

**BEFORE THE
COUNCIL OF THE CITY OF NEW ORLEANS**

**REVISED APPLICATION OF)
ENERGY NEW ORLEANS, LLC)
FOR A CHANGE IN ELECTRIC)
AND GAS RATES PURSUANT TO)
COUNCIL RESOLUTIONS)
R-15-194 AND R-17-504 AND FOR)
RELATED RELIEF)**

DOCKET NO. UD-18-07

**SURREBUTTAL
AND
CROSS-ANSWERING TESTIMONY
OF
STEPHEN J. BARON**

**ON BEHALF OF THE
CRESCENT CITY POWER USERS' GROUP
("CCPUG")**

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

April 2019

BEFORE THE
COUNCIL OF THE CITY OF NEW ORLEANS

REVISED APPLICATION OF)
ENTERGY NEW ORLEANS, LLC)
FOR A CHANGE IN ELECTRIC)
AND GAS RATES PURSUANT TO)
COUNCIL RESOLUTIONS)
R-15-194 AND R-17-504 AND FOR)
RELATED RELIEF)

DOCKET NO. UD-18-07

SURREBUTTAL AND CROSS-ANSWERING TESTIMONY OF STEPHEN J. BARON

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

2 A. My name is Stephen J. Baron. My business address is J. Kennedy and Associates, Inc.
3 ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia
4 30075.

5
6 **Q. Did you previously file Direct Testimony in this proceeding?**

7 A. Yes.

8
9 **Q. What is the purpose of your Surrebuttal and Cross-Answering Testimony?**

10 A. I respond to the Direct Testimony of Advisors witness Victor Prep and the Rebuttal
11 Testimony of ENO witnesses Joshua Thomas, Mathew Klucher and Myra Talkington.

12

1 With regard to Mr. Prep's testimony, I respond to his proposed allocations of the electric
2 and gas revenue decreases to rate classes. While the Advisors have presented a class cost
3 of service study and have generally followed reasonable cost allocation procedures, Mr.
4 Prep's proposed electric and gas rate class revenue decreases are based on a set of
5 judgmental rates of return at proposed rates. If adopted, large and inequitable rate class
6 subsidies would continue to be paid by Commercial and Industrial customers to the
7 residential class for both electric and gas customers.

8
9 With regard to the Company's rebuttal testimony, I respond to Mr. Thomas and Ms.
10 Talkington on their response to the CCPUG proposed allocation of the base revenue
11 increase, including the CCPUG proposal to use the first \$3.25 million of any Council
12 approved revenue requirement adjustment to the Company's filed case to offset the
13 ARRT related charges to large C&I customer classes. I respond to Mr. Klucher on City
14 of New Orleans billing issues.

15
16 **Response to Advisors Witness Victor Prep**

17
18 **Q. Have you reviewed Advisors witness Prep's proposed allocation of the overall**
19 **electric revenue decrease to rate classes?**

20 **A.** Yes. Based on Mr. Prep's testimony and deposition, the Advisors are proposing to
21 allocate their recommended revenue requirement to rate classes in a manner such that the
22 rate of return on rate base is judgmentally selected for each rate classes. While there does
23 not appear to be any systematic methodology used to determine these rate class rates of

1 return (including a tax gross-up), this ROR selection directly determines the revenue
2 changes for each rate class.

3
4 **Q. Do you have any concerns with the Advisors' methodology?**

5 A. Yes. While I do not have any specific concerns with the Advisors' cost allocation
6 methodology itself (for example, the using a 12 CP production demand allocation
7 method), the use of judgmental factors to select a proposed class rate of return effectively
8 departs from standard, well-accepted class cost allocation methodology. While Mr.
9 Prep's Exhibit VP-9 Amended indicates that the proposed revenue requirement for each
10 rate class is based on cost of service, in actuality it is a departure from cost of service
11 because of the use of different proposed class rates of return.

12
13 **Q. Can you give an example of this departure from cost of service?**

14 A. Yes. Exhibit VP-9 Amended shows that the overall ENO ROR recommended by the
15 Advisors, including income taxes, is 8.48%. However, the Advisors are recommending
16 that the residential class ROR, including taxes, be set at only 1.60%. Since the weighted
17 sum of the RORs for all rate classes must equal the retail average of 8.48%, all other
18 ENO rate classes must have substantially higher RORs. The Large Electric High Load
19 Factor rate class, for example is being assigned an ROR of 15.79%, almost twice the
20 retail average and almost 10 times larger than the residential class ROR. Other rate
21 classes are paying RORs even higher than this.

1 **Q. Isn't the Advisors' proposal simply an alternative way of presenting recommended**
2 **revenue changes (decreases in this case) that incorporates rate subsidies in the**
3 **result?**

4 A. Yes. As I explained in my direct testimony, the Company's current rates reflect
5 substantial subsidy payments from each of the other rate classes to the residential rate
6 class. Mr. Prep's proposed allocation of the revenue requirement change to rate classes
7 continues these large subsidies. While I believe that the Advisors' proposed revenue
8 change allocation does decrease subsidies, these substantial subsidies should be further
9 reduced in this case. Because overall revenues will be decreased by at least \$20 million
10 (ENO's proposal) and likely more, this case presents a unique opportunity to
11 substantially reduce subsidies and better align rates with cost of service.

12
13 **Q. Have the Advisors made a similar proposal to allocate the gas revenue changes to**
14 **rate classes?**

15 A. Yes. My comments regarding the Advisors' electric revenue change allocation apply
16 equally to the gas revenue change allocation.

17

18 **Response to ENO Witnesses Joshua Thomas, Mathew Klucher and Myra Talkington**

19

20 **Q. Would you respond to ENO witness Thomas' testimony on your proposal to**
21 **mitigate the impact of the Company's ARRT Plan, which assigns an additional**
22 **\$3.325 million in charges to large C&I rate classes?**

1 A. Mr. Thomas acknowledges in his testimony that CCPUG does not oppose the Company's
2 proposal to mitigate the increases to Algiers customers as part of a three year transition
3 plan to move Algiers' residential rates to the same level as legacy ENO residential
4 customers. The source of the mitigation compensation to Algiers residential customers in
5 the Company's plan is a corresponding charge, completely unrelated to cost of service or
6 accepted rate design principles, imposed on large Commercial and Industrial ("C&I")
7 customers. While CCPUG does not oppose the mitigation plan to assist Algiers
8 customers, I have recommended that the first \$3.325 million of any Council approved
9 revenue requirement adjustment in this case be used to eliminate the \$3.325 million extra
10 charge to large customers. Mr. Thomas opposes this CCPUG proposal.

11

12 **Q. What is the Company's argument in support of its opposition to the CCPUG**
13 **proposal?**

14 A. It is not clear from either Mr. Thomas' testimony or Ms. Talkington's testimony, who
15 also addresses this issue. Mr. Thomas appears to be arguing that charging large C&I
16 customers an additional \$3.325 million to fund the mitigation of Algiers residential
17 customers is not a problem because these customers are receiving a rate decrease. While
18 it is true that large C&I customers will receive a net revenue decrease in this case, that
19 result occurs because the Company's revenue requirements have declined by at least \$20
20 million and as much as \$47 million based on CCPUG witness Kollen's analysis. The
21 reduction in the large C&I customers' rates is entirely unrelated to the inappropriate
22 subsidization of the ARRT plan by those customers. As I discussed in my direct
23 testimony, ENO's residential rate class has been receiving millions (\$45 million at

1 present rates) in subsidy payments from all of the Company's other customers. While the
2 roll-in of rider costs into base rates will reduce those subsidies, the remaining subsidies
3 will still be very substantial (see Baron Direct Testimony Table 4; residential rates will
4 still be subsidized by more than \$35 million). The fact that large C&I rates will decline
5 does not change that fact, nor does it support having the C&I class foot the entire bill for
6 the ARRT plan.

7
8 **Q. Is there any legitimate reason cited by Mr. Thomas to oppose the use of the first**
9 **\$3.325 million in any revenue requirement adjustment by the Council to offset the**
10 **AART charges to large customers?**

11 A. No. Neither Mr. Thomas nor Ms. Talkington offers any substantive reason not to use the
12 first \$3.325 million of any revenue requirement adjustment to eliminate this non-cost
13 based charge. Eliminating the charge in this manner does not impact Algiers customers –
14 they would still receive the mitigation compensation proposed by the Company. Given
15 that overall revenue requirements will decrease in this case, using the first \$3.325 million
16 of any additional money made available through a Council revenue requirement
17 adjustment to eliminate this extra C&I charge will not cause any rate shock to any other
18 rate class.

19
20 **Q. On page 24 of her testimony, Ms. Talkington also discusses your proposal to use the**
21 **first \$3.325 million of any Council revenue requirement adjustment to eliminate the**
22 **AART charges to large C&I customers. She argues that it is improper to mix**

1 **revenue requirement adjustments with cost allocation and rate design. Would you**
2 **comment on her testimony on this issue?**

3 A. I disagree with her argument. First, there is no rule or regulatory standard that supports
4 her position. The CCPUG proposal is a cost based proposal, contrary to the Company's
5 AART plan that charges large customers, who are paying millions of dollars in subsidies
6 already, an additional charge so that Algiers ratepayers can receive rate mitigation
7 compensation. While CCPUG does not oppose the AART plan to mitigate rate impacts
8 for Algiers customers, the corresponding charge to fund this mitigation compensation that
9 will be paid exclusively by large C&I customers is *not* a cost based charge and simply
10 adds to the subsidies already being paid by large customers. The CCPUG proposal is a
11 balanced approach that adopts the Algiers rate mitigation plan yet provides relief to large
12 customers, if the Council approves revenue requirement adjustments to the Company's
13 filed request. Rather than being inconsistent with cost allocation and rate design, the
14 CCPUG proposal supports cost based rates.

15
16 **Q. Beginning on page 17 of his rebuttal testimony, Mr. Thomas addresses your**
17 **proposal to allocate the \$62.7 million WBL and River Bend 30 PPA fixed cost**
18 **portion of the base rate increase to rate classes in the same manner as the remainder**
19 **of the base rate increase in this case; a uniform percentage increase to present base**
20 **revenue. Would you respond to his testimony on this issue?**

21 A. Despite the fact that the Company believes that these PPA fixed costs are demand related
22 and allocates them to rate classes using a 12 CP allocator in its class cost of service study,
23 the Company has assigned the actual costs to rate classes in its revenue allocation model

1 on the basis of rate class kWh energy usage. ENO's proposal is, therefore, internally
2 inconsistent and incongruous with cost of service principles. Mr. Thomas cites a
3 settlement agreement from 2003 as the support for this proposal, but ignores ENO's own
4 recognition of these PPA fixed costs as demand related, not kWh energy related. All of
5 the Company's base rate revenue requirements, including this \$62.7 million in PPA fixed
6 costs, are fully allocated in the ENO class cost of service study following cost causation
7 and cost based principles. However, when it comes to charging customers for the overall
8 cost of service, the Company disposes of these cost based principles and separately
9 allocates these PPA costs based on a 16 year old settlement agreement. ENO witness
10 Talkington confirms this in her rebuttal testimony on page 2 ("to address the disparate
11 effect of the rate change on various customer classes, the Company re-allocated the
12 capacity costs associated with the River Bend 30 and Wholesale Base Load ("WBL")
13 purchase power agreements using an energy-based allocation"). There appears to be only
14 one reason for the special treatment of these PPA fixed costs – reduce the costs to the
15 residential class.

16
17 **Q. Is there any reason in this case to separately allocate a portion of the base revenue**
18 **increase to rate classes to mitigate the effect of using the Council's traditional**
19 **uniform percentage increase allocation method?**

20 A. No. This is a revenue decrease case. As I discussed above, this case creates a unique
21 opportunity to reduce rate class subsidies and move rates towards cost of service without
22 increasing overall rates to any customer class. Treating the \$62.7 million PPA fixed costs
23 differently from the other component of the base revenue increase is not needed mitigate

1 rate impacts, or to prevent rate shocks. Rather, as I showed in my direct testimony, the
2 CCPUG proposed revenue change allocation produces reasonable results and fairly
3 balances cost of service with gradualism.
4

5 **Q. Ms. Talkington responds to your proposal to allocate the gas revenue decrease in**
6 **this case in a manner that would reduce current rate subsidies by 25%. Would you**
7 **respond to her testimony on this issue?**

8 A. While Ms. Talkington summarizes the CCPUG gas revenues allocation proposal, her
9 response is simply that the Company continues to support its proposal. The CCPUG
10 proposal is designed to move rates towards cost of service in a very gradual manner and
11 reduce current subsidies among gas rate classes. As in the electric case, this case presents
12 a unique opportunity to reduce subsidies without imposing rate shock because this is a
13 rate decrease case.
14

15 **Q. Do you have any response to Matthew Klucher's Rebuttal Testimony at pages 23 to**
16 **25 regarding City of New Orleans billing issues?**

17 A. Yes. I have confirmed with the City's representatives that the City and ENO have
18 negotiated and will continue to more appropriately negotiate City billing/customer
19 service issues outside of this rate proceeding.
20

21 **Q. Does this conclude your Surrebuttal and Cross-Answering Testimony?**

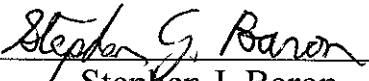
22 A. Yes.
23
24

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

STEPHEN J. BARON, being duly sworn, deposes and states: that the attached responses to discovery requests are true and correct to the best of his knowledge, information and belief.


Stephen J. Baron

Sworn to and subscribed before me on this
26th day of April 2019.

Notary Public

