

Commonwealth of Kentucky
Before the Public Service Commission

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR AN ADJUSTMENT OF) Case No. 2010-00036
RATES SUPPORTED BY A FULLY)
FORECASTED TEST YEAR)

ATTORNEY GENERAL'S MOTION TO COMPEL
KENTUCKY-AMERICAN WATER COMPANY
TO PROVIDE CONSOLIDATING ACCOUNTING INFORMATION

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits this Motion to Compel the Kentucky-American Water Company to provide consolidating accounting information for American Water Works for 2008 and 2009. In support of his motion, the Attorney General states the following.

Through Question 97 of the Attorney General's First Request for Information, the OAG asked Kentucky-American Water Company to "provide consolidating accounting information for American Water Works for 2008 and 2009." (see attached) Further, the question requests that KAWC "show the amounts for each subsidiary by account and all eliminations and adjustments in the consolidation."

Kentucky-American objects to the request by alleging the following: The information sought is not relevant to the rate case; the request is overly burdensome; and, the information is not public information and may impair the competitive advantage of non-regulated subsidiaries if disclosed.”

We can immediately eliminate the last ground in that this Office is willing to execute a non-disclosure agreement with the Company for protecting the information. Indeed, this measure has twice been taken in the current proceeding, and the execution of agreements through which this Office agrees, as a condition for access, to hold confidential certain information of the Company is a long-standing practice.

With regard to the assertion that the request is overly burdensome, first, the information is available. American Water Works consolidates its accounting information in the normal course of business. Indeed, as the Company concedes, PriceWaterhouseCoopers (PWC) reviews affiliate transactions and the consolidation process. In simple terms, if the information, which is already available, has been reviewed by PWC, then, not only is the information available, it has been presented for review. A request for information that is currently available and already being produced for review by third-parties falls well outside of the range of an unduly or overly burdensome request.

Finally, there is the claim that the information sought is not relevant. Yet again, that the Company points to the fact that PWC scrutinizes American's affiliate transactions and the consolidation process underscores the relevance of the information sought. However, unlike PWC's review which is for the purpose of measuring compliance with Generally Accepted Accounting Principles (GAAP), the Attorney General seeks to review the information to determine the impact of the information for rate-making purposes.

As the Commission is well-aware, GAAP does not control the rate-setting process. So, while there is some overlap between accounting for GAAP and accounting for rate-making, they are not one-in-the-same. Therefore, the PWC review, which was not geared toward examining the information for the purpose of setting rates, is insufficient to meet the needs of the rate-setting process.

From a rate-setting standpoint, the Attorney General submits that the information sought bears directly upon (and could also lead to further information bearing directly upon) a number of issues in this case including capital structure, affiliate charges, the level of expenses, the per-customer comparison of expenses, and the relationship between the Company and its affiliates. All of these issues are fairly in play as part of the normal course of a review of a rate adjustment proposal with questions regarding the affiliate relationship and charges meriting heighten attention in light of the testimony of


Patrick L. Baryenburch as well as other statements asserting the value of the Company's relationship to American (such as Mr. Miller's testimony concerning the advantages of the Company's utilization of American Water Capital Corporation). The information is relevant.

Prior to filing this motion, the Office of the Attorney General discussed this matter with Counsel for Kentucky-American Water Company, and the parties engaged in a good-faith effort to resolve the matter without resort to a Commission ruling. Nonetheless, the OAG and the Company are in a position in which each respectfully agrees to disagree on the issue of whether the Company should provide the AG with the information sought through Question 97 of the Attorney General's First Request for Information. For the reasons set forth above, the request for relevant, existing information in tandem with an offer to execute a non-disclosure agreement is more than sufficient for an Order compelling the production of the information.

WHEREFORE, the Attorney General respectfully requests this Commission enter an Order compelling Kentucky-American Water Company to provide consolidating accounting information for American Water Works for 2008 and 2009 (and showing the amount for each subsidiary by account and all eliminations and adjustments in the consolidation).

Respectfully submitted,

JACK CONWAY
ATTORNEY GENERAL


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Notice of Filing, Certifications, and Notice of Service

Undersigned counsel provides the following notice with regard to the filing of this material, certifications for the filing, and notice of the service of information to the other parties of record. Pursuant to Ordering paragraph 2 of the Commission's 16 February 2010 Order of procedure, the Attorney General files the original and one copy in paper medium and one copy in electronic medium. Per Ordering paragraph 6 of the February 16th Order of procedure, undersigned counsel certifies that the electronic version is a true and accurate copy of the material filed in paper medium, the electronic version has been transmitted to the Commission, and notice has been provided to the Commission and the other parties of record, by electronic mail, that the filing has been transmitted to the Commission. With regard to the electronic filing, in conformity with Ordering paragraph 4 of the February 16th Order, the Attorney General has submitted his electronic copies of the information by uploading the

material to the PSC's Web Application Portal at https://psc.ky.gov/psc_portal/.
With regard to the original and paper copy, the material will be filed at the Commission's offices on the next business day following the electronic filing (consistent with the instruction contained in ordering paragraph 12 of the February 16th Order).

The Attorney General has provided notice to the Commission and other parties, by electronic mail, of this filing.

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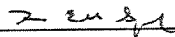
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The electronic filing took place on 7 May 2010 with the filing of the documents in paper medium scheduled for 10 May 2010.


Assistant Attorney General

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2010-00036
ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION

Witness: Michael A. Miller

97. Please provide consolidating accounting information for American Water Works for 2008 and 2009. Please show the amounts for each subsidiary by account and all eliminations and adjustments in the consolidation.

Response:

The Company objects to this data request on the grounds that it seeks information that is not relevant to the rate case, is overly burdensome, is not public information and may impair the competitive advantage of non-regulated subsidiaries if disclosed. Notwithstanding the objections, the Company provides the following description of the audit and consolidation process.

The 2009 and 2008 audited financial statements (Annual Report) of American Water Works, Company, Inc ("Parent") and be found at www.amwaterannualreport.com. The financial results of Kentucky American Water, its Parent, as well as other American Water subsidiaries are audited annually by PriceWaterhouseCoopers ("PWC"). As part of the audit process, PWC examines affiliated transactions and the company's process for eliminating from the consolidated balance sheet any amounts that are related to the affiliated transactions in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). PWC made no note in its 2008 or 2009 audit report of any departures from GAAP related to the affiliated transactions.

Some of the affiliated balances that are eliminated in the consolidation process include, but are not limited to: the operating subsidiary debt issued from American Water Capital Corporation ("AWCC") and the related investment on the balance sheet of AWCC, the equity of the operating subsidiaries and the related investment on the balance sheet of the Parent, and numerous transactions related to inter-company water sales, purchased water, accounts receivables and accounts payable.

For the electronic version, refer to [KAW_R_AGDR1#97_042610.pdf](#).