STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-057

DIRECT TESTIMONY AND EXHIBITS OF

STEVE W. CHRISS

ON BEHALF OF

WALMART INC.

DECEMBER 20, 2019

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Exhibits

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Exhibit SWC-4: Revenue Requirement Difference Between Eversource Proposed Return on Equity and National Average for Distribution-Only Utilities

Introduction

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

A. My name is Steve W. Chriss. My business address is 2608 SE J St., Bentonville, AR 72712-0550. I am employed by Walmart Inc. as Director, Energy Services.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?

A. I am testifying on behalf of Walmart Inc. ("Walmart").

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. In 2001, I completed a Master of Science in Agricultural Economics at Louisiana State University. From 2001 to 2003, I was an Analyst and later a Senior Analyst at the Houston office of Econ One Research, Inc., a Los Angeles-based consulting firm. My duties included research and analysis on domestic and international energy and regulatory issues. From 2003 to 2007, I was an Economist and later a Senior Utility Analyst at the Public Utility Commission of Oregon in Salem, Oregon. My duties included appearing as a witness for PUC Staff in electric, natural gas, and telecommunications dockets. I joined the energy department at Walmart in July 2007 as Manager, State Rate Proceedings. I was promoted to Senior Manager, Energy Regulatory Analysis, in June 2011. I was promoted to my current position in October, 2016 and the position was re-titled in October, 2018. My Witness Qualifications Statement is attached as Exhibit SWC-1.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION ("COMMISSION")?

A. No.

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

A. Yes. I have submitted testimony in over 220 proceedings before 40 other utility regulatory commissions. I have also submitted testimony before legislative committees in Missouri, Kansas, North Carolina, and South Carolina. My testimony has addressed topics including, but not limited to, cost of service and rate design, return on equity ("ROE"), revenue requirements, ratemaking policy, large customer renewable programs, qualifying facility rates, telecommunications deregulation, resource certification, energy efficiency/demand side management, fuel cost adjustment mechanisms, decoupling, and the collection of cash earnings on construction work in progress.

Q. ARE YOU SPONSORING EXHIBITS IN YOUR TESTIMONY?

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

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN NEW HAMPSHIRE.

A. As shown on Walmart's website, Walmart operates 29 retail units and employs over 7,000 associates in New Hampshire. In fiscal year ending 2019, Walmart purchased $223 million worth of goods and services from New Hampshire-based suppliers, supporting over 12,000 supplier jobs.[1]

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE TERRITORY OF THE PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE D/B/A EVERSOURCE ENERGY ("EVERSOURCE" OR "THE COMPANY").

A. Walmart is a large customer of Eversource, with 19 stores, one distribution center, and related facilities that take electric service from the Company primarily on the Primary General Delivery Service Rate GV rate schedule ("GV").

Purpose of Testimony and Summary of Recommendations

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to Eversource's rate case filing and to provide recommendations to assist the Commission in its thorough and careful consideration of the customer impact of the Company's proposed rate increase.

Q. IN SETTING THE REVENUE REQUIREMENT, ROE, ALLOCATION, AND RATE DESIGN CHANGES FOR THE COMPANY, SHOULD THE COMMISSION CONSIDER THE IMPACT OF THE PROPOSED RATE INCREASE ON BUSINESS CUSTOMERS?

A. Yes. Electricity is a significant operating cost for retailers such as Walmart. When electric rates increase, the increased cost to retailers can put pressure on consumer prices and on the other expenses required by a business to operate. The Commission

[1] http://corporate.walmart.com/our-story/locations/united-states#/united-states/new-hampshire

should thoroughly and carefully consider the impact on customers in examining the requested revenue requirement and ROE, in addition to all other facets of this case, to ensure that any increase in the Company's rates is the minimum amount necessary to provide safe, adequate, and reliable service, while also providing Eversource the opportunity to recover its reasonable and prudent costs and earn a reasonable return on its investment.

Q. PLEASE SUMMARIZE WALMART'S RECOMMENDATIONS TO THE COMMISSION.

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

1) The Commission should closely examine the Company's proposed revenue requirement increase and the associated proposed increase in ROE, especially when viewed in light of:

   a. The customer impact of the resulting revenue requirement increases;
   b. Recent rate case ROEs approved by the Commission;
   c. Recent rate case ROEs approved by other commissions nationwide; and
   d. The use of risk-reducing ratemaking structures such as the Company's proposed step increases in the revenue requirement, which remove the risk of regulatory lag and rate case review for those costs, and Distribution Rate Adjustment Mechanism ("DRAM").
   e. In summary, unless the Commission determines that Eversource has sufficiently and substantially demonstrated that the Company requires an ROE greater than its currently approved ROE of 9.67 percent, which is generally

consistent with recent Commission decisions and national trends, the Commission should approve an ROE no higher than 9.67 percent in this docket.

2) Walmart does not take a position on the Company's proposed cost of service model at this time. However, to the extent that alternative cost of service models or modifications to the Company's models are proposed by other parties, Walmart reserves the right to address any such proposals.

3) At the Company's proposed revenue requirement, Walmart does not oppose the Company's proposed revenue allocation.

4) If the Commission approves a revenue requirement lower than that proposed by the Company, the Commission should begin with the Company's proposed revenue allocation and apply the reduction in revenue requirement to the customer classes with unitized rates of return ("URORs") greater than 1.0 on an equal percentage basis in order to move the rates for those classes closer to cost of service-based levels.

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

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

Revenue Requirement and Cost of Capital

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE REQUIREMENT INCREASES IN THIS DOCKET?

A. My understanding is that the Company proposes a permanent base rate revenue requirement increase of approximately $69.9 million for the test year ending December 31, 2018. *See* Testimony of William J. Quinlan, page 27, line 2 to line 4. Additionally, the Company proposes four step adjustments: (1) $14.86 million in July, 2020; (2) $20.77 million in July, 2021; (3) $13.52 million in July, 2022; and (4) $15.63 million in July, 2023. *See* Attachment EHC/TMD-3 (Perm), page 1. In total, the Company is proposing for its base rate revenue to be approximately $135 million higher as of July, 2023, than it is currently.

Q. DOES THE COMPANY PROPOSE ANY ADDITIONAL INCREASES?

A. Yes. The Company proposes the Grid Transformation and Enablement Program ("GTEP") and estimates revenue requirement increases of $4.5 million in 2020, $7.9 million in 2021, $7.3 million in 2022, and $6.2 million in 2023. *See* Testimony of Edward A. Davis, Table 3. In total, the Company is proposing for its total rate revenue requirement to be approximately $161 million higher as of July, 2023, than it is currently.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED ROE AND WEIGHTED AVERAGE COST OF CAPITAL IN THIS DOCKET?

A. My understanding is that the Company proposes an ROE of 10.4 percent based on the range of 10.0 percent to 10.75 percent. *See* Direct Testimony of Ann E. Bulkley, page 8, line 17 to line 21. The Company proposes a cost of long-term debt of 4.37 percent, a cost of short-term debt of 2.45 percent, and a capital structure of 54.85 percent equity, 41.98 percent long-term debt, and 3.17 percent short-term debt, for a proposed overall weighted average cost of capital of 7.62 percent. *See* Attachment EHC/TMD-1 (Perm), Schedule EHC/TMD-40 (Perm), page 1.

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

A. Yes, especially when viewed in light of:

1) The customer impact of the resulting revenue requirement increases;
2) Recent rate case ROEs approved by the Commission;
3) Recent rate case ROEs approved by other commissions nationwide; and
4) The use of risk-reducing ratemaking structures such as the Company's proposed step increases in revenue requirement, which remove the risk of regulatory lag and rate case review for those costs, and DRAM.

Customer Impact

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

A. My understanding is that the Company's current approved ROE is 9.67 percent. At the time the Commission approved this ROE, it found that the ROE continued to represent an appropriate return for investors facing the risks associated with a distribution utility. *See* Docket No. DE 09-035, Order No. 25,123, June 28 12, 2010, page 33.

Q. HAVE YOU CALCULATED AN ESTIMATE OF THE IMPACT OF THE RETURN ON RATE BASE FROM THE COMPANY'S PROPOSED INCREASE IN ROE FROM 9.67 PERCENT TO 10.4 PERCENT?

A. Yes. Holding rate base constant and using the Company's proposed cost of debt and capital structure, the first year revenue requirement impact of the proposed change in authorized ROE is approximately $6.6 million, or 9.5 percent of the proposed revenue requirement increase. *See* Exhibit SWC-2. The Commission should recognize that the Company's proposed ROE would also be applied to the Company's proposed step increases and GTEP revenue requirement, so the impact of the proposed ROE extends beyond the proposed first year revenue requirement.

Recent ROEs Approved by the Commission

Q. IS THE COMPANY'S PROPOSED ROE SIGNIFICANTLY HIGHER THAN THE ROES APPROVED BY THE COMMISSION IN 2016, 2017, 2018, AND SO FAR IN 2019?

A. Yes. During 2016, 2017, 2018, and so far in 2019, the Commission has issued orders with stated ROEs in two dockets, with the average of the ROEs approved equal to 9.45 percent. *See* Exhibit SWC-3.

Q. IN WHICH DOCKETS DID THE COMMISSION ISSUE ORDERS WITH STATED ROES?

A. The Commission issued orders with stated ROEs in the following dockets:

- Docket No. 16-383, the Liberty Utilities general rate case, in which the Commission approved an ROE of 9.4 percent and stated that the authorized ROE was "within the scope of precedent" based on an earlier authorized ROE of 9.55 percent for Liberty Utilities and the authorized ROE of 9.67 percent for Eversource as mentioned above. *See* Docket No. 16-383, Order No. 26,005, April 12, 2017, page 13.
- Docket No. 16-384, the Unitil Energy Systems general rate case, in which the Commission approved an ROE of 9.5 percent. *See* Docket No. DE 16-384, Order No. 26,007, April 20, 2017, page 9.

As such, the Company's proposed 10.4 percent ROE is counter to recent Commission actions regarding ROE and the scope of precedent referred to in Order No. 26,005.

National Utility Industry ROE and Weighted Equity Cost Trends

Q. IS THE COMPANY'S PROPOSED ROE SIGNIFICANTLY HIGHER THAN THE ROES APPROVED BY OTHER UTILITY REGULATORY COMMISSIONS IN 2016, 2017, 2018, AND SO FAR IN 2019?

A. Yes. According to data from S&P Global Market Intelligence, a financial news and reporting company, the average of the 138 reported electric utility rate case ROEs authorized by commissions to investor-owned utilities in 2016, 2017, 2018, and so far in 2019, is 9.61 percent. The range of reported authorized ROEs for the period is 8.4

percent to 11.95 percent, and the median authorized ROE is 9.6 percent. The average and median values are significantly below the Company's proposed ROE of 10.4 percent. *See* Exhibit SWC-3. As such, the Company's proposed 10.4 percent ROE is counter to broader electric industry trends.

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

A. In the group reported by S&P Global, the average ROE for distribution-only utilities authorized from 2016 through present is 9.37 percent, and the trend in these averages has been relatively stable from 2016 to 2018. The average ROE authorized for distribution-only utilities in 2016 was 9.31 percent, in 2017 it was 9.43 percent, in 2018 it was 9.38 percent, and thus far in 2019 it was 9.37 percent. Removing the ROEs authorized for Illinois utilities, which are set by statutory formula, increases authorized ROEs for distribution-only utilities slightly: in 2016 it was 9.45 percent, in 2017 it was 9.61 percent, in 2018 it was 9.47 percent, and thus far in 2019 it was 9.53 percent. *Id.* As such, the Company's proposed 10.4 percent ROE is counter to broader electric industry trends and, in fact, as shown in Figure 1, would be the highest approved ROE for a distribution-only utility from 2016 to present if approved by the Commission.

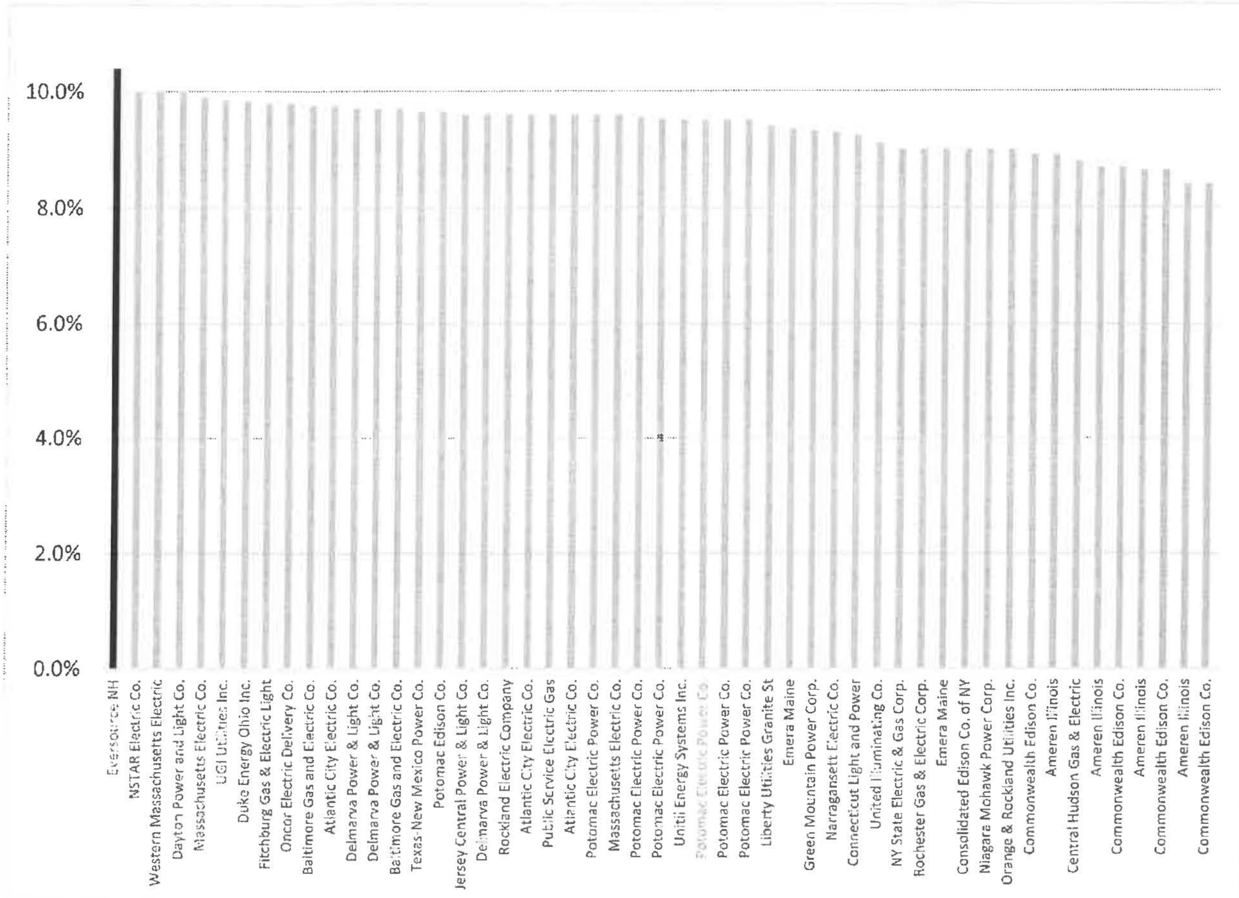

Figure 1. Eversource Proposed ROE Versus Approved ROEs, Distribution-Only Utilities, 2016 to Present.

Q. WHAT IS THE DIFFERENCE IN REVENUE REQUIREMENT BETWEEN THE COMPANY'S PROPOSED 10.4 PERCENT ROE AND 9.37 PERCENT, WHICH IS THE AVERAGE AUTHORIZED ROE FOR DISTRIBUTION-ONLY UTILITIES FROM 2016 TO PRESENT?

A. The difference in revenue requirement for this difference in ROE is approximately $9.4 million, or 13.5 percent of the Company's proposed increase in this docket. *See* Exhibit SWC-4.

Q. IS WALMART RECOMMENDING THAT THE COMMISSION BE BOUND BY ROES AUTHORIZED BY OTHER STATE REGULATORY AGENCIES?

A. No. Decisions of other state regulatory commissions are not binding on the Commission. Additionally, each commission considers the specific circumstances in each case in its determination of the proper ROE and capital structure. Walmart is providing this information to illustrate a national customer perspective on industry trends. In addition to using recent authorized ROEs as a general gauge of reasonableness for the various cost of equity analyses presented in this case, the Commission should consider how its authorized ROE impacts existing and prospective customers relative to other jurisdictions.

Distribution Rate Adjustment Mechanism

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED DRAM?

A. My understanding is that the Company proposes the DRAM as a non-bypassable reconciling rate mechanism for the purposes of incorporating certain rate change outcomes of the instant case as well as Commission directives that may occur prior to the next rate case. *See* Testimony of Eric H. Chung and Troy M. Dixon, page 102, line 11 to line 15.

Q. WHAT IS YOUR UNDERSTANDING OF THE PROGRAMS AND INITIATIVES FOR WHICH THE COMPANY SEEKS COST RECOVERY THROUGH THE PROPOSED DRAM?

A. My understanding is that the Company seeks to include costs related to the Major

Storm Cost Recovery Mechanism, the Vegetation Management Program, the Regulatory Reconciliation Adjustment mechanism, the "New Start" Arrearage Management program, the GTEP, and LBR associated with distribution generation. *Id.*, page 102, line 12 to page 105, line 12.

Q. DOES THE COMPANY'S PROPOSED DRAM REDUCE THE COMPANY'S EXPOSURE TO RISK FROM REGULATORY LAG FOR THE COSTS PROPOSED TO BE INCLUDED THEREIN?

A. Yes. Approval of the proposed DRAM will allow the Company to project and put into rates post-test year costs without waiting for rates to be authorized per the next filed rate case. This treatment provides the benefit of rider recovery of the included costs as well as the benefit of a forecasted test year for included costs that use a cost forecast to set rates. Under normal circumstances, Eversource's shareholders would be exposed to the risk of regulatory lag for those costs. Instead, the Company proposes to shift that risk to customers. If the Commission approves the proposed DRAM or a modified form of the DRAM it should reflect the shift of risk from investors to customers in the Company's authorized ROE.

Q. HAVE INDUSTRY ANALYSTS STATED THAT RIDER RECOVERY OF COSTS SHIFTS RISK FROM SHAREHOLDERS TO CUSTOMERS?

A. Yes. S&P Global Intelligence states:

> "A defining characteristic of an adjustment clause is that it effectively shifts the risk associated with recovery of the expense in question from shareholders to customers, because if the clause operates as designed, the company is able

> to change its rates to recover its costs on a current basis, without any negative effect on the bottom line and without the expense and delay that accompany a rate case filing."[2]

Conclusion

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IN REGARDS TO THE COMPANY'S PROPOSED ROE?

A. The Commission should closely examine the Company's proposed revenue requirement increase and the associated proposed increase in ROE, especially when viewed in light of:

1) The customer impact of the resulting revenue requirement increases;
2) Recent rate case ROEs approved by the Commission;
3) Recent rate case ROEs approved by other commissions nationwide; and
4) The use of risk-reducing ratemaking structures such as the Company's proposed step increases in revenue requirement, which remove the risk of regulatory lag and rate case review for those costs, and DRAM.

In summary, unless the Commission determines that Eversource has sufficiently and substantially demonstrated that the Company requires an ROE greater than its currently approved ROE of 9.67 percent, which is generally consistent with

[2] S&P Global Market Intelligence, RRA Regulatory Focus: Adjustment Clauses, September 28, 2018.

recent Commission decisions and national trends, the Commission should approve an ROE no higher than 9.67 percent in this docket.

Cost of Service and Revenue Allocation

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

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

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

A. No. However, to the extent that alternative cost of service models or modifications to the Company's model are proposed by other parties, Walmart reserves the right to address any such proposals.

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

A. The Company reflects this relationship in their cost of service results through the use of class-specific rates of return. These rates of return can be converted into unitized rates of return ("UROR"), which is an indexed measure of the relationship of the rate of return for an individual customer class to the total system rate of return. An UROR greater than 1.0 means that the customer class is paying rates in excess of costs incurred to serve that class, and an UROR less than 1.0 means that the customer class is paying rates less than the costs incurred to serve that class. As such, those rate classes with an UROR greater than 1.0 are subsidizing the classes with an UROR less than 1.0.

Q. DID THE COMPANY CALCULATE CLASS URORs BASED ON ITS COST OF SERVICE RESULTS?

A. Yes, as shown in Table 1 below:

Table 1. Class Rates of Return and URORs, Current Rates, Eversource Proposed Cost of Service Study Results.

Customer Class	Rate of Return, Current (%)	UROR, Current
R & R-TOD	0.23	0.07
R-WH & G-WH	1.16	0.34
LCS R&G	-9.78	-2.83
G & G-TOD	9.34	2.71
G-SH	8.07	2.34
GV	11.30	3.27
LG	8.33	2.41
B GV&LG	27.80	8.06
OL	11.35	3.29
EOL	50.01	14.49
Jurisdiction	**3.45**	**1.00**

Source: Attachment EAD-5 (Perm), page 3.

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S REVENUE ALLOCATION PROPOSAL?

A. My understanding is that the Company generally proposes a revenue allocation that aims to move each customer class closer to cost-based levels while moderating the impact on customer bills. *See* Testimony of Edward A. Davis, page 7, line 11 to page 8, line 5.

Q. DOES THE COMPANY'S PROPOSED REVENUE ALLOCATION MOVE EACH CUSTOMER CLASS CLOSER TO RATES THAT REFLECT COST OF SERVICE LEVELS?

A. Yes. As shown in Table 2, the Company's proposal moves the UROR for each customer class closer to its respective cost of service-based level.

Table 2. Class URORs, Current vs. Proposed Rates, Eversource Proposed Cost of Service Study Results.

Customer Class	UROR, Current	UROR, Proposed
R & R-TOD	0.07	0.59
R-WH & G-WH	0.34	0.78
LCS R&G	-2.83	-1.06
G & G-TOD	2.71	1.81
G-SH	2.34	1.64
GV	3.27	2.06
LG	2.41	1.67
B GV&LG	8.06	4.23
OL	3.29	1.00
EOL	14.49	1.00
Jurisdiction	**3.45**	**1.00**

Source: Attachment EAD-5 (Perm), page 3.

Q. WHAT IS WALMART'S REVENUE ALLOCATION RECOMMENDATION TO THE COMMISSION AT THE COMPANY'S PROPOSED REVENUE REQUIREMENT?

A. At the Company's proposed revenue requirement, Walmart does not oppose the Company's proposed revenue allocation.

Q. WHAT IS WALMART'S RECOMMENDATION TO THE COMMISSION IF THE COMMISSION APPROVES A REVENUE REQUIREMENT LOWER THAN THAT PROPOSED BY THE COMPANY?

A. If the Commission approves a revenue requirement lower than that proposed by the Company, the Commission should begin with the Company's proposed revenue allocation and apply the reduction in revenue requirement to the customer classes with URORs greater than 1.0 on an equal percentage basis in order to move the rates for those classes closer to cost of service-based levels.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.