

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. 13-035-184
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**

May 2014

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

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

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

5

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

11

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

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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

1 "Public Utilities Fortnightly." In February of 1984, I completed a detailed analysis
2 entitled "Load Data Transfer Techniques" on behalf of the Electric Power Research
3 Institute, which published the study.

4
5 I have presented testimony as an expert witness in Arizona, Arkansas, Colorado,
6 Connecticut, Florida, Georgia, Indiana, Kentucky, Louisiana, Maine, Michigan,
7 Minnesota, Maryland, Missouri, New Jersey, New Mexico, New York, North
8 Carolina, Ohio, Pennsylvania, Texas, Utah, Virginia, West Virginia, Wisconsin,
9 Wyoming, before the Federal Energy Regulatory Commission ("FERC"), and in
10 United States Bankruptcy Court. A list of my specific regulatory appearances can
11 be found in Baron Exhibit ____ (SJB-1).

12
13 **Q. Have you previously participated in Rocky Mountain Power rate proceedings?**

14 A. Yes. I have presented testimony in Docket Nos. 07-035-93, 09-035-23, 10-035-124
15 and 11-035-200 before the Public Service Commission of Utah and Docket Nos.
16 20000-277-ER-07 and 20000-384-ER-10 before the Public Service Commission of
17 Wyoming.

18
19 **Q. On whose behalf are you testifying in this proceeding?**

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

9

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

11 A. I am responding to the Direct Testimony of RMP witness Joelle Steward. I will
12 discuss the continuing subsidies being paid by Schedule 6 customers, based on the
13 class cost of service study results presented by the Company in this case. As I will
14 discuss, Schedule 6 is paying rates that are significantly above cost of service.
15 Though the Company has proposed a lower than average increase to Schedule 6, the
16 subsidies actually increase at proposed rates. I will address this problem and discuss
17 a recommendation to use any Commission authorized reductions in the Company’s
18 requested increase to address this subsidy problem, while continuing to recognize
19 gradualism, especially for the residential class.

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I will also address RMP's proposed rate design for Schedule 6. As in the past few General Rate cases, the Company is proposing a uniform increase to the Schedule 6 demand and energy charges. However, based on RMP's cost of service study, the proposed Schedule 6 energy charge will substantially exceed the unit cost of energy. I will propose an alternative, revenue neutral, rate design that is consistent with the Company's cost of service results for Schedule 6 energy and demand charges.

Q. Would you please summarize your testimony?

A. Yes.

- Based on the results of the Company's filed class cost of service study, Schedule 6 is producing a rate 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 \$25 million. While RMP is proposing that Schedule 6 receive a percentage increase below average, the Company's proposed rate spread does not reduce the significant subsidies paid by Schedule 6 customers at proposed rates.
- The subsidies paid by Schedule 6 for the June 2015 test year reflect a continuation of a pattern that has existed for a number of years. During this time, customers on Schedule 6 have been substantially overpaying for service, based on the Company's class cost of service studies filed in prior cases. This is despite various attempts to move rates towards cost of service. As I show in this case, the subsidies are actually getting worse over time. The Commission should take note of this history of overpayment and use any reductions in the Company's requested overall revenue increase to reduce subsidies in this case and in future cases.

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- The Company’s proposed rate design for Schedule 6 should be revised to more reasonably reflect the unit energy and demand costs associated with this rate schedule. This requires that the Company’s proposed Schedule 6 energy charges be reduced and the demand charges be increased in this case. This rate design change should be performed in a revenue neutral manner so that the resulting energy revenue decrease offsets the demand revenue increase).

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

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3 **Q. Have you reviewed the Company’s 12 month ended June 2015 test year cost of**
4 **service study filed in this proceeding?**

5 A. Yes. The Company is utilizing a 12 coincident peak and energy methodology to
6 allocate production and transmission demand costs to rate classes. As described by
7 Company witness Steward, the cost of service model uses a 75% demand, 25%
8 energy classification following the Jurisdictional Allocation Model (“JAM”) SG
9 factor methodology to allocate production and transmission fixed, demand related
10 costs. While I am not endorsing this methodology, for the purposes of my testimony
11 in this case, I am relying on the results of Ms. Steward’s class cost of service study.

12

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

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

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Table 1				
RMP Class Cost of Service Results at Present Rates				
Schedule	Return on Rate Base	Rate of Return Index	Subsidy Received/(Paid) (\$000)	
Residential	1	6.33%	0.91	14,168
Gen Lg Dist	6	8.51%	1.23	(25,181)
Gen + 1 MW	8	7.18%	1.04	(1,254)
Lighting	7,11,12	11.20%	1.62	(1,100)
Gen Trans	9	5.23%	0.75	14,566
Irrigation	10	5.92%	0.85	514
Traffic Sig	15	3.97%	0.57	53
Outdoor Ltg.	15	19.35%	2.79	(291)
Gen Sm Dist	23	7.84%	1.13	(4,051)
Sp Contract	1	4.03%	0.58	2,614
Sp Contract	2	6.97%	1.01	(36)
				-
Total Utah Jurisdiction		6.93%	1.00	(0)

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The cost study results show that among the major revenue classes, Schedules 6, 23 and 8 are over-earning at present rates, while Schedules 1 (residential) 9, 10 and Special Contract 1 are paying less than cost of service at present rates. In particular, Schedule 6 is paying \$25.0 million above cost of service at present rates.

Q. Did Schedule 6 pay rates above cost of service in the Company's prior rate case?

1 A. Yes. In fact, Schedule 6 has been paying millions of dollars of subsidies to other
2 rate schedules for many years. Table 2 below summarizes the results of Schedule 6
3 subsidy payments to other rate classes, as calculated by RMP in its prior two rate
4 cases in Utah and the subsidies in this case.

<u>Docket</u>	<u>Subsidy</u>
10-035-124	\$ 19,000,000
11-035-200	\$ 17,000,000
13-035-184	\$ 25,000,000

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6 Clearly, there has been a systematic overcharging of Schedule 6 customers for many
7 years, with no real mitigation or movement to materially correct this problem.

8
9 **Q. Do the Company's proposed rate schedule revenue increases in this case**
10 **address this Schedule 6 subsidy problem?**

11 A. No. While Ms. Steward proposes to increase Schedule 6 by 2.09% versus the
12 4.05% retail average increase, the dollar subsidies paid by Schedule 6 will actually
13 increase at proposed rates. Table 3 compares the Company's proposed rate schedule
14 increases to the increases required at cost of service based rates. As can be seen in
15 the table, the dollar subsidy that will be paid by Schedule 6 at the Company's

1 proposed rates is \$32.4 million. This represents an increase in the subsidies paid by
2 Schedule 6 of \$7 million.

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Schedule	Proposed Rate Increases (Decreases)	Rate Increases (Decreases) @Cost of Service*	Subsidy Received/(Paid) At RMP Proposed Rates	Change In Subsidy: Proposed vs. Present Rates**
Residential 1	33,684	51,993	18,309	4,142
Gen Lg Dist 6	10,894	(21,051)	(31,945)	6,764
Gen + 1 MW 8	6,646	4,312	(2,334)	1,080
Lighting 7,11,12	-	(1,461)	(1,461)	361
Gen Trans 9	16,743	34,024	17,281	2,715
Irrigation 10	850	1,452	603	89
Traffic Sig 15	48	107	59	6
Outdoor Ltg. 15	-	(442)	(442)	150
Gen Sm Dist 23	4,258	(1,055)	(5,313)	1,262
Sp Contract 1	-	5,326	5,326	2,712
Sp Contract 2	-	1,017	1,017	981
Other Rates*	2,029	2,029		
Total Utah Jurisdiction	75,152	76,252	1,100	

*Adjusted for Increases to SpC 3, 31, 21 that are treated as revenue credits in cost of service study.
** A positive value indicates that the amount of subsidy (paid or received) has increased at proposed rates.

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

7 A. I believe that a reasonable policy for the Commission to adopt is one that considers
8 the significant subsidies paid by Schedule 6 and the impact of a subsidy reduction
9 remedy on the residential class. If the Commission approves a revenue increase less

1 A. No. Based on my review of the unit cost of service information developed by the
2 Company as part of the class cost of service study, a uniform increase to the
3 Schedule 6 energy charge cannot be justified. A unit cost study summarizes rate
4 class specific functionalized revenue requirements (for example, demand related
5 generation costs) on a “per billing unit” basis. For energy related costs, the billing
6 units would be kWh sales.

7
8 Baron Exhibit__(SJB-2) summarizes the unit cost of service results from Ms.
9 Steward’s class cost of service study. The top portion of the exhibit shows the
10 functional revenue requirements for the total Utah jurisdiction. As can be seen,
11 there are two energy related functions: “Generation-Energy” and “Transmission-
12 Energy.” The total energy related revenue requirements for Rate Schedule 6 are
13 \$214.6 million. Based on test year billing kWh for Schedule 6, the unit energy cost
14 is 3.53 cents/kWh (line 33).

15
16 **Q. How do the unit cost of service results compare to the Company’s proposed**
17 **Rate Schedule 6 energy charges?**

18 A. This comparison is shown in Table 4 below.

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Table 4	
Schedule 6 - kWh Energy Rate	
(cents/kWh)	
Present Rates	3.6471
RMP Proposed Rates	3.7242
Unit Cost	3.5296
Kroger Proposed Rate	3.5315

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The Company's proposed summer/winter weighted average Schedule 6 energy rate exceeds the unit cost of energy at both present and proposed rates (by 5.5% at proposed RMP rates). I have redesigned Schedule 6 to reduce the summer and winter period energy rates so that the weighted average rate equals the unit energy cost. The residual energy revenue is recovered from the kW demand changes in a revenue neutral manner so that total revenues for Schedule 6 remain the same. The proof of revenue for the Kroger revised Schedule 6 rate is shown in Baron Exhibit__(SJB-3).

Q. In the likely event that the Commission approves a revenue increase level lower than the \$76.3 million requested by the Company, how should your rate design proposal for Schedule 6 be adjusted?

1 A. The energy charges for Schedule 6 should be developed in the manner that I am
2 recommending, which would follow the unit cost of service adjusted to reflect the
3 Commission authorized increase. This rate design recommendation should be
4 implemented regardless of the approved rate spread.

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

7 A. Yes.

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