

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BLUEGRASS)	CASE NO.
WATER UTILITY OPERATING COMPANY, LLC)	2022-00432
FOR AN ADJUSTMENT OF SEWAGE RATES)	

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 5:001E, shall file with the Commission an electronic version of the following information. The information requested is due on May 12, 2023. The Commission directs Bluegrass Water to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the question to which the response is made and 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 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

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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 or incomplete when made or, though correct or complete when made, is now incorrect or incomplete 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 and scanned 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 5:001E, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Direct Testimony of Dylan W. D'Ascendis (D'Ascendis Direct Testimony). Provide all exhibits and work papers in Excel spreadsheet format with all formulas, rows, and columns fully accessible and unprotected.

2. Refer to the D'Ascendis Direct Testimony, Table 1, page 3 and Table 3, page 30.

a. Describe the frequency that Bluegrass Water goes to the market for additional long-term debt, when Bluegrass Water incurred its long-term debt at a rate of 6.80 percent and when it expects to go back to the market for additional long-term debt.

b. Using the same time period reflected in Tables 1 and 3, explain what cost of long-term debt Bluegrass Water's other regulated affiliates have incurred and when that debt was incurred.

c. Explain why Bluegrass Water used a 5.98 expected bond yield instead of 6.80 percent embedded cost of long-term debt in the risk premium model.

3. Refer to the D'Ascendis Direct Testimony, pages 9–11. Explain the specific business risks that are associated with Bluegrass Water.

4. Refer to the D'Ascendis Direct Testimony, pages 12–13. Explain the specific financial risks that are associated with Bluegrass Water.

5. Refer to the D'Ascendis Direct Testimony, page 13. Provide a list of Bluegrass Water's regulated affiliates, including the state where each regulated affiliate is located, and explain whether size adjustments were made by the state regulatory authority in authorizing the affiliate's rate of return. If size adjustments were made, explain what size adjustment was used in the rate of return calculation approved by the state regulatory authority.

6. Refer to the D'Ascendis Direct Testimony, page 17 and to Exhibit DWD-3, page 1. Provide Bluegrass Water's percentage of total operating income and total assets attributable to regulated water or wastewater operations.

7. Refer to the D'Ascendis Direct Testimony, page 33.

a. Provide support for the statement that total returns are the sum of capital appreciation and income returns.

b. Explain why the average of the median estimated values dividend yield for common stocks was used in calculating the prospective market return, as opposed to average dividend yield values.

8. Refer to the D'Ascendis Direct Testimony, Exhibit DWD-2, page 2. Also refer to D'Ascendis Direct Testimony, Table 1, page 3. Provide the 2022 capital structures for the proxy group, including the average of the 2022 proxy group's long-term debt, preferred stock, and common equity.

9. Explain in specific detail any circumstances that have changed since Bluegrass Water's awarded capital structure in Case No. 2020-00290.²

10. Refer to the D'Ascendis Direct Testimony, Exhibit DWD-4, page 1.

a. Explain why the average of the mean and median Beta was used in applying the discounted cash flow (DCF) model to the proxy group and explain whether this is common practice for ROE analysis.

b. Provide the most recent ROE awards and the date of each award for each proxy group utility's operating subsidiary.

11. Refer to the D'Ascendis Direct Testimony, Exhibit DWD-5, page 8, footnotes 4–6.

² Case No. 2020-00290, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Sept. 30, 2020).

a. Explain the basis for analyzing a larger group of companies in footnote 4 (1,700 companies) and narrowing the analysis to S&P 500 companies in footnotes 5 and 6.

b. Footnote 5 is incomplete. Provide the expected equity that is being subtracted from the average consensus forecast of Aaa corporate bonds.

12. Refer to the D'Ascendis Direct Testimony, Exhibit DWD-6, page 1.

a. Explain the difference between Value Line and Bloomberg Betas other than the time periods used in their respective derivation.

b. Explain why short-term volatility is avoided in the derivation of the Value Line Beta but not in the Bloomberg Beta.

c. Explain why adjusted Yahoo! Finance Beta values were used in some analyses but not in the CAPM and risk premium analyses.

d. Provide an update to the CAPM analysis that includes Yahoo! Finance adjusted Betas.

13. Explain how Bluegrass Water obtains equity capital and, if all equity capital is obtained from the Central State Water Resource (CSWR), include in the explanation a discussion on how and when equity is allocated to Bluegrass Water.

14. Provide the current capital structure of CSWR.

15. Provide the current capital structure of each individual Bluegrass Water regulated affiliates that are owned by CSWR.

16. Explain whether Bluegrass Water has encountered any problems raising capital for its construction projects, and, if so, describe.

17. Refer to the Direct Testimony of Brent Thies Direct (Thies Direct Testimony), Exhibits BT1-BT14. Provide a copy of Exhibits BT1-14 in Excel spreadsheet format with all formulas, rows, and columns unprotected and fully accessible.

18. Refer to Thies Direct Testimony, Exhibit BT-9. Provide an explanation and calculation for the retirement entries under NARUC Accounts 372.000 and 373.000.

19. Refer to the Direct Testimony of Todd Thomas (Thomas Direct Testimony), page 9. Provide a copy of the service contract between Bluegrass Water and Midwest Water Operations, LLC (Midwest).

20. Refer to Thomas Direct Testimony, page 9. Explain whether Midwest is the only contractor Bluegrass Water uses for operations and management (O&M) services, and, if there are other O&M service providers, provide a copy of the service contracts with the other O&M contractors.

21. Refer to Thomas Direct Testimony, page 9. Provide in Excel spreadsheet format with all formulas, rows, and columns fully accessible and unprotected, a breakdown of contract operator expenses during the historical test year showing sums paid under (1) the basic service provision of those contracts, (2) the hourly provision of those contracts for additional in-person inspections beyond the basic service provision, and (3) the hourly provision of those contracts for repairs.

22. Explain whether the contract with Midwest includes in-person inspection services in the basic service provision and, if not, why these are separate fees.

23. Refer to the Cox Direct Testimony, page 11. Explain whether Bluegrass Water has considered a phase-in approach to the rate increase in order to mitigate rate shock.

24. Refer to the Direct Testimony of Timothy S. Lyons (Lyons Direct Testimony), page 7, Figure 3. Provide the basis for the allocation percentages for unmetered and metered service, and provide an Excel spreadsheet with all formulas, rows, and columns fully accessible and unprotected, demonstrating with how the allocation percentages were calculated.

25. Refer to the Lyons Direct Testimony, page 7, Figure 3, and page 8. Reconcile the difference between the proposed variable charge of \$14.91 in Figure 3 and the proposed usage charge for metered service of \$14.70 on page 8.

26. Provide support using the nonrecurring cost justification forms available on the Commission's website at <https://psc.ky.gov/Home/UtilForms> for Bluegrass Water's proposed revision to its returned check fee of \$15.00.

27. Refer to Application, Exhibit 19.

a. State which NARUC expense account(s) include the costs of operating remote monitoring systems.

b. State the amount of the costs of operating remote monitoring systems during the historical test period.

c. State whether any pro forma adjustments reflect the cost of operating remote monitoring systems.



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