**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 Service Regulations** | **)** | **Docket No. 10-035-124** |

# DIRECT TESTIMONY

# AND EXHIBITS

# OF

# STEPHEN J. BARON

## Cost of Service and Rate Design

**ON BEHALF OF THE**

**KROGER CO.**

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

**June 2011**

**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 Service Regulations** | **)** | **Docket No. 10-035-124** |

**DIRECT TESTIMONY OF STEPHEN J. BARON**

## I. INTRODUCTION

**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.

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

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

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

A. I graduated from the University of Florida in l972 with a B.A. degree with high honors in Political Science and significant coursework in Mathematics and Computer Science. In 1974, I received a Master of Arts Degree in Economics, also from the University of Florida. My areas of specialization were econometrics, statistics, and public utility economics. My thesis concerned the development of an econometric model to forecast electricity sales in the State of Florida, for which I received a grant from the Public Utility Research Center of the University of Florida. In addition, I have advanced study and coursework in time series analysis and dynamic model building.

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

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

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

In December 1975, I joined the Utility Rate Consulting Division of Ebasco Services, Inc. as an Associate Consultant. In the seven years I worked for Ebasco, I received successive promotions, ultimately to the position of Vice President of Energy Management Services of Ebasco Business Consulting Company. My responsibilities included the management of a staff of consultants engaged in providing services in the areas of econometric modeling, load and energy forecasting, production cost modeling, planning, cost-of-service analysis, cogeneration, and load management.

I joined the public accounting firm of Coopers & Lybrand in 1982 as a Manager of the Atlanta Office of the Utility Regulatory and Advisory Services Group. In this capacity I was responsible for the operation and management of the Atlanta office.

My duties included the technical and administrative supervision of the staff, budgeting, recruiting, and marketing as well as project management on client engagements. At Coopers & Lybrand, I specialized in utility cost analysis, forecasting, load analysis, economic analysis, and planning.

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

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

I have presented numerous papers and published an article entitled "How to Rate Load Management Programs" in the March 1979 edition of "Electrical World." My article on "Standby Electric Rates" was published in the November 8, 1984 issue of "Public Utilities Fortnightly." In February of 1984, I completed a detailed analysis entitled "Load Data Transfer Techniques" on behalf of the Electric Power Research Institute, which published the study.

I have presented testimony as an expert witness in Arizona, Arkansas, Colorado, Connecticut, Florida, Georgia, Indiana, Kentucky, Louisiana, Maine, Michigan,

Minnesota, Maryland, Missouri, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Texas, Utah, Virginia, West Virginia, Wisconsin, Wyoming, before the Federal Energy Regulatory Commission ("FERC"), and in United States Bankruptcy Court. A list of my specific regulatory appearances can be found in Baron Exhibit ____ (SJB-1).

**Q. Have you previously participated in Rocky Mountain Power rate proceedings?**

A. Yes. I have testified in Docket Nos. 07-035-93 and 09-035-23 before the Public Service Commission of Utah and Docket Nos. 20000-277-ER-07 and 20000-384-ER-10 in before the Public Service Commission of Wyoming.

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

A. I am testifying on behalf of The Kroger Co. ("Kroger"). Kroger is one of the largest grocery retailers in the United States, and operates 45 grocery stores in the Rocky Mountain Power ("RMP") service territory under the Smith's banner. Kroger also operates dairy and dough manufacturing facilities in Utah. These facilities purchase more than 150 million kWh of electricity from RMP annually, with the retail facilities primarily purchasing under Rate Schedule 6, and the manufacturing facilities under Rate Schedule 9.

**Q. What is the purpose of your testimony?**

A. I am responding to the Direct Testimony of RMP witness William Griffith. Specifically, I will discuss RMP's proposed allocation of its requested $232.4 million revenue increase to each rate schedule ("rate spread") and assess the reasonableness of these increases, in light of the class cost of service study results presented by the Company in this case. While the Company's proposed increases give some recognition to cost of service, Mr. Griffith is recommending less than a 2 percentage point downward deviation from the average increase in this case (14.1%) for Schedules 6 and 23, which are significantly above cost of service at present rates. I will propose an alternative rate spread that more reasonably reflects class cost of service results, yet provides for a measure of gradualism.

I will also provide brief comments on the Company's class cost of service study supported by RMP witness Craig Paice.

**Q. Would you please summarize your testimony?**

A. Yes.

- Based on the results of the Company's filed class cost of service study, Schedules 6 and 23 are producing rates of return at present rates substantially above the system average rate of return. As a result, Schedule 6 is paying subsidies to other rate classes of $19 million. While RMP is proposing that Schedules 6 and 23 receive percentage increases below average, the Company's proposed rate

spread does not adequately reduce these significant subsidies at proposed rates.

- The Company's proposed rate spread should be modified so that Schedules 6 and 23 receive increases in this case 3 percentage points lower than the rate spread midpoint. At the Company's overall requested 14.1% increase, Schedules 6 and 23 should receive an 11.9% increase. The Company's proposed increases for other rate schedules should be adjusted to reflect a slightly higher rate spread midpoint that is required to meet the overall requested revenue target proposed by RMP.

- The Company's proposed rate design for Schedules 6 and 9, which reflects a uniform percentage increase to the demand and energy charges of each rate should be adopted by the Commission.

## II. CLASS COST OF SERVICE AND RATE SPREAD

**Q. Have you reviewed the Company's 12 month ended 2012 test year cost of service study filed in this proceeding?**

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

**Q. What are the class rate of return results produced by the Company's test year 2012 cost of service study?**

A. Table 1 summarizes the rates of return, relative rate of return indices ("ROR Index") and the dollar subsidies paid and received for each of the major rate classes using the results of the Company's study.

**Table 1**
**RMP Class Cost of Service Results**
**(including Special Contracts)**

| Schedule | | Rate of Return | ROR Index | Subsidy* ($000) |
|---|---|---|---|---|
| Residential | 1 | 5.39% | 0.95 | $ 6,104 |
| Gen Lg Dist | 6 | 6.97% | 1.23 | $ (19,035) |
| Gen + 1 MW | 8 | 5.53% | 0.97 | $ 646 |
| Lighting | 7,11,12 | 14.80% | 2.61 | $ (2,330) |
| Gen Trans | 9 | 4.00% | 0.71 | $ 11,516 |
| Irrigation | 10 | 4.10% | 0.72 | $ 726 |
| Traffic Sig | 12 | 5.76% | 1.02 | $ (1) |
| Outdoor Ltg. | 12 | 19.46% | 3.43 | $ (278) |
| Gen Sm Dist | 23 | 6.86% | 1.21 | $ (4,687) |
| Mobile Hm | 25 | 3.45% | 0.61 | $ 77 |
| Sp Contracts | | 1.88% | 0.33 | 7,263 |
| Retail | | 5.67% | | $ 0 |

* Positive value indicates subsidy being received.

The cost study results show that among the major revenue classes, Schedule 6 and Schedule 23 are over-earning at present rates, while Schedules 1 (residential) 8, 9 and Special Contracts are paying less than cost of service at present rates. In particular, Schedule 6 is paying $19.0 million above cost of service.

**Q. Are these results useful in developing an apportionment of the requested $232.4 million revenue increase to rate schedules?**

A. Only partially. The reason is that these results suggest substantial rate increases are required for Special Contract customers. Based on the Company's cost of service study (Paice Exhibit CCP-1), Special Contract customers would receive increases in excess of 21% to produce the Company's requested target rate of return. This compares to the average retail increase of 14.1%. As explained by Company witness William Griffith, Special Contract rates are established by a combination of tariff rates and contractual rates. While some of these contracts are specifically tied to rate schedules and will receive increases based on the underlying increases approved by the Commission for those rates schedules, two of the contracts have specified rates that are not tied to specific rate schedules. As a result, it is appropriate to look at the relative rates of return data on an adjusted basis to remove the impact of these two Special Contract customers.

**Q. Have you developed adjusted relative rates of return for each rate class that excludes these Special Contract customers?**

A. Yes. Table 2 below presents the rate of return and relative rates of return, excluding the two Special Contracts.

**Table 2**
**RMP Class Cost of Service Results**
**(excluding Special Contracts B&C)**

| Schedule | | Rate of Return | ROR Index |
|---|---|---|---|
| Residential | 1 | 5.56% | 0.94 |
| Gen Lg Dist | 6 | 7.10% | 1.20 |
| Gen + 1 MW | 8 | 5.62% | 0.95 |
| Lighting | 7,11,12 | 14.71% | 2.48 |
| Gen Trans | 9 | 4.09% | 0.69 |
| Irrigation | 10 | 4.20% | 0.71 |
| Traffic Sig | 15 | 5.82% | 0.98 |
| Outdoor Ltg. | 15 | 19.20% | 3.24 |
| Gen Sm Dist | 23 | 6.99% | 1.18 |
| Mobile Hm | 25 | 3.61% | 0.61 |
| Sp Contract | A | 2.88% | 0.49 |
| Retail | | 5.92% | |

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

A. Only to the extent that rate classes, such as Schedule 6 are receiving a percentage increase that is two percentage points below the retail average increase of 14.1%. However, as acknowledged by Mr. Griffith on page 3 at line 55 of his testimony, Schedule 6 should receive an increase that is four percentage points below the retail average, based on the cost of service study supported by the Company. Effectively, the proposed rate spread continues to result in subsidies being paid by some rate

schedules, particularly Schedule 6 and Schedule 23. Table 3 summarizes the rate schedule increases proposed by the Company and the resulting dollar subsidies remaining at proposed rates.

**Table 3**
**RMP Proposed Revenue Increases**
**(excluding Special Contracts B&C)**

| Schedule | | Percentage Increase | Remaining Subsidy ($000)* |
|---|---|---|---|
| Residential | 1 | 14.58% | 10,158 |
| Gen Lg Dist | 6 | 12.58% | (13,492) |
| Gen + 1 MW | 8 | 14.58% | 250 |
| Lighting | 7,11,12 | -0.01% | (1,186) |
| Gen Trans | 9 | 16.58% | 6,046 |
| Irrigation | 10 | 18.58% | 455 |
| Traffic Sig | 15 | 14.58% | (11) |
| Outdoor Ltg. | 15 | 0.00% | (184) |
| Gen Sm Dist | 23 | 12.58% | (2,978) |
| Sp Contract | A | 15.15% | 941 |
| Retail | | 14.13% | |

* A negative value means that a subsidy is being paid by the rate class
Rate 25 customers are included in results for Rates 6 and 23

As can be seen from Table 3, the Company is proposing to increase Schedule 6 by 12.6%, compared to the retail average increase of 14.1%. However, Schedule 6 customers will continue to pay millions of dollars of subsidies at proposed rates.

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

A. While the Company's proposed rate spread is not unreasonable, I recommend that the increases for Schedules 6 and 23 be at least three percentage points below the average retail increase approved by the Commission in this case. For the other rate classes, I recommend that the Company's rate spread parameters be utilized, adjusted for the new rate spread midpoint of 14.93%. Baron Exhibit__(SJB-2) presents the proposed rate class increases that I am recommending. Also shown in the exhibit are the increases for each major rate class based on Mr. Paice's cost of service analysis, presented in his Exhibit RMP__(CCP-1), page 2 of 2. As can be seen, my recommended increases represent only a partial movement towards full cost based increases. Table 4 below summarizes the results of this rate spread proposal.

**Table 4**
**Kroger Proposed Increases**

| Class | Proposed Increase |
|---|---|
| Residential | 14.9% |
| General Service | |
| Schedule 23 | 11.9% |
| Schedule 6 | 11.9% |
| Schedule 8 | 14.9% |
| Schedule 9 | 16.9% |
| Irrigation | 18.9% |

**Q. Have you reviewed the Company's proposals for Rate Schedules 6 and 9 rate design presented by Mr. Griffith in this case?**

A. Yes. The Company is proposing to uniformly increase the demand and energy rates of both rate schedules in this case.

**Q. Do you agree with the uniform increases to the Rate Schedule 6 and 9 energy and demand charges, as proposed by the Company in this case?**

A. Yes. I believe that the Company's proposed rate design for these two schedules is reasonable and should be adopted by the Commission. The Company's rate design proposals would result in relatively uniform increases for customers within each of these rate schedules.

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

A. Yes.

**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 Service Regulations** | **)** | **Docket No. 10-035-124** |

# EXHIBITS

# OF

# STEPHEN J. BARON

## Cost of Service and Rate Design

**ON BEHALF OF THE**

**KROGER CO.**

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

**June 2011**