

Exhibit No.:
Issue: Policy
Witness: Natelle Dietrich
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: WR-2017-0285
Date Testimony Prepared: November 30, 2017

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

DIRECT TESTIMONY

OF

NATELLE DIETRICH

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

Jefferson City, Missouri
November 2017

1 **DIRECT TESTIMONY**

2 **OF**

3 **NATELLE DIETRICH**

4 **MISSOURI-AMERICAN WATER COMPANY**

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

6 Q. Please state your name and business address.

7 A. My name is Natelle Dietrich. My business address is 200 Madison Street,
8 Jefferson City, MO 65101.

9 Q. By whom are you employed and in what capacity?

10 A. I am employed by the Missouri Public Service Commission (Commission) as
11 Commission Staff Director.

12 Q. Please describe your education and relevant work experience.

13 A. I received a Bachelor's of Arts Degree in English from the University of
14 Missouri, St. Louis, and a Master's of Business Administration from William Woods
15 University. During my tenure with the Commission, I have worked in many areas of
16 telecommunications regulation. In October, 2007, I became the Director of Utility
17 Operations. The division was renamed the Tariff, Safety, Economic and Engineering
18 Analysis Department in August 2011. In October 2015, I assumed my current position as
19 Commission Staff Director. In this position, I oversee all aspects of the Commission Staff.

20 My responsibilities include involvement in several activities related to implementing
21 sound utility regulatory policy in Missouri, and have participated in discussion and Staff
22 analysis on various legislative proposals relevant to Missouri-American Water Company's
23 ("MAWC") request. I am a member of the National Association of Regulatory Utility

1 Commissioners Subcommittee on Rate Design and the Staff Subcommittee on
2 Telecommunications. I serve on the Staff of the Federal/State Joint Board on Universal
3 Service, serve as lead Staff for the Missouri Universal Service Board, and was a member of
4 the Governor's MoBroadbandNow taskforce.

5 Q. Have you previously testified before the Commission?

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

7 **EXECUTIVE SUMMARY**

8 Q. What is the purpose of your testimony?

9 A. The purpose of my testimony is to sponsor Staff's Cost of Service Report that
10 is being filed concurrently with this testimony, provide an overview of Staff's cost-of-service
11 calculation and revenue requirement recommendation, and if requested at hearing, address
12 questions of a general or policy nature regarding the work performed by, or the positions
13 taken by, Staff in this proceeding.

14 Q. What did Staff review for Staff's Cost of Service Report?

15 A. Staff reviewed all of the cost-of-service components (capital structure, return
16 on rate base, rate base, depreciation expense and operating expenses) that comprise MAWC's
17 cost of service based on the 12-months ending December 31, 2016, and updated for
18 known and measureable changes through June 30, 2017, and a true-up period ending
19 December 31, 2017.

20 Q. Based on Staff's review, what is Staff's recommendation concerning MAWC's
21 revenue requirement?

22 A. Staff recommends an increase in revenue requirement for MAWC of
23 \$18,724,348, which includes an estimated true-up allowance of \$17,147,016 and sets

1 MAWC's Infrastructure System Replacement Surcharge ("ISRS") to zero. Staff's
2 recommended increase results in an increase of \$17,848,448 to MAWC's base water rates and
3 \$875,900 to MAWC's base sewer rates. Staff recommends a return on equity ("ROE") of
4 9.25%, which is a point estimate of Staff's recommended equity cost rate of 8.5% to 9.5%.
5 Staff's results that support its cost of service and revenue requirement for MAWC are
6 presented in the Accounting Schedules that are separately filed as an exhibit in the case
7 concurrently with this testimony.

8 Q. What rate increase is MAWC requesting?

9 A. MAWC filed its Direct Testimony on June 30, 2017, requesting an increase to
10 produce gross annual water and sewer revenues of \$369 million, or an expected increase in
11 rates of approximately \$74.6 million or 25.4%. This number includes approximately
12 \$17.5 million of projected ISRS investments. With this request, MAWC is proposing to
13 move to consolidated tariff pricing, requesting a future test year, and a revenue stabilization
14 mechanism. Depending on the rate district and the usage in gallons, this request results in a
15 percent change in residential water rates of (16.6%) to 48.4% and a percent change in
16 residential wastewater rates of (32.5%) to 67.3%. MAWC is requesting an ROE of 10.80%.

17 Q. What does MAWC cite as the reason(s) for the requested increase?

18 A. According to the Direct Testimony of MAWC witness Cheryl Norton,
19 investments and revenue loss due to declining water use per customer are the main drivers of
20 the rate case.

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

1 A. Yes. While Staff addresses several issues in its Cost of Service Report, a few
2 issues deserve emphasis here. In its filing, MAWC proposed a future test year. On August 9,
3 2017, the Commission issued an *Order Regarding Test Year*, and ordered the following:

4 1. The parties shall use a test year of the 12 months ending
5 December 2016, with an update period of the six months ending June
6 2017, and a true-up period of the six months ending December 2017.

7 2. All parties shall use actual historic financial data for Missouri-
8 American Water Company to present their positions based upon the
9 periods set in Ordered Paragraph 1.

10 3. Parties may present further adjustments for the Commission's
11 consideration based upon projected or forecasted data past December 2017.
12 No party shall be precluded from opposing such adjustments.

13 In its Cost of Service Report, Staff witness Mark L. Oligschlaeger discusses the merits of a
14 historical test year versus a future test year. For its direct case, Staff did not make
15 adjustments using projected or forecasted data past December 2017, but Mr. Oligschlaeger
16 provides guidance for the Commission's consideration should it ultimately order a future test
17 year in this case. Another issue of note is the impact of any declining usage on a per customer
18 basis. MAWC states that usage on a per customer basis is declining and that trend will
19 continue. Staff suggests that usage patterns have changed over the years for various reasons
20 that might cause usage to fluctuate. In its direct case, MAWC performs a regression on
21 certain usage data and uses a ten-year average for the rest of non-base usage. Staff
22 recommends a five-year average of usage to determine the normalized usage for the
23 residential class.

24 Q. Is there anything else you would like to note?

25 A. Yes. Since the commencement of the rate case, amendments to the
26 Commission's rules regarding the treatment of Confidential Information have gone into

1 effect.¹ Under the new rule, any party may submit to the Commission, without first obtaining
2 a protective order, any information designated as confidential if that information qualifies
3 under certain categories.² In this Cost of Service Report, Staff has marked the information
4 MAWC previously designated as “highly confidential” as “confidential”.

5 Q. How is the Staff’s Cost of Service Report organized?

6 A. It is organized by topic as follows:

7 I. Executive Summary

8 II. Background of Missouri-American Water Company

9 III. Test Year and True-Up Recommendation

10 VI. Major Issues

11 V. Rate of Return

12 VI. Rate Base

13 VII. Allocations and Service Company Costs

14 VIII. Income Statement (Revenues and Expenses)

15 IX. Appendices

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

¹ Amendments to 4 CSR 240-2.135 became effective on July 31, 2017.

² 4 CSR 240-2.135(2)(A).

1 Short forms used in the Staff's Cost of Service Report include:
2 "Commission" for the Missouri Public Service Commission;
3 "Staff" for the Staff of the Missouri Public Service Commission;
4 "Public Counsel" for the Office of the Public Counsel;
5 "MAWC" for Missouri-American Water Company
6 "AWC" for American Water Company
7 "EMS" for Staff's revenue requirement model referred to as
8 Exhibit Modeling System
9 "ISRS" for Infrastructure System Replacement Surcharge

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

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

12 A. The first step is to calculate the cost-of-service. The cost-of-service for a
13 regulated utility can be defined by the following formula:

14 Cost of Service = Cost of Providing Utility Service

15 or

16
$$\text{COS} = \text{O} + (\text{V}-\text{D})\text{R}$$
 where,

17 COS = Cost-of-Service

18 O = Adjusted Operating Costs (Payroll, Maintenance, etc.), Depreciation Expense
19 and Taxes

20 V = Gross Valuation of Property Required for Providing Service

21 D = Accumulated Depreciation Representing Recovery of Gross Property
22 Investment

23 R = Allowed Rate of Return

24 V - D = Rate Base (Gross Property Investment less Accumulated

25 Depreciation = Net Property Investment)

26 (V - D)R = Return Allowed on Net Property Investment

1 Q. Once cost-of-service is calculated, how does one determine the revenue
2 requirement?

3 A. Revenue requirement is the difference between the calculated cost-of-service
4 and the adjusted current revenues.³ That difference represents the regulated utility's
5 necessary rate relief and can be defined by the following formula:

6 $RR = COS - CR$ where,
7 $RR =$ Revenue Requirement
8 $COS =$ Cost-of-Service
9 $CR =$ Adjusted Current Revenues

10 Q. Does this conclude your testimony?

11 A. Yes, it does.

³ It should be noted that often the terms "cost-of-service" and "revenue requirement" are used interchangeably to refer to what is defined as "cost-of-service" above.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri-American)
Water Company's Request for Authority)
to Implement General Rate Increase for)
Water and Sewer Service Provided in)
Missouri Service Areas)

Case No. WR-2017-0285

AFFIDAVIT OF NATELLE DIETRICH

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

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.

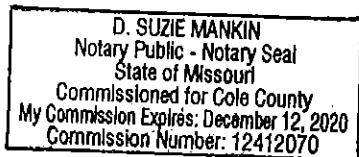
Further the Affiant sayeth not.

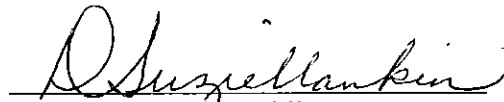


NATELLE DIETRICH

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 28th day of November, 2017.





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).

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- 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.
- 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 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).

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- 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).
- 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. ER-2014-0370, In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service.
- 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.
- Case No. ER-2016-0156, 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. ET-2016-0246, In the Matter of the Application of Union Electric Company d/b/a Ameren Missouri for Approval of a Tariff Setting a Rate for Electric Vehicle Charging Stations.
- Case No. ER-2016-0285, In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service.
- Case No. ER-2016-0179, In the Matter of Union Electric Company d/b/a Ameren Missouri's Tariffs to Increase its Revenues for Electric Service.

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- Case No. EE-2017-0113, In the Matter of the Joint Application of Great Plains Energy Incorporated, Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for a Variance from the Commission's Affiliate Transactions Rule, 4 CSR 240-20.015
 - Case No. EA-2016-0358, 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 345kV Transmission Line
 - Case No. EM-2017-0226, In the Matter of the Application of Great Plains Energy Incorporated for Approval of its Acquisition of Westar Energy, Inc.
 - Case No. GR-2017-0215, In the Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service.
 - Case No. GR-2017-0216, In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to increase its Revenues for Gas Service.
 - Case No. WR-2017-0259, In the Matter of the Rate Increase Request of Indian Hills Utility Operating Company, Inc.
-
- 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.
- 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.

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- 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.