BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

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. 20-035-04**

DIRECT TESTIMONY

AND EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE KROGER CO.

BAUDINO REGULATORY CONSULTING, INC.

SEPTEMBER 15, 2020

I. INTRODUCTION AND SUMMARY

Q. Please state your name and business address.

A. My name is Richard A. Baudino. My business address is Baudino Regulatory Consulting, Inc., 1347 Frye Road, Westfield, NC.

Q. What is your occupation and by whom are you employed?

A. I am a regulatory consultant and the President/Owner of Baudino Regulatory Consulting, Inc.

Q. Please describe your education and professional experience.

A. I received my Master of Arts degree with a major in Economics and a minor in Statistics from New Mexico State University in 1982. I also received my Bachelor of Arts Degree with majors in Economics and English from New Mexico State in 1979.

I began my professional career with the New Mexico Public Service Commission Staff in October 1982 and was employed there as a Utility Economist. During my employment with the Staff, my responsibilities included the analysis of a broad range of issues in the ratemaking field. Areas in which I testified included cost of service, rate of return, rate design, revenue requirements, analysis of sale/leasebacks of generating plants, utility finance issues, and generating plant phase-ins.

In October 1989, I joined the utility consulting firm of Kennedy and Associates as a Senior Consultant where my duties and responsibilities covered substantially the same areas as those during my tenure with the New Mexico Public Service Commission Staff. I became Manager in July 1992 and was named Director of Consulting in January 1995. Currently, I am a consultant with Kennedy and Associates as well as

with my own consulting firm. Baudino Exhibit ____(RAB-1) summarizes my expert testimony experience.

Q. On whose behalf are you testifying?

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 42 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 146 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. The purpose of my testimony is to address cost and revenue allocation and rate design. I reviewed the Direct Testimony and Exhibits of Mr. Robert Meredith, witness for Rocky Mountain Power ("RMP" or "Company"). I also reviewed Mr. Meredith's work papers, as well as discovery responses that pertained to the subjects mentioned above.

In terms of revenue allocation and rate design, my focus will be on Schedule 6 and, in particular on Schedule 6, General Service - Distribution Voltage (also referred to as Schedule 6 Composite) customers, who make up the majority of Schedule 6 customers and total revenues. Schedule 6A is a time of day rate option available to qualifying non-residential customers with loads less that one megawatt. Lower load factor

customers may also take service under Schedule 6A, as their total bills may be lowered compared to service under Schedule 6 Composite. Later in my testimony, I will address the impact of RMP's proposed rate design for Schedule 6A customers on Schedule 6 Composite customers.

Q. Please summarize your conclusions and recommendations to the Public Service Commission of Utah ("Commission").

A. My conclusions are as follows:

1. Mr. Meredith's proposed revenue allocation fails to address the continuing subsidies being paid by the Company's Schedule 6 customers. These subsidies have persisted for years in RMP's rates.

2. Although Mr. Meredith proposed a lower than system average increase for Schedule 6, his proposed rate design actually gives Schedule 6 Composite customers an increase that is greater than the Company's system average rate increase. This is due to Mr. Meredith's proposed rate redesign for Schedule 6A customers.

3. Mr. Meredith's proposed rate design for Schedule 6 Composite customers should be rejected. The Company's energy charges for Schedule 6 are already excessive and should not be increased in this proceeding.

4. Mr. Meredith's proposal to decrease the difference between summer and winter demand charges is not properly supported by cost analysis and should be rejected.

My recommendations to the Commission are as follows:

1. The Commission should decisively move to address the long-standing problem of subsidies being paid by Schedule 6 customers. In the interest of gradualism and reducing the impact on the residential class, however, Kroger does not oppose the Company's proposed revenue allocation in this case, even though Schedule 6 Composite customers would receive a higher than system average increase.

2. In connection with the first recommendation, I recommend that the Commission utilize any authorized reductions in the Company's overall revenue increase to address the subsidy problem for Schedule 6 Composite customers. This could be accomplished by reducing the Schedule 6 Composite percentage revenue increase below the lower Commission authorized overall percentage revenue increase.

3. Any revenue increase allocated to Schedule 6 Composite customers should be assigned to the demand charges. Energy charge revenues should not be increased. The current differential between summer and winter demand charges should remain in effect.

4. I recommend that the Commission require RMP to file a Multi-Site Commercial Rate for eligible Schedule 6 customers in its next rate case. This optional rate would allow a customer with more than one premise to combine

its demand at all sites into a single set of billing determinants This recommendation does not impact any of the other rate classes.

II. COST AND REVENUE ALLOCATION

Q. Have you reviewed the Company's 12 month ended December 2021 test year cost of service study filed in this proceeding?

A. Yes. The class cost of service study ("CCOSS") presented by Mr. Meredith is substantially similar to the study the Company presented in its 2014 rate case. On page 4 of his Direct Testimony, Mr. Meredith explained that the 2021 CCOSS is different from the 2014 CCOSS in that the Company now includes new sub-functional categories to provide a more detailed breakdown of costs. As described by Company witness Meredith on page 7 of his Direct Testimony, the 2021 CCOSS model uses a 75% demand, 25% energy classification of fixed generation and transmission costs and non-fuel expenses. The demand costs are then allocated to rate classes using a 12 coincident peak methodology, while the 25% energy classified fixed costs are allocated on energy. Although I do not endorse this methodology, for the purposes of my testimony in this case I relied on the results of Mr. Meredith's class cost of service study.

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

A. Table 1 summarizes the rates of return, relative rate of return indices ("RROR") and

the dollar subsidies paid and received for each of the major rate classes using the results of the Company's 2021 CCOSS[1]. The RROR indicates how close or how far each class is from the system average rate of return. For example, a customer class that has a RROR of 1.0 is earning a return equal to the system average return. A customer class with a 0.95 RROR is earning a return that is 95% of the system average return, which indicates that its return is less than the system average. A RROR greater than 1.0 indicates a class return that is greater than the system average. Columns (3) and (4) present each class' return and RROR under the Company's current ROR.

Table 1
RMP Class Cost of Service Results at Current Rates

(1) Schedule	(2)	(3) Class ROR	(4) Relative ROR	(5) Subsidy Received/(Paid)
1	Residential	5.64%	0.83	51,716,545
6	General Service - Large	8.20%	1.21	(38,013,401)
8	General Service - Over 1 MW	7.82%	1.15	(7,642,821)
7,11,12	Street & Area Lighting	14.80%	2.18	(2,138,890)
9	General Service - High Voltage	6.26%	0.92	6,947,643
10	Irrigation	6.73%	0.99	47,405
15	Traffic Signals	8.75%	1.29	(69,996)
15	Outdoor Lighting	18.73%	2.76	(394,916)
23	General Service - Small	8.61%	1.27	(12,620,195)
SpC	Customer 1	4.81%	0.71	3,285,971
SpC	Customer 2	7.65%	1.13	(1,117,346)
		6.78%	1.00	0

Table 1 shows that the Residential class would need a $51.7 million increase to be brought up to the current system average ROR of 6.78%. Schedule 6 is paying the largest dollar subsidy of any class. *Revenues for Schedule 6 would have to be reduced*

[1] From Exhibit RMP___(RMM-1), page 2 of 2.

by $38 million in order to bring them to the current system average rate of return and reflect their allocated costs to serve. In general RRORs for Schedules 6, 8, and 23 are significantly greater than 1.0, indicating they are providing significant subsidies to other rate classes.

Q. Has Schedule 6 been paying subsidies in RMP's past cases?

A. Yes, and the subsidies are getting worse, unfortunately. Table 2 below presents the dollar subsidies that have burdened Schedule 6 customers from the last 3 rate cases and this case.

Table 2

Schedule 6 Subsidies

Docket No.	Subsidy
10-035-124	$ 19,000,000
11-035-200	$ 17,000,000
13-035-184	$ 25,000,000
20-035-04	$ 38,013,401

Table 2 clearly shows the persistent and growing amount of onerous subsidies that Schedule 6 customers have endured over a long period of time.

Q. Does Mr. Meredith's proposed revenue allocation adequately address the ongoing Schedule 6 subsidy problem?

A. No. Mr. Meredith testified that he used the results of the CCOSS at the target rate of return on rate base to guide his recommended increases across customer classes.[2]

The class rates of return at the target rate of return of 7.70% are provided on Exhibit RMP___(RMM-1) page 2 of 2. Mr. Meredith's proposed class increases are found on Exhibit RMP___(RMM-4), page 1. Based on the data from these two exhibits, Table 3 below shows the impact on the Schedule 6 subsidy from the Company's proposed revenue allocation.

Table 3

Schedule 6 Subsidy Analysis
At RMP Proposed Increase

Schedule 6 Reduction @ 7.70% ROR	$	(13,344,344)
RMP Proposed Increase to Schedule 6	$	20,528,000
Subsidy at Proposed Rates	$	(33,872,344)

Table 3 shows that at the Company's requested ROR, Schedule 6 customers should have a revenue reduction of -$13.344 million. This represents the subsidy that would still be present in Schedule 6 at the Company's target ROR. Instead, RMP proposed an increase of $20.526 million. This proposed increase has the effect of increasing the revenue subsidy at proposed rates to $33.872 million. Although this proposed subsidy

[2] Meredith Direct Testimony at page 10, lines 210 through 213.

is smaller than the subsidy in current rates, it is still far higher than the subsidies in the last 3 RMP rate cases. Schedule 6 customers will get no meaningful relief from the subsidy they are paying from Mr. Meredith's proposed revenue allocation in this case.

Q. On page 11 of his Direct Testimony, Mr. Meredith showed a proposed 3.9% increase for Schedule 6 customers. Will this 3.9% increase affect all Schedule 6 customers the same?

A. No. Mr. Meredith proposed a redesign of the Schedule 6A rates that would actually result in a rate decrease for Schedule 6 customers who move to Schedule 6A. Please refer to my Baudino Exhibit___(RAB-2) for an analysis of RMP's proposed revenue allocation and rate redesign for Schedule 6 customers. Baudino Exhibit___(RAB-2) shows the following with respect to how customers within Schedule 6 will be affected by Mr. Meredith's revenue allocation and rate design proposals:

- Current Schedule 6 customers who will be remaining on Schedule 6 will actually receive a 5.1% increase, not a 3.9% increase. This increase is higher than RMP's requested total system base rate increase of 4.8%.
- Customers moving from Schedule 6 to RMP's proposed Schedule 6A would receive a decrease of -14.2%. Other Schedule 6A customers would receive even greater decreases.

What is clear from this analysis is that RMP expects existing Schedule 6 customers to pay for its proposed revenue reductions from the Schedule 6A redesign. The resulting

5.1% increase loads even more revenue responsibility on existing Schedule 6 customers. and moves even further away from cost-based rates.

Q. Based on your analysis, what is your recommendation to the Commission regarding revenue allocation and the treatment of Schedule 6 customers?

A. I believe that a reasonable policy for the Commission to adopt is one that considers the significant ongoing subsidies paid by Schedule 6 as well as the impact of a subsidy reduction remedy for the residential class. If the Commission approves a revenue increase less than the $95.93 million base revenue increase proposed by the Company, the Commission should consider addressing the subsidy paid by Schedule 6 customers so that Schedule 6 customers receive a lower percentage increase than other customer classes. Over time, this policy would reduce the enormous subsidies paid by Schedule 6 customers relative to other customer classes, while also recognizing gradualism regarding the rate impact on residential customers.

Q. Please explain how this policy could work in this case.

A. I recommend an approach that would be simple for the Commission to apply. For example, let us assume that the Commission ordered that RMP's proposed base revenue increase be reduced from 4.8% to 2.4%, or to a total dollar increase of $47.97 million. This represents a 50% reduction to the Company's proposed increase. In order to address the Schedule 6 subsidy, I recommend that the Commission reduce the Company's proposed Schedule 6 revenue increase so that Schedule 6 receives a

percentage increase set at 50% of the overall allowed increase of 2.4%. In this example, Schedule 6 would receive a 1.20% increase, equivalent to a dollar increase to current Schedule 6 customers of $5.136 million. This increase should be applied only to Schedule 6 Composite customers remaining on Schedule 6. The present revenues to which this increase should be applied, $427.999 million, is found on Line 3 of Baudino Exhibit ___(RAB-2).

I believe this proposal fairly balances principles of cost-based rates for Schedule 6 customers, as well as considerations of gradualism regarding residential customers. If the Schedule 6 subsidy were entirely eliminated in this case, Schedule 6 would receive a rate decrease that would be made up by a large additional increase to residential customers. Instead, my proposal would increase Schedule 6 revenues slightly and avoid a much larger increase to the residential class.

III. SCHEDULE 6 RATE DESIGN

Q. Please summarize the Company's proposal for Schedule 6 Composite rate design.

A. Mr. Meredith presented his General Service rate design proposals beginning on page 34 of his Direct Testimony. With respect to the Schedule 6 rate design, Mr. Meredith proposed to change the difference between the summer and winter kilowatt ("kW") and kilowatt hour ("kWh") charges such that the summer prices are 1.13 times the winter prices for both kW and kWh charges. He also recommended moving the billing month of May from the summer period to the winter period. These changes were

based on a review of the PacifiCorp east balancing authority ("PACE") Energy Imbalance Market ("EIM") load aggregation point prices for the 36-month period ending October 2019 weighted by PacifiCorp's hourly loads for each month.

For customers on Schedule 6, General Service - Distribution Voltage, the Company proposes to apply the proposed revenue requirement change by applying the average percentage price change to the customer service charge, facilities charge, power charges, and energy charges. Summer prices were set at 1.13 times winter prices.

Q. Is RMP's proposed rate design for Schedule 6 customers reasonable?

A. No. There are several shortcomings of the Company's rate design that make it unacceptable. I will discuss these shortcomings and then offer my recommended rate design for Schedule 6 customers. These shortcomings are as follows:

1. The energy charges should not be increased, as they are currently well in excess of cost-based energy charges. If anything, RMP's current Schedule 6 energy charges should be lowered, not increased.
2. The PACE energy prices used by Mr. Meredith to determine the 1.13 times difference between summer and winter prices should only be applied to kWh energy prices, not to demand charges.

Q. Please discuss the shortcoming regarding the Company's proposal to increase kWh energy rates for Schedule 6.

A. Based on my review of the unit cost of service information developed by the Company as part of the CCOSS presented by Mr. Meredith, a uniform increase to the Schedule 6 energy charge is inappropriate and should be rejected. A unit cost study summarizes rate class specific functionalized revenue requirements (for example, demand related generation costs) on a "per billing unit" basis. For energy related costs, the billing units would be kWh sales.

Table 4 below summarizes the unit cost of service results from Mr. Meredith's CCOSS at the Company's target rate of return of 7.70%. The cost data contained in this table was taken from Exhibit RMP___(RMM-2), pages 7 and 8.

Table 4
Schedule 6 Unit Cost of Energy
At RMP Target Rate of Return

Production Energy - Variable	113,690,719
Production Energy - Fixed	34,805,459
Transmission Energy - Variable	866,788
Transmission Energy - Fixed	21,999,330
Total Cost	171,362,296
Billing kWh	6,193,724,500
Unit Cost of Energy	2.7667

Table 4 presents the Schedule 6 functional revenue requirements for the total Utah jurisdiction properly associated with energy costs. The energy-related functions

include costs associated with Production and Transmission. The total energy-related revenue requirements for Schedule 6 are $171.362 million. Based on test year billing kWh for Schedule 6, the unit energy cost is 2.7667 cents/kWh.

Q. How does the unit cost of energy of 2.7667 cents/kWh compare to RMP's proposed Schedule 6 energy charges?

A. RMP's present and proposed Schedule 6 energy charges are excessive compared to the underlying unit cost of energy. Table 5 below presents a comparison between RMP's present and proposed energy rates and the cost-based energy rate from Table 4.

Table 5
Schedule 6 - kWh Energy Rate
(cents/kWh)

Present Base Rates	3.6494
Present Rates net of TAA	3.5177
RMP Proposed Rates	3.7063
Unit Cost	2.7667
Kroger Proposed Rates	3.5198

Baudino Exhibit ___(RAB-3) provides the detailed calculations for RMP's present and proposed energy charges. RMP's present and proposed energy charges are weighted average kWh charges for summer and winter. I also included the present kWh rates net of the Federal Tax Act Adjustment ("TAA"). Present Schedule 6 energy kWh rates adjusted for the TAA are 26.9% higher than the underlying energy cost per kWh

(3.5177 vs. 2.7667). Proposed energy charges are 34% higher than the unit energy cost per kWh.

Q. What is your proposal regarding energy charges for Schedule 6 Composite customers?

A. I recommend no increase in RMP's present energy charges net of the TAA credit for Schedule 6 Composite customers. In order to accomplish this, I set the Schedule 6 energy rates so that they nearly equal the present weighted summer/winter Schedule 6 energy cost rate net of the TAA of 3.5177 cents per kWh. Baudino Exhibit ___(RAB-3) presents Kroger's recommended summer and winter kWh charges that result in the weighted energy rate of 3.5198 cents per kWh. The customer charge, facilities charge and kW charges were increased at roughly the same percentage increase to collect the balance of the Company's proposed increase to Schedule 6 Composite customers.

Baudino Exhibit ___(RAB-3) is illustrative of how Kroger's recommended rate design would work using RMP's proposed revenue increase to Schedule 6 Composite customers. The percentage increases in the aforementioned charges should be scaled back equally in the likely event that the Commission orders a revenue increase less than the Company's request. The energy charges should be calculated based on my recommendation.

Q. Explain how you structured Kroger's proposed energy and demand charges.

A. I accepted Mr. Meredith's proposed 1.13 summer/winter differential for energy charges based on his recommendation and supporting analyses. However, I kept the present summer/winter differential in demand charges.

Q. Why should the current summer/winter differential in kW demand charges be maintained, rather than reduced to 1.13 as Mr. Meredith recommended?

A. Although the energy cost differential calculated by Mr. Meredith is reasonable, it is based on PACE energy prices and not on any analysis of seasonal differences in capacity costs. The cost of capacity in the summer and winter should have been analyzed by the Company in order to assess whether the current summer/winter difference in kW demand costs should be revised. Since Mr. Meredith did not analyze any seasonal difference in capacity costs, the current summer/winter difference in kW charges should stay the same.

IV. MULTI-SITE COMMERCIAL RATE - SCHEDULE 6

Q. Please discuss your proposal for a Multi-Site Commercial Rate for eligible Schedule 6 customers.

A. Certain large customers taking service under RMP's Schedule 6 Composite rate have multiple, separately metered facilities on the Company's system. A multi-site commercial rate allows a customer with more than one premise to combine its demand and energy at all sites into a single set of billing determinants – a condition known as conjunctive billing. But the key distinction for an appropriate multi-site rate is that

the aggregation of billing demand would apply only to the fixed costs of production, not distribution. Demand aggregation or conjunctive billing is also arguably applicable to transmission, but to be conservative, I will limit my discussion to fixed production costs.

To be clear, by "demand aggregation" I am referring to measuring the billing demand for a multi-site customer as if it were a single-site customer. This would be accomplished by determining the multi-site customer's billing demand each month based on the hour-by-hour cumulative demand of its various facilities, rather than by simply summing the maximum demands of each individual facility.

Q. Why would it be appropriate to apply a multi-site commercial rate to fixed production costs as distinct from distribution costs?

A. Each facility owned by a multi-site customer causes unique distribution costs and therefore it is appropriate to recover those costs based on the peak demand of each individual facility. But that is not the case for fixed production costs. The concept for a multi-site aggregation of customer loads for the purpose of determining that customer's charges for generation fixed costs is based on the diversity that the customer itself produces among its multiple facilities. For example, if a Schedule 6 customer has 40 locations on RMP's system, it is unlikely that each of the 40 locations would register its maximum demand at the same time. If the average maximum demand of each facility is 400 kW, then the combined hourly maximum demand is likely to be less than 16,000 kW (400 kW times 40). A properly designed multi-site

aggregation rate would recognize this diversity among multiple facilities and treat the customer as a single load for the purpose of determining its billing demand for recovering fixed unbundled generation costs, which in my view is consistent with RMP's proposed unbundling of its rates.

Q. Is there any reason why a multi-site customer's generation load should have a different cost than a single customer generation load, assuming the same load characteristics and service voltage?

A. No. In retail access markets, the wholesale cost of power would be the same assuming the same peak demand and service voltage. The cost to serve 16 MWs of load at generation should be the same whether it is behind a single meter at one site or at multiple sites, again assuming similar load patterns and voltage levels.

Q. Have aggregation rates been approved elsewhere?

A. Yes, I am aware of several multi-site aggregation rates. Arizona Public Service Company ("APS") has an approved Aggregation Rate Discount that was approved by the Arizona Corporation Commission in Docket No. E-01345A-16-0036. The APS Aggregation Rate Discount is a provision included in APS' commercial Rates E-32 L and E-32TOU L. It provides a discount on a $/kWh basis and is designed to adjust the E-32 L and E-32TOU L unbundled generation rates to a level commensurate with the larger E-34 and E-35 rates.

Consumers Energy in Michigan has an approved Aggregate Peak Demand Service Provision.[3] This program is available to any customer with 7 accounts or more who desires to aggregate its On-Peak Billing Demands for power supply billing purposes. To be eligible, each account must have a minimum average On-Peak Billing Demand of 250 kW. The aggregated accounts are billed under the same rate schedule and service provisions that apply to the individual sites, with the aggregate maximum capacity to all customers limited to 200,000 kW.

The Washington Utilities and Transportation Commission likewise approved a multi-site aggregation tariff proposed by Puget Sound Energy ("PSE") in its most recent rate case. PSE's "Conjunctive Demand Service Option Pilot Program" will allow customers with multiple service locations to pay a demand charge based on the coincidental peak of all their metered locations rather than the arithmetic sum of the demand charges (in dollars) resulting from each service location's non-coincidental peak demand. PSE's proposal received broad support from customers and the Washington Commission Staff and was approved on July 8, 2020.[4]

Q. What is your recommendation to the Commission regarding the multi-site commercial rate for Schedule 6?

A. I recommend that the Commission order RMP to study, evaluate, and implement a multi-site commercial rate for Schedule 6 in its next rate proceeding. I also

[3] See Sheet D-33.00 at https://www.michigan.gov/documents/mpsc/consumers13cur_579011_7.pdf
[4] Washington Utilities and Transportation Commission, Docket UE-190529, Order of July 8, 2020, at 168-174.

recommend that the Company convene a collaborative with interested Schedule 6 customers to receive input and assistance in developing this rate.

Q. Does this complete your Direct Testimony?

A. Yes.