**COMMONWEALTH OF MASSACHUSETTS**
**DEPARTMENT OF PUBLIC UTILITIES**

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| **Petition of NSTAR Electric Company and** | **)** | |
| **Western Massachusetts Electric Company, each** | **)** | |
| **d/b/a Eversource Energy for Approval of** | **)** | **D.P.U. 17-05, Phase II** |
| **an Increase in Base Distribution Rates for Electric** | **)** | |
| **Service Pursuant to G.L. c. 164, §94 and** | **)** | |
| **220 C.M.R. §5.00** | **)** | |

**SUPPLEMENTAL DIRECT TESTIMONY OF**

**JONATHAN F. WALLACH**

**ON BEHALF OF**

**THE CAPE LIGHT COMPACT JPE**

**AUGUST 15, 2017**

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## I. INTRODUCTION

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

A. My name is Jonathan F. Wallach. My business address is Resource Insight, Inc., 5 Water Street, Arlington, Massachusetts.

**Q. Have you previously provided testimony in this proceeding?**

A. Yes. On April 27, 2017, I filed direct testimony with the Department of Public Utilities (the "Department") on behalf of the Cape Light Compact JPE (the "Compact"). My direct testimony addressed various rate-design proposals by NSTAR Electric Company ("NSTAR Electric") and Western Massachusetts Electric Company ("WMECO"), each d/b/a Eversource Energy ("Eversource"), as set forth in the ten-volume filing entitled Petition for Approval of a Performance-Based Ratemaking Mechanism and General Distribution Revenue Change, D.P.U. 17-05, and dated January 17, 2017 (the "Initial Filing"). Specifically, my direct testimony addressed Eversource's proposals to:

- Set the customer charge at $8.00 per customer per month for all NSTAR Electric residential customers.
- Recover a monthly minimum reliability contribution ("MMRC") from NSTAR Electric residential customers who commence net-metering service on or after January 1, 2018 by charging a higher customer charge than proposed for other residential customers and by imposing a demand charge.

**Q. What is the purpose of your supplemental direct testimony?**

A. In rebuttal testimony, dated May 19, 2017 ("May 19 Rebuttal Filing"), Eversource stated that it would be filing at a later date a "refined rate design to address certain concerns raised in public and written comments, and in testimony." (May 19 Rebuttal Filing, Exh. ES-RDP-Rebuttal-1 at 2.) In a supplemental response to Information Request DPU-56-9, dated June 1, 2017 ("June 1 Filing"), Eversource proposed an alternative approach for recovering 2018 test year base distribution revenue requirements from ratepayers in the eastern ("EMA") and western ("WMA") Massachusetts regional service territories. As part of this "refined rate design," Eversource also proposed alternative approaches for recovering reconciling-rate and transmission revenues from EMA and WMA customers.[1] My supplemental testimony addresses various aspects of these proposed alternative approaches, specifically with respect to the impacts of these proposals on rates and bills for EMA residential customers.

Finally, the June 1 Filing proposes higher customer and demand charges for residential MMRC customers and a delay in the implementation of the MMRC until January 1, 2019. My supplemental testimony also responds to these proposed modifications.

**Q. Have you revised any of the recommendations in your direct testimony in light of Eversource's June 1 Filing?**

[1] Actually, Eversource makes no mention of its proposed alternative treatment of reconciling-rate revenues in either the May 19 Rebuttal Filing or the June 1 Filing. As far as I am aware, Eversource first discusses an alternative approach for recovering reconciling-rate revenues in response to discovery.

A. No. I continue to recommend that the Department reject Eversource's proposals in the Initial Filing to set the customer charge for NSTAR Electric residential customers at $8.00 per customer per month and to impose an additional customer charge on new net-metering residential customers. I also continue to recommend that the customer charge for all customers in each residential rate class (including new net-metering customers) instead be set at: (1) the current average rate for each rate class if the Department approves the consolidation of rates across NSTAR Electric; or (2) the current rates for each of the Boston Edison Company ("BECO"), Cambridge Electric Light Company ("CAMB"), and Commonwealth Electric Company ("COM") service territories of NSTAR Electric if not.

Moreover, I continue to recommend that the Department reject Eversource's proposal to impose a demand charge on residential customers who commence net-metering service on or after January 1, 2018. I also continue to recommend that Eversource be directed to estimate the price and non-price benefits attributable to excess generation from net-metered renewable resources.

**Q. How is the rest of your testimony organized?**

A. In Section II, I discuss how Eversource's alternative approach for recovering base distribution revenue requirements would cause EMA residential customers to bear costs that have been incurred to serve WMA non-residential customers, contrary to basic ratemaking principles.[2] In Sections III and IV, I explain how Eversource's

[2] Non-residential customers include customers that take service under general service or streetlighting tariffs.

alternative approach for recovering reconciling-rate and transmission revenues, respectively, would likewise arbitrarily and inequitably shift costs from WMA non-residential onto EMA residential customers. In Section V, I address Eversource's alternative proposal with regard to the MMRC. Finally, Section VI summarizes my conclusions and recommendations.

**Q. Before you present these findings in detail, what is your overall impression of Eversource's alternative rate-design proposals for EMA residential customers?**

A. As with Eversource's proposals for residential customer and demand charges in the Initial Filing, Eversource's alternative rate-design proposals in the June 1 Filing run counter to the Department's long-standing rate-design goals. As I discuss in detail below, Eversource's alternative rate-design proposals would yield base distribution, reconciling, and transmission rates for EMA residential customers that are neither cost-based nor fair. Moreover, customer and demand charges for EMA residential MMRC customers would be even higher under Eversource's alternative rate-design proposals than those proposed by Eversource in the Initial Filing. These higher customer and demand charges will further dampen price signals, making it even harder to achieve the Department's economic efficiency goal.

## II. BASE DISTRIBUTION COSTS

**Q. Please describe the key elements of the alternative approach for recovering base distribution costs as proposed by Eversource in its June 1 Filing.**

A. In the Initial Filing, Eversource forecasted 2018 test-year revenue requirements and revenue deficiencies separately for the EMA and WMA regional service territories, and then allocated the revenue deficiencies to rate classes in each region based on the results of separate cost of service studies for each region.

In the June 1 Filing, Eversource proposes to combine EMA and WMA test-year revenue requirements and revenue deficiencies, and then allocate the Eversource-wide revenue deficiency to rate classes on the basis of the results of a single Eversource-wide cost of service study. Eversource further proposes in the June 1 Filing to consolidate the EMA and WMA residential rate classes (but, not the EMA and WMA non-residential rate classes) for the purposes of allocating the Eversource-wide revenue deficiency and setting rates to recover the portion of the Eversource-wide revenue deficiency allocated to the consolidated residential rate classes. Thus, under Eversource's proposed alternative approach, there would be a single Eversource-wide rate for each of the R-1/R-2 and R-3/R-4 rate classes.[3]

**Q. Why is Eversource proposing an alternative approach for recovering base distribution costs?**

A. According to the May 19 Rebuttal Filing, Eversource is proposing an alternative approach to address the concern that "rate alignment and consolidation is impactful to certain customer groups in WMA." (Exh. ES-RDP-Rebuttal-1 at 14.) Specifically, Eversource found that "WMECO customers would experience a

[3] Eversource proposes consolidated residential rates starting in 2019. For 2018, Eversource proposes separate rates for the WMECO, BECO, CAMB, and COM residential rate classes. Rates for 2018 would be derived by subdividing Eversource-wide revenue requirements between the EMA and WMA regions based on the results of the Eversource-wide cost of service study. WMA revenue requirements would then be allocated to WMECO rate classes based on the results of a WMECO cost of service study. Likewise, EMA revenue requirements would be allocated to BECO, CAMB, and COM rate classes based on the results of separate BECO, CAMB, and COM cost of service studies.

relatively significant bill impact given the large deficiency and small customer base" if rates were set based on territory-specific revenue requirements. (Exh. ES-RDP-Rebuttal-1 at 15.)

**Q. How would the alternative approach proposed by Eversource mitigate bill impacts for WMECO customers?**

A. The alternative approach mitigates WMECO bill impacts by shifting costs incurred to serve WMECO customers from WMECO customers onto NSTAR Electric residential customers. Table 1 shows the change in base distribution revenue allocations in the June 1 Filing compared to the Initial Filing.

As shown in Table 1, the alternative approach proposed in the June 1 Filing would allocate test-year revenue requirements: (i) to WMECO residential customers by about $5.9 million per year less than in the Initial Filing; and (ii) to WMECO non-residential customers by about $6.9 million per year less than in the Initial Filing. In total, Eversource would recover from WMECO's customers about $12.8 million per year less than Eversource's forecast of test-year revenue requirements for the WMECO service territory.

In addition, the June 1 Filing proposes to shift costs within EMA, specifically from non-residential onto residential customers. In total, about $17.2 million per year of the base distribution revenue requirement would be shifted onto NSTAR Electric residential customers as a result of the June 1 Filing.

**Table 1. Shift in Base Distribution Revenue Allocations (Initial to June 1 Filing)**[4]

| | EMA | WMA |
|---|---|---|
| Residential | $17,219,640 | ($5,909,437) |
| Non-Residential | ($4,485,037) | ($6,879,915) |
| Total | $12,734,603 | ($12,789,352) |

**Q. Under the proposed alternative approach, would any WMA costs be shifted onto EMA non-residential customers?**

A. No. Under the alternative approach proposed in the June 1 Filing, EMA residential customers would bear all the costs shifted off of WMA customers.

**Q. Why does the June 1 Filing not shift any WMA costs onto EMA non-residential customers?**

A. Eversource does not offer any rationale or justification for shifting WMA costs solely onto residential EMA customers.

**Q. Does the proposed alternative approach allocate test-year revenue requirements to EMA residential customers in a manner that reasonably reflects the cost to serve those customers?**

A. No. To the contrary, the proposed alternative approach would recover costs from EMA residential customers that were incurred to serve WMA residential and non-residential customers. In other words, EMA residential customers would subsidize the cost to serve WMECO customers if revenue requirements were allocated in accordance with the alternative approach proposed by Eversource. Consequently,

[4] Based on data provided in Table 2 of the June 1 Filing and in Eversource's response to Information Request CLC-8-1.

Eversource's proposal would produce rates that are neither efficient nor fair, contrary to the Department's long-standing rate-design goals.[5]

**Q. Why does the alternative approach increase EMA residential revenue requirements by more than the reduction to WMECO revenue requirements?**

A. The increase in EMA residential revenue requirements more than offsets the decrease in WMA revenue requirements because the alternative approach proposed by Eversource also shifts EMA costs from NSTAR Electric non-residential customers and onto NSTAR Electric residential customers. As shown in Table 1, compared to the approach proposed in the Initial Filing, the alternative approach would reduce the allocation of test-year revenue requirements to EMA non-residential customers by about $4.5 million per year. As with the reduction in WMA revenue requirements, the reduction in EMA non-residential revenue requirements under the alternative approach would be recovered by increasing the allocation of test-year revenue requirements to EMA residential customers.

Thus, Eversource's proposed alternative approach would favor non-residential over residential EMA customers twice: first by not shifting any WMA costs to EMA non-residential customers and then again by shifting EMA costs from non-residential to residential EMA customers.

[5] Eversource's acceptance of inter-class subsidization in this instance stands in stark contrast with its concerns about the potential for intra- and inter-class subsidization when customer charges do not fully reflect cost of service. As stated in the Initial Filing, "… the principle of fairness is also supported by the use of cost-based customer charges because they reduce the potential for costs to be shifted to other rate classes." (Exh. ES-RDP-1 at 43.)

**Q. Why is Eversource proposing to shift EMA costs from non-residential to residential EMA customers?**

A. Eversource does not offer any rationale or justification for revising the allocation of EMA test-year revenue requirements between non-residential and residential EMA customers proposed in the Initial Filing.

**Q. Is Eversource's proposal to recover both WMA and EMA non-residential costs from EMA residential customers reasonable?**

A. No. The excessive cost-shift onto EMA residential customers is an arbitrary and inequitable by-product of Eversource's proposed method for mitigating WMA bill impacts. There is simply no reason why WMA costs should be subsidized solely by EMA residential customers. Nor is there any reason why EMA residential customers should also subsidize EMA non-residential costs in the process.

**Q. Could WMECO bill impacts be mitigated without EMA residential customers subsidizing non-residential customers?**

A. Yes. Eversource's proposed alternative approach mitigates WMA bill impacts by consolidating total-system revenue requirements across the WMA and EMA territories and then allocating the consolidated Eversource system revenue requirements to the EMA and WMA rate classes. As discussed above, this approach inappropriately and inequitably shifts costs from WMA and EMA non-residential classes to EMA residential classes.

Instead, WMA bill impacts could be mitigated by consolidating revenue requirements for each rate class. Under this "Consolidation by Rate Class"

("CBRC") approach, revenue requirements for the EMA and WMA regional service territories would first be allocated to rate classes in each region in the same fashion as proposed in the Initial Filing.[6] The revenue requirement allocated to each rate class in the two regions would then be consolidated into an Eversource-wide revenue requirement for each rate class, to be recovered through a uniform rate charged to all Eversource customers in the rate class. Like Eversource's proposed alternative approach, the CBRC approach would mitigate bill impacts for each WMA rate class by spreading WMA revenue requirements across a larger sales base. However, unlike Eversource's proposed alternative approach, this approach would not shift costs from non-residential to residential customers.

**Q. Would costs still be shifted from WMA to EMA customers with the CBRC approach?**

A. Yes. As with Eversource's proposal to consolidate and then allocate total-system revenue requirements, EMA customers would subsidize WMA costs with an approach that first allocates regional revenue requirements to regional rate classes and then consolidates allocated regional revenue requirements by rate class. However, with the CBRC method, subsidization would be solely within customer classes: WMA residential costs would be shifted only onto EMA residential customers and WMA non-residential costs would be shifted only onto EMA non-residential customers.

[6] Eversource's proposed allocation of EMA test-year revenue requirements to EMA rate classes is shown in Schedule RDP-4 (East) of Exhibit ES-RDP-2. The proposed allocation of WMA test-year revenue requirements to WMA rate classes is shown in Schedule RDP-4 (West) of Exhibit ES-RDP-2.

**Q. Have you determined the revenue impact from the CBRC method?**

A. Yes. Exhibit CLC-JFW-Supplemental-2 provides my estimate of the revenue impact by rate class from the CBRC approach. In addition, Exhibit CLC-JFW-Supplemental-2 provides the revenue impacts from the revenue-allocation approaches proposed in the Initial Filing and in the June 1 Filing.

As indicated in Exhibit CLC-JFW-Supplemental-2, the revenue-allocation method proposed in the Initial Filing would increase base distribution revenues by 14.5% for EMA residential customers and by 26.7% for WMA residential customers, averaging 16.5% for all residential customers. For non-residential customers, the revenue-allocation method proposed in the Initial Filing would increase base distribution revenues by 1.6% for EMA customers and 27.2% for WMA customers, averaging 4.6% for all non-residential customers.[7]

Exhibit CLC-JFW-Supplemental-2 also shows the extent to which the alternative approach proposed by Eversource in the June 1 Filing would shift costs from non-residential to residential customers, with the revenue impact *increasing* from 16.5% to 19.1% on average for all Eversource residential customers and *decreasing* from 4.6% to 2.4% on average for all Eversource non-residential customers.[8] As indicated in Exhibit CLC-JFW-Supplemental-2, Eversource's proposed alternative approach would shift costs from both EMA and WMA non-residential customers,

[7] The revenue allocations proposed in the Initial Filing are shown in Exhibit ES-RDP-2, Schedule RDP-4 (East) for NSTAR Electric and in Exhibit ES-RDP-2, Schedule RDP-4 (West) for WMECO.
[8] The revenue allocations proposed in the June 1 Filing are shown in Exhibit ES-RDP-2 (ALT1), Schedule RDP-4.

reducing the revenue impact from 1.6% to 0.7% for EMA non-residential customers and from 27.2% to 15.8% for WMA non-residential customers.

Finally, Exhibit CLC-JFW-Supplemental-2 shows how the CBRC approach could mitigate WMA revenue impacts without shifting costs from non-residential to residential customers. Compared to the revenue-allocation method proposed in the June 1 Filing, the CBRC approach would reduce revenue impacts from 26.7% to 16.5% for WMA residential customers and from 27.2% to 4.6% for WMA non-residential customers.[9] Moreover, with the CBRC method, the revenue impact for all residential customers (16.5%) and all non-residential customers (4.6%) would be equal to the average revenue impact across EMA and WMA customers for each customer class under the approach proposed by Eversource in the Initial Filing, indicating that the CBRC approach would not shift costs from non-residential to residential customers.

**Q. Could WMECO bill impacts be mitigated without increasing the revenue impact for EMA residential customers?**

A. Yes. WMECO bill impacts could be mitigated without any cost-shifting onto EMA residential customers by modifying the CBRC method. For example, the CBRC approach could be modified so that the revenue impact for all residential customers from consolidation is equal to the revenue impact on EMA residential customers under the revenue-allocation approach proposed in the Initial Filing (i.e., 14.5%).

[9] In fact, the CBRC approach yields a larger reduction in both WMA residential and WMA non-residential revenue impacts than the alternative approach proposed by Eversource in the June 1 Filing.

Under this "Modified CBRC" approach, the pre-consolidation revenue allocation to WMA residential customers in the Initial Filing would be reduced by an amount that results in a revenue impact on all residential customers of 14.5% after consolidation of EMA and WMA residential revenue requirements. The amount shifted from WMA residential customers would then be allocated to non-residential customers, increasing the non-residential revenue impact from 4.6% (under the unmodified CBRC approach) to 6.2%. Table 2 illustrates the revenue allocation that would result with the Modified CBRC approach.

**Table 2. Modified CBRC Revenue Allocation**

| | Base Revenues at Current Rates | Revenue Allocation | Change (%) |
|---|---|---|---|
| R-1/R-2 | 390,755,626 | 56,615,895 | 14.5% |
| R-3/R-4 | 43,445,224 | 6,294,629 | 14.5% |
| G-1 | 203,037,455 | 3,933,849 | 1.9% |
| G-2 | 101,649,469 | 4,796,244 | 4.7% |
| G-3 | 145,858,926 | 16,273,647 | 11.2% |
| G-4 | 66,675,581 | 6,110,014 | 9.2% |
| S-1/S-2 | 10,754,882 | 1,709,266 | 15.9% |
| | | | |
| Total R | 434,200,850 | 62,910,524 | 14.5% |
| Total G/S | 527,976,314 | 32,823,020 | 6.2% |
| Eversource Total | 962,177,164 | 95,733,543 | 9.9% |

**Q. What do you recommend with regard to Eversource's proposed alternative approach for recovering base distribution costs?**

A. The Department should reject the alternative approach for recovering base distribution costs as proposed by Eversource in the June 1 Filing. Instead, EMA and WMA test-year revenue requirements should be separately allocated in the same manner as proposed in the Initial Filing in order to avoid any subsidization of WMA costs by EMA customers.

However, in the event that the Department finds that some cost-sharing across the EMA and WMA regions would be appropriate, I recommend that test-year revenue requirements be allocated using either the CBRC or the Modified CBRC approach described above in order to avoid any costs being shifted from non-residential to residential classes.

## III. RECONCILING-RATE REVENUES

**Q. Please describe Eversource's proposed alternative approach for recovering reconciling-rate revenues.**

A. In the Initial Filing, Eversource proposed to consolidate revenues across the EMA and WMA service territories (effective January 1, 2019) for four reconciling rates: Long Term Renewable Contract Adjustment Factor, Attorney General Consultant Expense, Solar Program Adjustment Cost, and Basic Service True-Up Factor. (Exh. ES-RDP-1 at 28.) For all other reconciling rates (other than transmission), Eversource proposed in the Initial Filing to defer revenue-consolidation until the next base rate case or until the start of the next three-year energy efficiency plan (for the Energy Efficiency Reconciliation Factor.)[10] For these other reconciling rates, Eversource justified deferring consolidation by noting that there was a cost basis for maintaining separate revenues.

[10] I discuss Eversource's alternative proposal for recovery of transmission revenues in Section IV.

For the alternative rate design, Eversource proposes to consolidate revenues for all reconciling rates effective January 1, 2019. (Resp. to DPU-63-1.) Under this alternative treatment, combined EMA and WMA regional revenues would be allocated to each rate class (either an Eversource-wide residential or a regional non-residential rate class) based on each class's contribution to Eversource-wide base distribution revenues or Eversource-wide energy sales.

**Q. Why does Eversource propose to consolidate revenues for all reconciling rates rather than just for the four rates proposed in the Initial Filing?**

A. Eversource does not offer any rationale or justification for its decision to consolidate revenues for any of the reconciling rates other than the four proposed for consolidation in the Initial Filing.

**Q. How does the proposed alternative treatment of reconciling-rate revenues affect EMA residential customers?**

A. As indicated in Table 3, the proposed alternative treatment would shift reconciling-rate revenues from both EMA non-residential customers and WMA non-residential customers and onto EMA residential customers. Specifically, the proposed alternative treatment would reduce the allocation of reconciling-rate revenues to EMA non-residential and WMA non-residential customers by about $11 million in total, relative to the allocation in the Initial Filing. The proposed alternative treatment would increase the allocation to EMA residential customers to offset the reduction to non-residential customers.[11]

**Table 3. Shift in Reconciling-Rate Revenues (Initial to June 1 Filing)**[12]

| | EMA | WMA |
|---|---|---|
| Residential | $14,549,158 | ($351,397) |
| Non-Residential | ($8,135,202) | ($2,824,849) |
| Total | $6,413,956 | ($3,176,246) |

**Q. Is Eversource's proposal to shift $11 million of reconciling-rate revenues from non-residential to residential customers reasonable?**

A. No. Eversource has failed to offer any rationale or justification for its proposal to consolidate revenues on January 1, 2019 for all reconciling rates rather than for just the four reconciling rates proposed in the Initial Filing. In contrast, Eversource justified deferring consolidation of all but the four reconciling-rate revenues by noting that there was a cost basis for separate revenues. Thus, Eversource's decision to consolidate all reconciling rates rather than just the four proposed in the Initial Filing, and the resulting shift of reconciling-rate revenues from non-residential to residential customers, is arbitrary and inequitable.

**Q. What do you recommend with regard to Eversource's proposed alternative treatment of reconciling-rate revenues?**

A. The Department should reject Eversource's proposal to consolidate revenues for all reconciling rates by January 1, 2019. Instead, revenues should be consolidated

[11] As shown in Table 3, the proposed alternative treatment appears to increase the allocation to EMA customers in total by about $3.2 million more than the reduction in the allocation to WMA customers. This is due to a change in the accounting of reconciling-rate revenues in the June 1 Filing, as described in Eversource's response to Information Request DPU-63-1.

[12] Based on data provided in Eversource's responses to Information Requests DPU-12-10 and DPU-63-1.

solely for the four reconciling rates proposed for consolidation in the Initial Filing. For all other reconciling rates, revenue-consolidation should be deferred until the next base rate case.

## IV. TRANSMISSION REVENUES

**Q. Please describe Eversource's proposal for recovering transmission revenues in the Initial Filing.**

A. In the Initial Filing, Eversource proposed to consolidate transmission revenues across the EMA and WMA service territories and then to consolidate each rate class across the EMA and WMA service territories for the purposes of allocating consolidated transmission revenues. (Exh. ES-RDP-1 at 31.) As indicated in Table 4, Eversource's proposed treatment of transmission revenues in the Initial Filing would have reduced the allocation of transmission revenues to EMA non-residential customers (relative to current rates) by about $23 million and shifted the bulk of these revenues onto EMA residential and WMA non-residential customers.

**Table 4. Shift in Transmission Revenues (Current to Initial Filing)**[13]

| | EMA | WMA |
|---|---|---|
| Residential | $14,384,139 | $471,441 |
| Non-Residential | ($22,963,041) | $8,107,461 |
| Total | ($8,578,902) | $8,578,902 |

**Q. Please describe the alternative treatment of transmission revenues proposed by Eversource in the June 1 Filing.**

A. As in the Initial Filing, Eversource proposes in the June 1 Filing to consolidate transmission revenues across the EMA and WMA service territories. However,

[13] Based on data provided in Eversource's response to Information Request DPU-12-10.

unlike the proposed treatment in the Initial Filing, Eversource proposes in the June 1 Filing to consolidate only the residential rate classes across the EMA and WMA service territories for the purposes of allocating consolidated transmission revenues. (Resp. to DPU-56-9 (Supplemental).) As indicated in Table 5, Eversource's proposed alternative treatment of transmission revenues in the June 1 Filing would reduce the allocation of transmission revenues to EMA non-residential and WMA non-residential customers (relative to the Initial Filing) by about $6.1 million in total and instead recover these revenues from EMA residential and WMA residential customers.

**Table 5. Shift in Transmission Revenues (Initial to June 1 Filing)**[14]

| | EMA | WMA |
|---|---|---|
| Residential | $5,094,520 | $1,032,569 |
| Non-Residential | ($1,268,615) | ($4,858,474) |
| Total | $3,825,905 | ($3,825,905) |

**Q. Why does Eversource propose this alternative treatment of transmission revenues?**

A. Eversource does not offer any rationale or justification for its decision to not consolidate non-residential rate classes for cost-allocation purposes, other than to note that the alternative treatment would "enable a smaller allocation of costs to WMA customers." (Exh. ES-RDP-Rebuttal-1 at 17.) However, as noted above, the actual effect of the alternative treatment is a smaller allocation of costs to EMA non-residential and WMA non-residential customers.

[14] Based on data provided in Eversource's responses to Information Request DPU-12-10 and to Information Request DPU-63-1.

**Q. Has Eversource reasonably justified its decision to not consolidate non-residential rate classes for cost-allocation purposes?**

A. No. The decision appears arbitrary, since Eversource has not offered any justification based on considerations of cost of service or fairness for a proposed alternative treatment that would reduce costs to WMA non-residential customers but increase costs to WMA residential customers.

**Q. What do you recommend with regard to Eversource's proposed alternative treatment of transmission revenues?**

A. The Department should reject Eversource's proposal to not consolidate non-residential rates for the purposes of allocating Eversource-wide transmission revenues. Instead, if the Department approves Eversource's proposal to consolidate transmission revenues, all rate classes should be consolidated for the purposes of allocating consolidated transmission revenues, as proposed by Eversource in the Initial Filing.

## V. MINIMUM MONTHLY RELIABILITY CONTRIBUTION

**Q. Please describe Eversource's alternative proposal for the MMRC.**

A. Eversource proposes two changes to the MMRC proposal in the Initial Filing. First, Eversource proposes to delay implementation of the MMRC for residential customers to January 1, 2019 to allow Eversource "more time to educate customers on its proposed MMRC and avoid an abrupt transition for new net metering customers." (Exh. ES-RDP-Rebuttal-1 at 20.)

Second, as a result of the consolidation of EMA and WMA base distribution revenue requirements, Eversource proposes higher monthly customer and demand charges for EMA residential MMRC customers than in the Initial Filing. The proposed rates for the Initial Filing and the June 1 Filing are shown in Table 6.

**Table 6. Proposed EMA Residential MMRC Customer and Demand Rates**[15]

| | Initial Filing | June 1 Filing |
|---|---|---|
| EMA R-1/R-2 | | |
| Customer ($/cust/month) | $10.38 | $10.88 |
| Demand ($/kW/month) | $2.12 | $2.26 |
| EMA R-3/R-4 | | |
| Customer ($/cust/month) | $11.43 | $13.88 |
| Demand ($/kW/month) | $2.97 | $3.01 |

**Q. Do you agree that implementation of an MMRC for residential customers should be delayed?**

A. Yes. If an MMRC is approved, implementation should be delayed until such time that residential customers considering installation of distributed renewable generation can be fully educated on the impact of the MMRC on project paybacks, the economic implications of taking net-metering service with an MMRC, and the impact of the MMRC on customer bills. For example, customers will need to understand the bill impacts from a higher customer charge and a lower net-metering credit when deciding whether to take net-metering service.[16]

[15] Eversource's proposed rates are provided in Schedule RDP-1 (East) of Exhibit ES-RDP-6 for the Initial Filing and in Schedule RDP-1 of Exhibit ES-RDP-6 (ALT1) for the June 1 Filing.
[16] Because of these bill impacts, it might not make sense for a customer to take net-metering service if they do not expect to be a net exporter in any month.

However, no amount of education will compensate for the flawed design of Eversource's proposed MMRC, which I discussed in my direct testimony. To the contrary, once MMRC customers understand the price signals from a demand charge, those price signals will encourage inefficient behavior. Those perverse incentives will be even stronger if demand rates increase with consolidation of base distribution revenue requirements.

**Q. What do you recommend with regard to Eversource's alternative proposal for the MMRC?**

A. Regardless of whether implementation of the MMRC for residential customers is delayed or whether MMRC customer and demand rates are set based on consolidated base distribution costs, the Department should reject Eversource's proposal to impose an MMRC-specific customer charge and a demand charge on new residential net-metering customers.

## VI. CONCLUSION

**Q. Please summarize your findings and recommendations regarding Eversource's proposed alternative rate design?**

A. Contrary to the Department's long-standing rate design goals, Eversource's alternative rate-design proposals would yield base distribution, reconciling, and transmission rates for EMA residential customers that are neither cost-based nor fair. Moreover, customer and demand charges for EMA residential MMRC customers would be even higher under Eversource's alternative rate-design proposals than those proposed by Eversource in the Initial Filing. These higher customer and demand charges will further dampen price signals for energy efficiency, making it even harder to achieve the Department's economic efficiency goal.

Accordingly, the Department should:

- Reject Eversource's proposed alternative approach for consolidating and recovering base distribution costs and instead allocate EMA and WMA test-year revenue requirements to rate classes in the same fashion as proposed in the Initial Filing. In the alternative, if the Department finds that some cost-sharing across the EMA and WMA regions would be appropriate, allocate EMA and WMA test-year revenue requirements to rate classes as shown in Exhibit CLC-JFW-Supplemental-2 for the CBRC method or as shown above in Table 2 for the Modified CBRC approach.
- Reject Eversource's proposed alternative treatment of reconciling-rate and transmission revenues and instead recover such costs from rate classes in the same fashion as proposed in the Initial Filing.
- Reject Eversource's proposal to impose an MMRC-specific customer charge and a demand charge on new residential net-metering customers.

**Q. Does this conclude your supplemental direct testimony?**

A. Yes, it does.

# Comparison of Eversource and CBRC Approaches for Allocating Base Distribution Costs

## Initial Filing

| | Base Revenue at Current Rates | | | Eversource Proposed Revenue Allocation | | | Change (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | EMA | WMA | Consolidated | EMA | WMA | Consolidated | EMA | WMA | Consolidated | EMA+WMA Average |
| Residential (R-1 and R-2) | 329,484,939 | 61,203,988 | | 47,808,434 | 16,088,540 | | 14.5% | 26.3% | | 16.4% |
| Residential (R-3 and R-4) | 32,453,092 | 10,984,212 | | 4,708,960 | 3,175,485 | | 14.5% | 28.9% | | 18.2% |
| Small General G-1 | 176,346,428 | 26,690,864 | | (2,942,801) | 3,501,677 | | -1.7% | 13.1% | | 0.3% |
| Medium General G-2 | 91,452,693 | 10,194,703 | | (242,263) | 3,352,505 | | -0.3% | 32.9% | | 3.1% |
| Large General G-3 | 132,508,623 | 13,348,667 | | 7,538,789 | 6,327,734 | | 5.7% | 47.4% | | 9.5% |
| Extra Large G-4 | 61,371,130 | 5,312,595 | | 2,573,405 | 2,434,536 | | 4.2% | 45.8% | | 7.5% |
| Street Lighting S-1/S-2 | 6,075,376 | 4,680,710 | | 749,865 | 782,571 | | 12.3% | 16.7% | | 14.2% |
| | | | | | | | | | | |
| Total R | 361,938,031 | 72,188,199 | | 52,517,394 | 19,264,025 | | 14.5% | 26.7% | | 16.5% |
| Total G/S | 467,754,250 | 60,227,539 | | 7,676,994 | 16,399,023 | | 1.6% | 27.2% | | 4.6% |

## June 1 Filing

| | Base Revenue at Current Rates | | | Eversource Proposed Revenue Allocation | | | Change (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | EMA | WMA | Consolidated | EMA | WMA | Consolidated | EMA | WMA | Consolidated | EMA+WMA Average |
| Residential (R-1 and R-2) | | | 390,755,626 | | | 74,371,682 | | | 19.0% | |
| Residential (R-3 and R-4) | | | 43,445,224 | | | 8,645,321 | | | 19.9% | |
| Small General G-1 | 176,346,590 | 26,690,864 | | (3,160,441) | 2,845,525 | | -1.8% | 10.7% | | -0.2% |
| Medium General G-2 | 91,454,766 | 10,194,703 | | (4,202,871) | 2,028,681 | | -4.6% | 19.9% | | -2.1% |
| Large General G-3 | 132,510,259 | 13,348,667 | | 4,791,529 | 2,656,299 | | 3.6% | 19.9% | | 5.1% |
| Extra Large G-4 | 61,362,987 | 5,312,595 | | 5,205,492 | 1,057,172 | | 8.5% | 19.9% | | 9.4% |
| Street Lighting S-1/S-2 | 6,074,172 | 4,680,710 | | 563,724 | 931,431 | | 9.3% | 19.9% | | 13.9% |
| | | | | | | | | | | |
| Total R | | | 434,200,850 | | | 83,017,003 | | | 19.1% | |
| Total G/S | 467,748,774 | 60,227,539 | | 3,197,433 | 9,519,108 | | 0.7% | 15.8% | | 2.4% |

## Consolidation by Rate Class Approach

| | Base Revenue at Current Rates | | | Revenue Allocation | | | Change (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | EMA | WMA | Consolidated | EMA | WMA | Consolidated | EMA | WMA | Consolidated | EMA+WMA Average |
| Residential (R-1 and R-2) | | | 390,755,626 | | | 63,814,389 | | | 16.3% | |
| Residential (R-3 and R-4) | | | 43,445,224 | | | 7,874,255 | | | 18.1% | |
| Small General G-1 | | | 203,037,455 | | | 558,153 | | | 0.3% | |
| Medium General G-2 | | | 101,649,469 | | | 3,106,222 | | | 3.1% | |
| Large General G-3 | | | 145,858,926 | | | 13,848,601 | | | 9.5% | |
| Extra Large G-4 | | | 66,675,581 | | | 5,001,468 | | | 7.5% | |
| Street Lighting S-1/S-2 | | | 10,754,882 | | | 1,530,456 | | | 14.2% | |
| | | | | | | | | | | |
| Total R | | | 434,200,850 | | | 71,688,644 | | | 16.5% | |
| Total G/S | | | 527,976,314 | | | 24,044,899 | | | 4.6% | |
| Eversource Total | | | 962,177,164 | | | 95,733,543 | | | 9.9% | |

**COMMONWEALTH OF MASSACHUSETTS**

**DEPARTMENT OF PUBLIC UTILITIES**

| | | |
|---|---|---|
| Petition of NSTAR Electric Company and Western Massachusetts Electric Company, each d/b/a Eversource Energy for Approval of an Increase in Base Distribution Rates for Electric Service Pursuant to G.L. c. 164, §94 and 220 C.M.R. §5.00 | ) | D.P.U. 17-05, Phase II |

**AFFIDAVIT OF JONATHAN F. WALLACH**

Jonathan F. Wallach does hereby depose and say as follows:

I, Jonathan F. Wallach, certify that the supplemental direct testimony and exhibit submitted on behalf of the Cape Light Compact JPE (the "Compact") in the above-captioned proceeding, which bear my name, were prepared by me or under my supervision and are true and accurate to the best of my knowledge and belief.

Signed under the pains and penalties of perjury.

Jonathan F. Wallach
Vice President, Resource Insight, Inc.

Dated: August 15, 2017