

11/19/08

HB6, PA

R15

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

EQUITABLE GAS COMPANY

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Docket No. R-2008-2029325

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

ON BEHALF OF

EQUITABLE INDUSTRIAL INTERVENORS

J. KENNEDY AND ASSOCIATES, INC.

OCTOBER 2008

SECRETARY'S BUREAU

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

EQUITABLE GAS COMPANY

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Docket No. R-2008-2028394

DIRECT TESTIMONY OF RICHARD A. BAUDINO

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

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

4

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

6 A. I am a consultant to Kennedy and Associates.

7

8 **Q. Please describe your education and professional experience.**

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

1 I began my professional career with the New Mexico Public Service Commission Staff in October
2 1982 and was employed there as a Utility Economist. During my employment with the Staff, my
3 responsibilities included the analysis of a broad range of issues in the ratemaking field. Areas in
4 which I testified included cost of service, rate of return, rate design, revenue requirements,
5 analysis of sale/leasebacks of generating plants, utility finance issues, and generating plant phase-
6 ins.

7
8 In October 1989, I joined the utility consulting firm of Kennedy and Associates as a Senior
9 Consultant where my duties and responsibilities covered substantially the same areas as those
10 during my tenure with the New Mexico Public Service Commission Staff. I became Manager in
11 July 1992 and was named Director of Consulting in January 1995. Currently, I am a consultant
12 with Kennedy and Associates.

13
14 Exhibit ____ (RAB-1) summarizes my expert testimony experience.

15
16 **Q. On whose behalf are you testifying?**

17 A. I am testifying on behalf of the Equitable Industrial Intervenors ("EII").

18
19 **Q. What is the purpose of your testimony?**

20 A. The purpose of my testimony in the proceeding is to respond to the Direct Testimonies of
21 Equitable Gas Company ("Equitable" or "Company") witnesses Russell Feingold and John
22 Quinn. My testimony will cover the areas of customer class cost and revenue allocation. I will
23 also comment on the design of the new proposed Rider C.

24

1 **Q. Did you review Equitable's cost and revenue allocation proposals?**

2 A. Yes. The Company's cost allocation studies are contained in the Direct Testimony of Mr.
3 Feingold. Mr. Quinn's Direct Testimony contained Equitable's recommended revenue increases
4 to the Company's customer classes.

5
6 **Q. Please provide a general description of the process of allocating cost responsibility to**
7 **customer classes using a cost of service study.**

8 A. A class cost of service study allocates and assigns the total cost of providing utility service to the
9 classes of customers receiving that service. In certain instances, the subject utility can identify
10 and directly assign costs to customers. For the vast majority of costs, however, such direct
11 assignments are not possible and a cost of service study is required so that the remaining costs
12 may be allocated to customers.

13
14 The development of a class cost of service study consists of three steps: functionalization,
15 classification, and allocation. Step 1, functionalization, involves separating the utility's
16 investment and expenses into major functional categories. For natural gas utilities such as
17 Equitable, these categories include storage, transmission, and distribution functions. The Federal
18 Energy Regulatory Commission ("FERC") Uniform System of Accounts provides the method by
19 which costs are identified and segregated into these various functional categories.

20
21 Step 2 is classification. Once functionalization is complete, the utility's costs are classified into
22 demand, commodity, and customer components. Demand-related costs are fixed and do vary
23 with the monthly and yearly gas commodity consumption of the utility's customers. These costs
24 are driven by demands placed on the system during the winter peak period and include such items

1 as gas main investment and expenses. Commodity-related expenses vary with the amount of gas
2 consumed by customers and include the cost of gas and certain operation and maintenance
3 expenses. Customer-related costs are associated with the number of customers and include items
4 such as a portion of main investment, meters, and services.
5

6 Step 3 is allocation. After costs are classified, they are allocated to customer classes based on
7 each class' contribution to the respective cost classifications. Generally speaking, demand costs
8 are allocated based on each class' contribution to the total winter peak. Commodity costs are
9 allocated based on each class' share of total yearly consumption, or throughput. Customer costs
10 are allocated based on the number of customers.
11

12 **Q. Turning now to Equitable's class cost of service studies, how did the Company classify and**
13 **allocate costs associated with mains?**

14 A. Mr. Feingold presented two cost of service studies that contained alternative methods to classify
15 and allocate the cost of distribution mains. One study classified distribution mains costs as
16 demand and customer related using a zero-intercept study. Mr. Feingold described this approach
17 on page 23 of his Direct Testimony. Demand-related costs were allocated to customer classes on
18 the basis of design day demand. The second study allocated demand costs on the basis of a peak-
19 and-average method and did not classify any distribution mains costs as customer-related.
20

21 **Q. On page 23, Mr. Feingold presented the purpose of and preferred allocation methodology**
22 **for gas distribution mains. Please comment on this section of Mr. Gorman's testimony.**

23 A. I fully concur with Mr. Feingold's explanation of the purpose of gas distribution mains and how
24 the cost of mains should be classified and allocated in a class cost of service study. The two main

1 functions of distribution mains are to deliver gas during the system winter peak and to connect
2 customers to the system. I also agree with Mr. Feingold's statement that the preferable method to
3 classifying mains is partly customer-related and partly demand-related. A properly designed
4 zero-intercept study recognizes these two functions by classifying main costs into demand-related
5 and customer-related costs, which can then be assigned to customer classes based on their
6 respective contributions to system peak and on the number of customers in each class. I support
7 this approach as appropriate and reasonable.

8
9 I should also add that commodity, or total yearly throughput, is not a primary cost or operational
10 driver for investment in gas distribution mains. It is the winter heating demands of customers,
11 primarily residential that drives investment in mains. The investment in mains must provide
12 sufficient capacity to meet maximum winter demands. During the non-winter, or off-peak
13 months, substantial excess capacity exists on the system. Gas consumption during this period
14 does not cause the Company to incur any additional fixed costs for distribution mains. Thus,
15 throughput should not be used to classify and allocate costs of gas distribution mains.

16
17 **Q. On page 19 of his Direct Testimony, Mr. Feingold testified that the use of average demand**
18 **(throughput) to allocate demand-related costs penalizes high-load factor customers who use**
19 **gas efficiently. Do you agree?**

20 **A.** Yes. This occurs because allocating mains costs on the basis of throughput allocates too much
21 cost responsibility to customers who use the gas distribution system throughout the year. Given
22 the substantial excess capacity that exists during the non-winter months, customers should be
23 encouraged to use this capacity through proper pricing signals. Since the use of capacity during
24 non-winter months will not cause the Company to incur fixed costs, then a cost allocation method

1 using throughput, or average demand, should be avoided.

2
3 **Q. On page 10, line 14 through 18, Mr. Feingold noted that the Pennsylvania Public Utility**
4 **Commission ("PUC" or "Commission") has expressed a preference for the use of a method**
5 **that recognizes both demand and commodity volumes for classifying and allocating**
6 **demand-related costs and that does not recognize a customer component in classifying the**
7 **costs of distribution mains. Please comment on Mr. Feingold's testimony here.**

8 A. My review of recent PUC Orders indicates that the Commission rejected the use of zero intercept
9 studies in Docket Nos. R-00061931 and R-00061398 and opted instead to use a
10 Demand/Commodity approach to classifying and allocating the costs of distribution mains. For
11 the reasons stated previously in my testimony, I disagree with a Demand/Commodity approach
12 and recommend that the Commission reconsider the use of a zero-intercept study.

13 Based on both my testimony and the testimony of Mr. Feingold, I recommend that the PUC adopt
14 the use of a zero-intercept study to classify and allocate the costs of distribution mains to
15 customer classes in this proceeding.

16
17 **Q. Turning to the results of the cost of service studies presented by Mr. Feingold, what are the**
18 **resulting rates of return for the Company's customer classes?**

19 A. Table 1 below shows the rates of return and relative rates of return for Equitable's customer
20 classes. The relative rate of return in Table 1 shows each class' percentage return relative to the
21 system average return at current rates. A relative rate of return greater than 1.0 indicates that a
22 customer class is earning more than the current system rate of return, whereas a relative rate of
23 return less than 1.0 indicates that a customer class is returning less than the system-wide rate of
24 return. For example, the Residential class' relative rate of return of .41 in the design day demand

1 study indicates that its current return of 1.54% is only 41% of the system average return of
2 3.80%.

	Design Day		Peak & Average	
	<u>Rate of Return</u>	<u>Relative ROR</u>	<u>Rate of Return</u>	<u>Relative ROR</u>
RS	1.54%	0.41	2.90%	0.76
GSS	18.15%	4.78	17.02%	4.48
GSL	12.26%	3.23	5.83%	1.53
AGS	-6.69%	(1.76)	-6.69%	(1.76)
System	3.80%		3.80%	

3
4 The results of both studies clearly show that Rate RS, Residential, is not returning revenues that
5 cover its costs. Both studies also show that Rate GSL, Large General Service, is paying more than
6 its fair share of costs and that GSL should receive an increase lower than the system average
7 increase.

8
9 **Q. How did the Company allocate its revenue increase to its customer classes?**

10 A. Mr. Quinn presented the Company's revenue allocation proposal on page 16 of his Direct
11 Testimony. Based on a total Company increase of 22%, Rate GSL would receive a 10% increase
12 to current revenues.

13
14
15
16

1 **Q. On page 14 of his Direct Testimony, Mr. Quinn described the circumstances surrounding**
2 **the Company's competitive negotiated rate customers and how these circumstances played**
3 **a role in his proposed revenue allocation. Please comment on this section of Mr. Quinn's**
4 **testimony and on the appropriateness of the Company's proposed revenue increase to GSL**
5 **customers.**

6 A. The considerations cited by Mr. Quinn regarding the negotiated rate customers in GSL are
7 certainly valid. The EII members have competitive alternatives to Equitable. Given these
8 considerations and the results of the design day study, the GSL class could have received an even
9 lower revenue increase than that proposed by the Company. However, for purposes of this case
10 and given the PUC's past practice of including throughput in the allocation of demand related
11 costs, I will not oppose the Company's proposed revenue allocation to GSL.

12
13 **Q. Do you have any comments on Equitable's proposed new Rider C surcharge?**

14 A. Yes. Equitable is proposing a new surcharge called Rider C that would be used to recover from
15 "non-competitive" customers the retainage discount that has been negotiated with NRG. The EII
16 members negotiate their delivery contracts with Equitable. As a result, the EII members should
17 be classified as "competitive" customers that will not be charged the Rider C surcharge. We
18 request confirmation of this from the Commission so this does not become an additional disputed
19 negotiating item between the EII members and Equitable in future contract negotiations.

20
21 **Q. Does this conclude your Direct Testimony?**

22 A. Yes

RESUME OF RICHARD A. BAUDINO

EDUCATION

New Mexico State University, M.A.
Major in Economics
Minor in Statistics

New Mexico State University, B.A.
Economics
English

Twenty five years of experience in utility ratemaking. Broad based experience in revenue requirement analysis, cost of capital, utility financing, phase-ins, auditing and rate design. Has designed revenue requirement and rate design analysis programs.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

Electric and Gas Utility Rate Design
Cost of Capital for Electric, Gas and Water Companies
Ratemaking Treatment of Generating Plant Sale/Leasebacks
Electric and Gas Utility Cost of Service
Revenue Requirements
Gas industry restructuring and competition
Fuel cost auditing

J. KENNEDY AND ASSOCIATES, INC.

RESUME OF RICHARD A. BAUDINO

EXPERIENCE

1989 to

Present: Kennedy and Associates: Consultant - Responsible for consulting assignments in the area of revenue requirements, rate design, cost of capital, economic analysis of generation alternatives, gas industry restructuring and competition.

1982 to

1989: New Mexico Public Service Commission Staff: Utility Economist - Responsible for preparation of analysis and expert testimony in the areas of rate of return, cost allocation, rate design, finance, phase-in of electric generating plants, and sale/leaseback transactions.

CLIENTS SERVED

Regulatory Commissions

Louisiana Public Service Commission
Georgia Public Service Commission
New Mexico Public Service Commission

Industrial Groups

Ad Hoc Committee for a Competitive
Electric Supply System
Air Products and Chemicals, Inc.

Arkansas Electric Energy Consumers
Arkansas Gas Consumers
Armco Steel Company, L.P.
Association of Business Advocating
Tariff Equity
CF&I Steel, L.P.
Climax Molybdenum Company
General Electric Company
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Industrial Group

Occidental Chemical
PSI Industrial Group
Taconite Intervenor (Minnesota)
Tyson Foods
West Virginia Energy Users Group

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2008

Date	Case	Jurisdiction	Party	Utility	Subject
3/83	1780	NM	New Mexico Public Service Commission	Boies Water Co.	Rate design, rate of return.
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop	Rate design.
11/84	1833	NM	New Mexico Public Service Commission	El Paso Electric Co.	Service contract approval, rate design, performance standards for Palo Verde nuclear generating system
1983	1835	NM	New Mexico Public Service Commission	Public Service Co. of NM	Rate design.
1984	1848	NM	New Mexico Public Service Commission	Sangre de Cristo Water Co.	Rate design.
02/85	1906	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
05/84	1907	NM	New Mexico Public Service Commission	Jornada Water Co.	Rate of return.
11/85	1957	NM	New Mexico Public Service Commission	Southwestern Public Service Co.	Rate of return.
04/86	2009	NM	New Mexico Public Service Commission	El Paso Electric Co.	Phase-in plan, treatment of sale/leaseback expense.
06/86	2032	NM	New Mexico Public Service Commission	El Paso Electric Co.	Sale/leaseback approval.
09/86	2033	NM	New Mexico Public Service Commission	El Paso Electric Co.	Order to show cause, PNMCS audit.
02/87	2074	NM	New Mexico Public Service Commission	El Paso Electric Co.	Diversification.
05/87	2089	NM	New Mexico Public Service Commission	El Paso Electric Co.	Fuel factor adjustment.
08/87	2092	NM	New Mexico Public Service Commission	El Paso Electric Co.	Rate design.
10/88	2146	NM	New Mexico Public	Public Service Co.	Financial effects of

Expert Testimony Appearances

of
Richard A. Baudino
As of October 2008

Date	Case	Jurisdiction	Party	Utility	Subject
07/88	2162	NM	Service Commission New Mexico Public Service Commission	of New Mexico El Paso Electric Co.	restructuring, reorganization. Revenue requirements, rate design, rate of return.
01/89	2194	NM	New Mexico Public Service Commission	Plains Electric G&T Cooperative	Economic development.
1/89	2253	NM	New Mexico Public Service Commission	Plains Electric's G&T Cooperative	Financing.
08/89	2258	NM	New Mexico Public Service Commission	Homesead Water Co.	Rate of return, rate design.
10/89	2282	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
08/89	2288	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/88	89-208-TF	AR	Arkansas Electric Energy Consumers	Arkansas Power & Light Co.	Rider M-33.
01/90	U-17282	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
09/90	90-158	KY	Kentucky Industrial Utility Consumers	Louisville Gas & Electric Co.	Cost of equity.
08/90	90-004-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Cost of equity, transportation rate.
12/90	U-17282 Phase IV	LA	Louisiana Public Service Commission	Gulf States Utilities	Cost of equity.
04/91	91-037-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Transportation rates.
12/91	91-410- EL-AR	OH	Air Products & Chemicals, Inc., Armco Steel Co., General Electric Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Cost of equity.
05/92	910890-EI	FL	Occidental Chemical Corp.	Florida Power Corp.	Cost of equity, rate of return.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2008

Date	Case	Jurisdiction	Party	Utility	Subject
09/02	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/02	93314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.
09/02	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/03	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/03	93488	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/03	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/03	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armo Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/03	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/03	93-061-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/03	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical review; evaluation of economic studies.
03/04	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/04	E-015/GR-04-001	MIN	Largo Power Intervenor	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2008

Date	Case	Jurisdiction	Party	Utility	Subject
5/94	R-00942983	PA	PG&W Industrial Intervenors	Pennsylvania Gas & Water Co.	Analysis of recovery of transition costs.
5/94	R-00943001	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Evaluation of cost allocation, rate design, rate plan, and carrying charge proposals.
7/94	R-00942986	PA	Armco, Inc., West Penn Power Industrial Intervenors	West Penn Power Co.	Return on equity and rate of return.
7/94	94-0035- E-42T	WV	West Virginia Energy Users' Group	Monongahela Power Co.	Return on equity and rate of return.
8/94	8852	MD	Westvaco Corp.	Potomac Edison Co.	Return on equity and rate of return.
9/94	930357-C	AR	West Central Arkansas Gas Consumers	Arkansas Oklahoma Gas Corp.	Evaluation of transportation service.
9/94	U-19904	LA	Louisiana Public Service Commission	Gulf States Utilities	Return on equity.
9/94	8829	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Transition costs.
11/94	94-175-U	AR	Arkansas Gas Consumers	Arkla, Inc.	Cost-of-service, rate design, rate of return.
3/95	RP94-343- 000	FERC	Arkansas Gas Consumers	NorAm Gas Transmission	Rate of return.
4/95	R-00943271	PA	PP&L Industrial Customer Alliance	Pennsylvania Power & Light Co.	Return on equity.
6/95	U-10755	MI	Association of Businesses Advocating Tariff Equity	Consumers Power Co.	Revenue requirements.
7/95	8897	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Cost allocation and rate design.
8/95	95-254-TF U-2811	AR	Tyson Foods, Inc.	Southwest Arkansas Electric Cooperative	Refund allocation.
10/95	ER95-1042	FERC	Louisiana Public	Systems Energy	Return on Equity.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2008

Date	Case	Jurisdct.	Party	Utility	Subject
	-000		Service Commission	Resources, Inc.	
11/85	I-940032	PA	Industrial Energy Consumers of Pennsylvania	State-wide - all utilities	Investigation into Electric Power Competition.
5/96	96-030-U	AR	Northwest Arkansas Gas Consumers	Arkansas Western Gas Co.	Revenue requirements, rate of return and cost of service.
7/96	8725	MD	Maryland Industrial Group	Baltimore Gas & Electric Co., Potomac Electric Power Co. and Constellation Energy Corp.	Return on Equity.
7/96	U-21496	LA	Louisiana Public Service Commission	Central Louisiana Electric Co.	Return on equity, rate of return.
9/96	U-22092	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
1/97	RP96-199-000	FERC	The Industrial Gas Users Conference	Mississippi River Transmission Corp.	Revenue requirements, rate of return and cost of service.
3/97	96-420-U	AR	West Central Arkansas Gas Corp.	Arkansas Oklahoma Gas Corp.	Revenue requirements, rate of return, cost of service and rate design.
7/97	U-11220	MI	Association of Business Advocating Tariff Equity	Michigan Gas Co. and Southeastern Michigan Gas Co.	Transportation Balancing Provisions
7/97	R-00973944	PA	Pennsylvania American Water Large Users Group	Pennsylvania-American Water Co.	Rate of return, cost of service, revenue requirements.
3/98	8390-U	GA	Georgia Natural Gas Group and the Georgia Textile Manufacturers Assoc.	Atlanta Gas Light	Rate of return, restructuring issues, unbundling, rate design issues.
7/98	R-00984280	PA	PG Energy, Inc.	PGE Industrial Intervenor	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.

J. KENNEDY AND ASSOCIATES, INC.

**Expert Testimony Appearances
of
Richard A. Baudino
As of October 2008**

Date	Case	Jurisdic.	Party	Utility	Subject
10/88	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/88	U-23327	LA	Louisiana Public Service Commission	SWEPSCO, CSW and AEP	Analysis of proposed merger.
12/88	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/88	U-23358	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity, rate of return.
3/99	98-426	KY	Kentucky Industrial Utility Customers, Inc.	Louisville Gas and Electric Co.	Return on equity.
3/99	99-082	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Utilities Co.	Return on equity.
4/99	R-984554	PA	T. W. Phillips Users Group	T. W. Phillips Gas and Oil Co.	Allocation of purchased gas costs.
6/99	R-0099462	PA	Columbia Industrial Intervenor	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Cost of debt.
10/99	R-00994782	PA	Peoples Industrial Intervenor	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenor	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate fixing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenor	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity assignment.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
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Richard A. Baudino
As of October 2008

Date	Case	Jurisdic.	Party	Utility	Subject
01/00	8829	MD	Maryland Industrial Gr. & United States	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00694788	PA	Penn Fuel Transportation	PFG Gas, Inc., and	Tariff charges, balancing provisions.
05/00	U-17735	LA	Louisiana Public Service Comm.	Louisiana Electric Cooperative	Rate restructuring.
07/00	2000-080	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric Co.	Cost allocation.
07/00	U-21453 U-20925 (SC) U-22092 (SC) (Subdocket E)	LA	Louisiana Public Service Comm.	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005854	PA	Philadelphia Industrial And Commercial Gas Users Group.	Philadelphia Gas Works	Interim relief analysis.
10/00	U-21453 U-20925 (SC) U-22092 (SC) (Subdocket B)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring, Business Separation Plan.
11/00	R-00005277 (Rebuttal)	PA	Penn Fuel Transportation Customers	PFG Gas, Inc. and North Penn Gas Co.	Cost allocation issues.
12/00	U-24993	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Stranded cost analysis.
04/01	U-21453 U-20925 (SC) U-22092 (SC) (Subdocket B) (Addressing Contested Issues)	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Restructuring issues.
04/01	R-00006042	PA	Philadelphia Industrial and Commercial Gas Users Group	Philadelphia Gas Works	Revenue requirements, cost allocation and tariff issues.
11/01	U-25687	LA	Louisiana Public Service Comm.	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public	Atlanta Gas Light	Capital structure.

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2008

Date	Case	Jurisdiction	Party	Utility	Subject
			Service Commission		
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021812	PA	Philadelphia Industrial And Commercial Gas Users Group	Philadelphia Gas Works	Transportation rates, terms, and conditions.
01/03	2002-00169	KY	Kentucky Industrial Utility Customers	Kentucky Power	Return on equity.
02/03	02S-584E	CO	Cripple Creek & Victor Gold Mining Company	Aquila Networks - WPC	Return on equity.
04/03	U-26527	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
10/03	CV020495AB	GA	The Landings Assn., Inc.	Utilities Inc. of GA	Revenue requirement & overcharge refund
03/04	2003-00433	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric	Return on equity, Cost allocation & rate design
03/04	2003-00434	KY	Kentucky Industrial Utility Customers	Kentucky Utilities	Return on equity
4/04	04S-035E	CO	Cripple Creek & Victor Gold Mining Company, Goodrich Corp., Holcim (U.S.) Inc., and The Trane Co.	Aquila Networks - WPC	Return on equity.
9/04	U-23327, - Subdocket B	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Fuel cost review
10/04	U-23327 Subdocket A	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on Equity

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2008

Date	Case	Jurisdiction	Party	Utility	Subject
06/05	050045-EI	FL	South Florida Hospital and HealthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9038	MD	Maryland Industrial Group	Baltimore Gas & Electric Co.	Revenue requirement, cost allocation, rate design, Tariff issues.
01/06	2005-0034	KY	Kentucky Industrial Utility Customers, Inc.	Kentucky Power Co.	Return on equity.
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116	LA	Louisiana Public Service Commission	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327	LA	Louisiana Public Service Commission	Southwestern Electric Power Company	Return on equity, Service quality
08/06	ER-2006-0314	MO	Missouri Office of the Public Counsel	Kansas City Power & Light Co.	Return on equity, Weighted cost of capital
08/06	06S-234EG	CO	CF&I Steel, L.P. & Climax Molybdenum	Public Service Company of Colorado	Return on equity, Weighted cost of capital
01/07	08-0980-E-42T	WV	West Virginia Energy Users Group	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112		AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661		Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01		Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital
10/07	05-UR-103		Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797		Louisiana Public Service Commission	Cleco Power :LLC & Southwestern Elec. Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR		Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity
03/08	07-0585,	IL	The Commercial Group	Ameren	Cost allocation, rate design

J. KENNEDY AND ASSOCIATES, INC.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2008

Date	Case	Jurisdiction	Party	Utility	Subject
	07-0585, 07-0587, 07-0588, 07-0589, 07 0590, (consol.)				
04/08	07-0566	IL	The Commercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008- 2011821	PA	Columbia Industrial Intervenor	Columbia Gas of PA	Cost and revenue allocation, Tariff issues
07/08	R-2008- 2028394	PA	Philadelphia Area Industrial Energy users Group	PECO Energy	Cost and revenue allocation, Tariff issues
07/08	R-2008- 2039634	PA	PPL Gas Large Users Gp.	PPL Gas	Retainage, LUFG Pct.
08/08	8680-UR- 116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity
08/08	8890-UR- 119	WI	Wisconsin Industrial Energy Group	Wisconsin PS	Cost of Equity
09/08	ER-2008- 0318	MO	The Commercial Group	AmerenUE	Cost and revenue allocation

J. KENNEDY AND ASSOCIATES, INC.

**Errata to Equitable Industrial Intervenors Statement No. 1,
Direct Testimony and Exhibits of Richard A. Baudino**

Equitable Industrial Intervenors Statement No. 1, Direct Testimony of Richard A. Baudino, should be modified to reflect the following corrections:

1. Page 3, line 22: Delete "do" and replace with "do not."
2. Page 4, line 22: Delete "Gorman" and replace with "Feingold."

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

11/19/08

11B6, PA

RJS

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

EQUITABLE GAS COMPANY

:
:
:
:
:
:

Docket No. R-2008-2029325

**REBUTTAL TESTIMONY
OF
RICHARD A. BAUDINO**

ON BEHALF OF

EQUITABLE INDUSTRIAL INTERVENORS

J. KENNEDY AND ASSOCIATES, INC.

OCTOBER 2008

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY	:	
COMMISSION	:	
	:	
v.	:	Docket No. R-2008-2029325
	:	
EQUITABLE GAS COMPANY	:	

REBUTTAL TESTIMONY OF RICHARD A. BAUDINO

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

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

4
5 **Q. Did you submit Direct Testimony in this proceeding?**

6 A. Yes. I submitted Direct Testimony on behalf of the Equitable Industrial Intervenors.

7
8 **Q. What is the purpose of your Rebuttal Testimony?**

9 A. I will respond to two issues raised by Mr. Brian Kalcic, witness for the Office of Small
10 Business Advocate ("OSBA").

11
12 **Q. On pages 6 and 7 of his Direct Testimony, Mr. Kalcic noted an error in the class cost of**
13 **service ("CCOS") studies filed by Equitable Gas Company ("Equitable" or "Company").**
14 **Please summarize Mr. Kalcic's testimony on this issue.**

15 A. According to Mr. Kalcic's Direct Testimony, the Company stated in response to OSBA 1-4 that
16 approximately \$1.011 million of CAP-related Uncollectible Accounts Expense and
17 Administration Costs were inadvertently allocated to the Company's GSS and GSL customers.

1 Equitable also stated in the response that these costs should not have been allocated to non-
2 Residential classes.

3
4 **Q. Do you agree that these CAP-related costs should not have been allocated to non-
5 Residential classes?**

6 A. Yes. This was an error in the Company's CCOS study and it should be corrected. The effect of
7 this correction would show a lower class rate of return for RS and higher-class rates of return for
8 GSS and GSL. I agree with Mr. Kalcic that the Company should correct its cost of service studies
9 to reflect the direct assignment of these CAP costs to the RS class.

10
11 **Q. On page 7 of his testimony, Mr. Kalcic suggested that Equitable did not properly reflect the
12 impact of the delivery rates that Equitable negotiates with some of its larger competitive
13 customers. Do you have any comments?**

14 A. Yes. Based on the case cited by Mr. Kalcic, it appears that the impact of the negotiated rates for
15 the competitive customers should be spread across all customer classes. Confining the
16 competitive customers to the rate classes under which they take service results in an incorrect
17 representation of the returns that GSL and, to a lesser extent, GSS are earning. For GSL in
18 particular, the class rate of return is significantly understated. I did note this as a concern in my
19 Direct Testimony.

20
21 If the Company did not follow prior Commission precedent with respect to how rate discounts
22 should be shared by all customer classes, then the CCOS study should be corrected.

23

1 **Q. With the two changes noted above, do you still support the Company's CCOS as indicated**
2 **in your Direct Testimony?**

3 A. Yes.

4

5 **Q. Do you have any further comments on the other parties' Direct Testimony?**

6 A. Yes. Mr. Cerminaro from U. S. Steel will be submitting testimony regarding why the negotiation
7 of delivery service rates for larger customers with competitive alternatives is in the public interest.
8 As a result, I will not address this issue at this time.

9

10 **Q. Does this conclude your testimony?**

11 A. Yes.

11/19/08
H86 PA
RJS

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PENNSYLVANIA PUBLIC UTILITY
COMMISSION**

v.

EQUITABLE GAS COMPANY

:
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Docket No. R-2008-2029325

**REBUTTAL TESTIMONY
OF
RONALD D. CERMINARO**

ON BEHALF OF

EQUITABLE INDUSTRIAL INTERVENORS

OCTOBER 2008

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SECRETARY'S BUREAU

1 **Q. What are your duties in your current position?**

2 A. I am responsible for the supervision of the procurement function for U. S. Steel in
3 the areas of energy and other various commodities. One of my main functions is
4 to acquire the necessary electricity and natural gas for the corporation at an
5 economical price.

6
7 **Q. What is your educational and employment background prior to joining U. S.
8 Steel?**

9 A. The following is a brief summary of my professional background and
10 qualifications.

11 BS, (Civil Engineering), University of Pittsburgh, 1975
12 MBA, University of Pittsburgh, 1980
13 Registered Professional Engineer (P.E.) 1980
14 Lifetime Certification as Purchasing Manager (C.P.M.) 2001

15 Prior to U. S. Steel, I was the Director of Purchasing for Presbyterian University
16 Hospital of Pittsburgh for approximately 6 years. Prior to that, I was an engineer
17 in different levels at LTV Steel for about 7 years.

18
19 **Q. Does U. S. Steel have any facilities located in the service territory of
20 Equitable Gas Company ("Equitable")?**

21 A. Yes. The main ones are the Clairton, Edgar Thompson and Irvin Plants. Along
22 with our Fairless Hills Plant near Philadelphia, we collectively refer to these
23 facilities as the "Mon Valley Works." Our headquarters and several additional
24 facilities are also in the territory. U. S. Steel is Equitable's largest delivery service

1 customer, with annual requirements of over 6 Bcf and increasing as we expand
2 our operations at the Mon Valley Works.

3

4 **Q. What do the U. S. Steel facilities manufacture?**

5 A. Our plants in the area manufacture coke and flat rolled steel products.

6

7 **Q. Please provide some information regarding the contribution and impact of**
8 **U. S. Steel in Southwestern Pennsylvania.**

9 A. U. S. Steel is a major employer in Southwestern Pennsylvania and has a
10 significant impact on the community.

11 • In the Pittsburgh region, U. S. Steel employs close to 5,000 employees
12 with an annual payroll of approximately \$433.8 million. Of those 5,000
13 employees, approximately 3,000 work at the Clairton, Edgar Thompson
14 and Irvin Plants.

15 • In the Southwestern Pennsylvania region, we contribute annually well
16 over \$1.24 billion to the area's economy through purchases with over
17 1,000 vendors.

18 • U. S. Steel paid approximately \$6.7 million in local taxes for 2007 in
19 Southwestern Pennsylvania.

20 • Company-insured employees and retirees supported the Pittsburgh region
21 medical facilities and professionals by spending \$80 million on healthcare.

22 • U. S. Steel's support of 15,000 Pittsburgh-region pensioners and surviving
23 spouses totaled \$127 million in 2007.

24 All of these figures were compiled as of December 31, 2007.

25

26 U. S. Steel's operations at the Clairton, Edgar Thompson and Irvin Plants and
27 other locations in the Pittsburgh region have a large impact on our employees and
28 others in the service territory. We are one of the most significant employers in

1 Southwestern Pennsylvania. A study by the American Iron and Steel Institute
2 concluded that each steel industry job generates seven jobs in other economic
3 sectors.

4
5 **Q. What is the purpose of your Rebuttal Testimony?**

6 A. The purpose of my Rebuttal Testimony is to respond to the testimony of the
7 Office of Consumer Advocate's ("OCA") witness Mr. Glenn A. Watkins
8 regarding Equitable's negotiation of the delivery service rates for U. S. Steel's
9 facilities.

10
11 **Q. On page 26 of his testimony, Mr. Watkins testifies that it is not in the public
12 interest to allow Equitable to negotiate delivery rates due to "gas on gas"
13 competition. Do you agree?**

14 A. No. I believe that Equitable's ability to provide negotiated natural gas delivery
15 rates at reasonable levels consistent with our current contract is critical to U. S.
16 Steel's efforts to continue and maybe expand production at the MonValley Works.
17 Because of the contributions that U. S. Steel makes to the Greater Pittsburgh area,
18 our continued operation is in the public interest.

1 **Q. What alternatives exist for U. S. Steel if an appropriate delivery rate and**
2 **retainage percentage are not provided by Equitable for the Clairton, Edgar**
3 **Thompson and Irvin Plants.**

4 A. We have several alternatives. First, there are other local distribution companies in
5 close proximity from which we could take service. I believe this is what Mr.
6 Watkins would call "gas on gas competition."

7
8 Second, we could construct a bypass pipeline to connect directly with an interstate
9 pipeline. We have several facilities in the United States that receive service
10 directly from interstate pipelines. In the Pittsburgh area, we previously pursued a
11 bypass pipeline to avoid Carnegie Natural Gas Company, even though it was
12 owned by U. S. Steel at the time.

13
14 Third, we could shift production from the MonValley Works to other U. S. Steel
15 facilities.

16
17 **Q. Do you believe that these factors justify the delivery service rate that U. S.**
18 **Steel has negotiated with Equitable?**

19 A. Yes. As discussed below, the economic development impact that U. S. Steel has
20 on the area also justifies our negotiated rates. This includes both the delivery rate
21 and our negotiated retainage rate that was approved in Equitable's 2008 1307(f)
22 proceeding.

23

1 **Q. Please provide the background of U. S. Steel's negotiation of delivery service**
2 **rates with Equitable.**

3 A. U. S. Steel's delivery rates have increased by 238% since Equitable filed its last
4 rate case. U. S. Steel signed a delivery service agreement with Equitable on
5 January 1, 2005, that contained a negotiated delivery rate and a negotiated
6 retainage rate of 1.5%. That agreement replaced a contract that U. S. Steel had
7 been under for the prior 5 years that had a retainage rate of 1% and a lower
8 negotiated delivery rate. When we signed the 2005 contract, our delivery rate
9 more than doubled in comparison to the prior contract.

10
11 Approximately 7 months prior to the expiration of the 2005 agreement, we
12 initiated negotiations with Equitable for a new contract. Unfortunately, the
13 parties could not reach an agreement prior to December 31, 2007.

14
15 As a result, U. S. Steel and Equitable entered into a three-month temporary
16 agreement with a temporary delivery rate and temporary retainage rate of 4%.
17 We are in the process of finalizing a multi-year contract with Equitable at a 1.5%
18 retainage rate and an appropriate negotiated delivery rate with an annual escalator.
19 The rate in the first year of the new contract will be approximately 238% higher
20 than we paid in the year of Equitable's last rate case.

21
22
23

1 **Q. You previously testified about the impact that U. S. Steel currently has on the**
2 **economy in the Greater Pittsburgh area. Has U. S. Steel announced any new**
3 **initiatives for the Mon Valley Works that will enhance the economic**
4 **development benefits of the facility?**

5 A. Yes. Earlier this year, we announced a proposal to construct new coke batteries at
6 the Clairton Plant. This proposed project will not only help to retain existing jobs
7 in Western Pennsylvania, but will also create hundreds of new construction jobs
8 in the Mon Valley. The combination of a 1.5% retainage rate and an appropriate
9 long-term delivery service rate will aid U. S. Steel in pursuing this project.

10

11 **Q. Do the Clairton, Edgar Thompson and Irvin Plants also face internal**
12 **competition from other U. S. Steel facilities that produce similar products?**

13 A. Yes. The Mon Valley Works competes internally with all U. S. Steel facilities,
14 including our Gary Works in Indiana. The tariffed loss factor for natural gas
15 service to the Gary Works is 0.85%. Our delivery rate for the Gary Works is
16 considerably less than what were paying to Equitable under the 2005 agreement
17 and will pay under the new contract. Because U. S. Steel makes similar products
18 at the Gary Works where our loss factor and delivery rate are less than the
19 Equitable rate, we would evaluate whether to shift production from the Mon
20 Valley Works to the Gary Works or other U. S. Steel facilities if our rate went
21 above the negotiated level.

22

23

1 Q. Does this conclude your testimony?

2 A. Yes