

**BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

**PROCEEDING ON MOTION OF THE COMMISSION AS
TO THE RATES, CHARGES, RULES AND REGULATIONS
OF CONSOLIDATED EDISON COMPANY OF NEW
YORK, INC. FOR ELECTRIC SERVICE**

CASE 22-E-0064

DIRECT TESTIMONY OF

ALEX J. KRONAUER

ON BEHALF OF

WALMART INC.

MAY 20, 2022

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1 **I. Introduction**2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**3 A. My name is Alex J. Kronauer. My business address is 2608 SE J Street,
4 Bentonville, AR 72716. I am employed by Walmart Inc. ("Walmart") as a
5 Senior Manager, Energy Services.6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

7 A. I am testifying on behalf of Walmart.

8 **Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**9 A. In 2011, I earned a Master of Business Administration at the McCombs School
10 of Business at The University of Texas at Austin with a concentration in Finance
11 and Investment Management. From 2011 to 2012, I was a Senior Financial
12 Analyst at TXU Energy, a Texas-based power supplier. My duties included load
13 forecasting and analysis. From 2012 to 2019, I was a Financial Analyst and
14 later a Senior Financial Analyst at CyrusOne, a data center provider in Dallas. I
15 was involved in several power-related areas, including demand response,
16 power procurement, and power expense forecasting. I joined the Walmart
17 Energy Department in July 2019 as a Senior Manager. Since I joined Walmart,
18 I have completed several utility-related training seminars and earned the
19 Certified Rate of Return Analyst ("CRRA") certification. My Witness
20 Qualifications Statement is attached as Exhibit AJK-1.

1 **Q. DO YOU HOLD ANY CERTIFICATIONS THAT ARE RELEVANT TO THE ISSUES**
2 **BEFORE THE COMMISSION IN THIS PROCEEDING?**

3 A. Yes. I am a member of the Society of Utility and Regulatory Financial Analysts
4 ("SURFA"). In 2022, I was awarded the CRRRA professional designation by
5 SURFA. The CRRRA designation is based on education, experience, and the
6 successful completion of a comprehensive written examination.

7 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE NEW YORK**
8 **PUBLIC SERVICE COMMISSION ("COMMISSION")?**

9 A. Yes, I submitted testimony in Case 20-E-0380.

10 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER STATE**
11 **REGULATORY COMMISSIONS?**

12 A. Yes, I have submitted testimony with state regulatory commissions in
13 Arkansas, Colorado, Massachusetts, New Mexico, New York, Ohio, Oregon,
14 Pennsylvania, Texas, and Washington.

15 **Q. ARE YOU SPONSORING EXHIBITS IN YOUR TESTIMONY?**

16 A. Yes. I am sponsoring the exhibits listed in the Table of Contents.

17 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN NEW YORK.**

18 A. As stated on Walmart's website, Walmart operates 111 retail units and four
19 distribution centers and employs over 40,000 associates in New York. In fiscal
20 year ending 2021, Walmart purchased \$17.8 billion worth of goods and

1 services from New York-based suppliers, supporting over 164,000 supplier
2 jobs.¹

3 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE**
4 **COMPANY'S SERVICE TERRITORY.**

5 A. Walmart has two stores and related facilities that take electric service from
6 Consolidated Edison Company of New York, Inc. ("Con Edison" or "Company")
7 in New York, primarily on the Company's Service Classification No. 9 General -
8 Large ("SC-9") schedule.

9

10 **II. Purpose of Testimony and Summary of Recommendations**

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A. The purpose of my testimony is to address aspects of Con Edison's rate case
13 filing and to provide recommendations to assist the Commission in thoroughly
14 and carefully considering the customer impact of the Company's proposed
15 rate increase.

¹ <http://corporate.walmart.com/our-story/locations/united-states#/united-states/new-york>

1 **Q. IN SETTING THE REVENUE REQUIREMENT, RETURN ON EQUITY ("ROE"),**
2 **ALLOCATION, AND RATE DESIGN CHANGES FOR THE COMPANY, SHOULD THE**
3 **COMMISSION CONSIDER THE IMPACT OF THE PROPOSED RATE INCREASE ON**
4 **BUSINESS CUSTOMERS?**

5 A. Yes. Electricity is a significant operating cost for retailers such as Walmart.
6 When electric rates increase, the increased cost to retailers can put pressure
7 on consumer prices and on the other expenses required by a business to
8 operate. The Commission should thoroughly and carefully consider the impact
9 on customers in examining the requested revenue requirement and ROE, in
10 addition to all other facets of this case, to ensure that any increase in the
11 Company's rates is the minimum amount necessary to provide safe, adequate,
12 and reliable service, while also providing Con Edison the opportunity to
13 recover its reasonable and prudent costs and earn a reasonable return on its
14 investment.

15 **Q. PLEASE SUMMARIZE WALMART'S RECOMMENDATIONS TO THE**
16 **COMMISSION.**

17 A. Walmart's recommendations to the Commission are as follows:

18 1) The Commission should only grant a maximum ROE equivalent to the
19 Company's currently authorized ROE of 8.80 percent, unless the
20 Commission determines that Con Edison has sufficiently and

- 1 substantially demonstrated that a higher ROE is required. Additionally,
2 the proposed increase in ROE should be viewed in light of:
- 3 a. The customer impact of the resulting revenue requirement
 - 4 increase;
 - 5 b. Recent rate case ROEs approved by the Commission;
 - 6 c. Recent rate case ROEs approved by other state regulatory
 - 7 commissions.
 - 8 d. The Company's currently approved ROE; and
 - 9 e. The use of risk-reducing ratemaking structures such as the
 - 10 proposed inclusion of Construction Work in Progress ("CWIP") in
 - 11 rate base.
- 12 2) Walmart does not take a position on the Company's proposed cost of
13 service model at this time; however, to the extent that alternative cost
14 of service models or modifications to the Company's model are
15 proposed by other parties, Walmart reserves the right to address any
16 such changes in accord with the Commission's procedures in this case.
- 17 3) For the purposes of this case, Walmart does not oppose the Company's
18 proposed revenue allocation methodology.
- 19 4) For the purposes of this case, Walmart does not oppose the Company's
20 proposed rate design for the SC-9 rate class; however, to the extent

1 that the Commission decides on a lower revenue requirement than the
2 Company's, Walmart would like to see any reduction to the SC-9 rate
3 class revenue requirement flow through to the energy delivery charge.

4 **Q. DOES THE FACT THAT YOU MAY NOT ADDRESS AN ISSUE OR POSITION**
5 **ADVOCATED BY THE COMPANY INDICATE WALMART'S SUPPORT?**

6 A. No. The fact that an issue is not addressed herein, or in related filings, should
7 not be construed as an endorsement of, agreement with, or consent to any
8 filed position.

9

10 **III. Revenue Requirement and Cost of Capital**

11 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE**
12 **REQUIREMENT INCREASE IN THIS CASE?**

13 A. My understanding is that Con Edison has requested a revenue increase of
14 approximately \$1,038 million for Year 1, \$744 million for Year 2, and \$615
15 million for Year 3, based on the test year ending September 30, 2021, which
16 was updated to December 31, 2021. *See Accounting Panel Update/Correction*
17 *Testimony*, pages 8-9, and Exhibit AP-E3, Schedule 2. In total, at the end of the
18 three-year period, the Company's revenue requirement will be approximately
19 \$2.4 billion higher than their current revenue requirement.

1 **Q. WHAT IS THE COMPANY'S PROPOSED ROE IN THIS CASE?**

2 A. The Company proposes a 10.0 percent ROE. *See id.*, Exhibit AP-5, Schedules 1-
3 3; Direct Testimony of Yukari Saegusa, pages 49-50; Direct Testimony of Dr.
4 Bente Villadsen, page 4. For the purpose of this testimony, I will analyze the
5 effects of the 10.0 percent ROE over the Company's forecasted rate base and
6 revenue requirements over Years 1-3. The requested ROE of 10.0 percent, at
7 the Company's proposed capital structures, results in a proposed overall rate
8 of return of 7.14 percent in Year 1, 7.16 percent in Year 2, and 7.20 percent in
9 Year 3. *See Accounting Panel Update/Correction Testimony, Exhibit AP-5,*
10 Schedules 1-3.

11 **Q. IS THE COMPANY'S PROPOSED ROE OF 10.0 PERCENT AN INCREASE FROM**
12 **ITS CURRENTLY AUTHORIZED ROE?**

13 A. Yes. The proposed 10.0 percent ROE is 120 basis points higher than the
14 currently authorized ROE of 8.80 percent. *See Proceeding on Motion of the*
15 *Commission as to the Rates, Charges, Rules and Regulations of Consolidated*
16 *Edison Company of New York, Inc. for Electric Service, Case 19-E-0065, Order*
17 *Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan*
18 *(issued Jan. 16, 2020), pages 23-25.*

1 **Q. IS WALMART CONCERNED ABOUT THE REASONABLENESS OF THE**
2 **COMPANY'S PROPOSED ROE?**

3 A. Yes, especially when viewed in light of:

- 4 1) The customer impact of the resulting revenue requirement increases;
- 5 2) Recent rate case ROEs approved by the Commission;
- 6 3) Recent rate case ROEs approved by other state regulatory
- 7 commissions;
- 8 4) The Company's currently approved ROE; and
- 9 5) The use of risk-reducing ratemaking structures such as the proposed
- 10 inclusion of CWIP in rate base.

11

12 ***A. Customer Impact***

13 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S CURRENTLY**
14 **APPROVED ROE?**

15 A. As stated above, my understanding is that the Company's currently approved

16 ROE is 8.80 percent, which was the result of the Commission's Order approving

17 a settlement in the Company's last rate case. *See id.*

1 **Q. HAVE YOU ESTIMATED THE IMPACT OF THE RETURN ON RATE BASE FROM**
2 **THE COMPANY'S PROPOSED INCREASE IN ROE FROM 8.80 PERCENT TO 10.0**
3 **PERCENT?**

4 A. Yes. Using the Company's proposed rate base, cost of debt, and capital
5 structure for Year 1, the impact of the proposed change in the ROE from 8.80
6 percent to 10.0 percent is approximately \$214.5 million, or 20.7 percent of the
7 Company's proposed revenue first year deficiency. See Exhibit AJK-2. Using
8 the Company's proposed rate base, cost of debt, and capital structure for Year
9 2, the impact of the proposed change in the ROE from 8.80 percent to 10.0
10 percent is approximately \$233.8 million, or 31.4 percent of the Company's
11 proposed second year revenue deficiency. See Exhibit AJK-3. Using the
12 Company's proposed rate base, cost of debt, and capital structure for Year 3,
13 the impact of the proposed change in the ROE from 8.80 percent to 10.0
14 percent is approximately \$250.1 million, or 40.7 percent of the Company's
15 proposed third year revenue deficiency. See Exhibit AJK-4. At the end of the
16 three-year period, the Company proposes that their rates include
17 approximately \$698 million of incremental revenue requirement from their
18 proposed increase in ROE.

19

1 **B. Recent ROEs Approved by the Commission**

2 **Q. IS THE COMPANY'S PROPOSED ROE SIGNIFICANTLY HIGHER THAN ELECTRIC**
3 **ROEs APPROVED BY THE COMMISSION SINCE 2018?**

4 A. Yes. During 2018, 2019, 2020, 2021, and so far in 2022, the Commission has
5 issued orders with stated ROEs in nine electric cases, and the average of the
6 ROEs approved is 8.93 percent. See Exhibit AJK-5.

7 **Q. IN WHICH ELECTRIC CASES DID THE COMMISSION ISSUE ORDERS WITH**
8 **STATED ROEs?**

9 A. The Commission issued orders with stated ROEs in the following cases:
10 • Case 17-E-0238, Niagara Mohawk Power Corporation d/b/a National Grid
11 ("Niagara Mohawk") general electric rate case concluded in 2018, in which
12 the Commission approved an ROE of 9.0 percent.²
13 • Case 17-E-0459, the Central Hudson Gas & Electric Corporation ("Central
14 Hudson") general electric rate case concluded in 2018, in which the
15 Commission approved an ROE of 8.80 percent.³

² *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service, Case 17-E-0238, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans (issued Mar. 15, 2018), page 39.*

³ *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service, Case 17-E-0459, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan (issued June 14, 2018), page 38.*

- 1 • Case 18-E-0067, the Orange and Rockland Utilities, Inc. ("Orange and
2 Rockland") general electric rate case concluded in 2019, in which the
3 Commission approved an ROE of 9.0 percent.⁴
- 4 • Case 19-E-0065, the Con Edison general electric rate case concluded in
5 2020, in which the Commission approved an ROE of 8.80 percent.⁵
- 6 • Case 19-E-0378, the New York State Electric & Gas Corporation ("NYSEG")
7 general electric rate case concluded in 2020, in which the Commission
8 approved an ROE of 8.80 percent.⁶
- 9 • Case 19-E-0380, the Rochester Gas & Electric Corporation ("RG&E")
10 general electric rate case concluded in 2020, in which the Commission
11 approved an ROE of 8.80 percent.⁷

⁴ *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Electric Service*, Case 18-E-0067, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans (issued Mar. 14, 2019), pages 21-22, 24-25.

⁵ *Proceeding on Motion of the Commission as to the Rates, Charges, Rules, and Regulations of Consolidated Edison Company of New York, Inc. for Service*, Case 19-E-0065, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan (issued Jan. 16, 2020), pages 23-25.

⁶ *Proceeding On Motion Of The Commission As To The Rates, Charges, Rules And Regulations Of New York State Electric & Gas Corporation For Electric Service*, Case 19-E-0378, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal, with Modifications (issued Nov. 19, 2020), page 64.

⁷ *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service*, Case 19-E-0380, Order Approving Electric and Gas Rate Plans in Accord with Joint Proposal, with Modifications (issued Nov. 19, 2020), page 64.

- 1 • Case 20-E-0428, the Central Hudson general electric rate case concluded
2 in 2021, in which the Commission approved an ROE of 9.0 percent.⁸
- 3 • Case 20-E-0380, the Niagara Mohawk general electric rate case concluded
4 in 2022, in which the Commission approved an ROE of 9.0 percent.⁹
- 5 • Case 21-E-0074, the Orange and Rockland general electric rate case
6 concluded in 2022, in which the Commission approved an ROE of 9.20
7 percent.¹⁰

8 As such, the Company's proposed 10.0 percent ROE is counter to recent
9 Commission actions regarding electric ROEs.

10

⁸ *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Central Hudson Gas & Electric Corporation for Electric Service, Case 20-E-0428, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan (issued Nov. 18, 2021), pages 37-38.*

⁹ *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid For Electric Service, Case 20-E-0380, Order Adopting Terms of Joint Proposal, Establishing Rate Plans and Reporting Requirements (issued Jan. 20, 2022), pages 20, 67-68.*

¹⁰ *Proceeding on Motion of the Commission as to the Rates, Charges, Rules, and Regulations of Orange and Rockland Utilities, Inc. for Electric Service, Case No. 21-E-0074, Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plans, with Additional Requirements (issued Apr. 14, 2022), page 45.*

1 **C. National Utility Industry ROE and Weighted Equity Cost Trends**

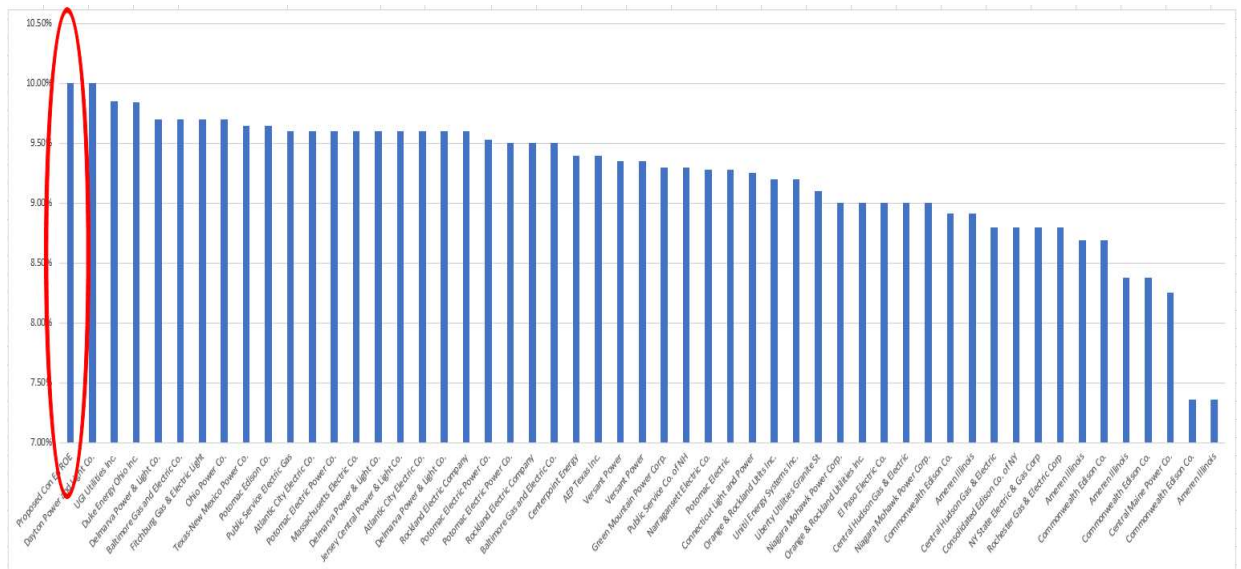
2 **Q. HOW DOES THE COMPANY'S PROPOSED ROEs COMPARE TO ELECTRIC ROEs**
3 **APPROVED BY OTHER UTILITY REGULATORY COMMISSIONS IN 2018, 2019,**
4 **2021, AND SO FAR IN 2022?**

5 A. According to data from S&P Global Market Intelligence ("S&P Global"), a
6 financial news and reporting company, the average of the 155 reported
7 electric utility rate case ROEs authorized by commissions for investor-owned
8 utilities in 2018, 2019, 2020, 2021, and so far in 2022, is 9.48 percent. *See*
9 Exhibit AJK-5. The range of reported authorized ROEs for the period is 7.36
10 percent to 10.60 percent, and the median authorized ROE is 9.50 percent. *Id.*
11 The Company's proposed 10.0 percent ROE is wholly counter to broader
12 electric industry trends.

13 **Q. SEVERAL OF THE REPORTED AUTHORIZED ROEs ARE FOR VERTICALLY**
14 **INTEGRATED UTILITIES. WHAT IS THE AVERAGE AUTHORIZED ROE IN THE**
15 **REPORTED GROUP FOR DISTRIBUTION-ONLY UTILITIES OR FOR ONLY A**
16 **UTILITY'S DISTRIBUTION SERVICE RATES?**

17 A. In the group reported by S&P Global, the average electric ROE for distribution-
18 only utilities authorized over the same time period is 9.21 percent. *Id.* The
19 average electric ROE authorized for distribution-only utilities in 2018 was 9.38
20 percent, in 2019 it was 9.37 percent, in 2020 it was 9.10 percent, in 2021 it

1 was 8.99 percent, and so far in 2022 it is 9.13 percent. *Id.* As such, particularly
2 when compared to distribution-only utilities, the Company's proposed 10.0
3 percent ROE is counter to broader electric industry trends. In fact, as shown
4 in Figure 1, the Company's proposed 10.0 percent ROE, if approved, would be
5 the highest approved electric ROE (out of 53) for a distribution-only utility
6 from 2018 to present.



7
8
9
10
11

Figure 1. Con Edison Proposed ROE of 10.0 Percent Versus Approved ROEs, Distribution-Only Electric Utilities, 2018 to Present.

1 **Q. WHAT IS THE DIFFERENCE IN REVENUE REQUIREMENTS BETWEEN THE**
2 **COMPANY'S PROPOSED 10.0 PERCENT ROE, AND 9.21 PERCENT, WHICH IS**
3 **THE AVERAGE AUTHORIZED ELECTRIC ROE FOR DISTRIBUTION-ONLY**
4 **UTILITIES FROM 2018 TO PRESENT?**

5 A. The difference in return on rate base for 10.0 percent ROE versus 9.21 percent
6 ROE is a difference in revenue requirement of approximately \$141.8 million,
7 or roughly 13.7 percent of the Company's proposed revenue deficiency in Year
8 1. *See* Exhibit AJK-6. The difference in return on rate base for 10.0 percent
9 ROE versus 9.21 percent ROE is a difference in revenue requirement of
10 approximately \$154.4 million, or roughly 20.8 percent of the Company's
11 proposed revenue deficiency in Year 2. *See* Exhibit AJK-7. The difference in
12 return on rate base for 10.0 percent ROE versus 9.21 percent ROE is a
13 difference in revenue requirement of approximately \$165.3 million, or roughly
14 26.9 percent of the Company's proposed revenue deficiency in Year 3. *See*
15 Exhibit AJK-8.

16 **Q. IS WALMART RECOMMENDING THAT THE COMMISSION BE BOUND BY ROEs**
17 **AUTHORIZED BY OTHER STATE REGULATORY AGENCIES?**

18 A. No. Decisions of other state regulatory commissions are not binding on the
19 Commission. Additionally, each state regulatory commission considers the
20 specific circumstances in each case in its determination of the proper ROE.

1 Walmart is providing this information to illustrate a national customer
2 perspective on industry trends in authorized ROE.

3

4 ***D. CWIP in Rate Base***

5 **Q. IS WALMART CONCERNED WITH THE INCLUSION OF CWIP IN RATE BASE?**

6 A. Yes. Including CWIP in rate base results in charges to customers for assets that
7 are not yet "used and useful" in providing electric service. Under the
8 Company's proposal, customers will pay for assets prior to receiving any
9 benefits from those assets. This violates the matching principle (*i.e.*,
10 customers should bear a cost only when they are receiving a corresponding
11 benefit).

12 The problem is compounded by changes in the number and mix of
13 customers that occur during the construction process, before the asset
14 becomes used and useful. For example, customers may pay for certain assets
15 during the construction phase, but leave the system before those assets
16 become operational, thus receiving no benefit for the portion of the cost of
17 the assets for which they paid.

1 **Q. ARE THERE OTHER CONCERNS WITH INCLUDING CWIP IN RATE BASE THAT**
2 **THE COMMISSION SHOULD CONSIDER?**

3 A. Yes. First, including CWIP in rate base shifts risk onto customers that,
4 traditionally, is assumed by utility investors. Investors are compensated for
5 bearing this risk through the authorization of a return on investment and the
6 value of financing the construction once the asset is placed in service.
7 Including CWIP in rate base places the risk on the utility's customers who
8 receive no current benefit for the use of their money. Second, if the Company
9 encounters problems during the construction of the plant resulting in
10 stoppage of the construction, non-completion of the project, and/or a
11 substantial delay in the project's completion, customers have no recourse for
12 recovering or mitigating the cost of financing the asset's construction.

13 **Q. HOW MUCH CWIP DOES THE COMPANY PROPOSE TO INCLUDE IN RATE**
14 **BASE?**

15 A. The Company proposes to include in its rate base approximately \$709 million
16 of CWIP in Year 1, approximately \$673 million of CWIP in Year 2, and
17 approximately \$844 million of CWIP in Year 3. See Accounting Panel
18 Update/Correction Testimony, Exhibit AP-E2, Schedule 1. This constitutes
19 approximately 2.7 percent of the Company's proposed adjusted rate base in
20 Year 1, 2.3 percent of the Company's proposed adjusted rate base in Year 2,

1 and approximately 2.7 percent of the Company's proposed adjusted rate base
2 in Year 3. *See id.*

3 **Q. WHAT IS WALMART'S POSITION REGARDING INCLUDING CWIP IN RATE**
4 **BASE?**

5 A. Walmart recommends that the Commission recognize that including CWIP in
6 rate base favors the Company and its investors by shifting risk onto customers
7 and reducing uncertainty of cost recovery and adjust the ROE accordingly.

8

9 ***E. Conclusion***

10 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING THE**
11 **COMPANY'S PROPOSED ROE?**

12 A. The Commission should only grant a maximum ROE equivalent to the
13 Company's currently authorized ROE of 8.80 percent, unless the Commission
14 determines that Con Edison has sufficiently and substantially demonstrated
15 that a higher ROE is required. The Commission should closely examine the
16 Company's proposed revenue requirement increase and the associated
17 proposed increase in ROE, especially when viewed in light of:

- 18 1) The customer impact of the resulting revenue requirement increase;
19 2) Recent rate case ROEs approved by the Commission;

- 1 3) Recent rate case ROEs approved by other state regulatory
2 commissions;
- 3 4) The Company's currently approved ROE; and
- 4 5) The use of risk-reducing ratemaking structures such as the proposed
5 inclusion of CWIP in rate base.
- 6

7 **IV. Cost of Service and Revenue Allocation**

8 **Q. GENERALLY, WHAT IS WALMART'S POSITION ON SETTING RATES BASED ON**
9 **THE UTILITY'S COST OF SERVICE?**

10 A. Walmart advocates that rates be set based on the utility's cost of service for
11 each rate class. This produces equitable rates that reflect cost causation, send
12 proper price signals, and minimize price distortions.

13 **Q. DOES WALMART TAKE A POSITION ON THE COMPANY'S PROPOSED COST OF**
14 **SERVICE MODEL AT THIS TIME?**

15 A. No. However, to the extent that alternative cost of service models or
16 modifications to the Company's model are proposed by other parties, Walmart
17 reserves the right to address any such changes in accord with the
18 Commission's procedures in this case.

1 **Q. HOW DOES THE COMPANY REPRESENT WHETHER RATES FOR A CUSTOMER**
2 **CLASS ACCURATELY REFLECT THE UNDERLYING COST CAUSATION?**

3 A. The Company represents this relationship in their cost of service results
4 through the use of class-specific rates of return. These rates of return can be
5 converted into relative return, or unitized rates of return ("UROR"), which is
6 an indexed measure of the relationship of the rate of return for an individual
7 rate class to the total system rate of return. A UROR greater than 1.0 means
8 that the rate class is paying rates in excess of the costs incurred to serve that
9 class, and a UROR less than 1.0 means that the rate class is paying rates less
10 than the costs incurred to serve that class. As such, those rate classes with a
11 UROR greater than 1.0 shoulder some of the revenue responsibility burden for
12 the classes with a UROR less than 1.0.

13 **Q. HAS THE COMPANY CALCULATED A UROR FOR EACH CUSTOMER CLASS**
14 **BASED ON THE COST OF SERVICE RESULTS?**

15 A. Yes, as shown in Table 1 below:

Table 1. Rate of Return Index, Existing Rates, Con Edison Proposed Cost of Service Study Results.

Customer Class	Rate of Return (%)	UROR
New York Power Authority Rate I Non-Demand	6.60	0.56
New York Power Authority Rate I Demand	9.83	0.83
New York Power Authority Rate II	10.98	0.93
Residential & Religious #1	11.39	0.96
General Small #2	13.21	1.12
Electric Traction Non-Time of Day #5	10.38	0.88
Electric Traction Time of Day #5	11.97	1.01
Street Lighting & Signal #6	6.96	0.59
Multi-Dwelling Redistribution Non-Time of Day #8	11.80	1.00
Multi-Dwelling Redistribution Time of Day #8	12.24	1.04
General Large Non-Time of Day #9	12.10	1.02
General Large Time of Day #9	13.97	1.18
Multi-Dwelling Space Heating Non-Time of Day #12	9.80	0.83
Multi-Dwelling Space Heating Time of Day #12	8.73	0.74
Bulk Power Time of Day #13	34.34	2.91
Steam Department Electric Facilities	12.58	1.06
Total Company	11.81%	1.00

Source: Direct Testimony of Demand Analysis and Cost of Service Panel, Exhibit DAC-2, Table 1.

- 1 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE**
2 **ALLOCATION METHODOLOGY?**
- 3 A. My understanding is that the Company has proposed to allocate revenues in
4 the following manner:
- 5 1) Establish a tolerance band for each customer class rates of returns of
6 plus or minus 10 percent of the total system rate of return per the
7 Company's proposed cost of service study using a 2019 historical test
8 year;

1 2) For customer classes within the band, the Company proposes no
2 changes to revenue allocation. For customer classes outside of the
3 band, the Company proposes changes to bring the realized return to
4 the outer limit of the band.

5 See Direct Testimony of Demand Analysis and Cost of Service Panel, page 18.

6 **Q. DOES WALMART OPPOSE THE COMPANY'S PROPOSED REVENUE**
7 **ALLOCATION METHODOLOGY?**

8 A. For the purposes of this case, Walmart does not oppose the Company's
9 proposed revenue allocation methodology.

10

11 **V. Rate Design**

12 **Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S RATE DESIGN**
13 **PROPOSAL FOR SC-9?**

14 A. My understanding is that the Company proposes to raise the customer charge
15 to be more in line with the Electric Cost of Service ("ECOS") study.¹¹ See Direct
16 Testimony of Electric Rate Panel page 23. Next, five percent of the usage

¹¹ The ECOS shows the customer cost for SC #9 at \$270.67 per month. See Direct Testimony of Demand Analysis and Cost of Service Panel, Exhibit DAC-4, page 105. The Company proposes a fixed charge for up to the first 5 kW of usage for rate SC-9, which functions somewhat as a customer charge. The proposed monthly charges vary from \$141.98 per month to \$289.85 per month. Direct Testimony of Electric Rate Panel, Exhibit ERP-2, page 22.

1 revenue was shifted from a volumetric kWh charge to a per-kW demand
2 charge on a revenue neutral basis. Finally, the transmission and distribution
3 revenue increases were applied entirely to the demand charges. *See id.*,
4 page 26.

5 **Q. WHAT ARE WALMART'S THOUGHTS ON THE COMPANY'S PROPOSED RATE**
6 **DESIGN FOR SC-9?**

7 A. Transmission and distribution costs are ultimately fixed costs in that the cost
8 does not change with volumetric energy usage. So, to that extent, a demand
9 charge is more conducive to cost of service based rates than is a volumetric
10 charge. While volumetric charges for transmission and distribution still exist
11 under the Company's proposal, the proposal lowers volumetric charges
12 relative to demand, which ultimately brings rates closer to cost of service.

13 **Q. WHAT IS WALMART'S RECOMMENDATION TO THE COMMISSION ON THE**
14 **COMPANY'S PROPOSED REVENUE ALLOCATION?**

15 A. For the purposes of this case, Walmart does not oppose the Company's
16 proposed rate design for the SC-9 rate class; however, to the extent that the
17 Commission decides on a lower revenue requirement than the Company's,
18 Walmart would like to see any reduction to the SC-9 rate class revenue
19 requirement flow through to the energy delivery charge.

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.