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Via Overnight Mail

January 17, 2012

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

Re: Docket No. E-01345A-11-0224

Dear Sir or Madam:

Attached please find the original and 13 copies each of the TESTIMONY IN SUPPORT OF SETTLEMENT OF STEPHEN J. BARON on behalf of THE KROGER CO. for filing in the above-referenced matter.

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

Very Truly Yours,



Kurt J. Boehm, Esq.
BOEHM, KURTZ & LOWRY

John William Moore, Jr., (Az. Bar No. 021942)

COUNSEL FOR THE KROGER CO.

KJB/kew
Attachments

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

**GARY PIERCE, CHAIRMAN
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS**

**IN THE MATTER OF THE APPLICATION OF)
ARIZONA PUBLIC SERVICE COMPANY FOR)
A HEARING TO DETERMINE THE FAIR VALUE)
OF THE UTILITY PROPERTY OF THE COMPANY) Docket No. E-01345A-11-0224
FOR RATEMAKING PURPOSES, TO FIX A JUST)
AND REASONABLE RATE OF RETURN)
THEREON, TO APPROVE RATE SCHEDULES)
DESIGNED TO DEVELOP SUCH RETURN)**

**TESTIMONY IN SUPPORT OF
SETTLEMENT

OF

STEPHEN J. BARON**

**ON BEHALF OF THE

KROGER CO.**

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

January 2012

BEFORE THE
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
ARIZONA PUBLIC SERVICE COMPANY FOR)
A HEARING TO DETERMINE THE FAIR VALUE)
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DESIGNED TO DEVELOP SUCH RETURN)

TESTIMONY IN SUPPORT OF SETTLEMENT OF STEPHEN J. BARON

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

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

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

7 A. Yes. I presented testimony in three previous Arizona Public Service Company rate
8 cases on behalf of Kroger Co. in 2004, 2006 and in 2008 (Docket Nos. E-01345-03-
9 0437, E-01345A-05-0816 and E-01345A-08-0172). I also presented testimony in
10 two Tucson Electric Power Company proceedings; in 1981 on behalf of the
11 Commission (Docket No. U-1933I) and in 2008 on behalf of Kroger Co. (Docket
12 No. E-01933A-07-0402).

1 **Q. Have you previously submitted testimony in the proceeding?**

2 A. Yes. I submitted Direct Testimony on Cost of Service/Rate Design and Decoupling.

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

4 A. I will be presenting brief testimony in support of the Proposed Rate Settlement
5 Agreement of January 6, 2012 ("Settlement Agreement"). Kroger is a signatory to this
6 agreement and fully supports the settlement for the reasons that I will discuss below.
7 Kroger did not present testimony on the overall level of APS's revenue requirement
8 increase. Our testimony was limited to the allocation of the overall approved revenue
9 increase to rate classes, specific rate design issues affecting general service rates and
10 proposals regarding a decoupling mechanism. Notwithstanding this, Kroger supports
11 the entire settlement and believes that it will result in reasonable rates.

12 **Q. Have you specifically reviewed the provisions of the settlement regarding**
13 **revenue requirement?**

14 A. Yes. The proposed Settlement contemplates that APS receive a base rate increase of
15 zero dollars. This amount is comprised of: (1) a non-fuel base rate increase of
16 \$116.3 million, which includes providing for a return on and of plant that is in
17 service as of March 31, 2012; (2) a fuel base rate decrease of \$153.1 million; and (3)
18 a transfer of cost recovery from the Renewable Energy Surcharge to base rates. I
19 believe that this is a reasonable settlement result.

20 **Q. Have you reviewed the proposed settlement rate design for large**
21 **commercial customer rate schedules?**

1 A. Yes. Based on my review of the proposed tariffs and the issues that I addressed in my
2 Direct Testimony in this case, I believe that the proposed settlement is reasonable and
3 consistent with the underlying cost of service. I therefore fully support and recommend
4 approval of the Settlement Agreement.

5 **Q. Have you reviewed the proposed settlement provisions concerning the Lost**
6 **Fixed Cost Recovery (“LFCR”) mechanism?**

7 A. Yes. Kroger supports the provision of the LFCR mechanism that exempts E-32 L, E-32
8 L TOU and other schedules consisting of large business customers from the LFCR
9 mechanism. It is appropriate to exempt these customers from the LFCR mechanism
10 because the level of costs recovered through demand charges in these schedules is
11 sufficiently high to significantly reduce the revenue risk to the Company as a result of
12 energy conservation.

13 **Q. Are there additional reasons why you believe that the Commission should**
14 **approve the Settlement Agreement?**

15 A. Yes. The rate case stability provision, freezing base rates until July 1, 2016 is likely to
16 be of significant benefit to all of the Company’s ratepayers.

17 Additionally, Kroger supports the proposed Experimental Rate Schedule AG-1. Kroger
18 is hopeful that the AG-1 rate will result in savings for large commercial customers.

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

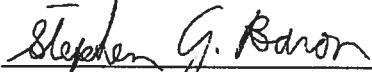
20 A. Yes

AFFIDAVIT

STATE OF GEORGIA)

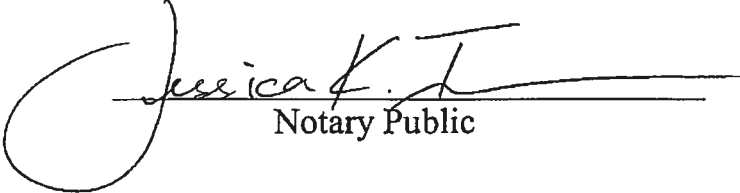
COUNTY OF FULTON)

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



Stephen J. Baron

Sworn to and subscribed before me on this
17th day of January 2012.

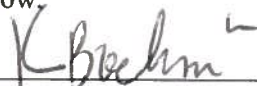


Notary Public



CERTIFICATE OF SERVICE

I hereby certify that true copy of the foregoing was served by electronic mail (when available) or regular U.S. mail 18th day of January 2012 on the parties listed below.


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