

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF)	
BLUEGRASS WATER UTILITY OPERATING)	CASE NO.
COMPANY, LLC FOR AN ADJUSTMENT OF)	2020-00290
RATES AND APPROVAL OF)	
CONSTRUCTION)	

COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
TO BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC

Bluegrass Water Utility Operating Company, LLC (Bluegrass Water), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested herein is due on February 26, 2021. The Commission directs Bluegrass Water to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency. All responses in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Bluegrass Water shall make timely amendment to any prior response if Bluegrass Water obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Bluegrass Water fails or refuses to furnish all or part of the requested information, Bluegrass Water shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Bluegrass Water shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Schedule_OHA1.
 - a. Explain in detail what the "Total SG&A Budget" refers to as that term is used in the schedule, i.e., is it all or part of CSWR, LLC's (CSWR) budget, and if it is only part of said budget, explain what part.

b. Explain in detail what the “BD Expense” refers to as that term is used in the schedule, and explain why it is excluded from the “overhead” allocated to the various utilities.

c. Provide an itemized breakdown of the Total SG&A Budget for the base year and the forecasted test year.

d. Explain why Bluegrass Water used only the 4th quarter of 2021 to allocate CSWR’s costs during the forecasted test period and why Bluegrass Water contends it is reasonable to do so.

e. State whether the Utility Plant in Service listed for the 4th quarter of 2021 represents the projected Utility Plant in Service for each of the utilities at the end of the quarter, and if not, explain what it represents.

f. Provide the projected Utility Plant in Service, Revenue, and Direct Labor, as those terms are used in Schedule_OHA1, for each utility identified in the schedule for the 2nd Quarter of 2021 through the 1st Quarter of 2022.

g. Provide the actual Utility Plant in Service, Revenue, and Direct Labor for each utility listed for each historical month from January 2020 through January 2021 and continuing through the case for future months as they become available.

h. Provide copies of any schedules showing the allocation of CSWR’s costs that have been filed in any rate cases in other states in the last 18 months.

2. Refer to the Application, Exhibit 8D: Direct Testimony of Brent Thies, page 16 in which he indicates that Bluegrass Water developed the depreciation rates it proposes to use in this matter “based on the rates in use in other jurisdictions where its affiliates operate.”

a. Explain in more detail how the rates Bluegrass Water proposes to use in this matter are based on the rates in use in other jurisdictions, including whether they are the exact same rates in use or simply “based” on them, and if so, explain why and how Bluegrass Water changed the rates and exactly whose rates they are based on.

b. Explain why Bluegrass Water contends it is reasonable to base its proposed rates on the rates in this other jurisdiction.

c. State whether the proposed rates on which Bluegrass Water proposes to base its depreciation rates are based on a depreciation study, and if so, provide a copy of that depreciation study.

3. Refer to the Application, Exhibit 8C: Direct Testimony of Jacob Freeman (Freeman Testimony), page 3.

a. Provide copies of all Agreed Orders Bluegrass Water has entered into with the Energy and Environment Cabinet (EEC) and any applicable Corrective Action Plan for each system.

b. Provide any reports Bluegrass Water has made to the EEC regarding its efforts to bring its systems within compliance and any correspondence received regarding the same from EEC.

4. Refer to the itemized costs for the capital projects in the Freeman Testimony and Bluegrass Water’s response to the Attorney General’s First Request for Information (Attorney General’s First Request), Item 36.

a. Identify specifically and in detail the work included in the Construction Design and Investigative Services line item of the projects separately for each system;

b. Provide an itemized breakdown of those costs separately for each system;

c. Provide all bills and bids for those costs and any estimates that support those costs.

d. Identify the Construction Design and Investigative Services costs, if any, that arise or are expected to arise from capitalizing the cost of CSWR employees.

5. Refer to tabs "UPIS – BY B2" and "UPIS – FY B2" of BGUOC2020RateCase-RateBase (Sewer).xlsx filed by Bluegrass Water in response to Commission Staff's First Request for Information (Staff's First Request).

a. State whether the additions Bluegrass Water included in plant in service during the base period, the forecasted period, or the months in between the base and forecasted periods included Allowance for Funds Used During Construction (AFUDC), and if so, identify the amounts included in each period by account and show how they were calculated.

b. Provide a spreadsheet, in Excel format with all formulas unprotected and all rows and columns fully accessible, breaking down the plant additions shown in those tabs and corresponding changes to construction work in progress (CWIP) by month for the base period, the months between the base and forecasted periods, and the forecasted period using the same actual or projected amounts and in service dates Bluegrass Water used to determine rate base in that spreadsheet.

c. Provide a spreadsheet, in Excel format with all formulas unprotected and all rows and columns fully accessible, breaking down the actual historical plant

additions by NARUC account number and by sewer system from the beginning of the base period forward on a continuing basis.

6. Identify all projects that Bluegrass Water contends support the projected additions or CWIP shown in attachment BGUOC2020RateCase-RateBase_(Sewer).xlsx for the base period, the forecasted period, and the months between the base and the forecasted periods, and provide:

a. A description of each project and the name of the system on which the project is being done;

b. An explanation of the need for each project (or where an explanation of the need for each specific project may be found in the record);

c. The total cost if completed or the expected total cost of each project;

d. The date on which work on each project began or is expected to begin; and

e. The date on which each project was placed in service or is expected to be placed in service.

7. Refer to tabs "UPIS – BY B2" and "UPIS – FY B2" of BGUOC2020RateCase-RateBase_(Water).xlsx filed by Bluegrass Water in response to Staff's First Request.

a. State whether the additions Bluegrass Water included in plant in service during the base period, the forecasted period, or the months in between the base and forecasted periods included AFUDC, and if so, identify the amounts included in each period by NARUC account number and show how they were calculated.

b. Provide a spreadsheet, in Excel format with all formulas unprotected and all rows and columns fully accessible, breaking down the plant additions shown in those tabs and CWIP by month for the base period, the months between the base and forecasted periods, and the forecasted period using the same actual or projected amounts and in service dates Bluegrass Water used to determine rate base in that spreadsheet.

c. Provide a spreadsheet, in Excel format with all formulas unprotected and all rows and columns fully accessible, breaking down the actual historical plant additions by NARUC account number for the beginning of the base period forward on a continuing basis.

8. Identify all projects that Bluegrass Water contends support the projected additions or CWIP shown in attachment BGUOC2020RateCase-RateBase_(Water).xlsx for the base period, the test period, and the months between the base and the forecasted periods, and provide:

a. A description of each project and the name of the system on which the project is being done;

b. An explanation of the need for each project (or where an explanation of the need for each specific project may be found);

c. The total cost if completed or the expected total cost of each project;

d. The date on which work on each project began or is expected to begin; and

e. The date on which each project was placed in service or is expected to be placed in service.

9. Refer to Bluegrass Water's response to Staff's First Request, Item 8, Item 9, attachment 1-PSC-8.xlsx, and attachment 1-PSC-9.xlsx.

a. Confirm that some of Bluegrass Water's proposed capital expenditures have or will be expensed immediately for tax purposes while those same expenditures are expensed over time through depreciation for book purposes, and explain if Bluegrass Water cannot confirm.

b. Confirm that Bluegrass Water's proposed capital expenditures have or will be depreciated more quickly for tax purposes, to the extent they were not eligible to be immediately expensed, than they have or will be depreciated for book purposes, and explain if Bluegrass Water cannot confirm.

c. Explain why Bluegrass Water did not reflect any accumulated deferred income taxes or book-tax timing differences in the forecasted period.

10. Refer to attachment KY2020-00290_BW_0042 filed by Bluegrass Water in response to Staff's First Request, Item 15.

a. Explain each basis for why the per system monthly operator expense for each system in Kentucky is higher than the per system expense for nearly every other system in other states.

b. For each system listed on the attachment that is outside of Kentucky, provide the total number of customers served by each system by class.

c. For each sewage system listed on the attachment that is outside of Kentucky, provide the amount that each system is permitted to discharge in each month.

11. Refer to attachment KY2020-00290_BW_078 filed by Bluegrass Water in response to Staff's First Request, Item 18.

a. For each officer listed therein, identify specifically who is responsible for establishing the officer's compensation; identify the criteria, if any, they relied on to establish compensation, and any changes that have been made to that criteria since 2018; and explain how those criteria were developed.

b. Explain each basis for any change in Mr. Cox's or Mr. Thomas's salary in calendar years 2019 and 2020, including any compensation or other studies that supported any change in compensation.

c. Explain each basis for the projected change in the three officers' compensation between Calendar Year 2020 and the Forecasted Period, including specifically each basis for why the projected change for some officers is significantly different from historical changes for them or other officers.

d. State whether there is any overlap between amounts listed for the officers and the categories of employees and between the various categories of employees i.e. is the compensation for officers included within one of the categories or, for example, are amounts for exempt employees included within the manager category.

e. Provide the number of employees for each historical period and the projected number of employees for the forecasted periods within each category.

f. Identify which category in attachment KY2020-00290_BW_078, if any, includes employees' auto allowance, and provide the amount included for each officer and within each category for each period.

g. Identify which category in attachment KY2020-00290_BW_078, if any, includes CSWR's profit sharing 401K contributions, and provide the amount included for each officer and within each category for each period.

12. Provide a spreadsheet, in Excel format with all formulas unprotected and all rows and columns fully accessible, with the information contained in attachment BGUOC2020RateCase-RateBase_(Sewer).xlsx broken down by each sewer system.

13. Refer to Bluegrass Water's response to the Attorney General's First Request, Item 6 in which Bluegrass Water contends that remote monitoring is necessary because it "increases the effectiveness of operations at basic sewage plants and collection systems and drives down costs related to improvements and environmental compliance that would otherwise be passed through to customers."

a. Explain in detail how remote monitoring drives down costs related to improvements.

b. Explain in detail how remote monitoring drives down costs related to environmental compliance.

c. Quantify the costs savings Bluegrass Water contends will be achieved for each of its system through the installation of remote monitoring equipment, and explain each basis for Bluegrass Water's contention regarding the expected cost savings.

d. State whether Bluegrass Water performed a cost-benefit analysis to determine whether the expected cost savings from remote monitoring will exceed the expected cost of remote monitoring, explain the results of any cost-benefit analysis, and provide any cost-benefit analysis performed.

e. Identify the amount of and where the expected cost savings from the remote monitoring are reflected in this case as a reduction in the revenue requirement for

the forecasted test period, and if they are not reflected in the forecasted test period, explain why the cost savings are not reflected in the forecasted test period.

14. Refer to attachment KY2020-00290_BW_407 filed by Bluegrass Water in response to Attorney General's First Request, Item 39.

a. Other than the three officers identified separately, identify the category within which each of the employees identified on KY2020-00290_BW_407 were included in KY2020-00290_BW_078.

b. Provide a version of KY2020-00290_BW_407 that includes the same information for 2018 and 2019.

15. Refer to the service contracts for sewer operators between Bluegrass Water and Midwest Water Operation, LLC, filed as Exhibit 16A to Application and in response to Staff's First Request, Item 14, KY2020-00290_BW_0001-KY2020-00290_BW_0011.

a. Explain how the monthly "Operator Fee for Basic Services" was established in each contract—e.g., on a per customer basis, on a per system basis, on the basis of the expected number of work-hours per system, etc.—including an explanation for why the cost per system is lower in the more recent contract.

b. Provide all requests for proposals or similar requests for a bid sent to Midwest Water Operation, LLC, when soliciting operator services for its sewage systems; any responses thereto by or on behalf of Midwest Water Operation, LLC; and any written correspondence between Bluegrass Water, Midwest Water Operation, LLC, or their representatives regarding or relating to the contract prices.

c. Explain in detail why Midwest Water Operation, LLC was chosen as the operator for each contract over other potential persons or entities.

16. Refer to the service contract for water operators between Bluegrass Water and Midwest Water Operation, LLC, filed as Exhibit 16B to Application.

a. Explain how the monthly “Operator Fee for Basic Services” was established in that contract.

b. Provide all requests for proposals or similar requests for a bid sent to Midwest Water Operation, LLC, when soliciting operator services for its water systems; any responses thereto by or on behalf of Midwest Water Operation, LLC; and any written correspondence between Bluegrass Water, Midwest Water Operation, LLC, or their representatives regarding or relating to the contract price.

c. Explain in detail why Midwest Water Operation, LLC was chosen as the water operator over other potential persons or entities.

17. Provide all timesheets, daily logs, or similar documents used by Midwest Water Operation, LLC to track its time spent or tasks completed on Bluegrass Water’s system on a daily, weekly, or monthly basis.

18. Provide copies of the most recent contracts between the previous owners of Bluegrass Water’s systems and the persons or entities with whom they contracted to operate the systems.

19. Provide copies of any bills or invoices to the previous owners of Bluegrass Water’s systems from or on behalf of the persons or entities with whom the previous owners contracted to operate the systems for the year before Bluegrass Water began operating each system.

20. Describe the “Direct Labor” used to allocate CSWR’s costs in detail, including in the description the type of labor that is included as direct labor, the type of

labor that is not included as direct labor, and how direct labor is distinguished from other types of labor.

21. Explain how CSWR and its affiliates track the “Direct Labor” used to allocate CSWRs costs.

22. State whether CSWR, through an outside consultant or otherwise, performed a study or survey to compare its wages, salaries, benefits, and other compensation to those of other utility holding companies or utilities, or to other enterprises.

a. If comparisons were performed, provide the results of the study or survey, including all workpapers, and discuss the results of such comparisons. State whether any adjustments to wages, salaries, benefits, and other compensation in the rate application are consistent with the results of such comparisons.

b. If comparisons were not performed, explain why such comparisons were not performed.

23. State whether CSWR has an employee compensation policy, and if so:

a. Provide the compensation policy, if written, or provide a narrative description of the compensation policy if it is not in writing.

b. Explain the reasons for establishing the policy and the objectives for the policy.

c. Explain who adopted or approved the compensation policy.

24. Refer to recent Commission cases in which the Commission has generally found that the payment of 100 percent of employees health insurance and related premiums is not a reasonable cost and in which the Commission has utilized the average

employee contribution rates in the Bureau of Labor Statistics report to adjust utilities' health insurance premium expense when a utility has not required employees to pay any portion of health insurance premiums.²

a. State whether CSWR looked at the typical private sector employer contribution for health insurance premiums when determining the level at which it should contribute to paying for its employees' health insurance premiums, and if not, explain why it did not do so.

b. Explain why Bluegrass Water contends that it is reasonable for CSWR to continue to pay 99 percent of the premiums for employees' health insurance given that information compiled by the Bureau of Labor Statistics indicates that private sector companies typically pay only about 79 percent of employee health insurance premium costs.³

c. If Bluegrass Water contends that the Bureau of Labor Statistics percentage contributions referenced herein are inaccurate, explain each basis for Bluegrass Water's contention.

25. Refer to recent Commission cases in which the Commission has generally found that the payment of 100 percent of employees dental insurance premiums is not a

² See, e.g. Case No. 2019-00109, *Electronic Application of Citipower, LLC (1) for Adjustment of Rates Pursuant to 807 KAR 5:076; (2) Approval for a Certificate of Public Convenience and Necessity to Purchase Pipeline and Other Related Assets; and (3) Approval of Financing* (Ky. PSC Mar. 25, 2020), Order; Case No. 2018-00129, *Application of Inter-County Energy Cooperative Corporation for a General Adjustment of Existing Rates* (Ky. PSC Jan. 25, 2019), Order.

³ See Bureau of Labor Statistics, *Healthcare Benefits*, March 2019, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2019/ownership/private/table10a.pdf>); see also Bureau of Labor Statistics, *Healthcare Benefits*, March 2018, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2018/ownership/private/table10a.pdf>) (showing the same percentage contribution rate in 2018).

reasonable cost and in which the Commission has utilized the average employer contribution rates to adjust utilities' dental insurance premium expense when a utility has not required employees to pay any portion of health insurance premiums.⁴ Explain why Bluegrass Water contends that it is reasonable for CSWR to continue to pay 99 percent of the premiums for employees' dental insurance.⁵

26. Identify each project for which Bluegrass Water is requesting a CPCN in this case.

27. Provide copies of all engineering reports and any updates thereto that support the capital projects discussed in the Freeman Testimony regardless of whether they have been provided in previous cases.

28. Explain how Bluegrass Water has or will identify contractors to perform work on the projects identified in the Freeman Testimony; provide any request for proposals or similar solicitation of bids sent for such work; and provide any bids to complete the work provided by contractors.

⁴ See, e.g., Case No. 2019-00109, *Electronic Application of Citipower, LLC (1) for Adjustment of Rates Pursuant to 807 KAR 5:076; (2) Approval for a Certificate of Public Convenience and Necessity to Purchase Pipeline and Other Related Assets; and (3) Approval of Financing* (Ky. PSC Mar. 25, 2020), Order; Case No. 2018-00129, *Application of Inter-County Energy Cooperative Corporation for a General Adjustment of Existing Rates* (Ky. PSC Jan. 25, 2019), Order.

⁵ See Bureau of Labor Statistics, Healthcare Benefits, March 2019, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2019/ownership/private/table10a.pdf>); see also Bureau of Labor Statistics, Healthcare Benefits, March 2018, Table 10, private industry workers. (<https://www.bls.gov/ncs/ebs/benefits/2018/ownership/private/table10a.pdf>) (showing the same percentage contribution rate in 2018)



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED FEB 11 2021

cc: Parties of Record

Case No. 2020-00290

*L Allyson Honaker
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*Bluegrass Water Utility Operating Company, LLC
1650 Des Peres Road, Suite 300
St. Louis, MO 63131

*Angela M Goad
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*J. Michael West
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*David S Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KENTUCKY 40504

*John G Horne, II
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204

*Kathryn A Eckert
McBrayer PLLC
201 East Main Street
Suite 900
Lexington, KENTUCKY 40507

*Katherine Yunker
McBrayer PLLC
201 East Main Street
Suite 900
Lexington, KENTUCKY 40507

*Larry Cook
Assistant Attorney General
Office of the Attorney General Office of Rate
700 Capitol Avenue
Suite 20
Frankfort, KENTUCKY 40601-8204