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August 29, 2017

VIA ELECTRONIC MAIL
ORIGINAL BY HAND DELIVERY

Mark D. Marini, Secretary
Department of Public Utilities
One South Station, 5th Floor
Boston, MA 02110


Re: *D.P.U. 17-05, Phase II*
Petition of NSTAR Electric Company and Western Massachusetts Electric Company, each d/b/a Eversource Energy, for Approval of General Increases in Base Distribution Rates for Electric Service and a Performance Based Ratemaking Mechanism.

Dear Secretary Marini:

Enclosed for filing in the above-referenced matter, please find the Cape Light Compact JPE's (the "Compact") Surrebuttal Testimony of Jonathan F. Wallach, Affidavit of Jonathan F. Wallach and Certificate of Service.

Thank you for your attention to this matter. If you require further information or have any questions, please do not hesitate to contact me.

Sincerely,


Rebecca F. Zachas

RFZ/drb
Enclosures

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**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) 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)**

**SURREBUTTAL TESTIMONY OF
JONATHAN F. WALLACH
ON BEHALF OF
THE CAPE LIGHT COMPACT JPE**

AUGUST 29, 2017

TABLE OF CONTENTS

I. INTRODUCTION.....1

II. RESPONSE TO RDP PHASE II REBUTTAL2

III. CONCLUSION8

1 **I. INTRODUCTION**

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

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

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

6 A. Yes. On April 27, 2017, I filed direct testimony with the Department of Public
7 Utilities (the “Department”) on behalf of the Cape Light Compact JPE (the
8 “Compact”). My direct testimony addressed various rate-design proposals by
9 NSTAR Electric Company (“NSTAR Electric”) and Western Massachusetts
10 Electric Company (“WMECO”), each d/b/a Eversource Energy (“Eversource”), as
11 set forth in the ten-volume filing entitled Petition for Approval of a Performance-
12 Based Ratemaking Mechanism and General Distribution Revenue Change, D.P.U.
13 17-05, and dated January 17, 2017 (the “Initial Filing”).

14 On August 15, 2017, I also filed supplemental direct testimony on behalf of the
15 Compact, as permitted under the extended procedural schedule for addressing all
16 aspects of rate design (“Phase II”). My Phase II supplemental direct testimony
17 addressed alternative approaches for recovering base distribution, reconciling-rate,
18 and transmission revenues, as proposed by Eversource in rebuttal testimony filed on
19 May 19, 2017 (“May 19 Rebuttal Filing”) and in a supplemental response to
20 Information Request DPU-56-9 filed on June 1, 2017 (“June 1 Filing”).

1 Specifically, my Phase II supplemental direct testimony addressed Eversource's
2 alternative ("ALT1") proposals to:

- 3 • Combine 2018 test year base distribution revenue requirements for the eastern
4 ("EMA") and western ("WMA") Massachusetts regional service territories, and
5 then allocate the Eversource-wide revenue deficiency to rate classes on the basis
6 of the results of a single Eversource-wide cost of service study.
- 7 • Consolidate EMA and WMA revenues for all reconciling rates, rather than for
8 the four reconciling rates proposed for consolidation in the Initial Filing.
- 9 • Consolidate only the residential rate classes across the EMA and WMA regions
10 for the purposes of allocating consolidated transmission revenues, rather than
11 consolidating all rate classes as proposed in the Initial Filing.

12 **Q. What is the purpose of your surrebuttal testimony?**

13 A. My surrebuttal testimony responds to rebuttal testimony by Eversource witnesses
14 Edward A. Davis, Richard D. Chin, and James D. Simpson (collectively, the "Rate
15 Design Panel") filed in Phase II of this proceeding on August 22, 2017 ("RDP
16 Phase II Rebuttal").

17 **II. RESPONSE TO RDP PHASE II REBUTTAL**

18 **Q. The RDP Phase II Rebuttal states that you claim in your supplemental direct**
19 **testimony that "EMA customers are unfairly bearing additional costs under**
20 **the ALT1 proposal." (RDP Phase II Rebuttal, Exh. ES-RDP-Rebuttal-1 at 12,**
21 **lines 15-16.) Is that an accurate characterization of your supplemental direct**
22 **testimony?**

1 A. No. Not all EMA customers would bear additional costs under the alternative
2 allocation of test year base distribution revenues proposed by Eversource in the
3 June 1 Filing. My testimony is that Eversource’s alternative approach for
4 recovering base distribution costs would unreasonably, inequitably, and arbitrarily
5 burden EMA *residential* customers with costs that were incurred to serve – and
6 therefore appropriately recovered from – EMA and WMA *non-residential*
7 customers.¹

8 **Q. Does Eversource agree with your finding that this cost-shifting is not cost-**
9 **based?**

10 A. No. According to the RDP Phase II Rebuttal:

11 The Company is already operating as a single company under the
12 supervision of a common management team with shared services throughout
13 the Massachusetts service territory. Consequently, it is appropriate for
14 customers of the same operating company to share the costs incurred for
15 providing service to all of its customers. (RDP Phase II Rebuttal, Exh. ES-
16 RDP-Rebuttal-1 at 13, lines 3-7.)

17 **Q. How do you respond to Eversource’s claim that cost-shifting from**
18 **consolidation of revenue requirements reasonably reflects cost of service for a**
19 **consolidated operating company?**

20 A. I have two responses. First, this claim represents a complete repudiation of
21 Eversource’s testimony in the Initial Filing that the proposal to *not* consolidate
22 revenue requirements was cost-based:

¹ In my supplemental direct testimony, I testified that the proposed alternative allocation would recover costs from EMA residential customers that were incurred to serve WMA residential and WMA non-residential customers. (Exh. CLC-JFW-Supplemental-1 at 7, lines 14-16.) In addition, I testified that the proposed alternative allocation would shift costs from EMA non-residential customers to EMA residential customers. (Id. at 8, lines 3-18.) Finally, I testified that there is no cost basis for shifting either EMA non-residential costs, WMA non-residential costs, or WMA residential costs onto EMA residential customers. (Id. at 7, lines 11-18, at 9, lines 6-12.)

1 The Company is able to produce cost-based rates separately for WMECO
2 and NSTAR Electric in this case because the Company continues to record,
3 track and report costs on a disaggregated basis, *despite the operational*
4 *consolidation of the two companies*. Consequently, the Company opted to
5 maintain separate base rates so that rates would be set on the stand alone
6 revenue requirement. (Initial Filing, Exh. ES-RDP-1 at 7-8 (emphasis
7 added).)

8 The RDP Phase II Rebuttal gives no indication as to why Eversource no longer
9 believes that rates would be cost-based under the approach for recovering base
10 distribution costs proposed in the Initial Filing.

11 Second, a “common management team with shared services” does not justify the
12 excessive cost-shifting onto EMA residential customers that results from
13 consolidation of revenue requirements under the June 1 Filing. Eversource
14 separately forecasted 2018 test-year revenue requirements for the EMA and WMA
15 regional service territories. These forecasts already reflected a division of the costs
16 of shared services between the two regions. Therefore, EMA residential customers
17 would already be paying for their portion of the costs of shared services under the
18 Initial Filing, since such cost-sharing is already reflected in separate EMA and
19 WMA revenue requirements. The Rate Design Panel thus has not rebutted my
20 testimony that the cost-shift onto EMA residential customers under the June 1
21 Filing is an arbitrary by-product of the consolidation of EMA and WMA revenue
22 requirements. I remain convinced that this alternative approach inequitably and
23 unreasonably shifts costs from WMA customers and EMA non-residential
24 customers and onto EMA residential customers.

1 **Q. The RDP Phase II Rebuttal claims that you expressed support for**
2 **Eversource’s proposal to consolidate revenue requirements in your**
3 **supplemental direct testimony.² (RDP Phase II Rebuttal, Exh. ES-RDP-**
4 **Rebuttal-1 at 13, lines 9-12.) Is that an accurate characterization of your**
5 **supplemental direct testimony?**

6 A. No. To the contrary, my primary recommendation was, and continues to be, that
7 the Department reject Eversource’s proposal to consolidate base distribution
8 revenue requirements because Eversource’s proposal would yield rates that are
9 neither cost-based nor fair. Only in the event that the Department finds that cost-
10 sharing across the EMA and WMA regions is appropriate would I recommend that
11 EMA and WMA revenue requirements be consolidated using one of the alternative
12 approaches I described in my supplemental direct testimony, so as to avoid cost-
13 shifting from non-residential to residential rate classes as a result of consolidation.

14 **Q. How does Eversource respond to your proposal for consolidating revenue**
15 **requirements by rate class in the event that the Department finds cost-sharing**
16 **to be appropriate?**

17 A. The RDP Phase II Rebuttal does not object to consolidating revenue requirements
18 by rate class using either the “CBRC” or the “Modified CBRC” methods described
19 in my supplemental direct testimony. (See Exh. CLC-JFW-Supplemental-1 at 9,
20 line 13 to 14, line 7.) However, regardless of which method is used to consolidate
21 revenue requirements by rate class, Eversource does object to my proposal to
22 recover rate-class consolidated revenue requirements through uniform rates charged
23 to all Eversource customers in each rate class.

² The RDP Phase II Rebuttal mistakenly refers to me as Mr. Galligan on page 13, line 9, but it is apparent from the discussion and citation there that the Rate Design Panel was referring to my supplemental direct testimony.

1 Eversource opposes uniform rates because of the potential for adverse bill impacts
2 for WMA customers:

3 Under a consolidated rate design, WMA customers would likely be subject
4 to rate designs that favor EMA, which may leave a number of WMA
5 customers with less favorable bill impacts.” (RDP Phase II Rebuttal, Exh.
6 ES-RDP-Rebuttal-1 at 15, lines 5-7.)

7 However, the RDP Phase II Rebuttal does not offer any quantitative support for
8 Eversource’s claim that uniform rates would adversely affect bills for WMA
9 customers.

10 **Q. Could uniform rates lead to different bill impacts for EMA and WMA**
11 **customers?**

12 A. Yes. In fact, we see this effect for residential customers under Eversource’s
13 proposal in the June 1 Filing to recover consolidated base distribution revenue
14 requirements through a uniform rate for each residential rate class. For example,
15 under Eversource’s proposal for uniform residential rates in the June 1 Filing, the
16 average base distribution bill for R-1 residential customers in EMA would increase
17 by about 15% while the average bill for R-1 residential customers in WMA would
18 increase by about 27%.³

19 **Q. Under your proposal for consolidating revenue requirements by rate class,**
20 **could rate-class consolidated revenue requirements be recovered through non-**
21 **uniform rates?**

³ These are the percentage increases in the average base distribution bill, excluding the impact from changes in reconciling or transmission rates. The percentage increases in average bills are derived based on data provided in Exhibit ES-RDP-2 (ALT1), Schedules RDP-9 (East) and RDP-9 (West).

1 A. Yes. Rate-class consolidated revenue requirements could be recovered through
2 region-specific rates if uniform rates would result in excessive bill impacts for the
3 WMA customers in a rate class.

4 For example, I showed in Exhibit CLC-JFW-Supplemental-2 that base distribution
5 revenues for the G-3 rate class would increase by about 9.5% if test-year revenue
6 requirements were consolidated by rate class using the CBRC method.⁴ If the
7 Department were to find that uniform rates would result in excessive bill impacts
8 for WMA G-3 customers in this case, the consolidated test-year revenue
9 requirement could instead be recovered by increasing current EMA G-3 base
10 distribution revenues and current WMA G-3 base distribution revenues each by
11 9.5%. This approach would yield separate rates for EMA G-3 customers and WMA
12 G-3 customers that increase average base distribution bills for both EMA and
13 WMA customers by 9.5%.

14 **Q. The RDP Phase II Rebuttal claims that you object to Eversource's proposal to**
15 **charge uniform transmission rates to residential rate classes, but separate**
16 **EMA and WMA transmission rates to non-residential rate classes. (RDP**
17 **Phase II Rebuttal, Exh. ES-RDP-Rebuttal-1 at 15, lines 8-10.) Is that an**
18 **accurate characterization of your supplemental direct testimony?**

19 A. No. In my supplemental direct testimony, I did not offer an opinion as to whether
20 Eversource's proposal in the June 1 Filing to recover allocated transmission
21 revenues from residential rate classes through uniform rates and from non-

⁴ Exhibit CLC-JFW-Supplemental-2 shows the revenue impacts from consolidation of revenue requirements using the CBRC method. I provided the revenue impacts from consolidation using the Modified CBRC method in Table 2 of my supplemental direct testimony.

1 residential rate classes through non-uniform rates is reasonable or not. However, I
2 did object to Eversource's proposal in the June 1 Filing to consolidate only the
3 residential rate classes across the EMA and WMA regions for the purposes of
4 allocating Eversource-wide transmission revenues to rate classes, as opposed to
5 Eversource's proposal in the Initial Filing to consolidate all rate classes for cost-
6 allocation purposes.⁵

7 Eversource has not offered any justification based on considerations of cost of
8 service or fairness for revising its proposed approach in the Initial Filing.
9 Consequently, if the Department approves Eversource's proposal to consolidate
10 transmission revenues, all rate classes should be consolidated for the purposes of
11 allocating consolidated transmission revenues. Once allocated to consolidated rate
12 classes, transmission revenues can be recovered through either a uniform rate for all
13 Eversource customers in a rate class or separate rates for EMA and WMA
14 customers in a rate class.

15 **III. CONCLUSION**

16 **Q. Have you revised any of the recommendations in your supplemental direct**
17 **testimony in light of Eversource's RDP Phase II Rebuttal?**

18 A. No. I continue to recommend that the Department:

- 19 • Reject Eversource's alternative approach for consolidating and recovering base
20 distribution costs as proposed in the June 1 Filing and instead allocate EMA and

⁵ In both the Initial Filing and the June 1 Filing, Eversource proposed consolidation of EMA and WMA transmission revenues for cost-allocation purposes.

1 WMA test-year revenue requirements to rate classes in the same fashion as
2 proposed in the Initial Filing. In the alternative, if the Department finds that
3 some cost-sharing across the EMA and WMA regions would be appropriate,
4 consolidate EMA and WMA test-year revenue requirements by rate class using
5 either of the two approaches described in my supplemental direct testimony.

- 6 • Reject Eversource’s alternative treatment of reconciling-rate and transmission
7 revenues as proposed in the June 1 Filing and instead recover such costs from
8 rate classes in the same fashion as proposed in the Initial Filing.
- 9 • Reject Eversource’s proposal in the Initial Filing and in the June 1 Filing to
10 impose an MMRC-specific customer charge and a demand charge on new
11 residential net-metering customers.

12 **Q. Does this conclude your surrebuttal testimony?**

13 A. Yes, it does.

COMMONWEALTH OF MASSACHUSETTS

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220 C.M.R. §5.00)	
_____)	

AFFIDAVIT OF JONATHAN F. WALLACH

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

I, Jonathan F. Wallach, certify that the surrebuttal testimony submitted on behalf of the Cape Light Compact JPE (the "Compact") in the above-captioned proceeding, which bears my name, was prepared by me or under my supervision and is 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 29, 2017

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES

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_____)	

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document(s) upon Secretary Mark D. Marini via electronic mail and hand delivery, upon Hearing Officer Marc J. Tassone via electronic mail only, upon Cheryl M. Kimball, Esq. and Joseph W. Rogers, Esq. via electronic mail and first class mail delivery and upon the remaining Service List via electronic mail only in this matter.

Dated this 29th day of August 2017.

Rebecca F. Zachas

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