

**SOAH DOCKET NO. 473-18-3981
PUC DOCKET NO. 48401**

APPLICATION OF TEXAS-NEW	§	BEFORE THE STATE OFFICE
MEXICO POWER COMPANY FOR	§	OF
AUTHORITY TO CHANGE RATES	§	ADMINISTRATIVE HEARINGS

CROSS-REBUTTAL TESTIMONY

EXHIBITS

AND

WORKPAPERS

OF

JONATHAN F. WALLACH

**ON BEHALF OF THE
OFFICE OF PUBLIC UTILITY COUNSEL**

Resource Insight, Inc.

AUGUST 28, 2018

SOAH DOCKET NO. 473-18-3981
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CROSS-REBUTTAL TESTIMONY, EXHIBITS AND WORKPAPERS
OF JONATHAN F. WALLACH
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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

3 A. My name is Jonathan F. Wallach. I am Vice President of Resource Insight, Inc., 5 Water
4 Street, Arlington, Massachusetts.

5 Q. ARE YOU THE SAME JONATHAN F. WALLACH WHO FILED DIRECT
6 TESTIMONY IN THIS PROCEEDING?

7 A. Yes.

8 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

9 A. I am testifying on behalf of the Office of Public Utility Counsel (OPUC).

10 Q. ARE YOU SPONSORING ANY EXHIBITS?

11 A. Yes. I am sponsoring Exhibit JFW-R1.

12 Q. WHAT IS THE PURPOSE OF YOUR CROSS-REBUTTAL TESTIMONY?

13 A. My cross-rebuttal testimony responds to direct testimony by:

- 14 • Brian T. Murphy, on behalf of the Alliance of Texas-New Mexico Power
15 Municipalities (ATM), regarding the Company's proposed gradualism adjustment.
- 16 • Jeffrey Pollock, on behalf of Texas Industrial Energy Consumers (TIEC), regarding the
17 Company's derivation of the 4CP allocator.
- 18 • Adrian Narvaez, on behalf of Commission staff (Staff), regarding the allocators
19 employed by TNMP to functionalize general plant costs.

1 **II. RESPONSE TO ATM WITNESS BRIAN T. MURPHY**

2 **Q. PLEASE SUMMARIZE MR. MURPHY'S DIRECT TESTIMONY REGARDING**
3 **THE COMPANY'S PROPOSED GRADUALISM ADJUSTMENT.**

4 A. In the event that the Commission approves TNMP's requested revenue increase, Mr.
5 Murphy supports the Company's proposal to cap each rate class's percentage revenue
6 increase at 1.5 times the system-average percentage increase. However, Mr. Murphy
7 opposes the Company's proposal to apply its gradualism adjustment to Rider TCRF
8 revenues. Instead, Mr. Murphy recommends that the Company's gradualism adjustment
9 be applied to base distribution revenues.¹

10 **Q. HOW DO YOU RESPOND TO MR. MURPHY'S RECOMMENDATION TO**
11 **APPLY THE GRADUALISM ADJUSTMENT TO BASE DISTRIBUTION**
12 **REVENUES?**

13 A. I would recommend the same allocation of test-year revenues to rate classes as I proposed
14 in my direct testimony regardless of whether my proposed gradualism adjustment were
15 applied to Rider TCRF revenues or to base distribution revenues. Unlike the fixed cap
16 supported by Mr. Murphy, my proposed adjustment would allow for a gradual transition
17 to cost of service for all rate classes facing substantial rate increases.

18 As I discussed in my direct testimony, if the Commission considers offering rate
19 moderation or gradualism in rates for all rate classes, I recommend that revenues for each
20 class be increased by the average of: (1) the class's percentage increase at equalized rate
21 of return; and (2) the system-average percentage increase. For the purposes of reporting

¹ *Direct Testimony and Attachments of Brian T. Murphy*, Docket No. 48401, August 13, 2018, p. 32.

1 the results of my recommended revenue allocation in Exhibit JFW-3 of my direct
2 testimony, I adopted the Company's approach of adjusting the allocation of FERC
3 Account 565 expenses recovered through Rider TCRF.

4 In contrast, in Exhibit JFW-R1 I show the resulting allocation of test-year
5 revenues in the case where my proposed gradualism adjustment is applied to base
6 distribution revenues (i.e., distribution revenues excluding Account 565 revenues). The
7 revenue allocation resulting from application of my proposed gradualism adjustment to
8 base distribution revenues (as reported in Exhibit JFW-R1) is identical to that resulting
9 from application of my proposed gradualism adjustment to Rider TCRF revenues (as
10 shown in Exhibit JFW-3).

11 III. RESPONSE TO TIEC WITNESS JEFFRY POLLOCK

12 **Q. PLEASE SUMMARIZE MR. POLLOCK'S DIRECT TESTIMONY REGARDING**
13 **THE COMPANY'S DERIVATION OF THE 4CP ALLOCATOR.**

14 A. Mr. Pollock estimates that there is a 1.4% difference between the Company's and
15 ERCOT's calculation of 4CP demand for the TNMP system.² Mr. Pollock asserts that
16 this difference is for the most part due to the fact that TNMP does not include
17 Unaccounted for Energy (UFE) in its derivation of 4CP demand, although he
18 acknowledges that "there could be other unidentified reasons for the observed

² *Direct Testimony of Jeffrey Pollock*, Docket No. 48401, August 13, 2018, p. 13.

1 discrepancies.”³ Mr. Pollock further claims that UFE is primarily attributable to non-IDR
2 customers:

3 UFE represents additional load that is not otherwise accounting for in the
4 settlement process. It is primarily driven by the use of “deemed” load
5 profiles to measure 15-minute interval loads for customers that are not
6 equipped with interval data recording (IDR) meters. Thus, UFE generally
7 represents unaccounted for differences in the loads of non-IDR metered
8 customers.⁴

9 **Q. DOES MR. POLLOCK OFFER ANY EVIDENCE TO SUBSTANTIATE HIS**
10 **CLAIM THAT UFE IS PRIMARILY ATTRIBUTABLE TO UNACCOUNTED**
11 **FOR DIFFERENCES IN THE LOADS OF NON-IDR CUSTOMERS?**

12 A. No. For that matter, according to TIEC’s response to OPUC RFI No. 1-3, Mr. Pollock is
13 unable to determine the extent to which UFE might be attributable to factors other than
14 discrepancies in the estimation of non-IDR load, such as theft, measurement errors, or
15 malfunctioning meters.

16 **Q. CONTRARY TO MR. POLLOCK’S CLAIM, MIGHT UFE BE ATTRIBUTABLE**
17 **TO DISCREPANCIES IN THE LOADS OF BOTH IDR AND NON-IDR**
18 **CUSTOMERS?**

19 A. Yes. For example, UFE might be driven in part by differences between the Company’s
20 and ERCOT’s calculations of transmission and distribution losses attributable to either
21 IDR or non-IDR customers. In fact, in TIEC’s response to OPUC RFI No. 1-2, Mr.
22 Pollock acknowledges that UFE might be attributable to differences in the calculation of

³ *Id.*

⁴ *Id.*, p. 15.

1 losses: "Mr. Pollock believes that the observed differences could also be attributed to
2 differences in the loss factors used by ERCOT versus the load factors used by TNMP."

3 **Q. SHOULD THE COMMISSION ADOPT MR. POLLOCK'S RECOMMENDATION**
4 **TO INCLUDE UFE IN THE COMPANY'S DERIVATION OF THE 4CP**
5 **ALLOCATOR?**

6 A. No. The Company will not be able to reasonably estimate each rate class's contribution
7 to total UFE because it is not clear which factors (such as discrepancies in calculations of
8 class loads or losses) give rise to UFE or the extent to which such factors contribute to
9 total UFE. If each rate class's contribution to total UFE cannot be reasonably estimated,
10 then the resulting allocator based on 4CP inclusive of UFE will not allocate Rider TCRF
11 costs consistent with cost-causation principles.

12 **IV. RESPONSE TO STAFF WITNESS ADRIAN NARVAEZ**

13 **Q. PLEASE SUMMARIZE MR. NARVAEZ'S DIRECT TESTIMONY REGARDING**
14 **THE ALLOCATORS USED BY TNMP TO FUNCTIONALIZE GENERAL PLANT**
15 **COSTS.**

16 A. Mr. Narvaez supports the Company's decision to use a labor-based allocator to
17 functionalize costs in FERC accounts 390 and 391.⁵ On the other hand, Mr. Narvaez
18 does not support the Company's use of a net-plant allocator to functionalize general plant
19 costs in FERC accounts 389, 392, 393, 394, 398, and 399:

⁵ *Direct Testimony of Adrian Narvaez*, Docket No. 48401, August 20, 2018, p. 8.

1 Since general plant is used by a utility's employees, it is reasonable to
2 expect that a utility's investments in general plant would vary somewhat in
3 proportion to its labor expenses. In contrast, it is unreasonable to expect
4 that a utility's investments in general plant would vary in proportion to
5 transmission & distribution plant investment.⁶

6 **Q. HOW DO YOU RESPOND TO MR. NARVAEZ'S DIRECT TESTIMONY**
7 **REGARDING FUNCTIONAL ALLOCATORS FOR GENERAL PLANT COSTS?**

8 A. I disagree with Mr. Narvaez's claim that it is more reasonable to use a labor-based
9 allocator rather than a net-plant allocator to functionalize costs in FERC accounts 392
10 (transportation equipment) and 394 (tools, shop, and garage equipment). The Company's
11 purchases of transportation equipment, tools, shop, and garage equipment are likely
12 driven in large part by the need to service transmission and distribution plant.
13 Consequently, it is reasonable to assume that such costs would vary with investments in
14 transmission and distribution plant.

15 **Q. DOES THIS CONCLUDE YOUR CROSS-REBUTTAL TESTIMONY?**

16 A. Yes.

⁶ *Id.*, p. 9.

Exhibit JFW-R1

OPUC RECOMMENDED GRADUALISM ADJUSTMENT APPLIED TO BASE DISTRIBUTION REVENUES

Description	1	2	3	4	5	6	7	8	9	10	11
	Test Year Revenue Requirement Total	Residential	Secondary < 5 KW	Secondary > 5 KW	Secondary > 5 KW IDR	Primary	Primary IDR	Transmission	Lighting	Total TX-Retail	
Transmission	147,781,716	78,163,318	1,590,711	47,563,654	7,326,434	4,405,783	5,625,375	224	3,106,216	147,781,716	
Distribution excluding Account 565		(3,720,007)	204,820	4,270,576	417,072	(276,481)	519,489	(1,462,451)	46,983		
Distribution Adjustment		17,204,122	854,753	7,122,988	127,906	1,020,389	206,485	926,251	89,068	27,551,962	
Metering		813,456	46,962	123,921	57,708	7,220	37,402	25,179	1,707	1,113,556	
Billing		2,091,066	126,509	686,336	51,276	92,096	47,923	29,983	790,828	3,916,016	
T&D Customer Service		40,410,003	252,554	20,286,642	3,169,130	2,336,737	3,453,146	18,364,292	6,156	88,280,659	
Account 565 (recovered through Rider TCRF)		134,961,957	3,076,309	80,056,116	11,149,526	7,585,744	9,889,821	17,883,478	4,040,958	268,643,909	
Total Adjusted Revenue Requirement											
Retail Test Year Revenues		115,958,870	2,899,042	74,506,878	10,219,672	6,458,102	9,197,150	14,508,805	3,611,902	237,360,418	
Change in Revenue Requirement		19,003,087	177,267	5,549,239	929,854	1,127,642	692,672	3,374,674	429,057	31,283,491	
Percent Change		16.388%	6.115%	7.448%	9.099%	17.461%	7.551%	23.259%	11.879%	13.180%	

Workpapers

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TEXAS INDUSTRIAL ENERGY CONSUMERS RESPONSE TO
OFFICE OF PUBLIC UTILITY COUNSEL'S FIRST
REQUEST FOR INFORMATION

OPUC 1-1. Please refer to Tables 2 and 3 in the Direct Testimony of Jeffrey Pollock. Please explain how the 22.4 megawatts (MWs) or approximately 1.4% average difference between the ERCOT Calculation of 2017 4CP Demand and TNMP's Calculation is distributed among the classes. Please provide this information in the form of a revision to the "updated" column in Table 3 and in megawatts (MWs) by class for each of the rate classes listed in Table 3. Include in your response any supporting documents or workpapers.

RESPONSE:

Mr. Pollock does not know how much of the 22.4 MW average difference between the ERCOT calculation of TNMP's 4CP demands and TNMP's calculation is attributable to specific classes. To the extent that the difference is due to unaccounted for energy, it would generally be attributed to the non-IDR metered classes. Mr. Pollock does not have the information necessary to recalculate Table 3 in the manner requested.

Preparer: Jeffrey Pollock
Sponsor: Jeffrey Pollock

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OPUC 1-2. Please refer to pages 12 and 13 in the Direct Testimony of Jeffrey Pollock. Please identify other reasons that could have contributed to the differences between the TNMP and ERCOT calculated 4CPs.

RESPONSE:

Mr. Pollock believes that the observed differences could also be attributed to differences in the loss factors used by ERCOT versus the loss factors used by TNMP.

Preparer: Jeffrey Pollock
Sponsor: Jeffrey Pollock

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OPUC 1-3. Please refer to page 15 in the Direct Testimony of Jeffrey Pollock. Please confirm whether the following may also have contributed to TNMP Unaccounted For Energy (UFE): Theft; Discrepancies in measurements of line losses; Other measurement errors; Malfunctioning or non-working meters. If your answer is no or cannot confirm for one or more of these factors, please explain why not.

RESPONSE:

Mr. Pollock does not have access to ERCOT's 4CP calculations to opine on whether any of the listed factors (other than the use of different loss factors) or other factors may have contributed to UFE.

Preparer: Jeffrey Pollock
Sponsor Jeffrey Pollock

