

**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 : Docket No. 20-035-04
Utah and for Approval of its Proposed Electric Service :
Schedules and Electric Service Regulations :**

**REBUTTAL TESTIMONY
AND EXHIBITS
OF
RICHARD A. BAUDINO**

ON BEHALF OF

THE KROGER CO.

BAUDINO REGULATORY CONSULTING, INC.

OCTOBER 16, 2020

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REBUTTAL TESTIMONY OF RICHARD A. BAUDINO

1 **Q. Please state your name and business address.**

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

4

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

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

8

9 **Q. Did you submit Direct Testimony in this proceeding?**

10 A. Yes, I submitted Direct Testimony on behalf of The Kroger Co. ("Kroger").

11

12 **Q. What is the purpose of your Rebuttal Testimony?**

13 A. The purpose of my Rebuttal Testimony is to address certain recommendations made
14 by Mr. Bruce Chapman, witness for the Division of Public Utilities ("DPU"), and Mr.
15 Ron Nelson, witness for the Office of Consumer Services ("OCS").

16

17 **Q. On page 12, lines 214 - 217 Mr. Chapman recommended that Rocky Mountain**
18 **Power ("RMP") explore alternative cost classification methods for production**

1 **and transmission functions, e.g., the equivalent peaker method and marginal cost**
2 **based methods. Please respond to Mr. Chapman's recommendation.**

3 A. If the Commission directs RMP to explore alternative methods of classifying and
4 allocating the costs of production and transmission, then I recommend that the
5 Company also explore demand-based peak responsibility methods.

6
7 **Q. Please explain why you recommend the consideration of demand-based peak**
8 **responsibility methods.**

9 A. Classifying and allocating production and transmission demand costs on the basis of
10 system peak demands recognizes the fact that all production and transmission plant
11 costs are fixed and do not vary with the amount of energy consumed. In addition,
12 production and transmission facilities must be available and on line to meet the peak
13 demand requirements of RMP's customers, whether these demands occur in the month
14 of the Company's system peak or during the months of the peak summer season.
15 Further, RMP witness Meredith stated in his Direct Testimony that demand-related
16 costs "are incurred by the Company to meet the maximum demand imposed on
17 generating units, transmission lines, and distribution facilities."¹ Allocating
18 production plant on the basis of class contribution to system peak period demands
19 more closely aligns customer cost responsibility with how costs are actually incurred
20 on RMP's system. RMP currently differentiates its rate design seasonally with summer

¹ Meredith Direct Testimony at page 6, lines 118 - 120.

1 and winter periods. If the Commission orders the Company to reconsider its current
2 classification and allocation of production and transmission costs, then it would be
3 reasonable for the Company to evaluate classifying production and transmission costs
4 as 100% demand related and allocating these costs based on class contribution to
5 summer peak demands.

6
7 **Q. What are the problems with the equivalent peaker method?**

8 A. Generally speaking, the EP method calculates the percentage of production plant to be
9 classified as “energy related” by subtracting the cost of a combustion turbine unit from
10 the cost of all non-peaking units (i.e., intermediate and base load) on the system and
11 calculating a ratio to the total cost of production plant. The main flaw with this method
12 is that it assumes, without proper foundation, that all such “excess costs” are due to
13 RMP's need to achieve fuel savings, rather than to meet peak demand requirements on
14 the system. However, any relevant EP cost of service analysis would require a detailed
15 examination of the economic analyses and decision-making processes that were
16 performed for each base load and intermediate load power plant on the RMP's system.
17 The economic trade-offs between 1) each base load and intermediate load unit, and 2)
18 an alternative peaking unit would likely have been different for each unit since the
19 decision to choose one over the other is dependent on the economic parameters
20 existing at the time of decision. Without incorporating these historic analyses into the
21 EP methodology, it is impossible to identify the “cost causation” underlying each unit
22 and the expected fuel savings that a base load coal or nuclear unit was likely to achieve.

1 Since the premise behind the EP method is that expected fuel savings drove the
2 decision to construct a base or intermediate load generating unit in lieu of a less
3 expensive peaking unit, the so-called "decision" would have considered the capital
4 cost of each unit and the fuel cost differences to the system between the two choices.
5 The additional cost of a base load unit may not have been justified by fuel savings
6 expectations alone. Rather, the decision may also have considered other factors (such
7 as the longer life of a base load unit) that, when combined with fuel savings, justified
8 the higher cost base load unit.

9
10 The EP method very incorrectly assumes that the main reason power plants are built
11 is to satisfy energy consumption throughout the year and it gives inadequate
12 recognition of the importance of summer peak demands. Indeed, the *Electric Utility*
13 *Cost Allocation Manual* published by the National Association of Regulatory Utility
14 Commissioners noted the following regarding equivalent peaker methods:

15 Equivalent peaker methods are based on generation expansion planning practices,
16 which consider peak demand loads and energy loads separately in determining the
17 need for additional generating capacity and the most cost-effective type of capacity to
18 be added. They generally result in significant percentages (40 to 75 percent) of total
19 production plant costs being classified as energy-related, with the results that energy
20 unit costs are relatively high and the revenue responsibility of high load factor classes
21 and customers is significantly greater than indicated by pure peak demand
22 responsibility methods.²
23

² *Electric Utility Cost Allocation Manual*, January 1992, NARUC, page 52.

1 The equivalent peaker method would result in a radical shift of cost classification to
2 energy and away from demand compared to RMP's current methodology. It would
3 also cause a radical and unjustified shift of cost responsibility to high load factor
4 customers.

5
6 **Q. On page 33 of his Direct Testimony OCS witness Nelson recommended that the**
7 **Commission consider a 40 percent demand and 60 percent energy classification**
8 **of RMP's production and transmission costs. Please respond to this**
9 **recommendation.**

10 **A.** Mr. Nelson's proposed 40/60 demand/energy classification should be rejected. Mr.
11 Nelson failed to provide any sound basis for employing this method. He merely
12 offered the conclusory statement on page 34, lines 690 through 691, that the 40/60
13 split "better reflects cost causation and is, therefore, more reasonable." This is simply
14 incorrect. If Mr. Nelson provided no basis for the 40/60 split, other than his
15 unsupported assertion, then there is no evidence that it is more reasonable than RMP's
16 methodology.

17
18 **Q. On page 42, lines 838 through 843 of his Direct Testimony, Mr. Nelson**
19 **recommended functionalizing metering costs as 1/3 production, 1/3 transmission,**
20 **and 1/3 distribution. Please respond to Mr. Nelson's recommendation.**

21 **A.** Mr. Nelson's recommended functionalization of meters should be rejected. With
22 respect to the costs of AMI metering, AMI metering costs, like the costs of other

1 meters, should be classified as customer-related and allocated to the customer classes
2 that receive the AMI meters. This approach follows the principle of cost causation,
3 meaning that cost responsibility should be assigned to the customers that cause costs
4 to be incurred. As far as the costs of existing metering, the Company's approach is the
5 proper one, which is the allocation of meters on the basis of a customer-related
6 allocation factor based on the cost of meters. Customer metering is in no way related
7 to the production, transmission, and distribution plant functions. Rather, meters
8 measure the kilowatt hours consumed by customers and, in the case of demand meters,
9 the measured demands of customers.

10
11 **Q. Should the Commission give any weight to the cost of service results Mr. Nelson**
12 **presented in his Table 3?**

13 A. No. The embedded cost of service results Mr. Nelson presented in his Table 3 are
14 deeply flawed due to (1) the unsupported and incorrect 40/60 demand/energy
15 classification of production and transmission costs and (2) the erroneous classification
16 of meters based on production, transmission, and distribution functions. The
17 Commission should reject Mr. Nelson's erroneous alternative cost of service study
18 results.

19
20 **Q. Does this complete your Rebuttal Testimony?**

21 A. Yes.