states from the subsidy of the Klamath irrigators and phase in tariff rates over a four-year period.

In the past, the Klamath irrigators’ subsidy was allocated among all PacifiCorp jurisdictional states as a cost associated with the Klamath Hydroelectric Project, consistent with the cost allocation of other generation resources that provide system benefits, because the hydro license provided system benefits to other states.⁸ However, faced with the April 16, 2006 expiration of the

⁶ Testimony of Robert C. Lively on Behalf of PacifiCorp, pp. 5-6.

⁷ Prepared Direct Testimony of Marc E. Van Camp, p. 15: 10-13.

⁸ Testimony of Robert C. Lively on Behalf of PacifiCorp, p. 9: 19-23.

USBR contract, PacifiCorp unilaterally decided that there was no continuing basis to allocate the Klamath irrigators' subsidy to other states, because the benefit associated with that cost no longer existed.⁹ Instead, PacifiCorp and the KWUA agreed to allocate the entire subsidy to PacifiCorp's California ratepayers¹⁰ even though PacifiCorp found that the benefit associated with the USBR contract no longer existed.¹¹

The extent of any benefits relative to the Klamath irrigators operation even prior to the current time period was not well defined. PacifiCorp witness Richardson acknowledges that the power to the Klamath irrigators has been subsidized for many years,

“This interpretation is clearly contrary to the terms of the 1917 and 1956 contracts, which contained express termination dates and made no guarantees that subsidized power would continue indefinitely.”¹²,

Mr. Richardson further observed that “there is no evidence that Copco ever agreed to provide subsidized power rates to KWUA in perpetuity.”¹³

Mr. Richardson also notes that Commission Decision No. 53658 indicates that the 1956 contract could constitute “an undue burden of [Copco's] other customers.”¹⁴ This Commission's decision and other historical documents cited in Mr. Richardson's testimony show that the USBR contract incorporated a subsidy for electricity, and that any offsetting benefits were not clearly identified. This was true during the past fifty years when the subsidized rates were allocated to all other PacifiCorp jurisdictions and it true today during the transition period. Nothing has changed that would justify allocating 100% of the subsidy to California ratepayers during the transition period, as compared to two percent in the years prior.

⁹ Testimony of Robert C. Lively on Behalf of PacifiCorp, p. 10: 2-5.

¹⁰ Testimony of Robert C. Lively on Behalf of PacifiCorp, p. 8: 18-19.

¹¹ Testimony of Robert C. Lively on Behalf of PacifiCorp, p. 10: 2-5.

¹² Testimony of R. Steven Richardson on Behalf of PacifiCorp, p. 11: 1. 17-20.

¹³ Testimony of R. Steven Richardson on Behalf of PacifiCorp, p. 13: 1. 20-21.

¹⁴ Testimony of R. Steven Richardson on Behalf of PacifiCorp, p. 14: 1. 5-6.

This is further exemplified by Mr. Richardson's discussion regarding the benefits of the agreement:

“The Federal Power Commission staff offered a compromise under which Copco's acceptance of the license would be made subject to renegotiation of the 1917 Contract. Copco agreed to this proposal, and the 1956 Contract extended the 1917 Contract with only minor modifications. The agreement provided mutual benefits to Copco and the Department of the Interior and compensated the United States for use of the government's Link River Dam, as required under Section 10(e) of the Federal Power Act.”¹⁵

Thus, according to PacifiCorp, the purported quid pro quo associated with the 1956 contract was the acceptance of the license, subject to the extension of the 1917 contract. Therefore, the entire system obtained and shared a benefit associated with the FERC license. Since the entire system received a benefit from the license, then the system shared the cost subsidy inherent in the contract extension. Because the entire system enjoyed the benefit of the FERC license, it is only appropriate that the system continue to share the cost subsidy during the transition. While the contract will expire upon its own terms on April 16, 2006, there is nothing to suggest that such a change justifies burdening California ratepayer with the entire subsidy during the rate transition period. PacifiCorp offers absolutely no justification or support for its proposal to allocate 100% of the subsidy to the California jurisdiction in contrast to the historic allocation of the subsidy which has existed for many years.

PacifiCorp unilaterally decided to eliminate the subsidy from other states based on its assumption that it would charge the Klamath irrigators full rate. Instead, PacifiCorp “settled” the case by agreeing to a lesser subsidy allocated entirely to California ratepayers without any offsetting benefits.

¹⁵ Testimony of R. Steven Richardson on Behalf of PacifiCorp, p. 12:17-23.

There is no need to create a memorandum account between general rate cases.

During PacifiCorp's last general rate case,¹⁶ the Commission established rates to compensate PacifiCorp for California's fair share of the Klamath Irrigator's subsidy through the entire general rate case cycle. This amount was approximately \$68,000 on an annual basis. The termination of the USBR Contract and transition to a higher rate prior to the next general rate case period could benefit PacifiCorp by allowing increased rates for the Klamath irrigator's relative to the subsidy embedded in rates. If PacifiCorp had followed this consistent protocol in all its jurisdictions, the revenue from the Klamath irrigators would have increased, while decreasing the subsidy in each jurisdiction over the transition period. Instead, PacifiCorp chose to terminate the other states' portion of the Klamath irrigators' subsidy, and in this proceeding proposes to reallocate 100% of the subsidy to its California ratepayers. PacifiCorp should not be allowed to modify its subsidy allocation between general rate cases or otherwise.

Increasing the rate subsidy by California ratepayers from its current level of about \$68,000 annually to about \$7 million over the four- year transition period is inequitable. During the transition period, the rate to the Klamath irrigators will increase in increments over four years, thus decreasing the level of the subsidy. Therefore, if allocated properly and equitably in all PacifiCorp jurisdictions, the subsidy would decrease in all jurisdictions during the transition period and all customers would benefit equitably from the increase in Klamath irrigator rates during the transition period. However, under the proposal of PacifiCorp and KWUA, the cost to California ratepayers increases enormously due to the early elimination of the other states' share of the Klamath irrigators' subsidy. It is unfair to place the entire cost of the Klamath irrigator subsidy on California ratepayers, with the result that California ratepayers end up paying a subsidy about 25 times higher than previously.

¹⁶ Commission Decision 03-11-019 approved a settlement resolving general rate case issues arising from PacifiCorp's Application 01-03-026.

The transition rate should be limited to smaller customers and should cover the cost of generation and transmission.

There is no evidence that large users, including the USBR, would suffer a significant hardship from paying tariff rates. The transition rate should be limited to smaller customers, for example, those that use less than 100,000 kWh per year.

For smaller irrigators that need a transition to tariff rates, Commission should set a transition rate floor that approximates the total allocated cost of generation and transmission.¹⁷ It is only fair that during the transition period that the rate be adequate to at least cover the transmission and generation costs. DRA estimates these costs to be approximately 52% of the total revenue requirement, based on PacifiCorp's Application.¹⁸ Therefore, DRA recommends that the transition rate floor be set no lower than 52% of the applicable rate or 41 mills per kWh with appropriate upward adjustments to full tariff rates during the transition period.

¹⁷ D.53658, the Commission decision that approved the 1956 contract, observed that the rate of 6 mills for individual irrigators was adequate to cover the cost of production and transmission, and that there was no proposal to "increase the rates for other customers for the annual deficiency" resulting from the contract. (D.53658, mimeo, p. 5.) While a transition rate for Klamath Irrigators results in a rate increase for other customers, the rate should at least cover the cost of generation and transmission, as it did when the Commission approved the contract.

¹⁸ A.05-11-022, Prepared Direct Testimony of C. Craig Paice, Exhibit PPL/1201, p. 2 of 6. DRA's use of this information for purposes of the transition rate for the Klamath Irrigator is not intended to foreclose its right to examine, and if appropriate, challenge these calculations in the phase of the GRC that deals with issues other than the transition rate.

ATTACHMENT A

Qualifications And Prepared Testimony Of Mark K. Bumgardner, C.P.A.

Q.1. Please state your name and address.

A.1. My name is Mark K. Bumgardner. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Public Utilities Regulatory Analyst V in the Office of Ratepayer Advocates Energy Cost of Service and Natural Gas Branch.

Q.3. Please briefly describe your educational background and work experience.

A.3. I have a Master of Business Administration (Management Science) and a Bachelor of Science Degree in Business Administration (Accounting) from California State University, Hayward. I am a Certified Public Accountant licensed in the state of California and I am a member of the American Institute of Certified Public Accountants.

I joined the California Public Utilities Commission in 1981, and I have prepared testimony in General Rate Case proceedings on Pacific Bell Company, Roseville Telephone Company, Continental Telephone Company, Citizens Utility Company, San Diego Gas & Electric Company, Southern California Edison Company, Pacific Gas and Electric Company, and Southern California Gas Company. I have also testified on several special projects including the Southern California Edison Company/ San Diego Gas & Electric Company merger, and was the project coordinator on Southern California Edison Company's holding company proceeding.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for DRA's Rebuttal Testimony on the issue of the transition rate for Klamath Irrigators.

Q.5. Does that complete your prepared testimony?

A.5. Yes, it does.