

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 THIRD 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 June 16, 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 D'Ascendis (D'Ascendis Direct Testimony), Exhibit DWD-3, page 1.

- a. Provide the loan agreement for the \$2,900,000 loan.
- b. Explain whether Bluegrass Water received offers or drew interest from other financial institutions regarding the loan.

c. Explain in detail what Bluegrass Water is doing with the money from the loan.

2. Refer to the D'Ascendis Direct Testimony, Exhibit DWD-3, page 1.

a. Explain whether a 6.7 percent interest rate was economically the best available at the time the loan was agreed upon.

b. Provide the most recent credit report for Bluegrass Water.

3. Refer to the D'Ascendis Direct Testimony, Exhibit DWD-3, page 1. Also refer to the September 28, 2022 final Order in Case No. 2022-00217.²

a. In ordering paragraph 1 of the final Order in Case No. 2022-00217, the Commission granted Bluegrass Water the authority to enter into the loan in an amount up to \$5,000,000. Explain why Bluegrass Water did not borrow the full amount for which the Commission granted authority.

b. State whether Bluegrass Water closed on the loan by the October 30, 2022 deadline that was established in the final Order in Case No. 2022-00217, and if not, then explain why not.

c. Explain why the loan agreement was not filed in the post-case correspondence in Case No. 2022-00217 once the loan was completed.

4. Refer to the Application, Exhibit 4, page 2, paragraph f, indicating that the date of issue for the loan was November 30, 2022. Refer also to Bluegrass Water's response to Commission Staff's Second Request for Information (Staff's Second

² Case No. 2022-00217, *Electronic Application of Bluegrass Water Utility Company Operating Company, LLC for Issuance of Evidence of Indebtedness* (Ky. PSC Sept. 28, 2022), Order.

Request), Item 2a. stating that the company closed on its current debt on December 22, 2022. Reconcile the discrepancy for when the loan was issued to Bluegrass Water.

5. Refer to the D'Ascendis's Direct Testimony, Exhibit DWD-1.
 - a. Provide the underling amounts for debt and equity in the capital structure.
 - b. Provide the amount allocated to Bluegrass Water from CWRS for debt and equity in the capital structure.
6. Refer to the D'Ascendis Direct Testimony, Exhibit DWD-3, page 1. Also refer to the final Order in Case No. 2022-00217.³
 - a. Provide the capital structure and Weighted Average Cost of Capital (WACC) using a capital structure of 50 percent debt and 50 percent common equity.
 - b. Provide the capital structure and WACC assuming that Bluegrass Water borrowed the full \$5,000,000 approved in Case No. 2022-00217.
7. Refer to the Direct Testimony of Brent Thies (Thies Direct Testimony), at pages 25–26. Provide the revenue requirement calculations necessary to remove capital additions related to the projects in which a CPCN has not yet been granted.
8. Refer to the Thies Direct Testimony, at page 27, line 18–line 20 indicating that Schedule BT-13 “summarizes the acquisition date rate base for each acquired system as determined by the Company’s investigations, studies and appraisals.”
 - a. Provide all studies and appraisals referred to therein.
 - b. Provide all appraisals received regarding the value of the Delaplain system and property regardless of whether Bluegrass Water relied on the appraisals.

³ Case No. 2022-00217, Sept. 28, 2022 Order.

c. Provide all appraisals received regarding the value of the River Bluffs systems and property regardless of whether Bluegrass Water relied on the appraisals.

9. Refer to the Thies Direct Testimony, at page 27, line 2–page 35, line 4. Refer also to the Thies Direct Testimony, Schedule BT-13.

a. Provide the total plant in service, accumulated depreciation, and net plant in service at the time of acquisition for each of the systems listed in Schedule BT-13, broken down by plant account where possible, and explain where Bluegrass Water obtained the historical plant information for each system.

b. Provide a breakdown of the “Improvements” listed on Schedule BT-13 for each system by project by identifying each project, briefly describing each project, indicating the total cost of each project, and stating when each project was placed in service.

c. Provide an itemized breakdown of the “Acquisition Related Costs” listed on Schedule BT-13 for each system, and provide any invoices that support the amounts listed therein for each system.

d. Provide workpapers showing how the “Depreciation” listed on Schedule BT-13 was calculated for each system.

10. Refer to the Thies Direct Testimony, at page 29, lines 12–20, and Schedule BT-4. Provide the case number(s) in which Bluegrass Water was authorized to include the Acquisition Adjustments in the Total Utility Plant in Service.

11. Refer to the Thies Direct Testimony, at page 30, line 3. Explain how the land and easements were included in rate base.

12. Refer to the Thies Direct Testimony, at page 30, line 4–line 10. Confirm that Springcrest, Woodland Acres, and Herrington Haven are the only systems for which no historic book values were used, in whole or in part, to calculate the “Acquisition Date Rate Base” reflected in Schedule BT-13, and if that cannot be confirmed, explain why it cannot be confirmed.

13. Refer to the Thies Direct Testimony, at page 34, line 6–line 10.

a. Explain how tax expense is allocated, if at all, between Bluegrass Water and its parent and affiliate companies.

b. Provide any tax sharing agreement to which Bluegrass Water is a party.

14. Refer to the Thies Direct Testimony, Schedules BT-4 and BT-5. Provide an explanation for the \$10,000 adjustment to Acct 352.200 Collection Sewers Gravity for Plant in Service and the \$(367) adjustment to the same account for Accumulated Depreciation, including specifically why the amounts are different.

15. Refer to the Thies Direct Testimony, Schedules BT-4 and BT-5.

a. Provide a version of Schedule BT-4 with the plant in service, including the Pro Forma Adjustments, broken out by system and by account for each system.

b. Provide a version of Schedule BT-5 with the accumulated depreciation, including the Pro Forma Adjustments, broken out by system and by account for each system.

16. Refer to the Thies Direct Testimony, Schedule BT-14. Explain why Bluegrass Water included Rate Case expenses in the Rate Base calculation.

17. Refer to the Thies Direct Testimony, Schedules BT-5 and BT-9. Reconcile the pro forma adjustment for Account 373 Plant Sewers.

18. Refer to the Thies Direct Testimony, page 14, line 15–page 17, line 10, discussing the allocation of “indirect charges” based on a sharing percent. Refer also to the Application, Exhibit 25, Pro Forma Income Statement.

a. Provide the total amount of indirect charges to which the sharing percentage was applied to calculate the “Allocated Overhead” in the amount of \$445,726 reflected on line 26 of Exhibit 25.

b. Provide an itemized breakdown of the total amount of indirect charges to which the sharing percentage was applied to calculate the “Allocated Overhead” in the amount of \$445,726 reflected on line 26 of Exhibit 25.

c. For each category of expense identified in the itemized breakdown, identify the amount of any business development expense that was removed before the indirect expenses were allocated using Bluegrass Water’s proposed methodology, and for any business development expense removed, explain how Bluegrass Water identified the amount to be removed.

19. Refer to the Thies Direct Testimony, page 14, line 15–page 17, line 10, discussing differences between direct charges, indirect charges allocated based on CSWR’s three-factor methodology, and jointly billed charges allocated based on other cost drivers. Refer also to the Application, Exhibit 25, Adjusted Income Statement.

a. For the expenses listed in each of the accounts in column D, lines 10 through 42 of Exhibit 25, state whether the expenses are direct charges, indirect charges

allocated based on CSWR's three-factor methodology, and jointly billed charges allocated based on other cost drivers.

b. If an account contains more than one type of charge, explain the differences and identify those portions of the expenses listed in column D, lines 10 through 42 that are allocated using each methodology.

c. For any expenses listed in each of the accounts in column D, lines 10 through 42 that represent jointly billed charges allocated based on cost drivers other than CSWR's three factor methodology, explain in detail how each such expense is allocated and why the methodology is reasonable.

d. For any expenses listed in each of the accounts in column D, lines 10 through 42, explain how amounts allocated to Bluegrass Water's water service are determined and allocated.

20. Refer to the Application, Exhibit 25, Adjusted Income Statement. For NARUC Accounts 923.400 OSS-Legal, 923.500 OSS-Accounting, 923.600 OSS-Management Consulting, 923.900 OSS-IT, 701.000 Sewer-Contract Operations Labor & Expense, 702.000 Sewer-Misc Operations, and 705.000 Sewer-Misc Operations:

a. Identify any contractor, vendor, or other third party that provides the goods or services for which expenses are recorded in each account and describe the goods or services provided by each contractor, vendor, or other third party.

b. Provide an itemized breakdown of the expenses recorded in each account based on the party that provided the goods or services.

c. Provide invoices or other documents supporting the expenses recorded in each account, and identify which account or accounts the invoices or documents produced provide support for.

d. If an expense or a portion thereof is not provided by a third party, identify the expense and explain what it is and how it was determined.

21. Refer to the Theis Direct Testimony, Schedule BT-3.

a. Provide the justification for each proposed adjustment.

b. Provide workpapers used to calculate each proposed adjustment.

22. Refer to the Thiess Direct Testimony, Schedule BT-7, Contributions in Aid of Construction-Sewer.

a. Provide justification and workpapers used to calculate the Contributions in Aid of Construction (CIAC) amount of \$749,759.

b. Provide justification and workpapers used to calculate the Accumulated Amortization of CIAC amount of \$645,460.

23. Refer to the Thies Direct Testimony, at page 17, line 10. Refer also to the August 2, 2021 Order in Case No. 2020-00290⁴ discussing overhead costs allocated from CSWR to Bluegrass Water.

Provide an analysis of the change in allocated overhead from CSWR to Bluegrass Water starting with the amount that was approved in the final Order and ending with the amount proposed in the application using the format below.

⁴ Case No. 2020-00290, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction* (Ky. PSC Aug. 2, 2021), Order at 93.

Description	Amount	Customer Count
<i>Case No. 2020-00290 Final Order (FO)</i>		
Case No. 2020-00290 - FO numbered page 93	\$ 176,909	
Change in Allocation Method on Systems Included in Case No. 2020-00290 ()		
Allocated Cost for Systems Added Since Case No. 2020-00290 FO		
Allocated Cost for Systems Removed Since Case No. 2020-00290 FO ()		
Inflation Since 2020-00290 FO (designate cumulative percent in commentary)		
Other Cost Changes (performance) (describe in commentary)		
Application, Exhibit 10, numbered page 17 of 39 at line 10	<u>\$ 411,525</u>	

24. Refer to Bluegrass Water’s response to Staff’s Second Request, Item 13. Explain the rationale for using equity financing as compared to debt financing for utility operations and investments.

25. Refer to Bluegrass Water’s response to Staff’s Second Request, Item 10.
- a. Explain why the average of the mean and median was used in applying the discounted cash flow (DCF) model to the proxy group and explain whether this is common practice for return on equity (ROE) analysis.
 - b. Provide the highest awarded ROE, within their jurisdictions, for American Water Works Company, Inc., and Essential Utilities Inc.
 - c. Confirm if the California Water Service Group’s May 3, 2021, cost of capital case is still pending before the California Public Utilities Commission (CPUC).

26. Refer to Bluegrass Water’s response to Staff’s Second Request, Item 12b.
- a. Confirm that the “Bloomberg ‘default’ beta” is automatically calculated for a two-year horizon.
 - b. Explain if Bloomberg betas can also calculate a five-year horizon. If so, then explain why a two-year horizon was calculated compared to a five-year horizon.

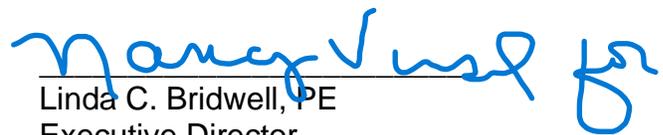
c. If possible, provide the Capital Asset Pricing Model (CAPM) Bloomberg betas using a five-year horizon.

27. Refer to Bluegrass Water's response to Staff's Second Request, Item 15.

a. Provide the 2022 long-term debt, short-term debt, and equity for Bluegrass Water's regulated affiliates that are owned by CSWR that was requested in Staff's Second Request, Item 15.

b. Explain whether the commission or any party in the other jurisdictions have taken the position that the capital structure of Bluegrass Water's regulated affiliates should include more debt to move toward a 50 percent debt and 50 percent common equity ratio.

28. Provide the total number of connections and the total customer count of systems managed by CSWR at the end of each calendar year for each of the last five years.



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

DATED MAY 31 2023

cc: Parties of Record

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

*Honorable John E Selent
Attorney at Law
Dinsmore & Shohl, LLP
101 South Fifth Street
Suite 2500
Louisville, KENTUCKY 40202

*Sarah D. Reddick
Dinsmore & Shohl, LLP
101 South Fifth Street
Suite 2500
Louisville, KENTUCKY 40202

*Aaron Silas
Central States Water Resources
1650 Des Peres Road
Suite 303
St. Louis, MISSOURI 63131

*Honorable Kerry E Ingle
Attorney at Law
Dinsmore & Shohl, LLP
1400 PNC Plaza
500 West Jefferson Street
Louisville, KENTUCKY 40202

*Edward T Depp
Dinsmore & Shohl, LLP
101 South Fifth Street
Suite 2500
Louisville, KENTUCKY 40202

*R. Brooks Herrick
Dinsmore & Shohl, LLP
101 South Fifth Street
Suite 2500
Louisville, KENTUCKY 40202

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

*Cameron R Culbertson
Scott County Attorney
198 E. Washington St.
Georgetown, KENTUCKY 40324

*Bluegrass Water Utility Operating Company, LLC
1630 Des Peres Road, Suite 140
St. Louis, MO 63131

*Honorable David Edward Spenard
Strobo Barkley PLLC
239 South 5th Street
Ste 917
Louisville, KENTUCKY 40202

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

*Dave Woodsmall
Central States Water Resources
1650 Des Peres Road
Suite 303
St. Louis, MISSOURI 63131

*Russ Mitten
Central States Water Resources
1650 Des Peres Road
Suite 303
St. Louis, MISSOURI 63131

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

*Randal A. Strobo
Strobo Barkley PLLC
239 South 5th Street
Ste 917
Louisville, KENTUCKY 40202