

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

**In the Matter of:**

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

**DIRECT TESTIMONY**

**OF**

**BRENT THIES**

**ON BEHALF OF**

**BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC**

**FILED: February 27, 2023**

**DIRECT TESTIMONY**

**OF**

**BRENT THIES**

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1 **DIRECT TESTIMONY**

2 **OF**

3 **BRENT THIES**

4  
5 **I. INTRODUCTION**

6 **Q. PLEASE STATE YOUR BUSINESS NAME AND ADDRESS.**

7 A. My name is Brent G. Thies, and my business address is 1630 Des Peres Rd., Suite 140, St.  
8 Louis, MO 63131.

9 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

10 A. I am employed by CSWR, LLC (“CSWR”). My current position is Vice President &  
11 Corporate Controller.

12 **Q. ON WHOSE BEHALF ARE YOU FILING THIS DIRECT TESTIMONY?**

13 A. I am filing on behalf of Bluegrass Water Utility Operating Company, Inc. (“Bluegrass  
14 Water” or “Company”), which is a subsidiary of CSWR, LLC.

15 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THIS COMMISSION?**

16 A. Yes, I previously testified before the Kentucky Public Service Commission  
17 (“Commission”) in the Company’s prior rate case, 2020-290. I have also submitted  
18 verified answers in Case No. 2022-217 (responses to first set of data requests); Case No.  
19 2022-15 (responses to first and second sets of data requests); Case No. 2022-104  
20 (responses to first set of data requests); Case No. 2022-46 (response to first and second sets  
21 of data requests); and Case No. 2022-102 (responses to first and second sets of data  
22 requests). I have also filed testimony before the state utility commissions of Louisiana,  
23 Mississippi, Missouri and Texas.

1 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
2 **BACKGROUND.**

3 A. I hold a Bachelor of Arts in Communications/Public Relations from Missouri Baptist  
4 University in St. Louis, Missouri, and a Bachelor of Science in Accounting from Liberty  
5 University in Virginia. I also hold a Master of Divinity degree from Midwestern Baptist  
6 Theological Seminary in Kansas City, Missouri and a Master of Business Administration  
7 degree from the University of Missouri-St. Louis. I am licensed as a Certified Public  
8 Accountant in the state of Missouri.

9 I have been employed in the Accounting and Finance department of CSWR since  
10 July 2017. I started at CSWR as the Senior Accountant, responsible for monthly  
11 accounting work for CSWR and its regulated utility subsidiaries. This included analysis  
12 and reporting related to regulatory requirements. I was promoted to the position of  
13 Controller in October 2018 and Vice President & Corporate Controller in February 2022.  
14 While at CSWR, I have contributed to the financial analysis, planning and filing  
15 requirements for multiple rate case filings in other jurisdictions and various data requests  
16 and analysis items in acquisition cases in the jurisdictions where CSWR subsidiaries  
17 operate.

18 Prior to my time at CSWR, I was employed as the Controller of a multi-entity non-  
19 profit in St. Louis, Missouri. During my time at CSWR, I have completed the  
20 Fundamentals, Intermediate and Advanced Regulatory Studies Programs through the  
21 Institute of Public Utilities at Michigan State University.

1 **Q. WHAT ARE YOUR DUTIES AS VICE PRESIDENT & CORPORATE**  
2 **CONTROLLER?**

3 A. As Vice President & Corporate Controller, I am responsible for the accounting books and  
4 records of CSWR and its regulated utility subsidiaries. This includes setting financial  
5 controls and accounting policy along with the responsibility for the accurate recording of  
6 revenues, expenses and capital expenditures. With my team, I am also responsible for  
7 billing operations, preparing and filing regulatory annual reports and responding to certain  
8 data requests for the regulated utility subsidiaries of CSWR. My responsibilities also  
9 include preparation of monthly and quarterly management reports and interfacing with  
10 external auditors and tax professionals.

11 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
12 **PROCEEDING?**

13 A. My testimony will support the quantification of the revenue requirement in this case and  
14 other selected financial issues. Specific topics covered in my testimony include:

- 15 - Accounting Controls and Budget Procedures
- 16 - Development of the Test Year and Known and Measurable Adjustments
- 17 - Quantification of Revenue Requirement and Revenue Deficiency
- 18 - Operating Expenses
- 19 - Rate Base
- 20 - Accounting for Acquisition of Systems
- 21 - Depreciation and Amortization
- 22 - Income Taxes
- 23 - Non-Recurring Charges

1 **Q. ARE YOU SPONSORING ANY SCHEDULES WITH YOUR TESTIMONY?**

2 A. Yes. I am sponsoring the following schedules.

3 - Schedule BT-1: Summary of Revenue Requirement-Sewer

4 - Schedule BT-2: Income Statement-Sewer

5 - Schedule BT-3: Known and Measurable Adjustments Summary-Sewer

6 - Schedule BT-4: Utility Plant in Service Summary-Sewer

7 - Schedule BT-5: Accumulated Depreciation-Sewer

8 - Schedule BT-6: Income Tax Summary-Sewer

9 - Schedule BT-7: Contributions in Aid of Constructions-Sewer

10 - Schedule BT-8: Working Capital-Sewer

11 - Schedule BT-9: Post-Test Year Adjustments to Rate Base-Sewer

12 - Schedule BT-10: Income Conversion Factor-Sewer

13 - Schedule BT-11: Revenue Conversion Factor-Sewer

14 - Schedule BT-12: Rate Case Expenses-Sewer

15 - Schedule BT-13: Historic Rate Base Analysis (Confidential)

16 - Schedule BT-14: Rate Base Summary-Sewer

17 **Q. WAS THE INFORMATION CONTAINED IN THE SCHEDULES OBTAINED OR**

18 **DERIVED FROM THE BOOKS AND RECORDS OF BLUEGRASS WATER?**

19 A. Yes.

20 **Q. WERE YOUR TESTIMONY AND THE SCHEDULES YOU SPONSOR**

21 **PREPARED BY YOU OR BY SOMEONE UNDER YOUR DIRECT**

22 **SUPERVISION?**

23 A. Yes.

1 **Q. YOU MENTIONED THAT YOU TESTIFIED IN THE COMPANY’S LAST RATE**  
2 **CASE. WOULD YOU DESCRIBE ANY DIFFERENCES BETWEEN THIS CASE**  
3 **AND THE COMPANY’S LAST RATE CASE?**

4 A. From a financial standpoint, the largest difference is that this rate case is based upon a  
5 historical test year rather than the forecasted test year that was utilized in the last Bluegrass  
6 Water rate case. In addition, Bluegrass Water is only seeking an increase for its sewer  
7 operations and not for its water operations as well.

8

9 **II. ACCOUNTING CONTROLS AND BUDGET PROCEDURES**

10 **Q. PLEASE SUMMARIZE THE CORPORATE ACCOUNTING POLICIES FOR**  
11 **CSWR AND BLUEGRASS WATER.**

12 A. CSWR and Bluegrass Water keep and maintain financial accounting records on an accrual  
13 basis in accordance with General Accepted Accounting Practices (“GAAP”) in the United  
14 States. The Company uses the account structure and procedures provided in the Uniform  
15 System of Accounts for Water and Wastewater Utilities as published by National  
16 Association of Regulatory Utility Commissioners (“NARUC”). CSWR has obtained  
17 unqualified audit opinions, based on GAAP, annually since 2015. These audits have  
18 included a review of control procedures and the corporate control environment.

19 **Q. HOW ARE OPERATING BUDGETS FOR BLUEGRASS WATER DEVELOPED?**

20 A. The Company undertakes an annual budgeting process and proposes a budget to  
21 management in November of each year. Operating budgets are developed based on  
22 available data from prior periods which are adjusted for any changes to operations. For  
23 systems that have been owned and operated by Bluegrass Water, or any other affiliate, the

1 most recent monthly results are analyzed by internal accounting and finance staff. Once  
2 known changes have been incorporated, the operating budgets are sent to operations staff  
3 for review and adjustment. For systems that are expected to be acquired, budgets are set  
4 by examining the records available from prior owners, by comparing historical data from  
5 similar facilities that are already owned and by incorporating any estimates obtained for  
6 contracted services. Once the operations team reviews, adjusts and confirms all amounts,  
7 the budgets are sent to management for review and approval.

8 **Q. WHAT IS THE CAPITALIZATION POLICY OF CSWR AND BLUEGRASS**  
9 **WATER?**

10 A. The Company is engaged in a significant amount of capital improvement in the systems  
11 that it owns across the Commonwealth of Kentucky. At the same time, operational  
12 enhancements and capital maintenance are ongoing. The Company seeks to capitalize all  
13 costs that represent new assets or represent work that serves to restore, expand or enhance  
14 the useful lives of existing assets. To limit de minimis items and inefficient procedures,  
15 the Company capitalizes costs of construction, individually installed equipment or capital  
16 maintenance items that aggregate to \$500 or more.

17

18 **III. DEVELOPMENT OF THE TEST YEAR COST OF SERVICE**

19 **Q. WHAT IS THE TEST YEAR THAT THE COMPANY HAS USED IN THIS CASE?**

20 A. The test year used in this case is the twelve-month period ending June 30, 2022.

21 **Q. IS THE COMPANY REQUESTING PRO-FORMA ADJUSTMENTS TO THE**  
22 **TEST YEAR TO ACCOUNT FOR KNOWN AND MEASUREABLE**  
23 **ADJUSTMENTS?**



1 A. Yes, the Company is requesting known and measurable adjustments to expense and post-  
2 test year adjustments to rate base. These adjustments are discussed below.

3 **Q. PLEASE EXPLAIN HOW THE TEST YEAR VALUES IN THIS CASE WERE**  
4 **DERIVED.**

5 A. Bluegrass Water developed the test year by analyzing and including rate base, revenues  
6 and expense data over the 12-month period ended June 30, 2022. Due to the integration  
7 of the newly acquired sewer system, Darlington Creek, during the test year and the amount  
8 of ongoing capital investments planned or in process to provide safe and reliable service,  
9 amounts were normalized, annualized or otherwise adjusted to arrive at test year revenues  
10 and expenses.

11 **Q. DO YOU BELIEVE THAT THE 12 MONTHS THAT ENDED JUNE 30, 2022 IS**  
12 **INDICATIVE OF ONGOING OPERATIONS FOR BLUEGRASS WATER?**

13 A. Yes. A test year that ended June 30, 2022, allowed the Company to prepare a more  
14 complete filing than might have been possible otherwise. The preparations that were  
15 completed include a depreciation study, rate of return study and cost of service and rate  
16 design study. Reports of these studies are included with this filing. Further, the Company  
17 has not experienced significant operational changes between the end of the test year and  
18 the filing date. No acquisitions of new service areas have been made by Bluegrass Water  
19 since the end of the test year and while the Company has recently received approvals on  
20 certain of its CPCN filings, no major capital improvements have been completed and  
21 placed into service.

22 **Q. HOW DOES THE TEST YEAR RELATE TO THE SCOPE OF ACQUISITIONS**  
23 **THAT BLUEGRASS WATER HAS MADE?**

1 A. As of the end of the test year, Bluegrass Water owned 20 wastewater systems. These  
2 systems provide service to a total of approximately 2,488 sewer connections. When  
3 accounting for the residential customer equivalencies applied to the commercial/non-  
4 residential and multifamily rate classes, the customer equivalency is 3,225 sewer  
5 connections. Therefore, this rate case considers the financial impacts of the investment,  
6 costs and revenues associated with those 20 wastewater systems.

7

8 **IV. REVENUE REQUIREMENT AND REVENUE DEFICIENCY**

9 **Q. PLEASE GENERALLY DESCRIBE THE DERIVATION OF THE REVENUE**  
10 **REQUIREMENT.**

11 A. Bluegrass Water's revenue requirement, as calculated herein, is equivalent to the costs  
12 necessary to provide service to Bluegrass Water's sewer customers and provide the  
13 Company an opportunity to earn a reasonable return on the value of its investment devoted  
14 to public utility service. Given the operational state of the systems that the Company  
15 acquires (as discussed by Mr. Freeman), the provision of fair, just and reasonable service  
16 to Bluegrass Water's customers has already required, and continues to require, increased  
17 operational expense and new capital improvements to the sewer systems.

18 **Q. WHAT IS BLUEGRASS WATER'S REVENUE REQUIREMENT IN THIS**  
19 **PROCEEDING?**

20 A. The revenue requirement in this proceeding is \$3,727,085 for sewer which represents an  
21 increase over pro forma revenue at current rates of \$1,291,491. This increased revenue  
22 requirement is driven primarily by two factors. First, Bluegrass Water has made significant  
23 amounts of investment and incurred large amounts of operating costs in order to bring its

1 systems into regulatory compliance. The capital improvement projects that have been  
2 completed are discussed in great detail in the testimony of Mr. Freeman. In addition to  
3 operating expense and capital improvements, Bluegrass Water is also entitled to the  
4 opportunity to earn a fair return on the value of the capital investments that support the  
5 improvements. The rate of return used in my calculations is supported in the testimony of  
6 expert witness Dylan D'Ascendis.

7 Second, the systems which were acquired since the Company's last rate case did  
8 not have rates that represent the current, true cost of service required to provide safe and  
9 reliable wastewater service. For instance, the Woodland Acres sewer system, acquired on  
10 March 9, 2021, has not had a rate increase since 1984.<sup>1</sup> Since the Company adopted the  
11 rates already in place for these newly acquired systems, an increase is necessary.  
12 Ultimately, Bluegrass Water seeks recovery of its revenue requirement through the rate  
13 base ratemaking process. The revenue requirement accomplishing the cost recovery is  
14 found on **Schedule BT-1**.

15 **Q. HOW IS THE REVENUE DEFICIENCY DERIVED?**

16 A. The revenue deficiency is shown in **Schedule BT-1**. It is the difference between the total  
17 revenue requirement and present pro forma rate revenue. The revenue deficiency in this  
18 case is \$1,291,491. As mentioned, the deficiency results from the financial impact of the  
19 substantial capital investments and necessary operating improvements that Bluegrass  
20 Water has implemented since acquiring the subject properties.

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<sup>1</sup> While acquired prior to the effective date of rates in the last Bluegrass Water rate case, Woodland Acres, and three other sewer systems were excluded from the rate increase in that case. Therefore, Woodland Acres rates have not increased since 1984.

1           **V. PRESENT RATE REVENUE AND PROPOSED RATE REVENUE**

2 **Q. PLEASE DESCRIBE HOW PRESENT RATE REVENUES WERE**  
3 **CALCULATED.**

4 A. As mentioned, the Company is proposing a test year of the twelve months ended June 30,  
5 2022. Of the 20 wastewater systems that it owns and operates, Bluegrass Water has owned  
6 and operated 19 of those systems for over 12 months. For those systems, the revenues  
7 were the actual revenues realized for the test year. However, one system (Darlington  
8 Creek) was acquired on March 31, 2022, and Bluegrass Water was unable to record a full  
9 twelve months of revenues for that system. An annualization, totaling \$76,736, was  
10 calculated based upon test year revenue levels and added to present rate revenue.<sup>2</sup> This  
11 results in a pro forma test year rate revenue of \$3,727,085 as reflected on **Schedule BT-3.**

12 **Q. HOW WAS THE PROPOSED RATE REVENUE DEVELOPED?**

13 A. The proposed rate revenue represents the increase in current rate revenue necessary to meet  
14 the revenue requirement in this case (pro forma test year revenues plus the revenue  
15 deficiency). Therefore, it is the amount necessary to cover Bluegrass Water's cost to  
16 provide safe and reliable sewer service, per regulatory and environmental requirements, to  
17 its customers in the pro forma test year and provide the company's investors a fair rate of  
18 return. It is summarized in the Revenue Requirement Summary included as **Schedule BT-**  
19 **1.**

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<sup>2</sup> As described later in my testimony, I have also performed an annualization for the expenses associated with Darlington Creek.

1 **VI. OPERATING EXPENSES**

2 **Q. PLEASE DESCRIBE THE OPERATING EXPENSES INCLUDED IN YOUR**  
3 **REVENUE REQUIREMENT CALCULATION.**

4 A. The operating expenses included in Bluegrass Water’s cost of service are categorized into  
5 three main groups. The cost groups that are directly incurred by Bluegrass Water include  
6 contract operations, bad debt, fuel & power, chemicals, maintenance, depreciation and  
7 amortization, property taxes and administrative expenses. Other costs incurred by  
8 Bluegrass Water are part of contracts or invoices in which services to all CSWR  
9 subsidiaries are combined for administrative efficiency and directly charged to the  
10 operating utility subsidiaries. These jointly billed costs include property and liability  
11 insurance, certain software and management consulting services and billing system costs.  
12 A third cost group includes indirect charges in the form of overhead charges allocated to  
13 Bluegrass Water by its parent, CSWR. The methodologies used to assign direct charges,  
14 jointly billed charges and indirect charges to Bluegrass Water are the same as those used  
15 to assign charges to other CSWR affiliates and are part of CSWR’s written accounting  
16 policy as outlined in the Company’s Cost Allocation Manual.<sup>3</sup>

17 **Q. HAVE THE COST ALLOCATION METHODOLOGIES AMONG BLUEGRASS**  
18 **WATER AND OTHER CSWR AFFILIATES CHANGED SINCE BLUEGRASS**  
19 **WATER’S LAST RATE CASE IN 2020?**

20 A. Yes. The cost allocation methodology utilized to assign costs from CSWR to Bluegrass  
21 Water and other CSWR affiliates has changed since Bluegrass Water’s last rate case, Case

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<sup>3</sup> Details regarding the Company’s Cost Allocation Manual are described in greater detail below.

1 No. 2020-00290. Since the Commission's final order in Case No. 2020-00290, CSWR has  
2 implemented a Cost Allocation Manual, which allows CSWR to, where possible, directly  
3 bill each CSWR affiliate for the time spent performing services for the applicable CSWR  
4 affiliate. For example, the Cost Allocation Manual provides the procedure to utilize CSWR  
5 employee time sheets regarding the services provided to each CSWR affiliate so that  
6 specific tasks can be directly billed to the applicable CSWR affiliate to whom the services  
7 are provided. As is more fully explained below, in instances where the services performed  
8 benefit all CSWR affiliates or are incapable of being assigned to a single CSWR affiliate,  
9 CSWR has modified its three-factor formula to more fairly allocate the costs among the  
10 CSWR affiliates.

11 **Q. PLEASE DESCRIBE CONTRACT OPERATIONS EXPENSE, WHICH IS A**  
12 **DIRECTLY ASSIGNED COST.**

13 A. Bluegrass Water does not employ water or sewer field operations staff but instead contracts  
14 with a professional third-party water and sewer operations and maintenance company.  
15 This contractor is managed by an employee of CSWR who is assigned to manage the  
16 system operations of Bluegrass Water.<sup>4</sup> This model provides the ability to expense  
17 operations and management costs in a direct manner that does not require further allocation  
18 methodologies. Since these contract operations costs are incurred exclusively for Bluegrass  
19 Water, they are recorded directly to Bluegrass Water's financial records. Similarly,  
20 operations and management costs for other state utility operating subsidiaries are billed  
21 directly to those subsidiaries.<sup>5</sup>

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<sup>4</sup> Please see the testimony of Mr. Thomas for a discussion of the duties of Bluegrass Water's state manager.

<sup>5</sup> Bluegrass Water's process for operating and maintaining its properties using outside contractors is discussed in greater detail in the direct testimony of Company witness Todd Thomas.

1 **Q. WHAT AMOUNT OF BAD DEBT EXPENSE IS INCLUDED IN THE FILING?**

2 A. The Company has historically experienced a bad debt expense equivalent to 1% of gross  
3 revenue. This is also the amount the Company uses for planning purposes.

4 **Q. ARE THERE OTHER COSTS THAT ARE DIRECTLY ASSIGNED TO**  
5 **BLUEGRASS WATER?**

6 A. Yes. My reference to third-party operations and maintenance costs is simply an example  
7 of one of the largest costs that is directly assigned. As mentioned, other costs that are  
8 directly assigned include fuel & power, chemicals, maintenance, depreciation and  
9 amortization and property taxes. These costs related precisely to the Bluegrass Water  
10 service areas where the costs are incurred.

11 **Q. HOW DOES CSWR ALLOCATE JOINTLY BILLED COSTS?**

12 A. As the managing entity for its various operating utility subsidiaries, CSWR is able to  
13 negotiate agreements on behalf of its subsidiaries that reflect economies of scale and  
14 administrative efficiencies each individual affiliate could not achieve on its own. The  
15 Company refers to these charges as jointly billed charges. Examples include insurance  
16 costs and certain software costs. When this situation occurs, CSWR identifies the cost  
17 drivers related to the incurred service and directly charges that cost to its utility operating  
18 subsidiaries consistent with those cost drivers as stated in the Cost Allocation Manual.

19 **Q. PLEASE DESCRIBE THE INSURANCE EXPENSE, WHICH IS A JOINTLY**  
20 **BILLED COST, INCLUDED IN THE TEST YEAR.**

21 A. Property, general liability, and environmental liability insurance coverage is provided to  
22 Bluegrass Water and other utility subsidiaries as part of a single policy held by CSWR.  
23 The policy is billed to CSWR but covers all the regulated utility subsidiaries owned by

1 CSWR. Procuring a combined policy creates cost efficiencies and results in better  
2 coverage than might otherwise be obtained should each utility operating company seek an  
3 individual policy. The costs for the policy coverage are allocated to Bluegrass Water and  
4 each regulated utility subsidiary based on the replacement values of covered assets.

5 **Q. PLEASE DISCUSS THE METHOD BY WHICH CERTAIN SOFTWARE COSTS**  
6 **ARE ALLOCATED TO BLUEGRASS WATER.**

7 A. As mentioned, CSWR is able to negotiate agreements on behalf of its subsidiaries that  
8 reflect economies of scale and administrative efficiencies each individual affiliate could  
9 not achieve on its own. An example of such a cost is CSWR's contract for the use of the  
10 Muni-Link customer information system software.<sup>6</sup> The cost for the Muni-Link software  
11 is charged to CSWR on a per-customer basis based on the total customer count for all  
12 CSWR operating affiliates. This total cost is then jointly charged to the individual state  
13 utility operating companies, like Bluegrass Water, based on the number of customer  
14 connections for that operating company.

15 **Q. PLEASE DESCRIBE OVERHEAD ALLOCATION EXPENSE, WHICH IS AN**  
16 **INDIRECT CHARGE ALLOCATED TO BLUEGRASS WATER.**

17 A. Costs that cannot be directly charged to the operating subsidiaries, or that cannot be jointly  
18 charged to operating subsidiaries based upon a particular cost driver, are considered  
19 indirect charges. For instance, certain general and administrative expenses are allocated  
20 to Bluegrass Water and other operating subsidiaries from their parent, CSWR. These  
21 expenses support the operations of all operating subsidiaries, including Bluegrass Water,

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<sup>6</sup> Please see the testimony of Mr. Thomas for a discussion of the utilization of the functionality of the Muni-Link utility billing software.



1 and include the cost of services such as executive management, legal, accounting, human  
2 resources, customer experience and other business services. As stated above, where  
3 possible, these activities are directly charged to specific subsidiaries using employee time  
4 sheets. These shared administrative expenses allow Bluegrass Water and its component  
5 systems to benefit from the cost efficiencies and shared expertise of a larger organization  
6 that otherwise would not be available to a company like Bluegrass Water. Further, if  
7 CSWR did not provide those types of services to Bluegrass Water, the Company would  
8 need to outsource the services or employ personnel to provide those services because they  
9 are required for utility operations.

10 **Q. DO COSTS ALLOCATED FROM CSWR INCLUDE PAYROLL AND BENEFITS**  
11 **COSTS?**

12 A. Yes. The overhead allocations include payroll and benefits costs for CSWR employees  
13 who perform tasks and provide services necessary for Bluegrass Water to function.<sup>7</sup>

14 **Q. DOES CSWR EXCLUDE ANY COSTS FROM THE POOL OF INDIRECT**  
15 **ALLOCATION EXPENSES?**

16 A. Yes. CSWR incurs expenses that are excluded from the calculation of costs that are  
17 allocated to its subsidiaries. In addition to costs such as advertising, lobbying and  
18 charitable donations, CSWR also excludes certain charges which are related exclusively to  
19 its business development activities.

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<sup>7</sup> Please see the testimony of Mr. Watkins regarding the reasonableness of corporate payroll and benefits costs.

1 **Q. HOW ARE INDIRECT CHARGES ALLOCATED TO BLUEGRASS WATER?**

2 A. CSWR uses a three-factor formula to allocate general and administrative costs and other  
3 corporate overhead costs that cannot otherwise be directly assigned or jointly charged to  
4 its subsidiaries. The component factors of the allocation formula are operating expense,  
5 customer count, and utility plant in service (“UPIS”). Note that the use of customer count  
6 is a change that began in January 2022. Prior to that time, revenue was one of the three  
7 factors. These factors correspond to the significant drivers of the corporate overhead  
8 expense that CSWR incurs for its affiliates. For example, a higher level of operating  
9 expense in a particular subsidiary would naturally require more time and higher expense  
10 at the corporate level to perform the necessary accounting procedures to track costs and  
11 ensure timely payment of vendors. Similarly, a larger number of customers at a particular  
12 subsidiary would result in more management time, and the associated compensation  
13 expense, devoted to that subsidiary from groups like the Customer Experience staff.  
14 Calculation of the three-part Overhead Allocation is reviewed and updated at the end of  
15 each fiscal quarter by CSWR management. For the expense included in this filing, the  
16 total allocated overhead expense during the test year was determined using the actual cost  
17 incurred by CSWR for the period and adjusted for known and measurable items. The table  
18 below shows the percentages used to allocate expenses to Bluegrass Water.

1

	<b>Bluegrass Water</b>	<b>Other Regulated Utility Affiliates</b>	<b>Total</b>
Q3-2021	7.4%	92.6%	100.0%
Q4-2021	7.0%	93.0%	100.0%
Q1-2022	5.6%	94.4%	100.0%
Q2-2022	5.2%	94.8%	100.0%

2

3 **Q. WHAT ARE THE TOTAL AMOUNTS ALLOCATED BY CSWR TO BLUEGRASS**  
4 **WATER OVER THE LAST THREE CALENDAR YEARS?**

5 A. The total amounts allocated by CSWR to Bluegrass Water are as follows: 2020 = \$220,423;  
6 2021 = \$491,373; and 2022 = \$468,222.

7 **Q. WHAT IS THE TOTAL AMOUNT OF COST ASSIGNED TO BLUEGRASS**  
8 **WATER FROM CSWR?**

9 A. The total amount of overhead costs allocated from CSWR to Bluegrass Water as part of  
10 the calculation of cost of service is \$411,525.

11 **Q. IS CSWR'S COST ALLOCATION APPROACH REASONABLE?**

12 A. Yes. As reflected in Exhibit JC-1 attached to the direct testimony of Josiah Cox, CSWR  
13 has a number of affiliate entities. The affiliates are organized primarily by state. Each  
14 state in which CSWR affiliates operate has at least one holding company, which contains  
15 no transactional activity, and at least one regulated state operating company. When  
16 allocating costs, CSWR directly assigns costs as much as possible. To the extent that a  
17 cost is directly incurred on behalf of a particular state utility operating company, it is billed  
18 to that state. In this way, CSWR avoids the possibility that a cost that is beneficial to one  
19 state impacts another. As discussed previously, there are instances, however, when costs

1 cannot be directly billed to CSWR's utility operating subsidiaries. As described above,  
2 these jointly billed costs are billed by CSWR in such a way that they are only assigned  
3 down from CSWR and are never assigned from one state operating entity to other states.  
4 This helps to maintain costs at the state that receives the benefits.

5 In addition to the policies for incurring and allocating expenses, it is worth noting  
6 that CSWR does not have any non-regulated operations. While CSWR uses many vendors  
7 for engineering, construction, operations, and some customer service functions, these are  
8 all third parties, independent from CSWR. With no non-regulated operations, CSWR has  
9 no reason to shift these costs or allocations among its subsidiaries in an unreasonable way.  
10 Ultimately, other than equity and working capital contributions provided by CSWR, or the  
11 allocation of indirect costs from CSWR, the state operating entities do not engage in any  
12 affiliate transactions. Given that there are limited affiliate transactions and that CSWR  
13 provides the same services for all of its regulated utility subsidiaries, I believe that CSWR's  
14 allocation methodology is reasonable to its customers.

15 **Q. HAS BLUEGRASS WATER INCLUDED ANY COSTS ASSOCIATED WITH**  
16 **CHARITABLE OR CIVIC CONTRIBUTIONS, LEGISLATIVE-ADVOCACY**  
17 **EXPENSES OR POLITICAL/PROMOTIONAL ADVERTISING?**

18 A. No. Bluegrass Water has not included any costs related to donations, lobbying activities  
19 or political/promotional advertising.

20 **Q. PLEASE DESCRIBE ANY RATE CASE EXPENSE THE COMPANY HAS**  
21 **INCLUDED IN THIS FILING.**

22 A. The Company has incurred costs associated with legal and consultant services, including  
23 the preparation of a depreciation study, a class cost of service study, a cost of capital study,

1 a wage and benefit study as well as supporting testimony. These costs also include the cost  
2 of regulatory counsel involved in this proceeding. The Company's current estimate of rate  
3 case expense is \$179,558. The Company expects to update rate case expense amounts as  
4 invoices are received throughout this case. I propose that this amount be amortized into  
5 rates over three years and the unamortized portion be included in rate base.

6  
7 **VII. KNOWN AND MEASURABLE EXPENSE ADJUSTMENTS**

8 **Q. WHAT KNOWN AND MEASURABLE EXPENSE ADJUSTMENTS HAS**  
9 **BLUEGRASS WATER MADE TO ITS TEST YEAR?**

10 A. As reflected on Schedule BT-3, Bluegrass Water has made known and measurable  
11 adjustments to its test year for certain expenditures which changed during or subsequent to  
12 the test year. These include adjustments for the costs associated with a new customer  
13 information system, property taxes and allocated overhead. They also include  
14 annualization adjustments, mainly third-party operations expense, related to the acquisition  
15 of the Darlington Creek service area in March 2022.

16 **Q. PLEASE DESCRIBE THE ADJUSTMENTS IN DETAIL.**

17 A. The Company's contract with the provider of its customer information and billing system  
18 expired in early 2022. In anticipation of this the Company sought to negotiate a new  
19 contract with its provider and simultaneously sought quotes from new software providers.  
20 Ultimately, the Company decided to change to a new customer information and billing  
21 system called Muni-Link. As mentioned previously, this charge is incurred by CSWR and  
22 then jointly charged to utility operating companies based upon each operating company's

1 total customer count. This change results in a reduction of test-year expense totaling  
2 \$10,555.

3 An adjustment was made to test-year expense for property tax expense. Generally  
4 speaking, property tax is billed once per year but due to its policy of keeping accounting  
5 books and records under accrual accounting, the Company accrued an estimate of property  
6 tax expense each month during the test year. For this reason, an adjustment was made to  
7 reflect the actual property tax expense paid during the test year. That adjustment resulted  
8 in a reduction of expense totaling \$3,933.

9 Exclusions, adjustments and annualizations related to the amount of overhead  
10 expense that was allocated to the Company from its parent, CSWR, LLC, were reviewed  
11 and adjusted. The net result of this adjustment was a reduction of test-year expense totaling  
12 \$32,117.

13 During the test period, the Company closed on the acquisition of the Darlington  
14 Creek service area. The date of the acquisition resulted in only three months of actual  
15 revenue and expense being included in the test year. The Company annualized the three  
16 months of expenses and revenue as a known and measurable adjustment to the test period.  
17 The adjustment to expenses is an increase of \$230,235.

18  
19 **VIII. DEPRECIATION EXPENSE**

20 **Q. HAS THE COMPANY PERFORMED A DEPRECIATION STUDY IN**  
21 **ANTICIPATION OF THIS RATE CASE?**

22 **A.** Yes. The Company engaged John Spanos of Gannett Fleming Valuation and Rate  
23 Consultants, LLC to complete a depreciation study on its assets. The results of the study

1 are shown on the Exhibits attached to Mr. Spanos' testimony. The Company proposes to  
2 use the rates proposed by Mr. Spanos to depreciate assets on the Company's books as of  
3 June 30, 2022. The Company would also propose to use the depreciation rates  
4 recommended in Mr. Spanos' testimony to depreciate assets constructed and placed in  
5 service beginning July 1, 2022.

6 **Q. WHY ARE NEW DEPRECIATION RATES NECESSARY?**

7 A. Bluegrass Water has acquired the assets of distressed water and sewer systems across the  
8 state. These assets were often in poor shape, as described by Company witness Mr.  
9 Freeman, and there was often a lack of historical records from which asset values or  
10 depreciation history could be determined at a detailed level. Once the assets were acquired  
11 and recorded on the Company's books, they were depreciated according to the rates  
12 estimated based on the Company's affiliates' approved rates for small wastewater utilities  
13 in other jurisdictions. Mr. Spanos' study revealed that other rates of depreciation are  
14 necessary to fully depreciate the assets by the end of the expected useful lives.

15  
16 **IX. RATE BASE**

17 **Q. WHAT ARE THE COMPONENTS OF RATE BASE INCLUDED IN THIS**  
18 **FILING?**

19 A. Major components of rate base include:

- 20 • UPIS
- 21 • Accumulated Depreciation
- 22 • Working Capital Allowance
- 23 • Contributions in Aid of Construction ("CIAC")

- 1           • Unamortized Rate Case Expense
- 2           • Post-test year adjustments

3           Each of these major components is described in the testimony below.

4 **Q. PLEASE DESCRIBE UPIS.**

5 A. UPIS includes the original cost of acquired systems along with acquisition-related  
6 expenses and post-acquisition improvements necessary to provide safe and reliable sewer  
7 service. UPIS in this filing includes asset values for all systems that have been acquired  
8 as of June 30, 2022. The UPIS also includes acquisition-related expenses, construction  
9 costs associated with improvements in-service as of the end of the test year as well as post-  
10 test year adjustments for additional construction projects which have been approved via  
11 the CPCN process. Retirements of utility plant related to improvements have been  
12 recorded and estimated retirements for the post-test year projects are also included. The  
13 total test year balance of UPIS for sewer as of June 30, 2022, is shown in **Schedule BT-4**.

14 **Q. PLEASE DESCRIBE THE COMPANY'S PROCEDURES FOR ASSET**  
15 **RETIREMENTS.**

16 A. As construction projects are completed and new equipment is procured, it is necessary to  
17 retire utility plant in service that has been on the Company's books. The accounting and  
18 engineering staff of CSWR work together to determine whether the new assets or newly  
19 constructed items have replaced an asset. When it is determined that an asset has been  
20 replaced, asset balances must be retired. The total of utility plant assets that were retired  
21 during the test year equal \$161,793 and the total estimated retirements related to post-test  
22 year adjustments to rate base is equal to \$207,288. See **Schedule BT-9**.



1 **Q. PLEASE DESCRIBE THE CALCULATION OF ACCUMULATED**  
2 **DEPRECIATION.**

3 A. Accumulated depreciation consists of the historical total of UPIS depreciation to date.  
4 Where available, the balances in accumulated depreciation that were associated with assets  
5 acquired by Bluegrass Water from the prior owners have been carried forward on the books  
6 of Bluegrass Water. Acquired assets and those improvements that Bluegrass Water has  
7 subsequently placed into service have been depreciated according to rates derived from the  
8 rates approved for similar assets in other jurisdictions where the Company's affiliates  
9 operate. The values for accumulated depreciation that are included in rate base are based  
10 on life to date depreciation of UPIS placed into service as of June 30, 2022.

11 **Q. PLEASE DESCRIBE ACQUISITION-RELATED COSTS THAT HAVE BEEN**  
12 **CAPITALIZED AND INCLUDED IN RATE BASE?**

13 A. As shown in Schedule BT-13 (Confidential), the acquisition-related costs total \$1,861,351  
14 for the systems included in this filing. These costs include closing costs incurred as part  
15 of the purchase process. Closing costs include numerous fees related to title charges,  
16 recording fees and the like. Also included in acquisition-related costs are fees paid to real  
17 estate attorneys, survey and mapping professionals and legal fees incurred as part of the  
18 regulatory process. The acquisition-related costs do not include any costs related to  
19 business development.

20 **Q. HOW DID YOU CALCULATE THE CASH WORKING CAPITAL ALLOWANCE**  
21 **IN THIS CASE?**

22 A. Cash working capital is the capital that is required to bridge the gap from when cash is paid  
23 for expenses necessary to provide safe and reliable service and when cash is received from

1 customers for that service. As such, cash working capital is included in rate base and  
2 permitted to earn a return. This amount of required capital must be supplied by investors  
3 as part of their investment.

4 While known methods, such as a lead/lag study, are used to calculate the working  
5 capital allowance, Bluegrass Water has opted to use the 45-day convention, also known as  
6 the 1/8 convention. Many jurisdictions use a 45-day convention to produce a reasonable  
7 working capital adjustment without the need to conduct an expensive lead/lag study.<sup>8</sup>  
8 According to Hahne and Aliff, “the wide acceptance of the 1/8 formula resulted from the  
9 fact that it was determined to be a reasonable estimate of what a lead-lag study would  
10 produce without the related expense of a lead-lag study...”<sup>9</sup> This convention multiplies  
11 the operating expenses (excluding depreciation, overhead allocation and taxes) by 45/365  
12 to produce a working capital amount to be included in rate base. The Company has used  
13 the 45-day convention to calculate the \$225,898 cash working capital amount. These  
14 amounts are included in the rate base calculation. The Working Capital calculation is  
15 shown in **Schedule BT-8**.

16 **Q. PLEASE DESCRIBE CIAC IN RATE BASE.**

17 A. CIAC reflects property or money received from third parties related to the establishment  
18 of service. For ratemaking purposes, it is not considered to be investor supplied capital.  
19 Therefore, Bluegrass Water is not permitted to include this amount in rate base and earn a  
20 return on it. Bluegrass Water expects that it will receive CIAC from amounts paid for  
21 sewer tap-in fees related to development inside its existing service areas. Bluegrass

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<sup>8</sup> In Bluegrass Water’s last rate case the Commission found that the “1/8<sup>th</sup> approach to be a reasonable approach for Bluegrass Water.” Case 2020-290, Order at 54 (Aug. 2, 2021).

<sup>9</sup> Hahne, Robert L. & Aliff, Gregory E. (2021). “Accounting for Public Utilities, Vol. 1”. LexisNexis. Pp. 5.04[1].

1 Water's CIAC balances will be amortized as an offset to depreciation expense and the net  
2 amount of CIAC calculated as a reduction to rate base. The primary source of CIAC on  
3 the books of Bluegrass Water has resulted from customer tap fees. The net balance of  
4 CIAC that is included in the rate base calculation is \$104,299 and is the balance on the  
5 Company's books as of June 30, 2022. The calculations are shown in Schedule BT-7.

6 **Q. PLEASE DESCRIBE ANY RATE CASE EXPENSE THAT THE COMPANY HAS**  
7 **INCLUDED IN THIS FILING.**

8 A. As previously mentioned, Bluegrass Water proposes to amortize actual rate case expense  
9 into rates over a three-year period. Much like other cash working capital, investors  
10 supplied the capital for these costs. As such, I propose to include the unamortized portion  
11 in rate base. As of the time of filing the Company has incurred rate case expenses totaling  
12 \$122,558 which include legal fees and fees related to outside consultants for a depreciation  
13 study, rate of return study, rate design and an employee wage and benefits study. As  
14 reflected on Schedule BT-12, the Company estimates that the total of these expenses will  
15 reach \$179,588 by the conclusion of the proceeding and has included the estimated amount  
16 in rate base.

17 **Q. DESCRIBE THE COMPANY'S POST TEST-YEAR ADJUSTMENTS TO RATE**  
18 **BASE.**

19 A. Bluegrass Water has filed CPCN applications with the Commission seeking approval of  
20 construction plans at its Persimmon Ridge, Herrington Haven, Woodland Acres and  
21 Delaplain facilities.<sup>10</sup> In addition, the Company has filed a CPCN application related to

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<sup>10</sup> See the testimony of Mr. Freeman for a detailed discussion of these CPCN applications.

1 the installation of remote monitoring equipment at numerous plants as well as a site visit  
 2 waiver to reduce the required site visits from daily to three times per week. *See* Case No.  
 3 2020-216. Finally, the Company has filed an application to transfer the assets of the  
 4 Randview system to the City of Mayfield. *See* Case No. 2022-00218.<sup>11</sup>

5 As of the time of this rate filing, the applications for Persimmon Ridge, Herrington  
 6 Haven and Woodland Acres have been approved. The Company has included the approved  
 7 CPCN totals in its rate base as post-test year adjustments. The total adjustment to rate base  
 8 resulting from the included CPCN construction projects is an increase of \$756,800. See  
 9 **Schedule BT-9.**

10 **Q. HAS THE COMPANY INCLUDED ADJUSTMENTS RELATED TO ANY**  
 11 **UNAPPROVED APPLICATIONS WHICH ARE CURRENTLY BEFORE THE**  
 12 **COMMISSION IN ITS RATE FILING?**

13 A. The Company has not included adjustments related to the Delaplain CPCN filing, the  
 14 CPCN filing related to remote monitoring equipment and the site visit waiver, or the  
 15 potential sale of the Randview service area. Each of these filings would have an impact  
 16 on the revenue requirement in this proceeding. The table below estimates the impact of  
 17 each of the open filings on rate base, the revenue requirement and customer rates.

	<b>Rate Base</b>	<b>Revenue</b>	<b>Rate</b>
<b>Open Item</b>	<b>Impact</b>	<b>Requirement Impact</b>	<b>Impact</b>
Delaplain CPCN	609,900	95,089	2.46
Remote Monitoring CPCN	230,101	51,447	1.33
Site Visit Waiver	-	(233,000)	(6.02)
Randview Sale	(100,000)	(59,431)	0.14
	<b>740,001</b>	<b>(145,895)</b>	<b>(2.09)</b>

<sup>11</sup> Should the Commission approve the request to transfer the Randview system to the City of Mayfield, Bluegrass Water reserves the right to revise its request for relief in this proceeding to account for the fact that the ongoing operational expenses at Randview will not be incurred, but that also allows Bluegrass Water to recover its stranded investment in the Randview system.

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**X. ACCOUNTING FOR ACQUISITIONS**

**Q. WHAT IS THE ACCOUNTING TREATMENT THAT BLUEGRASS WATER HAS USED IN RECORDING HISTORICAL ASSET VALUES FOR ITS ACQUISITIONS?**

A. The Company’s determination of accurate net book values began with an examination of the historical values of acquired assets using books and records provided by prior owners, including the annual reports provided to the Commission, when available. Where these values were available in sufficient detail, they were the primary source of the information used to initially record the amounts of the acquired assets. This is in keeping with the Utility Plant Instructions contained in the Uniform System of Accounts published by the NARUC, which is the system of accounts this Commission directs sewer utilities to use in Kentucky. As it relates to an acquired system, the instructions state, “all amounts included in the accounts for utility plant acquired as an operating unit or system, shall be stated at the cost incurred by the person who first devoted the property to utility service.”<sup>12</sup> Where detailed annual reports were available, Bluegrass Water adjusted the balances for any known and measurable changes that have occurred since the annual report was filed, and used the adjusted values to create acquisition date accounting entries on its books.<sup>13</sup> **Schedule BT-13** (Confidential) provided with this testimony summarizes the acquisition date rate base for each acquired system as determined by the Company’s investigations, studies and appraisals.

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<sup>12</sup> Uniform System of Accounts for Class A Water Utilities. National Association of Regulated Utility Commissioners, Washington, D.C., p. 20 (1996).

<sup>13</sup> Please note that the known and measurable changes in this instance consisted primarily of adjusting the accumulated depreciation reserve by calculating depreciation expense between the date of the annual report used to obtain asset account balances and the date of acquisition.

1 **Q. HOW DID THE COMPANY ADDRESS SITUATIONS IN WHICH ADEQUATE**  
2 **PLANT RECORDS WERE UNAVAILABLE?**

3 A. In some of the acquisitions, primarily those of the unregulated systems, no asset records  
4 were available from the prior owner. In these cases, the Company sought to establish its  
5 reasonable estimate of net book value using depreciated original cost studies and other  
6 appraisal methods. Where these studies produced detailed information on the plant assets,  
7 the purchase price was allocated to these assets based on the estimated value. Systems for  
8 which this process was used are Arcadia Pines, Marshall Ridge, Randview and Carriage  
9 Park.

10 **Q. HOW DOES THE COMPANY ACCOUNT FOR THE PORTION OF PURCHASE**  
11 **PRICE WHICH IS ABOVE HISTORIC NET BOOK VALUE?**

12 A. Bluegrass Water has acquired distressed sewer systems across Kentucky. The Company  
13 identified these systems through various means and negotiated the purchase price in an  
14 arms-length transaction with the prior owner. The assessment of purchase price begins  
15 with an assessment of the historic net book value of the system with special attention given  
16 to the annual reports filed with the Commission. In some cases, the purchase price which  
17 was negotiated arms-length with the prior owner was higher than the historic net book  
18 value that has been reported in annual reports with the Commission. A purchase price  
19 above the historic value reported in Commission annual reports can have numerous  
20 reasons. In some cases, the books and records could have been poorly kept such that  
21 expenditures that should have been capitalized were not, leading to a reduced net book  
22 value. In other cases, assets that are used and useful in providing sewer services to  
23 customers have never been added to the books and records. This includes land value and

1 easements that have been obtained by the utility. Finally, since many owners are paying  
2 themselves to operate the facility, these previous owners will also demand a high purchase  
3 price to account for the loss of this personal income stream.

4 **Q. PLEASE QUANTIFY THE PROPOSED ACQUISITION ADJUSTMENTS**

5 A. The Company has organized the proposed acquisition adjustments into groups based on  
6 the information available regarding the historic value of assets. The first group involves  
7 the first ten Bluegrass Water systems, all acquired in 2019 and 2020, for which the only  
8 available asset valuation was the historic annual report provided to the Commission. The  
9 table outlines the systems and acquisition adjustments which have been recorded for these  
10 systems. The total is reflected on the Company's books and records in USOA account 114  
11 – Acquisition Adjustments.

<u>Service Area</u>	<u>Amount</u>
Airview	5,588.00
Brocklyn	13,865.02
Fox Run	2,689.04
Golden Acres	850.00
Great Oaks	850.00
Kingswood	10,248.21
Lake Columbia	2,689.04
LH Treatment	36,863.15
Persimmon Ridge	16,403.47
Timberland	125.34
<b>Total</b>	<b>90,171.27</b>

21 For the second group of systems, the Company obtained an appraisal of the land and  
22 easements which were included with the purchase. As mentioned, previous owners often  
23 failed to account for land value and easements in net book value. Therefore, the appraised  
24 value of the land was used to establish a prorated value that has been booked to Land and  
25 Land Rights. These systems and the value assigned are included in the table below.

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<u>Service Area</u>	<u>Valuation</u>	<u>Amount</u>
Delaplain	Land Appraisal	607,772.00
River Bluffs	Land Appraisal	90,683.64
		<u>698,455.64</u>

The final group includes systems that have no historic net book values, as reported in annual reports provided to the Commission but whose reports were not up to date. For these systems the Company booked the acquisition adjustment value to USOA account 352 – Collection System. The table below outlines the systems and the associated values.

<u>Service Area</u>	<u>Valuation</u>	<u>Amount</u>
Springcrest	Collection Sewer	15,000.00
Woodland Acres	Collection Sewer	10,000.00
Herrington Haven	Collection Sewer	14,500.00
		<u>39,500.00</u>

**Q. IS THE COMPANY REQUESTING A POSITIVE ACQUISITION ADJUSTMENT FOR THESE SYSTEMS?**

A. Yes. The positive acquisition adjustment amounts reflect the difference between the purchase price and the original cost of the acquired property less depreciation of the acquired system.

**Q. DO YOU BELIEVE THAT IT IS APPROPRIATE TO ALLOW BLUEGRASS WATER TO RECOVER THIS POSITIVE ACQUISITION ADJUSTMENT?**

A. Yes. Especially in regard to the acquisition of distressed water and wastewater systems, the recovery of an acquisition adjustment is appropriate. Otherwise, acquiring companies may be hesitant to take on the risk associated with such acquisitions. This challenge has been repeatedly noted in publications by the National Regulatory Research Institute.<sup>14</sup> For

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<sup>14</sup> The National Regulatory Research Institute is the research arm to NARUC and its members, the utility regulatory commissions of the fifty states and the District of Columbia.



1 instance in 1992, NRRI pointed out that “[c]ertain ratemaking methods (such as acquisition  
2 adjustments) can provide restructuring incentives. Most larger water utilities would argue  
3 that they should be rewarded with an acquisition adjustment for taking on the added risk  
4 and responsibility that comes with absorbing a troubled water system.”<sup>15</sup> Still again, in  
5 2008, NRRI stated:

6 One incentive considered by states is “acquisition adjustment.” To  
7 persuade an existing owner to part with his water system, the acquirer may  
8 have to pay an acquisition premium – the excess of purchase price over  
9 book value. The acquirer will hesitate to pay this extra cost without  
10 assurance of rate recovery. State commissions hesitate to allow an  
11 acquisition premium in rates because it disconnects infrastructure value  
12 from infrastructure costs – from the customer’s perspective, there has been  
13 no change in assets or operations after the acquisition, yet the rates have  
14 gone up. In the context of small water systems, some commissions set aside  
15 this concern in the hopes of attracting acquirers able to exploit economies  
16 of scale associated with owning multiple systems.<sup>16</sup>

17  
18 Ultimately, as NRRI recognizes, this is a policy decision for the individual state  
19 commissions that may depend on whether that individual state goals are with regard to  
20 encouraging the acquisition systems and the potential economies of scale associated with  
21 multiple system ownership. “Selecting a treatment is a matter of public policy that in some  
22 cases may go beyond traditional boundaries of regulatory policy in the interest of achieving  
23 long-term policy goals.”<sup>17</sup>

24 **Q. DO YOU BELIEVE THAT BLUEGRASS WATER’S ACQUISITION OF THESE**  
25 **SYSTEMS HAS RESULTED IN MULTIPLE SYSTEM OWNERSHIP AND THE**  
26 **CREATION OF ECONOMIES OF SCALE?**

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<sup>15</sup> See *Viability Policies and Assessment Methods for Small Water Utilities*, The National Regulatory Research Institute, published June 1992, (“NRRI 1992 Publication”), at pages 105-106.

<sup>16</sup> See *Small Water Systems: Challenges and Recommendations*, The National Regulatory Research Institute, published February 7, 2008, at page 18.

<sup>17</sup> NRRI 1992 Publication at page 106.

1 A. Absolutely. In just 3½ years, Bluegrass Water has acquired 20 troubled Kentucky  
2 wastewater systems. On a larger scale, when considered within the entire CSWR umbrella,  
3 these Kentucky systems are now included within an entity consisting of approximately 800  
4 small water and wastewater systems across 11 states. As I mentioned earlier, this created  
5 economies of scale with regard to the provision of legal, accounting, human resources,  
6 customer experience and other business services by CSWR that would not otherwise be  
7 accessible to the individual stand-alone distressed water / wastewater company.  
8 Additionally, through the corporate umbrella, these small distressed systems now see  
9 economies of scale in the procurement of insurance and computer software such as Muni-  
10 Link. Moreover, as Mr. Thomas explains, economies of scale are also realized through  
11 Bluegrass Water's procurement of third-party operations and maintenance across a 20-  
12 system footprint, as well as the procurement of customer service expertise across the entire  
13 CSWR footprint. Finally, as Mr. Freeman explains, these small distressed systems are also  
14 the beneficiaries of economies of scale in the procurement of third-party engineering and  
15 construction services. Bottom line, because of the acquisition by CSWR, and through the  
16 occasional incurrence of an acquisition adjustment, these systems and customers have  
17 realized economies of scale in virtually every aspect of operating and managing a small  
18 water / wastewater system.

19 **Q. HAS THE COMMISSION SET FORTH GUIDELINES FOR INSTANCES IN**  
20 **WHICH IT WOULD CONSIDER THE RECOVERY OF AN ACQUISITION**  
21 **ADJUSTMENT?**

22 A. Yes. In Case No. 2020-00396, the Commission considered the acquisition of some gas  
23 utility systems by Navitas KY and Johnson County Gas. There, the Commission applied

1 criteria for the recovery of an acquisition adjustment previously established in Case No.  
2 9059. Specifically, the Commission set forth the five base criteria under which a purchase  
3 price in excess of net historic cost can be considered.

4 **Criteria 1** - “...evidence must be submitted that shows that the purchase price was  
5 established based on arms-length negotiations...”

6 Response: When evaluating a system for possible acquisition, Bluegrass Water routinely  
7 consults publicly available documents (such as Commission annual reports and  
8 information available from health and environmental regulators) and conducts site visits to  
9 gauge for itself the plant configuration and the condition of equipment. However, a final  
10 purchase price is determined based on arms-length negotiations between the parties, with  
11 the Company’s objective being to pay the least amount a utility/seller will accept.  
12 Recognizing that buyer and seller in each of these transactions are unrelated, Bluegrass  
13 Water and the sellers have acted in their own self-interest throughout these transactions.  
14 Thus, the transactions have been at an arms-length.

15 **Criteria 2** – “...the initial investment plus the cost of restoring the facilities to  
16 required standards will not adversely impact the overall costs and rates of the existing and  
17 new customers...”

18 Response: The discreet impact on rates of the purchase prices in excess of historic cost is  
19 minimal. Specifically, the impact on rates of the total positive adjustments is only 2.7%.  
20 Bluegrass Water maintains that this is greatly exceeded by the numerous economies  
21 referenced below.

22 **Criteria 3** – “...operational economies can be achieved through the acquisition...”

1        Response: As set forth above, economies of scale have been created for each acquisition  
2        with regard to the provision of legal, accounting, human resources, customer experience  
3        and other business services by CSWR. Additionally, through the purchasing power of  
4        CSWR, economies of scale have been created for the procurement of insurance, computer  
5        software, third-party operations and maintenance, and customer service. Finally,  
6        economies of scale are also realized with regard to the procurement of third-party  
7        engineering and construction services. Ultimately, through the acquisition of small,  
8        distressed systems by CSWR, these systems and customers have realized economies of  
9        scale in virtually every aspect of operating and managing a small water / wastewater  
10       system.

11                **Criteria 4** – “...*the purchase price of utility and non-utility property can be clearly*  
12        *identified...*”

13        Response: The Company did not acquire any non-utility property as part of the  
14        acquisitions.

15                **Criteria 5** – “...*the purchase will result in overall benefits in the financial and*  
16        *service aspects of the utility’s operations.*”

17        Response: As established through my previous testimony, as well as that provided by  
18        Messrs. Thomas and Freeman, benefits in virtually every service aspect of the utility’s  
19        operations will flow to customers. In addition, financial benefits have also resulted from  
20        these acquisitions. Specifically, because of the financial results possible from the creation  
21        of a 20-system utility in Kentucky, the Company was able to secure debt financing in  
22        December 2022. (Case No. 2022-00217).

1 **Q. HOW IS BLUEGRASS WATER PROPOSING TO TREAT THE POSITIVE**  
2 **ACQUISITION ADJUSTMENTS FROM A RATEMAKING PERSPECTIVE?**

3 A. Bluegrass Water proposes to include the positive acquisition adjustments in rate base and  
4 amortize the adjustments over the average useful life of the Company's assets.

5

6 **XI. INCOME TAXES**

7 **Q. WHAT IS THE FEDERAL TAX CLASSIFICATION OF BLUEGRASS WATER?**

8 A. While Bluegrass Water is organized as a limited liability company, it has elected treatment  
9 as a C-Corporation for federal and state tax purposes. The entity is required to file Form  
10 1120 annually with the Internal Revenue Service.

11 **Q. HOW HAS BLUEGRASS WATER CALCULATED INCOME TAX IN ITS**  
12 **REVENUE REQUIREMENT?**

13 A. The income tax rates used by Bluegrass Water are 21% for federal income and 5% for  
14 Kentucky state income. Income tax has been calculated by first calculating the estimated  
15 equity return on rate base included in our revenue requirement and multiplying that return  
16 by an Income Conversion Factor of 1.35.

17 **Q. WHAT IS THE GROSS INCOME CONVERSION FACTOR?**

18 A. Each dollar of equity return granted to Bluegrass Water also carries a tax responsibility for  
19 both federal and state income tax. The Gross Income Conversion Factor incorporates the  
20 federal and state tax rates, along with an allowance for bad debt of 1%, into an income  
21 multiplier. The Income Conversion Factor used in this filing is 1.35 and its calculation can  
22 be found in **Schedule BT-11**.

1 **XII. NON-RECURRING CHARGES**

2 **Q. PLEASE EXPLAIN WHAT NON-RECURRING CHARGES ARE?**

3 A. As reflected in the tariffs initiating this rate case, Bluegrass Water proposes to charge  
4 customers for sewer service through either a flat charge or a combination of flat and  
5 volumetric charges. These recurring charges are for the recovery of costs to provide sewer  
6 service. In addition, Bluegrass Water incurs certain other costs that are not recurring that  
7 must be recovered as well. Relevant to this portion of my testimony, for example,  
8 Bluegrass Water incurs a cost when a customer either pays through a check that is returned  
9 by the bank or when the customer's payment is late. These charges are called non-recurring  
10 charges because they only occur in response to some action by the customer (returned  
11 check or late payment).

12 **Q. WHAT IS BLUEGRASS WATER'S CURRENT NON-RECURRING CHARGE**  
13 **FOR RETURNED CHECK AND LATE PAYMENT?**

14 A. In the last Bluegrass Water rate case, the Commission held that Bluegrass Water failed to  
15 provide cost justification for the non-recurring charges existing in its tariff. As a result,  
16 for the service areas that were the subject of Bluegrass Water's last rate case, the  
17 Commission reduced Bluegrass Water's non-recurring charges to zero.

18 **Q. DOES BLUEGRASS WATER PROPOSE TO CHANGE SOME OF ITS NON-**  
19 **RECURRING CHARGES?**

20 A. Yes, through my testimony and the proposed tariffs, Bluegrass Water asks to change its  
21 non-recurring charge for late payments and for returned checks.

1 **Q. WHAT IS THE PURPOSE OF A LATE PAYMENT CHARGE?**

2 A. Late payment charges are prevalent through all aspects of the American economy. For  
3 instance, late payment charges are assessed for late payments of credit card balances as  
4 well as the late payment of bills for the provision of virtually all goods and services.  
5 Similarly, regulated utilities typically charge customers for the failure to pay for utility  
6 service in a timely fashion. As such, late payment charges provide an incentive for  
7 customers to pay their bills in a timely fashion.

8 **Q. ARE YOU AWARE OF WHAT OTHER KENTUCKY UTILITIES HAVE BEEN**  
9 **AUTHORIZED TO CHARGE FOR LATE PAYMENTS?**

10 A. Yes. Bluegrass Water did a brief review of some of the approved late payment charges for  
11 Kentucky water and sewer utilities. For instance, Mountain Water District charges a 10%  
12 late payment penalty. Similarly, Letcher County Water and Sewer District has been  
13 authorized to assess a 10% late payment penalty. In addition, several sewer utilities that  
14 were acquired by Bluegrass Water after the start of its last rate case were authorized to  
15 charge a 10% late payment penalty. Therefore, Bluegrass Water is currently authorized,  
16 in the Herrington Haven, Woodland Estates, and Springcrest Sewer service areas to charge  
17 the 10% late payment penalty.

18 **Q. WHAT LATE PAYMENT CHARGE DOES BLUEGRASS WATER PROPOSE TO**  
19 **ASSESS?**

20 A. Like Mountain Water and Letcher County Water and Sewer, as well as its Herrington  
21 Haven, Woodland Estates and Springcrest Sewer service areas, Bluegrass Water proposes  
22 to assess a 10% late payment charge for payments that are received after the due date.

1 Thus, if approved, Bluegrass Water will be charging the same late payment penalty to all  
2 20 of its sewer service areas.

3 **Q. WHAT IS THE PURPOSE OF A RETURNED CHECK CHARGE?**

4 A. Bluegrass Water, like all other entities, is charged a fee by its banking institution when it  
5 cashes a check which is later returned by the bank for insufficient funds. The returned  
6 check charge is designed to recognize that Bluegrass Water is assessed this charge by its  
7 bank when a check is returned.

8 **Q. WHAT IS BLUEGRASS WATER CHARGED BY ITS BANK FOR THE RETURN  
9 OF A CHECK?**

10 A. Bluegrass Water is charged \$15.00 for a check that is returned by its banking institution.

11 **Q. WOULD \$15.00 COVER ALL OF THE COSTS THAT ARE INCURRED WHEN A  
12 CHECK IS RETURNED TO BLUEGRASS WATER?**

13 A. No, there are additional external and internal costs incurred by Bluegrass Water when a  
14 check is returned. For instance, Bluegrass Water is charged a per transaction charge by a  
15 bank when it initially cashes a customer check payment. It is assessed this transaction  
16 charge a second time when the check is returned. In addition, Bluegrass Water incurs  
17 internal costs when a check is returned. Specifically, Bluegrass Water must divert internal  
18 financial resources away from other duties to properly account for the returned check  
19 charge and to enter into the billing system.

20 **Q. DOES BLUEGRASS WATER ASK TO RECOVER THESE ADDITIONAL  
21 COSTS?**

22 A. No. Bluegrass Water simply asks to recover the \$15.00 cost imposed on it by its banking  
23 institution for a returned check.



1 **Q. DO YOU KNOW WHAT OTHER WATER AND SEWER UTILITIES CHARGE**  
2 **FOR A RETURNED CHECK?**

3 A. Yes. Mountain Water District imposes a \$25.00 charge for each check returned by its  
4 bank. Letcher County Water and Sewer District imposes a \$20.00 returned check charge.  
5 Thus, Bluegrass Water's requested charge is less than those of other water and sewer  
6 utilities.

7

8

### **XIII. CONCLUSION**

9 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IN THIS CASE?**

10 A. I recommend that the Commission grant the Company's request for an increase to revenue  
11 as summarized on **Schedule BT-1** and to allow it to begin assessing the requested late  
12 payment fee and returned check charge.

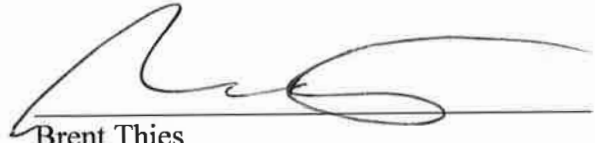
13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes.

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

**VERIFICATION**

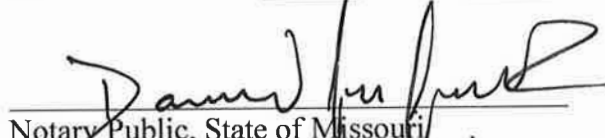
I, Brent Thies, Vice President & Corporate Controller, verify, state, and affirm that I prepared or supervised the preparation of the Direct Testimony filed with this Verification, and that Direct Testimony is true and accurate to the best of my knowledge, information, and belief after a reasonable inquiry on this 24<sup>th</sup> day of Feb, 2023.



Brent Thies  
Vice President & Corporate Controller

STATE OF MISSOURI )  
                                  )  
COUNTY OF ST. LOUIS )

SUBSCRIBED AND SWORN TO before me on this the 24<sup>th</sup> day of Feb, 2023.



Notary Public, State of Missouri  
My Commission Expires 5/4/24



# EXHIBIT 1

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Summary of Revenue Requirement - Sewer**  
**For the Period Ending June 30, 2022**

Line Number (A)	Description (B)	Sewer (C)
1		
2	<b>Total Original Cost Rate Base</b>	<b>\$6,388,068</b>
3		
4	<b>Operating Income at Present Rates</b>	<b>(\$503,385)</b>
5		
6	<b>Earned Rate of Return</b>	<b>-7.9%</b>
7		
8	<b>Requested Rate of Return</b>	<b>9.8%</b>
9		
10	<b>Required Return on Rate Base</b>	<b>\$623,875</b>
11		
12	<b>Weighted Return on Equity</b>	<b>7.1%</b>
13		
14	<b>Operating Income Deficiency</b>	<b>\$1,127,261</b>
15		
16	<b>Net Income Required for Return on Equity</b>	<b>\$455,159</b>
17		
18	<b>Gross Revenue Conversion Factor</b>	<b>1.01</b>
19	<b>Gross Income Conversion Factor</b>	<b>1.35</b>
20		
21	<b>Revenue Deficiency</b>	<b>\$1,291,491</b>
22		
23	<b>Pro Forma Revenue at Present Rates</b>	<b>\$2,435,594</b>
24		
25	<b>Total Revenue Requirement</b>	<b>\$3,727,085</b>
26		
27		
28		

# EXHIBIT 2

Bluegrass Water Utility Operating Company, Inc.  
 KY PSC Case No. 2022-00432  
 Income Statement - Sewer  
 For the Period Ending June 30, 2022

Line Number	Description	Test Year Ended June 30, 2022	Known and Measurable Adjustments	Pro Forma at Present Rates	Pro Forma Under Proposed Rates	Pro Forma For the 12 Months Ended June 30, 2022
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1						
2	<b>Operating Revenues</b>	\$2,358,858	\$76,736	\$2,435,594	\$1,291,491	\$3,727,085
3						
4	<b>Operating Expenses</b>					
5	G&A Expenses	(\$913,893)	\$40,304	(\$873,589)	(\$12,915)	(\$886,504)
6	Operating and Maintenance	(\$1,609,826)	(\$222,457)	(\$1,832,283)	\$0	(\$1,832,283)
7	Depreciation Expense	(\$187,171)	(\$11,043)	(\$198,215)	\$0	(\$198,215)
8	Amortization Expense	\$24,960	(\$59,853)	(\$34,893)	\$0	(\$34,893)
9	<b>Total Operating Expense</b>	<b>(\$2,685,931)</b>	<b>(\$253,048)</b>	<b>(\$2,938,979)</b>	<b>(\$12,915)</b>	<b>(\$2,951,894)</b>
10						
11	<b>Gross Operating Income</b>	<b>(\$327,073)</b>	<b>(\$176,312)</b>	<b>(\$503,385)</b>	<b>\$1,278,576</b>	<b>\$775,191</b>
12						
13	<b>Interest</b>	<b>\$0</b>	<b>(\$168,717)</b>	<b>(\$168,717)</b>	<b>\$0</b>	<b>(\$168,717)</b>
14						
15	<b>Funds Available for Income Tax and Equity</b>	<b>(\$327,073)</b>	<b>(\$345,029)</b>	<b>(\$672,102)</b>	<b>\$1,278,576</b>	<b>\$606,474</b>
16						
17	<b>Income Taxes</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$151,315)</b>	<b>(\$151,315)</b>
18						
19						
20	<b>Net Income</b>	<b>(\$327,073)</b>	<b>(\$345,029)</b>	<b>(\$672,102)</b>	<b>\$1,127,261</b>	<b>\$455,159</b>
21						
22						
23						

# EXHIBIT 3

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Summary of Adjustments to Revenues, Expenses, Depreciation and Taxes - Sewer**  
**For the Period Ending June 30, 2022**

Line Number (A)	NARUC Account (B)	Account Type (C)	Account Name (D)	Pro Forma Adjustments (E)	Narrative Discussion of Adjustments (F)
1					
2	403.000	Depreciation & Amortization	Depreciation Expense	(\$11,043)	Pro Forma Adjustment
3	405.000	Depreciation & Amortization	Rate Case Expense Amortization	(\$59,853)	Pro Forma Adjustment
4	408.100	Admin & General	Taxes	\$19,399	Annualization Adjustment
5	408.160	Admin & General	Property Tax	(\$15,945)	Annualization Adjustment
6	427.000	Interest	Interest Expense	(\$168,717)	Pro Forma Adjustment
7	521.000	Revenue-Sewer	Revenue-Sewer	\$76,736	Known & Measurable Adjustment
8	701.000	Operations & Maintenance	Sewer - Contract Operations Labor & Expense	(\$106,196)	Annualization Adjustment
9	703.000	Operations & Maintenance	Sewer - Electric Utilities	(\$4,316)	Annualization Adjustment
10	705.000	Operations & Maintenance	Sewer - Misc Operations	(\$108,473)	Annualization Adjustment
11	711.000	Operations & Maintenance	Sewer - Mowing & Grounds Maintenance	(\$3,472)	Annualization Adjustment
12	903.100	Admin & General	Billing Expense	(\$3,167)	Annualization Adjustment
13	903.280	Admin & General	Billing Expense-Bank Fees	(\$582)	Annualization Adjustment
14	904.000	Admin & General	Bad Debt Expense	(\$1,355)	Annualization Adjustment
15	922.000	Overhead Allocation	Allocated Overhead	\$34,201	Pro Forma Adjustment
16	923.100	Admin & General	OSS - Bank Fees Outside Services	(\$24)	Known & Measurable Adjustment
17	923.400	Admin & General	OSS - Legal	(\$991)	Annualization Adjustment
18	923.500	Admin & General	OSS - Accounting	(\$456)	Annualization Adjustment
19	923.600	Admin & General	OSS - Management Consulting	(\$489)	Annualization Adjustment
20	923.900	Admin & General	OSS - IT	\$10,459	Known & Measurable Adjustment
21	924.400	Admin & General	Property Insurance	(\$745)	Annualization Adjustment
22					
23					
24					



# EXHIBIT 4

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Utility Plant In Service Summary - Sewer**  
**For the Period Ending June 30, 2022**

Line Number	NARUC Account	Account Description	Base Year Ended June 30, 2022	Pro Forma Adjustments	Pro Forma For the 12 Months Ended June 30, 2022
(A)	(B)	(C)	(D)	(E)	(F)
1					
2	114.000	Acquisition Adjustment	\$90,171	\$0	\$90,171
3	303.000	Miscellaneous Intangible Plant	\$20,323	\$0	\$20,323
4	310.000	Land and Land Rights	\$22,000	\$0	\$22,000
5	310.100	Land and Land Rights	\$762,540	\$0	\$762,540
6	311.000	S&I Source of Supply	\$929,975	\$192,650	\$1,122,625
7	352.100	Collection Sewers Force	\$1,547,408	\$0	\$1,547,408
8	352.200	Collection Sewers Gravity	\$1,963,074	\$10,000	\$1,973,074
9	353.000	Services to Sewer Customers	\$707,287	\$0	\$707,287
10	355.000	Flow Measuring Installations	\$13,814	\$0	\$13,814
11	363.000	Electric Sewer Pumping Equip	\$202,125	\$10,000	\$212,125
12	370.000	Land and Land Rights	\$68,497	\$0	\$68,497
13	370.100	Oxidation Lagoon Land	\$38,754	\$0	\$38,754
14	372.000	Treatment & Disposal Equipment	\$1,628,755	\$539,150	\$2,167,905
15	373.000	Plant Sewers	\$205,734	(\$192,288)	\$13,446
16	374.000	Outfall Sewer Lines	\$22,240	\$0	\$22,240
17	375.000	Sewer - Outfall Sewer Lines	\$69,562	\$0	\$69,562
18	376.000	Sewer - Other Treatment and Disposal Equipme	\$959	\$0	\$959
19	391.000	Office Furniture and Equipment	\$2,440	\$0	\$2,440
20	391.100	Office Furn Equip (IT)	\$0	\$0	\$0
21	392.000	Transportation Equipment	\$0	\$0	\$0
22	393.000	Sewer - Other General Equipment	\$160,266	\$0	\$160,266
23	396.000	Power Operated Equipment	\$0	\$0	\$0
24	397.000	Communication Equipment	\$5,000	\$0	\$5,000
25					
26					
27					
28		<b>Total Utility Plant In Service</b>	<b>\$8,460,922</b>	<b>\$559,512</b>	<b>\$9,020,434</b>
29					
30					
31					

# EXHIBIT 5

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Accumulated Depreciation Summary - Sewer**  
**For the Period Ending June 30, 2022**

Line Number	NARUC Account	Account Description	Base Year Ended June 30, 2022	Pro Forma Adjustments	Pro Forma For the 12 Months Ended June 30, 2022
(A)	(B)	(C)	(D)	(E)	(F)
1					
2	303.000	Miscellaneous Intangible Plant	\$0	\$0	\$0
3	310.000	Land and Land Rights	\$0	\$0	\$0
4	310.100	Land and Land Rights	\$0	\$0	\$0
5	311.000	S&I Source of Supply	(\$93,272)	\$0	(\$93,272)
6	352.100	Collection Sewers Force	(\$73,500)	\$0	(\$73,500)
7	352.200	Collection Sewers Gravity	(\$1,235,236)	(\$367)	(\$1,235,603)
8	353.000	Services to Sewer Customers	(\$481,021)	\$0	(\$481,021)
9	355.000	Flow Measuring Installations	(\$2,043)	\$0	(\$2,043)
10	363.000	Electric Sewer Pumping Equip	(\$41,327)	\$0	(\$41,327)
11	370.000	Land and Land Rights	\$0	\$0	\$0
12	370.100	Oxidation Lagoon Land	\$0	\$0	\$0
13	372.000	Treatment & Disposal Equipment	(\$947,025)	\$15,000	(\$932,025)
14	373.000	Plant Sewers	(\$187,255)	\$186,797	(\$458)
15	374.000	Outfall Sewer Lines	(\$334)	\$0	(\$334)
16	375.000	Sewer - Outfall Sewer Lines	(\$55,846)	\$0	(\$55,846)
17	376.000	Sewer - Other Treatment and Disposal Equipme	(\$826)	\$0	(\$826)
18	391.000	Office Furniture and Equipment	(\$1,325)	\$0	(\$1,325)
19	391.100	Office Furn Equip (IT)	\$0	\$0	\$0
20	392.000	Transportation Equipment	\$0	\$0	\$0
21	393.000	Sewer - Other General Equipment	(\$15,639)	\$0	(\$15,639)
22	396.000	Power Operated Equipment	\$0	\$0	\$0
23	397.000	Communication Equipment	(\$306)	\$0	(\$306)
24					
25					
26					
27		<b>Total Utility Plant In Service</b>	<b>(\$3,134,954)</b>	<b>\$201,430</b>	<b>(\$2,933,524)</b>
28					
29					
30					

# EXHIBIT 6

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Income Tax Summary - Sewer**  
**For the Period Ending June 30, 2022**

Line Number (A)	Description (B)	Tax Rates (C)	Sewer (D)
1			
2	<b>Gross Operating Income</b>		\$775,191
3			
4	<b>Interest Expense</b>		(\$168,717)
5			
6	<b>Taxable Income</b>		<u>\$606,474</u>
7			
8	<b>State Income Tax</b>	5.0%	\$30,324
9			
10	<b>Federal Table Income</b>		<u>\$576,150</u>
11			
12	<b>Federal Income Tax</b>	21.0%	\$120,992
13			
14	<b>Total Income Tax</b>		<u><u>\$151,315</u></u>
15			
16			
17			

# EXHIBIT 7

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Contributions in Aid of Construction - Sewer**  
**For the Period Ending June 30, 2022**

Line Number (A)	NARUC Account (B)	Account Description (C)	Base Year Ended June 30, 2022 (D)
1			
2	271.000	Contributions in Aid of Construction (CIAC)	(\$749,759)
3			
4	272.000	Accumulated Amortization of CIAC	\$645,460
5			
6			(\$104,299)
7			
8			
9			



# EXHIBIT 8

## Bluegrass Water Utility Operating Company, Inc.

KY PSC Case No. 2022-00432

## Working Capital Requirement - Sewer

For the Period Ending June 30, 2022

Line Number (A)	Description (B)	Operating Expense (C)	Lead Days (D)	Working Capital Requirement (E)
1				
2	Operating Expenses for Test Period	\$1,832,283	45	\$225,898
3				
4	<b>Total Working Capital</b>	<b>\$1,832,283</b>	<b>45</b>	<b>\$225,898</b>
5				
6				
7				

# EXHIBIT 9

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Post Test-Year Adjustments to Rate Base - Sewer**

Line Number	NARUC Account	Base Year Ended June 30 2022	CPCN Additions	Retirements	Pro Forma For the 12 Months Ended June 30, 2022
(A)	(B)	(C)	(D)	(E)	(F)
1					
2	303.000	\$20,323	\$0	\$0	\$20,323
3	310.000	\$22,000	\$0	\$0	\$22,000
4	310.100	\$762,540	\$0	\$0	\$762,540
5	311.000	\$929,975	\$192,650	\$0	\$1,122,625
6	352.100	\$1,547,408	\$0	\$0	\$1,547,408
7	352.200	\$1,973,074	\$0	\$0	\$1,973,074
8	353.000	\$707,287	\$0	\$0	\$707,287
9	355.000	\$13,814	\$0	\$0	\$13,814
10	363.000	\$202,125	\$10,000	\$0	\$212,125
11	370.000	\$68,497	\$0	\$0	\$68,497
12	370.100	\$38,754	\$0	\$0	\$38,754
13	372.000	\$1,628,755	\$554,150	(\$15,000)	\$2,167,905
14	373.000	\$205,734	\$0	(\$192,288)	\$13,446
15	374.000	\$22,240	\$0	\$0	\$22,240
16	375.000	\$69,562	\$0	\$0	\$69,562
17	376.000	\$959	\$0	\$0	\$959
18	391.000	\$2,440	\$0	\$0	\$2,440
19	393.000	\$160,266	\$0	\$0	\$160,266
20	397.000	\$5,000	\$0	\$0	\$5,000
21					
22					
23		<b>\$8,380,751</b>	<b>\$756,800</b>	<b>(\$207,288)</b>	<b>\$8,930,263</b>
24					
25					
26					

# EXHIBIT 10

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Income Conversion Factor - Sewer**  
**For the Period Ending June 30, 2022**

Line Number (A)	Gross Income Conversion Factor Calculation (B)	Total Rate (C)	Conversion Factor % (D)	Total Conversion Factor (E)
1				
2	Gross Income from Revenue		100.00%	
3	Less: Bad Debt	1.00%	<u>1.00%</u>	3.89%
4	Net Income After Bad Debt		<u>99.00%</u>	
5				
6				
7	Less: State Income Tax @ 5.0%	5.00%	<u>4.95%</u>	19.26%
8	Net Income After Bad Debt and State Tax		<u>94.05%</u>	
9				
10	Less: Federal Income Tax @ 21%	21.00%	<u>19.75%</u>	76.85%
11				
12	Net Income After Bad Debt, State and Federal Income Taxes:		<u>74.30%</u>	<u>100.00%</u>
13				
14	Operating Income Conversion Factor (1/Line 12)		<u>1.35</u>	
15				
16				
17				

# EXHIBIT 11

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Revenue Conversion Factor - Sewer**  
**For the Period Ending June 30, 2022**

Line Number (A)	Gross Revenue Conversion Factor Calculation (B)	Total Rate (C)	Conversion Factor % (D)	Total Conversion Factor (E)
1				
2	<b>Gross Income from Revenue</b>		100.00%	
3	<b>Less: Bad Debt</b>	1.00%	1.00%	100.00%
4	<b>Net Income After Bad Debt</b>		<u>99.00%</u>	
5				
6				
7	<b>Gross Revenue Conversion Factor (1/Line 12)</b>		<u>1.01</u>	
8				
9				
10				



# EXHIBIT 12

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Rate Case Expenses - Sewer**  
**For the Period Ending June 30, 2022**

Line Number (A)	Item (B)	Vendor (C)	To Date Expense (D)	Estimate to Complete (E)	Total Expense (F)
1					
2	Depreciation Study	Gannett Fleming Rate Case Consultants	\$28,225	\$0	\$28,225
3	Class Cost of Service/Rate Design Study	ScottMadden, Inc.	\$5,300	\$0	\$5,300
4	Rate of Return Study	ScottMadden, Inc.	\$5,000	\$15,000	\$20,000
5	Legal Expenditures	Dinsmore & Shohl LLP	\$84,033	\$42,000	\$126,033
6					
7					
8			<b>\$122,558</b>	<b>\$57,000</b>	<b>\$179,558</b>
9					
10					
11					

REDACTED

EXHIBIT 13

Bluegrass Utility Operating Company, Inc.  
 KY PSC Case No. 2022-00432  
 Historic Rate Base Analysis  
 For the Period Ending June 30, 2022

Line Number	Acquisition	Service Area	Service Type	Acquisition Date	Rate Base	Improvements	Acquisition Related Costs	Depreciation	CIAC	30-Jun-22
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1	Airview	Airview	Sewer			274,701	125,198	(23,532)		376,818
2	Acadia Pines	Arcadia Pines	Sewer				79,580	(2,224)		92,356
3	Brocklyn	Brocklyn	Sewer			314,347	88,415	(23,688)		391,847
4	Carriage Park	Carriage Park	Sewer			13,403	74,703	(1,992)		91,939
5	Fox Run	Fox Run	Sewer			143,470	128,354	(15,092)		259,421
6	Marshall County	Golden Acres	Sewer			112,826	103,380	(13,802)		205,855
7		Great Oaks	Sewer			153,305	83,241	(16,108)		223,889
8	Herrington Haven	Herrington Haven	Sewer			8,966	62,043	(1,432)		84,577
9	Kingswood	Kingswood	Sewer			119,540	101,399	(22,160)		303,516
10	Lake Columbia	Lake Columbia	Sewer			158,670	88,735	(16,389)		233,705
11	LH Treatment	LH Treatment	Sewer			64,105	169,480	(51,415)	(12,709)	398,525
12	Marshall Ridge	Marshall Ridge	Sewer				66,344	(2,085)	(493)	81,767
13	Persimmon Ridge	Persimmon Ridge	Sewer			161,027	248,053	(31,826)		448,552
14	Randview	Randview	Sewer			13,598	90,774	(3,350)		121,023
15	River Bluffs	River Bluffs	Sewer			293,046	99,553	(25,029)	(17,542)	622,461
16	Springcrest	Springcrest	Sewer			8,409	46,737	(1,050)		69,096
17	JoAnn Estates	Timberland	Sewer			144,440	65,764	(8,827)		203,343
18	Woodland Acres	Woodland Acres	Sewer			5,856	62,067	(1,016)		76,907
19	Delaplain	Delaplain	Sewer			63,955	73,410	(71,027)	(73,555)	841,782
20	Darlington Creek	Darlington Creek	Sewer				4,120			4,121
21										
22						\$1,652,828	\$2,053,662	-\$332,043	-\$104,299	\$5,131,499

# EXHIBIT 14

**Bluegrass Water Utility Operating Company, Inc.**  
**KY PSC Case No. 2022-00432**  
**Rate Base Summary - Sewer**  
**For the Period Ending June 30, 2022**

Line Number	Description	Base Year Ended June 30, 2022	Pro Forma Adjustments	Pro Forma For the 12 Months Ended June 30, 2022
(A)	(B)	(C)	(D)	(E)
1				
2	Utility Plant in Service	\$8,460,922	\$559,512	\$9,020,434
3				
4	Accumulated Provision for Depreciation	(\$3,134,954)	\$201,430	(\$2,933,524)
5				
6	Accumulated Amortization	\$0	\$0	\$0
7				
8	Utility Plant Acquisition Adjustments	\$0	\$0	\$0
9				
10	Net Utility Plant	\$5,325,969	\$760,942	\$6,086,911
11				
12	<b>Less:</b>			
13	Contributions in Aid of Construction, net	(\$104,299)	\$0	(\$104,299)
14				
15	Subtotal:	(\$104,299)	\$0	(\$104,299)
16				
17	<b>Add:</b>			
18	Cash Working Capital	\$0	\$225,898	\$225,898
19	Rate Case Expense	\$0	\$179,558	\$179,558
20				
21	Subtotal:	\$0	\$405,456	\$405,456
22				
23	<b>Total Original Cost Rate Base</b>	<b>\$5,221,670</b>	<b>\$1,166,398</b>	<b>\$6,388,068</b>
24				
25				
26				