

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

**In the Matter of the Application of Rocky Mountain )  
Power for Authority to Increase its Retail Electric )  
Utility Service Rates in Utah and for Approval of its )  
Proposed Electric Service Schedules and Electric ) Docket No. 07-035-93  
Service Regulations, Consisting of a General Rate )  
Increase of Approximately \$161.2 Million Per Year, )  
and for Approval of a New Large Load Surcharge )**

**DIRECT TESTIMONY  
AND EXHIBITS  
OF  
STEPHEN J. BARON**

**ON BEHALF OF THE  
KROGER CO.**

**J. KENNEDY AND ASSOCIATES, INC.  
ROSWELL, GEORGIA**

**July 2008**

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**DIRECT TESTIMONY OF STEPHEN J. BARON**

**I. INTRODUCTION**

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**Q. Please state your name and business address.**

A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

**Q. What is your occupation and by who are you employed?**

A. I am the President and a Principal of Kennedy and Associates, a firm of utility rate, planning, and economic consultants in Atlanta, Georgia.

1       **Q.    Please describe briefly the nature of the consulting services provided by**  
2       **Kennedy and Associates.**

3

4       A.    Kennedy and Associates provides consulting services in the electric and gas utility  
5       industries. Our clients include state agencies and industrial electricity consumers.  
6       The firm provides expertise in system planning, load forecasting, financial analysis,  
7       cost-of-service, and rate design. Current clients include the Georgia and Louisiana  
8       Public Service Commissions, and industrial consumer groups throughout the United  
9       States.

10

11       **Q.    Please state your educational background.**

12

13       A.    I graduated from the University of Florida in 1972 with a B.A. degree with high  
14       honors in Political Science and significant coursework in Mathematics and  
15       Computer Science. In 1974, I received a Master of Arts Degree in Economics, also  
16       from the University of Florida. My areas of specialization were econometrics,  
17       statistics, and public utility economics. My thesis concerned the development of an  
18       econometric model to forecast electricity sales in the State of Florida, for which I  
19       received a grant from the Public Utility Research Center of the University of

1 Florida. In addition, I have advanced study and coursework in time series analysis  
2 and dynamic model building.

3  
4 **Q. Please describe your professional experience.**

5  
6 A. I have more than thirty years of experience in the electric utility industry in the areas  
7 of cost and rate analysis, forecasting, planning, and economic analysis.

8  
9 Following the completion of my graduate work in economics, I joined the staff of  
10 the Florida Public Service Commission in August of 1974 as a Rate Economist. My  
11 responsibilities included the analysis of rate cases for electric, telephone, and gas  
12 utilities, as well as the preparation of cross-examination material and the preparation  
13 of staff recommendations.

14  
15 In December 1975, I joined the Utility Rate Consulting Division of Ebasco Services,  
16 Inc. as an Associate Consultant. In the seven years I worked for Ebasco, I received  
17 successive promotions, ultimately to the position of Vice President of Energy  
18 Management Services of Ebasco Business Consulting Company. My  
19 responsibilities included the management of a staff of consultants engaged in  
20 providing services in the areas of econometric modeling, load and energy

1 forecasting, production cost modeling, planning, cost-of-service analysis,  
2 cogeneration, and load management.

3  
4 I joined the public accounting firm of Coopers & Lybrand in 1982 as a Manager of  
5 the Atlanta Office of the Utility Regulatory and Advisory Services Group. In this  
6 capacity I was responsible for the operation and management of the Atlanta office.  
7 My duties included the technical and administrative supervision of the staff,  
8 budgeting, recruiting, and marketing as well as project management on client  
9 engagements. At Coopers & Lybrand, I specialized in utility cost analysis,  
10 forecasting, load analysis, economic analysis, and planning.

11  
12 In January 1984, I joined the consulting firm of Kennedy and Associates as a Vice  
13 President and Principal. I became President of the firm in January 1991.

14  
15 During the course of my career, I have provided consulting services to more than  
16 thirty utility, industrial, and Public Service Commission clients, including three  
17 international utility clients.

18  
19 I have presented numerous papers and published an article entitled "How to Rate  
20 Load Management Programs" in the March 1979 edition of "Electrical World." My

1 article on "Standby Electric Rates" was published in the November 8, 1984 issue of  
2 "Public Utilities Fortnightly." In February of 1984, I completed a detailed analysis  
3 entitled "Load Data Transfer Techniques" on behalf of the Electric Power Research  
4 Institute, which published the study.

5  
6 I have presented testimony as an expert witness in Arizona, Arkansas, Colorado,  
7 Connecticut, Florida, Georgia, Indiana, Kentucky, Louisiana, Maine, Michigan,  
8 Minnesota, Maryland, Missouri, New Jersey, New Mexico, New York, North  
9 Carolina, Ohio, Pennsylvania, Texas, West Virginia, Wisconsin, Wyoming, Federal  
10 Energy Regulatory Commission and in United States Bankruptcy Court. A list of  
11 my specific regulatory appearances can be found in Baron Exhibit \_\_\_\_ (SJB-1)

12  
13 **Q. On whose behalf are you testifying in this proceeding?**

14  
15 A. I am testifying on behalf of The Kroger Co. ("Kroger"). Kroger is one of the  
16 largest grocery retailers in the United States, and operates 45 grocery stores in the  
17 Utah Power & Light ("UP&L") service territory under the Smith's banner.  
18 Kroger also operates dairy and dough manufacturing facilities in Utah. These  
19 facilities purchase more than 158 million kWh of electricity from UP&L annually,





1                                    **II. CLASS COST OF SERVICE AND RATE SPREAD**

2

3        **Q. Have you reviewed the Company’s 2008 test year cost of service study filed in**  
4        **this proceeding?**

5

6        A. Yes. The Company is utilizing a weighted 12 coincident peak and energy  
7        methodology to allocation production and transmission demand costs to rate classes.  
8        As described by Company witness Craig Paice, the monthly peaks are weighted by  
9        their relative value, compared to the annual system peak to obtain a weighted 12 CP.  
10       This weighted 12 CP factor is then weighted by 75% together with a 25% weighted  
11       energy factor to develop the overall production and transmission demand allocator.  
12       While I am not endorsing this methodology, for the purposes of my testimony in this  
13       case, I am relying on the results of Mr. Paice’s class cost of service study.

14

15       **Q. What are the class rate of return results produced by the Company’s test year**  
16       **2008 cost of service study?**

17

18       A. Table 1 summarizes the rates of return and the relative rate of return indices (“ROR  
19       Index”) for each of the major rate classes using the results of the Company’s study.

<b>Table 1</b>			
<b>WPL Class Cost of Service Results (including Special Contracts)</b>			
Schedule		Rate of <u>Return</u>	ROR <u>Index</u>
Residential	1	7.03%	1.05
Gen Lg Dist	6	8.23%	1.23
Gen + 1 MW	8	6.78%	1.01
Lighting	7,11,12	7.49%	1.12
Gen Trans	9	5.17%	0.77
Irrigation	10	0.83%	0.12
Traffic Sig	12	4.01%	0.60
Outdoor Ltg.	12	41.02%	6.11
Gen Sm Dist	23	5.65%	0.84
Mobile Hm	25	7.72%	1.15
Sp Contracts		0.09%	0.01
Retail		6.71%	

1  
2 The cost study results show that among the major revenue classes, Residential,  
3 Schedule 6 and Schedule 8 are over-earning at present rates, while Schedule 9,  
4 Schedule 23 and Special Contracts are paying less than cost of service at present  
5 rates.

6  
7 **Q. Are these results useful in developing an apportionment of the requested \$99.8**  
8 **million revenue increase to rate schedules?**

9  
10 A. Only partially. The reason is that these results suggest substantial rate increases are  
11 required for Special Contract customers. Based on the Company's cost of service  
12 study, Special Contract customers would receive an increase in excess of 25% to

1 produce the Company's requested target rate of return. This compares to the  
2 average retail increase of 7.5%. As explained by Company witness William  
3 Griffith, Special Contract rates are not being increased in this case, pursuant to the  
4 contract terms. While some of these contracts are specifically tied to rate schedules  
5 and will receive increases based on the underlying increases approved by the  
6 Commission for those rates schedules, the Company does not include the revenue  
7 increases in its revenue apportionment analysis.<sup>1</sup> As a result, the relative rates of  
8 return data needs to be adjusted to remove the impact of the Special Contract rate  
9 class.

10  
11 **Q. Have you developed an adjusted cost of service analysis that excludes the**  
12 **Special Contract class?**

13  
14 A. Yes. Kroger Exhibit\_\_(SJB-2) shows the results of the Company's cost of service  
15 analysis, adjusted to remove the Special Contract class. Table 2 below presents the  
16 rate of return and relative rate of return results from this revised analysis.

17  

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<sup>1</sup> Following final approval of the apportionment of the revenue increase to rate schedules, the Company will reflect any increases in Special Contract revenues.

<b>Table 2</b>			
<b>WPL Class Cost of Service Results</b>			
<b>(excluding Special Contracts)</b>			
<u>Schedule</u>		<u>Rate of</u> <u>Return</u>	<u>ROR</u> <u>Index</u>
Residential	1	7.03%	1.01
Gen Lg Dist	6	8.23%	1.18
Gen + 1 MW	8	6.78%	0.97
Lighting	7,11,12	7.49%	1.08
Gen Trans	9	5.17%	0.74
Irrigation	10	0.83%	0.12
Traffic Sig	12	4.01%	0.58
Outdoor Ltg.	12	41.02%	5.89
Gen Sm Dist	23	5.65%	0.81
Mobile Hm	25	7.72%	1.11
Retail		6.97%	

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**Q. Are the Company’s proposed revenue increases in this case consistent with these cost of service results?**

A. Yes. The Company is proposing to apportion the overall increase in a manner generally consistent with these results. However, the proposed rate spread continues to result in subsidies being paid by some rate schedules, particularly Schedule 6. Table 3 summarizes the rate schedule increases proposed by the Company and the resulting dollar subsidies remaining at proposed rates. These subsidies have been

1 calculated using the Company's cost of service results, excluding the Special  
2 Contract class (exhibit SJB-2).

<u>Schedule</u>		<u>Percentage Increase</u>	<u>Remaining Subsidy (\$1000)*</u>
Residential	1	7.84%	(1,517)
Gen Lg Dist	6	6.51%	(11,143)
Gen + 1 MW	8	7.84%	111
Lighting	7,11,12	7.84%	(427)
Gen Trans	9	7.84%	7,198
Irrigation	10	15.01%	1,686
Traffic Sig	12	3.01%	31
Outdoor Ltg.	12	7.84%	(298)
Gen Sm Dist	23	5.65%	4,377
Mobile Hm	25	7.84%	(19)
Retail		7.51%	

\* A negative value means that a subsidy is being paid by the rate class

3  
4 As can be seen from Table 3, although the Company is proposing to increase  
5 Schedule 6 by 6.5%, compared to the retail average increase of 7.5%, Schedule 6  
6 customers will continue to pay substantial dollar subsidies at proposed rates.

7  
8 **Q. Have you calculated the percentage increases necessary to remove at least 50%**  
9 **of the current dollar subsidies paid and received by each rate schedule?**

10  
11 **A.** Yes. Table 4 shows the rate schedule increases that would reduce present dollar  
12 subsidies by 50% at proposed rates. As can be seen, the percentage increases for

1 Schedule 6 would be 5.5%, compared to the 6.5% increase proposed by the  
2 Company.

<u>Schedule</u>	<u>Percentage Increase*</u>
Residential 1	7.66%
Gen Lg Dist 6	5.46%
Gen + 1 MW 8	7.67%
Lighting 7,11,12	5.17%
Gen Trans 9	9.54%
Irrigation 10	20.54%
Traffic Sig 12	11.78%
Outdoor Ltg. 12	-18.76%
Gen Sm Dist 23	10.19%
Mobile Hm 25	6.57%
Retail	7.51%

\*Proposed rates continue to include 50% of current dollar subsidies

3  
4  
5 Even with a 5.5% increase, rate Schedule 6 customers would continue to pay  
6 substantial dollar subsidies to other rate classes.

7  
8 **Q. In light of these results, what is your recommendation to the Commission?**

9  
10 A. While the Company's proposed rate spread is not unreasonable, it is appropriate to  
11 utilize any additional revenues produced by unaccounted for increases in Special  
12 Contract rates to further reduce the subsidies paid by Schedule 6 customers. These  
13 additional revenues, which will not be identified until the Commission approves the

1 overall revenue requirement increase and the rate spread issue, should be applied to  
2 Schedule 6, up to the amount necessary to at least reduce current dollar subsidies by  
3 50%. Based on the results shown in exhibit SJB-2, this would result in a maximum  
4 increase to Schedule 6 of 5.4% (assuming that the Company received its entire  
5 \$99.8 million increase).

6

7 **Q. Does that complete your testimony?**

8

9 A. Yes.

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