

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
Commission Staff's Post Hearing Request for Information**

Applicant Bluegrass Water Utility Operating Company, LLC (hereinafter "Bluegrass"),
herewith submits its response to the Commission Staff's Post Hearing Request for Information.

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

Katherine K. Yunker

Kathryn A. Eckert

McBrayer PLLC

201 East Main St., Suite 900

Lexington, KY 40507

(859) 231-8780

kyunker@mcbayerfirm.com

keckert@mcbayerfirm.com

*Counsel for Bluegrass Water Utility Operating
Company*

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 the Commission Staff's Post-Hearing Request for Information, the Attorney General's Post-Hearing Data Requests, and Joint Intervenors' Post-Hearing 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.



MERANDA K. KEUBLER
My Commission Expires
November 13, 2022
St. Louis County
Commission #14631487

[Handwritten Signature]
Mike Duncan

Subscribed and sworn to this 27th day of May 2021, before me a Notary Public in and before said County and State.

[Handwritten Signature]
Notary Public

(SEAL)

My Commission expires: 11/13/2022

Request

1. Refer to Bluegrass Water's responses to Commission Staff's Second Request for Information, Item 12. The original request asked Bluegrass Water to provide a spreadsheet, in Excel format with all formulas unprotected and all rows and columns fully accessible, with the information contained in attachment *BGUOC2020RateCaseRateBase_(Sewer).xlsx* broken down by each sewer system. In its response Bluegrass -3- Case No. 2020-00290 Water provided a separate rate base spreadsheet for each sewer system but the total of all 19 Excel spreadsheets did not equal the amounts listed in *BGUOC2020RateCaseRateBase_(Sewer).xlsx*.
 - a. Provide a single spreadsheet, in Excel format with all formulas, columns, and rows unprotected and fully accessible, listing the 13-month average rate base for each separate sewer system that totals to the 13-month average rate base contained in *BGUOC2020RateCase-RateBase_(Sewer).xlsx*; Tab: FY Rate Base - Sewer B1.
 - b. Provide a single spreadsheet, in Excel format with all formulas, columns, and rows unprotected and fully accessible, listing the 13-month average rate base for each separate sewer system that totals to the 13-month average rate base contained in Excel Spreadsheet *BYupdate-RateBase(Sewer).xlsx*; Tab: FY Rate Base - Sewer B1.
 - c. Provide an explanation of why the amounts did not match in the documents originally provided.
-

Response

- a. Due to the process used to update rate base numbers at the end of the base period, the data source necessary to produce system level rate base specific numbers is no longer available.
- b. For the requested information, please see the separately provided Excel workbook with filename *PSCphDR01b.xlsx*.
- c. A data source was inadvertently omitted from the Utility Plant in Service totals for the system. This data source was CWIP balances that were on the books of Bluegrass Water as of 12/31/2020 but the assets were not yet placed into service.

Request

2. Refer to BGUOC2020RateCase-RateBase_(Sewer).xlsx; Tab: AccDep - FY B3. Provide a spreadsheet, in Excel format with all formulas, columns, and rows unprotected and fully accessible, for each sewer system listing by NARUC account, the original cost of the acquired assets, and the associated accumulated depreciation by asset account.
-

Response

Please see the separately-provided spreadsheet with filename *PSCphDR02.xlsx*.

Request

3. Refer to the D'Ascendis Testimony, page 11, Table 2. Provide an update to Table 2 with the actual monthly VIX for the months of October 2020 through May 2021.
-

Response

Please see the separately provided Excel worksheet with filename *PSCphDR03.xlsx* for an update to Table 2 with the actual VIX from October 1, 2020, through May 14, 2021.

Request

4. Provide the current 30-year Treasury bond interest rate.
-

Response

On May 14, 2021, the H15T30 Index, PX-LAST, was 2.35 (source: Bloomberg). Note, however, that the use of current interest rates, including 30-year Treasury bond yields, are not applicable for cost of capital purposes. As noted in the D'Ascendis' Direct Testimony (Application Exh. 8-E) on page 29 and 30, because both ratemaking and the cost of capital are prospective in nature, prospective measures, such as growth rates for the DCF and projected interest rates are necessary. Furthermore, the requested data cannot be relied upon in isolation to determine an ROE for Bluegrass and should be viewed along with other concurrent measures of risk, current capital market conditions, and results of cost of common equity models for insight into Bluegrass' investor-required return.

Request

5. Provide the current Baa2 corporate bond rate.
-

Response

On May 14, 2021, the MOODCBAA Index, PX-LAST, was 3.66 (source: Bloomberg). As explained on page 10 of the Nelson Direct Testimony (Application Exh. 8-F), B-rated and CCC-rated utility debt yields reflect higher risks for below investment grade utilities. While these risks are still not identical to or fully reflective of the risks facing small, distressed water utilities like Bluegrass, the updated Table 2, as provided in response to PSC ph DR 03, would reflect the current cost of debt for Bluegrass at this time. The requested Baa2 corporate bond yield is not applicable to Bluegrass's cost of long-term debt given the above. Furthermore, the requested data cannot be relied upon in isolation to determine an ROE for Bluegrass and should be viewed along with other concurrent measures of risk, current capital market conditions, and results of cost of common equity models for insight into Bluegrass' investor-required return.

Request

6. Provide the analysis previously performed by Bluegrass Water regarding whether it would be more cost-effective to hire contractors or employees to operate Bluegrass Water's systems; provide an update to that analysis accounting for the current systems owned by Bluegrass Water; and explain whether it would ever be more cost effective to hire operators directly as employees as opposed to contractors.
-

Response

Please see the spreadsheet with filename *Ops Cost Comparison-confidential.xlsx* (filed separately under seal and with a request for confidential treatment) for an updated analysis performed by Bluegrass Water regarding whether it would be more cost-effective to hire contractors or employees to operate Bluegrass Water's systems.

Request

7. Please refer to the Company's response to AG-DR-02-012 and provide the written criteria or policy by which the discretionary component of the 401(k) contribution is awarded to a CSWR, LLC officer or employee.
-

Response

There is no formalized criteria or written policy whereby the discretionary component of the Company's 401k plan is awarded to CSWR officers and employees.

Request

8. Explain the residential equivalent ratio applied to the Brocklyn subdivision multiunit customers, and explain the basis for the residential equivalent ratio.
-

Response

Bluegrass Water applied a residential equivalent ratio of 0.75 to the Brocklyn subdivision multiunit customer. This ratio was adopted from the currently approved tariff.

Request

9. Explain the residential equivalent applied in the application to the commercial customers from Randview and Persimmon Ridge, and provide the customer name and water usage of each of these four commercial customers the proposed residential equivalent is based on.
-

Response

The residential equivalency of 2.5 was applied to the commercial customers based on the American Water Works Association's 1" water meter usage equivalency. Bluegrass Water does not have data on water usage for each commercial customer, but their names are as follows:

- Persimmon Ridge
 - Persimmon Ridge Golf LLC
 - Cornerstone Property Management Co. - Persimmon Ridge HOA
- Randview
 - Kingdom Hall of Jehovah's Witnesses
 - Sutton Lane Church of Christ