

*Exhibit No.:*  
*Issue:* Policy  
*Witness:* Natelle Dietrich  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Direct Testimony  
*Case No.:* WR-2017-0285  
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**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**DIRECT TESTIMONY**

**OF**

**NATELLE DIETRICH**

**MISSOURI-AMERICAN WATER COMPANY**

**CASE NO. WR-2017-0285**

*Jefferson City, Missouri*  
*December 2017*

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DIRECT TESTIMONY  
OF  
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1           A.     Staff recommends the Commission maintain the current three water district  
2 structure approved in Missouri-American Water Company's (MAWC) last rate case,  
3 Case No. WR-2015-0301. Under this approach, water districts would be made up of the  
4 following service territories:

- 5                     • Water District 1 – St. Louis Metro (St. Louis County, Warren County and  
6                             St. Charles), Mexico, Jefferson City, Anna Meadows, Redfield,  
7                             Lake Carmel, Jaxon Estates, and Wardsville.
- 8                     • Water District 2 – St. Joseph, Platte County, and Brunswick.
- 9                     • Water District 3 – Joplin, Stonebridge, Warrensburg, White Branch,  
10                            Lake Taneycomo, Lakewood Manor, Rankin Acres, Spring Valley,  
11                            Tri-States, Emerald Pointe, Maplewood, Riverside Estates, and Woodland  
12                            Manor.

13           Staff further proposed to maintain the currently effective customer charges that were  
14 approved in MAWC's previous rate proceeding.

15           Q.     What is Staff's rate design recommendation for sewer service in this case?

16           A.     For all systems except for Arnold, which as explained in the CCOS Report has  
17 a temporary rate cap, Staff recommends that for those areas with the highest rate, the rate  
18 remain unchanged and that no service area see a rate decrease. Any additional revenues  
19 needed to cover MAWC's cost of service would be spread amongst the areas with lower rates.

20           Q.     Does Staff address other noteworthy items in its CCOS Report?

21           A.     Yes. In its filing, MAWC proposed a Revenue Stabilization Mechanism  
22 (RSM). In the CCOS Report, Staff witness James A. Busch discusses the mechanics of an  
23 RSM. Mr. Busch discusses various pros and cons of an RSM and the pros and cons of the  
24 traditional ratemaking model. In its direct case, Staff did not include an RSM, but Mr. Busch  
25 provides guidance for the Commission's consideration should it ultimately order an RSM.

1           In the Report and Order in MAWC’s last rate case, Case No. WR-2015-0301, the  
2 parties were asked to file, in MAWC’s next rate case, information on inclining block rates.  
3 In its CCOS Report, Staff explains the “inclining block rate structure” concept and its  
4 applicability to water utilities/customers. Staff explains that many opportunities for water  
5 conservation or opportunities to change customer behavior have already been realized, and  
6 that not all customers have an ability to conserve water. Customer education and design of  
7 the blocks are key issues. In addition, Staff explains that an inclining block rate structure  
8 could have a different effect in different areas of MAWC’s service territory, and for  
9 customers that are water customers only versus water/sewer customers. Ultimately, given the  
10 uncertainties surrounding inclining block rates, Staff does not recommend inclining block  
11 rates for MAWC.

12           Finally, as ordered in Case No. WR-2015-0301, MAWC created a pilot program that  
13 established a low-income rate in District 2, comprised of its St. Joseph, Platte County and  
14 Brunswick service areas. The low-income rate provided an 80 percent discount of the  
15 monthly customer charge for customers who qualify for the Low Income Home Energy  
16 Assistance Program (LIHEAP). The pilot was effective November 17, 2016. Since the pilot  
17 has only been in effect for a short period of time, Staff recommends it continue in its current  
18 form so that additional data may be gathered.

19 **CLASS COST OF SERVICE STUDY**

20           Q.     Did Staff perform a CCOS study in this case?

21           A.     Yes, for MAWC’s water operations. Staff’s CCOS study for MAWC’s water  
22 operations is designed to determine the relative class cost responsibility for the overall  
23 revenue requirement of MAWC within its various service territories. Staff did not perform a

1 CCOS Study for MAWC's sewer operations because its sewer operations are relatively small  
2 and generally consist of residential customers. The rates for MAWC's sewer operations were  
3 determined by the results of Staff's audit and the development of cost of service (COS) for  
4 MAWC's sewer operations based on the Water & Sewer Department's small company rate  
5 design method.

6 Q. What method of cost allocation did Staff use in its CCOS study when direct  
7 assignment was not possible?

8 A. Staff used the base-extra capacity method as described in the American Water  
9 Works Association (AWWA) manual of water supply practices, Principles of Water Rates,  
10 Fees, and Charges, Seventh Edition ("AWWA M1"). This is the method used by Staff and  
11 other parties in previous MAWC cases and is a widely accepted method for allocating costs to  
12 the various customer classes.

13 **CCOS REPORT AND STAFF RATE DESIGN**

14 Q. How is the Staff's CCOS Report organized?

15 A. The CCOS Report is organized by topic as follows:

- 16 I. Executive Summary
- 17 II. Class Cost of Service: Water Operations
- 18 III. Rate Design: Water Operations
- 19 IV. Class Cost of Service: Sewer Operations
- 20 V. Rate Design: Sewer Operations
- 21 VI. Special Contracts
- 22 VII. Miscellaneous Fees
- 23 VIII. Revenue Stabilization Mechanism
- 24 IX. Schedules Included in Staff's CCOS Report

25  
26 Q. Does this conclude your direct testimony?

27 A. Yes.

