

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) Docket No. 09-035-23
Proposed Electric Service Schedules and Electric)
Service Regulations)**

DIRECT TESTIMONY

AND EXHIBITS

OF

STEPHEN J. BARON

Rate Design

ON BEHALF OF THE

KROGER CO.

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

February 2010

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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

1 providing services in the areas of econometric modeling, load and energy
2 forecasting, production cost modeling, planning, cost-of-service analysis,
3 cogeneration, and load management.

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

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

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

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

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

15
16 **Q. On whose behalf are you testifying in this proceeding?**

17
18 A. I am testifying on behalf of The Kroger Co. ("Kroger"). Kroger is one of the
19 largest grocery retailers in the United States, and operates 45 grocery stores in the

1 Rocky Mountain Power (“RMP”) service territory under the Smith’s banner.
2 Kroger also operates dairy and dough manufacturing facilities in Utah. These
3 facilities purchase more than 150 million kWh of electricity from RMP annually,
4 with the retail facilities primarily purchasing under Rate Schedule 6, and the
5 manufacturing facilities under Rate Schedule 9.
6

7 **Q. What is the purpose of your testimony?**
8

9 A. I am responding to the Direct Testimony of RMP witness William Griffith regarding
10 the Company’s rate design recommendations for Rate Schedules 6 and 9. As part of
11 my testimony, I will also address some rate design issues raised by Department of
12 Public Utilities (“DPU”) witness Abdinasir Abdulle in comments submitted in the
13 Utah DSM Rate Design Working Group report to the Commission of May 11, 2009.
14 These comments concern Schedule 6 rate design, which is an issue in this case.
15

16 **Q. Have you reviewed the Company’s proposals for Rate Schedules 6 and 9 rate**
17 **design contained in the June 2009 testimony of Mr. Griffith in this case?**
18

1 A. Yes. The Company is proposing to uniformly increase the demand and energy rates
2 of both rate schedules in this case. Though he does not specifically address rate
3 design in his rebuttal testimony, Mr. Griffith does present updated rates reflecting
4 the Company’s revised revenue requirements and updated billing determinants. As
5 noted on page 2 of his testimony at lines 25 and 26, “the structure of these proposals
6 is unchanged from my original proposals in this case.” A review of his Exhibit
7 RMP__(WRG-4R) shows that the demand and energy rates for the updated Rate
8 Schedules 6 and 9 reflect uniform increases.

9

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

12

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

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18 **Q. Has the DPU Staff previously indicated opposition to such uniform increases in**
19 **the demand and energy charges for Rate Schedule 6?**

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A. Yes. The DPU Staff has suggested in its comments in the May 11, 2009 Report to the Utah Public Service Commission on Rate Designs that Promote Energy Efficiency and Conservation that low load factor customers may be subsidizing high load factor customers.¹ More specifically, in testimony in Docket No. 07-035-93, Dr. Abdulle of the DPU testified that the Company’s proposed uniform increases to the Rate Schedule 6 demand and energy charges in that case were “unfair to the low load factor customers and a disincentive to conserve energy.”²

Q. Have you reviewed evidence in this case that supports the Company’s proposed uniform increase to Rate Schedule 6 and 9 demand and energy charges?

A. Yes. The Company has developed unit cost of service results for both its original and updated class cost of service studies supported by Company witness Paice. A unit cost study summarizes rate class specific functionalized revenue requirements (for example, demand related generation costs) and a “per billing unit” basis. For energy related costs, the billing units would be kWh sales.

¹ DPU comments on page 13 of the report.
² Direct Testimony of Abdinasir Abdulle on Cost of Service and Rate Design, Docket No. 07-035-93, July 21, 2008 at page 20, line 554.

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Baron Exhibit__(SJB-2) summarizes the unit cost of service results for both of Mr. Paice’s class cost of service studies.³ The top portion of the exhibit shows the functional revenue requirements for the total Utah jurisdiction. As can be seen, there are two energy related functions: “Generation-Energy” and “Transmission-Energy.” A corresponding set of function revenue requirements that have been allocated to Rate Schedule 6 appear at the lower portion of the exhibit. The total energy related revenue requirements for Rate Schedule 6 are \$177.6 million based on the original cost of service study and \$176.4 million based on the updated study presented in Mr. Paice’s rebuttal testimony. Based on test year billing kWh for Schedule 6, the unit energy cost is 3.05 cents/kWh and 3.03 cents/kWh in the two cost of service studies.

Q. How do these unit cost of service results compare to the Company’s proposed Rate Schedule 6 energy charges?

A. This comparison is shown in Table 1 below. The weighted average Rate Schedule 6 energy rate exceeds the unit cost of energy in both the original and rebuttal

³ The original study was supported in Mr. Paice’s June 2009 testimony; the updated study was supported in his November 2009 rebuttal testimony.

1 proposals of the Company in this case. For example, the proposed weighted average
2 Schedule 6 energy rate presented by Mr. Griffith in his rebuttal testimony is 3.10
3 cents/kWh.⁴ This Schedule 6 energy rate is 0.07 cents/kWh greater than unit energy
4 cost (2.9% greater).

Table 1
**Comparison of RMP Proposed Schedule 6 Energy Charge
to Unit Energy Cost of Service**

	kWh	Initial Filing	Rebuttal Filing
kWh (May - Sept)	2,496,078,183	3.2807	3.2433
kWh (Oct - Apr)	<u>3,017,958,587</u>	<u>3.0251</u>	<u>2.9902</u>
Weighted Average	5,514,036,770	3.1408	3.1048
Unit Energy Cost		3.0512	3.0315
Difference		0.0896	0.0733
% Difference		2.9%	2.9%

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7
8 **Q. What is the implication of this comparison of the Company's proposed Rate**
9 **Schedule 6 energy charges to unit cost?**

10
11 A. The comparison clearly demonstrates that the Company's proposed uniform
12 percentage increase to Rate Schedule 6 demand and energy charges is supported by
13 underlying cost of service evidence and should be adopted by the Commission.

⁴ The Rate Schedule 6 summer and winter energy rates have been weighted by respective summer and winter kWh usage.

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

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4 **A.** Yes.

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