COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:	**)**	
	)	
APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY FOR AN ADJUSTMENT OF RATES	**)**	**CASE NO. 2015-00418**
	)	

<u>KENTUCKY-AMERICAN WATER COMPANY'S REPLY IN SUPPORT OF ITS OBJECTION TO AG INITIAL REQUEST FOR INFORMATION ITEM NO. 22</u>

Comes Kentucky-American Water Company ("KAWC"), by counsel, and files this reply in further support of its Objection to Item No. 22 of the Attorney General's ("AG") Initial Request for Information. Item No. 22 sought not only the earned and authorized return on common equity for KAWC for the last five years and the authorized returns for American Water Works Company's other utility subsidiaries—all of which KAWC provided—but also the *earned* returns for these other operating utility subsidiaries, as well. The AG's four claimed reasons for needing this information, coupled with Commission precedent, further prove that the earned returns of the other operating utilities have no relevance to this case.

First, the AG claims that the earned returns from the other operating utility subsidiaries are relevant because if most are below that utility's authorized return, "it may indicate a management issue with the parent company…"[1] Second, the AG alternatively claims "it may be attributable to some other factor, such as excessive allocation of corporate expenses."[2] Both of these claims are mistaken. First, KAWC's parent company, American Water Works Company, does not manage KAWC. KAWC manages itself through President Nick Rowe and the management team in Lexington, Kentucky.

[1] AG Response at 3.
[2] *Id.*

Second, the earned returns of other operating subsidiaries are irrelevant to whether there is an excessive allocation of corporate expenses. The AG asked 17 questions regarding corporate allocations, Service Company expenses, and the other utility subsidiaries in this round of discovery. In addition, the Commission Staff asked 10 such questions, along with 2 by the Lexington-Fayette Urban County Government and 1 by the Community Action Council. As such, KAWC provided detailed data in **30 responses** regarding such allocations and expenses. If the AG wishes to determine whether there are excessive corporate allocations, these responses directly address this concern. Earned returns from other utility subsidiaries, however, have no direct or indirect relevance to corporate allocations.

Third, the AG alternatively argues that if the other operating utilities have a lower earned return than KAWC but are not requesting a rate increase, "this would cast doubt upon the assertion that Kentucky American Water is not earning a just and reasonable rate of return."[3] This is mistaken. Countless factors go into the decision of when to file a rate case, some of which are: the availability of regulatory mechanisms; controlling law in the governing jurisdiction; planned and/or ongoing capital construction activities; changes in operational expenses; and, the effects of weather. Regardless of when and whether other American Water operating subsidiaries have filed a rate case, KAWC's return on equity will be based upon its revenues and expenses and not upon the financial results of any other operating utility.

The AG's final argument is that because Dr. James Vander Weide, who filed testimony on behalf of KAWC regarding the cost of equity and rate of return, included American Water Works Company in his proxy group, the "earned return on common equity is necessary from all of its subsidiaries in order to assess the relative contributions to the overall return on equity."[4]

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[3] *Id.*
[4] *Id.*

This is likewise misplaced. It is only the return on common equity of American Water Works Company, along with the other companies identified in the proxy group, that are relevant to the assessment of Dr. Vander Weide's recommended return on equity. Otherwise, the corporate structure and financial returns of the other proxy group members' affiliates and subsidiaries would be at issue—even though those companies have no relevance at all to Dr. Vander Weide's recommendations.

In considering Kentucky Rule of Civil Procedure 26.02(1), the Commission has found that requests that seek irrelevant information regarding affiliate companies are beyond the scope of the permitted discovery. For example, the Commission has held:

> PPL Corp. is not a utility subject to the Commission's jurisdiction and is under no obligation to assist KU in financing the proposed projects in KU's 2011 Environmental Compliance Plan. Thus, the information request by KIUC concerning the source of short-term debt available to PPL Corp., as well as any studies that address PPL Corp.'s financing requirements and plans, is not relevant to any issue in this case and does not appear to be calculated to lead to the discovery of relevant information. Therefore, such information is not discoverable.[5]

In this case, the other operating utilities are not subject to the Commission's jurisdiction and are under no obligation to assist KAW financially in any manner. Item No. 22 is therefore not relevant and is not calculated to lead to the discovery of relevant information.

WHEREFORE, KAWC respectfully requests the Commission to sustain its Objection to Item No. 22 with respect to the earned returns of the other operating utility subsidiaries because such information is not relevant and is not reasonably calculated to lead to the discovery of relevant information.

[5] *In the Matter of: Application of Kentucky Utilities Company for Certificates of Public Convenience and Necessity and Approval of Its 2011 Compliance Plan for Recovery by Environmental Surcharge* (Case No. 2011-00161) (Ky. PSC Sept. 1, 2011).

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Respectfully submitted,

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CERTIFICATE

This certifies that Kentucky-American Water Company's electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on March 30, 2016; that a paper copy of the filing will be delivered to the Commission within two business days of the electronic filing; and that no party has been excused from participation by electronic means.

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