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Cloud Computing/
Property Tax/
Income Tax Reform
Riley/Rebuttal
Public Counsel
WR-2017-0285

REBUTTAL TESTIMONY

OF

JOHN S. RILEY

Submitted on Behalf of the Office of the Public Counsel

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WR-2017-0285

January 17, 2018

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MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2017-0285
CASE NO. SR-2017-0286

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. John S. Riley, PO Box 2230, Jefferson City, Missouri 65102

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

5 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as a Public Utility
6 Accountant III.

7 **Q. Please describe your educational background.**

8 A. I earned a B.S. in Business Administration with a major in Accounting from Missouri State
9 University.

10 **Q. Please describe your professional work experience.**

11 A. I was employed by the OPC from 1987 to 1990 as a Public Utility Accountant. In this capacity
12 I participated in rate cases and other regulatory proceedings before the Public Service
13 Commission (“Commission”). From 1994 to 2000 I was employed as an auditor with the
14 Missouri Department of Revenue. I was employed as an Accounting Specialist with the
15 Office of the State Court Administrator until 2013. In 2013, I accepted a position as the Court
16 Administrator for the 19th Judicial Circuit until April, 2016 when I joined the OPC.

17 **Q. Are you a Certified Public Accountant (“CPA”) licensed in the State of Missouri?**

18 A. Yes. I am also a member of the Institute of Internal Auditors (“IIA”)

1 **Q. Have you previously filed testimony before the Missouri Public Service Commission**
2 **(“Commission” or “PSC”)?**

3 A. Yes I have. A listing of my Case filings is attached as JSR-R-1.

4 **Q. What is the purpose of your direct testimony?**

5 A. To respond to Missouri American Water Company (“MAWC” or “Company”) witness James
6 Jenkins request that the Commission allow the Company to capitalize and seek rate base
7 treatment for future transactions that have neither been fully explained nor date specific. I
8 am also supporting Staff’s 2016 paid property tax amount included in the cost of service with
9 known, measurable and paid amounts through December 31, 2017

10 **CLOUD COMPUTING**

11 **Q. What is the subject matter of Mr. Jenkins request regarding cloud computing?**

12 A. Mr. Jenkins requests the transition of a portion of MAWC’s primary software applications to
13 vendor managed cloud computing instead of using their own computer servers.

14 **Q. Has Mr. Jenkins asked for financial adjustments in this case?**

15 A. No. Mr. Jenkins states that “There is no revenue requirement impact in this proceeding related
16 to SuccessFactors Employee Central and other planned cloud computing projects like it.”¹ He
17 is asking for prior accounting approval of software purchases from their vendor. It could be
18 characterized as an unofficial request for an Accounting Authority Order (“AAO”).

¹ Jenkins Direct, WR-2017-0285, page 56, lines 6 & 7

1 Mr. Jenkins suggests a five-year amortization for “assets like this” and “authority to account
2 for off-premise cloud-based technology solutions.” By using the plural of assets and solutions,
3 Mr. Jenkins is specifically requesting pre-authorization for multiple projects yet to be
4 imagined.

5 **Q. Do you believe that this rate case is the appropriate venue for this request?**

6 A. No. Since the Company is not asking for a revenue requirement or a rate base adjustment,
7 then the request has no place in this case. The Company witness proposes a general argument
8 for a specific accounting treatment for cloud-based technology, or something “like” it, to be
9 included in future rate base but does not provided the details that the Commission and
10 interveners need to properly judge the merits of the request. The Company should bring this
11 request to the Commission when it can provide a more detailed proposal with specifics
12 regarding the assets it would apply to for all parties to study.

13 **PROPERTY TAX**

14 **Q. What is OPC’s position on the level of property tax to be included in MAWC’s cost of**
15 **service?**

16 A. OPC agrees with Staff’s 2016 level of \$14,208,628 for property tax and agrees the property
17 tax levels should be trued-up through 2017 year end.

18 **Q. The Company has proposed a future test year where property tax levels would be**
19 **increased to include assessment changes up to May 31, 2019. How has the OPC**
20 **responded to this proposal?**

21 A. OPC witness Dr. Geoff Marke has expressed our opposition to the future test year concept.
22 Making a guess as to the level of property tax through the middle of 2019 is an unacceptable

1 position to take. Property taxes will be known and measurable and paid by the end of the
2 2017 so this is the appropriate level to use in this case. It would be improper to include any
3 levels beyond December 31, 2017 as those amounts would not match the revenues included
4 in this case.

5 **INCOME TAX REFORM**

6 **Q. Has there been a substantial change in circumstances in the tax laws between the**
7 **filing of OPC's direct testimony and rebuttal testimony?**

8 A. Yes. On December 22, 2017, President Donald Trump signed *the Tax Cuts and Jobs Act*
9 *of 2017*. The new law has changed the federal tax rate on corporate income from 35% to
10 21%.

11 **Q. Has the Commission taken any action relating to the new tax law?**

12 A. Yes. The Commission has opened Case No. AW-2018-0174 to study the revenue effects
13 of the new law.

14 **Q. What, if any, comments has OPC filed in Case No. AW-2018-0174?**

15 A. OPC, in the joint comments it provided on January 2, 2018, stated that it "believe[s] that
16 benefits of the tax reform legislation should flow directly to the benefit of Missouri
17 ratepayers since federal income tax liability is a significant expense used to determine the
18 revenue requirement upon which rates are based. Such a policy was previously established
19 when the Commission considered the effects of the 1986 Tax Reform Act. There, the
20 Commission required several large utilities to file tariffs designed to reduce rates to pass
21 through the benefits of lower federal taxes since the failure to do so would create a

1 substantial windfall for utilities as the result of rates that, as a result of the federal tax
2 changes, would then be unreasonably high.”²

3 **Q. Has the Commission asked for input of the utilities?**

4 A. Yes. The Commission has allowed Missouri utilities until January 31, 2018 to provide
5 comments. The Commission also ordered Staff to file a report by February 15, 2018 to
6 develop a “prompt plan of response designed to ensure that Missouri public utility rates are
7 just and reasonable.”³

8 **Q. Should the effect of the new law be considered in WR-2017-0285?**

9 A. Yes. The impact of the new law creates a known and measurable adjustment to the revenue
10 requirement. It would be consistent with the Commission’s request for a “prompt plan”
11 and ensuring that rates are “just and reasonable” to consider the impact of the new tax law
12 in the context of this rate case, which is considering all relevant factors.

13 **Q. The new income tax rates will become effective outside of the true-up period. Why
14 should this be included in this case?**

15 A. Income taxes are included in the determination of revenue requirement. The new income
16 tax rate is a *calculation* change where the actual expense flows from the combined cost of
17 service. It has to be considered in the true-up period because actual income tax adjustments

² *Joint Initial Comments of the Office of the Public Counsel, the Missouri Industrial Energy Consumers and the Midwest Energy Consumers Group*, p. 1.

³ *Order Opening a Working Proceeding Regarding the Effects Upon Missouri Utilities of the Tax Cuts of 2017 and Directing Response*, January 3, 2018

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1 for the effective date will be predicated on a known and measureable calculation as opposed
2 to a static expense adjustment like updated insurance or rate case expense.

3 **Q. Does this conclude your rebuttal testimony?**

4 **A. Yes, it does.**

John S. Riley, CPA
Summary of Case Participation

ST LOUIS COUNTY WATER COMPANY	CASE NO. WR-88-5
SOUTHWESTERN BELL TELEPHONE COMPANY	CASE NO. TC-89-21
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. ER-2016-0023
KCP&L GREATER MISSOURI OPERATIONS COMPANY	CASE NO. ER-2016-0156
KANSAS CITY POWER & LIGHT COMPANY	CASE NO. ER-2016-0285
AMEREN MISSOURI	CASE NO. ER-2016-0179
EMPIRE DISTRICT ELECTRIC PRUDENCE REVIEW	CASE NO. EO-2017-0065
LACLEDE GAS COMPANY	CASE NO. GR-2017-0215
MISSOURI AMERICAN WATER COMPANY	CASE NO. WU-2017-0351
EMPIRE DISTRICT ELECTRIC COMPANY	CASE NO. EO-2018-0092
LIBERTY (MIDSTATE NATURAL GAS)	CASE NO. GR-2018-0013