

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of

Electronic Application of Bluegrass)
Water Utility Operating Company, LLC) Case No. 2020-00290
for an Adjustment of Rates and Approval)
of Construction)

**Application for Authority to Adjust Water and Sewage Rates
and for Certificates of Convenience and Necessity to Construct**

Bluegrass Water Utility Operating Company, LLC (“Bluegrass”) files this application, requesting a general increase in water and sewage rates pursuant to KRS 278.180 and KRS 278.190, and a certificate (or certificates) of construction pursuant to KRS 278.020(1). The case for adjusted rates uses a full-forecasted test period, with a base period of calendar year 2020 and a test year of May 1, 2021 – April 30, 2022. If not suspended by the Commission, the adjusted rates and revised tariff language will become effective October 31, 2020.

In support of this Application, Bluegrass submits herewith Exhibits 1-18 and in the accompanying Notice of Filing, spreadsheet files in Excel format printed as PDFs (referred to as *Schedules*). Pursuant to 807 KAR 5:001 §16(7) and (10), Bluegrass also files herewith a Statement of Inapplicability or Request for Waiver in which it explains why information required by a regulation related to the rate-adjustment request does not exist and is not applicable to this Application or, in the alternative, requests a waiver from the requirement. To assist the Commission and parties in locating information required by various regulations, Bluegrass attaches hereto an Index of Regulation Requirements for the rate adjustment which list each regulation, its requirement, and the principal place(s) where it is addressed. The facts on which the Application is based, are fully contained in the concurrently-filed exhibits, spreadsheets, and other information and the statements further made by Bluegrass as follows:

I. Applicant

1. Bluegrass Water Utility Operating Company, LLC is the full name of the applicant, as set forth in its Articles of Organization (Exh. 4-A). This is its real name *per* KRS 365.015(1)(b)(7), and Bluegrass does not conduct or transact business in this Commonwealth under an assumed name or any style other than its real name. A certificate of assumed name is not necessary.

2. Bluegrass's mailing address is 1650 Des Peres Road, Suite 303, St. Louis, Missouri 63131, and the electronic mail addresses to be used for purposes of this proceeding are regulatory@cswrgroup.com and rmitten@cswrgroup.com.

3. Bluegrass is a manager-managed limited-liability company ("LLC") was organized on March 21, 2019, under the laws of Kentucky. It is in good standing with the Kentucky Secretary of State, as attested by the attached Certificate of Existence (Exh. 4-C). As provided in its Operating Agreement (Exh. 4-B), Bluegrass is managed by Central States Water Resources, Inc. ("Central States"), a Missouri corporation. The chief officer in charge of Kentucky operations for Bluegrass is Josiah Cox, President of Central States.

4. Central States is affiliated with CSWR, LLC, a Missouri limited-liability company. CSWR is the sole member of Kentucky Central States Water Resources, LLC (a Kentucky LLC), which is the sole member of Bluegrass Water Utility Holding Company, LLC (a Kentucky LLC), which is the sole member of Bluegrass, a Kentucky water and sewer utility subject to the Commission's jurisdiction. In a similar way, CSWR is the owner and parent company of utilities (or seeking authority to acquire one or more utilities) providing wastewater and water service to communities in Missouri, Arkansas, Louisiana, and Texas. Attached as Exhibit 5 is an organization chart of Bluegrass and its affiliates as of September, 2020. Audited

consolidated 2019 financial statements for CSWR and its subsidiary LLCs are submitted herewith as Exhibit 7; confidential information therein is redacted and confidential treatment therefor is requested in a motion concurrently filed herewith.

5. Bluegrass is categorized a class B sewer utility (PSC ID #900400) and a class C water utility (PSC ID # not yet assigned). In March and June 2020, respectively, it filed with the Commission its first Gross Operating Revenues and Annual Reports, both for CY2019.

6. Beginning in April 2019, Bluegrass filed applications to acquire the system facilities —and thereafter to provide sewer and water utility service — for 20 communities in Kentucky:

<u>Community</u>	<u>County</u>
Case No. 2019-00104	
Airview	Hardin
Brocklyn	Madison
Fox Run	Franklin
Great Oaks	McCracken
Golden Acres	Marshall
Kingswood	Bullitt
Lake Columbia	Bullitt
Longview/Homestead	Scott
Persimmon Ridge	Shelby
Case No. 2019-00360	
River Bluff	Oldham
Timberland	McCracken
Center Ridge	Calloway
Case No. 2020-00028	
Arcadia Pines	McCracken
Carriage Park	McCracken
Marshall Ridge	McCracken

<u>Community</u>	<u>County</u>
Randview	Graves
Case No. 2020-00297	
Delaplain	Scott
Herrington Haven	Garrard
Springcrest	Jessamine
Woodland Acres	Bullitt

The location in Kentucky of these communities and the respective owned-and-operated, approved-to-be-acquired, or applied-to-be acquired systems is attached as Exhibit TT-1 to the Direct Testimony of Todd Thomas (Exh. 8-B).

7. The Case Nos. 2019-00104 and 2019-00360 systems have been acquired and are owned and operated by Bluegrass to provide utility service¹ — sewer service only is provided to all these communities, with the exception of Center Ridge (Calloway County, Case No. 2019-00360), in which only water service is provided. Bluegrass has been approved to provide sewer utility services on the four Case No. 2020-00028 systems, and has arranged to close the purchase of and begin to operate those systems’ facilities in October 2020.² Bluegrass filed a joint application with four (4) other sewer utilities in Case No. 2020-00297 on September 16, 2020, seeking Commission approval of the transfer/acquisition of the Delaplain, Herrington Haven, Springcrest, and Woodland Acres.

8. The initial sewer tariff for Bluegrass, PSC Ky. No. 1 (sewer), was approved by the Commission effective November 20, 2019; with revisions, this tariff remains in effect.

¹ See Notices filed in Case No. 2019-00104 for the September 2019 date each subject system was acquired. Notices filed in Case No. 2019-00360 document that Bluegrass acquired the River Bluff and Timberland sewer systems on April 30, 2020; the Center Ridge water system, on May 29, 2020.

² See final Order dated June 19, 2020, Case No. 2020-00028.

a. The initial tariff provided for the customers of each acquired system pursuant to the Case No. 2019-00104 approval to be served at applicable rates that were contained in the effective tariff of the respective transferring utility at the time of the acquisition/transfer.

b. Revisions to the tariff were made following the 4/30/20 acquisition of the River Bluff and Timberland systems approved in Case No. 2019-00360. A rate sheet was added for each system to serve the respective customers at the applicable rates that were contained in the effective tariff of the respective transferring utility at the time of the acquisition/transfer.

c. The systems that were the subject of Case No. 2020-00028 are not utilities subject to the Commission's jurisdiction, and there are no tariffs relating to system service filed with the Commission. In the 6/19/20 final Order in Case No. 2020-00028 (p.20), the Commission approved initial tariffed rates that were those currently being charged to the systems' respective customers.³ Upon the acquisition closings in October 2020, Bluegrass will serve each systems customers at the rates they are currently charged. If the unified rates and tariff proposed in this proceeding by Bluegrass are suspended by the Commission and do not become effective October 31, 2020, as proposed, then Bluegrass will file the approved rate sheets — a separate sheet for each acquired system — as revisions to the PSC Ky. No. 1 Tariff within 20 days of the close of the acquisition.

d. Each system that is the subject of Case No. 2020-00297 has an effective tariff on file with the Commission in the name of the respective utility. If the unified rates and tariff proposed in this proceeding by Bluegrass are suspended by the Commission and do not become effective before the closing of any acquisition/transfer approved by the Commission, then

³ The Commission accepted the proposed initial rates based in part on Bluegrass's representation and undertaking in the 2/24/20 application that it would file for a unified rate for its various systems no later than mid-2021. See 6/19/20 approval Order (p.20), Case No. 2020-00028. That undertaking is met by the proposed tariff in this case.

Bluegrass will provide service to each respective system's customers in accordance with the transferring utility's then-effective sewer tariff; Bluegrass will file an adoption notice for the existing tariff after the closing and will shortly thereafter file revisions to the PSC Ky. No. 1 Tariff of new rate sheets specific to each system.

9. The initial water tariff for Bluegrass, PSC Ky. No. 1 (water), was approved by the Commission effective September 18, 2020. This tariff, which remains in effect, serves the customers in the Center Ridge area of Graves County, Kentucky, at the rates previously charged by the transferring utility.

10. Bluegrass has no employees. It has the financial, technical, and managerial ability to provide reasonable and adequate water and sewer service through its affiliation with and support from its parent company, CSWR, and manager, Central States. CSWR provides to Bluegrass the equity financing for proposed acquisitions and other purposes, and seeks to make debt financing (including long-term loans) available on reasonable terms. Central States personnel provide a centralized management structure for Bluegrass as well as the utility-operations affiliates in other states, and its officers and managers provide similar functions on behalf of Bluegrass as for Central States. Central States is responsible for, *inter alia*, all management, financial reporting, underground utility safety and locations services, regulatory reporting and management, record keeping, and final customer dispute management. Costs for such services are proportionally allocated between Bluegrass and its utility affiliates on a per-system basis, with Bluegrass treated as one system for this purpose.

11. As part of its management responsibilities, Central States has engaged qualified third-party firms to provide operation and maintenance (O&M) and customer services for the system facilities and customers of Bluegrass. *See* Direct Testimony of Todd Thomas (Exh. 8-B).

The firm providing O&M services for the systems Bluegrass now owns and operates is Midwest Water Operations, LLC, which will be contracted to provide O&M services for the Case No. 2020-00028 systems upon their acquisition. The firm engaged by Central States to send out bills and handle service-related billing questions for Bluegrass is Nitor Billing Services, LLC, which has been contracted to provide the same services for the Case No. 2020-00028 systems upon their acquisition. Contracts of Bluegrass with Midwest Water and Nitor are attached as collective Exhibit 16.

12. In fulfillment of condition #5 in the approval orders in Case Nos. 2019-00104 and -00360, Bluegrass has obtained a Guaranty in favor of the Commission from its parent company, CSWR, relating to two months of Bluegrass's obligation to its third-party contractors Midwest and Nitor for services to the subject 11 sewer systems.⁴ The 7/23/20 Guaranty from CSWR is attached hereto as Exhibit 6.

II. Notice

13. Pursuant to KRS 278.180, Bluegrass issues and gives notice to the Commission of a revised rate sheet (sheet no. 2) to its currently-effective tariff for water service, PSC Ky. No. 1; the full tariff with proposed 1st Revised Sheet No. 2 is attached as Exhibit 1-A. The proposed effective date for the revised rate sheet, is October 31, 2020. The revisions to the rate sheet include an increase to the flat rate per month and clarify the availability of residential water service to the customers in the Center Ridge area of Calloway County, Kentucky.

⁴ Bluegrass gave notice of compliance with the approval condition and filed the Guaranty in Case Nos. 2019-00104 and -00360 on July 24, 2020. Bluegrass's acquisition of and provision of service through the Case No. 2020-00028 systems is not subject to such a condition; as noted in the 2020-00297 Joint Application (¶56), the Guaranty's maximum aggregate liability is sufficient to also cover the estimated cost of two months of third-party contractor services for the four systems that are the subject of that case.

14. Pursuant to KRS 278.180, Bluegrass issues and gives notice to the Commission of a new, revised tariff for sewer service, PSC Ky. No. 2, unifying rates throughout its service areas in Kentucky and cancelling PSC Ky. No. 1; the full proposed tariff is attached as Exhibit 1-B. The proposed effective date for the new, revised tariff is October 31, 2020. Because Bluegrass plans to close on the four Case No. 2020-00028 systems before October 31, 2020, the proposed tariff includes the communities served by those systems and offers service to the customers on those systems on the same terms and conditions offered to customers on the systems presently owned and operated by Bluegrass. The proposed revisions include new or clarified rate classifications, including an Industrial/Commercial classification in anticipation of service to metered customers on the Delaplain Disposal system, which is a subject of the application for transfer/acquisition in Case No. 2020-00297. The proposed revisions also include minor clarifications and corrections to the text of the Rules and Regulations section, and a new sheet (no.2) indexing the territory served by county and community.

15. Although its level of gross annual revenues did not require it to do so, Bluegrass filed an 807 KAR 5:001 §16(2) Notice of Intent with the Commission on August 28, 2020, stating its intent to file a water and sewer rate-adjustment application supported by a fully forecasted test period within 30-60 days. A copy of the Notice was emailed to the Attorney General's Office of Rate Intervention, and the Office subsequently moved for, and has been granted, full intervention as a party in this case.

16. Notice of the application for a general rate adjustment is being given in accordance with 807 KAR 5:001 §17. Bluegrass is making or will make the public postings in accordance with the requirements and deadlines of § 17(1). No later than the date this Application is filed with the Commission, written notice of the request for adjusted rates —containing

the information and text required by § 17(4) — is being mailed to each existing customer of Bluegrass pursuant to § 17(2)(b)(3). A copy of the notice mailed to Bluegrass customers is Exhibit 3 hereto. Within 45 days of the filing of this Application, in accordance with § 17(3)(a), Bluegrass will file with the Commission proof of the notice mailing.

17. To assist in understanding the rate adjustments and tariff revisions proposed, Bluegrass provides with this Application a comparison of the proposed tariffs with the currently-effective tariff rates and text. The comparison for the proposed water tariff 1st Revised Sheet No. 2, in the “redline” form provided by 807 KAR 5:001 §16(1)(b)(4)(b), is attached as Exhibit 2-A. The comparison between the proposed, unified sewer tariff and the present Ky. PSC No. 1 is Exhibit 2-B hereto, and is in the side-by-side form provided by sub§ (4)(a). The present tariff sheet is to the left, and the proposed tariff sheet is to the right; a present or proposed sheet paired with a blank page indicates that there is no comparable text or provision in the other tariff.

III. Changes in Existing Rates and Tariffs

18. In accordance with 807 KAR 5:001 §16(1)(b)(1), Bluegrass states that the requested changes to existing rates, terms, and tariffs for sewer and water service it will provide in the future are required to enable it to continue providing safe, reasonable, and adequate service to its customers and to afford it a reasonable opportunity to earn a fair return on its investment in property used to provide that service while attracting necessary capital at reasonable rates. Bluegrass’s current rates and tariffs are inadequate for those purposes. Therefore, as explained in more detail in the statements that follow and the verified testimony and other exhibits identified below, the requested changes in existing rates and tariffs are required.

19. As authorized by KRS 278.192(1), this Application for a general adjustment of sewer and water rates is supported by: (a) a 12-month fully forecasted test period in accordance

with 807 KAR 5:001 § 16(1)(a)2 with the test period ending April 30, 2022; and (b) a base period consisting of the 12 months ending December 31, 2020. As authorized by KRS 278.192(2), this base period begins not more than nine months prior to the date of the filing of this Application, and is a period consisting of no less than six months of historical data and no more than six months of estimated data. Within 45 days after the last day of the base period, Bluegrass will file the actual results for the estimated months of the base period as required by KRS 278.192(2)(b).

20. Bluegrass supports its request for changes in its existing rates and tariffs for sewer and water service with the verified testimony and exhibits (collectively, Exhibit 8) of the following persons:

- a. Josiah Cox, President and chief officer of the (all-Kentucky) operations of Bluegrass;
- b. Todd Thomas, Senior Vice President;
- c. Jacob Freeman, P.E., Director, Engineering;
- d. Brent Thies, Controller;
- e. Dylan D'Ascendis, CRRA, CVA, Director at ScottMadden Inc.; and
- f. Jennifer Nelson, Economist, Director at ScottMadden Inc.

21. In support of this Application for a general adjustment of sewer and water rates supported by a fully forecasted test period, Bluegrass has presented its financial data for the forecasted period in the form of pro forma adjustments to the base period, has limited the forecasted adjustments to the forecasted period, and has based capitalization and net investment rate base on a 13-month average for the forecasted period, all as shown in Exhibits See B. Thies Testimony (Exh. 8-D), *Schedules* (attached to accompanying Notice of Filing). Bluegrass also

acknowledges the provisions in § 16(6)(d)-(e) that, respectively, after the filing of this Application revisions to the forecast are generally not allowed and the Commission may require it to prepare an alternative forecast based on a reasonable number of changes in the bases for Bluegrass's forecast.

22. Attachment 1 to this Application is an index presenting each of the requirements for any utility's application for authority to adjust rates supported by a fully forecasted test year, including those in 807 KAR 5:001 § 16(6) and (7), and the requirements for any sewer utility's rate-adjustment application in 071 § 3(2) and stating where that requirement is met within this Application or an accompanying filing (exhibit, schedule, workbook, etc.). Bluegrass also files herewith and as part of its Application a Statement of Inapplicability and Request for Waiver which contains statements explaining why required information does not exist and is inapplicable to is Application or, in the alternative, requests a waiver from the particular requirement pursuant to 807 KAR 5:001 § 16(10).

23. The testimony and exhibits to the Application and statements herein demonstrate that the rates, terms, conditions and tariffs proposed for sewer and water service are fair, just, and reasonable under KRS 278.030.

IV. Construction

24. As forecasted, projects to repair, replace, and improve the sewer and water facilities (collectively, "Projects") are planned for each of the systems Bluegrass owns and operates, the systems it has been approved operate in Case No. 2020-00028 and those it has applied for approval to acquire in Case No. 2020-00297. All costs associated with these projects have been included in the rate base or operating expenses used to calculate the revenue requirement proposed in this case. All or most of the individual projects would not be categorized as new

construction or extension for which a KRS 278.020(1) certificate is needed; these Projects do not extend the Bluegrass service area, do not create a wasteful duplication, or conflict with the service offered by other utilities. Bluegrass therefore requests a finding that a construction certificate is not needed for any one of these Projects. In the alternative, Bluegrass requests a KRS 278.020(1) certificate (or certificates) of public convenience and necessity for any project(s) that are found to be subject to the statute’s certificate requirement.

25. In his Direct Testimony (Exh. 8-C), Jacob Freeman itemizes the repairs, replacements, and improvements and their estimated cost for each of the 11 sewer systems that Bluegrass currently owns and operates, the four sewer systems that it will close on in October 2020, and the four systems that Bluegrass has applied for approval to acquire in Case No. 2020-00297. The following table summarizes his testimony about the total estimated cost for each system and overall:

System	Estimated Cost (\$)
Airview	418,900
Brocklyn	1,014,350
Fox Run	321,450
Golden Acres	239,900
Great Oaks	241,850
Kingswood	129,100
Lake Columbia	308,800
Longview/Homestead	138,450
Persimmon Ridge	260,183
River Bluff	302,700
Timberland	442,900
Subtotal	3,818,583
Arcadia Pines	61,000
Carriage Park	106,000

System	Estimated Cost (\$)
Marshall Ridge	81,000
Randview	324,650
Subtotal	572,650
Delaplain	1,181,700
Herrington Haven	244,700
Springcrest	127,000
Woodland Acres	457,500
Subtotal	2,010,900
TOTAL	\$6,402,133

26. In his Direct Testimony (Exh. 8-C), Jacob Freeman also itemizes the repairs, replacements, and improvements and their estimated cost for each of the four component districts of the water system that Bluegrass owns and operates, serving the Center Ridge area in Calloway County, Kentucky. The following table summarizes his testimony about the total estimated cost for each district and overall:

District	Estimated Cost (\$)
1	229,455
2	336,650
3	363,800
4	226,155
TOTAL	\$1,156,060

27. Pursuant to KRS 278.020(1) and 807 KAR 5:001 § 15(2), Bluegrass requests a CPCN for any project or group of projects for which prior approval and a certificate are needed. The projects are as described and itemized in Mr. Freeman’s testimony (Exh. 8-C). Estimated capital costs of the projects are as itemized in Freeman’s testimony and summarized in ¶¶ 25-26

above. The Projects are all forecasted to start as soon as permits are obtained and to be completed by the end of the forecasted test year.

28. The public convenience and necessity require any construction involved in the Projects. As noted in the testimony of Josiah Cox (Exh. 8-A) and Jacob Freeman (Exh. 8-C), most of these projects are needed to maintain capacity and basic functionality of the systems or to achieve compliance with environmental regulations. Other projects will achieve operational efficiencies as well as enhance the present quality of service for Bluegrass customers.

29. Projects for many of the sewer systems will require a construction permit from the Energy and Environment Cabinet, Division of Water (“DoW”).⁵ Bluegrass submitted a Construction Permit Application (“CPA”) for the Brooklyn wastewater treatment plant improvements to DoW on August 3, 2020 (Exh. 10-B). CPAs for Airview, Fox Run, Golden Acres, Great Oaks, and Timberland projects were submitted to DoW on September 28, 2020 (Exhs. 10-A, -C, -D, and -E). The process for submitting CPAs for Delaplain, Herrington Haven, and Woodland Acres has begun; the plan is to submit the CPAs when and if the Commission approves the acquisition/transfer application relating to those systems in Case No. 2020-00297. The projects for the Kingswood, Lake Columbia, Longwood/Homestead, Persimmon Ridge, and River Bluffs systems do not require a construction permit from DoW because they are maintenance-replacement for components of an existing facility or are changes that do not affect the treatment process of a facility. *See* 401 KAR 5:005 § 1(2)(a). Bluegrass is not aware of any other permits or franchises it must seek for any of the proposed projects.

⁵ Non-discharging wastewater systems are not regulated by DoW. The non-discharging systems Bluegrass currently owns and operates or forecasts that it will own and operate are Arcadia Pines, Carriage Park, Marshall Ridge, Springcrest, and Randview.

30. The proposed repairs, replacements, and improvements will be to existing facilities of the subject water or sewer system facilities and so will be in or alongside the existing facilities. Bluegrass submits that the maps and location data that are contained in collective Exhibit 10, along with similar data provided for each system in the respective acquisition/transfer application, satisfy 807 KAR 5:001 § 15(2)(d)(1); in the alternative, Bluegrass requests a deviation from the same. These Projects will not compete with the facilities of any other utility. With respect to the sewer system Projects to replace or improve the wastewater treatment facilities, the respective system users cannot be served by an existing regional wastewater treatment facility and a connection to such a facility is not available.

31. Particulars regarding the planned improvements to or replacement of the Brocklyn wastewater plant are also attached as part of its CPA (Exh. 10-B). Similar documentation was provided with the CPAs submitted for Airview (Exh. 10-A), Fox Run (Exh. 10-C), Golden Acres (Exh. 10-D), and Bluegrass submits that these plans and specifications satisfy 807 KAR 5:001 § 15(2)(d)(1); in the alternative, Bluegrass requests a deviation from the same.

32. The total projected capital cost for the sewer Projects is \$6.40 million; for the water Projects, \$1.16 million; these totals are expected to be incurred before the end of the forecasted test year on April 30, 2022. Bluegrass has financed repairs, replacements and improvements to date with equity. Consistent with Bluegrass's goal to have a 50/50 debt-equity capitalization structure on average over time and the plan fund capital investment in repairing, replacing, improving, and extending utility plant with long-term debt,⁶ CSWR is seeking long-term debt financing from third-party lenders on behalf of Bluegrass for the Projects.⁷ The capital

⁶ See Plan re Capital Structure filed by Bluegrass in Case Nos. 2019-00104 and 2019-00360 on March 17, 2020.

⁷ Pursuant to KRS 278.300 and in accordance with Condition # 17 in the final Orders in Case Nos. 2019-00104 and 2019-00360, Bluegrass will "not issue any securities or evidences of indebtedness or assume

construction budget, information about major and other construction projects, and projected and forecasted capital structure requirements are presented in Exhibits 9 and 13, and *Schedules J and B-4*. In her testimony (Exh. 8-F), Jennifer Nelson concludes that a 50-50 debt-equity capital structure for Bluegrass and a cost of debt of 9.50% are reasonable and appropriate for ratemaking purposes.

33. Estimated O&M expense (or changes thereto) attributable to the Projects is included within the full forecasted test year supporting the requested adjustment in rates.

34. Applicant seeks the establishment of unified rates herewith, and in the context of its application for an adjustment of rates provides information in Exhibits 1-3, 8-D, 13, and *Schs. M, B-3.1, OHA-1, and CE3* hereto that meets the 807 KAR 5:071 § 3(1)(j)-(l) construction-application requirements for a sewer utility. The Guaranty that evidences Bluegrass's financial integrity, discussed in ¶ 12 above, is attached as Exhibit 6.

35. A copy of the latest filed consolidated tax returns (federal and state) to include Bluegrass is Exhibit 18 hereto; confidential information therein is redacted and confidential treatment therefor is requested in a motion concurrently filed herewith. The financial exhibit described in 807 KAR 5:001 § 12 and required by 807 KAR 5:071 § 3(1)(e) is submitted herewith as Exhibit 17. Bluegrass is a utility that had less than \$5 million in gross annual revenue in the immediate past calendar year (2019); pursuant to 807 KAR 5:001 § 12(b), the financial exhibit covers operations for a 12-month period ending July 31, 2020, which is not more than 90 days prior to the date this Application is filed.

any obligation or liability in respect to the securities or evidences of indebtedness of any other person until [it] has been authorized to do so by an Order of the Commission.” Bluegrass intends to make a separate application with respect to any debt financing for the Projects.

36. The Projects and each of them either do not require KRS 278.020(1) certificates; in the alternative, public convenience and necessity require the planned construction and so certificate(s) should be granted therefor.

V. Conclusion

WHEREFORE, the Applicant requests that the Commission issue a final order regarding this Application:

- (1) Approving the adjusted rates and the revised or new tariff sheets for sewer and water service (provided collectively as Exhibit 1), pursuant to KRS 278.180 and 278.190;
- (2) Approving any KRS 278.020(1) construction certificates needed for repair, replacement, and improvement projects planned and forecast by Bluegrass; and
- (3) Granting all other relief to which Applicant may be entitled.

Dated: September 30, 2020

Respectfully submitted,

/s/ Katherine K. Yunker

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Application Exhibits⁸

1. PSC Notice -- Proposed Revised Tariffs
 - A. Water
 - B. Sewer
2. Comparative Tariff Sheets
 - A. Water
 - B. Sewer
3. Customer Notice
4. Corporate Documents
 - A. Articles of Organization
 - B. Operating Agreement
 - C. Certificate of Existence
5. Affiliate Organization Chart
6. Guaranty
7. 2019 Consolidated Financials (*redacted*)
8. Testimonies
 - A. Josiah Cox
 - B. Todd Thomas
 - C. Jacob Freeman
 - D. Brent Thies
 - E. Dylan D'Ascendis
 - F. Jennifer Nelson
9. Capital Construction budget with 3-year forecast
 - A. Water
 - B. Sewer
10. Construction Permit Applications for Bluegrass systems
 - A. Airview
 - B. Brocklyn

⁸ Applicant requests confidential treatment of the redacted material in a Motion for Confidential Treatment submitted concurrently with this Application.

- C. Fox Run
 - D. Golden Acres
 - E. Timberland
11. Annual and Monthly Budget for 12 Months Prior to Filing, Base Period and Forecast Period
 12. Monthly Budget Variance for 12 Months Pre-Base Period and Available for Base + Subsequent Months
 13. Three-Year Projected Annual Income Statement, Balance Sheet, Cash Flow Statement, and Customer Forecast
 14. Statement of Attestation
 15. Software List
 16. Third-party Service Contracts
 - A. Midwest Water Operations (1st)
 - B. Midwest Water Operations (2nd)
 - C. Nitor Billing Services
 17. Financial Exhibit
 18. 2019 Consolidated (state and federal) Tax Returns (*redacted*)

807 KAR 5:	Description	Application filing(s)
001 § 14		
<u>001 §14(1)</u>	Full name, mailing address, and e-mail address of applicant. // Facts on which the application is based, with a request for the order, authorization, permission, or certificate desired and a reference to the particular law requiring or providing for the information.	Application §§ 1-2 // Application <i>passim</i>
(2)	If applicant is a corporation,	N/A
(3)	If applicant is a limited liability company, application includes state where organized and date of organization, states applicant is in good standing in the state where organized and if not a Kentucky limited liability company,	Application § 3, Exhs. 4-A, 4-C
(4)	If applicant is a limited partnership,	N/A
001 § 12		
<u>001 §12(1)(a)</u>	<u>Financial Exhibit</u> : For a utility that had \$5,000,000 or more in gross annual revenue in the immediate past calendar year....	N/A
(b)	For a utility that had less than \$5,000,000 in gross annual revenue in the immediate past calendar year, the exhibit shall cover operations either for a twelve (12) month period, the period ending not more than ninety (90) days prior to the date the application is filed or for the twelve (12) month period contained in the utility's most recent annual report on file with the commission, and contain a statement that: <ol style="list-style-type: none"> 1. Material changes have not occurred since the end of that twelve (12) month period; 2. Identifies all material changes that have occurred since the end of that twelve (12) month period. 	<i>see</i> Application § 36 (use of 12-month period ended 7/31/20)
<u>§12(2)(a)</u>	The amount and kinds of stock authorized;	Exh. 17(a)
(b)	The amount and kinds of stock issued and outstanding;	Exh. 17(b)
(c)	Terms of preference of preferred stock, cumulative or participating, or on dividends or assets or otherwise;	Exh. 17(c)

807 KAR 5:	Description	Application filing(s)
	(d) A brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee or trustee, amount of indebtedness authorized to be secured, and the amount of indebtedness actually secured, together with sinking fund provisions, if applicable;	Exh. 17(d)
	(e) The amount of bonds authorized and amount issued, giving the name of the public utility that issued the same, describing each class separately and giving the date of issue, face value, rate of interest, date of maturity, and how secured, together with amount of interest paid during the last fiscal year;	Exh. 17(e)
	(f) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid during the last fiscal year;	Exh. 17(f)
	(g) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of a portion of the indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid during the last fiscal year;	Exh. 17(g)
	(h) The rate and amount of dividends paid during the five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year; and	Exh. 17(h)
	(i) A detailed income statement and balance sheet.	Exh. 17(i)
071 § 3		
<u>071 §3(2)</u>	In addition to the filing requirements provided by 807 KAR 5:001, Sections 12, 14, and 17 [notice], ...	see 001 §__ requirements above: <ul style="list-style-type: none"> • §14 (general) • §12 (financial exhibit)
<u>071 §3(2)(a)</u>	Copy of valid third-party beneficiary agreement or other evidence of financial integrity.	Exh. 6
	(b) A comparative income statement showing test period; per books, revenues and expenses, pro forma adjustments to those figures, and explanations for each adjusted entry.	<i>Sch. D-2</i> ; Thies testimony (Exh. 8-D)

807 KAR 5:	Description	Application filing(s)
§3(2)(c)	Detailed analysis of any expenses contained in the comparative income statement which represent an allocation or proration of total expenses.	<i>Sch. D-2, OHA-1</i>
(d)	Detailed depreciation schedule of all treatment plant properties and facilities listing all major components of “package” treatment plants separately.	<i>Sch. B-3.1</i>
(e)	Copies of all service contracts entered into by the utility for outside services, such as but not limited to: operation and maintenance, sludge hauling, billing, collection, repairs, etc., in order to justify current contract services and charges or proposed changes in said contracts.	collective Exh. 16; <i>see also</i> Thomas testimony (Exh. 8-B)
(f)	A description of the applicant’s property and facilities, including a statement of the net original cost (estimate if not known), the cost thereof to the applicant, and a current breakdown of contributed and non contributed property and facilities owned by the applicant.	Freeman testimony (Exh. 8-C); <i>Sch. B</i>
(g)	A detailed customer listing showing number of customers in each customer class and average water consumption for each class of customers.	<i>Sch. M</i>
(h)	If the utility has billing and collection services provided by the Louisville Water Company....	N/A
(i)	A copy of the latest tax returns (federal and state, if applicable) filed by the applicant.	Exh. 18 – <u>confidential</u>
(j)	A full and complete explanation of corporate or business relationships between the applicant and a parent or brother sister corporation, subsidiary(ies), a development corporation(s), or any other party or business, to afford the commission a full and complete understanding of the situation.	<i>see</i> Application ¶¶ 3-4; Exhs. 4-B (Operating Agreement), 5 (affiliate chart)
001 § 16		
§16(1)(a)	Support by a fully forecasted test year	<i>see</i> Application ¶¶ and <i>Schs. A-M</i>

807 KAR 5:	Description	Application filing(s)
<u>§16(1)(b)1</u>	A statement of the reason the adjustment is required.	<i>see</i> Application ¶¶ 18-23, <i>Sch. D</i> ; Cox testimony (Exh. 8-A) and Thies testimony (Exh. 8-D) and <i>Schedules</i> referenced therein
2	A certified copy of a certificate of assumed name as required by KRS 365.015 or a statement that such a certificate is not necessary.	N/A, <i>see</i> Application ¶ 1
3	New or revised tariff sheets, if applicable, in a form that complies with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date the application is filed.	Exhs. 1-A (water) and 1-B (sewer), with effective date of October 31, 2020
4	New or revised tariff sheets, if applicable, shown by either providing the present and proposed tariffs in comparative form on the same sheet side by side or on facing sheets side by side, or providing a copy of the present tariff indicating proposed additions by italicized inserts or underscoring and striking over proposed deletions.	Exh. 2-A (water, <i>redlined</i>) Exh. 2-B (sewer, <i>side-by-side</i>)
5	A statement that notice has been given in compliance with subsections (3) and (4) of 807 KAR 5:001, Section 17 with a copy of the notice.	Application ¶ 16, Exh. 3
§16(2)	A utility with gross annual revenues greater than \$5 million, ... 30-60 days' notice of intent to file rate adjustment	N/A, <i>but see</i> Application ¶ 15
§16(3)	807 KAR 5:001 §17 notice to customers	<i>see</i> Application ¶16, Exh. 3
§16(4)	Requirements for application supported by a historical test year	N/A
§16(5)	Requested <i>pro forma</i> adjustments for known and measurable changes to ensure fair, just, and reasonable rates based on the historical test period	N/A
<u>§16(6)(a)</u>	The financial data for the forecasted period shall be presented in the form of <i>pro forma</i> adjustments to the base period.	<i>see</i> Application ¶ 21; <i>Schedules</i> (all), Thies testimony (Exh. 8-D)
(b)	Forecasted adjustments shall be limited to the twelve (12) months immediately following the suspension period.	<i>see</i> Application ¶ 21; <i>Schedules</i> (all), Thies testimony (Exh. 8-D)

807 KAR 5:	Description	Application filing(s)
§16(6)(c)	Capitalization and net investment rate base shall be based on a thirteen (13) month average for the forecasted period.	<i>see</i> Application ¶ 21; Thies Testimony, <i>Schs. A-M, esp. Schs. B, J</i>
(d)	No revisions allowed to the forecast, with limited exceptions	<i>see</i> Application ¶ 21
(e)	Commission may require the utility to prepare an alternative forecast	<i>see</i> Application ¶ 21; Thies testimony (Exh. 8-D)
(f)	Reconciliation of the rate base and capital used to determine revenue requirements	Exh. 13, <i>Sch. B</i> ; <i>see</i> Statement/Waiver
§16(7)(a)	Written testimony of each witness proposed to support the application, including testimony from the utility's chief officer in charge of Kentucky operations on the existing programs to achieve improvements in efficiency and productivity, including an explanation of the purpose of the program	collective Exh. 8, including Exh. 8-A, testimony of Josiah Cox (chief officer)
(b)	Most recent capital construction budget containing at a minimum a three (3) year forecast of construction expenditures	Exh. 9
(c)	A complete description, which may be filed in written testimony form, of all factors used in preparing the utility's forecast period.	Thies testimony (Exh. 8-D) and <i>Schedules</i> referenced
(d)	The utility's annual and monthly budget for the twelve (12) months preceding the filing date, the base period, and forecasted period	Exh. 12
(e)	A statement of attestation signed by the utility's chief officer in charge of Kentucky operations, which shall provide [3 specified representations]	Exh. 14
(7)(f)	For each major construction project that constitutes five (5) percent or more of the annual construction budget within the three (3) year forecast, the following information shall be filed: <ol style="list-style-type: none"> 1. The date the project was started or estimated starting date; 2. The estimated completion date; 3. The total estimated cost of construction by year exclusive and inclusive of ... AFUDC or interest during construction credit; 	<i>Sch. B-4</i>

807 KAR 5:	Description	Application filing(s)
	4. The most recent available total costs incurred exclusive and inclusive of AFUDC or interest during construction credit.	
(7)(g)	For all construction projects that constitute less than five (5) percent of the annual construction budget within the three (3) year forecast, the utility shall file an aggregate of the information requested in paragraph (f)3 and 4 of this subsection	<i>Sch. B-4</i>
(h)	<p>A financial forecast corresponding to each of the three (3) forecasted years included in the capital construction budget. The financial forecast shall be supported by the underlying assumptions made in projecting the results of operations and shall include the following information:</p> <ol style="list-style-type: none"> 1. Operating income statement (exclusive of dividends per share or earnings per share); 2. Balance sheet; 3. Statement of cash flows; 4. Revenue requirements necessary to support the forecasted rate of return; 5. Load forecast including energy and demand (electric); 6. Access line forecast (telephone); 7. Mix of generation (electric); 8. Mix of gas supply (gas); 9. Employee level; 10. Labor cost changes; 11. Capital structure requirements; 12. Rate base; 13. Gallons of water projected to be sold (water); 14. Customer forecast (gas, water); 15. Sales volume forecasts in cubic feet (gas); 16. Toll and access forecast of number of calls and number of minutes (telephone); and 17. A detailed explanation of other information provided, if applicable. 	<p>Exh. 13; <i>see</i> Statement/Waiver re subpart 13 (gallons of water projected to be sold); <i>Sch. A</i>; <i>Sch.B</i></p> <p>Note: Subparts 5, 6, 7, 8, 15, and 16 are not applicable to a water or sewer utility; subpart 13 and 14 are applicable to the water side only of Bluegrass Water</p>
(i)	The most recent FERC or FCC audit reports.	N/A
(j)	The prospectuses of the most recent stock or bond offerings.	None; <i>see</i> Statement/Waiver
(k)	The most recent FERC Financial Report FERC Form No.1, FERC Financial Report, FERC Form No.2, or Public Service Commission Form T (telephone)	N/A

807 KAR 5:	Description	Application filing(s)
(7)(l)	The annual report to shareholders or members and the statistical supplements covering the most recent two (2) years from the application filing date	None; <i>see</i> Statement/Waiver
(m)	The current chart of accounts if more detailed than the Uniform System of Accounts chart	N/A; <i>see</i> Statement/Waiver
(n)	The latest twelve (12) months of the monthly managerial reports providing financial results of operations in comparison to the forecast	Exh. 11
(o)	Complete monthly budget variance reports, with narrative explanations, for the twelve (12) months immediately prior to the base period, each month of the base period, and any subsequent months, as they become available	Exh. 11
(p)	A copy of the utility's annual report on Form 10-K as filed with the Securities and Exchange Commission for the most recent two (2) years, and any Form 8-K issued during the past two (2) years, and any Form 10-Q issued during the past six (6) quarters	None; <i>see</i> Statement/Waiver
(q)	The independent auditor's annual opinion report, with any written communication from the independent auditor to the utility that indicates the existence of a material weakness in the utility's internal controls	None; <i>see</i> Statement/Waiver and Exh. 7 (CSWR, LLC audited consolidated 2019 financial statements) — confidential portions <i>redacted</i>
(r)	The quarterly reports to the stockholders for the most recent five (5) quarters	None, N/A
(s)	A summary of the latest depreciation study with schedules itemized by major plant accounts, except that telecommunications utilities....	None; <i>see</i> Statement/Waiver
(t)	A list of all commercially available or in-house developed computer software, programs, and models used in the development of the schedules and work papers associated with the filing of the utility's application. This list shall include: 1. Each software, program, or model; 2. What the software, program, or model was used for; 3. The supplier of each software, program, or model; 4. A brief description of the software, program, or model; and	Exh. 15

807 KAR 5:	Description	Application filing(s)
	5. The specifications for the computer hardware and the operating system required to run the program	
<u>(7)(u)</u>	<p>If the utility had amounts charged or allocated to it by an affiliate or a general or home office or paid monies to an affiliate or a general or home office during the base period or during the previous three (3) calendar years, the utility shall file:</p> <ol style="list-style-type: none"> 1. A detailed description of the method and amounts allocated or charged to the utility by the affiliate or general or home office for each allocation or payment; 2. The method and amounts allocated during the base period and the method and estimated amounts to be allocated during the forecasted test period; 3. An explanation of how the allocator for both the base period and the forecasted test period were determined; and 4. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated, or paid during the base period is reasonable. 	<i>Schs.</i> OHA-1 and CE3; Thies testimony (Exh. 8-D)
<u>(7)(v)</u>	If the utility provides gas, electric, sewage, or water utility service and has annual gross revenues greater than \$5,000,000 in the division for which a rate adjustment is sought,	N/A
(w)	Incumbent local exchange carriers....	N/A
<u>(8)(a)</u>	A jurisdictional financial summary for both the base period and the forecasted period that details how the utility derived the amount of the requested revenue increase	<i>Sch.</i> A
(b)	A jurisdictional rate base summary for both the base period and the forecasted period with supporting schedules, which include detailed analyses of each component of the rate base	<i>Sch.</i> B
(c)	A jurisdictional operating income summary for both the base period and the forecasted period with supporting schedules, which provide breakdowns by major account group and by individual account	<i>Sch.</i> C

807 KAR 5:	Description	Application filing(s)
(8)(d)	A summary of jurisdictional adjustments to operating income by major account with supporting schedules for individual adjustments and jurisdictional factors	<i>Sch. D</i>
(e)	A jurisdictional federal and state income tax summary for both the base period and the forecasted period with all supporting schedules of the various components of jurisdictional income taxes	<i>Sch. E</i>
(f)	Summary schedules for both the base period and the forecasted period (the utility may also provide a summary segregating those items it proposes to recover in rates) of organization membership dues; initiation fees; expenditures at country clubs; charitable contributions; marketing, sales, and advertising expenditures; professional service expenses; civic and political activity expenses; expenditures for employee parties and outings; employee gift expenses; and rate case expenses	<i>Sch. CE4</i>
(g)	Analyses of payroll costs including schedules for wages and salaries, employee benefits, payroll taxes, straight time and overtime hours, and executive compensation by title	N/A, see Statement/Waiver
(h)	A computation of the gross revenue conversion factor for the forecasted period	<i>Sch. H</i>
(i)	Comparative income statements (exclusive of dividends per share or earnings per share), revenue statistics and sales statistics for the five (5) most recent calendar years from the application filing date, the base period, the forecasted period, and two (2) calendar years beyond the forecast period	N/A, see Statement/Waiver re 5 most recent CYs <i>see also</i> Exh. 13 and <i>Sch. C</i> for comparative income statements for base period, forecasted period and two years beyond forecasted period
(j)	A cost of capital summary for both the base period and forecasted period with supporting schedules providing details on each component of the capital structure	<i>Sch. J</i> ; <i>see also</i> D'Ascendis and Nelson testimony (Exh. 8-E and -F)
(k)	Comparative financial data and earnings measures for the ten (10) most recent calendar years, the base period, and the forecast period	N/A, see Statement/Waiver re 10 most recent CYs <i>see also</i> Exh. 13 and <i>Sch. C</i> for comparative data for base period and forecasted period

807 KAR 5:	Description	Application filing(s)
(l)	A narrative description and explanation of all proposed tariff changes	Application ¶ 13 (water) and ¶ 14 (sewer)
(m)	A revenue summary for both the base period and forecasted period with supporting schedules, which provide detailed billing analyses for all customer classes	<i>Sch. M</i>
(n)	A typical bill comparison under present and proposed rates for all customer classes.	<i>Sch. N, see also Exhs. 1-3</i>