

*Exhibit No.:*  
*Issues:* *Defined Contribution Plan;  
Cloud Computing; Affiliate  
Transaction Rule (Water  
Utility)*  
*Witness:* *Kimberly K. Bolin*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Rebuttal Testimony*  
*Case No.:* *WR-2017-0285*  
*Date Testimony Prepared:* *January 17, 2018*

**MISSOURI PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF DIVISION**

**AUDITING**

**REBUTTAL TESTIMONY**

**OF**

**KIMBERLY K. BOLIN**

**MISSOURI AMERICAN WATER COMPANY**

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

*Jefferson City, Missouri*  
*January 17, 2018*

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KIMBERLY K. BOLIN**

4 **MISSOURI AMERICAN WATER COMPANY**

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

6 Q. Please state your name and business address.

7 A. Kimberly K. Bolin, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

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

9 A. I am a Utility Regulatory Auditor for the Missouri Public Service Commission  
10 (“Commission”).

11 Q. Are you the same Kimberly K. Bolin who has previously filed portions of the  
12 Commission Staff’s (“Staff”) Cost of Service Report in this case?

13 A. Yes.

14 Q. What is the purpose of your rebuttal testimony?

15 A. The purpose of my rebuttal testimony is to address the defined contributions plan  
16 adjustment that was not addressed in Staff’s Cost of Service Report. I will also respond to the  
17 direct testimony of Missouri-American Water Company (MAWC) witness James M. Jenkins  
18 wherein he requests that MAWC be granted the authority to account for off-premise cloud  
19 computing costs in National Association of Regulated Utility Commissioners (NARUC)  
20 Uniform System of Accounts (USOA) Account 303, Miscellaneous Intangible Plant. I also  
21 respond to The Office of the Public Counsel (OPC) witness Geoff Marke’s recommendation that  
22 the Commission open a rulemaking to establish affiliate transaction rules for water utilities and  
23 order MAWC to file a proposed cost allocation manual (CAM) for Commission approval.

1 **DEFINED CONTRIBUTION PLAN**

2 Q. What is MAWC's Defined Contribution Plan (DCP)?

3 A. MAWC terminated its pension and OPEB plans for new employees beginning in  
4 the early years of the last decade. The DCP benefit replaces MAWC's pension and OPEB plan  
5 benefits for new employees and provides an employer match based upon a ratio of base payroll  
6 for hires occurring after 1/1/2006 for non-union employees and 1/1/2001 for union employees.

7 Q. Is Staff proposing an adjustment to MAWC's DCP pension expense?

8 A. Yes. Staff forgot to include an adjustment for this expense in its direct filing.  
9 This expense is annualized based upon the employee levels as of June 30, 2017. This item will  
10 be updated in Staff's true-up audit.

11 **CLOUD COMPUTING**

12 Q. What is "cloud computing?"

13 A. Cloud computing is a method for delivering information technology services  
14 retrieved from the Internet through web-based tools and applications (off-premise), as opposed to  
15 a direct connection to a local server or a personal computer (on-premise).

16 Q. What is the issue in this proceeding that concerns cloud computing?

17 A. MAWC is requesting that MAWC be granted the authority to book off-premise  
18 cloud computing costs in NARUC USOA account 303, Miscellaneous Intangible Plant, in the  
19 same manner in which the company books on-premise computing costs.

20 Q. How is MAWC currently booking cloud computing costs?

21 A. Currently MAWC typically books capitalized cloud computing costs in Account  
22 391.25, Computer Software and cloud computing expenses cost in Account 930.2, Miscellaneous  
23 General Expenses.

1 Q. Per the NARUC USOA, what items are to be booked in Account 303?

2 A. The NARUC USOA states, “This account shall include the cost of patents,  
3 licenses, privileges, and other intangible property necessary or valuable in the conduct of utility  
4 operations and not specifically chargeable to any other account.”

5 Q. How does Accounting Standards Update (ASU) No. 2015-05 Subtopic 350-40  
6 state cloud computing costs should be accounted for financial reporting purposes?

7 A. ASU No. 2015-05 Subtopic 350-40, modified in April 2015, concerning  
8 “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement”, defined a hosting  
9 arrangement as one where (1) the customer has the contractual right to take possession of the  
10 software at any time during the hosting period without significant penalty and (2) it is feasible  
11 for the customer to either run the software on its own hardware or contract with another party  
12 unrelated to the vendor to host the software. If a hosting arrangement does not meet both  
13 criteria then the hosting arrangement is considered a service contract, which is recorded as an  
14 expense. It is not considered a purchase of a software license or a capital item.

15 Q. On page 53, lines 5 -7, witness Jenkins claims that expensing cloud computing  
16 costs could lead to a year with high cost or other years with very little cost. Does Staff review  
17 several years of costs when determining an appropriate amount of expense to include in the cost  
18 of service?

19 A. Yes. When reviewing most expenses during a rate case, Staff frequently reviews  
20 several years of expenses to determine if the test year level of expense is higher or lower than  
21 levels in past years. If the test year level is not representative of normal ongoing operations Staff  
22 will typically normalize the cost by using an average of several years or use a trend analysis.

1 Q. What is Staff's position at this time regarding the appropriate ratemaking and  
2 accounting treatment for cloud computing costs?

3 A. Staff's general position concerning ratemaking for cloud computing costs is to  
4 reflect a normalized level of this cost in in rates. Accordingly, at this time Staff does not agree  
5 with a broad policy of capitalizing all such costs.

6 Q. Is there another alternative to normalizing the cost?

7 A. Yes. If the initial incurred level of cloud-computing expense is a large amount, or  
8 the utility incurs cloud computing expenses of an unusual nature, the Commission could  
9 establish a regulatory asset and amortize the cost of expenditure over the period in which the cost  
10 will benefit ratepayers. However, at this time, Staff would recommend that ratemaking  
11 treatment of cloud computing costs be determined on a case by case basis, and that it is  
12 premature at this point to establish a specific policy for recovery of these types of costs.

13 **AFFILIATE TRANSACTION RULE FOR WATER UTILITIES**

14 Q. In Mr. Geoff Marke's direct testimony, page 16, lines 17-24, filed in this case, he  
15 is requesting the Commission consider opening a rulemaking to establish affiliate transaction  
16 rules for water utilities. Does Staff support witness Marke's request?

17 A. Yes. Staff shares the same concerns as witness Marke that, without affiliated  
18 transaction rules in place, there could be a possibility of the regulated operations of American  
19 Water Works Company, Inc. (AWC), MAWC's parent company, subsidizing the non-regulated  
20 operations of AWC. Staff would support the development of affiliated transaction rules for large  
21 water utilities such as MAWC similar to the affiliated transaction rules in place for electric and  
22 gas utilities (4 CSR 240-20.015 and 4 CSR-240-40.015).

Rebuttal Testimony of  
Kimberly K. Bolin

1           Q.     Does Staff support OPC witness Marke's recommendation that MAWC create  
2 and seek Commission approval of a CAM (Cost Allocation Manual)?

3           A.     Yes. Creation of a CAM is required under the existing affiliate transaction rules  
4 for electric and gas utilities. Once the affiliated transaction rules for water utilities are in place, a  
5 new CAM should be created so MAWC will be in compliance with such rules.

6           Q.     Does this conclude your rebuttal testimony in this proceeding?

7           A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

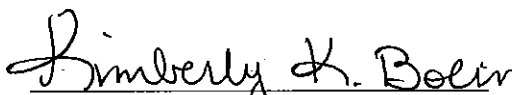
In the Matter of Missouri-American )  
Water Company's Request for Authority ) Case No. WR-2017-0285  
to Implement General Rate Increase for )  
Water and Sewer Service Provided in )  
Missouri Service Areas )

**AFFIDAVIT OF KIMBERLY K. BOLIN**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

COMES NOW KIMBERLY K. BOLIN and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing Rebuttal Testimony; and that the same is true and correct according to her best knowledge and belief.

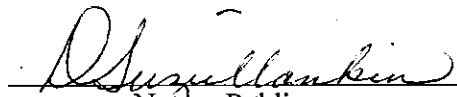
Further the Affiant sayeth not.

  
KIMBERLY K. BOLIN

**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 16<sup>th</sup> day of January, 2018.

D. SUZIE MANKIN  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: December 12, 2020  
Commission Number: 12412070

  
Notary Public