

MEMORANDUM

To: Missouri Public Service Commission
Case No. WR-2022-0303

From: David Murray, Utility Regulatory Manager
Missouri Office of the Public Counsel

Subject: Data Requests to American Water

Date: February 2, 2023

In order to investigate Missouri American Water Company's ("MAWC") requested rate of return ("ROR") in this case and its position that MAWC is financially independent from its parent company, American Water Works Company, Inc. ("American Water"), the Office of the Public Counsel ("OPC") has attempted to perform discovery of American Water. American Water, through the Treasury and Risk Management Department of American Water Services Company, Inc. ("AWWSC"), manages MAWC's capital structure,¹ which is almost completely funded by security issuances by American Water or American Water's financing subsidiary, American Water Capital Corporation ("AWCC"). These affiliate relationships deserve close scrutiny and transparency. OPC's requested discovery of parent company books and records in this case is similar to less intertwined Missouri utility companies, such as Ameren Missouri, Spire Missouri, Evergy Metro and Evergy Missouri West.² As wholly-owned subsidiaries of the parent companies, the strategies, analysis, financial policies and transactions of the parent company in each case impacts the management of the subsidiaries' capital structures. These capital structures consequently affect the ROR the subsidiary utility company requests the Commission authorize for purposes of setting its rates.

When a utility regulated by the Public Service Commission of the State of Missouri (the "Commission") requests that the Commission find that its per books capital structure is the appropriate capital structure to use in setting rates, as MAWC has done in this case, the burden is on the utility to prove that its ROR is not impacted by affiliate activities, including that of its parent company. In this case, the OPC cannot verify MAWC's claims that it is financially independent from its parent company without access to American Water's books and records, which includes the OPC's request to review American Water's Board of Director materials and the Audit, Risk and Finance Committee of the Board of Directors materials. MAWC testifies that because it is a stand-alone business with separate management and corporate governance, this supports the use of MAWC's stand-alone capital structure.³ The establishment of independence is a disputed issue in this case. The information related to American Water's Board of Directors will allow the OPC to compare American Water's corporate governance standards, financing

¹ Murray Direct Testimony, Schedule DM-D-13.

² Ameren Missouri, Spire Missouri, Evergy Metro and Evergy Missouri West each access third-party long-term debt markets directly. Whereas, MAWC relies almost entirely on AWCC for its access to third-party debt markets.

³ Swiz Rebuttal Testimony, p. 4, lines 19-21.

strategies and considerations to the MAWC Board of Directors' materials to assess MAWC's claims of financial independence and request for a higher cost of capital than American Water.

As I explained in my Rebuttal Testimony, American Water or its financing affiliate, American Water Capital Corporation ("AWCC"), raise virtually all of the capital used to fund MAWC's assets.⁴ American Water is responsible for issuing common equity to third-party shareholders and intends to raise significant amounts of common equity in 2023.⁵ This will affect American Water's capital structure and cost of capital, which impacts the ROR American Water requests MAWC's ratepayers fund through the requested rate increase.

American Water's capitalization policies impact American Water's risk profile. Purchasers of unsecured debt issued by AWCC determine their required returns on their debt investments by assessing American Water's risk, not the risk associated with MAWC. AWCC makes affiliate loans to MAWC and American Water, which are used to manage MAWC's capital structure. MAWC witnesses claim American Water's business risk profile is lower than MAWC's, which justifies MAWC being charged for a higher-cost capital structure.⁶ MAWC's witnesses also testify that American Water may not fund investments in MAWC if the Commission adopts a capital structure consistent with American Water's consolidated capital structure. MAWC's witnesses indicate this would occur due to MAWC being riskier than its affiliates.

Even without full access to American Water's books and records, the OPC has already discovered that AWCC charges American Water a lower cost for its debt capital than it charges MAWC.⁷ American Water's corporate books and records are also likely to shed light regarding its own assessment of the risk profile of MAWC. Although MAWC's witnesses claim that MAWC's regulatory risk profile would likely be higher than its affiliates, requiring a higher ROR from MAWC's ratepayers, MAWC's witnesses have not provided American Water policies that prove such. OPC needs to investigate these matters through access to American Water's books and records, including all Board of Director and Audit, Risk and Finance Committee materials. The other information and materials the OPC requests in its data requests will assist in the OPC's review of the appropriate ROR and MAWC's claim of financial independence from American Water.

⁴ Murray Rebuttal, p. 6, lines 5-10.

⁵ Murray Direct, p. 7, lines 13-22.

⁶ Swiz Rebuttal, p. 8, line 5 – p. 9, line 15 and Bulkley Rebuttal, p. 20, line 11 – p. 21, line 7.

⁷ Murray Rebuttal, p. 14, lines 13-22.