

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. 09-035-23

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

**ON BEHALF OF THE
KROGER CO.**

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

October 2009

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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, Utah, Virginia, West Virginia, Wisconsin, and
10 Wyoming, before the Federal Energy Regulatory Commission ("FERC"), and in
11 United States Bankruptcy Court (Middle District of Louisiana). A list of my
12 specific regulatory appearances can be found in Baron Exhibit____ (SJB-1).

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

15
16 A. I am testifying on behalf of The Kroger Co. ("Kroger"). Kroger is one of the
17 largest grocery retailers in the United States, and operates 45 grocery stores in the
18 Utah Power & Light ("UP&L") service territory under the Smith's banner.
19 Kroger also operates dairy and dough manufacturing facilities in Utah. These
20 facilities purchase more than 150 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 12 month ended June 2010 projected test**
4 **year cost of service study filed in 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 **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.

Table 1			
UPL Class Cost of Service Results			
12 Months Ended June 2010			
(including Special Contracts)			
Schedule		<u>Rate of Return</u>	<u>ROR Index</u>
Residential	1	8.73%	1.16
Gen Lg Dist	6	7.74%	1.03
Gen + 1 MW	8	7.07%	0.94
Lighting	7,11,12	17.23%	2.30
Gen Trans	9	5.16%	0.69
Irrigation	10	3.21%	0.43
Traffic Sig	12	6.16%	0.82
Outdoor Ltg.	12	42.34%	5.65
Gen Sm Dist	23	7.57%	1.01
Mobile Hm	25	8.79%	1.17
Sp Contracts		0.54%	0.07
Retail		7.49%	

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

Q. Are these results useful in developing an apportionment of the requested \$66.9 million revenue increase to rate schedules?

1 A. Only partially. The reason is that these results suggest substantial rate increases are
2 required for Special Contract customers. Based on the Company's cost of service
3 study, Special Contract customers would receive increases in ranging from 17% to
4 40% to produce the Company's requested target rate of return. This compares to the
5 average retail increase of 4.5%. As explained by Company witness William
6 Griffith, Special Contract rates are not being increased in this case, pursuant to the
7 contract terms. However, a number of these contracts are expiring at the end of
8 2009 and are being renegotiated. Presumably, any increases produced by these
9 negotiations will be credited against the final approved increases to non-special
10 contract customers.

11

12 **Q. Are the Company's proposed revenue increases in this case reasonable, in light**
13 **of the cost of service results?**

14

15 A. Yes. The Company is proposing to apportion the overall increase in a reasonable
16 manner. The residential class, which is shown to have a rate of return index of 1.16
17 at present rates is being increased by 4%, which is almost 1% lower than the system
18 average, Rate 6 is receiving about an average increase and Rates 8 and 9 are
19 receiving increases that are 1.2% above the system average.

20

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

2

3 **A.** **Yes.**

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