

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of

Electronic Application of Bluegrass Water)
Utility Operating Company, LLC for an)
Adjustment of Rates and Approval of)
Construction)

Case No. 2020-00290

**Response to
Joint Intervenors' Initial Data Requests**

Applicant Bluegrass Water Utility Operating Company, LLC (hereinafter "Bluegrass"), herewith submits its response to the Joint Intervenors' Initial Data Requests. A signed, notarized verification for this Response appears on the following page. The undersigned counsel is responsible for any objection noted for a particular response.

Respectfully Submitted,

/s/ Kathryn A. Eckert

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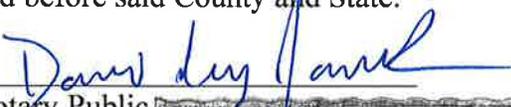
VERIFICATION

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

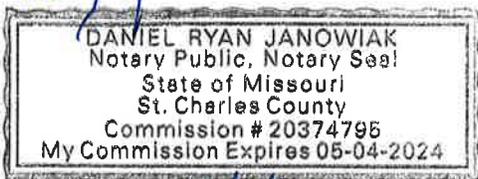
I, Mike Duncan, Vice President of Central States Water Resources, Inc., the manager of Applicant Bluegrass Water Utility Operating Company, LLC being duly sworn, state that I prepared or supervised the preparation of the following responses to Joint Intervenors' Initial Data Requests, and that the matters and things set forth in the responses are true and correct to the best of my knowledge, information and belief formed after reasonable inquiry.


Mike Duncan

Subscribed and sworn to this 26th day of February 2021, before me a Notary Public in and before said County and State.


Notary Public

(SEAL)



My Commission expires: 5/4/24

Request

1. Refer to the Commission's June 19, 2020 Order in Case No. 2020-00028. Explain why Bluegrass Water did not keep its commitment to wait until it had acquired a full year's worth of data from owning and operating the systems before filing a rate case.
-

Response

The Intervenors' data request mischaracterizes the Commission's order. At page 19, the order states, in relevant part, "Bluegrass Water anticipates that by mid-2021 it will be filing proposed revisions and adjustments to establish a unified tariff with uniform rates throughout its service area." At page 20, the order goes on to report Bluegrass Water's intent to file a general rate case that includes the systems at issue in Case No. 2020-00028 "within 15 months of the last acquisition closing...." The current rate case filing is consistent with the statements reflected in the Commission's order.

The filing also is consistent with Commission rules that allow a rate increase request to be based on data that projects into the future cost and investment values for each element of the utility's revenue requirement.

Request

2. Please explain why this case should not be dismissed without prejudice as being unripe with regard to the facilities that Bluegrass Water did not own or operate as of the date of the filing of its application.
-

Response

Objection: Bluegrass Water objects and declines to respond to this request, which seeks an advisory legal opinion on a hypothetical and which misuses the notion of “unripe,” particularly in the context of a rate proceeding based on a fully-forecasted test year.

Request

3. If Bluegrass Water and Bluegrass Water Holding Company, LLC have a single balance sheet and consolidated financial statements, please state whether Bluegrass Water Holding Company, LLC is also subject to the Commission's jurisdiction.
-

Response

Objection: Bluegrass Water objects and declines to answer this request, which seeks an advisory legal opinion on a hypothetical about jurisdiction and which appears to have no basis in KRS ch. 278.

Request

4. Please identify whether, since the filing of the application, there have been any changes with regard to the current capitalization ratio for either:
 - a. Bluegrass Water; or
 - b. Bluegrass Water Holding Company, LLC; and
 - c. If the answer to (a) or (b) above is “yes,” please state the updated capitalization ratio.
-

Response

- a. No, there have not been any changes with regard to the current capitalization ratio for Bluegrass Water since the filing of the application. At the time of filing, Bluegrass Water used a hypothetical capital structure of 50% debt and 50% equity. The use of this hypothetical structure has not changed. Please refer to Bluegrass Water's response to 1 PSC 05 for its actual capital structure as of 12/31/2020.
- b. Objection: Bluegrass Water objects and declines to respond to this request subpart, which seeks information apparently about a non-utility related to Bluegrass Water and is of little, if any, relevance to this rate case. In addition, because subparts a and b may be in the disjunctive and Bluegrass Water has responded about its own ratio, this subpart may need no response.
- c. N/A.

Request

5. When does Bluegrass Water expect to achieve a capitalization ratio of 50% equity and 50% debt?
-

Response

Bluegrass Water does not know when it will be able to achieve its objective of a capital structure composed of 50% equity and 50% debt. Bluegrass Water is actively pursuing senior debt financing to achieve an approximate 50% equity and 50% debt capitalization ratio. Bluegrass Water also recognizes it must obtain Commission approval of any debt financing, which also will affect the timing of changing the company's capital structure. It is anticipated that Bluegrass Water will close on debt financing within 60-90 days of finalization of its current rate case, and that that the company's lender may condition the loan on the successful completion of the rate case.

Request

6. Does Bluegrass Water believe that a lower equity percentage would be reasonable?
Please explain your answer.
-

Response

No (assuming that the question is about an equity percentage lower than 50%). As Bluegrass Water has previously stated, its objective to achieve a capital structure consisting of 50% equity and 50% debt reflects the capital ratios the company believes are most appropriate.

Request

7. Please describe in detail Bluegrass Water's efforts to secure debt financing to date, including:
 - a. The number of lenders contacted;
 - b. Any correspondence regarding potential loan terms or debt covenants; and
 - c. The amount of debt sought by Bluegrass Water.
-

Response

- a. Bluegrass Water, through its parent company CSWR, LLC has discussed possible debt financing with six lender candidates.
- b. The only correspondence regarding potential loan terms or debt covenants is a loan proposal from a bank.¹
- c. The amount of debt sought by Bluegrass Water is that which would be necessary to eventually achieve a 50% debt and 50% equity capital structure (initial \$ estimate contained in the confidential document responsive to (b)).

¹ Bluegrass is seeking confidential treatment for this document in a concurrently-filed Motion for Confidential Treatment. Because confidential treatment is being sought for the entire document pursuant to 807 KAR 5:001 Section 13(2)(a)(3)(b), it is only being filed under seal with the Commission.

Request

8. Please describe if, and to what extent, Bluegrass has access to capital through any of its corporate parents or affiliates or through any entity having common ownership.
-

Response

Bluegrass Water obtains equity capital through its parent company CSWR, LLC (CSWR).

CSWR provides that capital through its own operating results and through capital

investments made into CSWR by its owner, US Water Systems LLC.

Request

9. Refer to Bluegrass Water's January 13, 2021 Response to the Motion for Leave to Intervene filed by Arcadia Pines, Carriage Park, Marshall Ridge and Randview. Please identify, with particularity, the "information requested by Bluegrass Water during the due diligence phase of closing on the systems" that was unable to be provided with regard to each of the foregoing systems.
-

Response

Objection: Bluegrass objects and declines to answer this request, which seeks information about a statement made in a response to a motion that has been decided and which has no evident relevance to the Application that is the subject of this proceeding. In addition, the former owners of the systems have first-hand knowledge of any information requested by Bluegrass that they did not provide and whether that was because they were unable to do so or just chose not to provide the information.

Request

10. Refer to Bluegrass Water's Response to Staff-DR-01-004.

- a. Please explain the specific process that Bluegrass Water undertook, or will take, for bidding each of the capital projects set forth in its request for a certificate of public convenience and necessity.
 - b. Did Bluegrass Water bid, or intend to bid, each project individually or combine any of its projects into combined bidding packages?
-

Response

Objection: Bluegrass Water objects and declines to answer because the request is unclear.

The 1 PSC 04 request and response are about Bluegrass Water's and CSWR's "budget instructions, assumptions, directives, manuals, policies and procedures, timelines, and a description of the budget process." Therefore, it is unclear how the subparts relate to the reference or what information is sought in this request.

Request

11. Refer to Bluegrass Water's Response to Staff-DR-01-010. Please provide copies of:
- a. The preliminary memorandum prepared with regard to each system whose rates Bluegrass Water proposes to increase.
 - b. The post-closing memorandum prepared for each system which Bluegrass Water now owns. Please supplement this response as closings take place on additional systems.
-

Response

- a. Please see the response to 2 PSC 27.
- b. Bluegrass Water does not have a "book-end" post-closing memorandum, and does not require third-party post-closing memorandums.

Request

12. Please provide an updated capital expenditure plan based upon Bluegrass Water's most recent analysis of each system.

Response

There is no updated plan to provide because the capital expenditure plan has not changed in the company's most recent analysis of the Bluegrass systems.

Request

13. Refer to Bluegrass Water's Response to Staff-DR-01-014. Please identify whether Midwest Water Operations, LLC is a corporate parent, subsidiary or affiliate of:
- a. CSWR, LLC;
 - b. Central States Water Resources, Inc.;
 - c. U.S. Water Resources, LLC; or
 - d. any corporate parent, subsidiary or affiliate of CSWR, LLC, Central States Water Resources, Inc. or U.S. Water Resources, LLC.
-

Response

- a. Midwest Water Operations, LLC, is not a parent, subsidiary, or affiliate of CSWR, LLC.
- b. Midwest Water Operations, LLC, is not a parent, subsidiary, or affiliate of Central States Water Resources, Inc.
- c. Midwest Water Operations, LLC, is not a parent, subsidiary, or affiliate of U.S. Water Resources, LLC.
- d. Midwest Water Operations, LLC, is not a parent, subsidiary, or affiliate of any corporate parent, subsidiary, or affiliate of CSWR, LLC, Central States Water Resources, Inc. or U.S. Water Resources, LLC.

Request

14. Please identify whether there is any common ownership between Midwest Water Operations, LLC and:
- a. CWSR, LLC;
 - b. Central States Water Resources, Inc.;
 - c. U.S. Water Resources, LLC; or
 - d. any corporate parent, subsidiary or affiliate of CSWR, LLC, Central States Water Resources, Inc. or U.S. Water Resources, LLC.
-

Response

- a. There is no common ownership between Midwest Water Operations, LLC, and CSWR, LLC.
- b. There is no common ownership between Midwest Water Operations, LLC, and Central States Water Resources, Inc.
- c. There is no common ownership between Midwest Water Operations, LLC, and U.S. Water Resources, LLC.
- d. There is no common ownership between Midwest Water Operations, LLC, and any corporate parent, subsidiary or affiliate of CSWR LLC, Central States Water Resources, Inc., or U.S. Water Resources, LLC.

Request

15. Refer to Bluegrass Water's Response to Staff-DR-01-014. Please provide cost justification for the "Additional Fee Charge for Services Outside of Basic Scope of Services" provision of the agreement with Midwest Water Operations, LLC.
-

Response

Due to the state of disrepair of the systems at acquisition, O&M vendors are generally not willing to commit to fixed contractual costs outside of the basic scope of services listed in the contracts. The additional fees provided for in those contracts reflect the complexity of the extra scope of work outside of operating a fully functional system. Because many of the systems acquired by Bluegrass Water were not fully functional upon acquisition, these additional fees are necessary to ensure the systems remain operational and customers receive safe, reliable, and environmentally compliant services.

Request

16. Refer to Bluegrass Water's Response to AG-DR-01-023. Please provide a copy of the "Exhibit A" referenced in each Agreed Order attached to your response.
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Response

The "Exhibit A" referenced in each Agreed Order is the corresponding preliminary engineering report provided for each system, provided in response to 2 PSC 27. In redacted form, these exhibits are also available as public filings in the respective cases listed in response to 2 PSC 27. Unredacted copies are filed with the Commission under seal and separately provided to the Attorney General's office pursuant to a confidentiality agreement. These will also be provided to counsel for the Joint Intervenors pursuant to a confidentiality agreement, if and when such agreement is executed.

Request

17. If not previously provided, please provide a copy of all citations, notices of violation or other similar document from the Kentucky Division of Water that has been issued within the past three years to each of the systems owned by Bluegrass Water or for which Commission approval has been granted to acquire said systems.

Response

A list of citations, Notices of Violation (NOV), and similar enforcement action summaries are available in the EPA ECHO website (echo.epa.gov); however, actual documentation is only available from the owners of the acquired systems. Since acquisition, Bluegrass Water has not incurred additional NOVs or other citations because the company has worked within the framework of the Agreed Order compliance agreements with the Department of Environmental Protection. Documentation for the NOVs and similar citations incurred under previous ownership are not available to Bluegrass, however they may be obtained through an Open Records Act request to the EEC/DEP.

Request

18. Please provide copies of any economic analysis performed by Bluegrass Water that considers whether it might be cheaper for some customers to install a septic system rather than pay the proposed rates.

Response

Not applicable; Bluegrass Water has not performed any economic analysis for the effects of septic system installation versus payment of proposed rates.

Request

19. Please describe any and all communications that Bluegrass Water has had with local governments regarding the feasibility of connecting any of its systems to existing municipal wastewater systems.

Response

Bluegrass Water has spoken to the City of Georgetown about the possibility of connecting the Delaplain system to the city's wastewater treatment system, but thus far the city has indicated it would not allow the Delaplain system to connect because it did not have capacity for the connection.

Bluegrass Water has also discussed the possibility of tying the Brocklyn wastewater system with the City of Richmond. The city was provided flow data from the facility and should be making a decision in the near future regarding a tie-in location and any upgrades Bluegrass would need to make to the city's collection system in order to tie-in. A cost analysis will then be performed to determine the most economical solution between tying on to the city and upgrading the facility.

Request

20. Please identify all alternatives that Bluegrass Water considered for each of the projects for which a certificate of public convenience and necessity.

Response

Objection: Bluegrass Water objects to this Request as it is not a complete sentence and is therefore somewhat unclear.

Answer: Without waiving the objection, please see the discussion of alternatives in the third-party engineering memorandums, copies of which are provided in response to 2 PSC 27.

Request

21. Please confirm that the Homestead neighborhood and the Longview neighborhood are served by the same system.

Response

Yes. Both neighborhoods are served by the LH WWTF (Wastewater Treatment Facility) system, NPDES permit number KY0081591. However, the LH system has two plant sites, Homestead and Longview.

Request

22. Please refer to the testimony of Mr. Josiah Cox, page 1. Please identify the precise nature of the economies of scale and cost savings that directly flow to Bluegrass Water's customers as a result of being a conglomerate serving more than 40,000 customers.

Response

Economies of scale are achieved due to the shared cost of services provided by CSWR, LLC, to each affiliated utility operating company for administrative services such as customer service, legal, accounting, finance, engineering, accounts payable, risk management, and executive leadership. For billing and customer service, volume contracts between vendors and CSWR's affiliates enable Bluegrass Water to have access to sophisticated systems and practices that generally are not available to small water and wastewater utilities. Through its affiliation with CSWR, LLC, Bluegrass and its affiliates are able to enjoy the benefits of economies of scale that would not be available to small, unaffiliated stand-alone utilities.