

**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. 11-035-200  
Proposed Electric Service Schedules and Electric )  
Service Regulations )**

**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 2012**

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

9  
10       **Q.    Please state your educational background.**

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

20  
21       **Q.    Please describe your professional experience.**

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

3  
4             Following the completion of my graduate work in economics, I joined the staff of  
5             the Florida Public Service Commission in August of 1974 as a Rate Economist. My  
6             responsibilities included the analysis of rate cases for electric, telephone, and gas  
7             utilities, as well as the preparation of cross-examination material and the preparation  
8             of staff recommendations.

9  
10            In December 1975, I joined the Utility Rate Consulting Division of Ebasco Services,  
11            Inc. as an Associate Consultant. In the seven years I worked for Ebasco, I received  
12            successive promotions, ultimately to the position of Vice President of Energy  
13            Management Services of Ebasco Business Consulting Company. My  
14            responsibilities included the management of a staff of consultants engaged in  
15            providing services in the areas of econometric modeling, load and energy  
16            forecasting, production cost modeling, planning, cost-of-service analysis,  
17            cogeneration, and load management.

18  
19            I joined the public accounting firm of Coopers & Lybrand in 1982 as a Manager of  
20            the Atlanta Office of the Utility Regulatory and Advisory Services Group. In this  
21            capacity I was responsible for the operation and management of the Atlanta office.

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

5  
6 In January 1984, I joined the consulting firm of Kennedy and Associates as a Vice  
7 President and Principal. I became President of the firm in January 1991.

8  
9 During the course of my career, I have provided consulting services to more than  
10 thirty utility, industrial, and Public Service Commission clients, including three  
11 international utility clients.

12  
13 I have presented numerous papers and published an article entitled "How to Rate  
14 Load Management Programs" in the March 1979 edition of "Electrical World." My  
15 article on "Standby Electric Rates" was published in the November 8, 1984 issue of  
16 "Public Utilities Fortnightly." In February of 1984, I completed a detailed analysis  
17 entitled "Load Data Transfer Techniques" on behalf of the Electric Power Research  
18 Institute, which published the study.

19  
20 I have presented testimony as an expert witness in Arizona, Arkansas, Colorado,  
21 Connecticut, Florida, Georgia, Indiana, Kentucky, Louisiana, Maine, Michigan,

1 Minnesota, Maryland, Missouri, New Jersey, New Mexico, New York, North  
2 Carolina, Ohio, Pennsylvania, Texas, Utah, Virginia, West Virginia, Wisconsin,  
3 Wyoming, before the Federal Energy Regulatory Commission (“FERC”), and in  
4 United States Bankruptcy Court. A list of my specific regulatory appearances can be  
5 found in Baron Exhibit \_\_\_\_ (SJB-1).  
6

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

8 A. Yes. I have testified in Docket Nos. 07-035-93, 09-035-23 and 10-035-124 before  
9 the Public Service Commission of Utah and Docket Nos. 20000-277-ER-07 and  
10 20000-384-ER-10 in before the Public Service Commission of Wyoming.  
11

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

13  
14 A. I am testifying on behalf of The Kroger Co. (“Kroger”). Kroger is one of the  
15 largest grocery retailers in the United States, and operates 45 grocery stores in the  
16 Rocky Mountain Power (“RMP”) service territory under the Smith’s banner.  
17 Kroger also operates dairy and dough manufacturing facilities in Utah. These  
18 facilities purchase more than 150 million kWh of electricity from RMP annually,  
19 with the retail facilities primarily purchasing under Rate Schedule 6, and the  
20 manufacturing facilities under Rate Schedule 9.  
21

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

2       A.     I am responding to the Direct Testimony of RMP witness William Griffith.  
3             Specifically, I will discuss RMP's proposed allocation of its requested \$172.3  
4             million revenue increase to each rate schedule ("rate spread") and assess the  
5             reasonableness of these increases, in light of the class cost of service study results  
6             presented by the Company in this case. While the Company's proposed increases  
7             give some recognition to cost of service, Mr. Griffith is recommending only a 1.5  
8             percentage point downward deviation from the average increase in this case (10.0%,  
9             excluding Contracts 1, 2 and AGA) for Schedules 6 and 23, which are significantly  
10            above cost of service at present rates. While this provides some relief to the  
11            continuing overpayments by Schedule 6 and 23 customers, I will propose an  
12            alternative rate spread that more reasonably reflects class cost of service results, yet  
13            provides for a measure of gradualism.

14

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

16       A.     Yes.

17                    ▪     Based on the results of the Company's filed class cost of service  
18                    study, Schedules 6 and 23 are producing rates of return at present  
19                    rates substantially above the system average rate of return. As a  
20                    result, Schedule 6 is paying subsidies to other rate classes of \$17  
21                    million. While RMP is proposing that Schedules 6 and 23 receive  
22                    percentage increases below average, the Company's proposed rate  
23                    spread does not adequately reduce these significant subsidies at  
24                    proposed rates.

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- The Company's proposed rate spread should be modified so that Schedules 6 and 23 receive increases in this case 4 percentage points lower than the rate spread midpoint. At the Company's overall requested 10% increase, Schedules 6 and 23 should receive an 7.25% 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.



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

2

3        **Q. Have you reviewed the Company’s 12 month ended May 2013 test year cost of**  
4        **service study filed in this proceeding?**

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

13

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

16       A. Table 1 summarizes the rates of return, relative rate of return indices (“ROR Index”)  
17       and the dollar subsidies paid and received for each of the major rate classes using the  
18       results of the Company’s study.

<b>Table 1</b>				
<b>RMP Class Cost of Service Results (including Special Contracts)</b>				
<u>Schedule</u>		<u>Rate of Return</u>	<u>ROR Index</u>	<u>Subsidy* (\$000)</u>
Residential	1	5.64%	0.93	\$ 9,723
Gen Lg Dist	6	7.15%	1.18	\$ (16,993)
Gen + 1 MW	8	6.43%	1.06	\$ (1,719)
Lighting	7,11,12	10.43%	1.72	\$ (1,096)
Gen Trans	9	4.64%	0.77	\$ 10,410
Irrigation	10	4.75%	0.79	\$ 657
Traffic Sig	12	6.23%	1.03	\$ (3)
Outdoor Ltg.	12	16.03%	2.65	\$ (215)
Gen Sm Dist	23	7.49%	1.24	\$ (5,990)
Sp Contracts		2.82%	0.47	5,226
Retail		6.05%		\$ 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, 10 and Special Contracts are paying less than cost of service at present rates. In particular, Schedule 6 is paying \$17.0 million above cost of service.

**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 1.5 percentage points below the retail average increase (8.5% vs. 10%). However, as acknowledged by Mr. Griffith in his testimony, Schedule 6 and

1           Schedule 23 “should receive an increase about four to five percentage points,  
2           respectively, less than the rate spread midpoint.”<sup>1</sup> This would equate to an increase  
3           for Schedule 6 of about 6% compared to the retail average increase of 10%. The  
4           Company is proposing an 8.5% increase for Schedule 6. Effectively, the proposed  
5           rate spread continues to result in subsidies being paid by some rate schedules,  
6           particularly Schedule 6 and Schedule 23. Table 2 summarizes the rate schedule  
7           percentage increases proposed by the Company and the resulting dollar subsidies  
8           remaining at proposed rates.<sup>2</sup>

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<sup>1</sup> Griffiths Direct Testimony at page 3, line 65.

<sup>2</sup> Table 2 excludes the effects of Special Contracts 1 and 2 that are not subject to revenue increases in this case.

<b>Table 2</b>			
<b>RMP Proposed Revenue Increases (excluding Special Contracts 1 &amp; 2)</b>			
<u>Schedule</u>		<u>Percentage Increase</u>	<u>Remaining Subsidy (\$1000)*</u>
Residential	1	10.54%	12,550
Gen Lg Dist	6	8.54%	(10,611)
Gen + 1 MW	8	9.54%	(1,324)
Lighting	7,11,12	0.00%	(350)
Gen Trans	9	12.53%	3,912
Irrigation	10	13.54%	413
Traffic Sig	15	9.54%	(8)
Outdoor Ltg.	15	0.00%	(151)
Gen Sm Dist	23	8.53%	(4,431)
Retail		10.03%	

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

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As can be seen from Table 2, although the Company is proposing to increase Schedule 6 by 8.54%, compared to the retail average increase of 10%, Schedule 6 customers will continue to pay \$10.6 million in subsidies to other rate classes at proposed rates.

**Q. Has any reduction in the subsidies paid by Schedule 6 customers occurred since the Company's last rate case filing?**

A. Only slightly. In the class cost of service study filed by the Company in Docket No. 10-035-124, RMP showed that Schedule 6 was paying more than \$19 million in

1 subsidies to other rate schedules (i.e., paying \$19 million above cost). In this case,  
2 that substantial dollar subsidy payment continues, though it is now shown to be  
3 about \$17 million. It is simply not possible to materially reduce these enormous  
4 subsidies using the rate spread proposal recommended by Mr. Griffiths in this case.  
5 Year after year, Schedule 6 customers continue to millions of dollars of excess rates  
6 to subsidize the electric service of other RMP customers.

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

9 A. While the Company's proposed rate spread makes a small "dent" in the  
10 overpayments made by Schedule 6 and Schedule 23 customers, it is not a reasonable  
11 movement towards cost based rates. I recommend that the increases for Schedules 6  
12 and 23 be at 2.75 percentage points below the average retail increase approved by  
13 the Commission in this case by setting the increases for these two Schedules 4  
14 percentage points below the rate spread midpoint. For the other rate classes, I  
15 recommend that the Company's rate spread parameters be utilized, adjusted for my  
16 proposed rate spread midpoint of 11.25%. Baron Exhibit\_\_(SJB-2) presents the  
17 proposed rate class increases that I am recommending. Also shown in the exhibit  
18 are the increases for each major rate class based on Mr. Paice's cost of service  
19 analysis, presented in his Exhibit RMP\_\_(CCP-1), page 2 of 2. As can be seen, my  
20 recommended increases represent only a partial movement towards full cost based  
21 increases. Table 3 below summarizes the results of this rate spread proposal.

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<u>Class</u>	<u>Proposed Increase</u>
Residential	11.25%
General Service	
Schedule 23	7.24%
Schedule 6	7.25%
Schedule 8	10.25%
Schedule 9	13.25%
Irrigation	14.25%

2

3

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

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

8

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

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

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

3     **A.**     **Yes.**

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