Susan J. Riggs
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September 25, 2015

VIA HAND DELIVERY
Ms. Ingrid Ferrell
Executive Secretary
Public Service Commission of West Virginia
201 Brooks Street
Charleston, West Virginia 25301

11:20 AM SEP 25 2015 PSC EXEC SEC DIV

Re: CASE NO. 15-0676-W-42T
WEST VIRGINIA-AMERICAN WATER COMPANY
Rule 42T application to increase water rates and charges

Dear Ms. Ferrell:

Please find enclosed for filing in the above-referenced case, on behalf of SWVA, Inc. and the West Virginia Energy Users Group, an original and twelve (12) copies of the ***"Direct Testimony and Exhibits of Richard A. Baudino."***

Please contact me if you have any questions concerning this filing.

Sincerely,

Susan J. Riggs

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Susan J. Riggs (WV State Bar # 5246)
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SJR/sds:7749666
Enclosures
cc: Certificate of Service

CERTIFICATE OF SERVICE

I, Susan J. Riggs, counsel to SWVA, Inc. and the West Virginia Energy Users Group, do hereby certify that on this 25th day of September 2015, a copy of the foregoing "Direct Testimony and Exhibits of Richard A. Baudino" was served upon the parties and/or counsel of record in this proceeding as follows:

SEP 25 2015 PSC EXEC SEC DIV

VIA HAND DELIVERY

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Susan J. Riggs

Susan J. Riggs (WV State Bar #5246)

WVEUG Exhibit RAB-D

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T 11:20 AM SEP 25 2015 PSC EXEC SEC DIV

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

DIRECT TESTIMONY

AND EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

SWVA, INC. AND

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

SEPTEMBER 25, 2015

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

DIRECT TESTIMONY OF RICHARD A. BAUDINO

Q. Please state your name and business address.

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

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

A. I am a consultant to Kennedy and Associates.

Q. Please describe your education and professional experience.

A. I received my Master of Arts degree with a major in Economics and a minor in Statistics from New Mexico State University in 1982. I also received my Bachelor of Arts Degree with majors in Economics and English from New Mexico State in 1979. I began my professional career with the New Mexico Public Service Commission Staff in October 1982 and was employed there as a Utility Economist. During my employment with the Staff, my responsibilities included the analysis of a broad range of issues in the ratemaking field. Areas in which I testified included cost of service, rate of return, rate design, revenue requirements, analysis of sale/leasebacks of generating plants, utility finance issues, and generating plant phase-ins.

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

Exhibit No. ___(RAB-1) summarizes my expert testimony experience.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of SWVA, Inc. ("SWVA") and the West Virginia Energy Users Group ("WVEUG").

Q. What is the purpose of your Direct Testimony?

A. The purpose of my Direct Testimony in this proceeding is to respond to the request by West Virginia American Water Company ("WVAWC" or "Company") for approval to utilize a future test year ("FTY") for determining its revenue requirement. I will also present my recommendation for the type of test year that should be approved by the Public Service Commission of West Virginia ("PSC" or "Commission").

Q. Please summarize your conclusions and recommendations to the Commission.

A. I recommend that the Commission continue to employ an historic test year ("HTY") for purposes of determining the Company's revenue requirement in this proceeding. For reasons I will explain later in my testimony, WVAWC's proposed FTY should be rejected. The HTY is the more appropriate basis for determining revenues, total costs, and rates for WVAWC's customers. It also provides the best balance between shareholder and ratepayer interests. The Company's FTY upsets this balance in favor of WVAWC's shareholders and fails to provide a sound basis upon which to determine known and measurable costs of serving customers.

Q. What is the Company's proposed revenue increase in this case?

A. According to its Rule 42 Financial Exhibit, Statement A, WVAWC's proposed revenue increase would be $22,276,569, using its HTY. This represents a percentage increase of 17.7% over the Company's Going Level operating revenues. Use of WVAWC's FTY, however, would increase this rate impact even further – to 28.8% above current rates.

Q. Have you conducted a thorough review of the Company's HTY revenue requirement?

A. No, I have not. The purpose of my testimony in this proceeding is primarily to address the appropriateness of using an HTY for ratemaking purposes. I have not conducted an audit and review of the details of the Company's HTY and, therefore, do not support the Company's requested revenue increase using its HTY. Although using the Commission's traditional HTY approach would mitigate the rate impact compared to the Company's

FTY, the Company's requested rate increase in this case appears on its face to be an unprecedented request and is still problematic, especially for large volume customers like SWVA and WVEUG members. SWVA and WVEUG therefore reserve the right to adopt adjustments to the Company's HTY and overall revenues that may be proposed by the Commission Staff and other parties after reviewing their testimony and analyses.

Q. In basic terms, please describe the use of a test year in the utility regulatory process.

A. A test year, or test period, is a 12-month period used to quantify the revenue requirement of a regulated utility company. A test year includes total revenues, expenses, rate base and related return (cost of capital) that together form the total cost of utility services that must be collected from customers.

Q. What are the main forms of a test year?

A. The two main forms of a test year are an historic test year and a future test year. A test year may also be a combination of both historic and future test years.

Q. How are revenue requirements reflected in an HTY?

A. Revenues, expenses, and regulated capital investment (rate base) are developed using actual accounting data, then adjusted for known and measurable changes. Known and measurable changes typically represent items or amounts that are non-recurring, normalized to reflect actual amounts, and incorporate other relevant and appropriate changes in revenues and costs.

The PSC typically uses an historic test year adjusted for known and measurable changes. The PSC typically uses a 13-month average for rate base components. WVAWC's HTY is contained in its Rule 42 Financial Exhibit.

Q. How are revenue requirements reflected in an FTY?

A. Revenues and costs in an FTY are forecasted in order to simulate a future period because the revenues have not actually been achieved and costs have not actually been incurred. Forecasting the revenue requirement typically requires the use of assumptions, forecasts, and budgets developed by the utility.

WVAWC's Rate Year Filing reflects a forecast test year for the 12 months ending February 28, 2017, some 18 months after August 2015, the most recent month for which actual amounts are available. Company witness John Tomac described the components of this FTY on page 3 of his Direct Testimony. The Company forecasted rate base using a 13-month average for the FTY. Plant accounts were forecasted using a monthly capital expenditures budget. The Company also forecasted revenues and expenses for the 12 months ending February 28, 2017.

Q. Which form of test year do you recommend the Commission adopt in this proceeding?

A. I recommend that the Commission adopt the Company's HTY as the basis for revenue requirements in this proceeding. This is consistent with the Commission's past practice and remains a superior option to the Company's FTY.

Q. Please explain why you recommend the HTY.

A. The main reason for the continued use of an HTY in West Virginia is that the revenues, costs, plant investment, and related rate base items are based on actual accounting costs. These costs are verifiable and subject to audit for reasonableness. When adjusted for known and measurable changes, an HTY is the best proxy for the period during which rates will be in effect.

Q. Has the Commission clearly articulated its preference for the HTY in past Orders?

A. Yes. The Commission noted the following in its Order in Re Contel of West Virginia, Inc., Case No. 89-206-T-42T, May 18, 1990:

> Rule 42 clearly requires the filing of a historic test year. Since no other test year is required by the Rule, it is clearly the general policy and intent of the Commission to require the use of the historic test year. Further, a historic test year, adjusted for known and measurable changes as is allowed by Rule 42, is a reasonable and well established regulatory approach. Additionally, the proper matching of rate base related to providing a given level of service and units of operating expense similarly matched to the provision of a given level of service can be best accomplished through the use of the historic test year. Known and measurable changes for increasing (or decreasing) levels of expenses and revenues applied to test year expense or revenue units maintain a proper match and provide a utility a reasonable opportunity to achieve the rate of return authorized by the Commission on a prospective basis. Thus, in a contested proceeding, where the rights of all parties, including the customers, must be protected, the burden of proving the reasonableness and necessity of departing from the use of the historic test year must be conclusively met. Contel attempted to justify the reasonableness of its projections. However, it is the need to depart from the historic test year, and not the reasonableness of the projections which must be demonstrated initially.[1]

[1] Re Contel of West Virginia, Inc., 1990 WL 488661 (W. Va. P.S.C. 1990), p. 3.

Q. Has WVAWC demonstrated a need to depart from the Commission's established use of an HTY?

A. No. I will explain why later in my testimony.

Q. Can you address the Commission's approved Allowance for Funds After Construction ("AFFAC") addition to the HTY concept?

A. Yes. In its Order in a recent WVAWC base rate case at Case No. 10-0920-W-42T, the Commission approved the AFFAC as an answer to regulatory lag associated with non-revenue producing and non-expense reducing ("NRP-NER") plant. The Commission clearly discussed the historical context of the water utility industry generally, and WVAWC in particular.[2]

In response, the Commission approved the AFFAC that was proposed by the Commission Staff in that proceeding.

Q. Has the Company reflected revenue requirements associated with the AFFAC in its HTY?

A. Yes, it has. Please refer to Exhibit No. ___(RAB-2), which contains WVAWC's response to the CAD-4-E-032 data request. The Company's response to part d. of this data request shows that it included an upward adjustment to rate base of $3,734,041 to reflect the 13-month balance of unamortized AFFAC through December 2014. The Company also adjusted its amortization expense upward by $66,872 to reflect the higher unamortized AFFAC balance. Mr. Tomac described these two adjustments in his Direct Testimony.

[2] West Virginia-American Water Co., Case No. 10-0920-W-42T (Order issued Apr. 18, 2011).

It is important to note that the AFFAC balance and amortization expense include both debt and equity components as provided by the Commission.

Q. On page 24, lines 22 through 27 of his Direct Testimony, Mr. Tomac testified that AFFAC "has not been the solution that both the Company and the Commission had hoped for" and noted that the Company's accountants advised that recording the equity portion of AFFAC violated Generally Accepted Accounting Principles ("GAAP"). Consequently, WVAWC has not recognized the equity portion of AFFAC for book reporting purposes since September 2011. Please address Mr. Tomac's testimony in this regard.

A. For regulatory purposes, the AFFAC has worked exactly as the Commission intended when it approved this alternative regulatory treatment in Case No. 10-0920-W-42T. For purposes of its revenue requirement in the HTY, WVAWC booked and proposes to collect both the equity and debt portions of AFFAC from its customers.

It is only for financial reporting purposes that the Company may not report the equity portion of AFFAC. The difference between regulatory treatment and financial accounting treatment of AFFAC is further explained in WVAWC's response to the CAD 4-E-033 data request, which I have included in Exhibit No. ___(RAB-3). The effect has been that WVAWC's reported return on equity for financial reporting is lower than it otherwise would be if the Company had been able to include the equity portion of the AFFAC. For regulatory purposes, however, the Company included both the debt and equity carrying costs in its revenue requirement pursuant to the Commission's Order in

Case No. 10-0920-W-42T. Thus, the Company is made whole with respect to financing costs, and AFFAC has been the solution that the Commission intended.

Q. Why do you recommend that the Commission reject WVAWC's proposed FTY?

A. There are several important bases for rejecting the Company's proposed FTY.

First, unlike the actual booked amounts reflected in the Company's HTY, the forecasts and budgets underlying WVAWC's FTY are not known and measurable, except perhaps for certain fixed costs that are carried forward from year to year. The fact that budgets and forecasts necessarily rely on assumptions and projections of both macroeconomic circumstances and the Company's response to those circumstances make the FTY inherently unknown and unverifiable by the Commission, its Staff, and the other parties. The FTY, therefore, inherently introduces significant uncertainty into the ratemaking process.

Second, the use of an FTY may provide an incentive to understate future revenues and overstate future expenses and investment. For example, the Company has projected lower revenues due to expected lower usage per customer. The tacit assumption here is that future consumption will fall at the same rate as it has in the past, which may or may not be accurate. If not, then actual future revenues in 2017 will be higher than WVAWC's forecast and will result in overearnings by the Company.

Third, the FTY fosters an adversarial process in which the selection of assumptions, forecasts, and budgets must be litigated by the participants and adjudicated by the Commission. As a practical matter, the Commission Staff and other parties are put into the position of having to demonstrate that the subject utility's forecasts and budgets are flawed or otherwise not valid for ratemaking purposes. This is problematic because the Commission Staff and other parties then must argue against utility management that new programs, investments, staffing levels, etc., are unnecessary or incorrect. This is the situation with WVAWC currently, given its ongoing investment in NRP-NER plant.

Fourth, an FTY requires the Commission Staff and the other parties to investigate and evaluate all forecast and budget assumptions reflected in the utility's revenue requirement. Unlike the HTY, there are no actual revenues, costs, and investments that comprise the utility's revenue requirement. This sort of investigation requires significantly more time, expertise, and resources to review and assess the utility's claimed future revenue requirement.

Fifth, the FTY effectively provides the Company pre-approval of new programs, costs, and investments that would otherwise be subject to audit and review for reasonableness and prudence.

Sixth, the regulatory lag inherent in the use of an HTY provides a behavioral incentive to the utility to operate efficiently and to effectively allocate its resources. The use of an FTY removes this incentive and provides an alternative behavioral incentive to forecast higher costs and to include new programs even if they are uneconomic and even if the costs are never actually incurred.

Q. On page 7 of his Direct Testimony, Mr. Tomac presented Table 1, which provides his calculations of earned returns from 2011 through 2013. Please comment on Table 1.

A. A major contributing factor to these lower earned returns has been the Company's inability to include the equity return portion of the AFFAC for financial reporting purposes. Thus, the reported return on equity in Table 1 is understated from a regulatory perspective.

In my opinion, continued application of the AFFAC will make the Company whole over time with respect to its return on capital. I recommend that the Commission put less weight on the reported returns shown on Table 1 in making its decision regarding the appropriate test year in this proceeding.

Q. On page 13 of his Direct Testimony, Mr. Tomac testified that according to a recent study by the Brattle Group, 20 states employ a future test period for water companies.[3] Please respond to Mr. Tomac's testimony.

A. According to the Brattle Group's study, of the 44 states that regulate water companies, 24 states <u>do not</u> employ a future test year, which is a majority of the regulating states. West Virginia remains squarely in this majority. Figure A.3 contained in this study also showed that West Virginia allows alternative regulatory treatment in the form of

[3] *Alternative Regulation and Ratemaking Approaches for Water Companies: Supporting the Capital Investment Needs of the 21st Century,* the Brattle Group, prepared for the National Association of Water Companies, September 30, 2013.

Construction Work in Progress ("CWIP"). I have attached the relevant pages of the Brattle Group study as Exhibit No. ___(RAB-4).

Q. Beginning on page 15 of his Direct Testimony, Mr. Tomac presented and discussed three resolutions by the National Association of Regulated Utility Commissioners ("NARUC") with respect to alternative ratemaking mechanisms for water utilities. Please respond to this section of Mr. Tomac's testimony.

A. Contrary to Mr. Tomac's view, adopting these non-binding resolutions would neither enhance the regulatory environment in West Virginia nor benefit all stakeholders. For the reasons I discussed above, the only stakeholders that would benefit from using an FTY would be the Company's shareholders. Furthermore, the Company's FTY certainly does not spare its customers from double-digit rate increase requests, as it seeks a 28.8% increase in this case using its proposed FTY.

It is critically important to note that the PSC has approved the AFFAC for WVAWC, an alternative ratemaking procedure designed to make the Company whole with respect to its financing costs on NRP-NER qualified plant.

Q. On page 23 of his Direct Testimony, Mr. Tomac stated that "the likely need to make significant capital improvements as a result of SB 373 only compounds this concern for the Company." Please address Mr. Tomac's concern with respect to SB 373.

A. Potential capital improvement that may be required by SB 373 should not be a consideration in this proceeding. Once any effects from SB 373 are known and measurable, WVAWC and the Commission may consider how to address any new investment at a later time.

Q. Does this conclude your Direct Testimony?

A. Yes.

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

SWVA, INC. AND

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

SEPTEMBER 25, 2015

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

EXHIBIT NO. ___(RAB-1)

OF

RICHARD A. BAUDINO

ON BEHALF OF

SWVA, INC. AND

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

SEPTEMBER 25, 2015

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

Thirty-two years of experience in utility ratemaking and the application of principles of economics to the regulation of electric, gas, and water utilities. Broad based experience in revenue requirement analysis, cost of capital, rate of return, cost and revenue allocation, and rate design.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

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

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, electric and gas industry restructuring/competition and water utility issues.

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

Other Clients and Client Groups

Ad Hoc Committee for a Competitive Electric Supply System
Air Products and Chemicals, Inc.
Arkansas Electric Energy Consumers
Arkansas Gas Consumers
AK Steel
Armco Steel Company, L.P.
Assn. of Business Advocating Tariff Equity
CF&I Steel, L.P.
Climax Molybdenum Company
Cripple Creek & Victor Gold Mining Co.
General Electric Company
Holcim (U.S.) Inc.
IBM Corporation
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Lexington-Fayette Urban County Government
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Energy Group
Occidental Chemical
PSI Industrial Group
Large Power Intervenors (Minnesota)
Tyson Foods
West Virginia Energy Users Group
The Commercial Group
Wisconsin Industrial Energy Group
South Florida Hospital and Health Care Assn.
PP&L Industrial Customer Alliance
Philadelphia Area Industrial Energy Users Gp.
West Penn Power Intervenors
Duquesne Industrial Intervenors
Met-Ed Industrial Users Gp.
Penelec Industrial Customer Alliance
Penn Power Users Group
Columbia Industrial Intervenors
U.S. Steel & Univ. of Pittsburg Medical Ctr.
Multiple Intervenors
Maine Office of Public Advocate
Missouri Office of Public Counsel
University of Massachusetts - Amherst
WCF Hospital Utility Alliance
West Travis County Public Utility Agency
Steering Committee of Cities Served by Oncor

Expert Testimony Appearances
of
Richard A. Baudino
As of September 2015

Date	Case	Jurisdict.	Party	Utility	Subject
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop.	Rate design.
11/84	1833	NM	New Mexico Public Service Commission Palo Verde	El Paso Electric Co.	Service contract approval, rate design, performance standards for 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.
09/85	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, PVNGS 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.
10/87	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.

Expert Testimony Appearances
of
Richard A. Baudino
As of September 2015

Date	Case	Jurisdict.	Party	Utility	Subject
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 G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	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.
09/90	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-AIR	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.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.

Expert Testimony Appearances
of
Richard A. Baudino
As of September 2015

Date	Case	Jurisdict.	Party	Utility	Subject
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	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 charge proposals.	Evaluation of cost allocation, rate design, rate plan, and carrying
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.

Expert Testimony Appearances
of
Richard A. Baudino
As of September 2015

Date	Case	Jurisdict.	Party	Utility	Subject
8/94	8652	MD	Westvaco Corp. Co.	Potomac Edison	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	8629	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	8697	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 -000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	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.

Expert Testimony Appearances
of
Richard A. Baudino
As of September 2015

Date	Case	Jurisdict.	Party	Utility	Subject
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. Intervenors	PGE Industrial	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	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 Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States,Inc.	Cost of debt.

**Expert Testimony Appearances
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Date	Case	Jurisdict.	Party	Utility	Subject
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity Assignment.
01/00	8829	MD & United States	Maryland Industrial Gr.	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	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 Commission	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	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 Commission	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 Commission	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Commission	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 Commission	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.

Expert Testimony Appearances
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Date	Case	Jurisdict.	Party	Utility	Subject
11/01	U-25687	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public Service Commission	Atlanta Gas Light	Capital structure.
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	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-594E	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
06/05	050045-EI	FL	South Florida Hospital and HeallthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9036	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.

Expert Testimony Appearances
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Date	Case	Jurisdict.	Party	Utility	Subject
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116 Commission	LA	Louisiana Public Service	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327 Commission	LA	Louisiana Public Service	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	06-0960-E-42T Users Group	WV	West Virginia Energy	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112	AK	AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital
10/07	05-UR-103	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797	LA	Louisiana Public Service Commission	Cleco Power :LLC & Southwestern Electric Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR	OH	Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity
03/08	07-0585, 07-0585, 07-0587, 07-0588, 07-0589, 07-0590, (consol.)	IL	The Commercial Group	Ameren	Cost allocation, rate design
04/08	07-0566	IL	The Commercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008-2011621	PA	Columbia Industrial Intervenors	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

Expert Testimony Appearances
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Date	Case	Jurisdict.	Party	Utility	Subject
07/08	R-2008-2039634	PA	PPL Gas Large Users Group	PPL Gas	Retainage, LUFG Pct.
08/08	6680-UR-116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity
08/08	6690-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
10/08	R-2008-2029325	PA	U.S. Steel & Univ. of Pittsburgh Med. Ctr.	Equitable Gas Co.	Cost and revenue allocation
10/08	08-G-0609	NY	Multiple Intervenors	Niagara Mohawk Power	Cost and Revenue allocation
12/08	27800-U	GA	Georgia Public Service Commission	Georgia Power Company	CWIP/AFUDC issues, Review financial projections
03/09	ER08-1056	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Capital Structure
04/09	E002/GR-08-1065	MN	The Commercial Group	Northern States Power	Cost and revenue allocation and rate design
05/09	08-0532	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation
07/09	080677-EI	FL	South Florida Hospital and Health Care Association	Florida Power & Light	Cost of equity, capital structure, Cost of short-term debt
07/09	U-30975	LA	Louisiana Public Service Commission	Cleco LLC, Southwestern Public Service Co.	Lignite mine purchase
10/09	4220-UR-116	WI	Wisconsin Industrial Energy Group	Northern States Power	Class cost of service, rate design
10/09	M-2009-2123945	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Smart Meter Plan cost allocation
10/09	M-2009-2123944	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Company	Smart Meter Plan cost allocation
10/09	M-2009-2123951	PA	West Penn Power Industrial Intervenors	West Penn Power	Smart Meter Plan cost allocation
11/09	M-2009-2123948	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Smart Meter Plan cost allocation
11/09	M-2009-2123950	PA	Met-Ed Industrial Users Group Penelec Industrial Customer Alliance, Penn Power Users Group	Metropolitan Edison, Pennsylvania Electric Co., Pennsylvania Power Co.	Smart Meter Plan cost allocation

**Expert Testimony Appearances
of
Richard A. Baudino
As of September 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
03/10	09-1352-	WV E-42T	West Virginia Energy Users Group	Monongahela Power	Return on equity, rate of return Potomac Edison
03/10	E015/GR-09-1151	MN	Large Power Intervenors	Minnesota Power	Return on equity, rate of return
04/10	2009-00459	KY	Kentucky Industrial Utility Consumers	Kentucky Power	Return on equity
04/10	2009-00548 2009-00549	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
05/10	10-0261-E-GI	WV	West Virginia Energy Users Group	Appalachian Power Co./ Wheeling Power Co.	EE/DR Cost Recovery, Allocation, & Rate Design
05/10	R-2009-2149262	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Class cost of service & cost allocation
06/10	2010-00036	KY	Lexington-Fayette Urban County Government	Kentucky American Water Company	Return on equity, rate of return, revenue requirements
06/10	R-2010-2161694	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Rate design, cost allocation
07/10	R-2010-2161575	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Return on equity
07/10	R-2010-2161592	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Cost and revenue allocation
07/10	9230	MD	Maryland Energy Group	Baltimore Gas and Electric	Electric and gas cost and revenue allocation; return on equity
09/10	10-70	MA	University of Massachusetts-Amherst	Western Massachusetts Electric Co.	Cost allocation and rate design
10/10	R-2010-2179522	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Cost and revenue allocation, rate design
11/10	P-2010-2158084	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Transmission rate design
11/10	10-0699-E-42T	WV	West Virginia Energy Users Group	Appalachian Power Co. & Wheeling Power Co.	Return on equity, rate of Return
11/10	10-0467	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation and rate design
04/11	R-2010-2214415	PA	Central Pen Gas Large Users Group	UGI Central Penn Gas, Inc.	Tariff issues, revenue allocation
07/11	R-2011-2239263	PA	Philadelphia Area Energy Users Group	PECO Energy	Retainage rate

**Expert Testimony Appearances
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Richard A. Baudino
As of September 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
08/11	R-2011-2232243	PA	AK Steel	Pennsylvania-American Water Company	Rate Design
08/11	11AL-151G	CO	Climax Molybdenum	PS of Colorado	Cost allocation
09/11	11-G-0280	NY	Multiple Intervenors	Corning Natural Gas Co.	Cost and revenue allocation
10/11	4220-UR-117	WI	Wisconsin Industrial Energy Group	Northern States Power	Cost and revenue allocation, rate design
02/12	11AL-947E	CO	Climax Molybdenum, CF&I Steel	Public Service Company of Colorado	Return on equity, weighted cost of capital
07/12	120015-EI	FL	South Florida Hospitals and Health Care Association	Florida Power and Light Co,	Return on equity, weighted cost of capital
07/12	12-0613-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal for Century Aluminum
07/12	R-2012-2290597	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities Corp.	Cost allocation
09/12	05-UR-106	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Class cost of service, cost and revenue allocation, rate design
09/12	2012-00221 2012-00222	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
10/12	9299	MD	Maryland Energy Group	Baltimore Gas & Electric	Cost and revenue allocation, rate design Cost of equity, weighted cost of capital
10/12	4220-UR-118	WI	Wisconsin Industrial Energy Group	Northern States Power Company	Class cost of service, cost and revenue allocation, rate design
10/12	473-13-0199	TX	Steering Committee of Cities Served by Oncor	Cross Texas Transmission, LLC	Return on equity, capital structure
01/13	R-2012-2321748 et al.	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation
02/13	12AL-1052E	CO	Cripple Creek & Victor Gold Mining, Holcim (US) Inc.	Black Hills/Colorado Electric Utility Company	Cost and revenue allocations
06/13	8009	VT	IBM Corporation	Vermont Gas Systems	Cost and revenue allocation, rate design
07/13	130040-EI	FL	WCF Hospital Utility Alliance	Tampa Electric Co.	Return on equity, rate of return
08/13	9326	MD	Maryland Energy Group	Baltimore Gas and Electric	Cost and revenue allocation, rate design, special rider

**Expert Testimony Appearances
of
Richard A. Baudino
As of September 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
08/13	P-2012-2325034	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities, Corp.	Distribution System Improvement Charge
09/13	4220-UR-119	WI	Wisconsin Industrial Energy Group	Northern States Power Co.	Class cost of service, cost and revenue allocation, rate design
11/13	13-1325-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal, Felman Production
06/14	R-2014-2406274	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation, rate design
08/14	05-UR-107	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Cost and revenue allocation, rate design
10/14	ER13-1508 et al.	FERC	Louisiana Public Service Comm.	Entergy Services, Inc.	Return on equity
11/14	14AL-0660E	CO	Climax Molybdenum Co. and CFI Steel, LP	Public Service Co. of Colorado	Return on equity, weighted cost of capital
11/14	R-2014-2428742	PA	AK Steel	West Penn Power Company	Cost and revenue allocation
12/14	42866	TX	West Travis Co. Public Utility Agency	Travis County Municipal Utility District No. 12	Response to complain of monopoly power
3/15	2014-00371 2014-00372	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric, Kentucky Utilities	Return on equity, cost of debt, weighted cost of capital
3/15	2014-00396	KY	Kentucky Industrial Utility Customers	Kentucky Power Co.	Return on equity, weighted cost of capital
6/15	15-0003-G-42T	WV	West Virginia Energy Users Gp.	Mountaineer Gas Co.	Cost and revenue allocation, Infrastructure Replacement Program
8/15	44746	TX	Steering Committee of Cities Served by Oncor	Wind Energy Transmission Texas, LLC	Return on equity, capital structure, weighted cost of capital
9/15	15-0676-W-42T	WV	West Virginia Energy Users Gp.	West Virginia-American Water Company	Appropriate test year, Historical vs. Future

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

EXHIBIT NO. ___(RAB-2)

OF

RICHARD A. BAUDINO

ON BEHALF OF

SWVA, INC. AND

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

SEPTEMBER 25, 2015

WEST VIRGINIA-AMERICAN WATER COMPANY
CASE NO. 15-0676-W-42T
CONSUMER ADVOCATE DIVISION OF THE PUBLIC SERVICE COMMISSION OF WEST VIRGINIA
FOURTH REQUEST FOR INFORMATION

Date of Request: August 7, 2015
Prepared by: Rates & Regulatory Support, David Weber
Witness: John Tomac
Date Prepared: August 27, 2015

CAD 4-E-032

Allowance for Funds After Construction (AFFAC). Refer to the Direct Testimony of Company witness Tomac. On page 24 of his testimony, Mr. Tomac stated: "AFFAC, "Allowance for Funds After Construction," is an extension of AFUDC and allows the Company to capitalize interest costs relating to the weighted cost of capital, both debt and equity, for projects that are in service and completed. The offsetting credit would be to a miscellaneous income account recorded below the line. AFFAC applies to non-revenue producing assets not included in rate base for ratemaking purposes.

a. Please explain fully and in detail why the offsetting credit would be to a miscellaneous income account below the line.
b. Pursuant to part "a" above, please identify by account where the corresponding debit would be recorded.
c. Pursuant to Mr. Tomac's statement that AFFAC applies to non-revenue producing assets not included in rate base for ratemaking purposes, please explain fully and in detail how the corresponding debit related to recording AFFAC is treated for ratemaking purposes.
d. Please state whether the Company's filings reflect the recording of AFFAC. If so, identify by amount, account and specific Company schedule in each volume of its filing where the AFFAC is reflected. Show detailed calculations.

RESPONSE:

a. The Company's entry to record the deferral of AFFAC is as below. Please see Statement A-Schedule 6: Base Year Per Books for the Company's recording of Account 420 to a miscellaneous income account recorded below the line. The credit is recorded below the line in account 420 similar to AFUDC which are both non- cash credits as offsets to interest expense. Interest expense is also recorded below the line.

NARUC Account	SAP Account	Account Description	Debit	Credit
186	18680134	Unamortized Post-In-Svc AFFAC	$ X	
420	85000000	AFUDC Debt		$ X

b. See the response to part a.

c. The debit to Account 186 (SAP Account 18680134) is included in Other Deferred Debits in Rate Base and detailed on Statement B-Schedule 15.

WEST VIRGINIA-AMERICAN WATER COMPANY
CASE NO. 15-0676-W-42T
CONSUMER ADVOCATE DIVISION OF THE PUBLIC SERVICE COMMISSION OF WEST VIRGINIA
FOURTH REQUEST FOR INFORMATION

Date of Request: August 7, 2015
Prepared by: Rates & Regulatory Support, David Weber
Witness: John Tomac
Date Prepared: August 27, 2015

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d. The unamortized balance of Account 186 (SAP Account 18680134) is included in Other Deferred Debits in Rate Base and detailed on Statement B-Schedule 15. The amortization expense is included in Amortization Expense on Statement A-Schedule 3. Please see CAD 4-E-032 Attachments A to D for the detailed calculations.

West Virginia American Water Company -Water
Response to CAD 4-E-032
Deferred Debit - Post-In-Service AFUDC and Amortization of Post-In-Service AFUDC
For the Period Ended December 31, 2014

186 - Adjustment for Going Level Regulatory Asset-Post in Service AFUDC - Adjustment 75

	Plant Eligible for Post AFUDC	AFUDC Equity	AFUDC Debt	Post-In-Svc AFUDC Total	
Authorized from Case 12-1649-W-42T					
Plant and AFUDC -- Jan 2011 to June 2012	$13,827,986	$513,512	$482,295	$995,807	(a)
Amortization through 12/31/14:					
Debt $496.19 per month			14,886	14,886	
Equity $528.28 per month		15,848		15,848	
Total		15,848	14,886	30,734	
Unamortized Balance		497,663	467,409	965,073	
Additional Plant and AFUDC					
Plant and AFUDC -- July 2012 to Dec 2014	36,859,472	2,741,492	2,161,621	4,903,113	(b)
Total Unamortized Post In-Service AFUDC - Going Level 12/31/14		$3,239,155	$2,629,030	$5,868,186	
Test Year 13 Month Average Balance				2,134,145	
Going Level Adjustment				$3,734,041	

403 - Adjustment for Going Level Amortization Expense of Regulatory Asset-Post in Service AFUDC - Adjustment 53

Amortization Expense Calculation:		
Total Post In-Service AFUDC Authorized Jan 2011 to June 2012	$995,807	(a)
Amortization Rate (81 Year Life)	1.23457%	
Annual Amortization	12,294	
Total Post In-Service AFUDC July 2012 to Dec 2014	4,903,113	(b)
Amortization Rate (81 Year Life)	1.23457%	
Annual Amortization	60,532	
Total Post In-Svc AFUDC Amortization Expense Going Level	72,826	
12 Months Ended 12/31/14 Per Books	5,954	
Going Level Adjustment	$66,872	

West Virginia American Water Company -Water
Response to CAD 4-E-032
Deferred Debit - Post In-Service AFUDC and Amortization of Post In-Service AFUDC
For the Period January 1, 2015 through February 29, 2016

	Plant Eligible for Post AFUDC	AFUDC Equity	AFUDC Debt	Post-In-Svc AFUDC Total	
Authorized from Case 12-1649-W-42T					
Plant and AFUDC -- Jan 2011 to June 2012	$13,827,986	$513,512	$482,295	$995,807	(a)
Amortization through 02/29/16:					
Debt $496.19 per month			21,832	21,832	
Equity $528.28 per month		23,244		23,244	
Total		23,244	21,832	45,077	
Unamortized Balance		490,267	460,463	950,730	
Additional Plant and AFUDC					
Plant and AFUDC -- July 2012 to Dec 2014	36,859,472	2,741,492	2,161,621	4,903,113	(b)
Additional Plant and AFUDC					
Plant and AFUDC -- Jan 2015 to Feb 2016	18,828,460	2,488,616	1,690,277	4,178,892	(c)
Total Unamortized Balance Post In-Service AFUDC - Going Level		$5,720,375	$4,312,360	$10,032,735	

407.1 - Adjustment for Going Level Amortization Expense of Regulatory Asset-Post in Service AFUDC

Amortization Expense Calculation:		
Total Post In-Service AFUDC Authorized Jan 2011 to June 2012	$995,807	(a)
Amortization Rate (81 Year Life)	1.23457%	
Annual Amortization	12,294	
Total Post In-Service AFUDC July 2012 to Dec 2014	4,903,113	(b)
Amortization Rate (81 Year Life)	1.23457%	
Annual Amortization	60,532	
Total Post In-Service AFUDC Jan 2015 to Feb 2016	4,178,892	(c)
Amortization Rate (81 Year Life)	1.23457%	
Annual Amortization	51,591	
Total Post In-Svc AFUDC Amortization Expense Going Level	124,417	
Test Year proforma	72,826	
Going Level Adjustment	$51,591	

West Virginia American Water Company -Water
Response to CAD 4-E-032
Deferred Debit - Post In-Service AFUDC and Amortization of Post In-Service AFUDC
For the Thirteen Months Ended February 28, 2017

	Plant Eligible for Post AFUDC	AFUDC Equity	AFUDC Debt	Post-In-Svc AFUDC Total	
Authorized from Case 12-1649-W-42T					
Plant and AFUDC -- Jan 2011 to June 2012	$13,827,986	$513,512	$482,295	$995,807	(a)
Amortization through 02/29/16:					
Debt $496.19 per month			21,832	21,832	
Equity $528.28 per month		23,244		23,244	
Total		23,244	21,832	45,077	
Unamortized Balance		490,267	460,463	950,730	
Additional Plant and AFUDC					
Plant and AFUDC -- July 2012 to Dec 2014	36,859,472	2,741,492	2,161,621	4,903,113	(b)
Additional Plant and AFUDC					
Plant and AFUDC -- Jan 2015 to Feb 2016	18,828,460	2,488,616	1,690,277	4,178,892	(c)
Total Unamortized Balance Post In-Service AFUDC - Going Level 02/29/16		$5,720,375	$4,312,360	$10,032,735	

	Amortization of Case 12-1649-W-42T	
Feb 2016 Balance		10,032,735
Mar 2016 Balance	(1,024)	10,031,711
Apr 2016 Balance	(1,024)	10,030,686
May 2016 Balance	(1,024)	10,029,662
Jun 2016 Balance	(1,024)	10,028,637
Jul 2016 Balance	(1,024)	10,027,613
Aug 2016 Balance	(1,024)	10,026,588
Sep 2016 Balance	(1,024)	10,025,564
Oct 2016 Balance	(1,024)	10,024,539
Nov 2016 Balance	(1,024)	10,023,515
Dec 2016 Balance	(1,024)	10,022,490
Jan 2017 Balance	(1,024)	10,021,466
Feb 2017 Balance	(1,024)	10,020,441
13 Month Average		10,026,588

407.1 - Adjustment for Going Level Amortization Expense of Regulatory Asset-Post In Service AFUDC

Amortization Expense Calculation:		
Total Post In-Service AFUDC Authorized Jan 2011 to June 2012	$995,807	(a)
Amortization Rate (81 Year Life)	1.23457%	
Annual Amortization	12,294	
Total Post In-Service AFUDC July 2012 to Dec 2014	4,903,113	(b)
Amortization Rate (81 Year Life)	1.23457%	
Annual Amortization	60,532	
Total Post In-Service AFUDC Jan 2015 to Feb 2016	4,178,892	(c)
Amortization Rate (81 Year Life)	1.23457%	
Annual Amortization	51,591	
Total Post In-Svc AFUDC Amortization Expense Going Level	124,417	
Post In-Svc AFUDC Amortization Expense Addendum Proforma	124,417	
Going Level Adjustment	$0	

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

EXHIBIT NO. ___(RAB-3)

OF

RICHARD A. BAUDINO

ON BEHALF OF

SWVA, INC. AND

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

SEPTEMBER 25, 2015

WEST VIRGINIA-AMERICAN WATER COMPANY
CASE NO. 15-0676-W-42T
CONSUMER ADVOCATE DIVISION OF THE PUBLIC SERVICE COMMISSION OF WEST VIRGINIA
FOURTH REQUEST FOR INFORMATION

Date of Request: August 7, 2015
Prepared by: Rates & Regulatory Support, David Weber; John Tomac
Witness: John Tomac
Date Prepared: August 27, 2015

CAD 4-E-033

Allowance for Funds After Construction (AFFAC). Refer to pages 24-25 of the Direct Testimony of Company witness Tomac.

a. Please explain fully and in detail the basis for the Company's accountants advising that recording the equity portion of AFFAC violates Generally Accepted Accounting Principles (GAAP).
b. Pursuant to Mr. Tomac's statement that AFFAC applies to non-revenue producing assets not included in rate base for ratemaking purposes, please explain fully and in detail why the Company has included the debt and equity portion of AFFAC in rate base as stated at the bottom of page 24 of Mr. Tomac's testimony.
c. Please explain fully and in detail how AFFAC has helped WVAWC address the effects of regulatory lag. In addition, explain fully exactly why AFFAC, as authorized by the Commission in its Order in Case No. 12-1649-W-42T, "has not been the solution that both the Company and the Commission had hoped for."
d. Pursuant to part "c" above, please quantify the impacts of AFFAC on regulatory lag and state whether these impacts are reflected in the Company's filings. If so, identify by amount, account and specific Company schedule where these impacts are reflected in the filings. If not, explain fully why not.

RESPONSE:

a. The Company's accountants used Accounting Standards Codification Topic 980 to make their determination not to capitalize AFFAC for financial reporting purposes. Paragraph 980-340-25-6 states, "If an allowance for earnings on shareholders' investment is capitalized for rate-making purposes other than during construction or as part of a phase-in plan, the amount capitalized for rate-making purposes shall not be capitalized for financial reporting."

b. The Commission granted the Company approval to book the carrying costs which include debt and equity in Rate Base in the Commission Order dated April 18, 2011 in Case No. 10-0920-W-42T.

c. For financial reporting purposes, the Company has not been able to book the equity portion of AFFAC. For 2014 the Equity portion of AFFAC amounted to $1,359,931. This amount would have been booked below the line as a credit. To the extent the Company was able to book the debt component of AFFAC in 2014 in the amount of $923,670 to a

Date of Request: August 7, 2015
Prepared by: Rates & Regulatory Support, David Weber; John Tomac
Witness: John Tomac
Date Prepared: August 27, 2015

---

below the line account as a non-cash credit. Since AFFAC eligible property is included in UPIS, depreciation expense of approximately $508,000 is included above the line which will somewhat offset the booking of the debt component in 2014. The Company's request to defer depreciation expense, if granted, would somewhat mitigate the effects of not booking the equity portion of AFFAC. Also see CAD 4-E-034.

d. The Company in its test year filling has included AFFAC eligible plant in UPIS and therefore will incur approximately $508,000 in depreciation in the test year. Since UPIS was carried forward to the addendum and the rate year, depreciation expense will approximate that amount in those filings as well. The debt component of AFFAC is a below the line item that is not reflected in cost of service in any part of this rate application. See CAD 4-E-032 for the amount of eligible plant included in UPIS.

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

EXHIBIT NO. ___(RAB-4)

OF

RICHARD A. BAUDINO

ON BEHALF OF

SWVA, INC. AND

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

SEPTEMBER 25, 2015

Alternative Regulation and Ratemaking Approaches for Water Companies

Supporting the Capital Investment Needs of the 21st Century

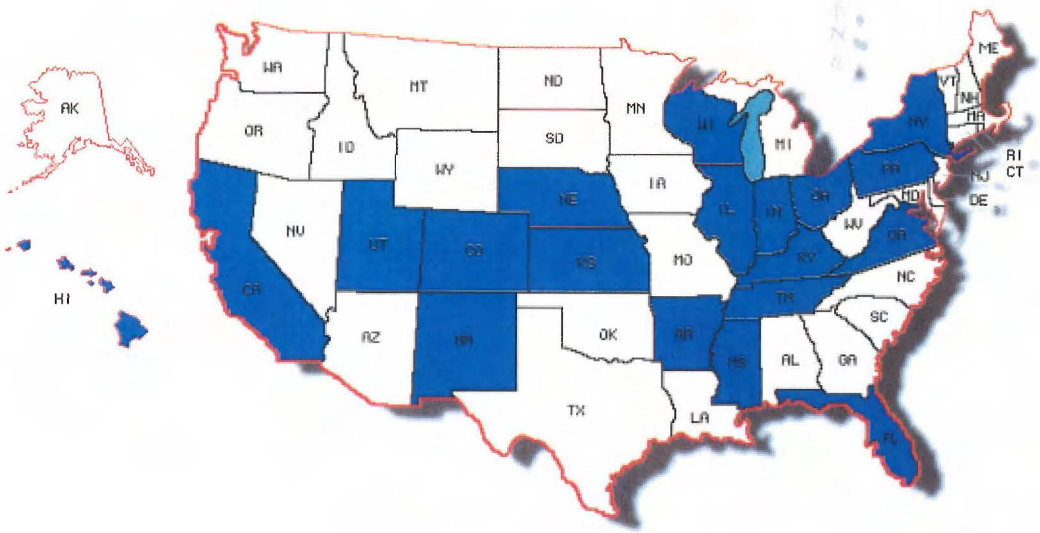
PREPARED FOR

National Association of Water Companies

September 30, 2013

THE Brattle GROUP

Figure 4.18[67]: States with Future Test Years for Water Companies



States Allowing Future Test Year for Water Companies
Arkansas, California, Colorado, Florida, Hawaii, Illinois, Indiana, Kansas, Kentucky, Mississippi, Nebraska, New Mexico, New York, Ohio, Pennsylvania, Tennessee, Utah, Virginia, Wisconsin

As can be seen from Figure 4.17 and 4.18 above, there are a considerable number of states that rely on a future test year. In addition, many states use a hybrid or transitional test year for electric and natural gas utilities, respectively. Thus, a large group of states are including some forward looking measures in rates.

D. Alternative Ratemaking of Capital Expenditures

This is a diverse group of policies that address the issues by focusing on more specific costs, and frequently on capital expenditures and their recovery over time. The methods are:

- Capex Riders and Distribution System Improvement Charges (DSIC)
- Other Riders and Trackers.
- Construction Work in Progress (CWIP)

[67] The Brattle Group © 2013 and EEI, *Alternative Regulation for Evolving Utility Challenges: An Updated Survey*, Prepared by: Pacific Economics Group Research LLC, January 2013.

Figure A.3 Alternative Regulatory Ratemaking for Water Companies

Water Companies		
Broad ARR Categories in Gray with Specific ARRs Listed Below		
Category	Count of States Allowing for ARR's	List of States Allowing for ARR's
CWIP, DSIC, and Capex Riders		
Total States with CWIP or Capex Riders	31	**AR, AZ, CO, CT, DE, FL, HI, IL, IN, KY,MA, ME, MO, MT, NH, NJ, NM, NV, NY, NC, OH, OK, OR, PA, RI, SC, TN, TX, WA, WI, WV**
Construction Work in Progress (CWIP)	21	AR, CO, CT, DE, FL, HI, IL, KY, ME, NJ, NY, NC, OH, OK, OR, PA, SC, TN, TX, WV, WI
Capex Trackers and Distribution System Improvement Charges (DSIC)	15	AZ, CT, DE, IL, IN, ME, MO, NC, NV, NH, NJ, NY, OH, PA, RI
Conservation Adjustments, Decoupling, and Revenue Stabilization		
Total States with Conservation or Revenue Stabilization	5	**AZ, CA,CT,NV, NY**
General Decoupling with Periodic True-up	5	AZ, CA, CT, NV, NY
Lost Revenue Adjustment Mechanism	0	
Comprehensive Alternative Regulation and Ratemaking		
Total States with Comprehensive Alternative Regulatory Mechanisms	4	**CA, CT, MA, NY**
Formula Rates	2	MA, NY
Multi-year Rate Mechanisms	3	CA, CT, NY
Earnings Sharing and Performance Based Rate Making	1	NY

Note: Total Categories shown in gray include ARRs that fall within the broad category but do not fit the descriptions for the specific ARRs highlighted below.

Revenue Stabilization

Conservation Adjustments and General Decoupling with Periodic True-Up

Comprehensive and Timely Recovery

Formula Rates

Multiyear Rate Approach

Earnings Sharing and Performance Rate Making

Future Test Year and Other Timely Recovery Mechanisms

Alternative Ratemaking of Capital Expenditures

DSIC

Susan J. Riggs
304.340.3867
sriggs@spilmanlaw.com

October 15, 2015

VIA HAND DELIVERY
Ms. Ingrid Ferrell
Executive Secretary
Public Service Commission of West Virginia
201 Brooks Street
Charleston, West Virginia 25301

11:21 AM OCT 15 2015 PSC EXEC SEC DIV

Re: CASE NO. 15-0676-W-42T
WEST VIRGINIA-AMERICAN WATER COMPANY
Rule 42T application to increase
water rates and charges

Dear Ms. Ferrell:

Please find enclosed for filing in the above-referenced case, on behalf of SWVA, Inc. and the West Virginia Energy Users Group, an original and twelve (12) copies of the ***"Rebuttal Testimony of Richard A. Baudino."***

Please contact me if you have any questions concerning this filing.

Sincerely,

Susan J. Riggs

Lee F. Feinberg (WV State Bar # 1173)
Susan J. Riggs (WV State Bar # 5246)
lfeinberg@spilmanlaw.com
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SJR/sds:7842706
Enclosures
cc: Certificate of Service

CERTIFICATE OF SERVICE

I, Susan J. Riggs, counsel to SWVA, Inc. and the West Virginia Energy Users Group, do hereby certify that on this 15th day of October 2015, a copy of the foregoing "*Rebuttal Testimony of Richard A. Baudino*" was served upon the parties and/or counsel of record in this proceeding as follows:

VIA HAND DELIVERY

David Sade, Esquire
Staff Attorney
Public Service Commission of West Virginia
201 Brooks Street
Charleston, WV 25301
Counsel for Commission Staff

11:21 AM OCT 15 2015 PSC EXEC SEC DIV

VIA U.S. MAIL

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Christopher L. Callas, Esquire
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Andrew T. Gunnoe, Esquire
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and
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Counsel for Advocates for a Safe Water System

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Mandi Kay Carter, Esquire
City of Charleston
501 Virginia Street, East
Charleston, WV 25301
Counsel for City of Charleston

Susan J. Riggs

Susan J. Riggs (WV State Bar #5246)

WVEUG Exhibit RAB-R

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

11:21 AM OCT 15 2015 PSC EXEC SEC DIV

REBUTTAL TESTIMONY

OF

RICHARD A. BAUDINO

ON BEHALF OF

SWVA, INC. AND

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

OCTOBER 15, 2015

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0676-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY

Rule 42T application to increase water rates and charges

REBUTTAL TESTIMONY OF RICHARD A. BAUDINO

Q. Please state your name and business address.

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

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

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

Q. Did you file Direct Testimony in this proceeding?

A. Yes. I filed Direct Testimony on behalf of the West Virginia Energy Users Group ("WVEUG") and SWVA, Inc. ("SWVA").

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is twofold. First, I will address the Infrastructure Replacement Plan and surcharge proposed by the Staff of the Public Service Commission of West Virginia ("PSC" or "Commission"). Second, I will provide rebuttal to the Staff's proposed 9.49% return on equity ("ROE").

Staff Proposed Infrastructure Replacement Program

Q. Please summarize the infrastructure replacement program proposed by Staff.

A. Beginning on page 10 of his Direct Testimony, Staff witness Eads concluded that the Allowance for Funds After Construction ("AFFAC") has not been successful in addressing the concerns surrounding regulatory lag for West Virginia American Water Company ("WVAWC" or "Company"). Mr. Eads concluded that it is time to consider an alternative cost recovery mechanism for the Company and, on page 12, recommended the approval of an Infrastructure Replacement Plan ("IRP"). Mr. Eads testified that he took guidance from the recently enacted Senate Bill 390 ("SB 390"), which provided for expedited recovery of the costs of natural gas infrastructure replacement. The Staff witness also provided the specifics of the items and information to be included in the IRP beginning on page 13 of his Direct Testimony. Only non-revenue producing replacement additions for transmission and distribution mains and services would be eligible for cost recovery under Staff's proposed IRP. On page 16 of his Direct Testimony, Mr. Eads explained that the first IRP surcharge would be effective on March 1, 2016. He further proposed that surcharge rates be developed on a volumetric basis. Staff does not propose that a separate line item be included on the customers' bills for this surcharge.

Q. Should the Commission approve Staff's proposed IRP?

A. No. Staff's proposed IRP should be rejected in this proceeding.

Q. Please explain why the Staff's proposed IRP should be rejected.

A. To begin with, I am not in favor of automatic surcharge mechanisms such as the IRP, as a general matter. Automatic surcharges that allow the pass-through of capital costs simply do not allow the requisite amount of regulatory scrutiny that a full rate proceeding does. In a rate case, the Commission, its Staff, and other parties have time to conduct a detailed examination and review all of the elements of a utility's revenue requirement to ensure that the costs ratepayers are required to pay are prudently incurred. Surcharges such as Staff's proposed IRP enable the utility to pass though significant new costs without this regulatory scrutiny. Although the utility and its shareholders certainly benefit from increased cash flows from such automatic surcharge recovery, ratepayers are far less assured that costs subject to this treatment are prudently incurred.

Additionally, Staff's proposed IRP provides far more ongoing cost recovery than even WVAWC asked for in its rate filing. Although the Staff rejected the Company's proposed future test year, Staff's proposed IRP allows the Company a five-year automatic flow through of capital costs associated with non-revenue producing utility plant. Even the Company did not request such generous treatment in its rate filing.

Q. In your opinion, does Staff's proposed IRP allow the parties enough time for review and comment?

A. No. Staff's proposal is a substantial change in the way WVAWC would be regulated by the Commission. The other parties to this proceeding were presented with this change in the Staff's Direct Testimony, which was filed nearly five months after WVAWC filed its rate case. Had the Company filed notice of this proposed IRP with its initial filing, the parties would have had adequate time to investigate and evaluate its reasonableness and applicability. Other parties who did not intervene in this case may have even gotten involved at the early stages of this proceeding had they had notice of a new surcharge. Staff's proposed IRP is ill timed, in my opinion.

Q. Staff's witness cited SB 390 in support of his proposed IRP. Please address SB 390 as it relates to WVAWC's revenue requirement in this proceeding.

A. SB 390 provided regulated gas distribution companies an opportunity for a cost recovery mechanism for infrastructure investment. My reading of SB 390 indicates that it did not specify the design of an infrastructure cost recovery mechanism. In any event, no such law has been passed with respect to cost recovery for regulated water utilities. Unless and until the West Virginia Legislature passes a bill similar to SB 390 for water utilities, it is premature for the Staff to apply a similar measure to WVAWC, or other water companies in the state. As a policy matter, the applicability and appropriateness of a surcharge mechanism like the IRP should be debated and discussed within the West Virginia legislative process. If this significant change in the regulation of water utilities is found to be in the public interest, then the West Virginia legislature may pass and enact such legislation.

Q. On page 16 of his Direct Testimony, Mr. Eads recommended that the Company be required to file a complete infrastructure plan by June 1, 2016. Please comment on Mr. Eads' recommendation.

A. This recommendation fails to provide for any review whatsoever of the infrastructure plan by the Commission and the parties. Presumably, WVAWC could file anything it wishes in this plan and have the costs flowed through Staffs proposed IRP. This is not a procedure that the Commission should approve.

Q. Are there other issues with Staff's proposed IRP that should be addressed?

A. Yes. As it now stands, Staffs proposed IRP could very well overstate WVAWC' s revenue requirement associated with investments covered by the IRP. TRE Exhibit No. 2 presents Mr. Eads' calculation of the proposed IRP revenue requirement. Mr. Eads failed to adequately explain or document how the so-called Average Accumulated Deferred Income Taxes ("ADIT") and Depreciation Offsets were calculated on lines 4 and 5 of this exhibit. The Commission and other parties must have detailed calculations that ensure that WVAWC's rate base associated with IRP investments properly accounts for reductions due to depreciation and ADIT during the duration of the IRP. Although I continue to disagree with and oppose the imposition of an IRP, if the Commission considers an IRP for the Company, I recommend that the Commission also fully consider all offsets to the proposed IRP revenue requirement, which include:

- The reduction in depreciation and return on retired plant.
- The reduction in return due to the continued buildup of accumulated depreciation and ADIT. It is not clear whether Staff's proposed IRP revenue requirement properly accounts for these items.
- Reduced maintenance expenses from new infrastructure investments.
- Reduction in lost water from new infrastructure investments.

Furthermore, it should be noted that Staff's IRP proposal is devoid of any customer protection measures that commonly, and appropriately, accompany infrastructure surcharge mechanisms. For example, I am aware that in Pennsylvania alone, where utilities are permitted *by statute* to impose a Distribution System Improvement Charge ("DSIC"), the following consumer protections are required (in addition to the notice requirement that I discussed above):

- The amount of revenue that can be collected under the DSIC is capped so that it does not exceed a certain percentage of each customer's overall billed revenue.
- The DSIC is reset to zero with the effective date of new base rates that provide recovery of costs that were previously included in the DSIC.
- The DSIC is subject to audit by the Pennsylvania Public Utility Commission to insure that the money collected under the DSIC is only used on eligible projects.
- Over-collections of revenue through the DSIC are subject to refund to customers, with interest.

Without detailed consideration and evaluation of these revenue requirement offsets and consumer protection measures, the Commission and other parties cannot be assured that the proposed IRP revenue requirement is just and reasonable.

Q. Do you agree with a volumetric charge to collect the costs associated with Staff's IRP?

A. No. The costs subject to collection through Staff's proposed IRP are all fixed costs. As such, they do not vary with water consumption. Thus, even if the IRP should be approved, its costs should not be collected in a volumetric charge.

I would reiterate that I believe an IRP is inappropriate and should be rejected, but if the Commission considers approving the Staff's IRP, then costs should be collected through a fixed monthly charge per customer, as is the case with Mountaineer Gas Company (per the recently-filed Settlement in Case No. 15-1256-G-390P) and Hope Gas, Inc. (as proposed in the utility's filing at Case No. 15-1600-G-390P), who actually have a statutory opportunity for an infrastructure surcharge mechanism under SB 390.

<u>Staff Return on Equity</u>

Q. Did you review the ROE analysis and recommendation provided by Mr. Josh Allen of the Commission Staff?

A. Yes. Staff's witness recommended a ROE of 9.49% for the Company. His recommendation was based on two different ROE estimation methodologies: the Discounted Cash Flow ("DCF") model and the Capital Asset Pricing Model ("CAPM").

Q. Do you agree with Staff's ROE recommendation?

A. No. Staff's recommended 9.49% ROE is overstated.

Q. Why is Staff's recommended ROE overstated?

A. The primary reason is the Staff witness' reliance on the CAPM ROE range he calculated. He also overstated his recommended growth rate in his DCF model.

Q. In general, are there concerns regarding the use of the CAPM in estimating the return on equity?

A. Yes. There is some controversy surrounding the use of the CAPM.[1] There is evidence that beta is not the primary factor in determining the risk of a security. For example, Value Line's "Safety Rank" is a measure of total risk, not its calculated beta coefficient. Beta coefficients usually describe only a small amount of total investment risk.

There is also substantial judgment involved in estimating the required market return. In theory, the CAPM requires an estimate of the return on the total market for investments, including stocks, bonds, real estate, etc. It is nearly impossible for an analyst to estimate such a broad-based return. Often in utility cases, a market return is estimated using the

1 For a more complete discussion of some of the controversy surrounding the use of the CAPM, refer to *A Random Walk Down Wall Street* by Burton Malkiel, pp. 206 - 211, 2007 edition.

S&P 500 or the return on Value Line's stock market composite. However, these are limited sources of information with respect to estimating the investor's required return for all investments. In practice, the total market return faces significant limitations to its estimation and, ultimately, its usefulness in quantifying the investor required ROE.

In the final analysis, a considerable amount of judgment must be employed in determining the risk-free rate and market return portions of the CAPM equation. An analyst's application of judgment can significantly influence the results obtained from the CAPM. My past experience with the CAPM indicates that it is prudent to use a wide variety of data in estimating investor-required returns. Of course, the range of results may also be wide, indicating the difficulty in obtaining a reliable estimate from the CAPM.

Q. Did Mr. Allen obtain a wide range of CAPM results?

A. Yes. Mr. Allen's average CAPM results are as follows:

0.57% Projected Risk-free rate	7.02%
3.19% Risk-free rate	7.69%
3.50% Historical Risk-free rate	9.95%

It should be noted that the average of these three results is 8.22% and the midpoint is 8.49%.

Q. Which CAPM ROE did Mr. Allen use for his recommended ROE range?

A. Mr. Allen used the top end of his CAPM range in his Appendix JA-1, Schedule 4. The DCF result of 9.04% formed the low end of his recommended ROE range of results. Thus, Staff's recommended ROE of 9.49% is the average of the DCF result and the upper end (9.95%) of the CAPM results.

Q. Do you agree with using the upper end of the CAPM ROE results as part of the basis for the Commission's allowed return on equity?

A. No. Staff's range of CAPM results suggests a ROE of around 8.5% for WVAWC. Moreover, when viewed in the context of Staff's DCF results, the 9.95% CAPM ROE is clearly excessive.

Q. What is your recommendation with respect to Staff's ROE analysis?

A. I recommend that the Commission rely upon Staff's DCF analyses for guidance in determining the allowed ROE for WVAWC. The DCF results are far more reliable than the CAPM given the shortcomings of the CAPM that I enumerated previously. The DCF model uses specific stock price and expected growth rates for the companies in Staff's sample water utility group, thus providing a more accurate and reliable estimate of the investor required return for the Company.

Q. **Should Mr. Allen's 9.04% ROE be adjusted?**

A. Yes. Mr. Allen averaged three different growth rates in determining his recommended DCF growth rate shown on Appendix JA-1, Schedule 2, Sheet 1 of 6. These three growth rates are shown on Appendix JA-1, Schedule 2, Sheet 6 and consist of the following:

Value Line Expected Dividends per Share	6.44%
Average Historical Growth Rate	7.10%
Average Projected Earning Per Share Growth	5.90%
Staff Average Growth Rate	6.20%

I recommend that the Commission reject the use of historical growth rates. Return on equity analysis is a forward-looking process. Five-year or ten-year historical growth rates may not accurately represent investor expectations for dividend growth. Analysts' forecasts for earnings and dividend growth provide better proxies for the expected growth component in the DCF model than historical growth rates. Analysts' forecasts are also widely available to investors and one can reasonably assume that they influence investor expectations.

Q. **How should the expected growth rate be calculated?**

A. I recommend that the Commission give equal weight to Staff's four projected growth rates: Value Line dividend growth, Value Line earnings growth, Zack's earnings growth, and Yahoo! Finance earnings growth. This may be easily done by giving 25% weight to the Value Line projected dividend growth rate of 6.44% and 75% to the three earnings growth rate, the average of which is 5.90%. The resulting growth rate is as follows:

(.25) * 6.44% + (.75) * 5.90% = 6.04%

Q. What is the DCF ROE using the average of Staff's expected growth rates?

A. The DCF ROE is as follows:

Expected dividend yield	2.84%
Expected dividend growth	<u>6.04%</u>
DCF ROE	8.88%

Q. What would the effect be on Staff's recommended revenue increase using a DCF ROE of 8.88%?

A. In order to calculate the effect on the Staff's recommended revenue increase, I will use the Company's revenue gross-up factor of 1.66591, Staff's rate base of $490,453,791, and Staff's recommended capital structure and cost of debt. The revenue requirement impact is -$2.16 million, reducing Staff's recommended increase from $11.75 million to $9.59 million. Please refer to Rebuttal Table 1 below for detailed calculations of this adjustment.

Rebuttal Table 1
Revenue Effect of 8.88% ROE

Staff Common Equity Pct.	43.30%
Staff Recommended ROE	9.49%
WVEUG Recommended ROE	8.88%
ROE Reduction	-0.61%
Weighted ROE Reduction	-0.26%
WVAWC's Gross-up Factor	1.66591
Weighted ROE Adjustment w/ Gross-Up	-0.44%
Staff Rate Base	$490,453,791
Revenue Requirement Reduction	-$2,158,079

Q. Does your rebuttal to Staff's ROE imply that you agree with all the elements of Mr. Allen's DCF analyses?

A. No. I would not necessarily employ all of Mr. Allen's assumptions in an independent ROE analysis of my own, although Mr. Allen did use projected growth rate sources that are similar to the ones I normally use. There are other differences, such as Mr. Allen's use of a 13-week period to calculate the average stock price for each company. I normally use a 6-month period in my DCF ROE analyses. I also would not necessarily exclude so-called outliers in the way Mr. Allen did. Nonetheless, Mr. Allen's DCF analyses and results are fairly close to the DCF results I have performed in recent utility cases and am willing to rely on them in this proceeding, with the adjustments that I described earlier.

Q. Are there any other factors that support the use of an ROE lower than Staff's recommended 9.49%?

A. Yes. Considering that Staff has already proposed an IRP mechanism that would significantly eliminate the risk to the Company of capital investments for infrastructure replacement, there is no reason to provide a further benefit to WVAWC through an elevated ROE.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

SPILMAN THOMAS & BATTLE, PLLC
ATTORNEYS AT LAW

Susan J. Riggs
304.340.3867
sriggs@spilmanlaw.com

July 7, 2015

01:03 PM JUL 07 2015 PSC EXEC SEC DIV

VIA HAND DELIVERY
Ms. Ingrid Ferrell
Executive Secretary
Public Service Commission of West Virginia
201 Brooks Street
Charleston, West Virginia 25301

Re: CASE NO. 15-0003-G-42T
MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

Dear Ms. Ferrell:

Please find enclosed for filing on behalf of the West Virginia Energy Users Group an original and twelve (12) copies of the "Rebuttal Testimony and Exhibit of Richard A. Baudino" in the above-referenced case.

Please contact me if you have any questions concerning this filing.

Sincerely,

Susan J. Riggs

Susan J. Riggs (WV State Bar #5246)
sriggs@spilmanlaw.com

Barry A. Naum
Spilman Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, PA 17050
bnaum@spilmanlaw.com

SJR.rcs.7481874
Enclosures
c: Certificate of Service

CERTIFICATE OF SERVICE

I, Susan J. Riggs, counsel to the West Virginia Energy Users Group, do hereby certify that on this 7th day of July, 2015, a copy of the foregoing "Rebuttal Testimony and Exhibit of Richard A. Baudino" was served upon the parties and/or counsel of record in this proceeding as follows:

VIA HAND DELIVERY

01:03 PM JUL 07 2015 PSC EXEC SEC DIV

Linda S. Bouvette, Esquire
Lucas R. Head, Esquire
Staff Attorney
Public Service Commission of West Virginia
201 Brooks Street
Charleston, WV 25301
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Susan J. Riggs

Susan J. Riggs (WV State Bar #5246)

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

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REBUTTAL TESTIMONY

AND EXHIBIT

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

JULY 7, 2015

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

REBUTTAL TESTIMONY OF RICHARD A. BAUDINO

Q. Please state your name and business address.

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

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

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

Q. Did you submit Direct Testimony in this proceeding?

A. Yes. I submitted Direct Testimony on behalf of the West Virginia Energy Users Group ("WVEUG").[1]

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1 WVEUG members include: ArcelorMittal Weirton LLC; Constellium Inc.; and QuadGraphicsInc.

Q. What is the purpose of your Rebuttal Testimony?

A. I will respond to the Direct Testimony of Dixie Kellmeyer, of the Utilities Division of the Public Service Commission of West Virginia ("Commission"), submitted by the Commission Staff ("Staff").

Q. Before you address the specifics of Ms. Kellmeyer's Direct Testimony, please summarize your conclusions and recommendations with respect to her Direct Testimony.

A. Ms. Kellmeyer made changes to Mountaineer Gas Company's ("Mountaineer" or "Company") class cost of service study ("CCOSS") that are without foundation and fail to track cost causation. As a result, the CCOSS changes she recommends shift an inordinate amount of cost responsibility from the residential class to LGS, IS, and LIS customer classes. I strongly recommend that the Commission reject her revised CCOSS.

Q. How does Ms. Kellmeyer propose to allocate the cost of mains in her CCOSS revisions?

A. Ms. Kellmeyer proposed to allocate the cost of mains to all customer classes, including transportation customers, using an allocator based on 50% demand and 50% commodity.

Q. Is Ms. Kellmeyer's proposed allocation of mains reasonable?

A. No. Ms. Kellmeyer's proposed allocation of mains is unreasonable and should be rejected by the Commission.

Q. **Please explain why the Commission should reject Ms. Kellmeyer's allocation of mains.**

A. First, Ms. Kellmeyer's recommended allocation of mains represents a significant and unsupportable departure from Mountaineer's last rate case (Case No. 11-1627-G-42T). In that docket, Mountaineer did not allocate the cost of distribution mains to the interruptible transportation customers in the IS class. My review of Ms. Kellmeyer's testimony and her recommended CCOSS in that docket indicates that she did not oppose the Company's proposed zero allocation of distribution mains to IS customers. Please refer to Rebuttal Exhibit No. ___(RAB-R1) for excerpts from Ms. Kellmeyer's Exhibit DLK-1, Schedules 3 and 8, filed in the 2011 base rate case. Note that on her Schedule 3, Sheet 1 of 3, in that proceeding, the IS class receives no allocation of plant in service for distribution mains, compressor station equipment, and measuring and regulating equipment. This is certainly appropriate because according to Mountaineer's tariff IS, customers must be served within 200 feet of the facilities of an interstate pipeline providing service to the Company. Thus, it is highly unlikely that IS customers use any of Mountaineer's distribution mains system.

In the present case, however, Ms. Kellmeyer proposes to radically change the allocation of distribution mains such that IS customers receive a full allocation based on a 50% commodity/50% demand allocation factor. This results in the IS class receiving $8.239 million of distribution mains plant in service costs. Ms. Kellmeyer also proposes to allocate significant costs of compressor station equipment and measuring and regulating equipment to the IS class.[2]

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[2] See Exhibit No. ___(RAB-R1), at Exhibit DLK-3, Schedule 3, Sheet 1 of 3.

Q. Should IS customers receive any allocation of distribution mains costs?

A. No. In addition to the fact that these customers must receive service within 200 feet from an interstate pipeline, they are also interruptible. IS customers have the lowest service priority on the Company's system, meaning that they will be the first to be interrupted. Residential and General Service customers are not interruptible. Ms. Kellmeyer's allocation of mains essentially assumes that IS customers have the same service priority as firm Residential and General Service customers.

Q. Should the Commission reject Ms. Kellmeyer's allocation of distribution mains?

A. Yes. Ms. Kellmeyer's proposed allocation of mains is unreasonable and should be rejected by the Commission.

Q. How does Ms. Kellmeyer propose to allocate the cost of services in her CCOSS?

A. Ms. Kellmeyer proposes an allocation of services to customer classes based on 50% commodity and 50% demand allocator. On page 8, lines 6-11 of her Direct Testimony, Ms. Kellmeyer states that "services to all classes are sized to meet the customer's peak demand and that the cost of services vary with the size of the pipe."

Q. Is Ms. Kellmeyer's allocation of services appropriate?

A. Absolutely not. Services are considered "customer-related" and should be allocated based on a customer-related allocator. Typically, services are allocated based on weighted meters or on a study that evaluates the actual cost of services by customer class. Ms. Kellmeyer's recommended 50% commodity and 50% demand allocation of services results in a radical and completely baseless shift in cost responsibility from residential customers to the larger customer classes (LGS, IS, and LIS).

Q. How does the Federal Energy Regulatory Commission's ("FERC") Uniform System of Accounts describe and define Services?

A. FERC Account 380, Services, is defined as follows:

380 Services

A. This account shall include the cost installed of service pipes and accessories leading to the customers' premises.
B. A complete service begins with the connection on the main and extends to but does not include the connection with the customer's meter. A stub service extends from the main to the property line, or the curb stop.
C. Services which have been used but have become inactive shall be retired from utility plant in service immediately if there is no prospect for reuse, and, in any event, shall be retired by the end of the second year following that during which the service became inactive unless reused in the interim.

Items

1. Curb valves and curb boxes.
2. Excavation, including shoring, bracing, bridging, pumping, backfill, and disposal of excess excavated material.
3. Landscaping, including lawns, and shrubbery.
4. Municipal inspection.
5. Pavement disturbed, including cutting and replacing pavement, pavement base, and sidewalks.
6. Permits.
7. Pipe and fittings, including saddle, T, or other fitting on street main.
8. Pipe coating.
9. Pipe laying.
10. Protection of street openings.
11. Service drops.
12. Service valves, at head of service, when installed or furnished by the utility.[3]

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[3] Uniform System of Accounts Prescribed for Natural Gas CompaniesSubject to the Provisions of the Natural Gas Act, 18 C.F.R. § 201.

Q. How does the *Gas Distribution Rate Design Manual* published by the National Association of Regulatory Utility Commissioners ("NARUC") (June 1989) classify the costs of services?

A. The NARUC manual classifies the costs of services as "customer-related." Page 22 of the manual states the following:

> "Customer costs are those operating capital costs found to vary directly with the number of customers served rather than with the amount of utility service supplied. They include the expenses of metering, reading, billing, collecting, and accounting, as well as those costs associated with the capital investment in metering equipment ***and in customers' service connections.***" (emphasis added)

Note that the manual specifically states that customer costs, including services, vary with the number of customers, not the amount of utility service supplied. This directly contradicts Ms. Kellmeyer's position.

Q. What is the effect of Ms. Kellmeyer's recommended allocation of services to customers?

A. The effect is a drastic and unreasonable shift in cost responsibility for services to larger customers on Mountaineer's system. For example, the IS class receives $7.8 million of services costs in Ms. Kellmeyer's CCOSS compared to $4,322 in the Company's CCOSS. The Commission must reject this shift, which has nothing to do with the cost of services.

Q. On page 10 of her Direct Testimony, Ms. Kellmeyer recommended that the LGS, WS, IS, and LIS classes receive an increase of 3.994%. Please address Ms. Kellmeyer's recommended class increases.

A. Ms. Kellmeyer's recommended increase to the LGS, WS, IS, and LIS classes fails to recognize the fact that there are significant special contract customers in the LGS, IS, and LIS classes. It is my understanding that rates for these customers cannot be increased and the Company did not propose to increase rates to special contract customers in this proceeding. Once again, it is my understanding that only the customers taking service under Mountaineer's filed tariffs can have their rates increased. This means that Ms. Kellmeyer's recommended dollar increases to LGS and IS customers will result in far greater percentage increases than 3.994% for the tariff customers who do not have special contracts. Rebuttal Table 1 shows the percentage increases for full tariff LGS and IS customers based on Ms. Kellmeyer's recommended dollar increases for these classes.

REBUTTAL TABLE 1

	Base Revs. Less Special Contracts	Staff Recommended Increase	Pct. Increase
LGS	$ 1,693,646	$ 98,476	5.8%
IS	$ 432,269	$ 50,631	11.7%

Rebuttal Table 1, above, shows that the actual percentage increases to tariff customers in the LGS and IS classes are far higher than the 3.994% recommended by Ms. Kellmeyer. In fact, ***the IS tariff customers would suffer an 11.7% increase in their rates, an increase almost three times the 3.994% Ms. Kellmeyer appears to recommend.***

Q. Should Ms. Kellmeyer's proposed revenue allocation be rejected?

A. Yes. First, Ms. Kellmeyer's revenue allocation is based on a flawed CCOSS that should be rejected by the Commission. Second, Ms. Kellmeyer's proposed increases to the LGS and IS classes do not accurately portray the impact on tariff customers in these classes.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
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EXHIBIT NO. ___(RAB-R1)

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

JULY 7, 2015

EXHIBIT DLK-1
SCHEDULE 3
SHEET 1 OF 3

MOUNTAINEER GAS COMPANY
CLASS COST OF SERVICE STUDY
CASE NO. 11-1627-G-42T
RATE BASE

	Total	Allocator	Rate Schedule RS	GS	LGS	WS	IS	LIS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	$		$	$	$	$	$	$
Plant In Service:								
Intangible Pant	313,712	19-GP	178,518	91,469	26,863	1,550	11,675	3,637
Production		3-SALES						
Transmission	3,461,961	7-CDTS	1,503,555	1,007,437	354,645	24,361	323,672	248,292
Distribution								
Land and Land Rights	2,263,430	18-DxP	1,294,306	666,817	194,213	11,131	77,661	19,301
Structures and Improvements	2,092,473	18-DxP	1,196,547	616,453	179,545	10,290	71,795	17,843
Mains	247,278,182	8-CDx	131,112,658	86,005,078	27,921,532	1,485,692		753,222
Compressor Station Equipment	108,557	8-CDx	57,559	37,757	12,258	652		331
Measuring & Regulating Equip	8,516,568	8-CDx	4,515,683	2,962,122	961,652	51,169		25,942
Services	84,577,203	15-CUSTNC	56,817,323	16,196,972	3,591,114	290,934	5,999,828	1,681,032
Meters	17,807,702	13-METR$	11,745,325	3,880,761	19,348	23,834	1,926,358	212,076
Meter Installations	8,430,695	13-METR$	5,560,586	1,837,268	9,160	11,284	911,995	100,403
House Regulators and Installations	7,600,512	11-CUSTRG	6,882,459	718,053				
Industrial M & R Equipment	4,622,179	12-IMR					4,163,781	458,398
Other Equipment	2,409,979	18-DxP	1,378,107	709,991	206,788	11,852	82,689	20,551
Total Distribution	385,707,480		220,560,554	113,631,271	33,095,610	1,896,839	13,234,108	3,289,098
General	26,695,029	24-C&OMxPG	14,584,317	6,614,329	2,159,954	132,900	1,919,238	1,284,291
Total Plant	416,178,182		236,826,944	121,344,506	35,637,072	2,055,648	15,488,694	4,825,318

MOUNTAINEER GAS COMPANY
CLASS COST OF SERVICE STUDY
CASE NO. 11-1627-G-42T
DEVELOPMENT OF ALLOCATION FACTORS

Factor Number	Basis For Allocation	Rate Schedule	Total Units	Allocation Factor
1-COM	Commodity (In MCF)	RS	15,281,539	0.4066
		GS	10,451,346	0.2781
		LGS	4,343,406	0.1156
		WS	266,310	0.0071
		IS	3,963,774	0.1055
		LIS	3,280,301	0.0873
		Total	37,586,676	1.0000
2-COMDx	Commodity - Distribution (In MCF)	RS	15,281,539	0.5145
		GS	10,225,010	0.3443
		LGS	3,895,787	0.1312
		WS	185,800	0.0063
		IS		
		LIS	113,026	0.0038
		Total	29,701,162	1.0000
3-SALES	Annual Sales (In MCF)	RS	15,281,528	0.6615
		GS	7,441,637	0.3221
		LGS	35,973	0.0016
		WS	266,310	0.0115
		IS	2,133	0.0001
		LIS	73,000	0.0032
		Total	23,100,581	1.0000
4-SIMB	Annual Sales Imbalances MDFQ (In MCF)	RS	15,282,273	0.5945
		GS	9,247,236	0.3598
		LGS	709,543	0.0276
		WS	266,310	0.0104
		IS	123,399	0.0048
		LIS	75,400	0.0029
		Total	25,704,161	1.0000
5-DT	Demand Average Day Peak Transmission	RS	106,438	0.4620
		GS	70,017	0.3039
		LGS	20,577	0.0893
		WS	1,610	0.0070
		IS	18,782	0.0815
		LIS	12,939	0.0562
		Total	230,363	1.0000
6-Dx	Demand Average Day Peak Distribution	RS	106,438	0.5459
		GS	68,501	0.3514
		LGS	18,456	0.0947
		WS	1,123	0.0058
		IS		
		LIS	446	0.0023
		Total	194,965	1.0000

MOUNTAINEER GAS COMPANY
CLASS COST OF SERVICE STUDY
CASE NO. 11-1627-G-42T
DEVELOPMENT OF ALLOCATION FACTORS

Factor Number	Basis For Allocation	Rate Schedule	Total Units	Allocation Factor
7-CDTS	Commodity 50%	RS		0.4343
	Demand 50%	GS		0.2910
	Transmission	LGS		0.1024
	Factors 1 & 5	WS		0.0070
		IS		0.0935
		LIS		0.0717
		Total		1.0000
8-CDDx	Commodity 50%	RS		0.5302
	Demand 50%	GS		0.3478
	Factors 2 & 6	LGS		0.1129
		WS		0.0060
		IS		
		LIS		0.0030
		Total		1.0000
9-CUST	Average	RS	200,318	0.9050
	Number of Customers	GS	20,924	0.0945
		LGS	31	0.0001
		WS	55	0.0002
		IS	9	0.0000
		LIS	1	0.0000
		Total	221,338	1.0000
10-CUSTDx	Customers	RS	200,318	0.9054
	Distribution	GS	20,899	0.0945
		LGS	29	0.0001
		WS		
		IS		
		LIS		
		Total	221,246	1.0000
11-CUSTRG	Customers	RS	200,318	0.9055
	Residential & General	GS	20,899	0.0945
		LGS		
		WS		
		IS		
		LIS		
		Total	221,217	1.0000
12-IMR	Industrial	RS		
	M&R Stations	GS		
		LGS		
		WS		
		IS	9	0.9008
		LIS	1	0.0992
		Total	10	1.0000

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SUMMARY OF THE CROSS-ANSWERING TESTIMONY OF RICHARD A. BAUDINO ON BEHALF OF THE LOUISIANA PUBLIC SERVICE COMMISSION

The purpose of the Cross-Answering Testimony of Mr. Richard A. Baudino is to address certain points raised in the Direct Testimony of Mr. Douglas Green, witness for the Staff of the Federal Energy Regulatory Commission ("FERC" or "Commission"). Mr. Baudino will also update his National Group of companies used for purposes of estimating the return on equity for Entergy, Arkansas, Inc.

Mr. Baudino first reviews Mr. Green's proposed proxy group and notes the selection criteria and the differences between Mr. Green's proxy group and Mr. Baudino's National Group. Their respective recommendations with respect to return on equity are quite similar even though they used different groups of companies. Mr. Baudino reviewed Mr. Green's criteria for excluding high and low return on equity results and found them consistent with FERC precedent. Mr. Baudino cautioned the use of the midpoint return on equity as a measure of central tendency, pointing out that it could be unduly influenced by outliers, and recommended using either the median or mean return on equity results from the Discounted Cash Flow ("DCF") model.

Mr. Baudino also noted that due to a recently announced merger, Cleco Corp. must now be excluded from his National Group. Mr. Baudino updated his DCF analyses excluding Cleco Corp. and updating stock prices, earnings growth forecasts, and other data. The results of this update were not significantly different from the DCF results in his Direct

Testimony and Mr. Baudino stated that his recommended return on equity of 9.0% will not change.

Mr. Baudino also updated the results of his Capital Asset Pricing Model ("CAPM") and concluded, consistent with Mr. Green's Direct Testimony, that unduly high earnings growth forecasts could be inflating the results of his forward-looking CAPM return on equity.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
Entergy Arkansas, Inc.	)	**Docket Nos. ER13-1508-001 *et al.***
	)	

CROSS-ANSWERING TESTIMONY

AND EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF THE

LOUISIANA PUBLIC SERVICE COMMISSION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

NOVEMBER 7, 2014

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Entergy Arkansas, Inc.	)))	**Docket Nos. ER13-1508-001 *et al.***

CROSS-ANSWERING TESTIMONY OF RICHARD A. BAUDINO

Q. Please state your name and business address.

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

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

A. I am a consultant with Kennedy and Associates.

Q. Did you prepare and submit Direct Testimony in this proceeding?

A. Yes, I submitted Direct Testimony on behalf of the Louisiana Public Service Commission ("LPSC").

Q. What is the purpose of your Cross-Answering Testimony?

A. The purpose of my Cross-Answering Testimony is to respond to the Direct Testimony of Mr. Douglas Green, witness for the Staff of the Federal Energy Regulatory Commission ("FERC" or "Commission"). I will update my Discounted Cash Flow ("DCF") results to reflect more recent stock prices and growth forecasts and to remove Cleco Corp. from my National Group due to a recently announced merger. I will make a minor correction to my Capital Asset Pricing Model ("CAPM") analyses that I included in my Direct Testimony.

Q. With respect to the selection of companies contained in his proxy group, please summarize Mr. Green's approach.

A. Mr. Green described his selection criteria on pages 15 through 16 of his Direct Testimony. These criteria are:

- Operates in the continental United States and is classified by Value Line Investment Survey (hereinafter referred to as Value Line) as an electric utility company.
- Has a Standard & Poor's (S&P) Issuer Credit Rating ("ICR") of "BBB," and a Moody's credit rating within the "Baa" class of ratings.
- Has an S&P utility business risk profile of "excellent" or "strong."
- Has an S&P financial risk profile of "significant."
- Is currently paying a dividend, has not cut its dividend level within the six-month data period for the DCF analysis, and for whom Value Line does not forecast a dividend cut.
- Has no announced or pending significant merger, acquisition or spinoff activity during the recent six-month data period used in the DCF analysis.
- Has a five-year earnings growth estimate reported by the Institutional Brokers' Estimate System (IBES) through Yahoo! Finance.
- Has a DCF result that exceeds the most recent six-month average yield on Moody's "Baa" Public Utility bonds by at least 100 basis points.
- Has a DCF model growth rate (g) that is not higher than the proxy group's median average estimate of investors' true required return on equity (k).

Q. How do the selection criteria used by Mr. Green compare to the selection criteria you used to select your National Group?

A. Mr. Green's selection criteria have some similarities, but are more specific with respect to the inclusion of Standard and Poor's utility business risk profile of "excellent" or "strong" and a financial risk profile of "significant". Mr. Green also included criteria for DCF results that are at least 100 basis points above Moody's Baa bond yield and a DCF growth rate that is not higher than the group's median average estimate of investor's true required return on equity.

Q. How does your National Group compare to Mr. Green' group?

A. Mr. Green's proxy group has 10 companies compared to the 19 companies in my National Group and all the companies in Mr. Green's proxy group are contained in my National Group. Our DCF results and ultimate recommendations are nearly identical (8.95% for Mr. Green and 9.0% for my recommendation).

Q. Please comment on the DCF criteria for excluding low and high results.

A. Mr. Green's screening criteria for high and low return on equity results appear to be founded in FERC precedent. In my opinion, screening for outliers is critical if the analyst or the Commission relies on the midpoint of the results for the proxy group used for the analysis.

In this proceeding, the better measures of central tendency are the median and/or the mean no matter which proxy group the Commission chooses. The midpoint simply averages the high and low results, thus relying on only 2 DCF results for the entire group. If there are unusually high or low DCF results, they can skew the midpoint and lead to an unreliable and unrepresentative outcome. Thus, the median and/or mean represent superior measures for the Commission's consideration.

Q. On page 20 of his Direct Testimony, Mr. Green noted that the Commission has eliminated companies from proxy groups due to merger, acquisition, and or spin-off activity. Since you filed your Direct Testimony has any company in your National Group announced a merger or acquisition?

A. Yes. On October 20, 2014 Cleco Corporation announced that it entered into a definitive agreement to be acquired by a group of North American long-term infrastructure investors led by Macquarie Infrastructure and Real Assets and British Columbia Investment Management Corporation, along with other infrastructure investors[1]. Since Cleco Corporation is one of the companies in my National Group, it must now be eliminated from that group for purposes of estimating the return on equity for Entergy Arkansas, Inc.

Q. Did you perform an update to your return on equity analyses that excludes Cleco Corp.?

A. Yes. I excluded Cleco Corp. from my National Group of companies. Since the FERC prefers the use of the most recent data in return on equity analyses, I also updated stock prices for the six-month period from May through October 2014 and I updated the IBES and Zacks earnings growth estimates, which were obtained on October 31, 2014. I also included updated Value Line earnings and dividend growth forecasts from the October 31, 2014 report for companies in the Electric Utility (West) region. I also reviewed the Standard and Poor's and Moody's credit ratings for the companies in my National Group on October 31, 2014 and none of the ratings

1 See http://investors.cleco.com/phoenix.zhtml?c=82212&p=RssLanding&cat=news&id=1979148.

had changed since I filed my Direct Testimony. Please see Exhibits LC-15 through LC-17 for updated results from the FERC's two-stage DCF model and for my constant growth DCF model.

Q. Did you review Mr. Green's calculation of the long-term growth in Gross Domestic Product ("GDP")?

A. Yes. Mr. Green presented his calculations of the long-term growth in GDP on Exhibit No. S-5, Schedule No. 5, page 5 of 12. Mr. Green included an updated IHS Global Insight GDP forecast. He also had slightly different GDP growth rates from the Energy Administration Association and the Social Security Administration. These differences were very slight and are attributable to a different starting year for the calculation of the respective growth rates. For purposes of my update I will adopt Mr. Green's average GDP growth rate of 4.37% because it includes an updated IHS Global Insight forecast.

Q. Did you update your CAPM analyses also?

A. Yes. I incorporated updated market returns from the summary statistics from the Value Line Investment Analyzer dated October 15, 2014. I also excluded Cleco Corp. from the National Group. During the update I discovered that CMS Energy's beta had been inadvertently omitted from the group average beta calculation, so I included CMS Energy in this update. I also used the average dividend yield with the median expected growth rates from the Value Line Investment Survey, rather than the median dividend yield, which is 0%. The CAPM results are shown in Exhibits LC-18 and LC-19. Note that I did not include the Treasury Yields for October 2014 because the historical data from the Federal Reserve had not been updated through October in time to include it in my updated analysis.

Q. Please summarize your updated return on equity result.

A. My updated return on equity results are summarized in Table 4.

TABLE 4
SUMMARY OF ROE ESTIMATES

FERC Two-Stage DCF:	
- Average	8.79%
- Median	8.96%
- Midpoint	9.09%
Baudino DCF Methodology:	
Average Growth Rates	
- High	9.45%
- Low	8.32%
- Average	8.98%
Median Growth Rates:	
- High	8.80%
- Low	8.03%
- Average	8.59%
CAPM:	
- 5-Year Treasury Bond	9.60%
- 20-Year Treasury Bond	9.93%
- Historical Returns	6.79% - 8.33%

Q. Based on your updated DCF results, do you still recommend a return on equity for Entergy Arkansas, Inc. of 9.0%?

A. Yes. The results using updated numbers did not significantly change from the results in my Direct Testimony.

Q. Your updated CAPM results are higher than in your Direct Testimony. Does this suggest that your DCF results are understated?

A. No. In fact, the forward-looking CAPM results are likely overstated.

Q. Why is this the case?

A. On pages 70 and 71 of his Direct Testimony, Mr. Green pointed out that Dr. Avera and Mr. McKenzie's estimate of the expected market return in their CAPM contained unsustainably high short-term and composite growth estimates. I then reviewed the summary statistics from the Value Line Investment Analyzer from which I took the median and average earnings and book value growth rates. This summary shows both high and low growth rates for the Value Line data set. For earnings growth, the high growth rate was 531.43% and the low growth rate was -23.5%. In my opinion, it is likely that unsustainably high growth rates could be skewing the average earnings and book value growth estimates. Thus, the median growth rates are probably more reasonable indices of central tendency than the average growth rates shown on page 2 of Exhibit LC-18. Using mean growth rates results in a market return of 11.16% compared to 12.88% using average growth rates. I have included the market return of 12.88% in the average market return calculation as I did in my Exhibit LC-10, but in my opinion this overstates the CAPM market return and the CAPM return on equity results somewhat. For this reason, historical risk premiums should also be used to frame the range of CAPM results in this proceeding.

Q. On page 71, lines 6 through 16 Mr. Green calculated a CAPM market return of 10.42% using long-term GDP growth in the calculation. Please comment on Mr. Green's testimony.

A. If the FERC uses GDP growth as the long-term growth component for the utilities it regulates, then I recommend the FERC consider using GDP growth as a component in the expected market return when the DCF model is used to estimate the market return component in the CAPM. Although I have not included forecasted GDP in my own CAPM analyses, Mr. Green's point is well taken and would result in both a lower expected market return and lower CAPM return on equity estimates.

Q. Does this complete your Direct Testimony?

A. Yes.

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Entergy Arkansas, Inc.	)))	**Docket Nos. ER13-1508-001** ***et al.***

EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF THE

LOUISIANA PUBLIC SERVICE COMMISSION

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

NOVEMBER 7, 2014

AFFIDAVIT OF RICHARD A. BAUDINO

The foregoing testimony is true to the best of my knowledge and belief.

Richard A. Baudino

Richard A. Baudino

State of North Carolina)
) SS
County of ~~Stokes~~ SURRY)

Sworn to and subscribed before me on this
7th day of November 2014.

LAURA C. EAST
NOTARY
PUBLIC
SURRY COUNTY, NC

Laura C. East

Notary Public

my comm. expires: 4.9.18

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
Entergy Arkansas, Inc.	)	**Docket Nos. ER13-1508-001 *et al.***
	)	

EXHIBITS

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ROSWELL, GEORGIA

NOVEMBER 7, 2014

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
Entergy Arkansas, Inc.	)	**Docket Nos. ER13-1508-001 *et al.***
	)	

LC-14

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NATIONAL GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Oct-14	Sep-14	Aug-14	Jul-14	Jun-14	May-14
Ameren Corp.	High Price ($)	42.710	40.310	39.990	40.960	40.990	41.620
	Low Price ($)	38.250	37.530	36.650	38.440	37.670	37.940
	Avg. Price ($)	40.480	38.920	38.320	39.700	39.330	39.780
	Dividend ($)	0.400	0.400	0.400	0.400	0.400	0.400
	Mo. Avg. Div.	3.95%	4.11%	4.18%	4.03%	4.07%	4.02%
	6 mos. Avg.	4.06%					
American Electric Power	High Price ($)	58.610	53.880	53.710	55.910	55.940	54.060
	Low Price ($)	51.970	51.580	49.060	51.960	51.600	50.820
	Avg. Price ($)	55.290	52.730	51.385	53.935	53.770	52.440
	Dividend ($)	0.500	0.500	0.500	0.500	0.500	0.500
	Mo. Avg. Div.	3.62%	3.79%	3.89%	3.71%	3.72%	3.81%
	6 mos. Avg.	3.76%					
Avista Corp.	High Price ($)	35.960	32.880	32.470	33.600	33.580	32.940
	Low Price ($)	30.550	30.450	30.350	31.020	30.380	30.900
	Avg. Price ($)	33.255	31.665	31.410	32.310	31.980	31.920
	Dividend ($)	0.318	0.318	0.318	0.318	0.318	0.318
	Mo. Avg. Div.	3.82%	4.02%	4.05%	3.94%	3.98%	3.98%
	6 mos. Avg.	3.97%					
Black Hills Corp.	High Price ($)	55.110	54.050	53.890	62.130	61.410	60.380
	Low Price ($)	47.110	47.870	50.390	52.700	57.020	55.230
	Avg. Price ($)	51.110	50.960	52.140	57.415	59.215	57.805
	Dividend ($)	0.390	0.390	0.390	0.390	0.390	0.390
	Mo. Avg. Div.	3.05%	3.06%	2.99%	2.72%	2.63%	2.70%
	6 mos. Avg.	2.86%					
CMS Energy	High Price ($)	32.910	30.830	30.540	31.200	31.230	30.430
	Low Price ($)	29.590	29.150	27.900	28.870	28.970	28.700
	Avg. Price ($)	31.250	29.990	29.220	30.035	30.100	29.565
	Dividend ($)	0.270	0.270	0.270	0.270	0.270	0.270
	Mo. Avg. Div.	3.46%	3.60%	3.70%	3.60%	3.59%	3.65%
	6 mos. Avg.	3.60%					
El Paso Electric	High Price ($)	38.260	39.410	39.420	40.430	40.330	38.420
	Low Price ($)	35.340	36.050	35.390	36.810	36.670	35.210
	Avg. Price ($)	36.800	37.730	37.405	38.620	38.500	36.815
	Dividend ($)	0.280	0.280	0.280	0.280	0.280	0.265
	Mo. Avg. Div.	3.04%	2.97%	2.99%	2.90%	2.91%	2.88%
	6 mos. Avg.	2.95%					

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NATIONAL GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Oct-14	Sep-14	Aug-14	Jul-14	Jun-14	May-14
Empire District Elec.	High Price ($)	29.240	25.950	26.000	25.870	25.710	24.420
	Low Price ($)	24.090	24.000	24.020	24.360	23.560	23.230
	Avg. Price ($)	26.665	24.975	25.010	25.115	24.635	23.825
	Dividend ($)	0.255	0.255	0.255	0.255	0.255	0.255
	Mo. Avg. Div.	3.83%	4.08%	4.08%	4.06%	4.14%	4.28%
	6 mos. Avg.	4.08%					
Entergy Corp.	High Price ($)	84.580	78.370	77.450	82.480	82.300	75.690
	Low Price ($)	76.510	75.290	70.700	72.810	75.420	71.680
	Avg. Price ($)	80.545	76.830	74.075	77.645	78.860	73.685
	Dividend ($)	0.830	0.830	0.830	0.830	0.830	0.830
	Mo. Avg. Div.	4.12%	4.32%	4.48%	4.28%	4.21%	4.51%
	6 mos. Avg.	4.32%					
Great Plains Energy	High Price ($)	27.000	25.800	25.910	26.950	27.050	27.280
	Low Price ($)	24.110	23.910	24.090	24.710	24.720	24.970
	Avg. Price ($)	25.555	24.855	25.000	25.830	25.885	26.125
	Dividend ($)	0.230	0.230	0.230	0.230	0.230	0.230
	Mo. Avg. Div.	3.60%	3.70%	3.68%	3.56%	3.55%	3.52%
	6 mos. Avg.	3.60%					
Hawaiian Electric	High Price ($)	28.270	26.890	25.410	25.380	25.650	24.400
	Low Price ($)	26.040	24.910	22.710	23.440	23.630	23.040
	Avg. Price ($)	27.155	25.900	24.060	24.410	24.640	23.720
	Dividend ($)	0.310	0.310	0.310	0.310	0.310	0.310
	Mo. Avg. Div.	4.57%	4.79%	5.15%	5.08%	5.03%	5.23%
	6 mos. Avg.	4.97%					
IDACORP	High Price ($)	64.120	56.970	56.800	58.790	57.860	56.370
	Low Price ($)	53.390	53.200	51.700	53.550	53.780	52.910
	Avg. Price ($)	58.755	55.085	54.250	56.170	55.820	54.640
	Dividend ($)	0.430	0.430	0.430	0.430	0.430	0.430
	Mo. Avg. Div.	2.93%	3.12%	3.17%	3.06%	3.08%	3.15%
	6 mos. Avg.	3.09%					
Otter Tail Corp.	High Price ($)	31.200	28.700	28.910	30.430	30.300	29.520
	Low Price ($)	26.530	26.670	27.160	27.900	28.260	27.190
	Avg. Price ($)	28.865	27.685	28.035	29.165	29.280	28.355
	Dividend ($)	0.303	0.303	0.303	0.303	0.303	0.303
	Mo. Avg. Div.	4.20%	4.38%	4.32%	4.16%	4.14%	4.27%
	6 mos. Avg.	4.24%					

NATIONAL GROUP
AVERAGE PRICE, DIVIDEND AND DIVIDEND YIELD

		Oct-14	Sep-14	Aug-14	Jul-14	Jun-14	May-14
PG&E Corp.	High Price ($)	50.360	48.240	46.480	48.090	48.640	45.990
	Low Price ($)	44.170	43.760	42.920	44.650	45.270	42.850
	Avg. Price ($)	47.265	46.000	44.700	46.370	46.955	44.420
	Dividend ($)	0.455	0.455	0.455	0.455	0.455	0.455
	Mo. Avg. Div.	3.85%	3.96%	4.07%	3.92%	3.88%	4.10%
	6 mos. Avg.	3.96%					
PNM Resources	High Price ($)	29.330	26.970	26.250	29.940	29.330	29.220
	Low Price ($)	24.810	24.760	24.260	25.640	27.600	26.190
	Avg. Price ($)	27.070	25.865	25.255	27.790	28.465	27.705
	Dividend ($)	0.185	0.185	0.185	0.185	0.185	0.185
	Mo. Avg. Div.	2.73%	2.86%	2.93%	2.66%	2.60%	2.67%
	6 mos. Avg.	2.74%					
Public Service Ent. Gp.	High Price ($)	41.630	38.320	37.410	40.680	40.930	41.350
	Low Price ($)	36.370	36.040	34.050	35.110	37.060	36.910
	Avg. Price ($)	39.000	37.180	35.730	37.895	38.995	39.130
	Dividend ($)	0.370	0.370	0.370	0.370	0.370	0.370
	Mo. Avg. Div.	3.79%	3.98%	4.14%	3.91%	3.80%	3.78%
	6 mos. Avg.	3.90%					
SCANA Corp.	High Price ($)	55.250	52.230	51.940	53.890	53.880	53.830
	Low Price ($)	47.770	48.810	48.530	50.780	49.510	50.440
	Avg. Price ($)	51.510	50.520	50.235	52.335	51.695	52.135
	Dividend ($)	0.525	0.525	0.525	0.525	0.525	0.525
	Mo. Avg. Div.	4.08%	4.16%	4.18%	4.01%	4.06%	4.03%
	6 mos. Avg.	4.09%					
Sempra Energy	High Price ($)	111.360	107.810	106.090	104.600	105.250	100.690
	Low Price ($)	98.340	102.340	96.130	99.600	98.320	96.580
	Avg. Price ($)	104.850	105.075	101.110	102.100	101.785	98.635
	Dividend ($)	0.660	0.660	0.660	0.660	0.660	0.660
	Mo. Avg. Div.	2.52%	2.51%	2.61%	2.59%	2.59%	2.68%
	6 mos. Avg.	2.58%					
Westar Energy	High Price ($)	37.910	37.070	37.090	38.230	38.240	36.100
	Low Price ($)	33.730	33.760	34.530	36.040	35.220	34.720
	Avg. Price ($)	35.820	35.415	35.810	37.135	36.730	35.410
	Dividend ($)	0.350	0.350	0.350	0.350	0.350	0.350
	Mo. Avg. Div.	3.91%	3.95%	3.91%	3.77%	3.81%	3.95%
	6 mos. Avg.	3.88%					
Average Dividend Yield		3.70%					

Source: Yahoo! Finance

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UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Entergy Arkansas, Inc.	)))	**Docket Nos. ER13-1508-001 *et al.***

LC-15

NATIONAL GROUP
DCF RETURN ON EQUITY WITH FERC TWO-STAGE GROWTH

(1)	(2) Dividend Yield	(3) Adjustment	(4) Expected Div. Yield	(5) IBES Growth	(6) GDP Growth	(7) FERC Weighted Growth	(8) ROE	
Ameren Corp.	4.06%	1.037	4.21%	8.90%	4.37%	7.39%	11.60%	
American Elec Pwr	3.76%	1.024	3.85%	4.97%	4.37%	4.77%	8.62%	
Avista Corp.	3.97%	1.024	4.06%	5.00%	4.37%	4.79%	8.85%	
Black Hills Corp.	2.86%	1.031	2.95%	7.00%	4.37%	6.12%	9.07%	
CMS Energy Corp.	3.60%	1.030	3.71%	6.80%	4.37%	5.99%	9.70%	
El Paso Electric	2.95%	1.031	3.04%	7.00%	4.37%	6.12%	9.16%	
Empire District Elec	4.08%	1.017	4.15%	3.00%	4.37%	3.46%	7.61%	
Entergy Corp.	4.32%	1.013	4.37%	1.66%	4.37%	2.56%	6.94%	
Great Plains Energy	3.60%	1.024	3.69%	5.00%	4.37%	4.79%	8.48%	
Hawaiian Elec.	4.97%	1.021	5.08%	4.00%	4.37%	4.12%	9.20%	
IDACORP, Inc.	3.09%	1.021	3.15%	4.00%	4.37%	4.12%	7.27%	
Otter Tail Corp.	4.24%	1.027	4.36%	6.00%	4.37%	5.46%	9.82%	
PG&E Corp.	3.96%	1.030	4.08%	6.95%	4.37%	6.09%	10.17%	
PNM Resources	2.74%	1.035	2.84%	8.32%	4.37%	7.00%	9.84%	
Pub Sv Enterprise Grp	3.90%	1.013	3.95%	1.75%	4.37%	2.62%	6.57%	
SCANA Corp.	4.09%	1.023	4.18%	4.60%	4.37%	4.52%	8.70%	
Sempra Energy	2.58%	1.032	2.67%	7.47%	4.37%	6.44%	9.10%	
Westar Energy	3.88%	1.018	3.95%	3.20%	4.37%	3.59%	7.54%	
Averages	3.70%		3.79%	5.31%	4.37%	5.00%	8.79%	
Median							8.96%	
Range of ROE Values						6.57%	-	11.60%
Midpoint of ROE range							9.09%	

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
Entergy Arkansas, Inc.	)	**Docket Nos. ER13-1508-001 *et al.***
	)	

LC-16

NATIONAL GROUP
DCF Growth Rate Analysis

Company	(1) Value Line DPS	(2) Value Line EPS	(3) Value Line B x R	(4) Zacks	(5) IBES
Ameren Corp.	2.00%	4.50%	4.00%	8.30%	8.90%
American Elec Pwr	4.50%	4.50%	4.00%	4.90%	4.97%
Avista Corp.	4.50%	5.50%	3.00%	5.00%	5.00%
Black Hills Corp.	4.00%	9.50%	4.00%	7.00%	7.00%
CMS Energy Corp.	6.00%	6.50%	6.00%	6.10%	6.80%
El Paso Electric	7.00%	3.00%	5.00%	3.50%	7.00%
Empire District Elec	4.50%	4.00%	3.50%	3.00%	3.00%
Entergy Corp.	2.50%	1.00%	4.00%	-1.00%	1.66%
Great Plains Energy	6.00%	6.00%	3.00%	5.00%	5.00%
Hawaiian Elec.	1.00%	4.00%	3.50%	4.00%	4.00%
IDACORP, Inc.	8.00%	1.50%	3.50%	4.00%	4.00%
Otter Tail Corp.	1.50%	15.50%	5.00%	6.00%	6.00%
PG&E Corp.	2.50%	5.00%	2.50%	6.10%	6.95%
PNM Resources	12.00%	11.00%	5.00%	8.50%	8.32%
Pub Sv Enterprise Grp	2.50%	2.00%	5.00%	2.30%	1.75%
SCANA Corp.	3.00%	5.00%	4.50%	4.40%	4.60%
Sempra Energy	7.00%	7.00%	5.50%	7.50%	7.47%
Westar Energy	3.00%	6.00%	4.50%	3.80%	3.20%
Averages excluding negative values	4.53%	5.64%	4.19%	5.26%	5.31%
Median Values	4.25%	5.00%	4.00%	4.95%	5.00%

Sources: Value Line Investment Survey, August 22, September 19, and October 31, 2014
Yahoo! Finance for IBES growth rates retrieved October 31, 2014
Zacks growth rates retrieved October 31, 2014
IBES growth rates were used in the Zacks column for Avista, Black Hills, and Otter Tail.

NATIONAL GROUP
DCF RETURN ON EQUITY

	(1) Value Line Dividend Gr.	(2) Value Line Earnings Gr.	(3) Zack's Earning Gr.	(4) IBES Earning Gr.	(5) Average of All Gr. Rates
Method 1:					
Dividend Yield	3.70%	3.70%	3.70%	3.70%	3.70%
Average Growth Rate	4.53%	5.64%	5.26%	5.31%	5.18%
Expected Div. Yield	3.79%	3.81%	3.80%	3.80%	3.80%
DCF Return on Equity	***8.32%***	***9.45%***	***9.06%***	***9.11%***	***8.98%***
Method 2:					
Dividend Yield	3.70%	3.70%	3.70%	3.70%	3.70%
Median Growth Rate	4.25%	5.00%	4.95%	5.00%	4.80%
Expected Div. Yield	3.78%	3.80%	3.79%	3.80%	3.79%
DCF Return on Equity	***8.03%***	***8.80%***	***8.74%***	***8.80%***	***8.59%***

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UNITED STATES OF AMERICA
BEFORE THE
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Entergy Arkansas, Inc.	)))	**Docket Nos. ER13-1508-001 *et al.***

LC-17

NATIONAL GROUP
Capital Asset Pricing Model Analysis
20-Year Treasury Bond, Value Line Beta

Line No.		Value Line
1	Market Required Return Estimate	11.98%
2	Risk-free Rate of Return, 20-Year Treasury Bond	
3	Average of Last Six Months	3.09%
4	Risk Premium	
5	(Line 1 minus Line 3)	8.88%
6	National Group Beta	0.77
7	National Group Beta * Risk Premium	
8	(Line 5 * Line 6)	6.83%
9	CAPM Return on Equity	
10	(Line 3 plus Line 8)	9.93%

5-Year Treasury Bond, Value Line Beta

1	Market Required Return Estimate	11.98%
2	Risk-free Rate of Return, 5-Year Treasury Bond	
3	Average of Last Six Months	1.68%
4	Risk Premium	
5	(Line 1 minus Line 3)	10.30%
6	National Group Beta	0.77
7	National Group Beta * Risk Premium	
8	(Line 5 * Line 6)	7.92%
9	CAPM Return on Equity	
10	(Line 3 plus Line 8)	9.60%

NATIONAL GROUP
Capital Asset Pricing Model Analysis
Supporting Data for CAPM Analyses

20 Year Treasury Bond Data

	Avg. Yield
April-14	3.27%
May-14	3.12%
June-14	3.15%
July-14	3.07%
August-14	2.94%
September-14	3.01%
6 month average	3.09%

5 Year Treasury Bond Data

	Avg. Yield
April-14	1.70%
May-14	1.59%
June-14	1.68%
July-14	1.70%
August-14	1.63%
September-14	1.77%
6 month average	1.68%

Value Line Market Growth Rate Data:

Forecasted Data:	
Value Line Average Growth Rates:	
Earnings	14.37%
Book Value	9.83%
Average	12.10%
Average Dividend Yield	0.78%
Estimated Market Return	12.88%
Value Line Median Growth Rates:	
Earnings	12.00%
Book Value	8.75%
Average	10.38%
Average Dividend Yield	0.78%
Estimated Market Return	11.16%
Value Line Projected 3-5 Yr. Annual Total Return	11.89%
Average of Projected Mkt. Returns	11.98%

Source: Value Line Investment Survey for Windows retreived October 15, 2014

National Group Betas:	Value Line
Ameren Corp.	0.75
American Elec Pwr	0.70
Avista Corp.	0.80
Black Hills Corp.	0.90
CMS Energy	0.75
El Paso Electric	0.70
Empire District Elec	0.65
Entergy Corp.	0.70
Great Plains Energy	0.85
Hawaiian Elec.	0.80
IDACORP, Inc.	0.80
Otter Tail Corp.	0.95
PG&E Corp.	0.65
PNM Resources	0.85
Pub Sv Enterprise Grp	0.75
SCANA Corp.	0.75
Sempra Energy	0.75
Westar Energy	0.75
Average	0.77

Source: Value Line Investment Survey

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UNITED STATES OF AMERICA
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	)	
Entergy Arkansas, Inc.	)	**Docket Nos. ER13-1508-001 *et al.***
	)	

LC-18

NATIONAL GROUP
Capital Asset Pricing Model Analysis
Historic Market Premium

	Geometric Mean	Arithmetic Mean
Long-Term Annual Return on Stocks	10.10%	12.10%
Long-Term Annual Income Return on Long-Term Government Bonds	5.30%	5.30%
Historical Market Risk Premium	4.80%	6.80%
National Group Beta, Value Line	0.77	0.77
Beta * Market Premium	3.69%	5.23%
Current 20-Year Treasury Bond Yield	3.09%	3.09%
CAPM Cost of Equity, Value Line Beta	**6.79%**	**8.33%**

Source: *Ibbotson SBBI 2014 Classic Yearbook,* Morningstar, pp. 39 - 40.

Document Content(s)

Susan J. Riggs
304.340.3867
sriggs@spilmanlaw.com

December 7, 2015

VIA HAND DELIVERY
Ms. Ingrid Ferrell
Executive Secretary
Public Service Commission of West Virginia
201 Brooks Street
Charleston, WV 25301

09:59 PM DEC 07 2015 PSC EXEC SEC DIV

Re: CASE NO. 15-1600-G-390P
HOPE GAS, INC., dba DOMINION HOPE, a public utility, Clarksburg, Harrison County
Application for Approval of a Pipeline Replacement and Expansion Program (PREP) with PREP Cost Recovery Mechanism and of an Initial PREP Rate, pursuant to W. Va. Code § 24-2-1k (Senate Bill 390)

Dear Ms. Ferrell:

Please find enclosed for filing in the above-referenced case, on behalf of the West Virginia Energy Users Group, an original and twelve (12) copies of the *"Direct Testimony and Exhibits of Richard A. Baudino."*

Please contact me if you have any questions concerning this filing.

Sincerely,

Susan J. Riggs

Susan J. Riggs (WV State Bar # 5246)
Lee F. Feinberg (WV State Bar # 1173)
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dwilliamson@spilmanlaw.com
bnaum@spilmanlaw.com

SJR.sds.8000608
Enclosures
c: Certificate of Service

CERTIFICATE OF SERVICE

I, Susan J. Riggs, counsel to the West Virginia Energy Users Group, do hereby certify that on this 7th day of December, 2015, a copy of the foregoing *"Direct Testimony and Exhibits of Richard A. Baudino"* was served upon the parties and/or counsel of record in this proceeding as follows:

VIA HAND DELIVERY

John Little, Esquire
Staff Attorney
Public Service Commission of West Virginia
201 Brooks Street
Charleston, WV 25301
Counsel for Commission Staff

VIA U.S. MAIL

Kurt L. Krieger, Esquire
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Susan J. Riggs

Susan J. Riggs (WV State Bar # 5246)

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-1600-G-390P

HOPE GAS, INC., dba DOMINION HOPE, a public utility, Clarksburg, Harrison County.

Application for Approval of a Pipeline Replacement and Expansion Program (PREP) with PREP Cost Recovery Mechanism and of an Initial PREP Rate, pursuant to W. Va. Code § 24-2-1k (Senate Bill 390).

DIRECT TESTIMONY

AND EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

DECEMBER 7, 2015

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-1600-G-390P

HOPE GAS, INC., dba DOMINION HOPE, a public utility, Clarksburg, Harrison County.

Application for Approval of a Pipeline Replacement and Expansion Program (PREP) with PREP Cost Recovery Mechanism and of an Initial PREP Rate, pursuant to W. Va. Code § 24-2-1k (Senate Bill 390).

DIRECT TESTIMONY OF RICHARD A. BAUDINO

Q. Please state your name and business address.

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

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

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

Q. Please describe your education and professional experience.

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

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

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

Exhibit No. ___(RAB-1) summarizes my expert testimony experience.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the West Virginia Energy Users Group ("WVEUG").[1]

Q. What is the purpose of your Direct Testimony?

A. The purpose of my Direct Testimony is to address the proposed rate design of Hope Gas Inc., dba Dominion Hope's ("Dominion Hope" or "Company") Pipeline Replacement and Expansion Program ("PREP").

[1] WVEUG members taking service from Hope Gas, Inc., dba Dominion Hope ("Hope Gas") include, but are not limited to, The Chemours Company, Essroc Cement Company, Novelis Corporation, and Weyerhaeuser, NR.

Q. Please summarize your recommendations to the Public Service Commission of West Virginia ("Commission").

A. First, I recommend that the Commission approve Dominion Hope's proposal to utilize a fixed charge per customer to collect the PREP revenue requirement that is ultimately approved by the Commission. A commodity-based charge is not an appropriate rate design to collect the fixed costs that would be included in the Company's PREP revenue requirement.

Second, I recommend that the Commission reject the Company's proposal to collect the entirety of its PREP costs from all customers using the allocation factors from the Company's last rate case. Instead, all costs and revenue requirements associated with Extension of Mains for Unserved Gas Sales Service Customers should be directly allocated to and collected from residential customers in Schedule RS. This is because only new residential customers will incur costs in this category and, as such, customers taking service under the Company's other rate schedules should not have to bear these costs.

Third, the Commission should limit the term of the Company's proposed PREP to five years. The parties in Mountaineer Gas Company's ("Mountaineer") recent Infrastructure Replacement and Expansion Program ("IREP") case have recommended to the Commission that a five-year term be approved for the IREP. A five-year limit on the Company's PREP would be consistent with that recommended result.

Q. Have you conducted a review of the revenue requirement associated with the Company's requested PREP?

A. No, I have not. My testimony is limited to how any PREP revenue requirement that is ultimately approved by the Commission be collected from Dominion Hope's customers.

Q. Briefly describe Dominion Hope's proposed PREP.

A. According to Dominion Hope's Program Summary Document filed as Attachment A to its Application in this case, the PREP contains the Company's plan for "replacing, upgrading, expanding, and extending the Company's natural gas pipeline infrastructure " pursuant to Senate Bill 390. Dominion Hope's PREP contains the following three major categories of program expenditures:

1. General Program Construction – Replacing, Upgrading, and Expanding.
2. Extension of Mains for Unserved Gas Sales Service Customers.
3. Existing Gas Sales Service Customer Service Piping Program ("CSPP").

On page 4 of his Direct Testimony, Company witness Kenneth Smith presented the projected annual level of PREP investment over the next 5 years. Expenditures in 2016 are expected to be $24.4 million, rising to $34.6 million in 2020. The Company's expected revenue requirement associated with its 2016 PREP investment is $1.012 million.

Q. How does the Company propose to collect the revenue requirement from its customers?

A. Dominion Hope allocated the PREP revenue requirement based on the approved rate case increases in Case No. 08-1783-G-42T. Exhibit 6A of the Company's Application shows that it proposes to collect the PREP revenue requirement through a fixed monthly charge from its customers. However, Company witness Carol Farmer testified that the Company was not opposed to collecting its PREP costs through a volumetric rate. Customer class volume rates were presented in Company Exhibit 6B.

Q. Should the Commission approve the use of a fixed charge to collect PREP costs from Dominion Hope's customers?

A. Yes. All of the costs the Company seeks to collect from customers are fixed costs, and therefore do not vary with the amount of gas consumed. As such, these costs are most appropriately recovered through a fixed monthly charge per customer.

Q. Do you agree with a volumetric charge for the collection of PREP costs?

A. No. I recommend that the Commission reject using a volumetric charge for the collection of Dominion Hope's PREP costs.

Q. Why should a volumetric charge for the PREP be rejected?

A. As I stated previously, the costs subject to collection through the PREP are all fixed costs. As such, they do not vary with gas consumption. Thus, they should not be collected in a volumetric charge.

Q. How are costs normally classified and allocated for purposes of ratemaking purposes?

A. Ratemaking begins with a class cost of service study ("CCOSS"). A CCOSS allocates and assigns the total cost of providing utility service to the classes of customers receiving that service. The development of a class cost of service study consists of three steps: functionalization, classification, and allocation.

Pursuant to the FERC Uniform System of Accounts, costs are identified and segregated into various major functional categories. For natural gas utilities such as Dominion Hope, these categories include production, storage, transmission, and distribution functions.

Once functionalization is complete, the utility's costs are classified into demand, commodity, and customer components. Demand-related costs are fixed and do not vary with the monthly and yearly gas commodity consumption by the utility's customers. These costs are driven by demands placed on the system during the winter peak period and include such items as gas main investment and expenses. Commodity-related expenses vary with the amount of gas consumed by customers and include the cost of gas and certain operation and maintenance expenses. Customer-related costs are associated with the number of customers and include items such as a portion of main investment, meters, and customer services. This general approach to the classification of costs is described more fully in the National Association of Regulatory Utility Commissioners ("NARUC") publication entitled *Gas Distribution Rate Design Manual* published

June 1989.

Q. With respect to the investments and costs being collected through the PREP, how would they be classified for purposes of a CCOSS?

A. Mains should be classified as part demand related and part customer related using either a minimum sized system or zero intercept analysis. Services are generally customer related. Measuring and regulating equipment may be classified as demand related or a combination of demand and customer related. The main point here is that none of these costs can be classified as commodity related. With this being the case, the PREP costs should not be collected from customers using a commodity charge.

Q. Would a volumetric charge for customers in the Company's larger rate classes result in intra-class inequities?

A. Yes. The problem is that high load factor customers in these classes would pay more than their fair share of costs and, conversely, lower load factor customers will pay less than their fair share. This is because high load factor customers use more Mcfs for a given level of Mcf demand than low load factor customers.

A simple example will illustrate how this inequity occurs. Assume two LGS customers with a maximum daily demand of 500 Mcfs each. Further assume that Customer 1 uses an average of 400 Mcfs per day and that Customer 2 uses an average of 200 Mcfs per day. Both have the same maximum demand (500 Mcfs), but Customer 1 has a higher load factor (80%) than Customer 2 (40%).

In terms of cost responsibility, Customers 1 and 2 have the same responsibility for Dominion Hope's demand-related PREP costs because their peak demands are the same. But since Customer 2 consumes less gas in relation to its maximum daily demand, it will pay less than its fair share of the Company's demand related PREP costs due to the use of a volumetric charge. On the flip side of the coin, Customer 1 will pay more than its fair share due to its relatively higher Mcf consumption.

Q. Should the Commission approve the Company's proposed method of allocating PREP revenue requirements to customer classes?

A. No. PREP costs associated with Category 2, Extension of Mains for Unserved Gas Sales Service Customers ("Category 2"), should be directly allocated to residential customers taking service under Schedule RS.

Q. Please explain why PREP costs associated with Extension of Mains for Unserved Gas Sales Service Customers should be directly allocated to Schedule RS customers.

A. According to Dominion Hope's filing, Schedule 4, the Company projects adding 150 new customers from Category 2 investments and all of these new customers will take service under Schedule RS. No new SGS or LGS customers would be added from any Category 2 investments. Therefore, investment and expenses incurred by Dominion Hope for adding new RS customers should be directly assigned to the RS class. Schedule SGS and LGS customers are not responsible for any Category 2 PREP costs and should not be charged for such costs.

Q. What are the 2016 investment and revenue requirement associated with the Company's Category 2 PREP costs?

A. Please refer to my Exhibit No. ___(RAB-2) for the calculation of Category 2 PREP investment and the estimated revenue requirement. Category 2 PREP investment is expected to be $4.943 million for 2016. Mr. Smith explained on page 18 of his Direct Testimony that this projected investment amount is set forth in Schedule 13, lines 3, 6, 8, and 9. I estimated the revenue requirement for Category 2 investment by applying the percentage of total expected PREP investment ($24.4 million) represented by Category 2 expected investment, which was 20.2%. Then I subtracted expected new customer revenues and added allocated income taxes. Category 2 PREP revenue requirement for 2016 is estimated at $195,975. It is this amount that should be directly allocated to Schedule RS customers.

Please note that when the yearly PREP revenue requirement is trued up the following year, the Company should use the actual revenue requirement associated with known and measureable costs and revenues associated with Category 2 PREP investment. Exhibit No. ___(RAB-2) provides an illustrative example showing how Category 2 PREP revenue requirement should be allocated and assigned to Schedule RS customers. The remainder of the yearly PREP revenue requirement, $559,478, should be allocated to all customer classes using the Company's recommended percentages from Case No. 08-1783-G-42T.

Q. Does Dominion Hope's proposed PREP have a termination date?

A. No. The Company's proposed PREP would continue indefinitely, presumably at the Company's discretion.

Q. Should the Company's proposed PREP have a termination date, or at least a defined term?

A. Yes. I recommend that the Company's PREP be limited to a 5-year term, after which it must come into the Commission for a full base rate proceeding. The problem with the Company's proposed PREP is that it could delay a full rate review by the Commission indefinitely. This is not in the best interests of the Company's ratepayers. A five-year term would be consistent with the recommendation the parties in Mountaineer's IREP case have made to the Commission. Therefore, I recommend that the Commission order Dominion Hope to limit its PREP program to five years. The Company should then be required to file a base rate proceeding during which PREP investments can be added to the Company's rate base and revenue requirements and reviewed by the Commission, its Staff, and other parties.

Q. Does this conclude your Direct Testimony?

A. Yes.

PUBLIC SERVICE COMMISSION
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CHARLESTON

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Application for Approval of a Pipeline Replacement and Expansion Program (PREP) with PREP Cost Recovery Mechanism and of an Initial PREP Rate, pursuant to W. Va. Code § 24-2-1k (Senate Bill 390).

EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

DECEMBER 7, 2015

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-1600-G-390P

HOPE GAS, INC., dba DOMINION HOPE, a public utility, Clarksburg, Harrison County.

Application for Approval of a Pipeline Replacement and Expansion Program (PREP) with PREP Cost Recovery Mechanism and of an Initial PREP Rate, pursuant to W. Va. Code § 24-2-1k (Senate Bill 390).

EXHIBIT NO. ___(RAB-1)

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

DECEMBER 7, 2015

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

Thirty-two years of experience in utility ratemaking and the application of principles of economics to the regulation of electric, gas, and water utilities. Broad based experience in revenue requirement analysis, cost of capital, rate of return, cost and revenue allocation, and rate design.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

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

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, electric and gas industry restructuring/competition and water utility issues.

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

Other Clients and Client Groups

Ad Hoc Committee for a Competitive Electric Supply System
Air Products and Chemicals, Inc.
Arkansas Electric Energy Consumers
Arkansas Gas Consumers
AK Steel
Armco Steel Company, L.P.
Assn. of Business Advocating Tariff Equity
CF&I Steel, L.P.
Climax Molybdenum Company
Cripple Creek & Victor Gold Mining Co.
General Electric Company
Holcim (U.S.) Inc.
IBM Corporation
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Lexington-Fayette Urban County Government
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Energy Group
Occidental Chemical
PSI Industrial Group
Large Power Intervenors (Minnesota)
Tyson Foods
West Virginia Energy Users Group
The Commercial Group
Wisconsin Industrial Energy Group
South Florida Hospital and Health Care Assn.
PP&L Industrial Customer Alliance
Philadelphia Area Industrial Energy Users Gp.
West Penn Power Intervenors
Duquesne Industrial Intervenors
Met-Ed Industrial Users Gp.
Penelec Industrial Customer Alliance
Penn Power Users Group
Columbia Industrial Intervenors
U.S. Steel & Univ. of Pittsburg Medical Ctr.
Multiple Intervenors
Maine Office of Public Advocate
Missouri Office of Public Counsel
University of Massachusetts - Amherst
WCF Hospital Utility Alliance
West Travis County Public Utility Agency
Steering Committee of Cities Served by Oncor

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop.	Rate design.
11/84	1833	NM	New Mexico Public Service Commission Palo Verde	El Paso Electric Co.	Service contract approval, rate design, performance standards for 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.
09/85	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, PVNGS 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.
10/87	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.

**Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
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 G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	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.
09/90	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-AIR	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.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	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 charge proposals.	Evaluation of cost allocation, rate design, rate plan, and carrying
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.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
8/94	8652	MD	Westvaco Corp. Co.	Potomac Edison	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	8629	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	8697	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 -000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
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. Intervenors	PGE Industrial	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	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 Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States,Inc.	Cost of debt.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity Assignment.
01/00	8829	MD & United States	Maryland Industrial Gr.	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	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 Commission	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	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 Commission	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 Commission	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Commission	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 Commission	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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
11/01	U-25687	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public Service Commission	Atlanta Gas Light	Capital structure.
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	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-594E	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
06/05	050045-EI	FL	South Florida Hospital and HeallthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9036	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.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116 Commission	LA	Louisiana Public Service	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327 Commission	LA	Louisiana Public Service	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	06-0960-E-42T Users Group	WV	West Virginia Energy	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112	AK	AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital
10/07	05-UR-103	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797	LA	Louisiana Public Service Commission	Cleco Power :LLC & Southwestern Electric Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR	OH	Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity
03/08	07-0585, 07-0585, 07-0587, 07-0588, 07-0589, 07-0590, (consol.)	IL	The Commercial Group	Ameren	Cost allocation, rate design
04/08	07-0566	IL	The Commercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008-2011621	PA	Columbia Industrial Intervenors	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

Expert Testimony Appearances
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Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
07/08	R-2008-2039634	PA	PPL Gas Large Users Group	PPL Gas	Retainage, LUFG Pct.
08/08	6680-UR-116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity
08/08	6690-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
10/08	R-2008-2029325	PA	U.S. Steel & Univ. of Pittsburgh Med. Ctr.	Equitable Gas Co.	Cost and revenue allocation
10/08	08-G-0609	NY	Multiple Intervenors	Niagara Mohawk Power	Cost and Revenue allocation
12/08	27800-U	GA	Georgia Public Service Commission	Georgia Power Company	CWIP/AFUDC issues, Review financial projections
03/09	ER08-1056	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Capital Structure
04/09	E002/GR-08-1065	MN	The Commercial Group	Northern States Power	Cost and revenue allocation and rate design
05/09	08-0532	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation
07/09	080677-EI	FL	South Florida Hospital and Health Care Association	Florida Power & Light	Cost of equity, capital structure, Cost of short-term debt
07/09	U-30975	LA	Louisiana Public Service Commission	Cleco LLC, Southwestern Public Service Co.	Lignite mine purchase
10/09	4220-UR-116	WI	Wisconsin Industrial Energy Group	Northern States Power	Class cost of service, rate design
10/09	M-2009-2123945	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Smart Meter Plan cost allocation
10/09	M-2009-2123944	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Company	Smart Meter Plan cost allocation
10/09	M-2009-2123951	PA	West Penn Power Industrial Intervenors	West Penn Power	Smart Meter Plan cost allocation
11/09	M-2009-2123948	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Smart Meter Plan cost allocation
11/09	M-2009-2123950	PA	Met-Ed Industrial Users Group Penelec Industrial Customer Alliance, Penn Power Users Group	Metropolitan Edison, Pennsylvania Electric Co., Pennsylvania Power Co.	Smart Meter Plan cost allocation

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
03/10	09-1352-	WV E-42T	West Virginia Energy Users Group	Monongahela Power	Return on equity, rate of return Potomac Edison
03/10	E015/GR-09-1151	MN	Large Power Intervenors	Minnesota Power	Return on equity, rate of return
04/10	2009-00459	KY	Kentucky Industrial Utility Consumers	Kentucky Power	Return on equity
04/10	2009-00548 2009-00549	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
05/10	10-0261-E-GI	WV	West Virginia Energy Users Group	Appalachian Power Co./ Wheeling Power Co.	EE/DR Cost Recovery, Allocation, & Rate Design
05/10	R-2009-2149262	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Class cost of service & cost allocation
06/10	2010-00036	KY	Lexington-Fayette Urban County Government	Kentucky American Water Company	Return on equity, rate of return, revenue requirements
06/10	R-2010-2161694	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Rate design, cost allocation
07/10	R-2010-2161575	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Return on equity
07/10	R-2010-2161592	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Cost and revenue allocation
07/10	9230	MD	Maryland Energy Group	Baltimore Gas and Electric	Electric and gas cost and revenue allocation; return on equity
09/10	10-70	MA	University of Massachusetts-Amherst	Western Massachusetts Electric Co.	Cost allocation and rate design
10/10	R-2010-2179522	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Cost and revenue allocation, rate design
11/10	P-2010-2158084	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Transmission rate design
11/10	10-0699-E-42T	WV	West Virginia Energy Users Group	Appalachian Power Co. & Wheeling Power Co.	Return on equity, rate of Return
11/10	10-0467	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation and rate design
04/11	R-2010-2214415	PA	Central Pen Gas Large Users Group	UGI Central Penn Gas, Inc.	Tariff issues, revenue allocation
07/11	R-2011-2239263	PA	Philadelphia Area Energy Users Group	PECO Energy	Retainage rate

**Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
08/11	R-2011-2232243	PA	AK Steel	Pennsylvania-American Water Company	Rate Design
08/11	11AL-151G	CO	Climax Molybdenum	PS of Colorado	Cost allocation
09/11	11-G-0280	NY	Multiple Intervenors	Corning Natural Gas Co.	Cost and revenue allocation
10/11	4220-UR-117	WI	Wisconsin Industrial Energy Group	Northern States Power	Cost and revenue allocation, rate design
02/12	11AL-947E	CO	Climax Molybdenum, CF&I Steel	Public Service Company of Colorado	Return on equity, weighted cost of capital
07/12	120015-EI	FL	South Florida Hospitals and Health Care Association	Florida Power and Light Co,	Return on equity, weighted cost of capital
07/12	12-0613-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal for Century Aluminum
07/12	R-2012-2290597	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities Corp.	Cost allocation
09/12	05-UR-106	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Class cost of service, cost and revenue allocation, rate design
09/12	2012-00221 2012-00222	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
10/12	9299	MD	Maryland Energy Group	Baltimore Gas & Electric	Cost and revenue allocation, rate design Cost of equity, weighted cost of capital
10/12	4220-UR-118	WI	Wisconsin Industrial Energy Group	Northern States Power Company	Class cost of service, cost and revenue allocation, rate design
10/12	473-13-0199	TX	Steering Committee of Cities Served by Oncor	Cross Texas Transmission, LLC	Return on equity, capital structure
01/13	R-2012-2321748 et al.	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation
02/13	12AL-1052E	CO	Cripple Creek & Victor Gold Mining, Holcim (US) Inc.	Black Hills/Colorado Electric Utility Company	Cost and revenue allocations
06/13	8009	VT	IBM Corporation	Vermont Gas Systems	Cost and revenue allocation, rate design
07/13	130040-EI	FL	WCF Hospital Utility Alliance	Tampa Electric Co.	Return on equity, rate of return
08/13	9326	MD	Maryland Energy Group	Baltimore Gas and Electric	Cost and revenue allocation, rate design, special rider

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
08/13	P-2012-2325034	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities, Corp.	Distribution System Improvement Charge
09/13	4220-UR-119	WI	Wisconsin Industrial Energy Group	Northern States Power Co.	Class cost of service, cost and revenue allocation, rate design
11/13	13-1325-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal, Felman Production
06/14	R-2014-2406274	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation, rate design
08/14	05-UR-107	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Cost and revenue allocation, rate design
10/14	ER13-1508 et al.	FERC	Louisiana Public Service Comm.	Entergy Services, Inc.	Return on equity
11/14	14AL-0660E	CO	Climax Molybdenum Co. and CFI Steel, LP	Public Service Co. of Colorado	Return on equity, weighted cost of capital
11/14	R-2014-2428742	PA	AK Steel	West Penn Power Company	Cost and revenue allocation
12/14	42866	TX	West Travis Co. Public Utility Agency	Travis County Municipal Utility District No. 12	Response to complain of monopoly power
3/15	2014-00371 2014-00372	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric, Kentucky Utilities	Return on equity, cost of debt, weighted cost of capital
3/15	2014-00396	KY	Kentucky Industrial Utility Customers	Kentucky Power Co.	Return on equity, weighted cost of capital
6/15	15-0003-G-42T	WV	West Virginia Energy Users Gp.	Mountaineer Gas Co.	Cost and revenue allocation, Infrastructure Replacement Program
8/15	44746	TX	Steering Committee of Cities Served by Oncor	Wind Energy Transmission Texas, LLC	Return on equity, capital structure, weighted cost of capital
9/15	15-0676-W-42T	WV	West Virginia Energy Users Gp.	West Virginia-American Water Company	Appropriate test year, Historical vs. Future
9/15	15-1256-G-390P	WV	West Virginia Energy Users Gp.	Mountaineer Gas Co.	Rate design for Infrastructure Replacement and Expansion Program
10/15	4220-UR-121	WI	Wisconsin Industrial Energy Gp.	Northern States Power Co.	Class cost of service, cost and revenue allocation, rate design
12/15	15-1600-G-390P	WV	West Virginia Energy Users Gp.	Dominion Hope	Rate design and allocation for Pipeline Replacement & Expansion Prog.

Expert Testimony Appearances
of
Richard A. Baudino
As of October 2015

Date	Case	Jurisdict.	Party	Utility	Subject
12/15	45188	TX	Steering Committee of Cities Served by Oncor	Oncor Electric Delivery Co.	Ring-fence protections for cost of capital

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-1600-G-390P

HOPE GAS, INC., dba DOMINION HOPE, a public utility, Clarksburg, Harrison County.

Application for Approval of a Pipeline Replacement and Expansion Program (PREP) with PREP Cost Recovery Mechanism and of an Initial PREP Rate, pursuant to W. Va. Code § 24-2-1k (Senate Bill 390).

EXHIBIT NO. ___(RAB-2)

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

DECEMBER 7, 2015

Exhibit No. ___(RAB-2)

CATEGORY 2 PREP INVESTMENT

ESTIMATED REVENUE REQUIREMENT

1	Category 2 PREP - Extension of Mains for Unserved Gas Sales Service Customers	$4,943,492
2	Total 2016 PREP Projected Investment	$24,440,273
3	Percentage of Category 2 to Total PREP Projected Investment (Line 1 divided by Line 2)	20.2%
4	Total Recoverable 2016 PREP Costs (Schedule 1, Line 3)	$758,453
5	Recoverable 2016 Category 2 Costs (Line 3 * Line 4)	$153,411
6	Less Imputed Revenue from new customers (Schedule 1, Line 4)	-$7,174
7	Total Recoverable Category 2 PREP Costs Before Income Taxes	$146,237
8	Projected Income Taxes (Line 3 * Schedule 1, Line 6)	$52,738
9	Total Recoverable Category 2 PREP Costs (Exclusive of B&O Taxes).	$198,975
10	Remaining PREP Costs Allocated to All Customer Classes	$559,478

SPILMAN THOMAS & BATTLE, PLLC
ATTORNEYS AT LAW

Susan J. Riggs
304.340.3867
sriggs@spilmanlaw.com

June 22, 2015

VIA HAND DELIVERY
Ms. Ingrid Ferrell
Executive Secretary
Public Service Commission of West Virginia
201 Brooks Street
Charleston, West Virginia 25301

03:46 PM JUN 22 2015 PSC EXEC

Re: CASE NO. 15-0003-G-42T
MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

Dear Ms. Ferrell:

Please find enclosed for filing on behalf of the West Virginia Energy Users Group an original and twelve (12) copies of the "Direct Testimony and Exhibits of Richard A. Baudino" in the above-referenced case.

Please contact me if you have any questions concerning this filing.

Sincerely,

Susan J. Riggs

Susan J. Riggs (WV State Bar #5246)
sriggs@spilmanlaw.com

Barry A. Naum
Spilman Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, PA 17050
bnaum@spilmanlaw.com

SJR.rcs.7427766
Enclosures
c: Certificate of Service

CERTIFICATE OF SERVICE

I, Susan J. Riggs, counsel to the West Virginia Energy Users Group, do hereby certify that on this 22nd day of June, 2015, a copy of the foregoing "Direct Testimony and Exhibits of Richard A. Baudino" was served upon the parties and/or counsel of record in this proceeding as follows:

VIA HAND DELIVERY

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Susan J. Riggs

Susan J. Riggs (WV State Bar #5246)

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

DIRECT TESTIMONY

AND EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

JUNE 22, 2015

**PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON**

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

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PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

DIRECT TESTIMONY OF RICHARD A. BAUDINO

I. INTRODUCTION

Q. Please state your name and business address.

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

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

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

Q. Please describe your education and professional experience.

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

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

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

Exhibit No. ___(RAB-1) summarizes my expert testimony experience.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the West Virginia Energy Users Group ("WVEUG").[1]

Q. What is the purpose of your Direct Testimony?

A. The purpose of my Direct Testimony is to address cost and revenue allocation and present my conclusions and recommendations to the Public Service Commission of West Virginia

[1] WVEUG members include: ArcelorMittal Weirton LLC; Constellium Inc.; and QuadGraphics Inc.

("PSC" or "Commission"). In so doing, I will respond to the Direct Testimony of Mountaineer Gas Company ("Mountaineer" or "Company") witness Scott Klemm.

Q. Please summarize your conclusions and recommendations to the Commission.

A. The issues I address and the positions I take can be summarized as follows:

1. I disagree with Mountaineer's use of the Seaboard method to classify and allocate costs associated with transmission and storage. I also disagree with allocating all production costs based on commodity usage. Allocating fixed costs on the basis of commodity usage, rather than class contribution to peak, assigns far too much cost responsibility to high load factor customers and fails to recognize the importance of the winter peak in allocating the costs of a gas distribution system.

2. Mountaineer's class cost of service study ("CCOSS") does not accurately reflect the earned rate of return for the Interruptible Service ("IS") and Large Interruptible Service ("LIS") classes because of a substantial amount of rate discounting in these two classes.

3. The Company's CCOSS allocates far too much cost responsibility for labor costs to the IS and LIS classes.

4. Mountaineer's proposed customer class revenue allocation should be rejected. The General Service ("GS") and Large General Service ("LGS") classes are allocated revenue increases that do not follow the results of the Company's CCOSS. I present a revised revenue allocation method based on the approved revenue allocation in the Company's 2011 rate case.

5. The Company's proposed Infrastructure Replacement Program and accompanying cost recovery mechanism should be rejected.

Q. How is the remainder of your Testimony organized?

A. Section II of my Direct Testimony will address the Company's CCOSS and revenue allocation proposal. Section III will address the Company's proposed Infrastructure Replacement Program.

II. CLASS COST OF SERVICE STUDY AND REVENUE ALLOCATION

Q. Briefly discuss the purpose and function of a class cost of service study.

A. A CCOSS allocates and assigns the total cost of providing utility service to the classes of customers receiving that service. The development of a CCOSS consists of three steps: functionalization, classification, and allocation.

Pursuant to the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts, costs are identified and segregated into various major functional categories. For natural gas utilities such as Mountaineer, these categories include production, storage, transmission, and distribution functions.

Once functionalization is complete, the utility's costs are classified into demand, commodity, and customer components. Demand-related costs are fixed and do not vary with the monthly and yearly gas commodity consumption of the utility's customers. These costs are driven by demands placed on the system during the winter peak period and include such items as gas main investment and expenses. Commodity-related expenses vary with the amount of gas consumed by customers and include the cost of gas and certain operation and maintenance expenses. Customer-related costs are associated with the number of customers and include items such as a portion of main investment, meters, and customer services. This general approach to the classification of costs is described more fully in the National Association of Regulatory Utility Commissioners ("NARUC") publication entitled *Gas Distribution Rate Design Manual* published June 1989.

Costs then are allocated to customer classes based on each class's contribution to the respective cost classifications. In general, demand costs are allocated based on each class's contribution to the total winter peak or class contribution to design day demand. Commodity costs are allocated based on each class's share of total yearly consumption, or throughput.

Customer costs are allocated based on the number of customers or, in some cases, on weighted number of customers.

Q. **In your opinion, should *any* fixed costs be classified as commodity-related in the cost of service study for a gas utility?**

A. No. Any commodity-related classification of a gas utility's fixed costs, such as transmission and distribution mains, should be classified as either demand or customer related. Peak winter demand is the primary driver of Mountaineer's investment in gas distribution facilities, particularly mains. The Company must have sufficient capacity available on its system to satisfy the peak winter heating demand. If the peak winter demand increases, the Company may need to invest in additional mains to serve the load.

During non-winter months, the situation is quite different because substantial excess capacity exists on the system. As such, use of the Company's distribution system during these months does not cause additional fixed costs to be incurred by the Company. In fact, high load factor customers provide valuable margins to the Company during off-peak months when the demands of residential heating customers are very low. Consequently, throughput, which varies substantially during the year, is not what causes Mountaineer's investment in the *fixed costs* of transmission and distribution mains.

In a similar manner to peak winter demand, if the number of customers increases, the Company may need to expand its distribution system investment. Thus, the number of customers connected to the distribution system is another important causative factor in distribution main investment.

Fixed costs that do not vary with consumption should not be classified as variable, or commodity-related, costs. Such a classification causes the allocation of costs to customer classes to be inaccurate and inequitable. For example, high load factor customers in the industrial class who use gas more evenly throughout the year are economically harmed by costing methods that classify fixed costs as commodity-related. This is because their high yearly throughput causes them to be allocated more fixed costs that are classified as variable, or commodity, related even though throughput does not drive fixed costs. Alternatively, a low load factor residential customer who uses gas mostly in the winter for heating is unduly benefitted by this approach. In this instance, the residential customer's relatively low load factor results in an allocation of fixed costs that are too low relative to the fixed costs actually caused by this customer class. Of course, this situation would also apply to low load factor commercial and industrial customers.

The NARUC *Gas Distribution Rate Design Manual*, pages 23 and 24, also states the following with respect to demand or capacity related costs:

> Demand or capacity costs vary with the quantity or size of plant and equipment. They are related to maximum system requirements which the system is designed to serve during short intervals and do not directly vary with the number of customers or their annual usage. Included in these costs are: the capital costs associated with production, transmission and storage plant and their related expenses; the demand cost of gas; and most of the capital costs and expenses associated with that part of distribution plant not allocated to

customer costs, such as the costs associated with distribution mains in excess of the minimum size.

Q. **Did you review Mountaineer's CCOSS?**

A. Yes, I did.

Q. **Does Mountaineer's CCOSS classify and allocate a portion of the fixed costs of its system on the basis of commodity usage?**

A. Yes. On page 51 of his Direct Testimony, Mr. Klemm testified that the Company used the Seaboard Formula in its CCOSS. This formula allocates half of the fixed costs of transmission and storage based on yearly commodity usage and half of the fixed costs based on demand. Production costs are assigned to the commodity component of the rates.

Q. **Do you agree with the use of the Seaboard Formula?**

A. I do not agree with the Seaboard Formula for all of the reasons I discussed above. Although I have not prepared an alternative CCOSS, the Commission should be mindful of the disproportionate impacts caused by the use of the Seaboard Formula in evaluating revenue allocation issues. Ultimately, the use of the Seaboard Formula has the effect of allocating too much cost responsibility for larger, higher load factor customers.

Q. **Are there any other issues you identified with the Company's CCOSS of which the Commission should be aware?**

A. Yes.

First and foremost, the class rates of return for the IS and LIS classes are meaningless and should not be relied upon to guide revenue allocation in this proceeding. For example, in Mountaineer's Historical Test Year, Volume 1, Statement E, Schedule 2 the current rates of return for IS and LIS are -115.49% and -119.06%, respectively. These negative rates of return are primarily driven by a substantial amount of rate discounting associated with special contracts. For the IS class, the high negative rate of return is in no way indicative of the current rate of return for the full tariff customers in that class.

Second, the Labor allocator used by the Company in its CCOSS fails to track cost responsibility for the IS class. Table 1 below presents a comparison of Mountaineer's Labor allocator with other plant and O&M allocators for the IS class. I also calculated IS's share of non-gas revenues from Volume 1, Statement E, Schedule 5.

TABLE 1

IS Class Percentages

Total Plant	1.73%
Rate Base	1.57%
O & M	2.13%
O&M - A&G	0.78%
Non-Gas Revenues	0.85%
Labor	***11.06%***

The Company relied on a 50% volumetric allocation of its labor costs in the development of its Labor allocator. However, this allocation fails to track the allocation of plant, rate base, O&M, and A&G expenses. The Company provided no basis for allocating labor costs using an allocator that provides a 50% weighting to total volumes. In my opinion, the Company's Labor allocator assigns excessive cost responsibility for labor costs to the IS class. This also contributed to the low class rate of return in the Company's CCOSS.

Q. On page 53 of his Direct Testimony, Mr. Klemm presented his recommended class revenue allocation in this proceeding. Do you agree with Mr. Klemm's revenue allocation proposal?

A. No. Mr. Klemm's revenue allocation proposal does not follow the results of his CCOSS and allocates too much of the Company's proposed revenue increase to the GS and LGS classes.

Please refer to Exhibit No. ____(RAB-2), which presents an analysis of Mountaineer's proposed class revenue increases as well as WVEUG's proposed class revenue increases for the historical test year. Lines 1 through 7 of this exhibit were taken from Volume 1, Statement E, Schedule 2. Line 7 shows the current class rates of return from the Company's CCOSS. Note that the GS and LGS classes have by far the highest current rates of return, with the LGS class's rate of return standing at 59.37%.

In order to evaluate the reasonableness of Mr. Klemm's revenue allocation proposal, one must first remove transportation special contract revenues that are not subject to revenue increases as well as the cost of gas for the sales gas customers.[2] Then Mr. Klemm's proposed class revenue increases may be applied to base sales revenues to determine whether or not these increases are consistent with the results of his CCOSS. Line 8 of Exhibit No. ___(RAB-2) presents base sales revenues less transportation special contract revenues. These revenue numbers were taken from Statement D. Line 9 presents the Company's class revenue increases, also from Statement D. Line 10 shows the percentage of the Company's total revenue increase in the historical test year that was applied to each class. Line 11 presents the percentage increases to base sales revenues that result from Mr. Klemm's revenue allocation. Table 2 below presents the current class rates of return from the Company's CCOSS and Mr. Klemm's proposed percentage increases to class base sales revenues.

TABLE 2

Current Class Rates of Return & Mountaineer Proposed Increases

Rate Class	Class ROR	Pct. Increase
RS	6.29%	8.9%
GS	12.90%	8.9%
LGS	59.37%	6.5%
IS	-115.49%	9.2%
LIS	-119.06%	0.0%
WS	-19.86%	9.5%
Total	5.44%	8.9%

[2] Mountaineer did increase customer charges for transportation special contracts, but not volumetric charges. This resulted in a small amount of revenue increases for those customers.

With the exception of LGS, the Company's proposed percentage increases are fairly similar.

Q. Based on the results of the Company's CCOSS, do you agree with Mr. Klemm's proposed revenue increase distribution?

A. No. The GS and LGS classes receive increases that are too high based on their CCOSS rates of return. The return for the LGS class is so excessive, in fact, that LGS customers should receive a rate reduction, rather that an increase that is less than system average. At a minimum, the LGS class should receive little or no increase in this proceeding and the GS class should receive a lower increase than Mr. Klemm proposed.

Q. What is your proposed class revenue increase proposal?

A. I recommend a class revenue allocation similar to the allocation that was approved in Mountaineer's 2011 rate case and shown on page 53 of Mr. Klemm's Direct Testimony. I would modify this allocation to increase the WS class's share to 0.4% and reduce the LGS class's share to 0.3%. Table 3 below summarizes my revenue allocation recommendation. The detailed calculations are shown in Exhibit No. ___(RAB-2).

TABLE 3

WVEUG Class Pct. Revenue Allocation And Proposed Increases

Rate Class	Class % Alloc.	Pct. Increase
RS	74.5%	9.8%
GS	24.4%	7.1%
LGS	0.3%	1.6%
IS	0.4%	8.4%
LIS	0.0%	0.0%
WS	0.4%	8.6%
Total	100.00%	8.9%

WVEUG's class revenue allocation proposal more closely follows the results of the Company's CCOSS. Since the IS class rate of return is unduly influenced by special contract revenues and a highly questionable allocation of labor costs, its rate of return cannot be counted on to guide revenue allocation. Thus, an allocation similar to what the Commission approved in Mountaineer's 2011 rate case is reasonable and appropriate.

Please note that the percentage increases are based on Mountaineer's requested increase for the historical test year. I recommend that the Commission apply the WVEUG recommended allocation percentages shown on Table 3 in its final revenue requirement determination in this proceeding.

III. INFRASTRUCTURE REPLACEMENT PROGRAM

Q. Briefly describe Mountaineer's proposed Infrastructure Replacement Program ("IRP").

A. The basic outline of Mountaineer's proposed IRP is contained in the Direct Testimony of Ms. Dale Parris beginning on page 7. Ms. Parris testified that the purpose of the Company's proposed IRP and accompanying cost recovery mechanism is to recover the costs of "aging infrastructure." According to Ms. Parris, the level of infrastructure replacement will not generate any additional revenue. Ms. Parris testified that if the Commission accepts the Company's proposed future test year, the IRP would begin operating on January 1, 2017. The proposed IRP cost recovery mechanism would permit the Company to recover revenues to cover the cost of infrastructure investment at the beginning of each investment year and would also include a true-up mechanism that would match revenues collected with the costs incurred by the Company.

Q. Did Ms. Parris or other Company witness describe the costs that would be included in the IRP cost recovery mechanism or how the mechanism would be structured to collect those costs from customers?

A. No. The Company did describe the cost components of the proposed IRP cost recovery mechanism in response to WVEUG's First Request for Information, Request No. 9. I have included this response as Exhibit No. ___(RAB-3). According to this response, the costs included would be return on the projected 13-month average of the qualifying capital expenditures, depreciation expense, property tax expense, state and federal income tax expense, bad debt expense, and state business and occupation tax expense. The Company noted that since its filing, the West Virginia legislature approved Senate Bill ("SB") 390 that "has many similarities to the program outlined by the Company." Unfortunately, Mountaineer provided little description or outline of the proposed IRP in either its filing or testimony.

Q. Did Ms. Parris or any other Company witness provide a proposed tariff for the IRP?

A. No. Mountaineer did not provide an IRP tariff in its rate filing. The Company did state in response to discovery from WVEUG that it would be proposing a new tariff schedule when it makes its formal IRP filing pursuant to SB 390. Please refer to Exhibit No. ___(RAB-3) for the Company's response.

Q. How would the proposed IRP be collected from its customers?

A. Once again, the Company did not provide any specifics in its prefiled Direct Testimony on how the costs included in the IRP would be collected from customers. In response to WVEUG's First Request for Information, Request No. 9, the Company stated that the cost recovery mechanism would be a fixed monthly amount and be allocated "similar to base rates."

Q. Should the Commission approve Mountaineer's proposed IRP in this proceeding?

A. No. Most importantly, the Company failed to provide an actual tariff that the parties and Commission could fully review for reasonableness, including how such a tariff would comport with SB 390. In fact, Mountaineer's response to the Consumer Advocate Division's ("CAD") Fifth Request for Information, Request No. A-20, suggests that the Company has not evaluated whether its proposed IRP complies with SB 390. Please refer to Exhibit No. ____(RAB-4), which includes a copy of the referenced discovery response.

Q. Does the Company's proposed IRP provide any way to audit the costs collected through the IRP for reasonableness?

A. No, it does not. The Company's proposed IRP does not provide any way for the Commission or the parties to review IRP costs for reasonableness and/or prudence.

Q. Should Mountaineer's proposed IRP and accompanying cost recovery mechanism be rejected?

A. Yes.

Q. Does this conclude your Direct Testimony?

A. Yes.

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

JUNE 22, 2015

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

EXHIBIT NO. ___(RAB-1)

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

JUNE 22, 2015

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

Thirty-two years of experience in utility ratemaking and the application of principles of economics to the regulation of electric, gas, and water utilities. Broad based experience in revenue requirement analysis, cost of capital, rate of return, cost and revenue allocation, and rate design.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

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

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, electric and gas industry restructuring/competition and water utility issues.

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

Other Clients and Client Groups

Ad Hoc Committee for a Competitive Electric Supply System
Air Products and Chemicals, Inc.
Arkansas Electric Energy Consumers
Arkansas Gas Consumers
AK Steel
Armco Steel Company, L.P.
Assn. of Business Advocating Tariff Equity
CF&I Steel, L.P.
Climax Molybdenum Company
Cripple Creek & Victor Gold Mining Co.
General Electric Company
Holcim (U.S.) Inc.
IBM Corporation
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Lexington-Fayette Urban County Government
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Energy Group
Occidental Chemical
PSI Industrial Group
Large Power Intervenors (Minnesota)
Tyson Foods
West Virginia Energy Users Group
The Commercial Group
Wisconsin Industrial Energy Group
South Florida Hospital and Health Care Assn.
PP&L Industrial Customer Alliance
Philadelphia Area Industrial Energy Users Gp.
West Penn Power Intervenors
Duquesne Industrial Intervenors
Met-Ed Industrial Users Gp.
Penelec Industrial Customer Alliance
Penn Power Users Group
Columbia Industrial Intervenors
U.S. Steel & Univ. of Pittsburg Medical Ctr.
Multiple Intervenors
Maine Office of Public Advocate
Missouri Office of Public Counsel
University of Massachusetts - Amherst
WCF Hospital Utility Alliance
West Travis County Public Utility Agency

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015

Date	Case	Jurisdict.	Party	Utility	Subject
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop.	Rate design.
11/84	1833	NM	New Mexico Public Service Commission Palo Verde	El Paso Electric Co.	Service contract approval, rate design, performance standards for 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.
09/85	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, PVNGS 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.
10/87	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.

**Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
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 G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	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.
09/90	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-AIR	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.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.

**Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	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 charge proposals.	Evaluation of cost allocation, rate design, rate plan, and carrying
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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
8/94	8652	MD	Westvaco Corp. Co.	Potomac Edison	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	8629	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	8697	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 -000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	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.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015

Date	Case	Jurisdict.	Party	Utility	Subject
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. Intervenors	PGE Industrial	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	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 Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States,Inc.	Cost of debt.

**Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity Assignment.
01/00	8829	MD & United States	Maryland Industrial Gr.	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	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 Commission	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	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 Commission	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 Commission	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Commission	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 Commission	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.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015

Date	Case	Jurisdict.	Party	Utility	Subject
11/01	U-25687	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public Service Commission	Atlanta Gas Light	Capital structure.
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	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-594E	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
06/05	050045-EI	FL	South Florida Hospital and HeallthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9036	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.

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015

Date	Case	Jurisdict.	Party	Utility	Subject
03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	*U-25116* Commission	*LA*	*Louisiana Public Service*	*Entergy Louisiana, LLC*	*Transmission Issues*
07/06	U-23327 Commission	LA	Louisiana Public Service	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	06-0960-E-42T Users Group	WV	West Virginia Energy	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112	AK	AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital
10/07	05-UR-103	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797	LA	Louisiana Public Service Commission	Cleco Power :LLC & Southwestern Electric Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR	OH	Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity
03/08	07-0585, 07-0585, 07-0587, 07-0588, 07-0589, 07-0590, (consol.)	IL	The Commercial Group	Ameren	Cost allocation, rate design
04/08	07-0566	IL	The Commercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008-2011621	PA	Columbia Industrial Intervenors	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

**Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
07/08	R-2008-2039634	PA	PPL Gas Large Users Group	PPL Gas	Retainage, LUFG Pct.
08/08	6680-UR-116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity
08/08	6690-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
10/08	R-2008-2029325	PA	U.S. Steel & Univ. of Pittsburgh Med. Ctr.	Equitable Gas Co.	Cost and revenue allocation
10/08	08-G-0609	NY	Multiple Intervenors	Niagara Mohawk Power	Cost and Revenue allocation
12/08	27800-U	GA	Georgia Public Service Commission	Georgia Power Company	CWIP/AFUDC issues, Review financial projections
03/09	ER08-1056	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Capital Structure
04/09	E002/GR-08-1065	MN	The Commercial Group	Northern States Power	Cost and revenue allocation and rate design
05/09	08-0532	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation
07/09	080677-EI	FL	South Florida Hospital and Health Care Association	Florida Power & Light	Cost of equity, capital structure, Cost of short-term debt
07/09	U-30975	LA	Louisiana Public Service Commission	Cleco LLC, Southwestern Public Service Co.	Lignite mine purchase
10/09	4220-UR-116	WI	Wisconsin Industrial Energy Group	Northern States Power	Class cost of service, rate design
10/09	M-2009-2123945	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Smart Meter Plan cost allocation
10/09	M-2009-2123944	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Company	Smart Meter Plan cost allocation
10/09	M-2009-2123951	PA	West Penn Power Industrial Intervenors	West Penn Power	Smart Meter Plan cost allocation
11/09	M-2009-2123948	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Smart Meter Plan cost allocation
11/09	M-2009-2123950	PA	Met-Ed Industrial Users Group Penelec Industrial Customer Alliance, Penn Power Users Group	Metropolitan Edison, Pennsylvania Electric Co., Pennsylvania Power Co.	Smart Meter Plan cost allocation

**Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
03/10	09-1352-	WV E-42T	West Virginia Energy Users Group	Monongahela Power	Return on equity, rate of return Potomac Edison
03/10	E015/GR- 09-1151	MN	Large Power Intervenors	Minnesota Power	Return on equity, rate of return
04/10	2009-00459	KY	Kentucky Industrial Utility Consumers	Kentucky Power	Return on equity
04/10	2009-00548 2009-00549	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
05/10	10-0261-E-GI	WV	West Virginia Energy Users Group	Appalachian Power Co./ Wheeling Power Co.	EE/DR Cost Recovery, Allocation, & Rate Design
05/10	R-2009-2149262	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Class cost of service & cost allocation
06/10	2010-00036	KY	Lexington-Fayette Urban County Government	Kentucky American Water Company	Return on equity, rate of return, revenue requirements
06/10	R-2010-2161694	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Rate design, cost allocation
07/10	R-2010-2161575	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Return on equity
07/10	R-2010-2161592	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Cost and revenue allocation
07/10	9230	MD	Maryland Energy Group	Baltimore Gas and Electric	Electric and gas cost and revenue allocation; return on equity
09/10	10-70	MA	University of Massachusetts-Amherst	Western Massachusetts Electric Co.	Cost allocation and rate design
10/10	R-2010-2179522	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Cost and revenue allocation, rate design
11/10	P-2010-2158084	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Transmission rate design
11/10	10-0699-E-42T	WV	West Virginia Energy Users Group	Appalachian Power Co. & Wheeling Power Co.	Return on equity, rate of Return
11/10	10-0467	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation and rate design
04/11	R-2010-2214415	PA	Central Pen Gas Large Users Group	UGI Central Penn Gas, Inc.	Tariff issues, revenue allocation
07/11	R-2011-2239263	PA	Philadelphia Area Energy Users Group	PECO Energy	Retainage rate

Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015

Date	Case	Jurisdict.	Party	Utility	Subject
08/11	R-2011-2232243	PA	AK Steel	Pennsylvania-American Water Company	Rate Design
08/11	11AL-151G	CO	Climax Molybdenum	PS of Colorado	Cost allocation
09/11	11-G-0280	NY	Multiple Intervenors	Corning Natural Gas Co.	Cost and revenue allocation
10/11	4220-UR-117	WI	Wisconsin Industrial Energy Group	Northern States Power	Cost and revenue allocation, rate design
02/12	11AL-947E	CO	Climax Molybdenum, CF&I Steel	Public Service Company of Colorado	Return on equity, weighted cost of capital
07/12	120015-EI	FL	South Florida Hospitals and Health Care Association	Florida Power and Light Co,	Return on equity, weighted cost of capital
07/12	12-0613-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal for Century Aluminum
07/12	R-2012-2290597	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities Corp.	Cost allocation
09/12	05-UR-106	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Class cost of service, cost and revenue allocation, rate design
09/12	2012-00221 2012-00222	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
10/12	9299	MD	Maryland Energy Group	Baltimore Gas & Electric	Cost and revenue allocation, rate design Cost of equity, weighted cost of capital
10/12	4220-UR-118	WI	Wisconsin Industrial Energy Group	Northern States Power Company	Class cost of service, cost and revenue allocation, rate design
10/12	473-13-0199	TX	Steering Committee of Cities Served by Oncor	Cross Texas Transmission, LLC	Return on equity, capital structure
01/13	R-2012-2321748 et al.	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation
02/13	12AL-1052E	CO	Cripple Creek & Victor Gold Mining, Holcim (US) Inc.	Black Hills/Colorado Electric Utility Company	Cost and revenue allocations
06/13	8009	VT	IBM Corporation	Vermont Gas Systems	Cost and revenue allocation, rate design
07/13	130040-EI	FL	WCF Hospital Utility Alliance	Tampa Electric Co.	Return on equity, rate of return
08/13	9326	MD	Maryland Energy Group	Baltimore Gas and Electric	Cost and revenue allocation, rate design, special rider

**Expert Testimony Appearances
of
Richard A. Baudino
As of June 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
08/13	P-2012-2325034	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities, Corp.	Distribution System Improvement Charge
09/13	4220-UR-119	WI	Wisconsin Industrial Energy Group	Northern States Power Co.	Class cost of service, cost and revenue allocation, rate design
11/13	13-1325-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal, Felman Production
06/14	R-2014-2406274	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation, rate design
08/14	05-UR-107	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Cost and revenue allocation, rate design
10/14	ER13-1508 et al.	FERC	Louisiana Public Service Comm.	Entergy Services, Inc.	Return on equity
11/14	14AL-0660E	CO	Climax Molybdenum Co. and CFI Steel, LP	Public Service Co. of Colorado	Return on equity, weighted cost of capital
11/14	R-2014-2428742	PA	AK Steel	West Penn Power Company	Cost and revenue allocation
12/14	42866	TX	West Travis Co. Public Utility Agency	Travis County Municipal Utility District No. 12	Response to complain of monopoly power
3/15	2014-00371 2014-00372	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric, Kentucky Utilities	Return on equity, cost of debt, weighted cost of capital
3/15	2014-00396	KY	Kentucky Industrial Utility Customers	Kentucky Power Co.	Return on equity, weighted cost of capital
6/15	15-0003-G-42T	WV	West Virginia Energy Users Gp.	Mountaineer Gas Co.	Cost and revenue allocation, Infrastructure Replacement Program

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

EXHIBIT NO. ___(RAB-2)

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

JUNE 22, 2015

Exhibit No. ___(RAB-2)

WEST VIRGINIA ENERGY USERS GROUP
RECOMMENDED CLASS REVENUE ALLOCATION

Line No.		Total	RS	GS	LGS	IS	LIS	WS
1	Revenues	$ 257,910,736	$ 166,059,753	$ 81,781,363	$ 5,777,050	$ 1,270,464	$ 554,724	$ 2,467,380
2	O&M Expenses	$ 212,204,561	$ 133,507,465	$ 65,275,478	$ 4,242,531	$ 4,511,453	$ 2,131,588	$ 2,536,045
3	D&A Expenses	11,792,218	8,491,246	2,973,671	53,717	116,799	57,710	99,075
4	Other Taxes	20,139,180	13,274,033	5,837,878	317,876	350,554	167,467	191,372
5	Income Taxes	2,498,029	1,736,340	657,742	23,153	39,137	18,442	23,214
5	Net Operating Income	$ 11,276,748	$ 9,050,668	$ 7,036,594	$ 1,139,772	$ (3,747,479)	$ (1,820,484)	$ (382,326)
6	Rate Base	$ 207,116,481	$ 143,963,387	$ 54,534,699	$ 1,919,655	$ 3,244,926	$ 1,529,061	$ 1,924,752
7	Rate of Return	5.44%	6.29%	12.90%	59.37%	-115.49%	-119.06%	-19.86%
8	Base Revs. Less Transportation Special Contracts	$ 102,609,946	$ 68,878,370	$ 31,196,433	$ 1,693,646	$ 432,269		$ 409,228
9	Mountaineer Proposed Revenue Increase	$ 9,104,038	$ 6,144,233	$ 2,770,171	$ 109,829	$ 39,824		$ 39,981
10	Mountaineer Proposed Allocation Pct., Excluding Special Contracts		67.5%	30.4%	1.2%	0.4%		0.4%
11	Base Sales Revenues Percentage Increase	8.9%	8.9%	8.9%	6.5%	9.2%		9.8%
12	WVEUG Recommended Proposed Allocation Pct, Excluding Special Contracts	100.0%	74.5%	24.4%	0.3%	0.4%	0.0%	0.4%
13	WVEUG Recommended $ Increases	$ 9,104,038	$ 6,782,508	$ 2,221,385	$ 27,312	$ 36,416		$ 36,416
14	WVEUG Recommended Percentage Increases, Base Sales Revenues	8.9%	9.8%	7.1%	1.6%	8.4%		8.9%

Sources: Volume 1: Statement D; Statement E, Schedule 2

Note that special contracts GS, IS, and LGS sales gas customers were included since Mountaineer applied revenue increases to those customers.
Also, please note that Mountaineer did apply increases to the customer charges for transportation special contracts, but not the volumetric charges.

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

EXHIBIT NO. ___(RAB-3)

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

JUNE 22, 2015

MOUNTAINEER GAS COMPANY
CASE NO. 15-0003-G-42T
WEST VIRGINIA ENERGY USERS GROUP'S
FIRST REQUEST FOR INFORMATION

Prepared by: Scott F. Klemm, Vice President of Finance and Treasurer

Date Prepared: May 5, 2015

Responsible Case Witness: Scott Klemm

Request No. 9:

Reference the Direct Testimony of Dale L. Parris at pages 8-13 discussing the proposed "Infrastructure Replacement Program Surcharge".

a. Please provide a detailed explanation of the rate structure and rate design that the Company proposes for the "Infrastructure Replacement Program Surcharge", including an explanation of the specific items and cost components that would be included in the surcharge.

b. Please provide a detailed explanation of how the proposed "Infrastructure Replacement Program Surcharge" would be developed and applied to customers.

c. Please provide a detailed explanation of the Company's proposed allocation of "Infrastructure Replacement Program Surcharge" costs among the various customer classes, with all formulas, calculations, and allocation factors used by the Company for each rate schedule.

d. Please explain whether the Company is proposing a new tariff schedule for this Infrastructure Replacement Program. If the answer to this question is "yes" please provide the proposed tariff schedule.

MOUNTAINEER GAS COMPANY
CASE NO. 15-0003-G-42T
WEST VIRGINIA ENERGY USERS GROUP'S
FIRST REQUEST FOR INFORMATION

Prepared by: Scott F. Klemm, Vice President of Finance and Treasurer

Date Prepared: May 5, 2015

Responsible Case Witness: Scott Klemm

Response No. 9:

a. The Company proposes that the surcharge be a fixed monthly amount and be allocated similar to base rates, absent a compelling justification for a different allocation methodology. The cost components would include a return on the projected 13-month average of the qualifying capital expenditures, depreciation expense, property tax expense, state and federal income tax expense, bad debt expense, and state business and occupation tax expense. The program would include a comparison of revenues received to the actual costs; any difference would result in either a regulatory liability or asset that would need to be refunded or recovered, respectively. There will be no recovery component for any investment in the IRP surcharge that is included in base rates

   Since the Company submitted its filing in January, the West Virginia legislature approved Senate Bill 390 that has many similarities to the program outlined by the Company in its filing. Senate Bill 390 was approved by Governor Tomblin, and the law becomes effective June 11, 2015. Before a natural gas utility can implement a surcharge for any replacements, upgrades, or expansion of its infrastructure, the program must be approved by the Public Service Commission of West Virginia.

b. See response to subpart (a) above.

c. See response to subpart (a) above. Specific allocations will be included in the Company's IRP filing. See Ms. Parris's direct testimony at p. 10, lines 1-3.

d. The Company will be proposing a new tariff schedule for the IRP surcharge when it makes its formal IRP filing pursuant to SB 390. The Company has not prepared this tariff schedule at this time.

PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON

CASE NO. 15-0003-G-42T

MOUNTAINEER GAS COMPANY
Rule 42T application to increase rates and charges

EXHIBIT NO. ___(RAB-4)

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE WEST VIRGINIA ENERGY USERS GROUP

J. KENNEDY AND ASSOCIATES, INC.

JUNE 22, 2015

MOUNTAINEER GAS COMPANY
CASE NO. 15-0003-G-42T
CONSUMER ADVOCATE DIVISION'S
FIFTH REQUEST FOR INFORMATION

Prepared by: Scott F. Klemm, Vice President of Finance and Treasurer

Date Prepared: May 4, 2015

03:03 PM MAY 05 2015 PSC EXEC SEC DIV

Responsible Case Witness: Scott Klemm

Request No. A-20:

On March 24, 2015, Gov. Tomblin signed into law Senate Bill 390, §24-2-1K, *Natural gas infrastructure expansion, development improvement and job creation; findings; expedited process; requirements; rulemaking.* Generally, this new statute provides for expedited recovery of infrastructure replacement, upgrades and extensions, including what appears to be future test year treatment. Section (c) of this provision sets out the requirements, including description, net costs on an annual basis, starting date, cost of debt, supporting testimony, etc.

a. Please explain fully and in detail whether and to what extent the Company has complied with the specific provisions of Section C as well as all of the other provisions of this statute with respect to its requested $9.111 million HTY revenue requirement.

b. Please explain fully and in detail whether and to what extent the Company has complied with the specific provisions of Section C as well as all of the other provisions of this statute with respect to its additional requested $3.057 million FTY revenue requirement.

c. Please explain fully and in detail why the Company needs a future test year in the current rate case, given the passage of Senate Bill 390.

d. Referring to Section (g) of Senate Bill 390, please explain fully and in detail the anticipated accounting accruals (debits and credits) that will be necessary to establish a regulatory asset or regulatory liability through which actual incremental costs incurred and/or recovered through the proposed Infrastructure Replacement Program surcharge would be tracked.

e. Please quantify and explain fully and in detail the going-level O&M expenses that are related to the Infrastructure Replacement Program, which are included in the Company's requested $9.111 million HTY revenue

MOUNTAINEER GAS COMPANY
CASE NO. 15-0003-G-42T
CONSUMER ADVOCATE DIVISION'S
FIFTH REQUEST FOR INFORMATION

Prepared by: Scott F. Klemm, Vice President of Finance and Treasurer

Date Prepared: May 4, 2015

Responsible Case Witness: Scott Klemm

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requirement that could be deferred for future recovery pursuant to Section (h) of Senate Bill 390. Show detailed calculations.

f. Please quantify and explain fully and in detail the going-level O&M expenses that are related to the Infrastructure Replacement Program, which are included in the Company's additional requested $3.057 million FTY revenue requirement that could be deferred for future recovery pursuant to Section (h) of Senate Bill 390. Show detailed calculations.

g. Please quantify and explain fully and in detail the projected level of costs related to the Infrastructure Replacement Program that are normally recovered through base rates (Rule 42T filings), but that the Company now proposes will be recovered through the proposed Infrastructure Replacement Program surcharge.

Response No. A-20:

a. The Company's filing of its Rule 42 Exhibit and supplement presentations was made on January 5, 2015 and without any knowledge of any potential legislation that would eventually result in the language contained in Senate Bill 390. The 2015 legislative session did not begin until January 14, 2015.

b. Not applicable. See response to "a" above.

c. The current historical test year approach with adjustments for known and measurable does not accurately reflect the costs and the investment that a utility will incur during the first twelve months that new rates become effective (i.e., the rate year). The future test year approach reduces this "regulatory lag" and allows the utility a reasonable opportunity to earn its authorized rate of return.

Senate Bill 390 appears to address prospective infrastructure replacement and expansion expenditures. Although the bill was signed by Governor Tomblin on March 24, 2015, it does not become law until June 11th. Even if

MOUNTAINEER GAS COMPANY
CASE NO. 15-0003-G-42T
CONSUMER ADVOCATE DIVISION'S
FIFTH REQUEST FOR INFORMATION

Prepared by: Scott F. Klemm, Vice President of Finance and Treasurer

Date Prepared: May 4, 2015

Responsible Case Witness: Scott Klemm

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the Company made a filing with the Public Service Commission in June, the earliest that a program could be established, approved, and implemented would likely be January 1, 2016. Thus, the traditional approach of a historical year with known and measurables would prevent the Company from earning a return ***of*** and a return ***on*** its 2015 investment in plant.

d. Upon implementation of the surcharge which the Company assumes will be a fixed amount, the Company will start to bill its customers the Commission-approved rates by class. Each month, the Company will compare the actual surcharge revenues to the costs that are recoverable in this program. These costs will include a return on the qualifying capital expenditure, depreciation expense (i.e., return of the expenditure), property tax expense, and state and federal income tax expense. To the extent that the revenues exceed such costs, a regulatory liability would be established with an offsetting debit to an infrastructure expense account. The cumulative regulatory liability (or asset) for the year would be refunded (or billed) as a true-up component in the surcharge in the following year. The mechanics would be very similar to the over or under-recovery of gas costs by comparing actual PGA revenues to actual gas costs.

e. None.

f. None. This section is referring to incremental operation and maintenance expenditures due to new or enhanced regulatory and/or compliance-related requirements. For example, if natural gas utilities would be required to perform a leak survey on their entire pipe each year rather than the current three-year interval, the Company would have to hire additional staff and/or outsource some of this work to third-party contractors. Under this scenario, the Company would be allowed to defer such costs and seek recovery in a future rate case.

g. The Infrastructure Replacement Program proposed by the Company in its filing is different from the program approved in Senate Bill 390. The Company believes the Infrastructure Replacement Program should be based

MOUNTAINEER GAS COMPANY
CASE NO. 15-0003-G-42T
CONSUMER ADVOCATE DIVISION'S
FIFTH REQUEST FOR INFORMATION

Prepared by: Scott F. Klemm, Vice President of Finance and Treasurer

Date Prepared: May 4, 2015

Responsible Case Witness: Scott Klemm

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on Senate Bill 390. All of the qualifying projected costs related to the Infrastructure Replacement Program would be recovered through the Infrastructure Replacement Program surcharge. The surcharge would increase every year as long as the program continues and is approved by the Commission. However, the Commission and the Company would need to determine if the surcharge would be reset with its next rate case or not.

See attached document labeled CAD 5-A-20 Attachment 1 which assumes the annual qualifying infrastructure expenditures are $18 million and are incurred evenly throughout the year. Based on the assumptions, incremental revenues of approximately $1.6 million and $4.6 million would be recovered in 2017 and 2018, respectively, through the proposed Infrastructure surcharge. Of course, the specific details of the financial model and assumptions will need to be approved by the Commission and may differ from the assumptions used in the attachment.

MOUNTAINEER GAS COMPANY
Revenue Requirement - Infrastructure Replacement Program
12 Months Ended December 31, 2017

Line		2017	2018
1	Going-Level Rate Base	$ 9,000,000	$ 27,000,000
2	Return on Rate Base - %	8.552%	8.552%
3	Return on Rate Base - $	$ 769,680	$ 2,309,040
4	Add Back:		
5	O&M Expense	-	-
6	Depreciation	202,500	607,500
7	State Personal Property	276,067	552,135
8	State Income Taxes (See Page 2)	48,321	144,963
9	Federal Income Taxes (See Page 2)	243,277	729,831
10	Revenue Requirement	$ 1,539,845	$ 4,343,469
11	Going Level Revenues	-	-
12	Pro-Forma Revenues Grossed-up for Income Taxes	$ 1,539,845	$ 4,343,469
13	Gross-up factor for B&O Taxes	95.71%	95.71%
14	Pro-Forma Revenues Grossed-up for Income and B&O Taxes	$ 1,608,865	$ 4,538,156
15	Gross-up factor for uncollectible expense	98.8809%	98.8809%
16	Pro-Forma Revenue Requirement Income Including Uncollectibles, Taxes, and B&O Taxes	$ 1,627,074	$ 4,589,517
	Pro-forma Bad Debt Expense:		
17	Total Gross Revenue Amount per Line 16	$ 1,627,074	$ 4,589,517
18	Pro-forma Revenues Gross-up for Income and B&O Taxes (Line 14)	1,608,865	4,538,156
19	Pro-forma Bad Debt Expense Adjustment	$ 18,209	$ 51,361
	Pro-forma State B&O Tax Expense:		
20	Pro-forma Revenues Gross-up for Income and B&O Taxes (Line 14)	$ 1,608,865	$ 4,538,156
21	Pro-forma Revenues Gross-up for Income Taxes (Line 12)	1,539,845	4,343,469
22	Pro-forma State B&O Tax Expense Adjustment	$ 69,020	$ 194,687

NOTE: This schedule calculates the Pro-forma Revenue adjustment, Federal and State Income Taxes, the Pro-forma Bad Debt expense, and the Pro-forma State B&O Tax expense.

MOUNTAINEER GAS COMPANY
Adjust for the Calculation of Infrastructure Replacement Revenues
Calculation of Federal and State Income Tax Expense
12 Months Ended December 31, 2017

Line		2017	2018
	FEDERAL TAX:		
1	Going-Level Rate Base	$ 9,000,000	$ 27,000,000
2	Return on Rate Base - %	8.552%	8.552%
3	Return on Rate Base - $	$ 769,680	$ 2,309,040
4	Adjustments:		
5	Interest Expense (Synchronized)	$ (317,880)	$ (953,640)
6	Temporary Statutory Deductions	-	-
7	Federal Taxable Amount	$ 451,800	$ 1,355,400
8	Federal Tax Rate	35.00%	35.00%
9	Current Federal Tax	$ 158,130	$ 474,390
10	Add: Deferred Federal Tax (35% on Temporary Deductions)	-	-
11	Total Federal Tax	$ 158,130	$ 474,390
12	Gross-up Federal Income Tax [Line 11 / 65%)	$ 243,277	$ 729,831
	STATE TAX:		
13	Federal Taxable Income	$ 451,800	$ 1,355,400
14	Add: Gross-up Federal Tax	243,277	729,831
15	State Taxable Amount	$ 695,077	$ 2,085,231
16	Tax Gross-up Rate (100.00 - 6.50)	0.9350	0.9350
17	Gross-up Taxable	$ 743,398	$ 2,230,194
18	State Tax Amount (Line 17 less Line 15)	$ 48,321	$ 144,963

PSC REF#:276476

Public Service Commission of Wisconsin
RECEIVED: 10/19/15, 1:11:43 PM

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Northern States Power Company, a Wisconsin corporation, for Authority to Adjust Electric and Natural Gas Rates

Docket No. 4220-UR-121

REBUTTAL TESTIMONY OF RICHARD A. BAUDINO

Q. Please state your name and business address.

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

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

A. I am a consultant with Kennedy and Associates.

Q. Did you submit Direct Testimony in this proceeding?

A. Yes. I submitted Direct Testimony on behalf of the Wisconsin Industrial Energy Group, Inc. ("WIEG").

Q. What is the purpose of your Rebuttal Testimony?

A. The purpose of my Rebuttal Testimony is to respond to certain Direct Testimony submitted by the Staff of the Public Service Commission of Wisconsin (the "Commission" or "PSC") and the Citizens Utility Board ("CUB"). Specifically, I will respond to the Direct Testimonies of Staff Witness Sam Shannon and CUB witness Jonathan Wallach. I also briefly address Company Witness Mr. Marx's testimony as relates to NSPW's proposal to change interruptible load certifications related to Cp-1 and Cp-3 services.

RESPONSE TO STAFF WITNESS SAM SHANNON

Cost of Service and Revenue Allocation

Q. Please briefly summarize Mr. Shannon's approach to class cost of service studies ("CCOSS") in his Direct Testimony?

A. On Direct-PSC-Shannon-2, Mr. Shannon testified that he is not sponsoring a specific CCOSS in this case. Instead, he stated that he worked with Northern States Power Company - Wisconsin ("NSPW" or "Company") "to have them run and sponsor a set of CCOSS models that are intended to represent a range of reasonable COSS models for the Commission's consideration." Mr. Shannon's Table 1 presents a summary of the CCOSS from the five CCOSS presented by Mr. Marx in his Supplemental Direct Testimony. Table 1 includes CCOSS Methods 1, 2, and 3 (each of which was sponsored by Mr. Marx in his Direct Testimony) as modified by Staff, as well as two methods that Staff requested: Method 4 (Time-of-Use 12CP) and Method 5 (Locational 12CP). I described the differences between these five CCOSS in my Direct Testimony.

Q. Did Mr. Marx in fact sponsor the additional CCOSS runs that Mr. Shannon mentioned in his Direct Testimony?

A. In my opinion, he did not. I understand the term “sponsor” to mean someone who both introduces and supports a particular position; someone who, as a practical matter, works to convince others of the validity of the position. Mr. Marx certainly does not testify that he supports the additional CCOSS runs. To the contrary, Mr. Marx testified at Direct-NSPW-Marx-4-s that his presentation of the five CCOSS runs "does not constitute agreement with the results, allocation, methodology, or underlying revenue requirement." Mr. Marx merely responded to Staff’s request that NSPW present the five CCOSS results. Further, Mr. Marx does not identify the CCOSS results in Ex.-NSPW-Marx-3 as his, but instead as Staff’s, titling the results "Supplemental Staff Adjusted Electric Cost of Service." On Staff’s testimony I think it even a stretch to conclude that Staff sponsors and/or supports CCOSS Methods 4 and 5. It should be evident, though, that Mr. Marx does not.

Q. Did Mr. Shannon provide any basis or explanation for Staff's CCOSS runs that Mr. Marx referred to as Methods 4 and 5?

A. No. Mr. Shannon provided no analysis or other quantitative or theoretical basis for classifying fixed production costs as 60% energy related in Staff's CCOSS Methods 4 and 5. Likewise, Mr. Shannon provided no basis whatsoever for rejecting the Company's minimal distribution system analysis in his Method 5. Mr. Shannon also had the Company change the classification of distribution plant in the Company's Method 2, again with no explanation or quantitative basis, and as shown on Ex.-NSPW-Marx-3, Schedule 1. Finally, Mr. Shannon provided no support for classifying production O&M on the basis of 25% firm 12CP demand and 75% marginal energy. These radical changes in cost classification are completely arbitrary and unsupported by any testimony or analysis in this case. CUB witness Wallach attempted to support a larger energy-based allocation of fixed production costs in his testimony, which I address in a subsequent section of my Rebuttal Testimony.

Q. Mr. Shannon testified at Direct-PSC-Shannon-2 that the point of having these five CCOSS "is to present a base range of reasonable studies drawing on recent history of the company's and intervenor positions, as well as COSS models typically run by Commission Staff." Do the five CCOSS runs presented by Mr. Shannon represent a range of reasonable results for the Commission to consider in this proceeding?

A. Absolutely not. Given the fact that neither NSPW nor the Staff has presented any sort of analysis that supports the changes in the classification and allocation of costs I just mentioned, the Commission cannot reasonably rely on any of the CCOSS runs as a basis for cost and revenue allocation in this proceeding.

Q. What effect do Staff's Time-of-Use (Method 4) and Locational (Method 5) CCOSSs have on revenue allocation?

A. Rebuttal Table 1 summarizes the results of the five CCOSS methods that the Staff directed NSPW to perform. These results were taken from Direct-PSC-Shannon-2 and Ex.-NSPW-Marx-3.

Rebuttal Table 1

Staff CCOSS Results

	Method 1	Method 2	Method 3	Method 4	Method 5
Residential	1.25%	1.09%	2.25%	-0.73%	-7.12%
Non-Demand GS	1.46%	-0.56%	0.56%	-2.08%	-3.94%
Demand GS	0.17%	0.20%	0.15%	0.87%	3.00%
Large TOD Secondary (Cg-9, Cp-1)	2.17%	2.65%	2.82%	1.96%	11.97%
Large TOD Primary (Cg-9, Cp-1)	2.64%	3.42%	1.53%	6.20%	5.82%
Large TOD Transformed	2.63%	4.18%	1.14%	8.69%	6.62%
RTP	2.00%	1.37%	-3.77%	9.34%	6.70%
Lighting	-3.37%	-7.68%	-13.15%	3.95%	-21.06%
Total	1.48%	1.48%	1.48%	1.48%	1.48%

Rebuttal Table 1 shows a radical shift in class cost responsibility that results from Staff-requested Methods 4 and 5. These two methods relieve the residential classes of significant cost responsibility and place that additional responsibility on the large customer classes. This unreasonable shift is due mainly to the Staff classifying 60% of fixed production costs as energy-related. I explained in my Direct Testimony the reasons why fixed production costs should not be classified as energy-related. Moreover, Mr. Shannon did not provide any evidence supporting a conclusion that 60% of fixed production costs are energy-related. It is also inappropriate to classify any production O&M on the basis of energy, much less the 75% that Mr. Shannon asked NSPW to include in Mr. Marx's supplemental testimony. More significantly, Mr. Shannon does not provide any explanation as to why any portion of production O&M should be classified as energy-related.

Q. What is your recommendation with respect to Staff's CCOSS Methods and Mr. Shannon's proposed revenue allocation?

A. I strongly recommend that the Commission categorically reject Staff's CCOSS Methods 4 and 5. Further, since Mr. Shannon's "starting point" in proposing a revenue allocation was Staff's unsupported CCOSS methods, I also recommend that the Commission reject his proposed revenue allocation. I maintain that the Commission should use NSPW's Method 3 4CP 100% Demand CCOSS as the basis for revenue allocation in this case.

Q. What is your proposed revenue allocation to the Large customer classes at Staff's revenue requirement?

A. Rebuttal Table 2 below presents my proposed revenue allocation for the Large classes at Staff's proposed 1.48% increase. I scaled back Mr. Dahl's original revenue allocation and maintained my recommended 0% increase for RTP based on the results from CCOSS Method 3.

Rebuttal Table 2 WIEG Proposed Revenue Allocation At Staff Proposed Increase		
	(1)	
	NSP Proposed	Scale-Back
Large TOD Secondary		
Cg-9	4.6%	1.7%
Cp-1	5.0%	1.9%
Large TOD Primary		
Cg-9	4.0%	1.5%
Cp-1	4.4%	1.7%
Large TOD Transmission		
Cg-9tt	3.0%	1.1%
Cg-9tu	2.9%	1.1%
Cp-1tt	3.2%	1.2%
RTPtt	0.9%	0.0%
RTPtu	0.7%	0.0%
Total Retail	3.9%	1.48%

Rate Design

Q. How did Mr. Shannon approach designing rates for the Large customer classes?

A. Mr. Shannon presents his proposed rate design in Ex.-PSC-Shannon-1r, schedule 3. For the Large customer classes generally, he proposes roughly equal percentage increases to both demand and energy charges[1].

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[1] Mr. Shannon's proposed rate design for Cp-1 (Peak Controlled Time-of-Day Service) includes roughly equal increases to the on-peak demand charge and the energy charge, and greater percentage increases to the controlled demand charge.

Q. Do you agree with Mr. Shannon's proposed rate design for the Large customer classes?

A. No. NSPW's energy charges are already too high and should not be increased in this proceeding. Should the Commission approve a rate increase, the increase to the Large customer classes should be collected exclusively through increased demand charges. I explained in detail, at Direct-WIEG-Baudino-16 through Direct-WIEG-Baudino-17, why this should be the case.

RESPONSE TO CUB WITNESS WALLACH

Q. On Direct-CUB-Wallach-7, Mr. Wallach testified that Staff's CCOSS Method 5 "achieves reasonable consistency with cost-causation...." Is Mr. Wallach's support of Staff's CCOSS Method 5 justified?

A. No, it is not. I explained why the Commission should not rely on Staff's CCOSS Methods 4 and 5 earlier in my Rebuttal Testimony. I will further address Mr. Wallach's Direct Testimony as relates to classification of production plant as energy-related and the allocation of distribution plant. First, I will show why energy-based production cost classification (i.e., classifying 60% (or any amount) of production plant as energy-related) is inappropriate from a cost causation standpoint. Second, I will explain why the Commission should accept NSPW's minimal system analysis of its distribution system costs.

Classification of Production Plant

Q. Beginning at Direct-CUB-Wallach-9, Mr. Wallach recommends using the Equivalent Peaker ("EP") method to classify NSPW's production capacity costs. Is the EP method a reasonable approach to classifying and allocating NSPW's production plant costs?

A. No, definitely not.

Q. Please explain why the EP method is not reasonable for a CCOSS.

A. Generally speaking, the EP method calculates the percentage of production plant to be classified as "energy related" by subtracting the cost of a combustion turbine unit from the cost of all non-peaking units (i.e., intermediate and base load) on the system and calculating a ratio to the total cost of production plant. The main flaw with this method is that it incorrectly assumes that all such "excess costs" are due to a utility's need to achieve fuel savings, rather than to meet peak demand requirements on the system. However, this assumption is completely unsupported, as Mr. Wallach offers no analysis to show that it is correct from a planning perspective. Any relevant EP cost of service analysis would require a detailed examination of the economic analyses and decision-making processes that were performed for each base load and intermediate load power plant on the NSPW's system. Mr. Wallach has provided no such examination.

The economic trade-offs between 1) each base load and intermediate load unit, and 2) an alternative peaking unit would likely have been different for each unit since the decision to choose one over the other is dependent on the economic parameters existing at the time of decision. Without incorporating these historic analyses into the EP methodology, it is impossible to identify the "cost causation" underlying each unit and the expected fuel savings that a base load coal or nuclear unit was likely to achieve. Since the premise behind the EP method is that expected fuel savings drove a utility's decision to construct a base or intermediate load generating unit in lieu of a less expensive peaking unit, the so-called "decision" would have considered the capital cost of each unit and the fuel cost differences to the system between the two choices. The additional cost of a base load unit may not have been justified by fuel savings expectations alone. Rather, the decision may also have considered other factors (such as the longer life of a base load unit) that, when combined with fuel savings, justified the higher cost base load unit.

In supporting the EP method in this case, Mr. Wallach must assume that the main reason NSPW built its power plants was to satisfy energy consumption throughout the year. There is no such evidence in this case. Further, the EP method gives very little weight to summer peak demands.

Q. Did Mr. Wallach properly consider summer peak demands in his discussion of the EP approach to CCOSS?

A. No. This is because Mr. Wallach supported the 12CP allocator to allocate the small amount (40%) of remaining demand-related production plant to customer classes. Combining the 12CP and energy allocation factors for allocating fixed production plant in an EP CCOSS gives no significant weight to NSPW's summer peak period. As I described in detail in my Direct Testimony, NSPW is a strongly summer peaking utility.

<u>Distribution System Allocation</u>

Q. Beginning on Direct-CUB-Wallach-12, Mr. Wallach begins a critique of NSPW's minimum size system method to classify and allocate distribution costs in FERC accounts 364 through 369. Are Mr. Wallach's criticisms well founded?

A. No. The principles underlying the minimum system approach that NSPW uses is well reasoned and well supported. I recommend that the Commission adopt the Company's minimum system analysis.

Q. Would you explain the concept underlying the minimum system approach that the Company used to classify distribution plant and expenses between customer and demand components?

A. Yes. The principle supporting the minimum system approach, which includes a customer component, is that utilities must invest a minimal amount in distribution facilities to connect a customer to the distribution system (lines, poles, transformers) that is independent of the customer’s level of demand. For example, there is a minimum amount of investment that a utility will make in poles, lines and transformers to connect a customer, whether that customer has a demand of 3 kW or a demand of 5 kW. This does not mean that the investment would be the same, but rather a minimum investment is required regardless of size. Under the minimum distribution system methodology, the minimum component is allocated on a per customer basis, while the portion of cost above minimum is allocated on demand. Thus, to the extent that the utility incurs a distribution cost simply to connect a customer to its system, regardless of that customer's size, it is appropriate to assign the cost of these minimal facilities to rate schedules on the basis of the number of customers, rather than on the kW demand of the class. As stated on page 90 of the NARUC Electric Utility Cost Allocation Manual, January, 1992:

When the utility installs distribution plant to provide service to a customer and to meet the individual customer's peak demand requirements, the utility must classify distribution plant data separately into demand- and customer-related costs.

Please refer to Ex.-WIEG-Baudino-2 for an excerpt from the NARUC Manual regarding the use of the minimum size and zero intercept approaches to classifying and allocating distribution costs.

Q. Is the Company's use of a minimal system methodology a reasonable alternative to the methods discussed in the NARUC manual?

A. Yes it is. NARUC recognizes two methodologies for estimating the customer component of distribution costs. These methods, which are described in the NARUC manual, are the "minimum-intercept" method and the "minimum size" method (which is the same as the "minimum system" method). Each of the two methods captures customer-related costs and is designed to estimate the component of distribution plant cost that is incurred by a utility to effectively connect a customer to its system, as opposed to providing a specific level of power (kW demand) to the customer. The conceptual basis for the minimum size method is that it reflects a classification of the distribution facilities that would be required to simply connect a customer to the system, irrespective of the customer's kW load. From a cost causation standpoint, the argument supporting this approach is that all of these minimal facilities would be required simply due to the requirement to connect the customer.

The minimum-intercept (also referred to as zero-intercept) method seeks the same end as the minimum size system approach but is much more data intensive. This method estimates the portion of distribution plant that is related to a hypothetical no-load, or zero-load situation. This is the amount of plant that would be required to serve customers regardless of their demands. Typically the zero-intercept method utilizes regression analysis to estimate the customer-related portion of distribution plant.

NSPW's minimal system analysis uses a combination of minimum system and regression techniques to classify and allocate certain distribution accounts. I reviewed the Company's study, which was filed in response to Initial Data Request - Rates No. 3, and find that it is reasonable and appropriate to use for purposes of classifying and allocating distribution costs.

Q. An Direct-CUB-Wallach-15, Mr. Wallach presented simplified examples in Figures 1a and 1b that were intended to show how the minimum size system fails to accurately classify and allocate distribution costs. Please address these examples provided by Mr. Wallach.

A. Mr. Wallach's simplistic example fails to capture the system-wide application of the minimum system approach. Mr. Wallach's simple example in Figures 1a and 1b also fails to support his contention that the minimum distribution system approach allocates costs to customer classes as if costs vary with the number of customers. First, note that the total cost of the 1-mile feeder minimum cost is the same in Figures 1a and 1b ($50,000). If the minimum system shown in his Figures 1a and 1b can support additional residential customers, then what happens is that costs per customer decline even though the residential class is allocated a greater percentage of the costs of the minimum system. In Figure 1b, the $40,000 of costs allocated to four residential customers results in a per customer cost of $10,000. This is lower than the per customer cost of $25,000 in Figure 1a, even though the residential customers are allocated a greater percentage of the total costs based on customer counts in Figure 1b. With a fixed cost, this is exactly what one would expect as more customers connect to the system. Mr. Wallach's example completely misses the point and fails to refute the value of the minimum size system approach.

The minimum size approach provides a valid conceptual framework to estimate the customer-related portion of those facilities. If one were to simply use non-coincident demands to allocate the cost of those facilities, larger commercial and industrial customers would be burdened with an excessive allocation of distribution system costs.

Q. At Direct-CUB-Wallach-17, Mr. Wallach proposes that all distribution plant costs other than meters and services be classified as demand-related. Please respond to Mr. Wallach's proposed classification of distribution plant.

A. The Commission should reject Mr. Wallach's proposed classification of distribution accounts 364 - 369 and approve the Company's classification and allocation of these costs. Mr. Wallach's proposed classification method fails to recognize that the number of customers is one of the two primary drivers of NSPW's investment in these distribution plant accounts. Both the minimum size system and zero intercept methods provide reasonable models to estimate the portion of accounts 364 - 369 that are attributable to the number of customers on the distribution system, whether or not those customers take any power from the utility. Failing to recognize this important relationship will result in a misallocation of costs to NSPW's customers.

Q. Please respond to Mr. Wallach's proposed customer class revenue allocation.

A. The Commission should reject Mr. Wallach's proposed revenue allocation. Like Mr. Shannon, Mr. Wallach relied on the unsupported Staff CCOSS runs presented in Mr. Marx's Supplemental Direct Testimony. His recommended revenue allocation in his Table 3 assigns excessive revenue increases to NSPW's Large C&I customers largely due to his misplaced reliance on Staff's CCOSS Methods 4 and 5, which incorrectly classify and allocate fixed production and production O&M costs on a mostly energy basis.

Additional Comment With Respect To Interruptible Load Certification

Q. At Direct-WIEG-Baudino-18, lines 13 through 16, you recommended that the Commission not reach a decision as to NSPW's proposal to modify interruptible load certification for Cp-1 and Cp-3 services until more is known about how the changes are likely to affect customers taking service under these tariffs. Do you have any further response to NSPW's proposed modification?

A. Yes. At Direct-NSPW-Marx-20, Mr. Marx premises NSPW's proposed changes to interruptible load capability certification on a MISO requirement that it do so. I have reviewed the currently effective MISO Resource Adequacy Business Practice Manual (BPM-011-r14), Section 4.2.8 - Demand Resource - Qualification Requirements. Currently, there is no requirement that any utility demonstrate interruptible load capability in the winter season. Therefore, I recommend that the Commission not approve Mr. Marx's proposal to modify interruptible load certification. If MISO changes this requirement in the future, NSPW has the opportunity to file for a change in its Cp-1 and Cp-3 services. I also recommend that the Commission reject mandatory test provisions proposed by NSPW. According to the BPM, only mock tests or drills are required and not actual tests. The BPM states that "[t]he mock test should employ all systems necessary to initiate a Demand reduction <u>short of actual Demand reduction</u>." (emphasis added).

Q. Does this complete your Rebuttal Testimony?

A. Yes.

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES	)))	**CASE NO. 2014-00371**

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES	))))	**CASE NO. 2014-00372**

DIRECT TESTIMONY

AND EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

MARCH 6, 2015

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES	)	
COMPANY FOR AN ADJUSTMENT OF	)	**CASE NO. 2014-00371**
ITS ELECTRIC RATES	)	

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND	)	
ELECTRIC COMPANY FOR AN	)	**CASE NO. 2014-00372**
ADJUSTMENT OF ITS ELECTRIC AND	)	
GAS RATES	)	

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BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

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COMPANY FOR AN ADJUSTMENT OF	**)**	**CASE NO. 2014-00371**
ITS ELECTRIC RATES	**)**	

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ELECTRIC COMPANY FOR AN	**)**	**CASE NO. 2014-00372**
ADJUSTMENT OF ITS ELECTRIC AND	**)**	
GAS RATES	**)**	

DIRECT TESTIMONY OF RICHARD A. BAUDINO

I. QUALIFICATIONS AND SUMMARY

Q. Please state your name and business address.

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

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

A. I am a consultant with Kennedy and Associates.

Q. Please describe your education and professional experience.

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

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

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

Exhibit No. ___(RAB-1) summarizes my expert testimony experience.

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

A. I am testifying on behalf of the Kentucky Industrial Utility Customers, Inc. ("KIUC").

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

A. The purpose of my Direct Testimony is to address the allowed return on equity for regulated electric operations for Louisville Gas and Electric Company and Kentucky Utilities ("LGE", "KU", or "Companies"). I will also address the cost of debt, the appropriate capital structure, and the resulting overall weighted cost of capital for

LGE and KU. Finally, I will respond to the Direct Testimony of Dr. William Avera and Mr. Adrien McKenzie, witnesses for the Companies.

Q. Please summarize your conclusions and recommendations.

A. Based on current financial market conditions, I recommend that the Kentucky Public Service Commission ("KPSC" or "Commission") adopt an 8.60% return on equity for LGE and KU in this proceeding. My recommendation is based on the results of a Discounted Cash Flow ("DCF") model analysis. My DCF analysis incorporates my standard approach to estimating the investor required return on equity and includes a group of 18 comparison companies and dividend and earnings growth forecasts from the Value Line Investment Survey, IBES, and Zacks.

I also included two Capital Asset Pricing Model ("CAPM") analyses for additional information. I did not incorporate the results of the CAPM in my recommendation, however the results from the CAPM support my 8.60% ROE recommendation for LGE and KU. In fact, my CAPM results are somewhat lower than my DCF results.

In Section IV, I respond to the testimony and ROE recommendation of the Companies' witnesses Avera/McKenzie. I will demonstrate that their recommended ROE of 10.64% significantly overstates the current investor required return. The current financial environment of low interest rates has been deliberately and methodically supported by Federal Reserve policy actions since 2009 and is ongoing. A 10.64% ROE for regulated electric utilities such as LGE and KU simply cannot be supported at this time and would contribute to a burdensome rate increase for

Kentucky ratepayers. Although the Companies are requesting a 10.50% ROE in this case, I strongly recommend that the KPSC reject the Companies' requested ROE in this proceeding.

II. REVIEW OF ECONOMIC AND FINANCIAL CONDITIONS

Q. Mr. Baudino, what has the trend been in long-term capital costs over the last few years?

A. Generally speaking, interest rates have declined over the last 10 years. Exhibit No. ___(RAB-2) presents a graphic depiction of the trend in interest rates from January 2005 through December 2014. The interest rates shown in this exhibit are for the 20-year U.S. Treasury Bond and the average public utility bond from the Mergent Bond Record. In January 2005, the average public utility bond yield was 5.80% and the 20-year Treasury Bond yield was 4.77%. As of December 2014 the average public utility bond yield was 4.18%, representing a decline of 162 basis points, or 1.62% from January 2005. Likewise, the 20-year Treasury bond declined to 2.55% in December 2014, a decline of 2.22% (222 basis points) from January 2005.

Q. Was there a significant change in Federal Reserve policy during the historical period shown in Exhibit No. ___(RAB-2)?

A. Yes. In response to the 2007 financial crisis and severe recession that followed in December 2007, the Federal Reserve ("Fed") undertook a series of steps to stabilize the economy, ease credit conditions, and lower unemployment and interest rates. These steps are commonly known as Quantitative Easing ("QE") and were implemented in three distinct stages: QE1, QE2, and QE3. The Fed's stated purpose of QE was "to support the liquidity of financial institutions and foster improved conditions in financial markets."[1]

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[1] http://www.federalreserve.gov/monetarypolicy/bst_crisisresponse.htm

QE1 was implemented from November 2008 through approximately March 2010. During this time, the Fed cut its key Federal Funds Rate to nearly 0% and purchased $1.25 trillion of mortgage-backed securities and $175 billion of agency debt purchases.

QE2 was implemented in November 2010 with the Fed announcing that it would purchase an additional $600 billion of Treasury securities by the second quarter of 2011.[2]

Beginning in September 2011, the Federal Reserve initiated a "maturity extension program" in which it sold or redeemed $667 billion of shorter-term Treasury securities and used the proceeds to buy longer-term Treasury securities. This program, also known as "Operation Twist" was designed by the Federal Reserve to lower long-term interest rates and support the economic recovery.

QE3 began in September 2012 with the Fed announcing an additional bond purchasing program of $40 billion per month of agency mortgage backed securities. On June 19, 2013, the Federal Open Market Committee ("FOMC") issued a press release indicating that it intended to extend "Operation Twist." In its press release, the Federal Reserve stated:

> To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its

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[2] http://www.federalreserve.gov/newsevents/press/monetary/20101103a.htm

> dual mandate, the Committee decided to continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

More recently, the Federal Reserve began to pare back its purchases of securities. For example, on January 29, 2014 the Federal Reserve stated that beginning in February 2014 it would reduce its purchases of long-term Treasury securities to $35 billion per month. The Federal Reserve continued to reduce these purchases throughout the year and in a press release issued October 29, 2014 announced that it decided to close this asset purchase program in October.[3]

Q. Since the Federal Reserve's announcements of scaling back and finally ending its purchases of long-term Treasury securities, what has the trend been in long-term Treasury yields so far in 2014?

A. The yield on the 20-year Treasury bond has actually declined since the beginning of 2014. The January 2014 yield on the 20-year Treasury bond was 3.52%. The closing yield for the week ending February 27, 2015 was 2.39%, a decline of 113 basis points since January 2014. Average utility bond yields have followed a similar trend, starting January at 4.72% and declining to 3.69% as of February 27, 2015.

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[3] http://www.federalreserve.gov/newsevents/press/monetary/20141029a.htm

Q. Mr. Baudino, why is it important to understand the Fed's actions with respect to monetary policy since 2007?

A. The Fed's monetary policy actions since 2007 were deliberately undertaken to lower interest rates and support economic recovery. The Fed's actions have been quite successful in lowering interest rates given that the 20-year Treasury Bond yield in June 2007 was 5.29% and the public utility bond yield was 6.34%. The U.S. economy is currently in a low interest rate environment that, in my opinion, will continue at least through this year. As I will demonstrate later in my testimony, low interest rates have also significantly lowered investors' required return on equity for the stocks of regulated utilities.

Q. Has the Fed recently signaled that it is considering raising interest rates?

A. Yes. In the Fed's Semiannual Monetary Policy Report to Congress on February 24, 2015 Chair Janet Yellen stated the following:

> "The FOMC's assessment that it can be patient in beginning to normalize policy means that the Committee considers it unlikely that economic conditions will warrant an increase in the target range for the federal funds rate for at least the next couple of FOMC meetings. If economic conditions continue to improve, as the Committee anticipates, the Committee will at some point begin considering an increase in the target range for the federal funds rate on a meeting-by-meeting basis."[4]

Chair Yellen also stated "the Committee judges that a high degree of policy accommodation remains appropriate to foster further improvement in labor market conditions and to promote a return of inflation toward 2 percent over the medium term. Accordingly, the FOMC has continued to maintain the target range for the

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[4] http://www.federalreserve.gov/newsevents/testimony/yellen20150224a.htm

federal funds rate at 0 to 1/4 percent and to keep the Federal Reserve's holdings of longer-term securities at their current elevated level to help maintain accommodative financial conditions."

It appears that for the time being, the Fed will not raise its Federal Funds Rate.

Q. Are current interest rates indicative of investor expectations regarding future policy actions by the Federal Reserve?

A. Yes. Securities markets are efficient and most likely reflect investors' expectations about future interest rates. As Dr. Roger Morin pointed out in *New Regulatory Finance:*

> "A considerable body of empirical evidence indicates that U.S. capital markets are efficient with respect to a broad set of information, including historical and publicly available information."[5]

I acknowledge that the U.S. economy is operating in a low interest rate environment. It is likely at some point in the near future that the Federal Reserve will begin to raise short-term interest rates. However, the timing and the level of any such move are not known at this time. It is important to realize that investor expectations of higher interest rates, if any, are already embodied in current securities prices, which include debt securities and stock prices.

It would not be advisable for utility regulators to raise ROEs in anticipation of higher interest rates that may or may not occur.

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5 Morin, Roger A., *New Regulatory Finance,* Public Utilities Reports, Inc. (2006) at 279.

Q. How does the investment community regard the electric utility industry as a whole?

A. The Value Line Investment Survey's February 20, 2015 summary report on the Electric Utility (East) Industry noted the following regarding interest rates and utility stocks.

"Like fixed-income securities, utility stocks are sensitive to interest rates. (This is true for all utilities, not just electrics.) The environment of low interest rates in the past several years has been a boon for utility equities. This was evident in 2014, when a decline in rates from an already-low level allowed EEI's index of stocks to produce a 29% total return.

* * *

Low interest rates have lasted longer than most people expected, but few expect rates to stay this low permanently. The previous section discussed the risk that utility investors face when rates start to rise. Of course, things won't necessarily unfold this way—these stocks are also affected by other factors, including company-specific events—but utility investors must be cognizant of this.

So far in 2015, most electric utility stocks have either risen or fallen very little. The industry's average dividend yield is 3.4%. We continue to believe that most of these equities are expensively priced."

Edison Electric Institute ("EEI") recently reported that the utility industry's average credit rating was BBB+ by the third quarter of 2014.[6] EEI reported that credit outlooks remained stable to positive due to "derisking of business models through renewed focus on regulated activities and improved industry regulation."

The *2014 Ibbotson SBBI Classic Yearbook* published by Morningstar stated the following with respect to the outlook for utilities in 2014:

> Adding to the sector's attractiveness going into 2014 is its average 4 percent dividend yield, nearly double the average S&P 500 dividend yield and more than 1 percentage point higher than 10-year U.S Treasuries. Our

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6 *EEI Q3 2014 Financial Update, Credit Ratings*, page 1.

> analysis of returns going back 20 years suggests that 10-year U.S. Treasuries could climb to 4 percent from 3 percent today, with little impact on utilities' total returns. We think utilities with 3 percent to 5 percent earnings growth prospects during the next few years offer a compelling risk-adjusted total-return package for any investor.[7]

Q. What do you conclude from the aforementioned quotes?

A. Utilities continue to be safe, solid stock choices for investors. Even with uncertainty regarding the Federal Reserve's decision on when to raise interest rates, utilities' prices have made solid gains since the beginning of 2014. For example, the Dow Jones utility average opened January 2014 at 490.31 and closed at 594.17 at the end of February 2015. This represents a gain of 21.2%. Morningstar indicated that interest rates could rise 100 basis points with little effect on utilities' overall return. The current low interest rate environment continues to favor utility stocks.

It appears that the Fed will continue a relatively accommodating stance with respect to monetary policy and has signaled that it does not intend to raise short-term interest rates at this time. The volatile economic conditions that were present in the 2008 - 2009 period are over and the U.S. economy continues to slowly recover from the recession that began in 2007.

Q. What are the current credit ratings and bond ratings for LGE and KU?

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[7] *2014 Ibbotson SBBI Classic Yearbook,* Morningstar, page 31.

A. Standard and Poor's ("S&P") current credit rating for the Companies is BBB and their first mortgage bond rating is A-. Moody's current long-term issuer rating for the Companies is A3, with a rating of A1 for their first mortgage bonds.

Q. Has LGE's and KU's parent company, PPL Corporation, made recent statements regarding the operations and risks of its Kentucky electric utility companies?

A. Yes. In a February 25, 2015 presentation to the Credit Suisse 20th Annual Energy Summit, PPL noted that Kentucky has a "constructive regulatory environment that provides a timely return on a substantial amount of planned capex over the next 5 years." PPL Corp. also cited other supportive recovery mechanisms that include construction work in progress, fuel adjustment clauses, gas supply clause adjustment and Demand Side Management recovery. Please refer to Exhibit No. ___(RAB-3) for an excerpt from this presentation. These mechanisms tend to lower the Companies' business risk and, correspondingly, their cost of equity.

III. DETERMINATION OF FAIR RATE OF RETURN

Q. Please describe the methods you employed in estimating a fair rate of return for the electric operations of LGE and KU.

A. I employed a Discounted Cash Flow ("DCF") analysis using a group of regulated electric utilities. My DCF analysis is my standard constant growth form of the model that employs four different growth rate forecasts from the Value Line Investment Survey, IBES, and Zacks. I also employed Capital Asset Pricing Model ("CAPM") analyses using both historical and forward-looking data. Although I did not rely on the CAPM for my recommended 8.60% ROE for LGE and KU, the results from the CAPM tend to support this recommendation.

Q. What are the main guidelines to which you adhere in estimating the cost of equity for a firm?

A. Generally speaking, the estimated cost of equity should be comparable to the returns of other firms with similar risk structures and should be sufficient for the firm to attract capital. These are the basic standards set out by the United States Supreme Court in Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591 (1944) and Bluefield W.W. & Improv. Co. v. Public Service Comm'n, 262 U.S. 679 (1922).

From an economist's perspective, the notion of "opportunity cost" plays a vital role in estimating the return on equity. One measures the opportunity cost of an investment equal to what one would have obtained in the next best alternative. For example, let us suppose that an investor decides to purchase the stock of a publicly traded electric utility. That investor made the decision based on the expectation of dividend payments and perhaps some appreciation in the stock's value over time;

however, that investor's opportunity cost is measured by what she or he could have invested in as the next best alternative. That alternative could have been another utility stock, a utility bond, a mutual fund, a money market fund, or any other number of investment vehicles.

The key determinant in deciding whether to invest, however, is based on comparative levels of risk. Our hypothetical investor would not invest in a particular electric company stock if it offered a return lower than other investments of similar risk. The opportunity cost simply would not justify such an investment. Thus, the task for the rate of return analyst is to estimate a return that is equal to the return being offered by other risk-comparable firms.

Q. What are the major types of risk faced by utility companies?

A. In general, risk associated with the holding of common stock can be separated into three major categories: business risk, financial risk, and liquidity risk. Business risk refers to risks inherent in the operation of the business. Volatility of the firm's sales, long-term demand for its product(s), the amount of operating leverage, and quality of management are all factors that affect business risk. The quality of regulation at the state and federal levels also plays an important role in business risk for regulated utility companies.

Financial risk refers to the impact on a firm's future cash flows from the use of debt in the capital structure. Interest payments to bondholders represent a prior call on the firm's cash flows and must be met before income is available to the common shareholders. Additional debt means additional variability in the firm's earnings, leading to additional risk.

Liquidity risk refers to the ability of an investor to quickly sell an investment without a substantial price concession. The easier it is for an investor to sell an investment for cash, the lower the liquidity risk will be. Stock markets, such as the New York and American Stock Exchanges, help ease liquidity risk substantially. Investors who own stocks that are traded in these markets know on a daily basis what the market prices of their investments are and that they can sell these investments fairly quickly. Many electric utility stocks are traded on the New York Stock Exchange and are considered liquid investments.

Q. Are there any sources available to investors that quantify the total risk of a company?

A. Bond and credit ratings are tools that investors use to assess the risk comparability of firms. Bond rating agencies such as Moody's and Standard and Poor's perform detailed analyses of factors that contribute to the risk of a particular investment. The end result of their analyses is a bond and/or credit rating that reflect these risks.

<u>Discounted Cash Flow ("DCF") Model</u>

Q. Please describe the basic DCF approach.

A. The basic DCF approach is rooted in valuation theory. It is based on the premise that the value of a financial asset is determined by its ability to generate future net cash flows. In the case of a common stock, those future cash flows generally take the form of dividends and appreciation in stock price. The value of the stock to investors is the discounted present value of future cash flows. The general equation then is:

$$V = \frac{R}{(1+r)} + \frac{R}{(1+r)^2} + \frac{R}{(1+r)^3} + \cdots \frac{R}{(1+r)^n}$$

Where: V = *asset value*
R = *yearly cash flows*
r = *discount rate*

This is no different from determining the value of any asset from an economic point of view; however, the commonly employed DCF model makes certain simplifying assumptions. One is that the stream of income from the equity share is assumed to be perpetual; that is, there is no salvage or residual value at the end of some maturity date (as is the case with a bond). Another important assumption is that financial markets are reasonably efficient; that is, they correctly evaluate the cash flows relative to the appropriate discount rate, thus rendering the stock price efficient relative to other alternatives. Finally, the model I typically employ also assumes a constant growth rate in dividends. The fundamental relationship employed in the DCF method is described by the formula:

$$k = {}^{D_1}/_{P_0} + g$$

Where: D_1 = *the next period dividend*
P_0 = *current stock price*
g = *expected growth rate*
k = *investor-required return*

Under the formula, it is apparent that "k" must reflect the investors' expected return. Use of the DCF method to determine an investor-required return is complicated by the need to express investors' expectations relative to dividends, earnings, and book value over an infinite time horizon. Financial theory suggests that stockholders purchase common stock on the assumption that there will be some change in the rate of dividend payments over time. We assume that the rate of growth in dividends is constant over the assumed time horizon, but the model could easily handle varying growth rates if we knew what they were. Finally, the relevant time frame is prospective rather than retrospective.

Q. What was your first step in conducting your DCF analysis for LGE and KU?

A. My first step was to construct a comparison group of companies with a risk profile that is reasonably similar to the Companies. Since LGE and KU are subsidiaries of PPL Corp., they do not have publicly traded stock. Thus, one cannot estimate a DCF cost of equity on the Companies directly. It is necessary to use a group of companies that are similarly situated and have reasonably similar risk profiles to LGE and KU.

Q. Please describe your approach for selecting a comparison group of electric companies.

A. I used several criteria to select a comparison group. First, using the February 2015 issue of AUS Utility Reports, I selected electric and combination electric and gas companies whose bonds were rated A by either Moody's or Standard and Poor's. LGE and KU currently carry senior secured bond ratings of A- from S&P and A1 from Moody's, so using the either/or criterion for a A rating assures that the companies in the comparison group carry bond ratings that are similar to or slightly below the Companies' senior bond ratings.

From that group, I then selected companies that derived at least 50% of total revenue from regulated electric operations, according to AUS Utility Reports, and that had long-term earnings growth forecasts from Value Line and either Zacks or IBES.

From this group, I then eliminated companies that had recently cut or eliminated dividends, were recently or currently involved in merger activities, or had recent experience with significant earnings fluctuations. Companies that did not pass these screens are not appropriate candidates to which one can apply the DCF formula because of unrepresentative market prices (in terms of companies that are merger candidates) or non-constant growth in earnings or dividends. I also eliminated any companies that had recently been or were currently being restructured in a significant way. These screens eliminated the following companies:

- NextEra Energy - acquisition of Hawaiian Electric.
- Pepco Holdings, Inc. - being acquired by Exelon.
- PG&E Corp. - uncertainties of effect on earnings from San Bruno gas pipeline explosion.
- PPL Holdings - spin-off of unregulated energy supply business.
- TECO Energy - pending acquisition of New Mexico Gas Company.
- Wisconsin Energy Corp. - acquisition of Integrys, Inc.

The resulting comparison group of 18 electric companies that I used in my analysis is shown in the table below.[8]

TABLE 1
COMPARISON GROUP

	Company	S&P Bond Rating	Moody's Bond Rating
1	ALLETE, Inc.	A-	A3
2	Alliant Energy Corporation	A-	A2/A3
3	Avista Corporation	A-	Baa1
4	CMS Energy Corporation	BBB+/BBB	A3/Baa1
5	Consolidated Edison, Inc.	A-/BBB+	A3
6	Dominion Resources, Inc.	A-	A3/Baa1
7	Duke Energy Corporation	BBB+	A3
8	Edison International	BBB+	A2/A3
9	Empire District Electric Co.	A-	Baa1
10	Eversource Energy	A-	A3/Baa1
11	IDACORP, Inc.	A-	A3
12	NorthWestern Corp.	NR	A3
13	OGE Energy	BBB+	A3
14	Pinnacle West Capital Corp.	BBB	A3/Baa1
15	Portland General Electric Company	A-	A3
16	Southern Company	A	A3/Baa1
17	Westar Energy, Inc.	A-	A3/Baa1
18	Xcel Energy Inc.	A-	A3

Source: AUS Monthly Utility Report, February 2015

Q. What was your first step in determining the DCF return on equity for the comparison group?

A. I first determined the current dividend yield, D_1/P_0, from the basic equation. My general practice is to use six months as the most reasonable period over which to estimate the dividend yield. The six-month period I used covered the months from September 2014 through February 2015. I obtained historical prices and dividends

[8] Northeast Utilities changed its name to Eversource Energy during February. As such, I made this name change in Table 1 and in my attached exhibits.

from Yahoo! Finance. The annualized dividend divided by the average monthly price represents the average dividend yield for each month in the period.

The resulting average dividend yield for the comparison group is 3.42%. These calculations are shown in Exhibit No. ___(RAB-4).

Q. Having established the average dividend yield, how did you determine the investors' expected growth rate for the electric comparison group?

A. The investors' expected growth rate, in theory, correctly forecasts the constant rate of growth in dividends. The dividend growth rate is a function of earnings growth and the payout ratio, neither of which is known precisely for the future. We refer to a perpetual growth rate since the DCF model has no arbitrary cut-off point. We must estimate the investors' expected growth rate because there is no way to know with absolute certainty what investors expect the growth rate to be in the short term, much less in perpetuity.

For my analysis in this proceeding, I used three major sources of analysts' forecasts for growth. These sources are The Value Line Investment Survey, Zacks, and IBES. This is the method I typically use for estimating growth for my DCF calculations.

Q. Please briefly describe Value Line, Zacks, and IBES.

A. The Value Line Investment Survey is a widely used and respected source of investor information that covers approximately 1,700 companies in its Standard Edition and several thousand in its Plus Edition. It is updated quarterly and probably represents the most comprehensive of all investment information services. It provides both historical and forecasted information on a number of important data elements. Value Line neither participates in financial markets as a broker nor works for the utility industry in any capacity of which I am aware.

Zacks gathers opinions from a variety of analysts on earnings growth forecasts for numerous firms including regulated electric utilities. The estimates of the analysts responding are combined to produce consensus average estimates of earnings growth. I obtained Zacks' earnings growth forecasts from its web site.

Like Zacks, IBES also compiles and reports consensus analysts' forecasts of earnings growth. I obtained these forecasts from Yahoo! Finance.

Q. Why did you rely on analysts' forecasts in your analysis?

A. Return on equity analysis is a forward-looking process. Five-year or ten-year historical growth rates may not accurately represent investor expectations for dividend growth. Analysts' forecasts for earnings and dividend growth provide better proxies for the expected growth component in the DCF model than historical growth rates. Analysts' forecasts are also widely available to investors and one can reasonably assume that they influence investor expectations.

Q. Please explain how you used analysts' dividend and earnings growth forecasts in your constant growth DCF analysis.

Q. Page 1, Columns (1) through (5) of Exhibit No. ____(RAB-5) shows the forecasted dividend, earnings, and retention growth rates from Value Line and the earnings growth forecasts from IBES and Zacks. In my analysis I used four of these growth rates: dividend and earnings growth from Value Line and earnings growth from Zacks and IBES. It is important to include dividend growth forecasts in the DCF model since the model calls for forecasted cash flows. Value Line is the only sources of which I am aware that forecasts dividend growth and my approach gives this forecast equal weight with the three earnings growth forecasts.

Q. How did you proceed to determine the DCF return of equity for the comparison group?

A. To estimate the expected dividend yield (D_1), the current dividend yield must be moved forward in time to account for dividend increases over the next twelve months. I estimated the expected dividend yield by multiplying the current dividend yield by one plus one-half the expected growth rate.

Page 2 of Exhibit No. ___(RAB-5) presents my standard method of calculating dividend yields, growth rates, and return on equity for the comparison group of companies. The DCF Return on Equity Calculation section shows the application of each of four growth rates I used in my analysis to the current group dividend yield of 3.42% to calculate the expected dividend yield. I then added the expected growth rates to the expected dividend yield. In evaluating investor expected growth rates, I use both the average and the median values for the group under consideration. The calculations of the resulting DCF returns on equity for both methods are presented on page 2 of Exhibit No. ____(RAB-5). Please note that Zacks did not have earnings growth rate estimates for ALLETE and Avista Corp. For these companies I substituted the corresponding IBES growth rates.

Q. What are the results of your constant growth DCF model?

A. The DCF results for the constant growth DCF approach are shown on page 2 of Exhibit No. ____(RAB-5). For the average growth rates, the results range from 8.24% to 8.82%, with the average of these results being 8.57%. Using the median growth rates, the results range from 8.00% to 9.02%, with the average of these results being 8.44%.

<u>**Capital Asset Pricing Model**</u>

Q. Briefly summarize the Capital Asset Pricing Model ("CAPM") approach.

A. The theory underlying the CAPM approach is that investors, through diversified portfolios, may combine assets to minimize the total risk of the portfolio. Diversification allows investors to diversify away all risks specific to a particular company and be left only with market risk that affects all companies. Thus, the CAPM theory identifies two types of risks for a security: company-specific risk and market risk. Company-specific risk includes such events as strikes, management errors, marketing failures, lawsuits, and other events that are unique to a particular firm. Market risk includes inflation, business cycles, war, variations in interest rates, and changes in consumer confidence. Market risk tends to affect all stocks and cannot be diversified away. The idea behind the CAPM is that diversified investors are rewarded with returns based on market risk.

Within the CAPM framework, the expected return on a security is equal to the risk-free rate of return plus a risk premium that is proportional to the security's market, or non-diversifiable, risk. Beta is the factor that reflects the inherent market risk of a security and measures the volatility of a particular security relative to the overall market for securities. For example, a stock with a beta of 1.0 indicates that if the market rises by 15%, that stock will also rise by 15%. This stock moves in tandem with movements in the overall market. Stocks with a beta of 0.5 will only rise or fall 50% as much as the overall market. So with an increase in the market of 15%, this stock will only rise 7.5%. Stocks with betas greater than 1.0 will rise and fall more than the overall market. Thus, beta is the measure of the relative risk of individual securities vis-à-vis the market.

Based on the foregoing discussion, the equation for determining the return for a security in the CAPM framework is:

$$K = Rf + \beta(MRP)$$

Where: K = *Required Return on equity*
Rf = *Risk-free rate*
MRP = *Market risk premium*
β = *Beta*

This equation tells us about the risk/return relationship posited by the CAPM. Investors are risk averse and will only accept higher risk if they expect to receive higher returns. These returns can be determined in relation to a stock's beta and the market risk premium. The general level of risk aversion in the economy determines the market risk premium. If the risk-free rate of return is 3.0% and the required return on the total market is 15%, then the risk premium is 12%. Any stock's required return can be determined by multiplying its beta by the market risk premium. Stocks with betas greater than 1.0 are considered riskier than the overall market and will have higher required returns. Conversely, stocks with betas less than 1.0 will have required returns lower than the market as a whole.

Q. In general, are there concerns regarding the use of the CAPM in estimating the return on equity?

A. Yes. There is some controversy surrounding the use of the CAPM.[9] There is evidence that beta is not the primary factor in determining the risk of a security. For example, Value Line's "Safety Rank" is a measure of total risk, not its calculated beta coefficient. Beta coefficients usually describe only a small amount of total investment risk.

There is also substantial judgment involved in estimating the required market return. In theory, the CAPM requires an estimate of the return on the total market for investments, including stocks, bonds, real estate, etc. It is nearly impossible for the analyst to estimate such a broad-based return. Often in utility cases, a market return is estimated using the S&P 500 or the return on Value Line's stock market composite. However, these are limited sources of information with respect to estimating the investor's required return for all investments. In practice, the total market return estimate faces significant limitations to its estimation and, ultimately, its usefulness in quantifying the investor required ROE.

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[9] For a more complete discussion of some of the controversy surrounding the use of the CAPM, refer to *A Random Walk Down Wall Street* by Burton Malkiel, pp. 206 - 211, 2007 edition.

In the final analysis, a considerable amount of judgment must be employed in determining the risk-free rate and market return portions of the CAPM equation. The analyst's application of judgment can significantly influence the results obtained from the CAPM. My past experience with the CAPM indicates that it is prudent to use a wide variety of data in estimating investor-required returns. Of course, the range of results may also be wide, indicating the difficulty in obtaining a reliable estimate from the CAPM.

Q. How did you estimate the market return portion of the CAPM?

A. The first source I used was the Value Line Investment Analyzer, Plus Edition, for February 25, 2015. This edition covers several thousand stocks. The Value Line Investment Analyzer provides a summary statistical report detailing, among other things, forecasted growth rates for earnings and book value for the companies Value Line follows as well as the projected total annual return over the next 3 to 5 years. I present these growth rates and Value Line's projected annual return on page 2 of Exhibit No.____(RAB-6). I included median earnings and book value growth rates. The estimated market returns using Value Line's market data range from 9.00% to 11.05%. The average of these three market returns is 10.02%.

Q. Is this a change to how you calculated expected market return in the past?

A. Yes. In my past testimonies I used the average expected growth rates for earnings and book value from Value Line in calculating an expected market return. However, I have concluded that using median growth rates is likely a more accurate method of estimating the central tendency of Value Line's large data set. Average earnings and book value growth rates may be unduly influenced by very high or very low 3 - 5 year growth rates that are unsustainable in the long run. For example, Value Line's Statistical Summary shows both the highest and lowest value for earnings and book value growth forecasts. For earnings growth, Value Line showed the highest earnings growth forecast to be 98% and the lowest growth rate to be -25.5%. The median growth rate is not influenced by such extremes because it represents the middle value of the range of earnings growth rates.

I also added Value Line's projected 3-5 year percentage annual total return from the Statistical Summary, which in this case is 9.0%. This projected annual return is substantially less than the DCF return on the Value Line companies of 11.05%, suggesting that the DCF ROE for the Value Line companies may be overstated. However, I believe that using both of these measures of expected returns on the market provide a reasonable range of possible outcomes in this proceeding.

Q. Please continue with your market return analysis.

A. I also considered a supplemental check to the Value Line projected market return estimates. Morningstar publishes a study of historical returns on the stock market in its *Ibbotson SBBI 2014 Classic Yearbook.* Some analysts employ this historical data to estimate the market risk premium of stocks over the risk-free rate. The assumption is that a risk premium calculated over a long period of time is reflective of investor expectations going forward. Exhibit No. ____(RAB-7) presents the calculation of the market returns using the historical data.

Q. Please explain how this historical risk premium is calculated.

A. Exhibit No. ___(RAB-7) shows both the geometric and arithmetic average of yearly historical stock market returns over the historical period from 1926 - 2013. The average annual income return for 20-year Treasury bond is subtracted from these historical stocks returns to obtain the historical market risk premium of stock returns over long-term Treasury bond income returns. The historical market risk premium range is 5.01% - 7.01%.

Q. Did you add an additional measure of the historical risk premium in this case?

A. Yes. Morningstar reported the results of a study by Dr. Roger Ibbotson and Dr. Peng Chen indicating that the historical risk premium of stock returns over long-term government bond returns has been significantly influenced upward by substantial growth in the price/earnings ("P/E") ratio for stocks from 1980 through 2001.[10] Morningstar recommended adjusting this growth in the P/E ratio for stocks out of the historical risk premium because "it is not believed that P/E will continue to increase in the future." Morningstar's adjusted historical arithmetic market risk premium is 6.12%, which I have also included in Exhibit No. ___(RAB-7).

Q. How did you determine the risk free rate?

A. I used the average yields on the 20-year Treasury bond and five-year Treasury note over the six-month period from August 2014 through January 2015. This was the latest available data from the Federal Reserve's Selected Interest Rates (Daily) H.15 web site during the preparation of my Direct Testimony. The 20-year Treasury bond

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[10] *2014 Ibbotson SBBI Classic Yearbook,* Morningstar, pp. 156 - 158.

is often used by rate of return analysts as the risk-free rate, but it contains a significant amount of interest rate risk. The five-year Treasury note carries less interest rate risk than the 20-year bond and is more stable than three-month Treasury bills. Therefore, I have employed both of these securities as proxies for the risk-free rate of return. This approach provides a reasonable range over which the CAPM return on equity may be estimated.

Q. How did you determine the value for beta?

A. I obtained the betas for the companies in the electric company comparison group from most recent Value Line reports. The average of the Value Line betas for the comparison group is 0.73.

Q. Please summarize the CAPM results.

A. For my forward-looking CAPM return on equity estimates, the CAPM results are 7.71% - 8.01%. Using historical risk premiums, the CAPM results are 6.34% - 7.79%.

Conclusions and Recommendations

Q. Please summarize the cost of equity results for your DCF and CAPM analyses.

A. Table 2 below summarizes my return on equity results using the DCF and CAPM for my comparison group of companies.

TABLE 2
SUMMARY OF ROE ESTIMATES

Baudino DCF Methodology:	
Average Growth Rates	
- High	8.82%
- Low	8.24%
- Average	8.57%
Median Growth Rates:	
- High	9.02%
- Low	8.00%
- Average	8.44%
CAPM:	
- 5-Year Treasury Bond	7.71%
- 20-Year Treasury Bond	8.01%
- Historical Returns	6.34% - 7.79%

Q. What is your recommended return on equity for LGE and KU?

A. I recommend that the KPSC adopt an 8.60% return on equity for the Companies. My recommendation is consistent with the average DCF results from my constant growth DCF model. Based on current market evidence, an 8.60% return on equity is fair and reasonable for A-rated, lower risk electric utility companies like LGE and KU.

Q. Mr. Baudino, are you concerned that your recommended cost of equity is too low?

A. No, not at all. All of the market evidence I examined fully supports my ROE recommendation for the Companies in this proceeding. As I described in Section II of my testimony, the U. S. economy is in a low interest rate environment, one that has been supported in a deliberate and considered fashion by Federal Reserve monetary policy. Both my DCF and CAPM ROE estimates show that the investor required ROE for LGE and KU, as well as other regulated electric and gas utilities, reflects this low interest rate environment. An 8.60% ROE recommendation for A-rated electric utilities such as LGE and KU is by no means too low in the current economic and financial environment.

Q. Do you have any recommended adjustments to the Companies' requested cost of debt?

A. Yes. On page 22, lines 6 through 16 of his LGE Direct Testimony, Company witness Blake testified that LGE's cost of long-term debt included a projected issuance of $550 million of secured debt in October 2015. Interest on this debt was included in the forecasted cost of debt using current market interest rates, according to Mr. Blake's testimony. According to Schedule J-3, $300 million of this issuance carries a coupon rate of 4.40% and $250 million carries a coupon rate of 3.89%. Mr. Blake further testified that LGE and KU expect to provide updates to its cost of long-term debt as this case progresses.[11]

Q. Are the coupon rates included for this projected debt issuance consistent with current rates on A-rated utility bonds?

A. The coupon rates assumed by the Companies for this new long-term debt issuance are slightly higher than current A-rated utility debt. According to Moody's Credit Trends, as of February 27, 2015 the yield on A-rated long-term utility bonds was 3.69%. This indicates that yields are lower than the coupon rates included by LGE and KU in their respective Schedules J-3.

Q. Did you make an adjustment to the coupon rates for the Companies' projected long-term debt issuance?

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11 Mr. Blake also explained this adjustment in his KU Direct Testimony, pp. 20 - 21.

A. Yes. I reduced the rates on the projected issuance to 3.70%, which approximates the current yield on A-rated public utility debt as reported by Moody's Credit Trends. Please refer to Exhibit No. ___(RAB-8), pages 1 and 2, which show the recalculation of LGE's and KU's cost of long-term debt with the 3.70% coupon rates for the projected debt issuance. This lowers LGE's cost of long-term debt slightly to 4.04% from 4.16%. KU's cost of debt declines to 3.99% from 4.07%.[12]

Q. What is your recommended weighted cost of capital?

A. My weighted cost of capital is based on the capital structure, cost of debt, and cost of equity recommended by Mr. Kollen and myself. Mr. Kollen addresses the Company's cost of short-term debt. Table 3 below presents my weighted cost of capital for LGE and KU.

[12] Exhibit No. ___(RAB-8) was derived from spreadsheets the Companies provided in response to PSC 1-59.

TABLE 3
Louisville Gas & Electric
Weighted Cost of Capital

	Pct.	Cost Rate	Weighted Cost
Short-Term Debt	4.46%	0.30%	0.01%
Long-term Debt	42.79%	4.04%	1.73%
Common Equity	52.75%	8.60%	4.54%
Total	100.00%		6.28%

Kentucky Utilities
Weighted Cost of Capital

	Pct.	Cost Rate	Weighted Cost
Short-Term Debt	2.98%	0.30%	0.01%
Long-term Debt	44.00%	3.99%	1.76%
Common Equity	53.02%	8.60%	4.56%
Total	100.00%		6.32%

Q. How do the Companies' requested capital structure compare with the capital structure of your comparison group?

A. Table 4 below presents the 2013 equity and debt ratios for the companies in my comparison group as well as the group average capital structure components. These numbers were taken from the most recent Value Line reports for each company. LGE's and KU's requested common equity ratios of 52.75% and 53.02%, respectively, are higher than the comparison group's average equity ratio of 49.4%. Other things being equal, this shows that the Companies have lower financial risk than my comparison group.

TABLE 4
Comparison Group Capital Structure

	Common Equity	Preferred Equity	Long-term Debt
ALLETE, Inc.	55.4%	0.0%	44.6%
Alliant Energy Corporation	50.8%	3.1%	46.1%
Avista Corporation	48.6%	0.0%	51.4%
CMS Energy Corporation	32.2%	0.3%	67.5%
Consolidated Edison, Inc.	53.9%	0.0%	46.1%
Dominion Resources, Inc.	37.3%	0.8%	61.9%
Duke Energy Corporation	52.0%	0.0%	48.0%
Edison International	46.2%	8.1%	45.7%
Empire District Electric Co.	50.2%	0.0%	49.8%
Eversource Energy	54.8%	0.9%	44.3%
IDACORP, Inc.	53.4%	0.0%	46.6%
NorthWestern Corp.	46.5%	0.0%	53.5%
OGE Energy	56.9%	0.0%	43.1%
Pinnacle West Capital Corp.	60.0%	0.0%	40.0%
Portland General Electric	48.7%	0.0%	51.3%
Southern Company	45.8%	2.7%	51.5%
Westar Energy, Inc.	50.0%	0.0%	50.0%
Xcel Energy Inc.	46.7%	0.0%	53.3%
Averages	49.4%	0.9%	49.7%

IV. RESPONSE TO LGE AND KU TESTIMONY

Q. Have you reviewed the Direct Testimony of Dr. Avera and Mr. McKenzie?

A. Yes.

Q. Please summarize your conclusions with respect to their testimony and return on equity recommendation.

A. Dr. Avera's and Mr. McKenzie's[13] recommended 10.64% return on equity is grossly overstated and is completely unjustified in the current low interest rate environment. As I shall demonstrate later in this section of my testimony, the Company witnesses systematically made judgments that served to inflate their ROE results, particularly for the DCF and CAPM. As such, the Company witnesses provided very little useful guidance for the Commission with respect to the investor required ROE for LGE and KU.

Q. Beginning on page 12, the Company witnesses contended that current capital market conditions do not provide a representative basis on which to evaluate a fair ROE and that prevailing capital market conditions are "an anomaly" (page 13, lines 3 and 4). Do you agree with this assertion?

A. No. The fact is that the economy is in a low interest rate environment that is being supported quite deliberately by Federal Reserve policy. The Federal Reserve has supported the current low interest rate environment for several years, so it is hardly an "anomaly" as the Company witnesses characterized it. Lower current capital costs are

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13 For ease of reference, I will refer to Dr. Avera and Mr. McKenzie as "Company witnesses".

not consistent with the LGE witnesses' 10.64% recommendation return on equity in this proceeding.

Furthermore, current financial market conditions do indeed provide a representative basis for estimating the cost of equity capital for LGE and KU, and for utilities generally. The fact that interest rates are relatively low by historical standards does not preclude the rate of return analyst from making a reasonable assessment of investor required ROEs using current stock prices and interest rates.

Q. **On page 14 of the Company witnesses' Direct Testimony, Figure 2 shows higher forecasted interest rates through 2018 from several different forecasting sources. Should the Commission increase its allowed return on equity based on these higher interest rate forecasts?**

A. No. Higher interest rates have been forecasted for the last few years and they have not come to pass. Please refer to Table 5 below, which presents forecasted interest rates for 2014 included in Dr. Avera's Direct Testimony filed with the Florida Public Service Commission in Docket No. 120015-EI on behalf of Florida Power and Light Company ("FPL"). Dr. Avera's testimony was filed on March 19, 2012. Exhibit No. ___(RAB-9) provides his Exhibit WEA-2, which contains the sources of the interest rate forecasts used by Dr. Avera in that case. These interest rate forecasts were from November 25, 2011 through January 23, 2012.

TABLE 5

2014 Forecasted Interest Rates
Avera FP&L Testimony
Docket No. 120015-EI

	2014
30-Year Treasury	
- Value Line	4.5%
- IHS Global	4.5%
- Blue Chip	4.5%
AA Utility	
- IHS Global	5.6%
- EIA	5.7%

On page 29 of his Direct Testimony in Docket No. 120015-EI Dr. Avera testified that there was a "clear consensus that the cost of permanent capital will be higher in the 2012 - 2016 timeframe" and that current cost of capital estimates were conservative "because they are likely to understate investors' requirements at the time the rates set in this proceeding become effective."

Obviously, time has proven that the higher interest rate forecasts contained in Dr. Avera's FPL testimony failed to materialize. The current 30-year Treasury bond yield is approximately 2.60% and the Aa utility bond at the end of February 2015 was 3.63%, around 200 basis points lower than the forecasts presented by Dr. Avera. This points out why interest rate forecasts should not be used to justify higher (or lower) returns on equity than those based on current market conditions.

I will now address the Company witnesses' various approaches to estimating the investor required ROE for LGE and KU.

DCF Model

Q. Briefly summarize the Company witnesses' approach to the DCF model.

A. The Company witnesses constructed a group of electric and gas utilities for purposes of estimating the DCF ROE for the Companies. They used several sources of growth rate forecasts, which included IBES, Zacks, Reuters, and Value Line as well as an estimate of sustainable growth.

In their Exhibit No. 5, the Company witnesses adjusted their DCF ROE results by excluding certain company ROE results that, in their view, were too low. These results ranged from 3.4% to 7.4%. They did not exclude any DCF ROE results for being too high. After excluding low-end DCF results, their resulting range was 9.0% to 9.7% using an average of the remaining results. The midpoints ranged from 9.5% to 10.5%.

Q. Please respond to the Company witnesses' approach to formulating their DCF recommendation to the Commission.

A. Dr. Avera and Mr. McKenzie conducted a highly biased approach in formulating their DCF recommendations. They applied a test for excluding ROE results that, in their view, were too low but failed to examine whether any results should be excluded as being too high. In fact, there are several results that could be rejected as being too high based on current market conditions. For example, the average Commission-allowed ROE for 2013 that was reported by the Company witnesses in their Exhibit No. 8 was 10.02. In their response to LGE PSC-2, Question No. 45, the Company witnesses updated their risk premium analysis and showed that average 2014 Commission allowed ROE was 9.92%. With recent Commission allowed

ROEs of around 10%, the Company witnesses included ROEs in their Exhibit No. 5 ranging from 11.4% to 13.1%. *A review of Commission allowed returns contained in their Exhibit No. 8 reveals that 2002 was the last year that allowed returns on equity were as high as 11%. Further, the last Commission allowed return near 13% was in 1989.*

It is abundantly clear that the LGE witnesses' one-sided approach to excluding ROE results from their DCF analysis had the effect of inflating their DCF ROE recommendation.

Q. Have you conducted an alternative analysis that includes all of the DCF results from the Company witnesses' Exhibit No. 5?

A. Yes. Table 6 below presents the average and median ROEs utilizing all of the DCF results from the Company witnesses' Exhibit No. 5. For purposes of Table 5, I excluded the retention growth results since the Company witnesses gave less weight to that measure of growth.

Table 6
Avera/McKenzie ROE Results

Company	V Line	IBES	Zacks	Reuters
Alliant Energy	9.5%	8.2%	8.7%	8.7%
Ameren Corp.	8.7%	13.1%	12.5%	13.1%
Avista Corp.	9.6%	9.1%	NA	NA
Black Hills Corp.	12.6%	10.1%	NA	NA
CenterPoint Energy	7.6%	8.0%	8.6%	8.0%
CMS Energy Corp.	10.3%	10.6%	9.9%	10.6%
Consolidated Edison	6.5%	7.2%	7.4%	7.2%
Dominion Resources	9.1%	9.8%	9.1%	9.8%
DTE Energy Co.	10.1%	9.5%	9.9%	9.5%
Duke Energy Corp.	9.4%	9.1%	9.1%	9.1%
Empire District Elec	8.1%	7.1%	7.1%	7.1%
Entergy Corp.	5.4%	5.7%	3.4%	6.9%
Northeast Utilities	11.7%	10.0%	10.2%	9.7%
NorthWestern Corp.	6.9%	10.4%	10.4%	10.4%
PG&E Corp.	9.0%	10.9%	9.6%	10.9%
Pub Sv Enterprise Grp	6.1%	5.9%	6.2%	8.3%
SCANA Corp.	9.2%	8.8%	8.6%	8.8%
Sempra Energy	8.6%	10.1%	10.1%	10.1%
Vectren Corp.	12.6%	8.1%	8.3%	8.1%
Average	9.0%	9.0%	8.8%	9.2%
Median	9.1%	9.1%	9.1%	9.1%

Source: Avera/McKenzie Exhibit No. 5

Rather than arbitrarily excluding low-end results, I recommend that the median be used as an alternative measure of central tendency. As I testified in Section III, the median is not affected by extremely high or low results, but instead represents the middle value of the data set. If there are concerns about results that are either too high or too low, the median may be used as an additional reference for the investor required ROE.

Table 6 shows that when all results are considered, the average and median results from the Company witnesses' DCF analyses are quite close. In my opinion, this suggests that low-end results are offset by high-end results. Table 6 also shows how the Company witnesses' one-sided approach to excluding individual DCF results biased their results upward. If all DCF results are considered, the Company witnesses' average and median ROEs are quite close to my recommended ROE of 8.60%.

ECAPM

Q. Beginning on page 41 of their Direct Testimony, the Company witnesses describe the Empirical CAPM ("ECAPM") analysis. Is this a reasonable method to use to estimate the investor required ROE for LGE and KU?

A. No. The ECAPM is supposed to account for the possibility that the CAPM understates the return on equity for companies with betas less than 1.0. I believe it is highly unlikely that investors use the ECAPM formulation shown in Company witnesses' Exhibit No. 7 to "correct" CAPM returns for electric utilities. To the extent investors use the CAPM to estimate their required returns, I believe it is much more likely that they use the traditional CAPM equation that I used in Section III of my testimony. The Company witnesses presented no evidence that investors use the adjustment factors contained their ECAPM analyses. Moreover, the use of an adjustment factor to "correct" the CAPM results for companies with betas less than 1.0 suggests that published betas by such sources as Value Line are incorrect and that investors should not rely on them. In fact, the Company witnesses testified on page 44, lines 3 through 5 of their LGE Direct Testimony that investors rely on Value Line betas in evaluating returns for utility common stocks.

Q. Please continue your evaluation of the results of the Company witnesses' ECAPM analysis.

A. I disagree with the Company witnesses' general formulation of the ECAPM and in particular with their estimate of the expected market return. They estimated the market return portion of the ECAPM by estimating the current market return for dividend paying stocks in the S&P 500. This limited the so-called "market" return to only 408 companies.

The market return portion of the CAPM or ECAPM should represent the most comprehensive estimate of the total return for all investment alternatives, not just a small subset of publicly traded stocks. In practice, of course, finding such an estimate is difficult and is one of the more thorny problems in estimating an accurate ROE when using the CAPM. If one limits the market return to stocks, then there are more comprehensive measures of the stock market available, such as the Value Line Investment Survey that I used in my CAPM analysis. Value Line's projected earnings growth used a sample of 2,280 stocks and its book value growth estimate used 1,531 stocks. Value Line's projected annual percentage return included 1,664 stocks. These are much broader samples than the LGE witnesses' limited sample of dividend paying stocks from the S&P 500.

Q. Did the Company witnesses overstate the expected market return component of the ECAPM.

A. Yes, most definitely. My forward-looking market returns show an expected return on the market of around 10%, far less than the 13.1% expected return result for the limited sample of companies that the Company witnesses used for their ECAPM market return.

It is also instructive to look at long-term historical risk premiums in connection with current expected returns. The historical risk premiums I included from Morningstar range from 5.01% to 7.01%. In stark contrast, the market premium used by the Company witnesses is 9.7%.

Q. On pages 44 through 45 of their Direct Testimony, the Company witnesses explained that they incorporated a size adjustment to their ECAPM results, thereby increasing the average ECAPM cost of equity from 11.1% to 11.9%. Is this size adjustment appropriate?

A. No. The data that the Company witnesses relied upon to make this adjustment came from the *Ibbotson SBBI 2014 Classic Yearbook* published by Morningstar. The groups of companies from which the Company witnesses took this significant upward adjustment to their ECAPM results contain many unregulated companies. Further, the decile groups from which these adjustments were taken had average betas ranging from 0.91 to 1.30. These betas are greatly in excess of the their utility group average beta of 0.72, suggesting that the companies the Company witnesses used to make their size adjustment are more risky than the regulated utilities that comprise their utility group. There is no evidence to suggest that the size premium used by the Company witnesses applies to regulated utility companies, which on average are quite different from the group of companies included in the Morningstar research on size premiums. I recommend that the Commission reject the Company witnesses' size premium in the CAPM ROE.

Q. On page 45 of their Direct Testimony, the Company witnesses recommended using projected bond yields in their risk premium and ECAPM ROE models. Should the Commission consider using forecasted bond yields in its ROE analysis in this proceeding?

A. Definitely not. Current interest rates and bond yields embody all of the relevant market data and expectations of investors, including expectations of changing future interest rates. The forecasted bond yields used by the Company witnesses are speculative at best and may never come to pass. Current interest rates present tangible market evidence of investor return requirements today, and these are the interest rates and bond yields that should be used in both the ECAPM and in the bond yield plus risk premium analysis. To the extent that investors give forecasted interest rates any weight at all, they are already incorporated in current securities prices.

Further, the Company witnesses' use of forecasted bond yields results in overstated ECAPM results that are completely out of line with recent Commission-allowed ROEs. I mentioned earlier that the average Commission-allowed ROE was 9.92% in 2014. Using forecasted bond yields in the ECAPM and with the size adjustment implies a cost of equity of 12.2%. Without the size adjustment the ECAPM result would be 11.4%. Both of these ROE estimates are far in excess of recently allowed Commission returns and should be rejected by the Commission.

<u>**Utility Risk Premium**</u>

Q. Please summarize the Company witnesses' risk premium approach.

A. The Company witnesses developed an historical risk premium using Commission-allowed returns for regulated utility companies from 1974 through 2013. They also used regression analysis to estimate the value of the inverse relationship between interest rates and risk premiums during that period. On page 49 of their LGE Direct Testimony, the Company witnesses calculated the risk premium return on equity to be 10.09% using the current BBB utility bond yield and 11.25% using a forecasted bond yield.

Q. Please respond to the Company witnesses' risk premium analysis.

A. Generally, the bond yield plus risk premium approach is imprecise and can only provide very general guidance on the current authorized ROE for a regulated electric utility. Risk premiums can change substantially over time and with varying risk perceptions of investors. As such, this approach is a "blunt instrument", if you will, for estimating the ROE in regulated proceedings. In my view, a properly formulated DCF model using current stock prices and growth forecasts is far more reliable and accurate than the bond yield plus risk premium approach, which relies on an historical risk premium analysis over a certain period of time.

Finally, for the reasons I discussed earlier, the use of forecasted bond yields is inappropriate and should be rejected.

<u>Flotation Costs</u>

Q. Beginning on page 49 of their Direct Testimony, the Company witnesses discuss flotation costs. Are flotation costs a legitimate consideration for the Commission's determination of ROE in this proceeding?

A. No. The Company witnesses recommended that the Commission consider adding an adjustment of 14 basis to recognize flotation costs. A flotation cost adjustment attempts to recognize and collect the costs of issuing common stock. Such costs typically include legal, accounting, and printing costs as well as well as broker fees and discounts.

In my opinion, it is likely that flotation costs are already accounted for in current stock prices and that adding an adjustment for flotation costs amounts to double counting. A DCF model using current stock prices should already account for investor expectations regarding the collection of flotation costs. Multiplying the dividend yield by a 4% flotation cost adjustment, for example, essentially assumes that the current stock price is wrong and that it must be adjusted downward to increase the dividend yield and the resulting cost of equity. I do not believe that this is an appropriate assumption. Current stock prices most likely already account for flotation costs, to the extent that such costs are even accounted for by investors.

Expected Earnings Approach

Q. Beginning on page 55 of their LGE Direct Testimony, the Company witnesses presented an expected earnings approach based on expected returns on equity using Value Line's rates of return on common equity for electric utilities over its 2017 - 2019 forecast horizon. Is this a reasonable method for estimating the current required return on equity in this proceeding?

A. No. The Commission should not rely on forecasted utility ROEs for 2017 - 2019 for the same reasons that it should not rely on interest rate forecasts. These forecasts return on equity have little value in today's market, especially considering that current DCF returns are significantly lower than these forecasts. Once again, I recommend that the Commission rely on current market data as the best measure of investor required returns today, and not forecasted accounting returns on book equity several years from now.

Low Risk Non-Utility DCF

Q. Beginning of page 57 of their LGE Direct Testimony, the Company witnesses present the results of a low-risk non-utility DCF model. Is it appropriate to use a group of unregulated companies to estimate a fair return on equity for LGE and KU?

A. Absolutely not. The Company witnesses' use of unregulated non-utility companies to estimate a fair rate of return for LGE and KU is completely inappropriate and should be rejected by the Commission.

Utilities have protected markets, e.g. service territories, and may increase the prices they charge in the face of falling demand or loss of customers. This is contrary to competitive, unregulated companies who often lower their prices when demand for their products decline. Generally, the non-utility companies simply do not have these characteristics and must compete with other firms selling the same product for sales and for customers. Obviously, the non-utility companies have higher overall risk structures than a lower risk electric company like LGE or KU and will have higher required returns from their shareholders. It is not at all surprising that the Company witnesses' ROE results for their Non-Utility Proxy Group were substantially higher than the results for their utility group. Given the higher business risk for the non-utility group of companies, this is exactly the result that would have been expected. However, these results do not form any kind of reasonable basis to estimate the investor required ROE for LGE and KU. Quite the contrary, the returns from the non-utility proxy group are a good measure of returns that are, by definition, substantially in excess of those to be expected in the utility segment.

Q. Does this complete your Direct Testimony?

A. Yes.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF: THE APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES	:	**Case No. 2014-00371**
IN THE MATTER OF: THE APPLICATION OF LOUISVILLE GAS & ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES	:	**Case No. 2014-00372**

AFFIDAVIT OF RICHARD A. BAUDINO

STATE OF NORTH CAROLINA)
COUNTY OF Surry)

Richard A. Baudino being first duly sworn, deposes and states that:

1. He is a consultant with J. Kennedy & Associates, Inc.;

2. He is the witness who sponsors the accompanying testimony entitled "Direct Testimony and Exhibits of Richard A. Baudino;"

3. Said testimony was prepared by him and under his direction and supervision;

4. If inquiries were made as to the facts and schedules in said testimony he would respond as therein set forth; and

5. The aforesaid testimony and schedules are true and correct to the best of his knowledge, information and belief.

Richard A. Baudino
Richard A. Baudino

Subscribed and sworn to or affirmed before me this 4th day of March, 2015, by Richard A. Baudino.

Laura C. East
Notary Public
my commission expires: 4-9-18

LAURA C. EAST
NOTARY PUBLIC
SURRY COUNTY, NC

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES	)))	**CASE NO. 2014-00371**

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES	))))	**CASE NO. 2014-00372**

EXHIBITS

OF

RICHARD A. BAUDINO

ON BEHALF OF

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

MARCH 6, 2015

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC RATES	)))	**CASE NO. 2014-00371**

In the Matter of:

APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC AND GAS RATES	))))	**CASE NO. 2014-00372**

EXHIBIT (RAB -1)

OF

RICHARD A. BAUDINO

ON BEHALF OF

KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.

J. KENNEDY AND ASSOCIATES, INC.
ROSWELL, GEORGIA

MARCH 6, 2015

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

Thirty-two years of experience in utility ratemaking and the application of principles of economics to the regulation of electric, gas, and water utilities. Broad based experience in revenue requirement analysis, cost of capital, rate of return, cost and revenue allocation, and rate design.

REGULATORY TESTIMONY

Preparation and presentation of expert testimony in the areas of:

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

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, electric and gas industry restructuring/competition and water utility issues.

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

Other Clients and Client Groups

Ad Hoc Committee for a Competitive Electric Supply System
Air Products and Chemicals, Inc.
Arkansas Electric Energy Consumers
Arkansas Gas Consumers
AK Steel
Armco Steel Company, L.P.
Assn. of Business Advocating Tariff Equity
CF&I Steel, L.P.
Climax Molybdenum Company
Cripple Creek & Victor Gold Mining Co.
General Electric Company
Holcim (U.S.) Inc.
IBM Corporation
Industrial Energy Consumers
Kentucky Industrial Utility Consumers
Lexington-Fayette Urban County Government
Large Electric Consumers Organization
Newport Steel
Northwest Arkansas Gas Consumers
Maryland Energy Group
Occidental Chemical
PSI Industrial Group
Large Power Intervenors (Minnesota)
Tyson Foods
West Virginia Energy Users Group
The Commercial Group
Wisconsin Industrial Energy Group
South Florida Hospital and Health Care Assn.
PP&L Industrial Customer Alliance
Philadelphia Area Industrial Energy Users Gp.
West Penn Power Intervenors
Duquesne Industrial Intervenors
Met-Ed Industrial Users Gp.
Penelec Industrial Customer Alliance
Penn Power Users Group
Columbia Industrial Intervenors
U.S. Steel & Univ. of Pittsburg Medical Ctr.
Multiple Intervenors
Maine Office of Public Advocate
Missouri Office of Public Counsel
University of Massachusetts - Amherst
WCF Hospital Utility Alliance
West Travis County Public Utility Agency

Expert Testimony Appearances
of
Richard A. Baudino
As of March 2015

Date	Case	Jurisdict.	Party	Utility	Subject
10/83	1803, 1817	NM	New Mexico Public Service Commission	Southwestern Electric Coop.	Rate design.
11/84	1833	NM	New Mexico Public Service Commission Palo Verde	El Paso Electric Co.	Service contract approval, rate design, performance standards for 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.
09/85	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, PVNGS 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.
10/87	2146	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Financial effects of restructuring, reorganization.
07/88	2162	NM	New Mexico Public Service Commission	El Paso Electric Co.	Revenue requirements, rate design, rate of return.

Expert Testimony Appearances
of
Richard A. Baudino
As of March 2015

Date	Case	Jurisdict.	Party	Utility	Subject
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 G&T Cooperative	Financing.
08/89	2259	NM	New Mexico Public Service Commission	Homestead Water Co.	Rate of return, rate design.
10/89	2262	NM	New Mexico Public Service Commission	Public Service Co. of New Mexico	Rate of return.
09/89	2269	NM	New Mexico Public Service Commission	Ruidoso Natural Gas Co.	Rate of return, expense from affiliated interest.
12/89	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.
09/90	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-AIR	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.
09/92	92-032-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost of equity, rate of return, cost-of-service.
09/92	39314	ID	Industrial Consumers for Fair Utility Rates	Indiana Michigan Power Co.	Cost of equity, rate of return.

**Expert Testimony Appearances
of
Richard A. Baudino
As of March 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
09/92	92-009-U	AR	Tyson Foods	General Waterworks	Cost allocation, rate design.
01/93	92-346	KY	Newport Steel Co.	Union Light, Heat & Power Co.	Cost allocation.
01/93	39498	IN	PSI Industrial Group	PSI Energy	Refund allocation.
01/93	U-10105	MI	Association of Businesses Advocating Tariff Equality (ABATE)	Michigan Consolidated Gas Co.	Return on equity.
04/93	92-1464-EL-AIR	OH	Air Products and Chemicals, Inc., Armco Steel Co., Industrial Energy Consumers	Cincinnati Gas & Electric Co.	Return on equity.
09/93	93-189-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Transportation service terms and conditions.
09/93	93-081-U	AR	Arkansas Gas Consumers	Arkansas Louisiana Gas Co.	Cost-of-service, transportation rates, rate supplements; return on equity; revenue requirements.
12/93	U-17735	LA	Louisiana Public Service Commission Staff	Cajun Electric Power Cooperative	Historical reviews; evaluation of economic studies.
03/94	10320	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric Co.	Trimble County CWIP revenue refund.
4/94	E-015/ GR-94-001	MN	Large Power Intervenors	Minnesota Power Co.	Evaluation of the cost of equity, capital structure, and rate of return.
5/94	R-00942993	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 charge proposals.	Evaluation of cost allocation, rate design, rate plan, and carrying
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.

Expert Testimony Appearances
of
Richard A. Baudino
As of March 2015

Date	Case	Jurisdict.	Party	Utility	Subject
8/94	8652	MD	Westvaco Corp. Co.	Potomac Edison	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	8629	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	8697	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 -000	FERC	Louisiana Public Service Commission	Systems Energy Resources, Inc.	Return on Equity.
11/95	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.

**Expert Testimony Appearances
of
Richard A. Baudino
As of March 2015**

Date	Case	Jurisdict.	Party	Utility	Subject
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. Intervenors	PGE Industrial	Cost allocation.
8/98	U-17735	LA	Louisiana Public Service Commission	Cajun Electric Power Cooperative	Revenue requirements.
10/98	97-596	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric Co.	Return on equity, rate of return.
10/98	U-23327	LA	Louisiana Public Service Commission	SWEPCO, CSW and AEP	Analysis of proposed merger.
12/98	98-577	ME	Maine Office of the Public Advocate	Maine Public Service Co.	Return on equity, rate of return.
12/98	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 Intervenors	Columbia Gas of Pennsylvania	Balancing charges.
10/99	U-24182	LA	Louisiana Public Service Commission	Entergy Gulf States,Inc.	Cost of debt.

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10/99	R-00994782	PA	Peoples Industrial Intervenors	Peoples Natural Gas Co.	Restructuring issues.
10/99	R-00994781	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Restructuring, balancing charges, rate flexing, alternate fuel.
01/00	R-00994786	PA	UGI Industrial Intervenors	UGI Utilities, Inc.	Universal service costs, balancing, penalty charges, capacity Assignment.
01/00	8829	MD & United States	Maryland Industrial Gr.	Baltimore Gas & Electric Co.	Revenue requirements, cost allocation, rate design.
02/00	R-00994788	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 Commission	Southwestern Electric Power Co.	Stranded cost analysis.
09/00	R-00005654	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 Commission	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 Commission	Entergy Gulf States, Inc.	Return on equity.
03/01	U-22092	LA	Louisiana Public Service Commission	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 Commission	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.

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11/01	U-25687	LA	Louisiana Public Service Commission	Entergy Gulf States, Inc.	Return on equity.
03/02	14311-U	GA	Georgia Public Service Commission	Atlanta Gas Light	Capital structure.
08/02	2002-00145	KY	Kentucky Industrial Utility Customers	Columbia Gas of Kentucky	Revenue requirements.
09/02	M-00021612	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-594E	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
06/05	050045-EI	FL	South Florida Hospital and HeallthCare Assoc.	Florida Power & Light Co.	Return on equity
08/05	9036	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.

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03/06	05-1278-E-PC-PW-42T	WV	West Virginia Energy Users Group	Appalachian Power Company	Return on equity.
04/06	U-25116 Commission	LA	Louisiana Public Service	Entergy Louisiana, LLC	Transmission Issues
07/06	U-23327 Commission	LA	Louisiana Public Service	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	06-0960-E-42T Users Group	WV	West Virginia Energy	Monongahela Power & Potomac Edison	Return on Equity
01/07	43112	AK	AK Steel, Inc.	Vectren South, Inc.	Cost allocation, rate design
05/07	2006-661	ME	Maine Office of the Public Advocate	Bangor Hydro-Electric	Return on equity, weighted cost of capital.
09/07	07-07-01	CT	Connecticut Industrial Energy Consumers	Connecticut Light & Power	Return on equity, weighted cost of capital
10/07	05-UR-103	WI	Wisconsin Industrial Energy Group, Inc.	Wisconsin Electric Power Co.	Return on equity
11/07	29797	LA	Louisiana Public Service Commission	Cleco Power :LLC & Southwestern Electric Power	Lignite Pricing, support of settlement
01/08	07-551-EL-AIR	OH	Ohio Energy Group	Ohio Edison, Cleveland Electric, Toledo Edison	Return on equity
03/08	07-0585, 07-0585, 07-0587, 07-0588, 07-0589, 07-0590, (consol.)	IL	The Commercial Group	Ameren	Cost allocation, rate design
04/08	07-0566	IL	The Commercial Group	Commonwealth Edison	Cost allocation, rate design
06/08	R-2008-2011621	PA	Columbia Industrial Intervenors	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

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07/08	R-2008-2039634	PA	PPL Gas Large Users Group	PPL Gas	Retainage, LUFG Pct.
08/08	6680-UR-116	WI	Wisconsin Industrial Energy Group	Wisconsin P&L	Cost of Equity
08/08	6690-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
10/08	R-2008-2029325	PA	U.S. Steel & Univ. of Pittsburgh Med. Ctr.	Equitable Gas Co.	Cost and revenue allocation
10/08	08-G-0609	NY	Multiple Intervenors	Niagara Mohawk Power	Cost and Revenue allocation
12/08	27800-U	GA	Georgia Public Service Commission	Georgia Power Company	CWIP/AFUDC issues, Review financial projections
03/09	ER08-1056	FERC	Louisiana Public Service Commission	Entergy Services, Inc.	Capital Structure
04/09	E002/GR-08-1065	MN	The Commercial Group	Northern States Power	Cost and revenue allocation and rate design
05/09	08-0532	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation
07/09	080677-EI	FL	South Florida Hospital and Health Care Association	Florida Power & Light	Cost of equity, capital structure, Cost of short-term debt
07/09	U-30975	LA	Louisiana Public Service Commission	Cleco LLC, Southwestern Public Service Co.	Lignite mine purchase
10/09	4220-UR-116	WI	Wisconsin Industrial Energy Group	Northern States Power	Class cost of service, rate design
10/09	M-2009-2123945	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Smart Meter Plan cost allocation
10/09	M-2009-2123944	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Company	Smart Meter Plan cost allocation
10/09	M-2009-2123951	PA	West Penn Power Industrial Intervenors	West Penn Power	Smart Meter Plan cost allocation
11/09	M-2009-2123948	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Smart Meter Plan cost allocation
11/09	M-2009-2123950	PA	Met-Ed Industrial Users Group Penelec Industrial Customer Alliance, Penn Power Users Group	Metropolitan Edison, Pennsylvania Electric Co., Pennsylvania Power Co.	Smart Meter Plan cost allocation

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03/10	09-1352-	WV E-42T	West Virginia Energy Users Group	Monongahela Power	Return on equity, rate of return Potomac Edison
03/10	E015/GR-09-1151	MN	Large Power Intervenors	Minnesota Power	Return on equity, rate of return
04/10	2009-00459	KY	Kentucky Industrial Utility Consumers	Kentucky Power	Return on equity
04/10	2009-00548 2009-00549	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
05/10	10-0261-E-GI	WV	West Virginia Energy Users Group	Appalachian Power Co./ Wheeling Power Co.	EE/DR Cost Recovery, Allocation, & Rate Design
05/10	R-2009-2149262	PA	Columbia Industrial Intervenors	Columbia Gas of PA	Class cost of service & cost allocation
06/10	2010-00036	KY	Lexington-Fayette Urban County Government	Kentucky American Water Company	Return on equity, rate of return, revenue requirements
06/10	R-2010-2161694	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities	Rate design, cost allocation
07/10	R-2010-2161575	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Return on equity
07/10	R-2010-2161592	PA	Philadelphia Area Industrial Energy Users Group	PECO Energy Co.	Cost and revenue allocation
07/10	9230	MD	Maryland Energy Group	Baltimore Gas and Electric	Electric and gas cost and revenue allocation; return on equity
09/10	10-70	MA	University of Massachusetts-Amherst	Western Massachusetts Electric Co.	Cost allocation and rate design
10/10	R-2010-2179522	PA	Duquesne Industrial Intervenors	Duquesne Light Company	Cost and revenue allocation, rate design
11/10	P-2010-2158084	PA	West Penn Power Industrial Intervenors	West Penn Power Co.	Transmission rate design
11/10	10-0699-E-42T	WV	West Virginia Energy Users Group	Appalachian Power Co. & Wheeling Power Co.	Return on equity, rate of Return
11/10	10-0467	IL	The Commercial Group	Commonwealth Edison	Cost and revenue allocation and rate design
04/11	R-2010-2214415	PA	Central Pen Gas Large Users Group	UGI Central Penn Gas, Inc.	Tariff issues, revenue allocation
07/11	R-2011-2239263	PA	Philadelphia Area Energy Users Group	PECO Energy	Retainage rate

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08/11	R-2011-2232243	PA	AK Steel	Pennsylvania-American Water Company	Rate Design
08/11	11AL-151G	CO	Climax Molybdenum	PS of Colorado	Cost allocation
09/11	11-G-0280	NY	Multiple Intervenors	Corning Natural Gas Co.	Cost and revenue allocation
10/11	4220-UR-117	WI	Wisconsin Industrial Energy Group	Northern States Power	Cost and revenue allocation, rate design
02/12	11AL-947E	CO	Climax Molybdenum, CF&I Steel	Public Service Company of Colorado	Return on equity, weighted cost of capital
07/12	120015-EI	FL	South Florida Hospitals and Health Care Association	Florida Power and Light Co,	Return on equity, weighted cost of capital
07/12	12-0613-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal for Century Aluminum
07/12	R-2012-2290597	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities Corp.	Cost allocation
09/12	05-UR-106	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Class cost of service, cost and revenue allocation, rate design
09/12	2012-00221 2012-00222	KY	Kentucky Industrial Utility Consumers	Louisville Gas and Electric, Kentucky Utilities	Return on equity.
10/12	9299	MD	Maryland Energy Group	Baltimore Gas & Electric	Cost and revenue allocation, rate design Cost of equity, weighted cost of capital
10/12	4220-UR-118	WI	Wisconsin Industrial Energy Group	Northern States Power Company	Class cost of service, cost and revenue allocation, rate design
10/12	473-13-0199	TX	Steering Committee of Cities Served by Oncor	Cross Texas Transmission, LLC	Return on equity, capital structure
01/13	R-2012-2321748 et al.	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation
02/13	12AL-1052E	CO	Cripple Creek & Victor Gold Mining, Holcim (US) Inc.	Black Hills/Colorado Electric Utility Company	Cost and revenue allocations
06/13	8009	VT	IBM Corporation	Vermont Gas Systems	Cost and revenue allocation, rate design
07/13	130040-EI	FL	WCF Hospital Utility Alliance	Tampa Electric Co.	Return on equity, rate of return
08/13	9326	MD	Maryland Energy Group	Baltimore Gas and Electric	Cost and revenue allocation, rate design, special rider

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08/13	P-2012-2325034	PA	PP&L Industrial Customer Alliance	PPL Electric Utilities, Corp.	Distribution System Improvement Charge
09/13	4220-UR-119	WI	Wisconsin Industrial Energy Group	Northern States Power Co.	Class cost of service, cost and revenue allocation, rate design
11/13	13-1325-E-PC	WV	West Virginia Energy Users Group	American Electric Power/APCo	Special rate proposal, Felman Production
06/14	R-2014-2406274	PA	Columbia Industrial Intervenors	Columbia Gas of Pennsylvania	Cost and revenue allocation, rate design
08/14	05-UR-107	WI	Wisconsin Industrial Energy Group	Wisconsin Electric Power Co.	Cost and revenue allocation, rate design
10/14	ER13-1508 et al.	FERC	Louisiana Public Service Comm.	Entergy Services, Inc.	Return on equity
11/14	14AL-0660E	CO	Climax Molybdenum Co. and CFI Steel, LP	Public Service Co. of Colorado	Return on equity, weighted cost of capital
11/14	R-2014-2428742	PA	AK Steel	West Penn Power Company	Cost and revenue allocation
12/14	42866	TX	West Travis Co. Public Utility Agency	Travis County Municipal Utility District No. 12	Response to complain of monopoly power
3/15	2014-00371 2014-00372	KY	Kentucky Industrial Utility Customers	Louisville Gas & Electric, Kentucky Utilities	Return on equity, cost of debt, cost of capital