

ORIGINAL

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0000092295

**Via Overnight Mail**

January 8, 2009

Arizona Corporation Commission  
Attn: Docket Filing Window  
1200 Washington Street  
Phoenix, AZ 85007

Arizona Corporation Commission  
**DOCKETED**  
JAN - 9 2009

DOCKETED BY *MA*

**Re: Docket No. E-01345A-08-0172**

Dear Sir or Madam:

Please find enclosed the original and thirteen (13) copies of the DIRECT TESTIMONY AND EXHIBITS OF STEPHEN J. BARON on behalf of THE KROGER CO. filed in the above-referenced matter.

All parties of record have been served. Please place this document of file.

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Very Truly Yours,

Michael L. Kurtz, Esq.  
Kurt J. Boehm, Esq.

**BOEHM, KURTZ & LOWRY**

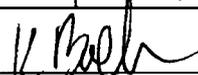
John William Moore, Jr.,  
Arizona Bar No. 021942

MLKkew  
Attachments

**CERTIFICATE OF SERVICE**

I hereby certify that true copy of the foregoing was served by regular U.S. mail (unless otherwise noted), this 8<sup>TH</sup> day of January, 2009 on the parties listed on the attached service list.

<b>Company</b>	<b>Contact</b>	<b>Address</b>
	Nicholas Enoch	349 N. Fourth Ave. Phoenix, Arizona 85003
	Cynthia Zwick	1940 E. Luke Avenue Phoenix, Arizona 85016
	Scott Canty	The Hopi Tribe Kykotsmovi, Arizona 86039
	Jeffrey Woner	K.R. SALINE & ASSOC., PLC Mesa, Arizona 85201
	Daniel Pozefsky	1110 West Washington, Suite 220 Phoenix, Arizona 85007
	Jason Moyes	1405 W. 16th Street Yuma, Arizona 85364
	Arizona Reporting Service, Inc.	2200 N. Central Ave. -502 Phoenix, Arizona 85004-1481
	Janice Alward	1200 W. Washington Phoenix, Arizona 85007
	Timothy Hogan	202 E. McDowell Rd. - 153 Phoenix, Arizona 85004
	David Berry	P.O. Box 1064 Scottsdale, Arizona 85252-1064
	Jeff Schlegel	1167 W. Samalayuca Dr. Tucson, Arizona 85704-3224
	Michael Curtis	501 East Thomas Road Phoenix, Arizona 85012-3205
	Michael Grant	2575 E. Camelback Rd. Phoenix, Arizona 85016-9225
	Gary Yaquinto	Arizona Utilitiy Investors Association Phoenix, Arizona 85004
	Lawrence Robertson, Jr.	2247 E. Frontree Rd., Suite 1 Tubac, Arizona 85646
	C. Webb Crockett	3003 N. Central Ave. - 2600 Phoenix, Arizona 85012-2913
Arizona Corporation Commission	Lyn Farmer	1200 W. Washington Phoenix, Arizona 85007-2927
Arizona Corporation Commission	Ernest Johnson	1200 W. Washington Phoenix, Arizona 85007-2927
Arizona Public Service Company	Thomas Mumaw	PO Box 53999 Phoenix, Arizona 85072-3999

  
\_\_\_\_\_  
Michael L. Kurtz, Esq.  
Kurt J. Boehm, Esq.

**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
ARIZONA PUBLIC SERVICE COMPANY FOR )  
A HEARING TO DETERMINE THE FAIR VALUE )  
OF THE UTILITY PROPERTY OF THE COMPANY ) Docket No. E-01345A-08-0172  
FOR RATEMAKING PURPOSES, TO FIX A JUST )  
AND REASONABLE RATE OF RETURN )  
THEREON, TO APPROVE RATE SCHEDULES )  
DESIGNED TO DEVELOP SUCH RETURN )**

**EXHIBIT \_\_ (SJB-1)  
OF  
STEPHEN J. BARON**

**ON BEHALF OF THE  
KROGER CO.**

**Expert Testimony Appearances  
of  
Stephen J. Baron  
As of December 2008**

<b>Date</b>	<b>Case</b>	<b>Jurisdct.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
4/81	203(B)	KY	Louisville Gas & Electric Co.	Louisville Gas & Electric Co.	Cost-of-service.
4/81	ER-81-42	MO	Kansas City Power & Light Co.	Kansas City Power & Light Co.	Forecasting.
6/81	U-1933	AZ	Arizona Corporation Commission	Tucson Electric Co.	Forecasting planning.
2/84	8924	KY	Airco Carbide	Louisville Gas & Electric Co.	Revenue requirements, cost-of-service, forecasting, weather normalization.
3/84	84-038-U	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Excess capacity, cost-of-service, rate design.
5/84	830470-EI	FL	Florida Industrial Power Users' Group	Florida Power Corp.	Allocation of fixed costs, load and capacity balance, and reserve margin. Diversification of utility.
10/84	84-199-U	AR	Arkansas Electric Energy Consumers	Arkansas Power and Light Co.	Cost allocation and rate design.
11/84	R-842651	PA	Lehigh Valley Power Committee	Pennsylvania Power & Light Co.	Interruptible rates, excess capacity, and phase-in.
1/85	85-65	ME	Airco Industrial Gases	Central Maine Power Co.	Interruptible rate design.
2/85	I-840381	PA	Philadelphia Area Industrial Energy Users' Group	Philadelphia Electric Co.	Load and energy forecast.
3/85	9243	KY	Alcan Aluminum Corp., et al.	Louisville Gas & Electric Co.	Economics of completing fossil generating unit.
3/85	3498-U	GA	Attorney General	Georgia Power Co.	Load and energy forecasting, generation planning economics.
3/85	R-842632	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Generation planning economics, prudence of a pumped storage hydro unit.
5/85	84-249	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Cost-of-service, rate design return multipliers.
5/85		City of Santa	Chamber of Commerce	Santa Clara Municipal	Cost-of-service, rate design.

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

**Expert Testimony Appearances  
of  
Stephen J. Baron  
As of December 2008**

<b>Date</b>	<b>Case</b>	<b>Jurisdct.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
6/85	84-768-E-42T	Clara WV	West Virginia Industrial Intervenors	Monongahela Power Co.	Generation planning economics, prudence of a pumped storage hydro unit.
6/85	E-7 Sub 391	NC	Carolina Industrials (CIGFUR III)	Duke Power Co.	Cost-of-service, rate design, interruptible rate design.
7/85	29046	NY	Industrial Energy Users Association	Orange and Rockland Utilities	Cost-of-service, rate design.
10/85	85-043-U	AR	Arkansas Gas Consumers	Arkla, Inc.	Regulatory policy, gas cost-of-service, rate design.
10/85	85-63	ME	Airro Industrial Gases	Central Maine Power Co.	Feasibility of interruptible rates, avoided cost.
2/85	ER-8507698	NJ	Air Products and Chemicals	Jersey Central Power & Light Co.	Rate design.
3/85	R-850220	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Optimal reserve, prudence, off-system sales guarantee plan.
2/86	R-850220	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Optimal reserve margins, prudence, off-system sales guarantee plan.
3/86	85-299U	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Cost-of-service, rate design, revenue distribution.
3/86	85-726-EL-AIR	OH	Industrial Electric Consumers Group	Ohio Power Co.	Cost-of-service, rate design, interruptible rates.
5/86	86-081-E-GI	WV	West Virginia Energy Users Group	Monongahela Power Co.	Generation planning economics, prudence of a pumped storage hydro unit.
8/86	E-7 Sub 408	NC	Carolina Industrial Energy Consumers	Duke Power Co.	Cost-of-service, rate design, interruptible rates.
10/86	U-17378	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Excess capacity, economic analysis of purchased power.
12/86	38063	IN	Industrial Energy Consumers	Indiana & Michigan Power Co.	Interruptible rates.

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

Expert Testimony Appearances  
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Stephen J. Baron  
As of December 2008

Date	Case	Jurisdiction	Party	Utility	Subject
3/87	EL-86-53-001 EL-86-57-001	Federal Energy Regulatory Commission (FERC)	Louisiana Public Service Commission Staff	Gulf States Utilities, Southern Co.	Cost/benefit analysis of unit power sales contract.
4/87	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Load forecasting and imprudence damages, River Bend Nuclear unit.
5/87	87-023-E-C	WV	Airco Industrial Gases	Monongahela Power Co.	Interruptible rates.
5/87	87-072-E-G1	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Analyze Mon Power's fuel filing and examine the reasonableness of MP's claims.
5/87	86-524-E-SC	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Economic dispatching of pumped storage hydro unit.
5/87	9781	KY	Kentucky Industrial Energy Consumers	Louisville Gas & Electric Co.	Analysis of impact of 1986 Tax Reform Act.
6/87	3673-U	GA	Georgia Public Service Commission	Georgia Power Co.	Economic prudence, evaluation of Vogtle nuclear unit - load forecasting, planning.
6/87	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Phase-in plan for River Bend Nuclear unit.
7/87	85-10-22	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Methodology for refunding rate moderation fund.
8/87	3673-U	GA	Georgia Public Service Commission	Georgia Power Co.	Test year sales and revenue forecast.
9/87	R-850220	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Excess capacity, reliability of generating system.
10/87	R-870651	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Interruptible rate, cost-of-service, revenue allocation, rate design.
10/87	I-860025	PA	Pennsylvania Industrial Intervenors		Proposed rules for cogeneration, avoided cost, rate recovery.

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J. KENNEDY AND ASSOCIATES, INC.

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<b>Date</b>	<b>Case</b>	<b>Jurisdct.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
10/87	E-015/ GR-87-223	MN	Taconite Intervenors	Minnesota Power & Light Co.	Excess capacity, power and cost-of-service, rate design.
10/87	8702-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Revenue forecasting, weather normalization.
12/87	87-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light Power Co.	Excess capacity, nuclear plant phase-in.
3/88	10064	KY	Kentucky Industrial Energy Consumers	Louisville Gas & Electric Co.	Revenue forecast, weather normalization rate treatment of cancelled plant.
3/88	87-183-TF	AR	Arkansas Electric Consumers	Arkansas Power & Light Co.	Standby/backup electric rates.
5/88	870171C001	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Cogeneration deferral mechanism, modification of energy cost recovery (ECR).
6/88	870172C005	PA	GPU Industrial Intervenors	Pennsylvania Electric Co.	Cogeneration deferral mechanism, modification of energy cost recovery (ECR).
7/88	88-171- EL-AIR 88-170- EL-AIR Interim Rate Case	OH	Industrial Energy Consumers	Cleveland Electric/ Toledo Edison	Financial analysis/need for interim rate relief.
7/88	Appeal of PSC	19th Judicial Docket U-17282	Louisiana Public Service Commission Circuit Court of Louisiana	Gulf States Utilities	Load forecasting, imprudence damages.
11/88	R-880989	PA	United States Steel	Carnegie Gas	Gas cost-of-service, rate design.
11/88	88-171- EL-AIR 88-170- EL-AIR	OH	Industrial Energy Consumers	Cleveland Electric/ Toledo Edison. General Rate Case.	Weather normalization of peak loads, excess capacity, regulatory policy.
3/89	870216/283 284/286	PA	Armco Advanced Materials Corp., Allegheny Ludlum Corp.	West Penn Power Co.	Calculated avoided capacity, recovery of capacity payments.

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<b>Date</b>	<b>Case</b>	<b>Jurisdict.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
8/89	8555	TX	Occidental Chemical Corp.	Houston Lighting & Power Co.	Cost-of-service, rate design.
8/89	3840-U	GA	Georgia Public Service Commission	Georgia Power Co.	Revenue forecasting, weather normalization.
9/89	2087	NM	Attorney General of New Mexico	Public Service Co. of New Mexico	Prudence - Palo Verde Nuclear Units 1, 2 and 3, load forecasting.
10/89	2262	NM	New Mexico Industrial Energy Consumers	Public Service Co. of New Mexico	Fuel adjustment clause, off-system sales, cost-of-service, rate design, marginal cost.
11/89	38728	IN	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Excess capacity, capacity equalization, jurisdictional cost allocation, rate design, interruptible rates.
1/90	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Jurisdictional cost allocation, O&M expense analysis.
5/90	890366	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Non-utility generator cost recovery.
6/90	R-901609	PA	Armco Advanced Materials Corp., Allegheny Ludlum Corp.	West Penn Power Co.	Allocation of QF demand charges in the fuel cost, cost-of-service, rate design.
9/90	8278	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost-of-service, rate design, revenue allocation.
12/90	U-9346 Rebuttal	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Demand-side management, environmental externalities.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Revenue requirements, jurisdictional allocation.
12/90	90-205	ME	Airco Industrial Gases	Central Maine Power Co.	Investigation into interruptible service and rates.
1/91	90-12-03 Interim	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Interim rate relief, financial analysis, class revenue allocation.

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<b>Date</b>	<b>Case</b>	<b>Jurisdiction</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
5/91	90-12-03 Phase II	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Revenue requirements, cost-of- service, rate design, demand-side management.
8/91	E-7, SUB SUB 487	NC	North Carolina Industrial Energy Consumers	Duke Power Co.	Revenue requirements, cost allocation, rate design, demand- side management.
8/91	8341 Phase I	MD	Westvaco Corp.	Potomac Edison Co.	Cost allocation, rate design, 1990 Clean Air Act Amendments.
8/91	91-372  EL-UNC	OH	Armco Steel Co., L.P.	Cincinnati Gas &  Electric Co.	Economic analysis of  cogeneration, avoid cost rate.
9/91	P-910511 P-910512	PA	Allegheny Ludlum Corp., Armco Advanced Materials Co., The West Penn Power Industrial Users' Group	West Penn Power Co.	Economic analysis of proposed CWIP Rider for 1990 Clean Air Act Amendments expenditures.
9/91	91-231 -E-NC	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Economic analysis of proposed CWIP Rider for 1990 Clean Air Act Amendments expenditures.
10/91	8341 - Phase II	MD	Westvaco Corp.	Potomac Edison Co.	Economic analysis of proposed CWIP Rider for 1990 Clean Air Act Amendments expenditures.
10/91	U-17282	LA	Louisiana Public Service Commission Staff	Gulf States Utilities	Results of comprehensive management audit.
Note: No testimony was prefiled on this.					
11/91	U-17949 Subdocket A	LA	Louisiana Public Service Commission Staff	South Central Bell Telephone Co. and proposed merger with Southern Bell Telephone Co.	Analysis of South Central Bell's restructuring and
12/91	91-410- EL-AIR	OH	Armco Steel Co., Air Products & Chemicals, Inc.	Cincinnati Gas & Electric Co.	Rate design, interruptible rates.
12/91	P-880286	PA	Armco Advanced Materials Corp., Allegheny Ludlum Corp.	West Penn Power Co.	Evaluation of appropriate avoided capacity costs - QF projects.

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<b>Date</b>	<b>Case</b>	<b>Jurisdict.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
1/92	C-913424	PA	Duquesne Interruptible Complainants	Duquesne Light Co.	Industrial interruptible rate.
6/92	92-02-19	CT	Connecticut Industrial Energy Consumers	Yankee Gas Co.	Rate design.
8/92	2437	NM	New Mexico Industrial Intervenors	Public Service Co. of New Mexico	Cost-of-service.
8/92	R-00922314	PA	GPU Industrial Intervenors	Metropolitan Edison Co.	Cost-of-service, rate design, energy cost rate.
9/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost-of-service, rate design, energy cost rate, rate treatment.
10/92	M-00920312 C-007	PA	The GPU Industrial Intervenors	Pennsylvania Electric Co.	Cost-of-service, rate design, energy cost rate, rate treatment.
12/92	U-17949	LA	Louisiana Public Service Commission Staff	South Central Bell Co.	Management audit.
12/92	R-00922378	PA	Armco Advanced Materials Co. The WPP Industrial Intervenors	West Penn Power Co.	Cost-of-service, rate design, energy cost rate, SO <sub>2</sub> allowance rate treatment.
1/93	8487	MD	The Maryland Industrial Group	Baltimore Gas & Electric Co.	Electric cost-of-service and rate design, gas rate design (flexible rates).
2/93	E002/GR-92-1185	MN	North Star Steel Co. Praxair, Inc.	Northern States Power Co.	Interruptible rates.
4/93	EC92 21000 ER92-806-000 (Rebuttal)	Federal Energy Regulatory Commission	Louisiana Public Service Commission Staff	Gulf States Utilities/Entergy agreement.	Merger of GSU into Entergy System; impact on system
7/93	93-0114-E-C	WV	Airco Gases	Monongahela Power Co.	Interruptible rates.
8/93	930759-EG	FL	Florida Industrial Power Users' Group	Generic - Electric Utilities	Cost recovery and allocation of DSM costs.
9/93	M-009 30406	PA	Lehigh Valley Power Committee	Pennsylvania Power & Light Co.	Ratemaking treatment of off-system sales revenues.

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

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Stephen J. Baron  
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<b>Date</b>	<b>Case</b>	<b>Jurisdict.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
11/93	346	KY	Kentucky Industrial Utility Customers	Generic - Gas Utilities	Allocation of gas pipeline transition costs - FERC Order 636.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Nuclear plant prudence, forecasting, excess capacity.
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Cost allocation, rate design, rate phase-in plan.
5/94	U-20178	LA	Louisiana Public Service Commission	Louisiana Power & Light Co.	Analysis of least cost integrated resource plan and demand-side management program.
7/94	R-00942986	PA	Armco, Inc.; West Penn Power Industrial Intervenors	West Penn Power Co.	Cost-of-service, allocation of rate increase, rate design, emission allowance sales, and operations and maintenance expense.
7/94	94-0035- E-42T	WV	West Virginia Energy Users Group	Monongahela Power Co.	Cost-of-service, allocation of rate increase, and rate design.
8/94	EC94 13-000	Federal Energy Regulatory Commission	Louisiana Public Service Commission	Gulf States Utilities/Entergy	Analysis of extended reserve shutdown units and violation of system agreement by Entergy.
9/94	R-00943 081 R-00943 081C0001	PA	Lehigh Valley Power Committee	Pennsylvania Public Utility Commission	Analysis of interruptible rate terms and conditions, availability.
9/94	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Evaluation of appropriate avoided cost rate.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Revenue requirements.
10/94	5258-U	GA	Georgia Public Service Commission	Southern Bell Telephone & Telegraph Co.	Proposals to address competition in telecommunication markets.
11/94	EC94-7-000 ER94-898-000	FERC	Louisiana Public Service Commission	El Paso Electric and Central and Southwest	Merger economics, transmission equalization hold harmless proposals.
2/95	941-430EG	CO	CF&I Steel, L.P.	Public Service Company of Colorado	Interruptible rates, cost-of-service.

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

**Expert Testimony Appearances  
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<b>Date</b>	<b>Case</b>	<b>Jurisdct.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Cost-of-service, allocation of rate increase, rate design, interruptible rates.
6/95	C-00913424 C-00946104	PA	Duquesne Interruptible Complainants	Duquesne Light Co.	Interruptible rates.
8/95	ER95-112 -000	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Open Access Transmission Tariffs - Wholesale.
10/95	U-21485	LA	Louisiana Public Service Commission	Gulf States Utilities Company	Nuclear decommissioning, revenue requirements, capital structure.
10/95	ER95-1042 -000	FERC	Louisiana Public Service Commission	System Energy Resources, Inc.	Nuclear decommissioning, revenue requirements.
10/95	U-21485	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Nuclear decommissioning and cost of debt capital, capital structure.
11/95	I-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Retail competition issues.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Revenue requirement analysis.
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Elec. Co., Potomac Elec. Power Co., Constellation Energy Co.	Ratemaking issues associated with a Merger.
8/96	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Decommissioning, weather normalization, capital structure.
2/97	R-973877	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Competitive restructuring policy issues, stranded cost, transition charges.
6/97	Civil Action No. 94-11474	US Bank- ruptcy Court Middle District of Louisiana	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Confirmation of reorganization plan; analysis of rate paths produced by competing plans.

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

**Expert Testimony Appearances  
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Stephen J. Baron  
As of December 2008**

<b>Date</b>	<b>Case</b>	<b>Jurisdiction</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
6/97	R-973953	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Retail competition issues, rate unbundling, stranded cost analysis.
6/97	8738	MD	Maryland Industrial Group	Generic	Retail competition issues
7/97	R-973954	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Retail competition issues, rate unbundling, stranded cost analysis.
10/97	97-204	KY	Alcan Aluminum Corp. Southwire Co.	Big River Electric Corp.	Analysis of cost of service issues - Big Rivers Restructuring Plan
10/97	R-974008	PA	Metropolitan Edison Industrial Users	Metropolitan Edison Co.	Retail competition issues, rate unbundling, stranded cost analysis.
10/97	R-974009	PA	Pennsylvania Electric Industrial Customer	Pennsylvania Electric Co.	Retail competition issues, rate unbundling, stranded cost analysis.
11/97	U-22491	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Decommissioning, weather normalization, capital structure.
11/97	P-971265	PA	Philadelphia Area Industrial Energy Users Group	Enron Energy Services Power, Inc./ PECO Energy	Analysis of Retail Restructuring Proposal.
12/97	R-973981	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Retail competition issues, rate unbundling, stranded cost analysis.
12/97	R-974104	PA	Duquesne Industrial Intervenors	Duquesne Light Co.	Retail competition issues, rate unbundling, stranded cost analysis.
3/98 (Allocated Stranded Cost Issues)	U-22092	LA	Louisiana Public Service Commission	Gulf States Utilities Co.	Retail competition, stranded cost quantification.
3/98	U-22092		Louisiana Public Service Commission	Gulf States Utilities, Inc.	Stranded cost quantification, restructuring issues.
9/98	U-17735		Louisiana Public Service Commission	Cajun Electric Power Cooperative, Inc.	Revenue requirements analysis, weather normalization.
12/98	8794	MD	Maryland Industrial Group and	Baltimore Gas and Electric Co.	Electric utility restructuring, stranded cost recovery, rate

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Expert Testimony Appearances  
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As of December 2008

Date	Case	Jurisdiction	Party	Utility	Subject
			Millennium Inorganic Chemicals Inc.		unbundling.
12/98	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Nuclear decommissioning, weather normalization, Entergy System Agreement.
5/99 (Cross- 40-000 Answering Testimony)	EC-98-	FERC	Louisiana Public Service Commission	American Electric Power Co. & Central South West Corp.	Merger issues related to market power mitigation proposals.
5/99 (Response Testimony)	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co.	Performance based regulation, settlement proposal issues, cross-subsidies between electric gas services.
6/99	98-0452	WV	West Virginia Energy Users Group	Appalachian Power, Monongahela Power, & Potomac Edison Companies	Electric utility restructuring, stranded cost recovery, rate unbundling.
7/99	99-03-35	CT	Connecticut Industrial Energy Consumers	United Illuminating Company	Electric utility restructuring, stranded cost recovery, rate unbundling.
7/99	Adversary Proceeding No. 98-1065	U.S. Bankruptcy Court	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Motion to dissolve preliminary injunction.
7/99	99-03-06	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power Co.	Electric utility restructuring, stranded cost recovery, rate unbundling.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Nuclear decommissioning, weather normalization, Entergy System Agreement.
12/99	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative, Inc.	Analysis of Proposed Contract Rates, Market Rates.
03/00	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative, Inc.	Evaluation of Cooperative Power Contract Elections
03/00	99-1658-EL-ETP	OH	AK Steel Corporation	Cincinnati Gas & Electric Co.	Electric utility restructuring, stranded cost recovery, rate Unbundling.

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Stephen J. Baron  
As of December 2008**

<b>Date</b>	<b>Case</b>	<b>Jurisdct.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
08/00	98-0452 E-GI	WVA	West Virginia Energy Users Group	Appalachian Power Co. American Electric Co.	Electric utility restructuring rate unbundling.
08/00	00-1050 E-T 00-1051-E-T	WVA	West Virginia Energy Users Group	Mon Power Co. Potomac Edison Co.	Electric utility restructuring rate unbundling.
10/00	SOAH 473- 00-1020 PUC 2234	TX	The Dallas-Fort Worth Hospital Council and The Coalition of Independent Colleges And Universities	TXU, Inc.	Electric utility restructuring rate unbundling.
12/00	U-24993	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Nuclear decommissioning, revenue requirements.
12/00	EL00-66- 000 & ER00-2854 EL95-33-002	LA	Louisiana Public Service Commission	Entergy Services Inc.	Inter-Company System Agreement: Modifications for retail competition, interruptible load.
04/01	U-21453, U-20925, U-22092 (Subdocket B) Addressing Contested Issues	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Jurisdictional Business Separation - Texas Restructuring Plan
10/01	14000-U	GA	Georgia Public Service Commission Adversary Staff	Georgia Power Co.	Test year revenue forecast.
11/01	U-25687	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Nuclear decommissioning requirements transmission revenues.
11/01	U-25965	LA	Louisiana Public Service Commission	Generic	Independent Transmission Company ("Transco"). RTO rate design.
03/02	001148-EI	FL	South Florida Hospital and Healthcare Assoc.	Florida Power & Light Company	Retail cost of service, rate design, resource planning and demand side management.
06/02	U-25965	LA	Louisiana Public Service Commission	Entergy Gulf States Entergy Louisiana	RTO Issues
07/02	U-21453	LA	Louisiana Public Service Commission	SWEPSCO, AEP	Jurisdictional Business Sep. - Texas Restructuring Plan.

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

**Expert Testimony Appearances  
of  
Stephen J. Baron  
As of December 2008**

<b>Date</b>	<b>Case</b>	<b>Jurisdict.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
08/02	U-25888	LA	Louisiana Public Service Commission	Entergy Louisiana, Inc. Entergy Gulf States, Inc.	Modifications to the Inter-Company System Agreement, Production Cost Equalization.
08/02	EL01-88-000	FERC	Louisiana Public Service Commission	Entergy Services Inc. and the Entergy Operating Companies	Modifications to the Inter-Company System Agreement, Production Cost Equalization.
11/02	02S-315EG	CO	CF&I Steel & Climax Molybdenum Co.	Public Service Co. of Colorado	Fuel Adjustment Clause
01/03	U-17735	LA	Louisiana Public Service Commission	Louisiana Coops	Contract Issues
02/03	02S-594E	CO	Cripple Creek and Victor Gold Mining Co.	Aquila, Inc.	Revenue requirements, purchased power.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Weather normalization, power purchase expenses, System Agreement expenses.
11/03	ER03-753-000	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	Proposed modifications to System Agreement Tariff MSS-4.
11/03	ER03-583-000 ER03-583-001 ER03-583-002  ER03-681-000, ER03-681-001  ER03-682-000, ER03-682-001 ER03-682-002	FERC	Louisiana Public Service Commission	Entergy Services, Inc., the Entergy Operating Companies, EWO Marketing, L.P., and Entergy Power, Inc.	Evaluation of Wholesale Purchased Power Contracts.
12/03	U-27136	LA	Louisiana Public Service Commission	Entergy Louisiana, Inc.	Evaluation of Wholesale Purchased Power Contracts.
01/04	E-01345-03-0437	AZ	Kroger Company Arizona Public Service Co.		Revenue allocation rate design.
02/04	00032071	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Provider of last resort issues.
03/04	03A-436E	CO	CF&I Steel, LP and Climax Molybedenum	Public Service Company of Colorado	Purchased Power Adjustment Clause.

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

**Expert Testimony Appearances  
of  
Stephen J. Baron  
As of December 2008**

<b>Date</b>	<b>Case</b>	<b>Jurisdic.</b>	<b>Party</b>	<b>Utility</b>	<b>Subject</b>
04/04	2003-00433 2003-00434	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas & Electric Co. Kentucky Utilities Co.	Cost of Service Rate Design
0-6/04	03S-539E	CO	Cripple Creek, Victor Gold Mining Co., Goodrich Corp., Holcim (U.S.), Inc., and The Trane Co.	Aquila, Inc.	Cost of Service, Rate Design Interruptible Rates
06/04	R-00049255	PA	PP&L Industrial Customer Alliance PPLICA	PPL Electric Utilities Corp.	Cost of service, rate design, tariff issues and transmission service charge.
10/04	04S-164E	CO	CF&I Steel Company, Climax Mines	Public Service Company of Colorado	Cost of service, rate design, Interruptible Rates.
03/05	Case No. 2004-00426 Case No. 2004-00421	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Louisville Gas & Electric Co.	Environmental cost recovery.
06/05	050045-EI	FL	South Florida Hospital and Healthcare Assoc.	Florida Power & Light Company	Retail cost of service, rate design
07/05	U-28155	LA	Louisiana Public Service Commission Staff	Entergy Louisiana, Inc. Entergy Gulf States, Inc.	Independent Coordinator of Transmission – Cost/Benefit
09/05	Case Nos. 05-0402-E-CN 05-0750-E-PC	WVA	West Virginia Energy Users Group	Mon Power Co. Potomac Edison Co.	Environmental cost recovery, Securitization, Financing Order
01/06	2005-00341	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Company	Cost of service, rate design, transmission expenses. Congestion Cost Recovery Mechanism
03/06	U-22092	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Separation of EGSI into Texas and Louisiana Companies.
04/06	U-25116	LA	Louisiana Public Service Commission Staff	Entergy Louisiana, Inc.	Transmission Prudence Investigation
06/06	R-00061346 C0001-0005	PA	Duquesne Industrial Intervenors & IECPA	Duquesne Light Co.	Cost of Service, Rate Design, Transmission Service Charge, Tariff Issues
06/06	R-00061366 R-00061367 P-00062213 P-00062214		Met-Ed Industrial Energy Users Group and Penelec Industrial Customer Alliance	Metropolitan Edison Co. Pennsylvania Electric Co.	Generation Rate Cap, Transmission Service Charge, Cost of Service, Rate Design, Tariff Issues
07/06	U-22092 Sub-J	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc.	Separation of EGSI into Texas and Louisiana Companies.

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

Expert Testimony Appearances  
of  
Stephen J. Baron  
As of December 2008

Date	Case	Jurisdiction	Party	Utility	Subject
07/06	Case No. 2006-00130 Case No. 2006-00129	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Louisville Gas & Electric Co.	Environmental cost recovery.
08/06	Case No. PUE-2006-00065	VA	Old Dominion Committee For Fair Utility Rates	Appalachian Power Co.	Cost Allocation, Allocation of Revenue Incr, Off-System Sales margin rate treatment
09/06	E-01345A-	AZ	Kroger Company Arizona Public Service Co.	Revenue allocation, cost of service, rate design.	05-0816
11/06	Doc. No. 97-01-15RE02	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power United Illuminating	Rate unbundling issues.
01/07	Case No. 06-0960-E-42T	WV	West Virginia Energy Users Group	Mon Power Co. Potomac Edison Co.	Retail Cost of Service Revenue apportionment
03/07	U-29764	LA	Louisiana Public Service Commission Staff	Entergy Gulf States, Inc. Entergy Louisiana, LLC	Implementation of FERC Decision Jurisdictional & Rate Class Allocation
05/07	Case No. 07-63-EL-UNC	OH	Ohio Energy Group	Ohio Power, Columbus Southern Power	Environmental Surcharge Rate Design
05/07	R-00049255 Remand	PA	PP&L Industrial Customer Alliance PPLICA	PPL Electric Utilities Corp.	Cost of service, rate design, tariff issues and transmission service charge.
06/07	R-00072155	PA	PP&L Industrial Customer Alliance PPLICA	PPL Electric Utilities Corp.	Cost of service, rate design, tariff issues.
07/07	Doc. No. 07F-037E	CO	Gateway Canyons LLC	Grand Valley Power Coop.	Distribution Line Cost Allocation
09/07	Doc. No. 05-UR-103	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Cost of Service, rate design, tariff Issues, Interruptible rates.
11/07	ER07-682-000	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	Proposed modifications to System Agreement Schedule MSS-3. Cost functionalization issues.
1/08	Doc. No. 20000-277-ER-07	WY	Cimarex Energy Company	Rocky Mountain Power (PacifiCorp)	Vintage Pricing, Marginal Cost Pricing Projected Test Year
1/08	Case No. 07-551	OH	Ohio Energy Group	Ohio Edison, Toledo Edison Cleveland Electric Illuminating	Class Cost of Service, Rate Restructuring, Apportionment of Revenue Increase to Rate Schedules
2/08	ER07-956	FERC	Louisiana Public Service Commission Staff	Entergy Services, Inc. and the Entergy Operating Companies	Entergy's Compliance Filing System Agreement Bandwidth Calculations.
2/08	Doc No.	PA	West Penn Power	West Penn Power Co.	Default Service Plan issues.

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J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances  
of  
Stephen J. Baron  
As of December 2008

Date	Case	Jurisdiction	Party	Utility	Subject
	P-00072342		Industrial Intervenors		
3/08	Doc No. E-01933A-05-0650	AZ	Kroger Company	Tucson Electric Power Co.	Cost of Service, Rate Design
05/08	08-0278 E-GI	WV	West Virginia Energy Users Group	Appalachian Power Co. American Electric Power Co.	Expanded Net Energy Cost "ENEC" Analysis.
6/08	Case No. 08-124-EL-ATA	OH	Ohio Energy Group	Ohio Edison, Toledo Edison Cleveland Electric Illuminating	Recovery of Deferred Fuel Cost
7/08	Docket No. 07-035-93	UT	Kroger Company	Rocky Mountain Power Co.	Cost of Service, Rate Design
08/08	Doc. No. 6680-UR-116	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Power and Light Co.	Cost of Service, rate design, tariff Issues, Interruptible rates.
09/08	Doc. No. 6690-UR-119	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Public Service Co.	Cost of Service, rate design, tariff Issues, Interruptible rates.
09/08	Case No. 08-936-EL-SSO	OH	Ohio Energy Group	Ohio Edison, Toledo Edison Cleveland Electric Illuminating	Provider of Last Resort Competitive Solicitation
09/08	Case No. 08-935-EL-SSO	OH	Ohio Energy Group	Ohio Edison, Toledo Edison Cleveland Electric Illuminating	Provider of Last Resort Rate Plan
09/08	Case No. 08-917-EL-SSO 08-918-EL-SSO	OH	Ohio Energy Group	Ohio Power Company Columbus Southern Power Co.	Provider of Last Resort Rate Plan
11/08	08-0278 E-GI	WV	West Virginia Energy Users Group	Appalachian Power Co. American Electric Power Co.	Expanded Net Energy Cost "ENEC" Analysis.
11/08	M-2008-2036188, M-2008-2036197	PA	Met-Ed Industrial Energy Users Group and Penelec Industrial Customer Alliance	Metropolitan Edison Co. Pennsylvania Electric Co.	Transmission Service Charge

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J. KENNEDY AND ASSOCIATES, INC.

**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
ARIZONA PUBLIC SERVICE COMPANY FOR )  
A HEARING TO DETERMINE THE FAIR VALUE )  
OF THE UTILITY PROPERTY OF THE COMPANY ) Docket No. E-01345A-08-0172  
FOR RATEMAKING PURPOSES, TO FIX A JUST )  
AND REASONABLE RATE OF RETURN )  
THEREON, TO APPROVE RATE SCHEDULES )  
DESIGNED TO DEVELOP SUCH RETURN )**

**EXHIBIT \_\_ (SJB-2)  
OF  
STEPHEN J. BARON**

**ON BEHALF OF THE  
KROGER CO.**

**ARIZONA PUBLIC SERVICE COMPANY**  
**Computation of Rate Increase Necessary to Reduce Class S Subsidies by 25%**  
**Adjusted to Cap Lighting at 1.5x System Average**

	Total ACC Jurisdiction	Residential	General Service	Water Pumping	Street Lighting	Dusk to Dawn
<b>COST OF SERVICE AT PRESENT RATES</b>						
Revenues from Base Rates	2,637,447	1,347,035	1,240,168	25,376	17,372	7,496
Revenues from Surcharges	-	-	-	-	-	-
Other Electric Revenues	94,461	47,608	42,643	867	3,063	280
Total Revenue (Existing Rates)	2,731,908	1,394,643	1,282,811	26,243	20,435	7,776
Operating Expenses before Income Taxes	2,500,562	1,310,086	1,140,256	23,495	21,437	5,288
Income Taxes	28,234	368	27,578	666	(981)	603
Net Operating Income	203,112	84,189	114,977	2,082	(21)	1,885
Rate Base	5,359,964	2,954,460	2,282,488	30,142	64,347	28,527
Rate of Return	3.79%	2.85%	5.04%	6.91%	-0.03%	6.61%
Rate of Return Index	1.000	0.752	1.329	1.823	(0.009)	1.744
Subsidy at Present Rate of Return	(0)	45,792	(46,972)	(1,550)	4,056	(1,326)
Percentage Increase		3.28%	-3.66%	-5.91%	19.85%	-17.05%
Increase to Equalized Proposed Rate of Return	448,194	292,840	143,887	971	9,436	1,060
Percentage Increase	16.99%	21.74%	11.60%	3.83%	54.32%	14.13%
APS Proposed Percentage Increases	16.99%	17.27%	16.74%	12.30%	19.41%	19.36%
Proposed Class Rate Increase	448,194	232,650	207,600	3,121	3,372	1,451
Less: Incremental Income Taxes	(176,409)	(91,571)	(81,711)	(1,228)	(1,327)	(571)
Net Income @ proposed rates	474,897	225,268	240,866	3,975	2,024	2,765
Rate of Return @ proposed rates	8.86%	7.62%	10.55%	13.19%	3.15%	9.69%
Rate of Return Index	1.000	0.861	1.191	1.488	0.355	1.094
Subsidy at Company Proposed Rates	0	60,190	(63,713)	(2,150)	6,064	(391)
Kroger Proposed Subsidy (75% of Present)	(0)	34,344	(35,229)	(1,162)	3,042	(994)
Adjustment	-	1,441	1,113	15	(1,966)	(603)
Required Rate Increase	448,194	259,938	180,229	2,148	4,428	1,451
Percentage Increase	16.99%	19.30%	14.53%	8.46%	25.49%	19.36%
Net Income with Kroger Subsidy Reduction	474,897	241,815	224,268	3,384	2,664	2,765
Rate of Return	8.86%	8.18%	9.83%	11.23%	4.14%	9.69%
Rate of Return Index		0.924	1.109	1.267	0.467	1.094
Pro Forma PSA Impact	(169,977)	(79,859)	(87,217)	(1,989)	(758)	(154)
Net Increase	278,217	180,079	93,012	159	3,670	1,297
Net Percentage Increase	10.55%	13.37%	7.50%	0.63%	21.13%	17.30%

**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
ARIZONA PUBLIC SERVICE COMPANY FOR )  
A HEARING TO DETERMINE THE FAIR VALUE )  
OF THE UTILITY PROPERTY OF THE COMPANY ) Docket No. E-01345A-08-0172  
FOR RATEMAKING PURPOSES, TO FIX A JUST )  
AND REASONABLE RATE OF RETURN )  
THEREON, TO APPROVE RATE SCHEDULES )  
DESIGNED TO DEVELOP SUCH RETURN )**

**EXHIBIT\_\_(SJB-3)  
OF  
STEPHEN J. BARON**

**ON BEHALF OF THE  
KROGER CO.**

**ARIZONA PUBLIC SERVICE COMPANY**  
**Computation of Rate Increase Necessary to Reduce Class Subsidies by 25%**

	Total ACC Jurisdiction	General Service	E-20 (Church Rate)	E-32 TOU	E-30, E-32 (0 - 20 kW)	E-32 (21 - 100 kW)	E-32 (101 - 400 kW)	E-32 (401+ kW)	E-34	E-35
<b>COST OF SERVICE AT PRESENT RATES</b>										
Revenues from Base Rates	2,637,447	1,240,169	3,267	15,429	173,838	273,358	292,377	306,941	85,742	89,217
Revenues from Surcharges	-	-	-	-	-	-	-	-	-	-
Other Electric Revenues	94,461	42,643	140	570	5,502	8,912	10,049	10,722	3,195	3,553
Total Revenue (Existing Rates)	2,731,908	1,282,812	3,408	15,999	179,339	282,270	302,426	317,663	88,937	92,770
Operating Expenses before Income Taxes	2,500,562	1,140,256	3,718	14,113	162,580	241,372	262,770	276,075	84,073	95,575
Income Taxes	28,234	27,578	(219)	417	1,704	8,855	8,767	9,846	422	(2,214)
Net Operating Income	203,112	114,978	(91)	1,468	15,076	32,042	30,889	31,741	4,443	(591)
Rate Base	5,359,964	2,282,488	11,122	24,772	426,821	565,107	525,980	482,809	127,572	118,306
Rate of Return	3.79%	5.04%	-0.82%	5.93%	3.53%	5.67%	5.87%	6.57%	3.48%	-0.50%
Rate of Return Index	1.000	1.329	(0.215)	1.564	0.932	1.496	1.550	1.735	0.919	(0.132)
Subsidy at Present Rate of Return	-	(46,973)	845	(874)	1,811	(17,526)	(18,069)	(22,173)	646	8,368
Percentage Increase	-	-3.79%	25.85%	-5.66%	1.04%	-6.41%	-6.18%	-7.22%	0.75%	9.38%
Increase to Equalized Proposed Rate of Return	448,194	143,886	1,775	1,198	37,501	29,727	25,913	18,199	11,313	18,261
Percentage Increase	16.99%	11.60%	54.32%	7.76%	21.57%	10.87%	8.86%	5.93%	13.19%	20.47%
APS Proposed Percentage Increases	16.99%	16.74%	20.20%	16.71%	18.67%	16.58%	16.22%	15.74%	16.50%	18.69%
<b>Proposed Class Rate Increase</b>	<b>448,194</b>	<b>207,600</b>	<b>660</b>	<b>2,578</b>	<b>32,463</b>	<b>45,326</b>	<b>47,426</b>	<b>48,319</b>	<b>14,149</b>	<b>16,679</b>
Less: Incremental Income Taxes	(176,409)	(81,711)	(260)	(1,015)	(12,777)	(17,840)	(18,667)	(19,018)	(5,569)	(6,565)
Net Income @ proposed rates	474,897	240,866	309	3,032	34,761	59,528	59,648	61,042	13,023	9,523
Rate of Return @ proposed rates	8.86%	10.55%	2.78%	12.24%	8.14%	10.53%	11.34%	12.64%	10.21%	8.05%
Rate of Return Index	1.000	1.191	0.314	1.381	0.919	1.189	1.280	1.427	1.152	0.909
Subsidy at Company Proposed Rates	-	(63,714)	1,115	(1,380)	5,038	(15,599)	(21,513)	(30,120)	(2,836)	1,582
Kroger Proposed Subsidy (75% of Present)	-	(35,230)	634	(655)	1,358	(13,145)	(13,552)	(16,630)	484	6,276
Adjustment for E-20	-	-	481	(5)	(90)	(120)	(111)	(102)	(27)	(25)
Adjustment for "1.5" Times Rate Cap	-	1,113	-	12	209	277	258	237	63	58
Required Rate Increase	448,194	180,229	660	1,870	36,443	43,269	39,834	35,168	10,918	12,068
<b>Kroger Percentage Increase</b>	<b>16.99%</b>	<b>14.53%</b>	<b>20.21%</b>	<b>12.12%</b>	<b>20.96%</b>	<b>15.83%</b>	<b>13.62%</b>	<b>11.46%</b>	<b>12.73%</b>	<b>13.53%</b>
Net Income with Kroger Subsidy Reduction	474,897	224,288	310	2,603	37,175	58,280	55,044	53,067	11,064	6,727
Rate of Return	8.86%	9.83%	2.78%	10.51%	8.71%	10.31%	10.47%	10.99%	8.67%	5.69%
Rate of Return Index	-	1.109	0.314	1.186	0.983	1.164	1.181	1.241	0.979	0.642
Pro Forma PSA Impact:	(169,977)	(87,217)	(203)	(1,246)	(8,490)	(16,122)	(20,433)	(23,958)	(7,605)	(9,160)
Net Increase	278,217	93,012	457	624	27,953	27,147	19,401	11,210	3,313	2,908
<b>Net Percentage Increase</b>	<b>10.65%</b>	<b>7.50%</b>	<b>13.99%</b>	<b>4.06%</b>	<b>16.08%</b>	<b>9.93%</b>	<b>6.64%</b>	<b>3.65%</b>	<b>3.86%</b>	<b>3.26%</b>

**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
ARIZONA PUBLIC SERVICE COMPANY FOR )  
A HEARING TO DETERMINE THE FAIR VALUE )  
OF THE UTILITY PROPERTY OF THE COMPANY ) Docket No. E-01345A-08-0172  
FOR RATEMAKING PURPOSES, TO FIX A JUST )  
AND REASONABLE RATE OF RETURN )  
THEREON, TO APPROVE RATE SCHEDULES )  
DESIGNED TO DEVELOP SUCH RETURN )**

**EXHIBIT \_\_ (SJB-4)  
OF  
STEPHEN J. BARON**

**ON BEHALF OF THE  
KROGER CO.**

**ARIZONA PUBLIC SERVICE COMPANY**  
**Computation of Rate Increase Necessary to Reduce General Service Class Only**  
**Intra-Class Subsidies by 25%**

	Total ACC Jurisdiction	General Service	E-20 (Church Rate)	E-32 TOU	E-30, E-32 (0 - 20 kW)	E-32 (21 - 100 kW)	E-32 (101 - 400 kW)	E-32 (401+ kW)	E-34	E-35
<b>COST OF SERVICE AT PRESENT RATES</b>										
Revenues from Base Rates	2,637,447	1,240,169	3,267	15,429	173,838	273,358	292,377	306,941	85,742	89,217
Revenues from Surcharges	-	-	-	-	-	-	-	-	-	-
Other Electric Revenues	94,481	42,643	140	570	5,502	8,912	10,049	10,722	3,195	3,553
Total Revenue (Existing Rates)	2,731,908	1,282,812	3,408	15,999	179,339	282,270	302,426	317,663	88,937	92,770
Operating Expenses before Income Taxes	2,500,562	1,140,256	3,718	14,113	162,560	241,372	262,770	276,075	84,073	95,575
Income Taxes	28,234	27,578	(219)	417	1,704	8,855	9,767	9,946	422	(2,214)
Net Operating Income	203,112	114,978	(91)	1,468	15,076	32,042	30,889	31,741	4,443	(591)
Rate Base	5,359,964	2,282,488	11,122	24,772	426,821	565,107	525,980	482,809	127,572	118,306
Rate of Return	3.79%	5.04%	-0.82%	5.93%	3.53%	5.67%	5.87%	6.57%	3.48%	-0.50%
Rate of Return Index	1.000	1.329	(0.215)	1.564	0.932	1.496	1.550	1.735	0.919	(0.132)
Subsidy at Present Rate of Return	-	(0)	1,074	(364)	10,595	(5,897)	(7,245)	(12,237)	3,271	10,803
Percentage Increase	-	0.00%	32.86%	-2.36%	6.09%	-2.16%	-2.48%	-3.99%	3.82%	12.11%
Increase to Equalized Proposed Rate of Return	448,194	143,886	1,775	1,198	37,501	29,727	25,913	18,199	11,313	18,261
Percentage Increase	16.99%	11.60%	54.32%	7.76%	21.57%	10.87%	8.86%	5.93%	13.19%	20.47%
<b>APS Proposed Percentage Increases</b>	<b>16.99%</b>	<b>16.74%</b>	<b>20.20%</b>	<b>16.71%</b>	<b>18.67%</b>	<b>16.58%</b>	<b>16.22%</b>	<b>15.74%</b>	<b>16.50%</b>	<b>18.69%</b>
Proposed Class Rate Increase	448,194	207,600	660	2,578	32,463	45,326	47,426	48,319	14,149	16,679
Less: Incremental Income Taxes	(176,409)	(81,711)	(260)	(1,015)	(12,777)	(17,940)	(18,667)	(19,018)	(5,568)	(6,565)
Net Income @ proposed rates	474,897	240,866	309	3,032	34,761	59,528	59,648	61,042	13,023	9,523
Rate of Return @ proposed rates	8.86%	10.55%	2.78%	12.24%	8.14%	10.53%	11.34%	12.64%	10.21%	8.05%
Rate of Return Index	1.000	1.191	0.314	1.381	0.919	1.189	1.280	1.427	1.152	0.909
Subsidy at Company Proposed Rates	-	0	1,425	(689)	16,953	176	(6,831)	(16,643)	725	4,884
Kroger Proposed Subsidy (75% of Present)	-	(0)	805	(273)	7,946	(4,422)	(5,434)	(9,178)	2,453	8,102
Adjustment for E-20	-	(0)	(620)	7	116	154	144	132	35	32
Required Rate Increase	448,194	207,600	660	2,169	41,586	50,078	46,172	40,986	12,456	13,493
<b>Kroger Percentage Increase</b>	<b>16.99%</b>	<b>16.74%</b>	<b>20.20%</b>	<b>14.08%</b>	<b>23.92%</b>	<b>18.32%</b>	<b>15.79%</b>	<b>13.35%</b>	<b>14.53%</b>	<b>15.12%</b>
Net Income with Kroger Subsidy Reduction	474,897	240,866	309	2,784	40,294	62,410	58,888	56,595	11,996	7,591
Rate of Return	8.86%	10.55%	2.78%	11.24%	9.44%	11.04%	11.20%	11.72%	9.40%	6.42%
Rate of Return Index	1.000	1.191	0.314	1.268	1.065	1.246	1.264	1.323	1.061	0.724
Pro Forma PSA Impact	(169,977)	(87,217)	(203)	(1,246)	(8,490)	(16,122)	(20,433)	(23,958)	(7,605)	(9,160)
Net Increase	278,217	120,383	457	923	33,096	33,956	25,739	17,028	4,851	4,333
<b>Net Percentage Increase</b>	<b>10.55%</b>	<b>9.71%</b>	<b>13.99%</b>	<b>5.98%</b>	<b>19.04%</b>	<b>12.42%</b>	<b>8.80%</b>	<b>5.55%</b>	<b>5.66%</b>	<b>4.86%</b>

**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

**Mike Gleason, Chairman  
William A. Mundell  
Jeff Hatch-Miller  
Kristin K. Mayes  
Gary Pierce**

**IN THE MATTER OF THE APPLICATION OF )  
ARIZONA PUBLIC SERVICE COMPANY FOR )  
A HEARING TO DETERMINE THE FAIR VALUE )  
OF THE UTILITY PROPERTY OF THE COMPANY ) Docket No. E-01345A-08-0172  
FOR RATEMAKING PURPOSES, TO FIX A JUST )  
AND REASONABLE RATE OF RETURN )  
THEREON, TO APPROVE RATE SCHEDULES )  
DESIGNED TO DEVELOP SUCH RETURN )**

**DIRECT TESTIMONY  
AND EXHIBITS  
OF  
STEPHEN J. BARON**

**ON BEHALF OF THE  
KROGER CO.**

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

**January 2009**

**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
ARIZONA PUBLIC SERVICE COMPANY FOR )  
A HEARING TO DETERMINE THE FAIR VALUE )  
OF THE UTILITY PROPERTY OF THE COMPANY ) Docket No. E-01345A-08-0172  
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**BEFORE THE  
ARIZONA CORPORATION COMMISSION**

**IN THE MATTER OF THE APPLICATION OF )  
ARIZONA PUBLIC SERVICE COMPANY FOR )  
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THEREON, TO APPROVE RATE SCHEDULES )  
DESIGNED TO DEVELOP SUCH RETURN )**

**DIRECT TESTIMONY OF STEPHEN J. BARON**

**I. INTRODUCTION**

1

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

2

3

**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.**

4

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6

7

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

8

9

*J. Kennedy and Associates, Inc.*

1 A. I am the President and a Principal of Kennedy and Associates, a firm of utility rate,  
2 planning, and economic consultants in Atlanta, Georgia.

3

4 **Q. Please describe briefly the nature of the consulting services provided by**  
5 **Kennedy and Associates.**

6

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

13

14 **Q. Please state your educational background.**

15

16 A. I graduated from the University of Florida in 1972 with a B.A. degree with high  
17 honors in Political Science and significant coursework in Mathematics and  
18 Computer Science. In 1974, I received a Master of Arts Degree in Economics, also  
19 from the University of Florida. My areas of specialization were econometrics,  
20 statistics, and public utility economics. My thesis concerned the development of an  
21 econometric model to forecast electricity sales in the State of Florida, for which I  
22 received a grant from the Public Utility Research Center of the University of Florida.

1 In addition, I have advanced study and coursework in time series analysis and  
2 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  
20 providing services in the areas of econometric modeling, load and energy  
21 forecasting, production cost modeling, planning, cost-of-service analysis,  
22 cogeneration, and load management.

1  
2 I joined the public accounting firm of Coopers & Lybrand in 1982 as a Manager of  
3 the Atlanta Office of the Utility Regulatory and Advisory Services Group. In this  
4 capacity I was responsible for the operation and management of the Atlanta office.  
5 My duties included the technical and administrative supervision of the staff,  
6 budgeting, recruiting, and marketing as well as project management on client  
7 engagements. At Coopers & Lybrand, I specialized in utility cost analysis,  
8 forecasting, load analysis, economic analysis, and planning.

9  
10 In January 1984, I joined the consulting firm of Kennedy and Associates as a Vice  
11 President and Principal. I became President of the firm in January 1991.

12  
13 During the course of my career, I have provided consulting services to more than  
14 thirty utility, industrial, and Public Service Commission clients, including three  
15 international utility clients.

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

1

2

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

3

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10

**Q. Have you previously presented testimony before the Arizona Corporation Commission?**

11

12

13

A. Yes. I presented testimony in two previous Arizona Public Service Company rate cases on behalf of Kroger Co. in 2004 and in 2006 (Docket Nos. E-01345-03-0437 and E-01345A-05-0816). I also presented testimony in two Tucson Electric Power Company proceedings; in 1981 on behalf of the Commission (Docket No. U-1933I) and in 2008 on behalf of Kroger Co. (Docket No. E-01933A-07-0402).

14

15

16

17

18

19

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

20

1 A. I am testifying on behalf of the Kroger Co. Kroger has approximately 36 stores in  
2 the APS service territory operating under the names Fry's, Fred Meyer and Smith's.  
3 These stores consume in excess of 100 million kWhs per year on the APS system.  
4

5 **Q. What is the purpose of your testimony?**  
6

7 A. I will be presenting testimony on the Company's class cost of service study, the  
8 allocation of the proposed revenue increase to rate schedules and APS's proposal to  
9 disaggregate the E-32 General Service rate into 4 separate rates.  
10

11 In general, though I believe that the 4 Coincident Peak class cost of service  
12 methodology used by APS in prior cases is more appropriate for allocating costs to  
13 rate classes, I accept the Company's Average and Excess Demand method in this  
14 case.<sup>1</sup> However, as I will discuss, the Company's cost study shows that there are  
15 substantial differences between the rates paid by some customers and the cost to  
16 provide service. In particular, residential customers are currently receiving very  
17 substantial dollar subsidies from general service customers. Despite this finding, the  
18 Company's proposed increases to its Residential and General Service rate classes do  
19 not provide a material level of mitigation to this disparity between cost of service  
20 and rates. I will address this issue and recommend that the Commission adopt a

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<sup>1</sup> Kroger is not presenting testimony on the Company's requested revenue increase in this case. For purposes of my testimony, I have utilized the APS requested increase of \$448 million. This should not be construed as an endorsement of the Company's requested increase.

1 specific level of subsidy reduction, based on the class cost of service results, in its  
2 determination of the increases to each rate schedule.

3  
4 With regard to rate design, I will discuss the APS's proposed revisions to rate E-32;  
5 specifically the proposal to disaggregate the rate by kW demand levels. As I will  
6 discuss, Kroger supports the Company's proposed E-32 rate design and recommends  
7 that the Commission adopt it in this case.

8  
9 **Q. Would you please summarize your recommendations?**

10  
11 **A. Yes.**

- 12
- 13 • **For the purposes of assessing the reasonableness of the Company's proposed**  
14 **allocation of the revenue increase to rate schedule in this case, APS' proposal to**  
15 **use an Average and Excess Demand ("AED") class cost of service method is**  
16 **reasonable. The AED method is a traditional cost of service method that**  
17 **recognizes the role of both customer kW demand and energy in cost causation.**  
18 **Unlike other weighted demand and energy methodologies, the AED method**  
19 **gives a reasonable weighting to the importance of class demands in the**  
20 **allocation of the system's fixed production costs to rate classes.**
  - 21  
22 • **Though APS has given some recognition to the cost of service results in its**  
23 **proposed rate schedule increases in this case, it is appropriate to make some**  
24 **additional progress towards eliminating the subsidies contained in present rates**  
25 **in this case. A reasonable and balanced approach would be to reduce class**  
26 **subsidies by 25% as a means of moving towards the objective of setting rates**  
27 **based on cost of service. Eliminating 25% of the subsidy would result in an**  
28 **increase to residential customers of \$259.9 million (19.3%), while producing a**  
29 **\$180.0 million increase (14.5%) to the general service class if the full increase**  
30 **proposed by APS were adopted.**
- 31

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- **APS is proposing to disaggregate its Rate E-32 into four separate rates delineated by kW demand levels. The Company's proposal is reasonable and should be adopted by the Commission. Because load characteristics are different for these General Service customers, the Company's proposal provides a more reasonable rate design that reflects cost of service and reduces intra-class subsidies among General Service customers.**

1                   **II. REVENUE ALLOCATION AND COST OF SERVICE**

2

3           **Q. Have you reviewed the Company's 12 month ending December 2007 test year**  
4           **cost of service study filed in this proceeding?**

5

6           A. Yes. The Company is utilizing a traditional Average and Excess Demand ("AED")  
7           class cost of service study in this proceeding to allocate production related demand  
8           costs. In prior cases, APS has used a 4 CP allocation method because of the  
9           pronounced demands on the system during the summer months.<sup>2</sup> In the prior two  
10          APS base rate cases, I supported the Company's use of the 4 CP method and  
11          continue to do so in this case. The fact that the Company is continuing to rely on the  
12          4 CP methodology to allocate jurisdictional costs indicates that it is an appropriate  
13          methodology for APS, given the load characteristics of the system and the  
14          significance of summer peak loads on generation costs.

15

16          **Q. Do you believe that the Company's proposal to use the AED method for retail**  
17          **class cost of service allocation provides a reasonable basis to evaluate the**  
18          **relationship between the rates being charged each rate class and the underlying**  
19          **cost of providing service to these customers?**

20

---

<sup>2</sup> APS is continuing to use a 4 CP methodology in its jurisdictional cost allocation study in this case.

1 A. Yes, it is appropriate to use for the purpose of assessing the reasonableness of the  
2 Company's proposed allocation of the revenue increase to rate schedule in this case.  
3 The AED method is a traditional cost of service method that recognizes the role of  
4 both customer kW demand and energy in cost causation. Unlike other weighted  
5 demand and energy methodologies, the AED method gives a reasonable weighting  
6 to the importance of class demands in the allocation of the system's fixed production  
7 costs to rate classes.

8

9 **Q. How should the results of the Company's class cost of service study be used in**  
10 **this case?**

11

12 A. The purpose of an embedded, fully allocated class cost of service study is to assess  
13 the reasonableness of a utility's rates, in relation to the underlying cost of providing  
14 service to the customers on each rate class. As a matter of policy, it is both efficient  
15 and equitable to establish rates on the basis of the cost of service and, to the extent  
16 feasible, to move rates towards cost of service in a rate case in which a utility is  
17 requesting a change in revenues. In other words, a rate case, such as the current  
18 APS proceeding, is an opportunity to evaluate the Company's rates and make  
19 incremental adjustments so that, over time, each class will pay rates reflecting cost  
20 of service. In so doing, rates paid by each customer will provide efficient "price  
21 signals" reflecting the resource cost of meeting customer demands. In addition, cost  
22 based rates provide an equitable basis to assign the Company's overall revenue

1 requirement to customers. In this manner, customers in one rate class do not pay or  
2 receive unjustified monetary subsidies from other rate customers.

3

4 **Q. How do the Company's current rates compare to the underlying cost of**  
5 **service?**

6

7 A. A good measure of this rate versus cost relationship is the relative class rates of  
8 return at present rates. This measurement, which is the ratio of a class's rate of  
9 return relative to the average retail earned rate of return, provides a good summary  
10 of the rate versus cost relationship, based on the results of the Company's AED cost  
11 of service study.

12

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

15

16 A. The table below summarizes the rates of return and the relative rate of return indices  
17 ("ROR Index") for each of the major rate classes using the results of the Company's  
18 AED study.

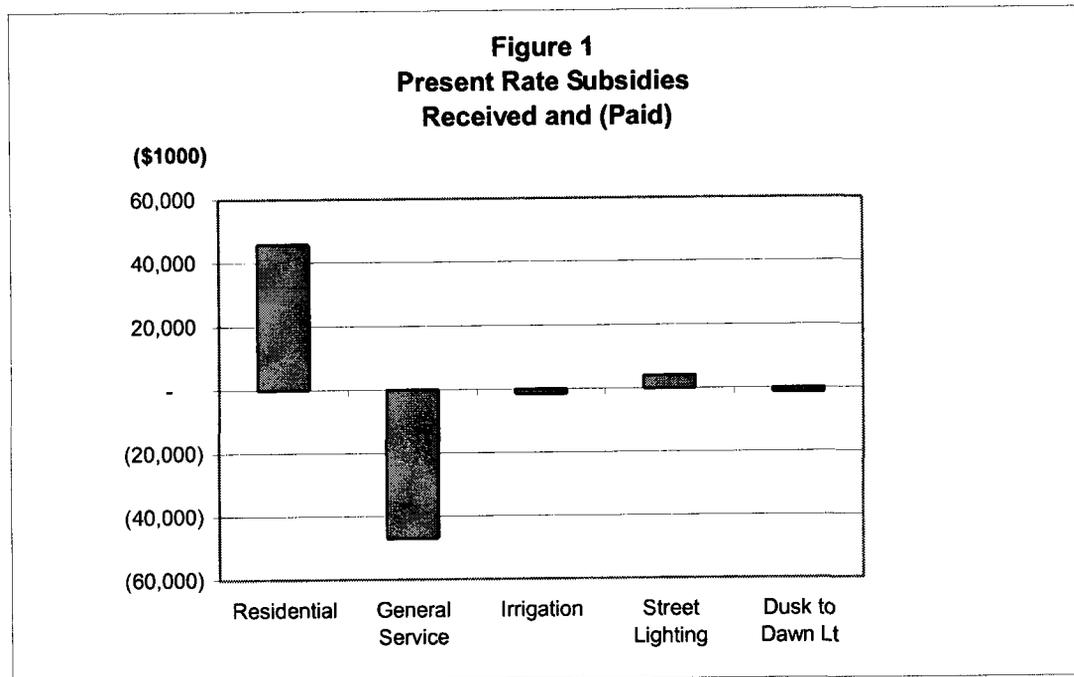
<u>Class</u>	<u>Rate of Return</u>	<u>ROR Index</u>
Residential	2.85%	0.75
General Svc	5.04%	1.33
E-20 (Church Rate)	-0.82%	(0.22)
E-32 TOU	5.93%	1.56
E-30, E-32 (0-20 kW)	3.53%	0.93
E-32 (21-100 kW)	5.67%	1.50
E-32 (101-400 kW)	5.87%	1.55
E-32 (401+ kW)	6.57%	1.73
E-34	3.48%	0.92
E-35	-0.50%	(0.13)
Irrigation	6.91%	1.82
Street Light	-0.03%	(0.01)
Dusk to Dawn	6.61%	1.74
Total Retail	3.79%	1.00

1  
2  
3 Based on these results, the residential class is paying only 75% of its allocated cost  
4 of service under present rates, while general service customers are paying a relative  
5 rate of return that is approximately 130% of the system average. This is a  
6 substantial difference and one that should be addressed in this rate proceeding.  
7 More significantly, within the General Service rate class, customers on rate  
8 schedules E-32 (M) and E-32 (L) are paying significantly higher subsidies than the  
9 General Service class as a whole. As can be seen, customers on E-32 M (101 to 400  
10 kW demands) and E-32 L (greater than 400 kW demands) are paying relative rates  
11 of return at present rates of 155% and 173% of the system average.

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**Q. Have you computed the dollar subsidies being paid and received by each rate class at present rates, based on the results of the Company's cost of service study?**

A. Yes. Figure 1 below shows the dollar subsidies paid and received at present rates. As can be seen, the residential class is receiving (shown as a positive value) over \$45 million in subsidies at present rate from other rate classes. At the same time, general service customers pay annual subsidies of over \$46 million. These results are based on the Company's filed AED class cost of service study, without any adjustments. These subsidies have actually grown over time, since the Company's last base rate case.



1  
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3

4 **Q. Has APS made rate spread proposals in this case that adequately address the**  
5 **substantial disparities between present rates and cost of service?**

6

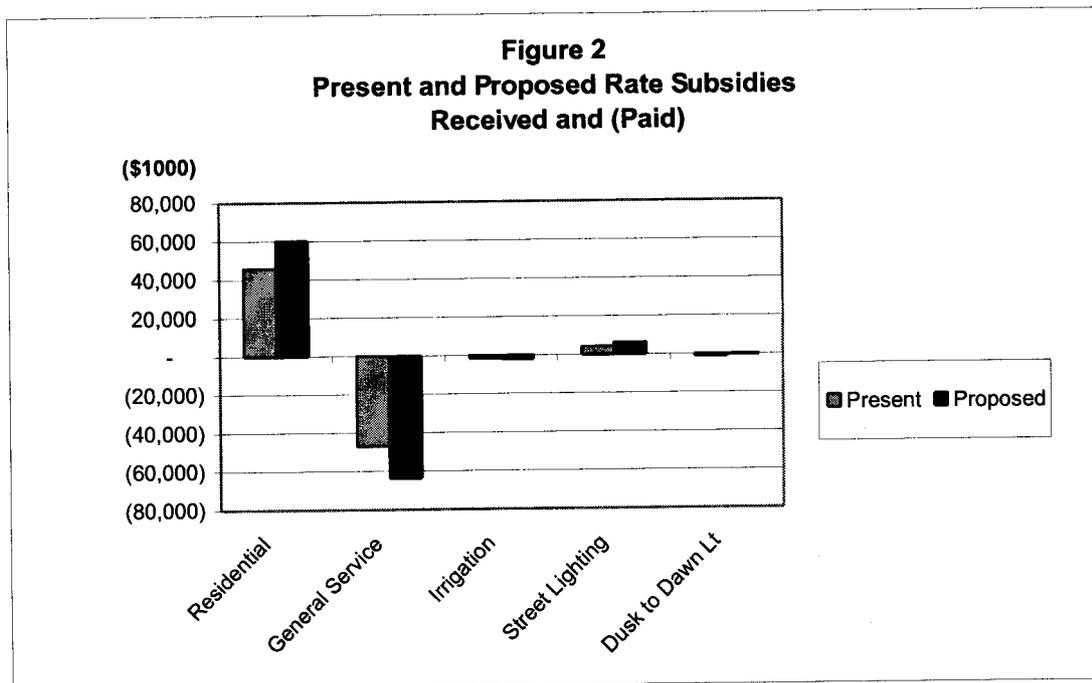
7 A. Not in my opinion. APS is proposing to increase General Service rates at a  $\frac{1}{4}$  of 1%  
8 lower percentage rate than the system average, while increasing the Residential class  
9 at a rate  $\frac{1}{4}$  of 1% higher than the system average. This proposal does nothing to  
10 address the significant disparities between rates and cost of service. In fact, the  
11 Company's proposal makes matters worse. The Company is essentially proposing a  
12 uniform percentage increase for the residential and general service classes, which  
13 comprise about 98% of base revenues. This is despite the fact that the Company's

1 own cost of service study shows that residential customers are currently paying  
2 substantially less than cost of service. Table 2 shows the proposed percentage rate  
3 increases recommended by APS in this proceeding and the resulting dollar subsidies  
4 that will exist at proposed rates. Despite the substantial variation in relative rate of  
5 return and the concomitant subsidies being paid by general service customers, APS  
6 is recommending that the subsidies paid by general service customers be increased.

<u>Class</u>	<u>Proposed % Increase</u>	<u>Proposed Subsidy</u>
Residential	17.27%	60,190
General Svc	16.74%	(63,713)
E-20 (Church Rate)	20.20%	1,115
E-32 TOU	16.71%	(1,380)
E-30, E-32 (0-20 kW)	18.67%	5,038
E-32 (21-100 kW)	16.58%	(15,599)
E-32 (101-400 kW)	16.22%	(21,513)
E-32 (401+ kW)	15.74%	(30,120)
E-34	16.50%	(2,836)
E-35	18.69%	1,582
Irrigation	12.30%	(2,150)
Street Light	19.41%	6,064
Dusk to Dawn	19.36%	(391)
Total Retail	16.99%	

7  
8  
9  
10 Figure 2 below shows the present and proposed dollar subsidies being recommended  
11 by APS in this case. APS is proposing to increase the subsidies received by

1 residential customers by close to \$15 million, and to increase the subsidies paid by  
2 general service customers by an equal amount.  
3



4  
5  
6 **Q. Are you recommending that proposed rates in this case be set at cost of service**  
7 **to eliminate all subsidies?**

8  
9 **A.** No. I recognize that this would not be realistic, given the impact on residential  
10 customers. It would also be inconsistent with the regulatory concept of gradualism.  
11 Though this would be an ideal result and one that should be recognized as a longer-  
12 term goal in future rate proceedings, I am not recommending the elimination of all  
13 subsidies in this proceeding. However, there is no justification for increasing the

1           disparities, given the existing situation. Some mitigation of the subsidies should be  
2           made in this case.

3  
4           If the cost of service study is used directly to allocate the requested \$450 million  
5           increase, residential customers would be assigned a \$293 million increase (22%),  
6           while general service customers would receive a \$144 million increase (12%). This  
7           is the result that would be obtained if 100% of the current subsidies were eliminated  
8           in this proceeding.

9  
10          At the same time, it is unreasonable to completely ignore the results of the  
11          Company's cost of service study (and other cost of service analyses prepared by the  
12          Company in response to data requests).

13  
14          **Q.    In light of the impact on residential customers of completely eliminating the**  
15          **subsidies in this proceeding, do you have an alternative recommendation that**  
16          **would recognize the results of the Company's cost of service study in allocating**  
17          **the increase?**

18  
19          **A.**    Yes. I believe that it is appropriate to make some progress towards eliminating the  
20          subsidies contained in present rates in this case. A reasonable and balanced  
21          approach would be to reduce class subsidies by 25% as a means of moving towards  
22          the objective of setting rates based on cost of service. The analysis presented in

1 Exhibit \_\_ (SJB-2) shows the results of a 25% subsidy reduction in the allocation of  
2 the requested \$448 million increase. As can be seen in the third "box" in Exhibit  
3 \_\_ (SJB-2), eliminating 25% of the subsidy would result in an increase to  
4 residential customers of \$259.9 million (19.3%), while producing a \$180.0 million  
5 increase (14.5%) to the general service class. A 25% subsidy reduction criterion for  
6 allocating the approved revenue requirement increase in this case would still result  
7 in proposed rates that contain substantial subsidies, though these subsidies will be  
8 reduced going forward. Subsequent rate cases should be used to further reduce  
9 subsidies in future periods.

10  
11 **Q. Are you also proposing that this "25% subsidy reduction" methodology be**  
12 **extended to include each of the General Service Rate schedules?**

13  
14 **A.** Yes. Baron Exhibit \_\_ (SJB-3) contains the results for the individual General Service  
15 rate schedules. The total for the General Service rate schedule increases equals the  
16 amount for the General Service class shown in Exhibit \_\_ (SJB-2).

17  
18 Table 3 summarizes the proposed increases for each major rate class and the  
19 individual General Service Rate schedules that I am recommending (assuming that  
20 the Company received its full rate request). Also shown are the remaining subsidies  
21 that will be received and paid, after the 25% reduction at proposed rates.

1

<u>Class</u>	<u>Proposed Increase</u>	<u>Proposed % Increase</u>
Residential	259,938	19.30%
General Svc	180,229	14.53%
E-20 (Church Rate)	660	20.21%
E-32 TOU	1,870	12.12%
E-30, E-32 (0-20 kW)	36,443	20.96%
E-32 (21-100 kW)	43,269	15.83%
E-32 (101-400 kW)	39,834	13.62%
E-32 (401+ kW)	35,168	11.46%
E-34	10,918	12.73%
E-35	12,068	13.53%
Irrigation	2,148	8.46%
Street Light	4,428	25.49%
Dusk to Dawn	1,451	19.36%
Total Retail	448,193	16.99%

2

3

4

**Q. Does your recommended methodology reflect any adjustments to mitigate the impact on specific rate classes?**

5

6

7

**A.** Yes. The increases recommended in Exhibits \_\_ (SJB-3) and (SJB-3), as well as Table 3 reflect a “capping” of the increase to the Street Light at 1.5 times the system average percentage increase and setting the increase for the Dusk to Dawn rate class at the level proposed by the Company, which already reflected a

8

9

10

1 substantial decrease in the subsidies paid by this rate class.<sup>3</sup> Finally, within the  
2 General Service rate class, I have adopted the Company's proposed increase for  
3 "Rate E-20 Church Rate."

4  
5 **Q. Have you developed any alternative recommendation for the allocation of the**  
6 **revenue increase, in the event that the Commission does not elect to reduce**  
7 **intra-class subsidies by 25%, as you have proposed?**

8  
9 A. Yes. My alternative recommendation is to adopt the Company's proposed intra-  
10 class revenue increase allocation (rate spread), and apply a 25% subsidy reduction  
11 allocation only within the General Service class. Effectively, under this  
12 alternative recommendation, the increases to each major rate class would be the  
13 APS proposed increases shown in my Table 2 (e.g., General Service as a whole  
14 would receive an increase of 16.74%).  
15 However, within the General Service rate class, the Company's proposed  
16 increases to individual rate schedules would be adjusted so that dollar subsidies,  
17 relative to the entire General Service class, are reduced by 25%.

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<sup>3</sup> Without this adjustment, the Dusk to Dawn lighting class would have received a very large increase, even though it is paying subsidies at present rates. This occurs because of the relationship between revenues and rate base for this class (the ratio of revenues to rate base for this class is very low, compared to the retail average relationship). APS has proposed a substantial elimination of the current subsidy paid by this class.

1 Baron Exhibit \_\_ (SJB-4) shows the results on this analysis, while Table 4 presents  
2 the increases to each General Service rate. As can be seen, the overall General  
3 Service increase remains at the same level as proposed by APS.<sup>4</sup>  
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<u>Class</u>	<u>Proposed Increase</u>	<u>Proposed % Increase</u>
General Svc	207,600	16.74%
E-20 (Church Rate)	660	20.20%
E-32 TOU	2,169	14.06%
E-30, E-32 (0-20 kW)	41,586	23.92%
E-32 (21-100 kW)	50,078	18.32%
E-32 (101-400 kW)	46,172	15.79%
E-32 (401+ kW)	40,986	13.35%
E-34	12,456	14.53%
E-35	13,493	15.12%

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9 **Q. What is your recommendation for allocating the revenue increase if the**  
10 **Company is authorized a lower increase than it is requesting in this case?**

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12 **A. The recommended dollar increases to each rate class shown in exhibit \_\_ (SJB-2)**  
13 **should be reduced on an equal percentage basis.**  
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<sup>4</sup> I have also made no change to the Company's proposed increase to rate schedule E-20 (Church Rate).

**III. RATE E-32 RATE DESIGN**

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**Q. Have you reviewed APS' proposal to disaggregate Rate E-32 into four separate rates based on kW demand levels?**

A. Yes. I have reviewed the Company's proposal and support the proposed separation in four new rates, delineated by kW demand levels. As noted in the testimony of Company witness DeLizio on page 28 of his testimony, the disaggregated rates provide a better matching of cost of service and rate design for General Service customers.

**Q. Mr. Delizio states on page 29 of his testimony that the disaggregated E-32 rates were developed to moderate the impact of the redesign. Do you agree with the Company's proposal on this issue?**

A. Though I agree that the disaggregated E-32 rate design should consider the impact on the individual new rates, as I discussed in the prior section of my testimony, the mitigation proposed by the Company in its design does not adequately reduce intra-General Service class subsidies. Such subsidies should be reduced by 25% in this case, as I discussed previously.

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

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2     A.     Yes.