

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:)
)
Electronic Application of) **Case No. 2022-00217**
Bluegrass Water Utility Operating)
Company, LLC for Approval to Issue)
Evidences of Indebtedness)

VERIFIED APPLICATION FOR FINANCING APPROVAL

Bluegrass Water Utility Operating Company, LLC (“Bluegrass Water”), by counsel, hereby applies for approval from the Kentucky Public Service Commission (“Commission”) to issue certain evidences of indebtedness in connection with a proposed multiple advance, senior secured, amortizing term loan of up to \$5 million (the “Loan”). As explained below, Bluegrass Water has four pending certificate of public convenience and necessity (“CPCN”) applications. Its proposed Loan would help fund those necessary and important improvement projects and also move the Company toward compliance with the Commission’s previously-stated objectives regarding Bluegrass Water’s debt-to-capitalization percentage.¹ The Loan proceeds would also reimburse Bluegrass Water’s general cash reserves and working capital expenses incurred, as well as finance future operational needs. Bluegrass Water therefore respectfully asks the Commission to approve the proposed financing.

In support of its application, Bluegrass Water states as follows.

¹ See *In the Matter of Electronic Proposed Acquisition by Bluegrass Water Utility Operating Company, LLC, et al.*, Case No. 2019-00104, Aug. 14, 2019 Order at 18.

Applicant Information

1. Bluegrass Water's full name is Bluegrass Water Utility Operating Company, LLC. Its mailing address is 1630 Des Peres Road, Suite 140, St. Louis, Missouri 63131. Its email address for purposes of this proceeding is regulatory@cswrgroup.com.

2. Bluegrass Water is a limited liability company which was organized under Kentucky law on March 21, 2019. It is currently in good standing with the Kentucky Secretary of State.

3. Bluegrass Water is a member-managed company. Its manager is Central States Water Resources, Inc. ("Central States"), which is an affiliate entity incorporated under Missouri law.

4. As reflected on the attached Corporate Entity Organizational Chart, (Exhibit 4), Bluegrass Water's sole member is Bluegrass Water Utility Holding Company, LLC, whose sole member is Kentucky Central States Water Resources, LLC, which are each organized under Kentucky law. The sole member of Kentucky Central States Water Resources, LLC, is CSWR, LLC.

5. Bluegrass Water provides water and wastewater services in communities across the Commonwealth. It owns and operates wastewater utilities in Bullitt, Franklin, Garrard, Graves, Hardin, Jessamine, Madison, Marshall, McCracken, Oldham, Scott, and Shelby counties and a water utility in Calloway County.

6. Bluegrass Water currently serves 3,573 total water and wastewater customers.

Projects to be Financed by the Loan

7. Bluegrass Water intends to enter the Loan in order to assist with the completion of the four projects listed below for which CPCNs have been requested. Its proposed Loan would help fund those necessary and important improvement projects. The Loan proceeds would also reimburse Bluegrass Water's general cash reserves and working capital expenses incurred, as well as finance future operational needs.

8. Bluegrass Water's proposed loan also moves the Company toward compliance with the Commission's previously-stated capitalization objectives.² If the Commission approves Bluegrass Water's proposed financing, a draw of the full \$5 million in available funds would result in a debt-to-capitalization percentage of approximately 35% debt to 65% equity.

9. In addition to more general uses, Bluegrass Water intends to use the funds for work associated improvement projects at four locations:

- a. **Delaplain**, Case No. 2022-00104 (Scott County).
 - i. Installing a moving bed biofilm reactor treatment system; and
 - ii. Improving its solids handling enhancements.
- b. **Herrington Haven**, Case No. 2022-00102 (Garrard County).
 - i. Installing a moving bed biofilm reactor treatment system;
 - ii. Installing a peracetic acid disinfection system; and
 - iii. Installing a solids processing system.
- c. **Persimmon Ridge**, Case No. 2022-00046 (Shelby County).
 - i. Installing a moving bed biofilm reactor treatment system;
- d. **Woodland Acres**, Case No. 2022-00015 (Bullitt County).

² See *In the Matter of Electronic Proposed Acquisition by Bluegrass Water Utility Operating Company, LLC, et al.*, Case No. 2019-00104, Aug. 14, 2019 Order at 18.

- i. Installing a moving bed biofilm reactor treatment system;
- ii. Installing a peracetic acid disinfection system; and
- iii. Installing wet weather overflow prevention measures.

10. In accordance with 807 KAR 5:001 § 18(1)(e), Bluegrass Water provides the following detailed descriptions of the improvement projects, copies of construction contracts, and maps and plans. The total cost of improvements at the four locations is **\$1,371,700** (\$609,900³ + \$206,550⁴ + \$253,000⁵ + \$302,250⁶).

a. **Delaplain**, Case No. 2022-00104 (Scott County).

- i. In accordance with 807 KAR 5:001 § 18(1)(e), Exhibit 10(a) includes a detailed description of the proposed Delaplain improvements, a statement of the character of the improvements proposed for Delaplain, and the reasons why the service should be maintained from its capital.
- ii. In accordance with 807 KAR 5:001 § 18(1)(e), Bluegrass Water states that there are no construction contracts for the Delaplain improvements.
- iii. In accordance with 807 KAR 5:001 § 18(2)(c), Bluegrass Water provided maps and plans for the Delaplain improvements and

³ The anticipated construction cost of the Delaplain improvements is \$609,600. Case No. 2022-00104, Application Ex. F.

⁴ The anticipated construction cost of the Herrington Haven improvements is \$206,550. Case No. 2022-00102, Application Ex. F.

⁵ The anticipated construction cost for the Persimmon Ridge project is \$253,000. Case No. 2022-00046, Application Ex. F.

⁶ The anticipated construction cost for the Woodland Acres projects is \$302,250. Case No. 2022-00015, Application Ex. F.

detailed estimates of the project costs in Case No. 2022-00104. *See* Case No. 2022-00104, Application at 1 – 5 & Exs. D, E, & F. In addition, Bluegrass Water attaches as Exhibit 10(b) a map for Delaplain.

- iv. The total anticipated construction cost for the Delaplain projects is \$609,900 ($\$311,500 + \$283,200 + \$9,200 + \$6,000 = \$609,900$).
Case No. 2022-00104, Application at Ex. F.

b. **Herrington Haven**, Case No. 2022-00102 (Garrard County).

- i. In accordance with 807 KAR 5:001 § 18(1)(e), Exhibit 10(a) includes a detailed description of the proposed Herrington Haven improvements, a statement of the character of the improvements proposed for Herrington Haven, and the reasons why the service should be maintained from its capital.
- ii. In accordance with 807 KAR 5:001 § 18(1)(e), Bluegrass Water states that there are no construction contracts for the Herrington Haven improvements.
- iii. In accordance with 807 KAR 5:001 § 18(2)(c), Bluegrass Water provided maps and plans for the Herrington Haven improvements and detailed estimates of the project costs in Case No. 2022-00102. *See* Case No. 2022-00102, Application at 1 – 5 & Exs. D, F, & G. In addition, Bluegrass Water attaches as Exhibit 10(b) a map for Herrington Haven.

- iv. The total anticipated construction cost for the Herrington Haven projects is \$206,550 ($\$111,350 + \$22,250 + \$69,950 + \$3,000 = \$206,550$). Case No. 2022-00102, Application at Ex. F.
- c. **Persimmon Ridge**, Case No. 2022-00046 (Shelby County).
 - i. In accordance with 807 KAR 5:001 § 18(1)(e), Exhibit 10(a) includes a detailed description of the proposed Persimmon Ridge improvements, a statement of the character of the improvements proposed for Persimmon Ridge, and the reasons why the service should be maintained from its capital.
 - ii. In accordance with 807 KAR 5:001 § 18(1)(e), Bluegrass Water states that there are no construction contracts for the Persimmon Ridge improvements.
 - iii. In accordance with 807 KAR 5:001 § 18(2)(c), Bluegrass Water provided maps and plans for the Persimmon Ridge improvements and detailed estimates of the project costs in Case No. 2022-00046. *See* Case No. 2022-00046, Application at 1 – 5 & Ex. D, E, & F. In addition, Bluegrass Water attaches as Exhibit 10(b) a map for Persimmon Ridge.
 - iv. The total anticipated construction cost for the Persimmon Ridge project is \$253,000. Case No. 2022-00046, Application Ex. F.
 - d. **Woodland Acres**, Case No. 2022-00015 (Bullitt County).
 - i. In accordance with 807 KAR 5:001 § 18(1)(e), Exhibit 10(a) includes a detailed description of the proposed Woodland Acres

improvements, a statement of the character of the improvements proposed for Woodland Acres, and the reasons why the service should be maintained from its capital.

- ii. In accordance with 807 KAR 5:001 § 18(1)(e), Bluegrass Water states that there are no construction contracts for the Delaplain improvements.
- iii. In accordance with 807 KAR 5:001 § 18(2)(c), Bluegrass Water provided maps and plans for the Woodland Acres improvements and detailed estimates of the project costs in Case No. 2022-00015. *See* Case No. 2022-00015, Application at 1 – 6 & Ex. D, E, & G. In addition, Bluegrass Water attaches as Exhibit 10(b) a map for Woodland Acres.
- iv. The total anticipated construction cost for the Woodland Acres projects is \$302,250 ($\$204,300 + \$22,250 + \$70,700 + \$5,000 = \$302,250$). Case No. 2022-00015, Application at Ex. F.

Other Filing Requirements

11. Bluegrass Water has included a table showing its compliance with the statutory and regulatory requirements for this application. *See* Exhibit 11.

12. KRS § 278.300 and its related sections, as well as 807 KAR 5:001 and its related sections, authorize the relief that Bluegrass Water seeks in this application.

13. In accordance with 807 KAR 5:001 § 18(1)(b), a general description of Bluegrass Water's property and the field of its operations is provided at paragraph 5 of this Application. The

cost of the properties to Bluegrass Water was \$1,861,053; the Company was not responsible for the original construction plans/costs and therefore has no information about their original cost, aside from the Company's cost to acquire the properties.

14. Bluegrass Water will not issue any stocks or bonds in connection with the financing proposed in this application.

15. Bluegrass Water's financial exhibits are attached as Exhibits 15(a) and 15(b).

Request for Authorization

16. Bluegrass Water seeks the Commission's approval to issue evidences of indebtedness for its proposed Loan.

17. Bluegrass Water has negotiated a term sheet with CoBank, ACB ("CoBank") for the proposed financing and has attached the confidential term sheet as Exhibit 17. CoBank is a national cooperative bank providing loans and other financial services to rural power, water, and communications communities in all fifty states. The conditions set forth in the term sheet include, among other things, the customary delivery of documents, opinions, and certificates.

18. The term sheet sets forth the material terms of the proposed Loan. The Borrower, Bluegrass Water, may receive at least \$2.90 million and up to \$5 million from CoBank. The Closing will take place no later than October 30, 2022. The term sheet permits the Borrower to choose an interest rate structure, which has not been selected yet because Bluegrass Water intends to choose its rate at the most economically favorable time.

19. Bluegrass will incur costs associated with the proposed transaction, including the legal fees for itself and for CoBank, as well as miscellaneous filing and other transaction costs that cannot be determined until after closing.

20. Bluegrass Water plans to use approximately \$1,371,700 of the loan proceeds to pay for the four projects set forth in this application. Bluegrass Water intends to use the up to \$3,628,300 in remaining loan proceeds ($\$5,000,000 - \$1,371,700 = \$3,628,300$) to pay back intercompany working capital and improve its debt-to-capitalization percentage.

Relief Sought

21. For the foregoing reasons, Bluegrass Water respectfully asks that the Commission issue an order:

- a. Granting Bluegrass Water the authority to issue the evidences of indebtedness in the proposed Loan;
- b. Finding that the proposed issuance by Bluegrass Water of this evidence of indebtedness is for a lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose; and
- c. Granting all other appropriate relief to which Bluegrass Water is entitled.

Respectfully submitted,

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*Counsel to Bluegrass Water Utility
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Certification

I hereby certify that a copy of this Application and its exhibits has been served electronically on all parties of record through the use of the Commission's electronic filing system, and there are currently no parties that the Commission has excused from participation by electronic means. Pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085, a paper copy of this filing has not been transmitted to the Commission.

/s/Edward T. Depp
*Counsel to Bluegrass Water Utility
Operating Company, LLC*

Verification

I, Josiah Cox, President of the Manager of Bluegrass Water Utility Operating Company, LLC, state that I have read the foregoing application and its exhibits, and the statements contained in the application and exhibits are true and correct to the best of my knowledge, information, and belief.



Josiah Cox, President of Manager, Central States Water Resources, Inc.

Date: 8-19-22

State of Missouri)
)
County of St. Louis)

Subscribed, sworn to, and acknowledged this 19th of August, 2022, before me, a Notary Public, in and before said County and State.

My Commission expires: 2.16.25


Notary Public