

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

In the Matter of:

**ELECTRONIC APPLICATION OF BLUEGRASS)
WATER UTILITY OPERATING COMPANY, LLC)
FOR ADJUSTMENT OF SEWAGE RATES) CASE NO. 2022-00432**

**BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC’S
RESPONSES TO SCOTT COUNTY’S SUPPLEMENTAL
REQUEST FOR INFORMATION**

Bluegrass Water Utility Operating Company, LLC, (“Bluegrass Water” or the “Company”) by counsel, files its responses to Scott County Kentucky’s Supplemental Request for Information, issued in the above-captioned case on June 2, 2023.

FILED: June 16, 2023

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REQUEST NO. 2-1: Reference: Bluegrass Water's response to Commission Staff's First Request for Information, Item 27 ("Staff 1-__"). Provide a detailed description of the Long-Term Liabilities classified as "Payable to Associated Companies" with a breakdown of balances payable to each entity owed.

RESPONSE: Payables to Associated Companies are working capital transfers from the Parent Company. Please see attached Exhibit SC 2-1 - Working Capital Transfers.

Witness: Brent Thies

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REQUEST NO. 2-2: Reference: Bluegrass Water's response to Staff 1-28. The table and supporting footnote in the response indicated that Bluegrass Water calculated 737 residential equivalent units for its Delaplain commercial customer count. Provide the calculation for how this number was determined.

RESPONSE: Please see the attached Exhibit SC 2-2 – Delaplain Equivalencies, which details the calculation of Delaplain equivalencies.

Witness: Aaron Silas

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REQUEST NO. 2-3: Reference: Direct Testimony of Brent Thies, page 20, lines 9-12.

- a. Provide a breakdown of the total Allocated Expenses from CSWR, LLC, the allocation factors used to allocate the overhead to Bluegrass Water, and any supporting calculations.
- b. Provide the calculation for the pro forma adjustment referenced in the direct testimony.

RESPONSE: (a) Please see Bluegrass Water's response to OAG 1-124 and OAG 1-43. Please also see Exhibit PSC 1-1 and CONFIDENTIAL Exhibit OAG 1-6.

(b) During final review of the overall expense and an analysis at CSWR, the amount of the pro forma adjustment changed because it was determined out of date customer count information was used in the original calculation. The amount shown in the response to OAG 1-124, \$34,220, is the correct adjustment. The amount referenced in Mr. Thies's testimony was in error.

Witness: Brent Thies

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REQUEST NO. 2-4: Reference: Bluegrass Water's response to Commission Staff's Second Request for Information, Item 23 ("Staff 2-__"). State how Bluegrass Water would propose the Commission calculate recovery of a deferral related to phase-in if the Commission were to Order a phase-in rate.

RESPONSE: As stated in an earlier response, Bluegrass Water is open to a deferral mechanism that achieves a rate phase-in. Bluegrass Water would propose to capture a portion of the cost of service as a regulatory asset for amortization and recovery in a future period with any unamortized portion included in rate base in future proceedings.

Witness: Brent Thies

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REQUEST NO. 2-5: Reference: Bluegrass Water's response to Staff 2-24. Provide the quantifiable basis to shift its rate structure to the 77.28 percent and 22.7 percent allocation as proposed by Bluegrass Water.

RESPONSE: Please see the attached Exhibit SC 2-5, which reflects rates that recover 81.51 percent of the proposed revenue requirement from unmetered service customers and 18.49 percent from metered service customers, consistent with the current recovery of revenues from unmetered and metered service customers. The attachment also shows that, under such an apportionment, rates for most unmetered service customers would increase by 21.9 percent. This increase raises rate continuity concerns as the rates for most unmetered service customers recently increased by approximately double as a result of the rate adjustment authorized in Case No. 2020-00290, while rates for metered service customers remained unchanged. Thus, to address rate continuity concerns, the Company adjusted to 77.28 percent the proposed revenue requirement to be recovered from unmetered service customers and to 22.72 percent the proposed revenue requirement to be recovered from metered service customers.

Witness: Tim Lyons

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REQUEST NO. 2-6: Reference: Bluegrass Water's response to Office of the Attorney General's First Request for Information, Item 132 ("OAG 1-__").

- a. State the date of the Delaplain property appraisal.
- b. Confirm that the value of the property appraisal is for the Delaplain property as of the date of the appraisal. If this cannot be confirmed, state the applicable "as of" date corresponding to the valuation of the Delaplain property appraised.
- c. State the cost(s) of the Delaplain property, that is the subject of the property appraisal, to the person first devoting the property to public service.
- d. State the date of the River Bluffs property appraisal.
- e. Confirm that the value of the property appraisal is for the River Bluffs property as of the date of the appraisal. If this cannot be confirmed, state the applicable "as of" date corresponding to the valuation of the River Bluffs property appraised.
- f. State the cost(s) of the River Bluffs property, that is the subject of the property appraisal, to the person first devoting the property to public service.

RESPONSE: (a) **Please see the appraisal attached as Exhibit SC 2-6 – Appraisal – Delaplain Disposal Company.**

 (b) **Please see the appraisal attached as Exhibit SC 2-6 – Appraisal – Delaplain Disposal Company.**

 (c) **The Company is not aware of the cost of the subject Delaplain property to the person first devoting the property to public service.**

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(d) Please see the appraisals attached as Exhibit SC 2-6 – Appraisal – River Bluffs Easements and Exhibit SC 2-6 – Appraisal – River Bluffs Sewer Site.

(e) Please see the appraisals attached as Exhibit SC 2-6 – Appraisal – River Bluffs Easements and Exhibit SC 2-6 – Appraisal – River Bluffs Sewer Site.

(f) The Company is not aware of the cost of the subject River Bluffs property to the person first devoting the property to public service.

Witness: Aaron Silas

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REQUEST NO. 2-7: Reference: Direct Testimony of Brent Thies, pages 29 and 30; also, refer to the Excel spreadsheet filed on March 25, 2021, in the post-case file in Case No. 2020-00297 entitled "KYPSC2020-00297_PurchaseAcctg-Feb23 Acquisitions.xlsx." For the Delaplain system, Bluegrass Water Utility Operation Company booked journal entries for Land and Land Rights (Account Number 310.000) in the amounts of \$10,464.47, \$472,557.48, and \$135,215.54, respectively. The spreadsheet states that \$10,464.47 was "per closing documentation."

- a. Confirm the \$10,464.47 booked amount is included in the rate base calculation as part of utility plant in service in the instant case. If this can be confirmed, provide the basis for the \$10,464.47 booked amount.
- b. Confirm the \$472,557.48 and \$135,215.54 are included in the rate base calculation as part of utility plant in service. If this can be confirmed, provide an explanation for why it is appropriate for Bluegrass Water to include amounts that exceed original cost in a utility plant in service account per the Uniform System of Accounts instructions for sewer utilities.
- c. State whether there have been any adjusting or correcting journal entries concerning the amounts in Account Number 310.000 identified above since March 25, 2021. If yes, provide each adjusting or correcting entry and an explanation of the basis for the entry.
- d. State whether any of the three (3) amounts identified in parts a and b (above) have been amortized since March 25, 2021. If yes, by identified amount, provide a

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schedule depicting its amortization and current unamortized balance. If no, explain why not.

RESPONSE: (a) **Confirmed. These costs relate to normal closing costs, including title insurance and recording fees. See the attached Exhibit SC 2-7 – Delaplain System.**

(b) **Confirmed. In its filing the Company has requested that these costs be included for recovery in rate base although they are above historic net book value, as obtained from the records of the prior owner. In support of its request, the Company obtained various appraisals documenting these amounts. The Company believes that the values had not been appropriately recorded in plant in service by the previous owner.**

(c) **No. These items are booked to land.**

(d) **No. These items are booked to land.**

Witness: Brent Thies

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REQUEST NO. 2-8: . Reference: Bluegrass Water's response to Scott County's First Request for Information, Item 7 ("Scott County 1-__"); Staff 2-3; also the Direct Testimony of Josiah Cox, page 11, line 20 through and including page 12, line 5. Mr. Cox testifies:

Bluegrass Water acknowledges that the rates required to cover increases in operating costs and provide its investors a fair rate of return will impact customers. However, because the expenditures and investments necessary to bring some of the worst systems into compliance are significantly greater, customer impact would be much more significant if rates in this case are set on a system-by-system basis. Therefore, Bluegrass Water proposes to mitigate the impact of the rate increases it requires by consolidating rates for all of its Kentucky systems. Under that consolidation proposal, all Bluegrass Water customers in the same tier and rate class would be charged the same statewide rate for wastewater service.

- a. State, by system name/service territory, the systems within the category of "some of the worst systems," as that phrase is used by Mr. Cox in his Direct Testimony.
- b. State, by system name/service territory, any system(s) considered by Mr. Cox to be within the category of "worst systems" but not within the category of "some of the worst systems," as that phrase is used by Mr. Cox in his Direct Testimony.

RESPONSE: (a) In this context, "the worst" referred to systems in the worst physical condition that would require more significant capital investment in repairs or replacement of equipment and general cleanup of sites and equipment, and systems which had the worst track record of compliance with regulatory requirements due to inadequacies

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of the existing facilities. The second category are systems which would require process improvements or upgrades to allow for compliance with permitted limits.

In any case, "the worst," while likely not the most ideal terminology, simply refers non-specifically to the systems requiring greater capital investment in the repairs, replacements, improvements, and site cleanup. That is, it refers to systems needing the most immediate remedial attention. This was not a defined set of systems but a reference to the category of systems requiring significant investment following acquisition to provide safe, reliable, and environmentally compliant service. All systems acquired by Bluegrass Water require significant capital investment over their life cycles, and the majority of them, at some point in time, will fall into the category of "the worst."

Furthermore, as operations continue, some systems have had additional issues identified that will require further capital improvements to ensure safe, reliable, and environmentally compliant service which means some systems that were not initially perceived as being in this category should be included. Therefore the systems that fit in to the category of "the worst" are as follows: Airview, Brocklyn, Center Ridge Water District #2, Center Ridge Water District #3, Center Ridge Water District #4, Darlington Creek, Delaplain Disposal, Fox Run, Herrington Haven, Timberland, Kingswood, Lake Columbia, Longview Holmstead (LH Treatment), Golden Acres, Great Oaks, Harting Ridge Lagoon, Persimmon Ridge, Randview, River Bluffs, and Woodland Acres.

(b) These are not separate categories; see section (a).

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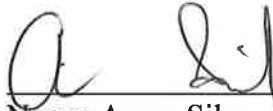
Witness: Jacob Freeman

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VERIFICATION

I, Aaron Silas, verify, state, and affirm that the information request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.




Name: Aaron Silas
Title: Director of Regulatory Operations
Bluegrass Water Utility Operating Company, LLC

STATE OF MISSOURI)
) ss:
COUNTY OF ST. LOUIS)

SUBSCRIBED AND SWORN TO before me on this the 16th day of Jun, 2023.

My commission expires: Oct 16th, 2026



Notary Public

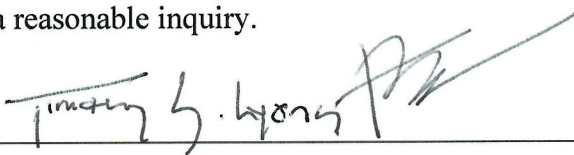


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VERIFICATION

I, Timothy S. Lyons, verify, state, and affirm that the information request responses filed with this verification for which I am listed as a witness are true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.



Name
Title: Partner
ScottMadden, Inc

STATE OF VERMONT)
) ss:
COUNTY OF CHITTENDEN)

SUBSCRIBED AND SWORN TO before me on this the 16 day of JUNE 2023.

My commission expires: 1/31/25



Notary Public

