

**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

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

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

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

February 2019

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DIRECT TESTIMONY OF STEPHEN J. BARON

I. INTRODUCTION AND SUMMARY

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

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

9
10 **Q. Please describe your education.**

11 A. I graduated from the University of Florida in 1972 with a B.A. degree with high honors in
12 Political Science and significant coursework in Mathematics and Computer Science. In
13 1974, I received a Master of Arts Degree in Economics, also from the University of Florida.

1 My areas of specialization were econometrics, statistics, and public utility economics. My
2 thesis concerned the development of an econometric model to forecast electricity sales in the
3 State of Florida, for which I received a grant from the Public Utility Research Center of the
4 University of Florida. In addition, I have advanced study and coursework in time series
5 analysis and dynamic model building.

6
7 **Q. Please describe your professional experience.**

8 A. I have more than forty years of experience in the electric utility industry in the areas of cost
9 and rate analysis, forecasting, planning, and economic analysis.

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

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

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

8
9 In January 1984, I joined the consulting firm of Kennedy and Associates as a Vice
10 President and Principal. I became President of the firm in January 1991.

11
12 During the course of my career, I have provided consulting services to more than thirty
13 utility, industrial, and Public Service Commission clients, including three international
14 utility clients.

15
16 I have presented numerous papers and published an article entitled "How to Rate Load
17 Management Programs" in the March 1979 edition of Electrical World. My article on
18 "Standby Electric Rates" was published in the November 8, 1984, issue of Public Utilities
19 Fortnightly. In February 1984, I completed a detailed analysis entitled "Load Data
20 Transfer Techniques" on behalf of the Electric Power Research Institute, which published
21 the study.

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

8
9 **Q. Have you previously presented testimony in Entergy proceedings?**

10 A. Yes. I have previously testified in 28 Entergy Louisiana and Entergy Gulf States
11 Utilities¹ regulatory proceedings in Louisiana before the Louisiana Public Service
12 Commission, 5 Entergy Arkansas Inc. proceedings before the Arkansas Public Service
13 Commission and 20 Entergy regulatory proceedings before the Federal Energy
14 Regulatory Commission ("FERC"). These cases involved the same types of issues that I
15 am addressing in this ENO base rate proceeding (cost allocation, rate design and
16 regulatory policy).

17
18 **Q. On whose behalf are you testifying in this proceeding?**

19 A. I am testifying on behalf of the Crescent City Power Users Group ("CCPUG"), a group of
20 commercial electric and gas customers of Entergy New Orleans, LLC ("ENO").

21

¹ This includes Entergy Gulf States' predecessor company, Gulf States Utilities.

1 **Q. What is the purpose of your Direct Testimony?**

2 A. My testimony addresses issues raised in the Company's electric and gas rate filings
3 concerning the class cost of service study, the elimination of subsidies paid by large
4 general service customers and the City of New Orleans, and the allocation of the overall
5 revenue increase to rate classes. I also address issues specific to the City of New Orleans
6 electric and gas service and billing.

7
8 With regard to the Company's electric rate filing, the primary focus of my testimony is
9 the proposed base rate increases for each rate class. Though ENO is proposing a net
10 decrease in electric rates, base rates will be increased by \$135 million.² As explained in
11 the Company's testimony, the net decrease in overall rates is due to the roll-in of a
12 number of riders. I will discuss the Company's proposal to assign the \$135 million in
13 increased base rate revenues to each rate class and recommend an alternative allocation
14 that more reasonably reflects the results of the ENO class cost of service study. ENO's
15 electric class cost of service study shows that the residential rate class is receiving in
16 excess of \$45.3 million in subsidies from other rate classes, principally general service
17 and large general service classes. While I am not recommending a full elimination of
18 these subsidy payments, I will recommend an allocation of the base revenue increase that
19 reflects a more balanced set of rates that are designed to both reflect cost of service (the
20 cost of serving each of the Company's customers) and reflect a mitigation of rate shock

² The Company originally filed for an electric base revenue increase of \$135,248,198. Pursuant to the Company's response to Advisors' 5-9, Addendum 1, the base revenue increase is now \$134,075,048, a \$1 million reduction.

1 and gradualism. This case, which will result in a net decrease in electric rates for the
2 Company, is an opportune time to move rates towards cost of service.

3
4 With regard to the Company's gas rates, ENO is also proposing a net decrease in overall
5 gas rates in this case. As is the case with the Company's current electric rates, the ENO
6 gas rates include substantial subsidies from general service and large general service
7 customers paid to the residential rate class. I will recommend an allocation of the overall
8 revenue requirement that is designed to reduce these subsidy payments, while
9 recognizing the gradualism.

10
11 Finally, I will address issues associated with the City of New Orleans (the "City") electric
12 and gas accounts with ENO. The City has over 1,200 separate electric and gas accounts
13 with ENO, though the City essentially receives a single electric and gas bill from the
14 Company. In addition, there is no recognition of any cost savings that may be associated
15 with the City's single bill for over 1,200 accounts.

16
17 **Q. Would you summarize your findings and recommendations to the Commission?**

18 **A.** Yes. The following are my recommendations in this case.

- 19 • ENO's 12 Coincident Peak class cost of service study is a reasonable basis to
20 evaluate the cost of service for each of the Company's rate classes. It should be
21 relied on to assess the reasonableness of the revenue increases to each rate class.

22 While it is not necessary to exactly set rates for each customer class at cost of

1 service, rates for each class should move towards cost of service, consistent with
2 the regulatory principle of gradualism.

- 3
- 4 • ENO's proposed allocation of the overall Electric base revenue increase to rate
5 classes in this case is not reasonable. Specifically, the Company's proposal to
6 continue allocating Purchased Power Agreement fixed production demand costs
7 associated with the EAI Wholesale Base Load capacity and the River Bend PPA
8 on a kWh energy basis is not reasonable and is inconsistent with ENO's own
9 treatment of these costs in its class cost of service study (in the cost of service
10 study, they are allocated to rate classes on a demand basis, not an energy basis).

11 A reasonable alternative to the ENO proposal is to simply allocate the total base
12 revenue increase to rate classes on a uniform percentage basis. CCPUG
13 recommends this alternative, which increases the base revenues of each rate class
14 by the same percentage factor.

- 15
- 16 • ENO's proposed Base Rate Adjustment Rider (BRAR) is not reasonable and
17 further exacerbates the subsidies being paid by non-residential customers to the
18 residential class. However, given the potential impact on Algiers' residential and
19 farm customers, CCPUG does not oppose the multi-year BRAR credits to the
20 residential class if any Council authorized revenue adjustments to ENO's filed
21 request for a \$135 million base revenue increase are first applied to reduce and/or
22 eliminate the BRAR charges to the Large Electric, Large Electric High Load
23

1 Factor, High Voltage and Interruptible rate classes. Any remaining Council
2 authorized revenue adjustments should be applied on a uniform basis to reduce
3 the base revenue increases to each rate class.

- 4
- 5 • ENO's proposed allocation of the overall Gas revenue decrease to rate classes in
6 this case is not reasonable. The ENO proposal does not reasonably move rates for
7 each customer class towards cost of service, which would reduce subsidies paid
8 and received by each class. The Council should approve a gas base revenue
9 allocation that specifically reduces current rate subsidies by 25% at proposed
10 rates, following the methodology presented in my testimony.

- 11
- 12 • The Council should direct ENO to establish a working group, at the conclusion of
13 this case, to address issues associated with ENO's billing process to the City for
14 electric and gas usage. This working group would include representatives from
15 ENO, the Council Advisors, the City of New Orleans and other interested parties.

16
17
18 **II. ELECTRIC CLASS COST OF SERVICE, REVENUE ALLOCATION,**
19 **AND SUBSIDY REDUCTION**
20

21 **Q. Before discussing the Company's cost of service study, would you briefly discuss the**
22 **principles that should be relied on to allocate electric utility costs to rate classes in a**
23 **class cost of service study?**

24 **A.** Yes. First, the purpose of a class cost of service study is to fully allocate the test year
25 jurisdictional electric plant investment, other rate base items, revenues and expenses to

1 each customer class or rate schedule so that a reasonable measure of cost responsibility
2 can be determined for purposes of developing cost based rates. Effectively, in a fully
3 allocated cost of service study, all of the components comprising a utility's revenue
4 requirement are assigned to rate classes reflecting each class' responsibility for "causing"
5 the costs to be incurred by the utility. This principle of cost causality is the fundamental
6 underpinning of cost based rates, a principle that has traditionally been adopted by most
7 regulatory commissions. While this does not mean that rates will be set at exactly cost of
8 service, it does provide an objective that can be met over time, in recognition of
9 gradualism and the potential for rate shock.

10
11 **Q. How is the principle of "cost causation" used to develop a class cost of service**
12 **analysis?**

13 A. As described on pages 38 and 39 of the National Association of Regulatory Utility
14 Commissioners Electric Utility Cost Allocation Manual ("NARUC Manual"), "Cost
15 causation is a phrase referring to an attempt to determine what, or who, is causing the
16 costs to be incurred by the utility."³ In order to assess each rate class' share of total
17 jurisdictional costs, all of the Company's costs are first functionalized into the major
18 functions provided by the utility: production, transmission, distribution and customer
19 related costs (such as customer accounting). For example, production costs, which would
20 include generation plant in service, depreciation reserves and other rate base related costs,
21 depreciation expense, O&M expenses, fuel and purchased power are assigned to the

³ Electric Utility Cost Allocation Manual, January 1992, National Association of Regulatory Utility Commissioners. Baron Exhibit__(SJB-2) contains pages 38 and 39 of the NARUC Manual.

1 production function. Once functionalized, these costs are then classified as either
2 demand related, energy related or customer related. Finally, the functionalized and
3 classified costs are then allocated to rate classes based on allocation factors tied to cost
4 causation. Fixed demand related costs are generally caused by the need for generation
5 resources to meet peak demands; energy related costs, such as fuel expenses, are caused
6 by the total amount of energy use of each rate class.

7
8 **Q. Why is it important to perform a reasonable allocation of costs to rate classes?**

9 A. There are a number of reasons to do so. First, economic efficiency requires that rates
10 reflect underlying costs. For example, while one could just divide ENO's total costs by
11 the number of customers on the system and send each customer a uniform bill, that
12 approach would clearly be unfair and result in a substantial misallocation of resources by
13 overpricing electricity to most customers and underpricing it to large customers. Cost
14 causation dictates that these demand and energy related costs be assigned to rate classes
15 on the basis of factors (demand, energy) that are related to the incurrence of these costs
16 by the utility. Fixed demand related costs, such as the return on generation plant
17 investment and fixed production O&M, are incurred by the utility to meet the peak
18 demand of its customers. Once these plants are constructed, these demand related costs
19 are fixed and do not vary with the amount of energy use by customers. As a result,
20 economic efficiency is best achieved by allocating fixed demand related costs on the
21 basis of rate class demands at the time of the utility peaks (for example, the ENO 12 CP
22 method).

1 In addition to economic efficiency, a related reason for allocating costs on the basis of
2 cost causation is to prevent cross-subsidization of one rate class by another. Cross-
3 subsidization occurs when one set of customers pays in excess of cost and another pays
4 less than cost of service.

5
6 **Q. Have you reviewed the Company's electric class cost of service study sponsored by**
7 **Phillip Gillam?**

8 A. Yes. The Company has used a traditional 12 coincident peak ("12 CP") demand
9 allocation method to assign production and transmission related fixed costs to each rate
10 class. This 12 CP method has traditionally been used by ENO and other Entergy
11 Operating Companies in class cost of service analyses. For distribution costs, the
12 Company's cost of service study assigns fixed demand related substation, primary and
13 secondary line and transformer costs to rate classes on the basis of both maximum
14 diversified demand (rate class peaks) and non-coincident demands. Other distribution
15 costs, such as meters and service drops are allocated on the basis of a weighted number of
16 customers (the meter weights reflect differences in meter costs between rate classes)

17
18 **Q. How did the Company allocate the fixed costs of various PPA's, such as Grand Gulf,**
19 **Ninemile 6, the Union Power Block, the EAI Wholesale Base Load ("WBL")**
20 **purchase and River Bend, in the Period I and Period II cost of service studies?**

21 A. These fixed production costs were all classified as demand related and allocated to each
22 rate class using 12 CP demand, consistent with the underlying cost causation principles
23 used in the Company's cost of service study. While the fixed production demand costs

1 for the WBL and River Bend PPAs are currently being allocated to rate classes on the
2 basis of kWh energy in the riders used for cost recovery, this recovery method is not
3 consistent with cost of service or cost causation. As I will discuss subsequently, the
4 Company's proposal to disregard its own cost of service study methodology and continue
5 to allocate WBL and River Bend fixed production demand costs on an energy basis is
6 simply designed to continue the subsidization of residential customers by other ENO
7 customers.

8
9 **Q. Based on your review of the Company's electric cost of service study, is it a**
10 **reasonable basis to set rates in this case?**

11 A. Yes. However, the important issue in this case is the extent to which the Council follows
12 the cost of service results in its revenue allocation decision. The Company has
13 essentially disregarded its own study and proposes a revenue allocation approach that is
14 designed to continue substantial subsidies of the residential rate class.

15
16 **Q. In response to CCPUG 1-19, ENO has characterized the term "cross-subsidization"**
17 **as vague and ambiguous.⁴ Do you agree with this characterization?**

18 A. No. First, the terms "cross-subsidization" and "subsidization" in the context of
19 ratemaking and cost allocation both mean that one or more rate classes is providing dollar
20 subsidy payments to one or more other rate classes by paying rates in excess of the cost
21 of providing service to those subsidy paying rate classes. Again, in the context of electric
22 utility ratemaking, there is no vagueness or ambiguity regarding this concept. While I

⁴ The response to CCPUG 1-19 is contained in Baron Exhibit__(SJB-3).

1 agree that the quantification of a subsidy paid or received by a rate class is dependent on
2 the class cost of service methodology used to determine the cost of serving each rate
3 class, the amount of subsidies paid and received can readily be calculated. In this ENO
4 rate case, the Company has defined the cost of serving each rate class in its 12 CP class
5 cost of service study. ENO has stated that the Council has previously accepted this
6 methodology for the purpose of allocating costs to each rate class.

7
8 **Q. Does the acceptance by a regulator of a utility's class cost of service methodology**
9 **require that the regulator also set rates based exactly on the cost of service results?**

10 A. No. While some regulatory jurisdictions do just that (the Public Utilities Commission of
11 the State of Colorado, for example), and a number of Commissions use the results of a
12 class cost of service study as an objective guide to determine the allocation of the revenue
13 increase to each rate class, there is no requirement to do so by the Council. However, the
14 concept of cost of service subsidies or cross-subsidization would still provide important
15 information to the regulator regarding the relationship between the rates paid by each rate
16 class and the cost of providing service to that class.

17
18 **Q. What would be the purpose of producing a class cost of service study, as ENO has**
19 **done, if the results are of no relevance to ratemaking?**

20 A. I think that the answer would be that there is no purpose other than to gauge how rates
21 compare to the costs of service. The excess or deficit in such a comparison is the
22 "subsidy."

23

1 **Q. What do the results of the Company's class cost of service study show?**

2 A. Table 1 below summarizes the results of the Company's study, based on present rates
3 paid by each rate class. The summary presents three metrics from the cost study: rate of
4 return ("ROR"), relative rate of return ("RROR") and the dollars of subsidies either
5 received or paid by the rate class. The principle result of a class cost of service study is
6 the rate of return on investment for the class. The relative rate of return is an index
7 between 0 and 1.0 that quickly shows the relative rate of return of each class, compared
8 to the retail average rate of return.

9
10 If a rate class has an RROR less than 1.0, it means that the rates paid by customers taking
11 service in this class are below the cost of serving them – effectively, these customers are
12 not paying their share of the system's total costs. As a result, other customers on the
13 system (with RRORs greater than 1.0) are paying rates above the costs to serve them.
14 This excess cost is known as a "subsidy."

Table 1				
Class Rates of Return and Subsidies at Present Rates				
LINE NO.	RATE CLASS	Present Rates ROR%	Relative ROR Index	Present Rates Subsidy*
1	RESIDENTIAL SERVICE	3.22%	0.286	\$ 45,361,859
2	SMALL ELECTRIC SERVICE	15.35%	1.363	\$ (6,235,998)
3	MUNICIPAL BUILDINGS	20.03%	1.778	\$ (5,556,745)
4	LARGE ELECTRIC	118.78%	10.546	\$ (4,911,277)
5	LARGE ELECTRIC HIGH LOAD FAC	21.25%	1.887	\$ (21,350,744)
6	MASTER METERED NON-RES	60.33%	5.356	\$ (3,811,576)
7	HIGH VOLTAGE	24.39%	2.166	\$ (673,490)
8	LARGE INTERRUPTIBLE	29.60%	2.628	\$ (18,010)
9	LIGHTING SERVICE	<u>33.48%</u>	<u>2.972</u>	<u>\$ (2,804,019)</u>
10	TOTAL RETAIL	11.26%	1.000	\$ 0

* A positive value indicates that a subsidy is being received by the rate class.

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13
14

Q. What does Table 1 show?

A. It shows that the residential rate class is receiving substantial subsidies in excess of \$45 million from other rate classes at present rates. Some of these current subsidies are the direct result of the allocation of PPA fixed production demand costs associated with the WBL, River Bend, Union Power Block and Ninemile 6 being recovered from customers through riders that allocate these cost on kWh energy. The Company’s proposal to roll-in these PPA fixed production demand costs to base rates will act to reduce subsidies and better align rates for all customer classes with cost of service. However, as I will discuss next, the Company’s proposal to specifically allocate the fixed production demand costs of the WBL and River Bend PPAs to customer classes on the basis of energy continues the subsidies associated with these PPAs.

1 **Q. Has the Company used the class cost of service results to guide its proposed**
2 **apportionment of the overall electric revenue decrease in this case?**

3 A. No. As explained by a number of ENO witness, the Company has decided that it would
4 not allocate the base rate revenue increases in this case in a manner consistent with cost
5 of service. For example, Ms. Talkington testifies on page 24 of her testimony as follows:

6 As I mentioned earlier, in general, rate levels should take into consideration the
7 cost to serve each rate class, and Mr. Gillam did provide to me the class cost data
8 resulting from the cost of service study, which is summarized in Statement FF of
9 the filing. However, for several reasons, ENO management has directed an
10 approach to cost allocation and rate design that does not follow the cost of
11 service. The Company was concerned that strict adherence to this concept, in this
12 case, would result in significant customer impacts, particularly to the residential
13 class of customers. (Emphasis added).
14

15 On page 35 of ENO witness Gillam's testimony, he testifies as follows:

16 The Company is proposing that the Council not adopt the rate class allocation of
17 the Electric Revenue Requirement from ENO's filed Electric Cost of Studies
18 because it would result in a disruptive shift in cost responsibility to the
19 Residential Rate Class. (Emphasis added).
20

21 **Q. How is the Company proposing to allocate the \$135 million increase in electric base**
22 **revenues to rate classes?**

23 A. ENO uses a two-part allocation. First, the Company allocates \$72.5 million to each rate
24 class on a uniform percentage basis of 24.75%. The remaining base revenue increase of
25 \$62.71 million, which represents the fixed production demand costs associated with the
26 WBL and River Bend PPAs, is then allocated to rate classes on the basis of kWh energy
27 sales. Table 2 below shows the proposed revenue increases for each rate class and the
28 percentage increase.

Table 2
Entergy New Orleans, LLC
Electric Period II Proposed Increases

LINE NO.	RATE CLASS	PRESENT BASE RATE REVENUE	Part 1 Increase	Part 1 % Increase	Part 2 Increase		Total Increase (Part 1 + Part 2)	BASE RATE PERCENT CHANGE
					PPAs Allocated on Sales	% Increase		
1	RESIDENTIAL SERVICE	\$134,602,540	\$33,305,428	24.74%	\$23,876,918	17.74%	\$57,182,346	42.5%
2	SMALL ELECTRIC SERVICE	\$51,387,058	\$12,714,975	24.74%	\$9,156,356	17.82%	\$21,871,331	42.6%
3	MUNICIPAL BUILDINGS	\$2,101,668	\$520,027	24.74%	\$328,186	15.62%	\$848,213	40.4%
4	LARGE ELECTRIC	\$20,776,705	\$5,140,892	24.74%	\$5,212,395	25.09%	\$10,353,287	49.8%
5	LARGE ELECTRIC HIGH LOAD FAC	\$71,072,624	\$17,585,881	24.74%	\$19,970,085	28.10%	\$37,555,966	52.8%
6	MASTER METERED NON-RES	\$40,401	\$9,997	24.74%	\$7,396	18.31%	\$17,393	43.1%
7	HIGH VOLTAGE	\$5,071,596	\$1,254,892	24.74%	\$1,730,653	34.12%	\$2,985,545	58.9%
8	LARGE INTERRUPTIBLE	\$2,532,217	\$626,560	24.74%	\$1,802,848	71.20%	\$2,429,408	95.9%
9	LIGHTING SERVICE	\$5,578,843	\$1,380,403	24.74%	\$623,310	11.17%	\$2,003,713	35.9%
10	TOTAL RETAIL	\$293,163,652	\$72,539,055	24.74%	\$62,708,147	21.39%	\$135,247,202	46.1%

As can be seen, the Large Electric, Large Electric High Load Factor, High Voltage and Large Interruptible rate classes are receiving much larger than average increases in Part 2 of the allocation. The residential rate class is receiving a lower than average Part 2 increase. The resulting total base rate increases for the larger customer classes are much greater than average (last column of Table 2), despite the fact that these rate classes are paying subsidies at present rates (see Table 1 of my testimony).

Q. Are the increases shown in Table 2 the only Base Rate increases that the Company is proposing in this case?

A. No. As part of its Algiers Residential Rate Transition plan (“ARRT”), ENO is proposing additional increases for large customer rates and a decrease in residential rates through a Base Rate Adjustment Rider (“BRAR”). While the BRAR is a separate rider, it is

1 implicitly part of the overall base rate changes proposed by the Company in this case.
 2 Though the BRAR large customer increases and residential decrease will be phased-out
 3 over a 4 year period, it will result in higher rates for 3 years for customers on the Large
 4 Electric, Large Electric High Load Factor, High Voltage and Large Interruptible Service
 5 rate schedules. Table 3 below shows that full base rate increases that the Company is
 6 proposing, when the BRAR adjustments are included.
 7

Table 3						
ENO Proposed Base Rate Increases, Including BRAR						
LINE NO.	RATE CLASS	PRESENT BASE RATE REVENUE	Base Rate Increase	BRAR	Total Base Rate Increase	% Increase
1	RESIDENTIAL SERVICE	\$134,602,540	\$57,182,346	(\$3,325,000)	\$53,857,346	40.0%
2	SMALL ELECTRIC SERVICE	\$51,387,058	\$21,871,331	\$0	\$21,871,331	42.6%
3	MUNICIPAL BUILDINGS	\$2,101,668	\$848,213	\$0	\$848,213	40.4%
4	LARGE ELECTRIC	\$20,776,705	\$10,353,287	\$694,624	\$11,047,911	53.2%
5	LARGE ELECTRIC HIGH LOAD FAC	\$71,072,624	\$37,555,966	\$2,376,159	\$39,932,125	56.2%
6	MASTER METERED NON-RES	\$40,401	\$17,393	\$0	\$17,393	43.1%
7	HIGH VOLTAGE	\$5,071,596	\$2,985,545	\$169,558	\$3,155,103	62.2%
8	LARGE INTERRUPTIBLE	\$2,532,217	\$2,429,408	\$84,659	\$2,514,067	99.3%
9	LIGHTING SERVICE	\$5,578,843	\$2,003,713	\$0	\$2,003,713	<u>35.9%</u>
10	TOTAL RETAIL	\$293,163,652	\$135,247,202	\$0	\$135,247,202	46.1%

8
 9
 10 As can be seen in Table 3, the actual base rate increases that large general service
 11 customers will receive are much higher because of the BRAR (a range of 53% to 99% vs.
 12 the retail average of 46.1%). Likewise, the residential class increase will be lower (40%
 13 vs. the retail average of 46.1%). While it is true that these extra increases to larger

1 general service customers will be diminished over a 4 year period, the first year increases
2 are, nonetheless, significantly higher than the ENO retail average.

3
4 **Q. If the Company's proposed revenue allocation is adopted, what would be the**
5 **subsidies paid and received by each rate class in the first year that new base rates**
6 **become effective?**

7 A. Table 4 below shows the proposed subsidies. Clearly, under the Company's overall
8 proposal in this case, little movement has been made toward cost based rates. Large
9 Electric, Large Electric High Load Factor, High Voltage and Interruptible customers will
10 continue to pay millions of dollars to subsidize residential customers.

NO.	LINE RATE CLASS	Proposed Rate Subsidies*
1	RESIDENTIAL SERVICE	\$ 35,568,733
2	SMALL ELECTRIC SERVICE	\$ (8,293,207)
3	MUNICIPAL BUILDINGS	\$ (3,867,479)
4	LARGE ELECTRIC	\$ (2,570,208)
5	LARGE ELECTRIC HIGH LOAD FAC	\$ (14,915,773)
6	MASTER METERED NON-RES	\$ (2,422,896)
7	HIGH VOLTAGE	\$ (762,856)
8	LARGE INTERRUPTIBLE	\$ (15,917)
9	LIGHTING SERVICE	\$ (3,737,695)
10	TOTAL RETAIL	\$ -

* A positive value indicates that a subsidy is being received by the rate class.

11
12
13 **Q. Putting aside cost of service, is the Company's proposal consistent with the**
14 **Council's previous approaches?**

1 A. Not according to the testimony of ENO witness Talkington. On page 23 of Ms.
2 Talkington's testimony, she states as follows:

3 In recent history, it has been the Council's practice to adjust base rates by
4 applying an equal percentage change to all classes.
5

6 **Q. Do you believe that the Company's proposed revenue allocation is reasonable?**

7 A. No. First, it does not specifically address cost of service or the level of subsidies that
8 exist in rates. Second, the proposal to separately assign the rolled-in fixed production
9 demand costs of the WBL and River Bend 30 PPAs on the basis of energy is a significant
10 deviation from cost causation and is only designed to shift costs away from the residential
11 class, as Ms. Talkington discusses at page 28 of her testimony. She states as follows:

12 ENO proposes to allocate the capacity expenses associated with the PPAs sourced
13 from the River Bend 30% and the EAI WBL using the energy sales (kWh). This
14 allocation method decreases the capacity expenses allocated to the residential rate
15 class by \$4.9 million, and re-allocates that amount among the remaining customer
16 classes.
17

18 **Q. The Company states that its proposed allocation of the WBL and River Bend 30**
19 **fixed production demand costs on an energy basis is consistent with the allocation**
20 **methodology approved by the Council in Resolution R-03-272. Is the rationale**
21 **relied on in May of 2003 (the date of the resolution), still appropriate today?**

22 A. No. On page 22 of Joshua Thomas' testimony, he briefly explains the Company's
23 rationale for continuing to allocate the WBL and River Bend 30 fixed costs on the basis
24 of energy. While it appears that the primary reason for the energy allocation is the fact
25 that it continues to favor residential customers, Mr. Thomas also cites the Council's
26 Resolution R-03-272. In that case, the Council approved an Agreement in Principle (a

1 settlement) among most of the parties in a 1993 case that included the recovery of both
2 the WBL and River Bend 30 fixed and variable costs through ENO's fuel clause. As a
3 result, the WBL and River Bend 30 fixed, demand related costs were recovered on a kWh
4 energy basis as though they were variable costs. This created an implicit energy
5 allocation of these PPA capacity costs. First, as stated in the Agreement in Principle at
6 Paragraph Number 23, the agreement reflect a compromise among the parties in which
7 many issues were considered. While it appears that the Advisors evaluated the
8 economics of these PPAs and concluded that there would be substantial fuel savings, the
9 inclusion of the PPAs in the fuel clause was not based on any specific economic analysis,
10 as far as I am able to determine from the resolution. Moreover, the economics of these
11 PPAs has changed due to significant declines in natural gas prices.

12
13 Table 5 below shows a comparison of the total cost (fixed and variable) of each PPA to
14 the average MISO market energy price for the ENO zone in 2017. As can be seen, the
15 total cost of the WBL PPA is 90% greater than the MISO energy price (Locational
16 Marginal Price or LMP) for the ENO load zone. For River Bend 30, the total cost is 46%
17 greater than the MISO energy price. While the variable cost of these PPAs is clearly
18 lower than the MISO energy price, the total cost, including fixed costs is much, much
19 higher. By allocating these PPA fixed costs on a kWh energy basis implies that these
20 projects are entirely energy related – in effect that they totally offset MISO energy costs,
21 which clearly they do not.

	PPA Costs			MISO LMP	Excess PPA Costs	% Excess over Market
	Fixed	Variable	Total			
WBL	48.98	12.47	61.45	32.34	29.11	90%
River Bend 30	42.96	4.29	47.25	32.34	14.91	46%

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Q. Are there other reasons why the WBL and River Bend 30 capacity costs should not be allocated to rate classes on an energy only basis?

A. Yes. The Company's class cost of service study treats these fixed PPA costs as demand related and allocates them to rate classes on a kW demand basis, not an energy basis. I agree with the Company's cost of service methodology. By allocating these WBL and River Bend 30 production demand costs on an energy basis in the revenue allocation, ENO is completely ignoring the underlying methodology of its own cost of service study.

Q. How should the Company's overall base revenue increase be allocated to rate classes?

A. While I would ordinarily recommend that the approved revenue increase be allocated to substantially reduce the dollar subsidies paid and received by each rate class, subject to gradualism, in this case I am recommending that base revenues be increased by a uniform percentage amount. This means that ENO's special energy allocation associated with the WBL and River Bend PPAs should be rejected. As I discussed earlier, these PPA fixed costs are not energy related - the Company has confirmed this in its class cost of service

1 study. Given the substantial subsidies being paid by ENO's large customers, a uniform
2 percentage increase, without the special WBL and River Bend allocations is appropriate.

3
4 Baron Exhibit__(SJB-4) presents the CCPUG proposed revenue allocation based on a
5 single, uniform percentage allocation of the overall \$135 million base revenue increase to
6 rate classes. The first section of this exhibit shows the CCPUG proposed base revenue
7 allocation. The second (lower) section shows that total revenue change for each rate
8 class, including a mitigation adjustment that caps the total revenue change at a 2%
9 increase level.

10
11 **Q. You noted earlier in your testimony that the Company appears to have adjusted its**
12 **base revenue increase request by reducing it to \$134 million from the original \$135**
13 **million increase. How have you factored this adjustment into your analysis?**

14 A. For the purposes of my schedules and recommendations, I have continued to utilize the
15 Company's originally filed rate class increases based on the \$135 million base revenue
16 increase. My underlying recommendation based on using a \$135 million base rate
17 increase would be identical to using what appears to be an updated \$1 million adjustment.
18 The \$1 million adjustment should simply be treated as part of any Council authorized
19 revenue requirement adjustment. Based on the CCPUG revenue requirement analysis
20 presented by witness Lane Kollen, it is likely that the final, authorized base revenue
21 increase will be smaller than \$134 million and therefore the \$1 million adjustment that
22 has been acknowledged in response to Advisors 5-9, Addendum 1 will be increased in a
23 final Council determination.

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Q. How does your mitigation adjustment work?

A. As can be seen from my exhibit, two rate classes (Municipal Buildings and Lighting Service) would receive net increases exceeding 2% under the CCPUG proposal. This of course assumes that ENO’s full requested revenue requirement is approved. To mitigate the total increases for these two rate classes, I have developed a mitigation adjustment to cap the increases at 2%. The resulting revenue shortfall from the cap is made-up by reducing the revenue reductions for rate classes that will be receiving a net revenue decrease. A summary of the CCPUG proposal net revenue changes by rate class is shown in Table 6 below.

Table 6								
Entergy New Orleans, LLC								
CCPUG PROPOSED NET REVENUE CHANGE (BASE RATE + RIDERS)								
LINE NO.	RATE CLASS	PRESENT REVENUE (including all Riders)	CCPUG Proposed Base Rate Increase	Net Change in Fuel + Riders (including BRAR)	Mitigation Adjustment	Adjusted Net Revenue Change	Adjusted Percent Revenue Change	
1	RESIDENTIAL SERVICE	\$ 250,098,239	\$ 62,097,115	\$ (57,274,877)	\$ -	4,822,238	1.93%	
2	SMALL ELECTRIC SERVICE	\$ 96,599,501	\$ 23,706,745	\$ (23,528,887)	\$ -	177,858	0.18%	
3	MUNICIPAL BUILDINGS	\$ 3,773,720	\$ 969,577	\$ (872,281)	\$ (21,822)	75,474	2.00%	
4	LARGE ELECTRIC	\$ 46,736,829	\$ 9,585,060	\$ (13,631,325)	\$ 139,392	(3,906,873)	-8.36%	
5	LARGE ELECTRIC HIGH LC	\$ 166,588,860	\$ 32,788,422	\$ (49,306,851)	\$ 569,053	(15,949,376)	-9.57%	
6	MASTER METERED NON-F	\$ 79,482	\$ 18,638	\$ (22,183)	\$ 122	(3,422)	-4.31%	
7	HIGH VOLTAGE	\$ 13,381,097	\$ 2,339,714	\$ (4,492,481)	\$ 74,162	(2,078,605)	-15.53%	
8	LARGE INTERRUPTIBLE	\$ 11,061,296	\$ 1,168,205	\$ (4,928,671)	\$ 129,546	(3,630,919)	-32.83%	
9	LIGHTING SERVICE	\$ 8,534,390	\$ 2,573,726	\$ (1,512,584)	\$ (890,454)	170,688	2.00%	
10	TOTAL RETAIL	\$ 596,853,414	\$ 135,247,202	\$ (155,570,140)	\$ -	\$ (20,322,938)	-3.41%	

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Q. Why aren’t you recommending an allocation that more directly focuses on rate class subsidy reduction?

1 A. The primary reason is that the roll-in of fixed PPA production demand costs into base
2 rates, as proposed by ENO, provides subsidy reduction itself. These costs are currently
3 being allocated on an energy basis through riders. As a result of the roll-in, these fixed
4 PPA production demand costs will be recovered in base rates. A uniform percentage
5 increase in present base rates will provide some mitigation of the current large subsidies
6 that exist. As such, I am recommending that the Council increase base revenues on a
7 uniform percentage basis.

8

9 **Q. What about the proposed BRAR charges associated with the Algiers Residential**
10 **Rate Transition?**

11 A. While I am not recommending that this proposal be rejected by the Council, the ENO
12 BRAR does further exacerbate the subsidies in ENO's residential rates and the subsidy
13 payments being made by larger commercial and industrial customers. It is thus contrary
14 to a reasonable, principle based, allocation of the impact of the base revenue increase.
15 However, because of the potential impact on Algiers' residential customers, I am not
16 objecting to the BRAR proposal. However, as I discuss below, I am recommending that
17 the first \$3.325 million of any Council approved revenue adjustment to ENO's requested
18 revenue requirements be used to eliminate the BRAR charges to large customers.

19

20 **Q. CCPUG is recommending adjustments to the Company's proposed electric revenue**
21 **requirement in this case. In the likely event that the Council approves adjustments**
22 **that will reduce ENO's requested \$135 million base revenue increase, how should**
23 **any such adjustments be allocated to rate classes?**

1 A. As discussed above, the first \$3.325 million of Council approved revenue adjustments
 2 should be applied to eliminate the BRAR increases proposed for the Large Electric, Large
 3 Electric High Load Factor, High Voltage and Large Interruptible Service rate classes.
 4 The BRAR decrease proposed for the residential class, which would apply to the
 5 otherwise applicable Algiers' increases would continue, but the offsetting increases to the
 6 four large customer classes would be eliminated using up to \$3.325 million in revenue
 7 adjustments. Any remaining Council approved revenue adjustments should be applied to
 8 all rate classes, including the residential class, on a uniform percentage basis.

9
 10 **Q. Can you provide an illustration of your proposal?**

11 A. Yes. Table 7 below shows an illustration based on a hypothetical \$20 million adjustment
 12 to the Company's requested \$135 million base revenue increase.

Table 7
ILLUSTRATION OF CCPUG'S PROPOSED NET REVENUE CHANGE (BASE RATE + RIDERS)
ASSUMING A \$20 MILLION COUNCIL AUTHORIZED REVENUE ADJUSTMENT TO ENO'S REQUEST

RATE CLASS	CCPUG Proposed Net Revenue Change	BRAR Charges	Adjusted Net Revenue Change	Adjusted Total Revenue	Remaining Revenue Adjustment	Net Revenue Change	Percent Change
RESIDENTIAL	\$ 4,822,238	0	\$ 4,822,238	\$ 254,920,477	\$ (7,415,838)	\$ (2,593,600)	-1.04%
SMALL ELECTRIC	\$ 177,858	\$ -	\$ 177,858	\$ 96,777,359	\$ (2,815,330)	\$ (2,637,472)	-2.73%
MUNI BUILDINGS	\$ 75,474	\$ -	\$ 75,474	\$ 3,849,194	\$ (111,976)	\$ (36,502)	-0.97%
LARGE ELECTRIC	\$ (3,906,873)	\$ 694,624	\$ (4,601,497)	\$ 42,135,332	\$ (1,225,750)	\$ (5,827,247)	-12.47%
LARGE ELECTRIC HLF	\$ (15,949,376)	\$ 2,376,159	\$ (18,325,535)	\$ 148,263,325	\$ (4,313,097)	\$ (22,638,632)	-13.59%
MASTER METERED	\$ (3,422)	\$ -	\$ (3,422)	\$ 76,059	\$ (2,213)	\$ (5,635)	-7.09%
HIGH VOLTAGE	\$ (2,078,605)	\$ 169,558	\$ (2,248,163)	\$ 11,132,934	\$ (323,866)	\$ (2,572,029)	-19.22%
LARGE INTERRUPTIBLE	\$ (3,630,919)	\$ 84,659	\$ (3,715,578)	\$ 7,345,717	\$ (213,693)	\$ (3,929,271)	-35.52%
LIGHTING SERVICE	\$ 170,688	\$ -	\$ 170,688	\$ 8,705,078	\$ (253,238)	\$ (82,550)	-0.97%
13 TOTAL RETAIL	\$ (20,322,938)	\$ 3,325,000	\$ (23,647,938)	\$ 573,205,476	\$ (16,675,000)	\$ (40,322,938)	-6.76%

14

1 **III. GAS CLASS COST OF SERVICE, REVENUE ALLOCATION,**
2 **AND SUBSIDY REDUCTION**
3

4 **Q. Have you reviewed the Company's filed Gas class cost of service study?**

5 A. Yes. The Company's methodology is reasonable and the cost of service study is an
6 appropriate basis to assess the relationship between rates and cost of service for each
7 customer class.

8
9 **Q. What does the cost of service study show, with regards to the reasonableness of**
10 **ENO's gas rates?**

11 A. Table 8 below shows the rates of return, relative rates of return and subsidies at current
12 rates for each rate class. As in the case of the ENO's electric rates, the residential rate
13 class is shown to be subsidized by other rate classes. Based on current rates, residential
14 customers are receiving \$3.3 million in subsidies from large customer classes. In
15 addition, the Small and Large Municipal rate classes are also receiving a very small
16 subsidies (less than \$150,000 combined).

LINE NO.	RATE CLASS	Rate of Return	Relative Rate of Return	Present Rate Subsidies*
1	RESIDENTIAL	6.27%	0.66	3,291,317
2	SMALL GENERAL	19.18%	2.03	(1,525,452)
3	LARGE GENERAL	22.05%	2.33	(1,900,464)
4	SMALL MUNICIPAL	0.15%	0.02	28,404
5	LARGE MUNICIPAL	8.45%	0.89	106,195
6	TOTAL RETAIL	9.46%	1.00	0

* A positive value indicates that a subsidy is being received.

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Q. Is the Company proposing any revenue allocation that is designed to specifically address these subsidies and move gas rates closer to cost of service in this case?

A. No. ENO is proposing a uniform percentage decrease to each rate class, which does not reduce current subsidies.

Q. Have you developed an alternative revenue allocation that specifically reduces subsidies at proposed rates?

A. Yes. Based on the Company's updated response to Advisors 5-9, I am recommending an allocation of the overall \$2,230,281 base revenue decrease that will reduce current dollar subsidies paid and received by each rate class by 25% of the subsidies at present rates.⁵ However, I am proposing a small mitigation adjustment such that no rate class will receive a gas revenue increase. Table 9 below shows the results of a revenue allocation designed to reduce proposed subsidies by 25% from their current level, with mitigation. A summary of the subsidy reduction analysis is contained in Baron Exhibit__(SJB-5).

⁵ The Company originally filed for a gas revenue decrease of \$919,970. Pursuant to the Company's response to Advisors' 5-9, Addendum 1, it appears that the Company has revised its gas revenue decrease to \$2,230,281.

LINE NO.	RATE CLASS	Proposed Revenue Increases	
		\$	%
1	RESIDENTIAL	(756,501)	-2.8704%
2	SMALL GENERAL	(627,531)	-10.2176%
3	LARGE GENERAL	(710,728)	-10.8931%
4	SMALL MUNICIPAL	-	0.0000%
5	LARGE MUNICIPAL	<u>(135,521)</u>	<u>-4.2304%</u>
6	TOTAL RETAIL	(2,230,281)	-5.2737%

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Q. In the event that the Council approves a gas revenue decrease greater than the Company’s requested \$2.23 million reduction, how should the additional decrease be allocated to rate classes?

A. My recommendation is that the additional revenue decrease be allocated on total base revenues net of the reductions shown in my Table 9. This would provide a reduction to all rate classes, including the Residential and Small Municipal rate classes that are receiving a \$0 increase.

IV. CITY OF NEW ORLEANS BILLING ISSUES

Q. Would you please explain the concerns that you have with ENO’s billing process to the City of New Orleans?

A. As I discussed briefly in the introduction to my testimony, the City takes electric and gas service from the Company through more than 1,000 separate accounts. The monthly bills

1 for each of these accounts is summarized in a large, multi-Tab excel spreadsheet. Based
2 on discussions with representatives of the City, the City has concerns about a number of
3 aspects of this billing process. Among these concerns is the level of detail included in the
4 billing statement. In addition, a legitimate question has arisen as to whether the City
5 should receive some level of discount to reflect that fact that the Company is not required
6 to send 1,000 or more separate bills. There is clearly a cost for billing services included
7 in the charges of each ENO rate schedule (FERC Account 903, Customer Records). To
8 the extent that there are economies of scale savings associated with the ENO billing to
9 the City, this should be reflected in the charges to the City in some fashion.

10

11 **Q. Are you proposing any specific adjustments to address this issue in this case?**

12 A. I am not proposing any discount or other adjustment to the City's tariff rates to reflect
13 any savings that might be justified due to the nature of the ENO billing process to the
14 City. However, I am recommending that the Council require ENO to establish a working
15 group, following completion of this rate case, to address these City of New Orleans
16 billing issues. This working group would consist of representatives from ENO, the City,
17 the Council Advisors and other interested parties. The purpose of the working group
18 would be to address the City's billing issues and, ultimately issue a report to the Council
19 with the working group's findings.

20

21 **Q. Does this conclude your Direct Testimony?**

22 A. Yes.

**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

**EXHIBITS
OF
STEPHEN J. BARON**

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

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

February 2019

AFFIDAVIT

STATE OF GEORGIA)

COUNTY OF FULTON)

STEPHEN J. BARON, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Stephen J. Baron

Stephen J. Baron

Sworn to and subscribed before me on this
1st day of February 2019.

Jessica K. Inman

Notary Public

