



## Filing Receipt

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**SOAH DOCKET NO. 473-21-2606  
PUC DOCKET NO. 52195**

<b>APPLICATION OF EL PASO</b>	<b>)</b>	<b>BEFORE THE STATE OFFICE</b>
<b>ELECTRIC COMPANY TO</b>	<b>)</b>	<b>OF</b>
<b>CHANGE RATES</b>	<b>)</b>	<b>ADMINISTRATIVE HEARINGS</b>

**DIRECT TESTIMONY AND EXHIBITS OF**

**ALEX J. KRONAUER**

**ON BEHALF OF**

**WALMART INC.**

**OCTOBER 22, 2021**

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## *Exhibits*

**Exhibit AJK-1** – Alex J. Kronauer Witness Qualifications Statement

**Exhibit AJK-2** – Impact of El Paso Electric's Proposed Return on Equity vs. El Paso Electric's Currently  
Approved Return On Equity

**Exhibit AJK-3** – Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed,  
2018 to Present

**Exhibit AJK-4** – Calculation of Revenue Requirement Impact of El Paso Electric's Proposed ROE vs. Average  
ROE Awarded to Vertically-Integrated Utilities from 2018-Present

**I. Introduction**

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

A. My name is Alex J. Kronauer. My business address is 2608 SE J St., Bentonville, AR 72716-0550. I am employed by Walmart Inc. ("Walmart") as a Senior Manager, Energy Services.

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

A. I am testifying on behalf of Walmart.

**Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

In 2011, I earned a Master of Business Administration at the McCombs School of Business at The University of Texas at Austin with a concentration in Finance and Investment Management. From 2011 to 2012, I was a Senior Financial Analyst at TXU Energy, a Texas-based power supplier. My duties included load forecasting and analysis. From 2012 to 2019, I was a Financial Analyst and later a Senior Financial Analyst at CyrusOne, a data center provider in Dallas. I was involved in several power-related areas, including demand response, power procurement, and power expense forecasting. I joined the Walmart Energy Department in July 2019 as a Senior Manager. Since joining Walmart, I have completed several utility-related training seminars. My Witness Qualifications Statement is attached as Attachment AJK-1.

**Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS ("COMMISSION")?**

1       A.     Yes. I testified in Docket No. 51547 regarding the proposed Avangrid, Inc. and PNM  
2             Resources Merger, SOAH Docket No. 473-21-1892/PUC Docket No. 51802 regarding  
3             the Application of Southwestern Public Service Company for Authority to Change  
4             Rates, and SOAH Docket No. 473-21-3114/PUC Docket No. 52397 regarding the  
5             Application of Southwestern Electric Power Company to Implement a Net Interim Fuel  
6             Surcharge.

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

9       A.     Yes. Regarding rate cases, I submitted testimony in Colorado Public Utilities  
10            Commission Docket No. 20AL-0432E, New York Public Service Commission Case No.  
11            20-E-0380, Maryland Public Service Commission Case Numbers 9645 and 9630,  
12            Pennsylvania Public Utility Commission Docket No. R-2021-3024601, New Mexico  
13            Public Regulation Commission Case No. 20-00238-UT, and Washington Utilities and  
14            Transportation Commission Docket UE-191024. I was also called as a witness before  
15            the Arkansas Public Service Commission in Docket Number 16-027-R regarding Net  
16            Metering, and I also submitted testimony in the AR PSC Docket Number 20-027-U  
17            regarding Demand Response.

18       **Q.     ARE YOU SPONSORING ANY EXHIBITS WITH YOUR TESTIMONY?**

19       A.     Yes. I am sponsoring the exhibits listed in the table of contents.

20       **Q.     PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN TEXAS.**

21       A.     As stated on Walmart's website, Walmart operates 593 retail units, 19 distribution  
22            centers, and employs over 171,000 associates in Texas. In fiscal year ending 2021,

1 Walmart purchased \$76.6 billion worth of goods and services from Texas-based  
2 suppliers, supporting over 281,000 jobs.<sup>1</sup>

3 **Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN THE TEXAS SERVICE**  
4 **TERRITORY OF EL PASO ELECTRIC ("EPE" OR "THE COMPANY").**

5 A. Walmart is a large customer of EPE, with 24 stores and related facilities that take  
6 electric service from the Company, primarily on the General Service ("GS") and Large  
7 Power Service ("LPS") rates.

8  
9 **II. Purpose of Testimony and Summary of Recommendations**

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

11 A. The purpose of my testimony is to respond to the Return on Equity ("ROE")  
12 component of EPE's rate case filing and to provide recommendations to assist the  
13 Commission in its thorough and careful consideration of the customer impact of the  
14 Company's proposed rate increase. Andrew Teague of Walmart will testify on other  
15 aspects of EPE's rate case, including the Company's proposed rate design and cost  
16 allocation.

17 **Q. IN SETTING THE REVENUE REQUIREMENT, ROE, REVENUE ALLOCATION, AND RATE**  
18 **DESIGN CHANGES FOR THE COMPANY, SHOULD THE COMMISSION CONSIDER THE**

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

**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 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 EPE the opportunity to recover its reasonable and prudent costs and earn a reasonable return on its investment.

**Q. PLEASE SUMMARIZE YOUR RECOMMENDATION TO THE COMMISSION.**

A. My recommendation is that the Commission should closely examine the Company's increase in ROE, especially when viewed in light of:

- a. The customer impact of the resulting revenue requirement increase;
- b. Recent rate case ROEs approved by the Commission;
- c. Recent rate case ROEs approved by other state regulatory commissions; and
- d. The Company's currently approved ROE.

**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 any filed position.

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

2       **Q.     WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE**  
3       **REQUIREMENT INCREASE IN THIS DOCKET?**

4       A.     My understanding is that the Company proposes a revenue requirement increase of  
5       approximately \$41.1 million based on a Test Year ended December 31, 2020. *See*  
6       Direct Testimony of Jennifer I. Borden, page 2. This includes a base rate increase of  
7       approximately \$69.7 million for the test year ending December 31, 2020, which is  
8       offset by approximately \$27.9 million by setting the Transmission Cost Recovery  
9       Factor ("TCRF") and the Distribution Cost Recovery Factor ("DCRF") to zero, as well as  
10      a proposed reduction in miscellaneous service revenues of \$0.7 million. *See id.*

11      **Q.     WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED ROE AND**  
12      **WEIGHTED AVERAGE COST OF CAPITAL ("WACC") IN THIS DOCKET?**

13      A.     My understanding is that the Company proposes an ROE of 10.30 percent based on  
14      the range of 9.75 percent to 10.75 percent. *See* Direct Testimony of Jennifer E. Nelson,  
15      page 2, line 23 to line 24. The Company proposes a cost of debt of 5.576 percent and  
16      a capital structure of 51.00 percent equity, 49.00 percent debt for a proposed overall  
17      WACC of 7.985 percent. *See* Direct Testimony of Lisa D. Budtke, page 8, line 21 to line  
18      22, and page 9, line 23 to line 26.

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

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

- 22           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 state regulatory commissions; and
4. The Company's currently approved ROE.

***A. Customer Impact***

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

A. My understanding is that the Company's currently authorized ROE is 9.65 percent.<sup>2</sup>

**Q. HAVE YOU CALCULATED AN ESTIMATE OF THE IMPACT TO CUSTOMERS OF THE DIFFERENCE BETWEEN THE CURRENTLY AUTHORIZED ROE OF 9.65 PERCENT AND THE 10.30 PERCENT ROE PROPOSED BY THE COMPANY?**

A. Yes. Holding the rate base constant and using the Company's proposed cost of debt and capital structure, the revenue requirement impact of the difference between the currently authorized ROE of 9.65 percent and the Company's proposed 10.30 percent ROE is approximately \$9.2 million, or 22.45 percent of the proposed revenue requirement increase. See Exhibit AJK-2.

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<sup>2</sup> See *Application of El Paso Electric Company to Change Rates*, Texas PUC Docket No. 46831/SOAH Docket No. 473-17-2686, Order issued December 18, 2017, page 5, ¶ 30.

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

**Q. IS THE COMPANY'S PROPOSED ROE SIGNIFICANTLY HIGHER THAN THE ROES APPROVED BY THE COMMISSION IN 2018, 2019, 2020, AND SO FAR IN 2021?**

A. Yes. During 2018, 2019, 2020, and so far in 2021, the Commission has issued orders with stated ROEs in four dockets, with the average of the ROEs approved equal to 9.48 percent. See Exhibit AJK-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. 49831, the Southwestern Public Service Company general rate case, in which the Commission approved an ROE of 9.45 percent.<sup>3</sup>
- Docket No. 48401, the Texas-New Mexico Power Company general rate case, in which the Commission approved an ROE of 9.65 percent.<sup>4</sup>
- Docket No. 49421, the CenterPoint Energy general rate case, in which the Commission approved an ROE of 9.40 percent.<sup>5</sup>
- Docket No. 49494, AEP Texas, Inc. general rate case, in which the Commission

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<sup>3</sup> See *Application of Southwestern Public Service Company for Authority to Change Rates*, Texas PUC Docket No. 49831, Order issued August 27, 2020, page 9, ¶ 58.

<sup>4</sup> See *Application of Texas-New Mexico Power Company to Change Rates*, Texas PUC Docket No. 48401, Order issued December 20, 2018, page 6, ¶ 47.

<sup>5</sup> See *Application of CenterPoint Energy Houston Electric, LLC for Authority to Change Rates*, Texas PUC Docket No. 49421, Order issued March 9, 2020, page 10, ¶ 60.

1 approved an ROE of 9.40 percent.<sup>6</sup>

2 As such, the Company's proposed 10.30 percent ROE is counter to recent Commission  
3 actions regarding ROE.

4  
5 ***C. National Utility Industry ROE and Weighted Equity Cost Trends***

6 **Q. HOW DOES THE COMPANY'S PROPOSED ROE COMPARE TO ELECTRIC ROEs**  
7 **APPROVED BY OTHER UTILITY REGULATORY COMMISSIONS IN 2018, 2019, 2020,**  
8 **AND SO FAR IN 2021?**

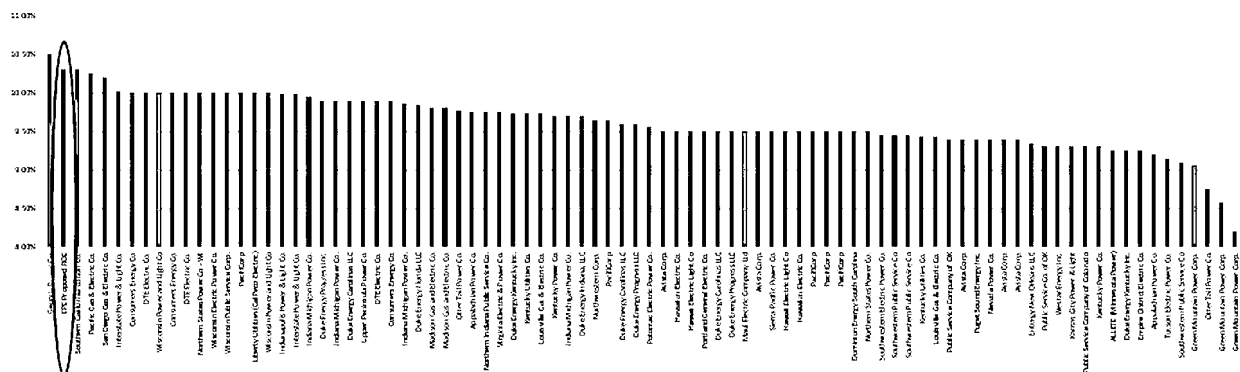
9 A. According to data from S&P Global Market Intelligence ("S&P Global"), a financial  
10 news and reporting company, the average of the 130 reported electric utility rate case  
11 ROEs authorized by commissions for investor-owned utilities in 2018, 2019, 2020, and  
12 so far in 2021, is 9.50 percent. See Exhibit AJK-3. Specifically, the average approved  
13 ROE was 9.55 percent in 2018, 9.64 percent in 2019, 9.39 percent in 2020, and 9.42  
14 percent so far in 2021. *Id.* The range of reported authorized ROEs for the period is  
15 8.20 percent to 10.50 percent, and the median authorized ROE is 9.50 percent. *Id.* As  
16 such, the Company's proposed 10.30 percent ROE is counter to broader electric  
17 industry trends.

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<sup>6</sup> See *Application of AEP Texas Inc. for Authority to Change Rates*, Texas PUC Docket No. 49494, Order issued April 6, 2020, page 14, ¶91.

**Q. SEVERAL OF THE REPORTED AUTHORIZED ROEs ARE FOR DISTRIBUTION-ONLY UTILITIES. WHAT IS THE AVERAGE AUTHORIZED ROE IN THE REPORTED GROUP FOR VERTICALLY INTEGRATED UTILITIES?**

**A.** In the group reported by S&P Global, the average electric ROE for vertically integrated utilities authorized over the same time period is 9.61 percent. *Id.* The average electric ROE authorized for vertically integrated utilities in 2018 was 9.68 percent, in 2019 it was 9.73 percent, 9.55 percent in 2020, and 9.43 percent so far in 2021. *Id.* As such, the Company's proposed ROE of 10.30 percent is counter to broader electric industry trends. In fact, as shown in Figure 1, the Company's proposed 10.30 percent ROE, if approved, would be the second highest approved electric ROE (out of 88) for a vertically integrated utility from 2018 to present.



**Figure 1. EPE Proposed 10.30 Percent ROE Versus Authorized ROEs for Vertically Integrated Utilities, 2018 through Present. Source: Exhibit AJK-3.**

**Q. WHAT IS THE DIFFERENCE IN REVENUE REQUIREMENT BETWEEN THE COMPANY'S PROPOSED 10.30 PERCENT ROE AND THE 9.61 PERCENT AVERAGE AUTHORIZED ROE FOR VERTICALLY INTEGRATED ELECTRIC UTILITIES FROM 2018 TO PRESENT?**

**A.** The difference in a return on rate base at the 10.30 percent ROE proposed by the

1 Company versus the 9.61 percent average authorized ROE is an increase in revenue  
2 requirement of approximately \$9.7 million, or 23.66 percent of the Company's  
3 proposed revenue deficiency. See Exhibit AJK-4.

4 **Q. IS WALMART RECOMMENDING THAT THE COMMISSION SHOULD BE BOUND BY**  
5 **ROEs AUTHORIZED BY OTHER STATE REGULATORY AGENCIES?**

6 A. No. Decisions of other state regulatory commissions are not binding on the  
7 Commission. Additionally, each commission considers the specific circumstances in  
8 each case in its determination of the proper ROE. Walmart is providing this  
9 information to illustrate a national customer perspective on industry trends in  
10 authorized ROE.

11 ***D. Conclusion***

12 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IN REGARD TO THE**  
13 **COMPANY'S PROPOSED ROE?**

14 A. The Commission should closely examine the Company's requested increase in ROE,  
15 especially when viewed in light of:

- 16 1. The customer impact of the resulting revenue requirement increase;
- 17 2. Recent rate case ROEs approved by the Commission;
- 18 3. Recent rate case ROEs approved by other state regulatory commissions; and
- 19 4. The Company's currently approved ROE.

20 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A. Yes.

# Alex J. Kronauer

Senior Manager, Energy Services

Walmart Stores, Inc.

Business Address: 2608 SE J Street, Bentonville, Arkansas 72716

Business Phone: (312) 231-6667

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## INDUSTRY EXPERIENCE

August 2019 – Present

Walmart Inc., Bentonville, AR

Senior Manager, Energy Services

May 2014 – July 2019

CyrusOne, Dallas, TX

Senior Financial Analyst

November 2012 – April 2014

CyrusOne, Dallas, TX

Financial Analyst

July 2011 – October 2012

TXU Energy (now Vistra Corporation), Irving, TX

Senior Financial Analyst

## EDUCATION

2011 University of Texas at Austin, McCombs School of Business

MBA

2005 Colby College

B.A., Economics

## INDUSTRY TRAINING

Passed the Chartered Financial Analyst (CFA) level I exam

## TESTIMONY BEFORE REGULATORY COMMISSIONS

2021

Public Utility Commission of Texas Docket No. 52397/SOAH Docket No. 473-21-3114:  
Application of Southwestern Electric Power Company to Implement a Net Interim Fuel Surcharge

Public Utilities Commission of Ohio Case No. 20-1651-EL-AIR: In the Matter of the Application of The Dayton Power and Light Company to Increase its Rates for Electric Distribution, Case No. 20-1652-EL-AAM: In the Matter of the Application of The Dayton Power and Light Company for Accounting Authority, and Case No. 20-1653-EL-ATA: In the Matter of the Application of The Dayton Power and Light Company for Approval of Revised Tariffs.

Public Utility Commission of Texas Docket No. 51802/SOAH Docket No. 473-21-0478:  
Application of Southwestern Public Service Company for Authority to Change Rates.

Pennsylvania Public Utility Commission Docket No. R-2021-3024601: Pennsylvania Public Utility Commission v. PECO Energy Company – Electric Division.

New Mexico Public Regulation Commission Case No. 20-00238-UT: In the Matter of Southwestern Public Service Company's Application for: (1) Revision of its Retail Rates under Advice Notice No. 292; (2) Authorization and Approval to Abandon its Plant X Unit 3 Generating Station; and (3) other Associated Relief.

Colorado Public Utilities Commission Docket No. 20AL-0432E: In the Matter of Advice No. 1835-Electric of Public Service Company of Colorado to Revise its Colorado P.U.C. No. 8 – Electric Tariff to Eliminate the Currently Effective General Rate Schedule Adjustments to Place into Effect Revised Base Rates and other Phase II Tariff Proposals to Become Effective November 19 2020.

Public Utility Commission of Texas Docket No. 51547: Joint Report and Application of Texas-New Mexico Power Company, NM Green Holdings, Inc., and Avangrid, Inc. for Regulatory Approvals Under PURA §§ 14.101, 39.262 AND 39.915.

#### *2020*

New York Public Service Public Service Commission Case No. 20-E-0380: 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.

Maryland Public Service Commission Docket No. 9645: In the matter of the application of Baltimore Gas and Electric Company for an electric and gas multi-year plan.

Washington Utilities and Transportation Commission Docket UE-191024: In the matter of PacifiCorp for adjustments to its retail rates for electric energy.

Maryland Public Service Commission Docket No. 9630: In the matter of the application of Delmarva Power & Light Company for adjustments to its retail rates for the distribution of electric energy.

Arkansas Public Service Commission Docket No. 20-027-U. Issue: Demand Response participation.

#### *2019*

Arkansas Public Service Commission Docket No. 16-027. Issue: Net Metering Implementation.

### **KEY ACCOMPLISHMENTS**

Created and maintained a Rate Monitor tool to assist Walmart's financial planning and analysis (FP&A) team with budgeting and forecasting. Scanned state PSC websites for potential rate changes and quantified rate change impacts by location by month from general rate cases, fuel adjustments, riders, and other items.

Analyzed, pitched, and secured executive approval for CyrusOne's first green energy commitment through a municipal utility. December 2018.

Implemented demand response program utilizing CyrusOne's backup generators, resulting in \$2.5mm of savings over 4 years (2015-2019). Demonstrated and ensured regulatory compliance.

Researched utility tariffs and coordinated with power utilities, contractors, and CyrusOne's commissioning teams to save over \$11mm over 3 years by minimizing utility ratchets and peak demand charges.



The following files are not convertible:

Exhibits AJK-2 - AJK-4.xlsx

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

Contact [centralrecords@puc.texas.gov](mailto:centralrecords@puc.texas.gov) if you have any questions.