

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matters of

Electronic Proposed Acquisition by)
Bluegrass Water Utility Operating Company,)
LLC and the Transfer of Ownership and)
Control of Assets by: P.R. Wastewater)
Management, Inc.; Marshall County)
Environmental Services LLC; LH Treatment)
Company, LLC; Kingswood Development,)
Inc.; Airview Utilities, LLC; Brocklyn)
Utilities, LLC; Fox Run Utilities, LLC; and,)
Lake Columbia Utilities, Inc.)

No. 2019-00104

Electronic Proposed Acquisition by)
Bluegrass Water Utility Operating Company,)
LLC and the Transfer of Ownership and)
Control of Assets by: Center Ridge Water)
District, Inc.; Joann Estates Utilities, Inc.;)
and River Bluffs, Inc.)

No. 2019-00360

Bluegrass Water’s Notice of Compliance Filing re Financial Instrument

Bluegrass Water Utility Operating Company, LLC (“Bluegrass Water”), hereby gives notice of filing of its guaranteed financial instrument in compliance with Appendix Condition #5 in both the 8/14/19 and 2/17/20 Orders. This guaranteed financial instrument (hereinafter “Guaranty”) has been prepared in compliance with the Orders and with attention to discussion at the informal conference on July 8, 2020. The Guaranty ensures the full and prompt payment and performance when due of two months of the obligation of Bluegrass Water to its third-party contractors related to sewer systems that the Commission approved to be acquired in these cases.

The Guaranty further provides for the acquisitions of any additional sewer systems, as anticipated with future filings by Bluegrass Water. Demand for payment on this Guaranty is to be by Order entered by the Commission.

Respectfully submitted,

/s/ Kathryn A. Eckert

Katherine K. Yunker

kyunker@mcbayerfirm.com

Kathryn A. Eckert

keckert@mcbayerfirm.com

MCBRAYER PLLC

201 East Main Street; Suite 900

Lexington, KY 40507-1310

859-231-8780

fax: 859-231-1175

*Attorneys for Movant Bluegrass Water
Utility Operating Company, LLC*

Guaranty

This Guaranty, dated as of July 23, 2020, is provided by CSWR, LLC, a Missouri limited-liability company (“the Guarantor”), in favor of the Kentucky Public Service Commission (“the Commission”), relating to obligations of Bluegrass Water Utility Operating Company, LLC (“the Utility”).

PRELIMINARY STATEMENTS

A. The Utility is a limited liability company organized and existing under the laws of the Commonwealth of Kentucky. It is a class C sewer utility, PSC ID# 9004000, subject to regulation by the Commission. The Guarantor is the indirect sole owner of the Utility. The Utility is a manager-managed company; its manager is Central States Water Resources, Inc. (“Central States”), a Missouri corporation. Central States and the Guarantor are affiliated entities.

B. By Order entered August 14, 2019, in Case No. 2019-00104 (“the 8/14/19 Order”), the Commission approved the proposed acquisition of sewer utility assets by the Utility, subject to acceptance of conditions set forth in the Appendix. In an 8/30/19 filing, the conditions were acknowledged and accepted by the Utility and its affiliates, including the Guarantor, and each agreed to be bound by the conditions set forth in the Appendix.

C. By Order entered February 17, 2020, in Case No. 2019-00360 (“the 2/17/20 Order”), the Commission approved the proposed acquisition of sewer utility assets (among other assets) by the Utility, subject to acceptance of conditions set forth in the Appendix. In a 3/6/20 filing, the conditions were acknowledged and accepted by the Utility and its affiliates, including the Guarantor, and each agreed to be bound by the conditions set forth in the Appendix.

D. Condition #5 of both the 8/14/19 Order Appendix and the 2/17/20 Order Appendix requires posting “a guaranteed financial instrument that is the equivalent of two-months of the cost of [the Utility’s] third-party contractors” (“the Guarantee Condition”). Both Orders further state that the Guarantee Condition will be “terminated by further order of the Commission, upon confirmation that Bluegrass Water’s condition is sufficiently strong to ensure the continued provision of sewer service” on the acquired systems.

E. The Guarantor indirectly owns equity interests in the Utility and will benefit from the Utility's fulfillment of the Guarantee Condition, which it has acknowledged and accepted and to which it has agreed to be bound, and from the Commission's approval of such acquisitions that may be proposed in the future. Such benefits have been determined by the Guarantor to be sufficient such that the execution, delivery, and performance of this Guaranty Agreement is necessary or convenient to the conduct of its business.

NOW, THEREFORE, for good and valuable consideration, receipt whereof is hereby acknowledged, and in fulfillment of the Guarantee Conditions to which it and the Utility have agreed to be bound, the Guarantor hereby makes the following representations and warranties to the Commission and hereby covenants and agrees in favor of the Commission as follows:

Guaranty

1. The Guarantor hereby guarantees to the Commission the full and prompt payment and performance when due of two months of the obligation of the Utility to its third-party contractors relating to the Utility's sewer systems subject to the Guarantee Condition.

2. As of the date of this Agreement, (a) the Systems owned and operated by the Utility and subject to the Guarantee Condition are those listed on Exhibit A hereto, and (b) the names and addresses of the Utility's third-party contractors, the elements of the monthly costs therefor, and calculation of the total two-months' costs encompassed in the Guarantee Condition are set out in Exhibit B hereto.

3. The maximum aggregate liability ("MAL") of the Guarantor hereunder shall be One Hundred Forty Thousand, and no/100 Dollars (\$ 140,000.00). If additions or other changes to the Utility's obligations related to the Guarantee Conditions cause the total two months' costs to be more than the stated MAL, the Guarantor will enter into a replacement guaranty agreement with a MAL amount that exceeds the total two months' costs.

4. Subject to the MAL set out in ¶ 3 above: (a) if the Utility acquires additional sewer systems subject to the Guarantee Condition, then any increase to the total two-months' costs to be encompassed in the Guarantee Condition will automatically be included in this Guaranty upon the Utility's closing the acquisition of the subject system, and (b) any addition or

change to the third-party contractors, the elements of the monthly costs therefor, or the total two months' costs will automatically be included in this Guaranty.

5. This Guaranty shall terminate one (1) year after the date hereof; provided, however, that the occurrence of a termination date shall not affect the liability of the Guarantor with respect to obligations created or incurred prior to such date and any late fees, interest, or penalties accruing with respect to such pre-termination obligations. Furthermore, to the extent that the Commission has not completely terminated Guarantee Conditions for the Utility, this Guaranty shall automatically renew for up to five (5) successive one-year periods, unless sixty (60) days prior to the scheduled expiration date for the initial term or any renewal term, the Utility or the Guarantor notifies the Commission in writing that this Guaranty will not be renewed and whether the Guarantor will provide a replacement guaranty agreement that fulfills any remaining Guarantee Condition for the Utility.

6. Any demand for payment on this Guaranty will be by Order entered by the Commission ("Payment Order") giving directions about the payment to be made (*e.g.*, whether full or partial payment and whether to a third-party service provider, the Commission, or some other person, agency, or entity), finding that one or more of the following circumstances have been presented to or come to the attention of the Commission, and concluding that the ordered payment on this Guaranty is necessary to ensure the continuity of sewer service to customers of Bluegrass Water:

a. the filing of a petition for bankruptcy of the Utility (involuntary or voluntary) or the Utility's voluntary assignment (or proposal thereof) for the benefit of creditors pursuant to KRS ch. 379;

b. the Commission has received a statement under oath or affirmation from a third party that it is performing its obligations under a contract with the Utility for service to or for one or more of the Systems (specifically identified in the statement), and that the Utility is in default of its payment obligations to the third party under that contract or has notified the third party that it will be unable to make timely payment under that contract in the future; or

c. the Commission has sought, and the Utility has not provided, adequate assurance that the Utility can maintain continuity of sewer service to its customers on one or more of the Systems.

7. The Guarantor will make the payment(s) as directed in a Payment Order within three (3) business days of actual notice of the Payment Order or by any deadline(s) specified in the Payment Order, whichever is later. The Guarantor may request rehearing or modification of the Payment Order by the Commission or seek court review of the Payment Order, but hereby expressly (a) agrees that it will nonetheless make the payment(s) as directed in the Payment Order by the applicable deadline(s) and (b) acknowledges that a failure to do so will constitute a breach of this Guaranty Agreement despite any otherwise applicable right not to pay or defense to payment during the pendency of any rehearing/modification request, court review, or period during which such rehearing, modification, or review may be sought.

8. With the exception of its right to notice of a Payment Order (see ¶7 above), the Guarantor expressly waives, to the fullest extent permitted by applicable law, each and every notice to which it would otherwise be entitled under principles of guaranty or suretyship law.

Representations, Warranties, and Reports

9. The Guarantor submits to the Commission concurrently herewith (with a request for confidential treatment) its audited consolidated financial statements for the 2019 calendar year. For so long as any Guarantee Conditions remain for the Utility and are met in whole or part by a guaranty from the Guarantor, the Guarantor will submit to the Commission its audited financial statement for each subsequent calendar year on or before April 15 of the succeeding calendar year.

10. The Guarantor represents that its current Total Assets amount exceeds \$ 50 million. The Guarantor warrants that it will keep its Total Assets at a level that equals or exceeds the MAL amount for the duration of this Guaranty. The Guarantor will notify the Commission in writing within 30 days of any period of at least seven (7) days in which the Total Assets are below the promised level and include in the notice a statement of when the Total Assets again met or exceeded the promised level.

11. The Guarantor hereby represents and warrants that: (a) it is duly organized and validly existing in good standing under the laws of the jurisdiction of its organization; (b) it has the power and authority to execute, deliver, and carry out the terms and provisions of this Guaranty and has taken all necessary action to authorize the execution, delivery, and performance of this Guaranty; and (c) it has duly executed and delivered this Guaranty and this Guaranty constitutes the legal, valid, and binding agreement of the Guarantor enforceable in accordance with its terms.

Miscellaneous

12. Notice to the Guarantor under this Agreement shall be in writing delivered to the Guarantor via USPS Registered Mail Restricted Delivery addressed to:

CSWR, LLC
1650 Des Peres Road; Suite 303
St. Louis, MO 63131

Delivery to the Guarantor by the method and at the address specified shall constitute actual notice to the Guarantor.

13. This Guaranty shall in all respects be governed by, and construed and enforced in accordance with the laws (including, without limitation, the conflicts of laws rules) of the Commonwealth of Kentucky.

14. The Guarantor irrevocably consents to the nonexclusive jurisdiction of the Franklin County, Kentucky, Circuit Court in connection with any action or proceeding brought to enforce this Guaranty and waives any objection to the bringing of any such action or proceeding in such court based upon lack of personal or subject matter jurisdiction or improper venue. The Guarantor agrees that any process or other legal summons in connection with any such action or proceeding may be served by mailing a copy thereof by certified mail, or any substantially similar form of mail, addressed to the Guarantor at the address set forth in ¶ 12 above.

IN TESTIMONY WHEREOF, the Guarantor has executed this Guaranty Agreement on the date set forth under its name below.

CSWR, LLC, a Missouri limited liability company


Witness

By: 

Josiah Cox, President of its manager, Central States Water Resources, Inc.

Date: 07/23/20

STATE OF MISSOURI)
) SS:
COUNTY OF St. Louis)

Subscribed, sworn to, and acknowledged this 23rd day of July, 2020, before me, a Notary Public, in and before said County and State.

My Commission expires 5/4/2024.


NOTARY PUBLIC

{seal} 

SYSTEMS

As of July 1, 2020, sewer systems owned and operated by Bluegrass Water Utility Operating Company, LLC (PSC ID# 9004000) and subject to the Guarantee Condition are as follows:

System Name	County	Acquisition Approval In
Kingswood	Bullitt	2019-00104
Lake Columbia	Bullitt	2019-00104
Fox Run	Franklin	2019-00104
Airview	Hardin	2019-00104
Brocklyn	Madison	2019-00104
Golden Acres	Marshall	2019-00104
Great Oaks	McCracken	2019-00104
Timberland	McCracken	2019-00360
River Bluffs	Oldham	2019-00360
LH Treatment	Scott	2019-00104
Persimmon Ridge	Shelby	2019-00104

THIRD-PARTY CONTRACTOR COSTS

As of July 1, 2020, the names and addresses of the third-party contractors of the Bluegrass Water Utility Operating Company, LLC, the elements of the monthly costs therefor, and calculation of the current total of two-months' costs are set out below.

Third-Party Contractors

Midwest Water Operations, LLC
1351 Jefferson Street, Suite 301
Washington, MO 63090

Nitor Billing Services, LLC
100 Chesterfield Business Pkwy, Ste. 256
Chesterfield, MO 63005

Contract per-month Costs

Contractor	Service	Charge Basis
Midwest Water Operations, LLC	operation and maintenance	\$4133 per month per plant site* served
Nitor Billing Services, LLC	billing and other customer services	\$1 per customer per month

*The LH (Scott County) system has two (2) sites: Homestead and Longview.

Two-Months' Cost Total

Service	Per-Month Calculation	2 Months' Total
O&M	12 sites x \$4133/mo. = \$49,596 / month	\$99,192.00
Billing/ other Customer Service	1569 customers x \$1/mo. = \$1569 / month	\$3,138.00
	TOTAL	\$102,330.00