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Service Commission

Exhibit No.: 110
Issues: Report on Cost of
Service; Overview of
The Staff's Filing;
Policy

Witness: Natelle Dietrich
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: ER-2016-0156
Date Testimony Prepared: July 15, 2016

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

DIRECT TESTIMONY

OF

NATELLE DIETRICH

KCP&L GREATER MISSOURI OPERATIONS COMPANY

CASE NO. ER-2016-0156

Jefferson City, Missouri
July 2016

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OF
NATELLE DIETRICH
KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2016-0156

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1 Relevant activities relate to energy efficiency, demand side management, demand response and
2 smart grid. I was a member of the Missouri Delegation to the Missouri/Moldova Partnership
3 through NARUC and the US Agency for International Development.

4 I am a member of the National Association of Regulatory Utility Commissioners
5 Subcommittee on Rate Design and the Staff Subcommittee on Telecommunications. I serve on
6 the Staff of the Federal/State Joint Board on Universal Service, serve as lead Staff for the
7 Missouri Universal Service Board, and was a member of the Governor's MoBroadbandNow
8 taskforce.

9 Q. Have you previously testified before the Commission?

10 A. Yes. My Case Summary is attached as Schedule ND-d1.

11 **EXECUTIVE SUMMARY**

12 Q. What is the purpose of your testimony?

13 A. The purpose of my testimony is to sponsor the Staff's Revenue Requirement
14 Report that is being filed concurrently with this testimony, provide an overview of Staff's
15 revenue requirement calculation, and if requested at hearing, address questions of a general or
16 policy nature regarding the work performed by, or the positions taken by Staff in this proceeding.

17 Q. Is Staff filing anything other than your testimony and Staff's Revenue
18 Requirement Report at this time?

19 A. Yes. Staff is also separately filing its accounting schedules. On July 29, 2016,
20 Staff will file separately direct testimony and a report on its class cost-of-service and rate design
21 analyses and recommendations.

22 Q. What did Staff review for Staff's Revenue Requirement Report?

1 A. Staff reviewed all the cost-of-service components (capital structure, return on rate
2 base, rate base, depreciation expense and operating expenses) that comprise KCP&L Greater
3 Missouri Operation's Company's ("GMO") revenue requirement based on the 12-months ending
4 December 31, 2015.

5 Q. Based on Staff's review, what is Staff's recommendation concerning GMO's
6 revenue requirement?

7 A. Historically, GMO has kept separate books for its MPS and L&P rate districts.
8 Some GMO costs were allocated between the two rate districts while most were directly
9 assigned. GMO's revenues were accounted for separately by rate district. In this case, Staff
10 recommends that the Commission eliminate GMO's separate rate districts and, instead, order
11 rates that apply throughout GMO's service territory. Staff recommends a return on equity
12 ("ROE") range of 8.65% to 9.35%, with a mid-point of 9.00%, which yields the rate of return
13 range of 6.99% to 7.34%, with a mid-point overall of 7.16%. Staff's revenue requirement for
14 GMO at the mid-point which is based on GMO's actual costs through December 31, 2015, is an
15 increase of \$3,665,338 over its current revenues recovered from retail rates of approximately
16 \$736,000,000. The *Order Setting Procedural Schedule* provided for a true-up date of July 31,
17 2016. Staff has included a "plug" of \$35,000,000 based on its current estimate of the impact of
18 true-up items on revenue requirement. Staff's results that support its revenue requirement for
19 GMO are presented in the Accounting Schedules that are separately filed as an exhibit in the case
20 concurrently with this testimony.¹

¹ Staff's recommendation and revenue requirement is based on the consolidation of GMO's MPS and L&P rate districts. Staff's Accounting Schedules represent GMO rates under a single tariff on a consolidated basis. However, because historically and during the 12-months ending June, 2015, and updated through the end of December 2015, there are two rate districts, in some instances it was necessary for Staff to analyze data for both MPS and L&P rate districts separately. These separate adjustments, and for reference purposes only, the rate district-specific total revenue requirements for each wholly-allocated rate district, are indicated in Appendix 4.

1 Q. Did the Commission order GMO to study the impacts of eliminating GMO's rate
2 districts in its last general rate case, Case No. ER-2012-0175?

3 A. Yes. The Commission incorporated in its November 7, 2012, *Order Incorporating*
4 *Unopposed Non-Unanimous Stipulations and Agreements*, the *Non-Unanimous Stipulation and*
5 *Agreement as to Certain Issues* filed October 19, 2012, in Case Nos. ER-2012-0174 and
6 ER-2012-0175, as modified. On pages 10 – 11 of that stipulation, the parties agreed that
7 “GMO will perform, prepare and file in its general electric rate case the results of a
8 comprehensive study on the impacts on its retail customers of eliminating MPS and L&P rate
9 districts and implementing company-wide uniform rate classes, and rates and rate elements for
10 each rate class, taking into account the potential future consolidation of GMO rates with those of
11 KCPL. In this study, GMO will provide a distribution of rate impact on each of its customers of
12 moving from MPS to L&P rate structures, and rate elements, and likewise, from L&P to MPS
13 rate structures, and rate elements. If GMO would prefer a class rate structure that is different
14 from a current MPS or L&P class rate structure, then individual customer impacts should be
15 provided for the rate structure that GMO proposes.”

16 Q. Did GMO perform the studies?

17 A. Yes. Staff will discuss them in Staff's Class Cost of Service and Rate Design
18 Report.

19 Q. Does Staff recommend moving to company-wide uniform rate classes, rates, and
20 rate elements for each rate class?

21 A. Yes. Until GMO's last rate case, historically, for most similarly-situated
22 customers in most classes, the tariffed rates for the MPS rate district produced noticeably

1 higher bills than the tariffed rates for the L&P rate district produced.² At the current tariffed
2 rates, similarly-situated customer in the MPS or L&P rate district could have a higher or lower
3 bill depending on the specific usage and demand characteristics of that customer, in other words,
4 similarly-situated customers in the MPS and L&P rate districts are much more likely to have
5 similar bills. This is particularly true for residential customers. As Staff will discuss in Staff's
6 Class Cost of Service and Rate Design Report, while noticeable changes remain in the rate
7 structures of the two rate districts, the historical distinction in bills for similarly-situated
8 customers that existed as a legacy of pre-merger rate base investments has been largely eroded,
9 or even reversed.

10 Q. What rate increase is GMO requesting?

11 A. GMO filed its Direct Testimony on February 23, 2016, requesting an increase in
12 revenues of \$59.3 million, or an expected increase in rates of approximately 8.17% based on
13 Missouri jurisdictional base retail revenue of \$725.9 million.³ GMO is requesting an ROE of
14 9.9%. Also in its Direct Filing, GMO proposed eliminating its MPS and L&P rate districts and
15 filed rate schedules and tariffs applicable to electric service throughout its service area.

16 Q. Is there a particular plant addition or change in expense that appears to be driving
17 GMO's requested increase?

18 A. No; however, to continue its fuel adjustment clause, GMO is required to file
19 "general rate case with the effective date of new rates to be no later than four years after the
20 effective date of the commission order implementing the adjustment mechanism." The effective
21 date of the order by which the Commission last continued GMO's fuel adjustment clause

² Since the rates implemented in Case No. ER-2012-0175, that is no longer the case.

³ GMO's current revenues total \$725.9 million, and will increase to \$784.6 million if GMO's request is approved.

1 (issued in Case No. ER-2012-0175) is either January 19, 2013 (*Report and Order* effective date)
2 or January 23, 2013 (Order approving compliance). Respectively, four years later is January 19
3 and January 23, 2017. The ordered procedural schedule in this case anticipates that the effective
4 date of new rates is December 22, 2016.

5 Q. Does Staff address other issues in its Cost-of-Service Report?

6 A. Yes. While Staff addresses several issues in its Cost-of-Service Report, a few
7 issues deserve emphasis here. First, GMO is requesting the Jeffrey Unit 1 selective catalytic
8 reduction (“SCR”) and Unit 2 selective non-catalytic reduction (“SNCR”) be reflected in rates.
9 In order to be reflected in rates, the Commission must determine that the emission control
10 equipment is “fully operational and used for service.” Based on Staff’s evaluation of the data
11 and inspection of the facility, the Jeffrey Energy Center Unit 1 SCR met all of the required
12 in-service criteria effective March 21, 2015. Staff did not use specific in-service criteria for the
13 Jeffrey Unit 2 SNCR due to the small scope of the overall project and GMO’s share of the
14 project. The Unit 2 SNCR completed performance testing effective October 30, 2014; therefore,
15 Staff recommends the Unit 2 SNCR be considered to have been fully operational and used for
16 service as of that date. Second, consistent with the Commission’s decision in GMO’s last
17 two rate cases, Staff excluded all Crossroads transmission costs in this current case. Staff
18 continues to recommend that GMO not be allowed any recovery of transmission costs associated
19 with Crossroads either in base rates or through the fuel clause. Finally, Staff recommends the
20 Commission continue GMO’s FAC; however, while considering the Commission’s previous
21 decisions to not allow recovery of Crossroads transmission costs in base rates or through the fuel
22 clause, Staff became aware that some Crossroads-related transmission costs had been
23 inappropriately recovered by GMO in its FAC. GMO is proposing in its current FAC filing to

1 credit customers' electric bills for an amount of Crossroads transmission costs that should not
2 have been previously collected.

3 **REPORT ON COST OF SERVICE**

4 Q. How is the Staff's Cost-of-Service Report organized?

5 A. It is organized by topic as follows:

- 6 I. Executive Summary
- 7 II. Brief Background on GMO
- 8 III. Overview of GMO Consolidation
- 9 IV. Economic Considerations
- 10 V. Rate of Return
- 11 VI. Rate Base
- 12 VII. Income Statement (Revenues)
- 13 VIII. Income Statement (Expenses)
- 14 IX. Depreciation
- 15 X. Current and Deferred Income Tax
- 16 XI. Jurisdictional Allocations
- 17 XII. Fuel Adjustment Clause ("FAC")
- 18 XIII. Other Miscellaneous Items

19 The Rate Base and Income Statement sections of Staff's Revenue Requirement Report have
20 numerous subsections which explain each specific adjustment Staff made to the EMS run Staff
21 developed in this case. The Staff member responsible for writing each subsection of the report is
22 identified at the end of the subsection. The affidavit of each Staff person who contributed to the
23 report is included in an appendix to the report.

1 Short forms used in the Staff's Revenue Requirement Report and Class Cost-of-Service

2 Report include:

3 "Commission" for the Missouri Public Service Commission;

4 "Staff" for the Staff of the Missouri Public Service Commission;

5 "Public Counsel" for the Office of the Public Counsel;

6 "GMO" for KCP&L Greater Missouri Operations Company;

7 "GMO Consolidated" for the consolidation of GMO's MPS and L&P rate districts.

8 "GMO's MPS rate district" for GMO's service territory in and about Kansas
9 City and Sedalia, Missouri;

10 "GMO's L&P rate district" for GMO's service territory in and about St.
11 Joseph, Missouri;

12 "Great Plains" for Great Plains Energy, Inc.;

13 "KCPL" for Kansas City Power & Light Company.

14 "EMS" for Staff's revenue requirement model referred to as Exhibit Modeling System

15 **OVERVIEW OF STAFF'S RECOMMENDED REVENUE REQUIREMENT**

16 Q. How does one determine the revenue requirement for a regulated utility?

17 A. The revenue requirement⁴ for a regulated utility can be defined by the
18 following formula:

19 Revenue Requirement = Cost of Providing Utility Service

20 or

21 $RR = O + (V - D)R$ where,

⁴ Most properly, "revenue requirement" refers to the total cost for a utility to provide safe and reliable service. Commonly, in the context of Commission rate cases, the term "revenue requirement" is generally used to refer to the increase or decrease in revenue over the revenues produced from a utility's current rates.

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Natelle Dietrich

- 1 RR = Revenue Requirement
- 2 O = Operating Costs (Fuel, Payroll, Maintenance, etc.), Depreciation and Taxes
- 3 V = Gross Valuation of Property Required for Providing Service
- 4 D = Accumulated Depreciation Representing Recovery of Gross
- 5 Property Investment
- 6 V - D = Rate Base (Gross Property Investment less Accumulated
- 7 Depreciation = Net Property Investment)
- 8 (V - D)R = Return Allowed on Net Property Investment

9 Q. Does this conclude your testimony?

10 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of KCP&L Greater Missouri)
Operations Company's Request for)
Authority to Implement A General Rate)
Increase for Electric Service) Case No. ER-2016-0156

AFFIDAVIT OF NATELLE DIETRICH

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW NATELLE DIETRICH and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing DIRECT TESTIMONY; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

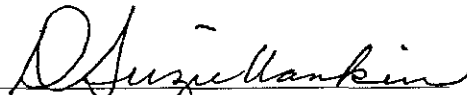


NATELLE DIETRICH

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of July, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070



Notary Public

**Natelle Dietrich
Case Summary**

Presented testimony or analysis through affidavits on the following cases and proceedings:

- Case No. TA-99-405, an analysis of the appropriateness of a “payday loan” company providing prepaid telecommunications service.
- Case No. TX-2001-73, In the Matter of Proposed New Rules on Prepaid Calling Cards.
- Case No. TO-2001-455, the AT&T/Southwestern Bell Telephone Company arbitration, which included issues associated with unbundled network elements.
- Case No. TX-2001-512, In the Matter of Proposed Amendments to Commission Rule 4 CSR 240-33.010, 33.020, 33.030, 33.040, 33.060, 33.070, 33.080, 33.110, and 33.150 (telecommunications billing practices).
- Case No. TO-2002-222, the MCI/SWBT arbitration.
- Case No. TR-2002-251, In the Matter of the Tariffs Filed by Sprint Missouri, Inc. d/b/a Sprint to Reduce the Basic Rates by the Change in the CPI-TS as Required by 392.245(4), Updating its Maximum Allowable Prices for Non-Basic Services and Adjusting Certain Rates as Allowed by 392.245(11) and Reducing Certain Switched Access Rates and Rebalancing to Local Rates as Allowed by 392.245(9).
- Case No. TX-2002-1026, In the Matter of a Proposed Rulemaking to Implement the Missouri Universal Service Fund End-User Surcharge.
- Case No. TX-2003-0379, In the Matter of Proposed Amendments to Commission Rule 4 CSR 240-3.545, formerly 4 CSR 240-30.010 (tariff filing requirements).
- Case No. TX-2003-0380, In the Matter of Proposed Amendments to Commission Rules 4 CSR 240-2.060, 4 CSR 240-3.020, 4 CSR 240-3.510, 4 CSR 240-3.520, and 4 CSR 240-3.525 (competitive local exchange carrier filing requirements and merger-type transactions).
- Case No. TX-2003-0389, In the Matter of Proposed Amendment to Commission Rules 4 CSR 240-3.530 and 4 CSR 240-3.535, and New Rules 4 CSR 240-3.560 and 4 CSR 240-3.565 (telecommunications bankruptcies and cessation of operation).
- Case No. TX-2003-0445, In the Matter of a Proposed New Rule 4 CSR 240-33.160 Regarding Customer Proprietary Network Information.
- Case No. TX-2003-0487, In the Matter of Proposed Commission Rules 4 CSR 240-36.010, 36.020, 36.030, 36.040, 36.050, 36.060, 36.070, and 36.080 (arbitration and mediation rules).
- Case No. TX-2003-0565, In the Matter of a Proposed Rulemaking to Codify Procedures for Telecommunications Carriers to Seek Approval, Amendment and Adoption of Interconnection and Resale Agreements.
- Case Nos. TX-2004-0153 and 0154, in the Matter of Proposed Rule for 211 Service (emergency and permanent rules).
- Case Nos. TO-2004-0370, IO-2004-0467, TO-2004-0505 et al, In the Matter of the Petition of various small LECs for Suspension of the Federal Communications Commission Requirement to Implement Number Portability.

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cont'd Case Summary

- Case No. TX-2005-0258, In the Matter of a New Proposed Rule 4 CSR 240-33.045 (placement and identification of charges on customer bills).
- Case No. TX-2005-0460, In the Matter of the Proposed Amendments to the Missouri Universal Service Fund Rules.
- Case No. TO-2006-0093, In the Matter of the Request of Southwestern Bell Telephone, L.P. d/b/a SBC Missouri, for Competitive Classification Pursuant to Section 392.245.6, RSMo (2205) – 30-day Petition.
- Case Nos. TC-2005-0357, IR-2006-0374, TM-2006-0306, the complaint case, earnings investigation and transfer of assets case to resolve issues related to Cass County Telephone Company, LP, LEC Long Distance, FairPoint Communications, Inc., FairPoint Communications Missouri Inc. d/b/a FairPoint Communications and ST Long Distance Inc. db/a FairPoint Communications Long Distance.
- Case No. TC-2006-0068, FullTel, Inc., v. CenturyTel of Missouri, LLC.
- Case No. TX-2006-0169, In the Matter of Proposed New Rule 4 CSR 240-3.570 Regarding Eligible Telecommunications Carrier Designations for Receipt of Federal Universal Service Fund Support.
- Case No. TX-2006-0429, In the Matter of a Proposed Amendment to 4 CSR 240-3.545 (one day tariff filings).
- Case No. TX-2007-0086, In the Matter of a Proposed Rulemaking to Create Chapter 37 – Number Pooling and Number Conservation Efforts.
- Case No. TA-2009-0327, In the Matter of the Petition of TracFone Wireless, Inc. for Designation as an Eligible Telecommunications Carrier in the State of Missouri for the Limited Purpose of Offering Lifeline and Link Up Service to Qualified Households.
- Case No. RA-2009-0375, In the Matter of the application of Nexus Communications, Inc. dba TSI for Designation as an Eligible Telecommunications Carrier in the State of Missouri for the Limited Purpose of Offering Wireless Lifeline and Link Up Service to Qualifying Households.
- Case No. AX-2010-0061, Office of the Public Counsel's Petition for Promulgation of Rules Relating to Billing and Payment Standards for Residential Customers.
- Case No. GT-2009-0056, In the Matter of Laclede Gas Company's Tariff Revision Designed to Clarify its Liability for Damages Occurring on Customer Piping and Equipment Beyond the Company's Meter.
- Case No. ER-2012-0166, In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase Its Revenues for Electric Service. Energy Independence and Security Act of 2007 (EISA).
- Case No. ER-2012-0174, In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service. Energy Independence and Security Act of 2007 (EISA).
- Case No. ER-2012-0175, In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service. Energy Independence and Security Act of 2007 (EISA).
- Case No. ER-2012-0345, In the Matter of Empire District Electric Company of Joplin, Missouri Tariff's Increasing Rates for Electric Service Provided to Customers in the Missouri Service Area of the Company. Energy Independence and Security Act of 2007 (EISA).

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cont'd Case Summary

- File Nos. EO-2013-0396 and EO-2013-0431, In the Matter of the Joint Application of Entergy Arkansas, Inc., Mid South TransCo, LLC, Transmission Company Arkansas, LLC and ITC Midsouth LLC for Approval of Transfer of Assets and Certificate of Convenience and Necessity, and Merger and, in connection therewith, Certain Other Related Transactions; and In the Matter of Entergy Arkansas, Inc.'s Notification of Intent to Change Functional Control of Its Missouri Electric Transmission Facilities to the Midwest Independent Transmission System Operator Inc. Regional Transmission System Organization or Alternative Request to Change Functional Control and Motions for Waiver and Expedited Treatment, respectively.
- Case No. MX-2013-0432, In the Matter of a Proposed Rulemaking to Revise Manufactured Housing Rules Regarding Installation and Monthly Reporting Requirements.
- Case No. TX-2013-0324, In the Matter of a Proposed Rulemaking to the Missouri Universal Service Fund.
- Case No. EO-2014-0095, In the Matter of Kansas City Power & Light Company's Filing for Approval of Demand-Side Programs and for Authority to Establish Demand-Side Programs Investment Mechanism.
- Case No. EA-2014-0207, In the Matter of the Application of Grain Belt Express Clean Line LLC for a Certificate of Convenience and Necessity Authorizing It to Construct, Own, Operate, Control, Manage, and Maintain a High Voltage, Direct Current Transmission Line and an Associated Converter Station Providing an Interconnection on the Maywood - Montgomery 345 kV Transmission Line.
- Case No. WR-2015-0301, In the Matter of Missouri-American Water Company's Request for Authority to Implement a General Rate Increase for Water and Sewer Service Provided in Missouri Service Areas.

- Actively participated in or prepared comments on numerous issues on behalf of the Commission to be filed at the Federal Communications Commission.
- Prepared congressional testimony on behalf of the Commission on number conservation efforts in Missouri.
- A principal author on Missouri Public Service Commission Comments on the Reduction of Carbon Emissions in Missouri under Section 111(d) of the Clean Air Act.
- A principal author on Missouri Public Service Commission Comments on the Environmental Protection Agency's "Emission Guidelines for Existing Stationary Sources: Electric Generating Unity".

Commission Arbitration Advisory Lead Staff for the following cases:

- Case No. TO-2005-0336, Southwestern Bell Telephone, L.P., d/b/a SBC Missouri's Petition for Compulsory Arbitration of Unresolved Issues For a Successor Interconnection Agreement to the Missouri 271 Agreement ("M2A").
- Case No. IO-2005-0468, In the Matter of the Petition of Alma Telephone Company for Arbitration of Unresolved Issues Pertaining to a Section 251(b)(5) Agreement with T-Mobile USA, Inc.

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cont'd Case Summary

- Case No. TO-2006-0147 et al, In the Matter of the Petition for Arbitration of Unresolved Issues in a Section 251(b)(5) Agreement with T-Mobile USA, Inc. and Cingular Wireless.
- Case No. TO-2006-0299, Petition of Socket Telecom, LLC for Compulsory Arbitration of Interconnection Agreements with CenturyTel of Missouri, LLC and Spectra Communications, LLC, pursuant to Section 251(b)(1) of the Telecommunications Act of 1996.
- Case No. TO-2006-0463, In the Matter of the Petition for Arbitration of Unresolved Issues in a Section 251(b)(5) Agreement with ALLTEL Wireless and Western Wireless.
- Case No. TO-2009-0037, In the Matter of the Petition of Charter Fiberlink-Missouri, LLC for Arbitration of an Interconnection Agreement Between CenturyTel of Missouri, LLC and Charter Fiberlink-Missouri, LLC.