

**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 COMMISSION STAFF’S THIRD REQUEST FOR INFORMATION**

Bluegrass Water Utility Operating Company, LLC, (“Bluegrass Water” or the “Company”) by counsel, files its responses to the Commission Staff’s Third Request for Information, issued in the above-captioned case on May 31, 2023.

FILED: June 16, 2023

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-1:

- a. Provide the loan agreement for the \$2,900,000 loan.
- b. Explain whether Bluegrass Water received offers or drew interest from other financial institutions regarding the loan.
- c. Explain in detail what Bluegrass Water is doing with the money from the loan.

RESPONSE: (a) Please see CONFIDENTIAL Exhibit PSC 3-1 for a copy of the Loan Agreement between Bluegrass Water and CoBank.

(b) A potential loan to Bluegrass Water drew interest from multiple lenders. Despite conversations with multiple lenders, CoBank was the only financial institution to offer Bluegrass Water a term sheet.

(c) Bluegrass Water will use the loan proceeds to fund improvement projects at its Delaplain, Herrington Haven, Persimmon Ridge, and Woodland Acres systems, for which the Commission granted Certificates of Public Convenience and Necessity.¹ Bluegrass Water will also use the loan proceeds to reimburse Bluegrass Water's cash reserves and working capital expenses incurred as well as finance operational needs.

¹ See *Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Public Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Final Order (Mar. 30, 2023); *Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Herrington Haven Site*, Case No. 2022-00102, Final Order (Nov. 7, 2022); *Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Public Convenience and Necessity for Projects at the Persimmon Ridge Site*, Case No. 2022-00046, Final Order (Nov. 3, 2022); and *Electronic Application of Bluegrass Water Utility Operating Company, LLC for a Certificate of Public Convenience and Necessity for Projects at the Woodland Acres Site*, Case No. 2002-00015, Final Order (Sept. 1, 2022).

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-2:

a. Explain whether a 6.7 percent interest rate was economically the best available at the time the loan was agreed upon.

b. Provide the most recent credit report for Bluegrass Water.

RESPONSE: (a) The 6.7 percent interest rate was economically the best available rate at the time the loan was agreed upon. Please also see Bluegrass Water's Response to PSC No. 3-1(b). The interest rate offered was appropriate for the market at the time. *See Bluegrass Water's Response to PSC Request No. 1-1, Case No. 2022-00217.*

(b) Bluegrass Water has not obtained a credit report.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-3:

a. In ordering paragraph 1 of the final Order in Case No. 2022-00217, the Commission granted Bluegrass Water the authority to enter into the loan in an amount up to \$5,000,000. Explain why Bluegrass Water did not borrow the full amount for which the Commission granted authority.

b. State whether Bluegrass Water closed on the loan by the October 30, 2022 deadline that was established in the final Order in Case No. 2022-00217, and if not, then explain why not.

c. Explain why the loan agreement was not filed in the post-case correspondence in Case No. 2022-00217 once the loan was completed.

RESPONSE: (a) Based upon conversations with CoBank, Bluegrass borrowed an amount that its current cash flow could support. Ongoing conversations are occurring with CoBank to secure further debt when cash flows are available to support additional debt. *See* Case No. 2022-00217, Response to PSC Request No. 1-4 (“At present, however, the proposed financing is consistent with what the financial market will bear. The Company expects to source additional debt when its creditworthiness allows.”).

(b) The Company did not understand the final Order issued in Case No. 2022-00217 to establish an October 30, 2022 “deadline” to close on the loan. Paragraph 3 of the final Order issued in Case No. 2022-00217 required Bluegrass Water to file a statement regarding the issuance and distribution of the loan within 30 days of the date of issuance of said loan. Bluegrass Water complied with Paragraph 3 by filing the required statement in

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

the post-case file on December 19, 2022, which was within 30 days of the November 30, 2022 date of issuance of the loan.

While the Application cited to the June 2022 Term Sheet provided to Bluegrass Water by CoBank indicating that the terms offered to Bluegrass Water were based upon a closing date anticipated to occur no later than October 30, 2022, CoBank marked that Term Sheet as a "draft" and indicated in the body of the term sheet that such terms were "non-binding" and "subject to change." Following the Commission's approval of the loan on September 28, 2022, Bluegrass Water closed on the loan as early as practical based upon the requirements of the commercial underwriting and loan closing process, which could not begin until Bluegrass Water was approved to enter into the loan by the Commission.

(c) The Final Order in Case No. 2022-00217 did not require the filing of the loan agreement. Instead, it required "a statement setting forth the date or dates of issuance of evidences of indebtedness authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution." Case No. 2022-00217, Order ¶ 3 (Sept. 28, 2022). Bluegrass Water complied with that order by filing a statement setting forth the required information in the post-case correspondence within the time period required by the final Order. For a copy of the CoBank Loan Agreement, please see CONFIDENTIAL Exhibit PSC 3-1. No deficiency notice has been received since the identified information was timely provided in December of 2022.

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-4: Refer to the Application, Exhibit 4, page 2, paragraph f, indicating that the date of issue for the loan was November 30, 2022. Refer also to Bluegrass Water's response to Commission Staff's Second Request for Information (Staff's Second Request), Item 2a. stating that the company closed on its current debt on December 22, 2022. Reconcile the discrepancy for when the loan was issued to Bluegrass Water.

RESPONSE: The Company inadvertently provided December 22, 2022 in its Responses to Staff's Second Request for Information. The date of issue of the loan was correctly identified in the Application as November 30, 2022. Please also see Bluegrass Water's Public Post-Closing Notice filed with the Commission in Case No. 2022-00217 and available at: [https://psc.ky.gov/pscecf/2022-00217/kerry.ingle@dinslaw.com/03092023120054/Closed/Revised Public Post Closing - Notice to Commission 12 19 2022 .pdf](https://psc.ky.gov/pscecf/2022-00217/kerry.ingle@dinslaw.com/03092023120054/Closed/Revised%20Public%20Post%20Closing%20-%20Notice%20to%20Commission%2012%2019%202022.pdf).

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-5: Refer to the D'Ascendis's Direct Testimony, Exhibit DWD-1.

- a. Provide the underling amounts for debt and equity in the capital structure.
- b. Provide the amount allocated to Bluegrass Water from [CSWR] for debt
and equity in the capital structure.

RESPONSE: (a) **The underlying amounts of debt and equity in the capital
structure is as follows: Debt: \$2,481,126 & Equity: \$3,906,942**

(b) **All equity for Bluegrass is sourced from CSWR, LLC. All debt is issued by
Bluegrass Water. No amounts of debt or equity are "allocated" from CSWR to Bluegrass
Water.**

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-6: Refer to the D'Ascendis Direct Testimony, Exhibit DWD-3, page

1. Also refer to the final Order in Case No. 2022-00217.

a. Provide the capital structure and Weighted Average Cost of Capital (WACC) using a capital structure of 50 percent debt and 50 percent common equity.

b. Provide the capital structure and WACC assuming that Bluegrass Water borrowed the full \$5,000,000 approved in Case No. 2022-00217.

RESPONSE: (a) **9.23% is the WACC using a 50% debt and 50% equity capital structure.**

(b) **Assuming Bluegrass Water's cash flows could support a loan for the \$5,000,000 authorized by the Kentucky Commission, the Debt percentage would be 52.3% and Equity percentage would be 47.7%. The resulting WACC would be 9.12%.**

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-7: Refer to the Direct Testimony of Brent Thies (Thies Direct Testimony), at pages 25–26. Provide the revenue requirement calculations necessary to remove capital additions related to the projects in which a CPCN has not yet been granted.

RESPONSE: Please see Exhibit PSC 3-7. Bluegrass Water acknowledges that inclusion of these amounts in the proposed revenue requirement prior to issuance of a CPCN was an oversight. As reflected in the Application and Direct Testimony, Bluegrass Water intends to request recovery of those amounts in this proceeding only upon approval of the CPCN by the Commission.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-8: Refer to the Thies Direct Testimony, at page 27, line 18–line 20 indicating that Schedule BT-13 “summarizes the acquisition date rate base for each acquired system as determined by the Company’s investigations, studies and appraisals.”

- a. Provide all studies and appraisals referred to therein.
- b. Provide all appraisals received regarding the value of the Delaplain system and property regardless of whether Bluegrass Water relied on the appraisals.
- c. Provide all appraisals received regarding the value of the River Bluffs systems and property regardless of whether Bluegrass Water relied on the appraisals.

RESPONSE: (a) Please see Exhibit PSC 3-8 for appraisals and Cost Studies.

(b) Please see appraisals in Exhibit PSC 3-8.

(c) Please see Exhibit PSC 3-8.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-9: Refer to the Thies Direct Testimony, at page 27, line 2–page 35,
line 4. Refer also to the Thies Direct Testimony, Schedule BT-13.

a. Provide the total plant in service, accumulated depreciation, and net plant
in service at the time of acquisition for each of the systems listed in Schedule BT-13, broken down
by plant account where possible, and explain where Bluegrass Water obtained the historical plant
information for each system.

b. Provide a breakdown of the “Improvements” listed on Schedule BT-13 for
each system by project by identifying each project, briefly describing each project, indicating the
total cost of each project, and stating when each project was placed in service.

c. Provide an itemized breakdown of the “Acquisition Related Costs” listed
on Schedule BT-13 for each system, and provide any invoices that support the amounts listed
therein for each system.

d. Provide workpapers showing how the “Depreciation” listed on Schedule
BT-13 was calculated for each system.

RESPONSE: Please see Exhibit PSC 3-9. Please also see Exhibit PSC 3-12, which
contains the information from which historical plant information was derived.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-10: Refer to the Thies Direct Testimony, at page 29, lines 12–20, and Schedule BT-4. Provide the case number(s) in which Bluegrass Water was authorized to include the Acquisition Adjustments in the Total Utility Plant in Service.

RESPONSE: Bluegrass Water has not previously sought and, as a result, has not been previously authorized to include any acquisition adjustments. Bluegrass Water seeks the approval to include the Acquisition Adjustments in this proceeding.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-11: Refer to the Thies Direct Testimony, at page 30, line 3. Explain
how the land and easements were included in rate base.

RESPONSE: Land and easements were included in utility plant in service.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-12: Refer to the Thies Direct Testimony, at page 30, line 4–line 10.

Confirm that Springcrest, Woodland Acres, and Herrington Haven are the only systems for which no historic book values were used, in whole or in part, to calculate the “Acquisition Date Rate Base” reflected in Schedule BT-13, and if that cannot be confirmed, explain why it cannot be confirmed.

RESPONSE: Please see Exhibit PSC 3-12 for the source of the Acquisition Date Rate Base of each system. The Springcrest, Woodland Acres, and Herrington Haven sites are not the only systems for which no historic book values, in whole or in part, were used to calculate the Acquisition Date Rate Base. Historic book values were not used, in whole or in part, for any system listed in Exhibit PSC 3-12 for which an annual report was not used to derive the Acquisition Date Rate Base.

Page 30, lines 4-10 of the Direct Testimony of Brent Thies contains a discussion of certain systems for which Bluegrass Water seeks an acquisition adjustment in this proceeding. As was set forth in the Direct Testimony of Brent Thies and depicted in Exhibit PSC 3-12, Bluegrass Water can confirm that Springcrest, Woodland Acres, and Herrington Haven are the only systems for which no historic book values were used, in whole or in part, and for which Bluegrass Water seeks an acquisition adjustment in this proceeding.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-13: Refer to the Thies Direct Testimony, at page 34, line 6–line 10.

a. Explain how tax expense is allocated, if at all, between Bluegrass Water and its parent and affiliate companies.

b. Provide any tax sharing agreement to which Bluegrass Water is a party.

RESPONSE: (a) **No tax expense is allocated among Bluegrass Water and other entities.**

(b) **Bluegrass Water is not a party to any tax sharing agreement. Bluegrass Water files as a C-Corporation and all tax results remain with Bluegrass Water.**

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-14: Refer to the Thies Direct Testimony, Schedules BT-4 and BT-5.
Provide an explanation for the \$10,000 adjustment to Acct 352.200 Collection Sewers Gravity for
Plant in Service and the \$(367) adjustment to the same account for Accumulated Depreciation,
including specifically why the amounts are different.

RESPONSE: **An adjustment was made to correctly classify an asset to account
352.200 so that it was consistent with similar assets. The corresponding adjustment to
accumulated depreciation corrects the life to date depreciation value for that asset.**

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-15: Refer to the Thies Direct Testimony, Schedules BT-4 and BT-5.

a. Provide a version of Schedule BT-4 with the plant in service, including the Pro Forma Adjustments, broken out by system and by account for each system.

b. Provide a version of Schedule BT-5 with the accumulated depreciation, including the Pro Forma Adjustments, broken out by system and by account for each system.

RESPONSE: Please see Exhibit PSC 3-15.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-16: Refer to the Thies Direct Testimony, Schedule BT-14. Explain why
Bluegrass Water included Rate Case expenses in the Rate Base calculation.

RESPONSE: Bluegrass Water is seeking to recover the cost of rate case
expense in this proceeding. Similar to working capital, these expenses have been funded prior
to recognition or recovery and thus, recovery through rate base is sought. Bluegrass Water
has no objection to amortizing rate case expense over three years.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-17: Refer to the Thies Direct Testimony, Schedules BT-5 and BT-9.

Reconcile the pro forma adjustment for Account 373 Plant Sewers.

RESPONSE: Schedule BT-5 contains the gross asset value being retired, while Schedule BT-9 contains the accumulated depreciation for that asset. The delta of \$5,858 between the two represents the remaining book value of the asset being retired.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-18: Refer to the Thies Direct Testimony, page 14, line 15–page 17, line 10, discussing the allocation of “indirect charges” based on a sharing percent. Refer also to the Application, Exhibit 25, Pro Forma Income Statement.

a. Provide the total amount of indirect charges to which the sharing percentage was applied to calculate the “Allocated Overhead” in the amount of \$445,726 reflected on line 26 of Exhibit 25.

b. Provide an itemized breakdown of the total amount of indirect charges to which the sharing percentage was applied to calculate the “Allocated Overhead” in the amount of \$445,726 reflected on line 26 of Exhibit 25.

c. For each category of expense identified in the itemized breakdown, identify the amount of any business development expense that was removed before the indirect expenses were allocated using Bluegrass Water’s proposed methodology, and for any business development expense removed, explain how Bluegrass Water identified the amount to be removed.

RESPONSE: (a) \$10,144,799.

(b) Please see CONFIDENTIAL Exhibit PSC 3-18.

(c) Please see CONFIDENTIAL Exhibit PSC 3-18. In addition to removing the cost of salaries associated with business development employees, including the associated executive supervisory expense, the Company removed all expense reports provided by Business Development employees and certain vendors whose primary purpose relates to the acquisition of new systems rather than ongoing business activities.

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-19: Refer to the Thies Direct Testimony, page 14, line 15–page 17, line 10, discussing differences between direct charges, indirect charges allocated based on CSWR's three-factor methodology, and jointly billed charges allocated based on other cost drivers. Refer also to the Application, Exhibit 25, Adjusted Income Statement.

a. For the expenses listed in each of the accounts in column D, lines 10 through 42 of Exhibit 25, state whether the expenses are direct charges, indirect charges allocated based on CSWR's three-factor methodology, and jointly billed charges allocated based on other cost drivers.

b. If an account contains more than one type of charge, explain the differences and identify those portions of the expenses listed in column D, lines 10 through 42 that are allocated using each methodology.

c. For any expenses listed in each of the accounts in column D, lines 10 through 42 that represent jointly billed charges allocated based on cost drivers other than CSWR's three factor methodology, explain in detail how each such expense is allocated and why the methodology is reasonable.

d. For any expenses listed in each of the accounts in column D, lines 10 through 42, explain how amounts allocated to Bluegrass Water's water service are determined and allocated.

RESPONSE: (a) Please see Exhibit PSC 3-19.

(b) Please see Exhibit PSC 3-19.

(c) Please see Exhibit PSC 3-19.

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

(d) Allocations between sewer and water inside Bluegrass Water are based on connection count.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-20: Refer to the Application, Exhibit 25, Adjusted Income Statement. For NARUC Accounts 923.400 OSS-Legal, 923.500 OSS-Accounting, 923.600 OSS-Management Consulting, 923.900 OSS-IT, 701.000 Sewer-Contract Operations Labor & Expense, 702.000 Sewer-Misc Operations, and 705.000 Sewer-Misc Operations:

- a. Identify any contractor, vendor, or other third party that provides the goods or services for which expenses are recorded in each account and describe the goods or services provided by each contractor, vendor, or other third party.
- b. Provide an itemized breakdown of the expenses recorded in each account based on the party that provided the goods or services.
- c. Provide invoices or other documents supporting the expenses recorded in each account, and identify which account or accounts the invoices or documents produced provide support for.
- d. If an expense or a portion thereof is not provided by a third party, identify the expense and explain what it is and how it was determined.

RESPONSE: (a) Please see Exhibit PSC 3-20(a), Expense Detail.

(b) Please see Exhibit PSC 3-20(a), Expense Detail.

(c) Please see Exhibit PSC 3-20(c), Invoices, which are provided in six subparts.

(d) There is no such expense included in these accounts.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-22: Refer to the Thiess Direct Testimony, Schedule BT-7,
Contributions in Aid of Construction-Sewer.

a. Provide justification and workpapers used to calculate the Contributions in
Aid of Construction (CIAC) amount of \$749,460.

b. Provide justification and workpapers used to calculate the Accumulated
Amortization of CIAC amount of \$645,460.

RESPONSE: Please see Exhibit PSC 3-22.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-24: Refer to Bluegrass Water's response to Staff's Second Request, Item 13. Explain the rationale for using equity financing as compared to debt financing for utility operations and investments.

RESPONSE: Bluegrass Water continuously seeks debt financing to balance its capital structure. As explained in the response to PSC 3-3, Bluegrass Water borrowed the amount that current cash flows could support. Because current cash flows have not yet been sufficient to support new debt, Bluegrass Water has used equity financing to fund utility operations and investments.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-25: Refer to Bluegrass Water's response to Staff's Second Request, Item 10.

a. Explain why the average of the mean and median was used in applying the discounted cash flow (DCF) model to the proxy group and explain whether this is common practice for return on equity (ROE) analysis.

b. Provide the highest awarded ROE, within their jurisdictions, for American Water Works Company, Inc., and Essential Utilities Inc.

c. Confirm if the California Water Service Group's May 3, 2021, cost of capital case is still pending before the California Public Utilities Commission (CPUC).

RESPONSE: (a) **Using the average of the mean and median values takes into account all individual results while mitigating high and low outliers. Generally, rate of return analysts look to measures of central tendency (e.g., means and medians) as well as ranges of model results to determine their recommendations. Mr. D'Ascendis' approach is consistent with that approach.**

(b) **Please see Exhibit PSC 3-25(b)-1 attached hereto. Page 36 of Exhibit PSC 3-25 (b)-1 – AWK Investor Presentation provides regulatory outcomes, including awarded ROEs for American Water Works Company, Inc.'s "Top 10 States." It is disclosed that Tennessee American Water has authorized ROEs of 10.00%. In addition, the disclosed authorized ROE for Pennsylvania reflects the Company's view of the allowed ROE in the case, as the ROE was not disclosed in the Order.**

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

Aqua Pennsylvania, Inc., owned by Essential Utilities, Inc., is operating under an authorized ROE of 10.00%. Please see Exhibit PSC 3-25 (b)-2 – SNL Report Aqua PA.

(c) According to the online docket of the California Public Utilities Commission, the case was still pending and listed as active as of June 15, 2023. https://apps.cpuc.ca.gov/apex/f?p=401:56:::RP,57,RIR:P5_PROCEEDING_SELECT:A2105002

Witness: Dylan D'Ascendis

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-26: Refer to Bluegrass Water's response to Staff's Second Request, Item
12b.

a. Confirm that the "Bloomberg 'default' beta" is automatically calculated for
a two-year horizon.

b. Explain if Bloomberg betas can also calculate a five-year horizon. If so, then
explain why a two-year horizon was calculated compared to a five-year horizon.

c. If possible, provide the Capital Asset Pricing Model (CAPM) Bloomberg
betas using a five-year horizon.

RESPONSE: (a) **Confirmed.**

(b) **As noted in response to part (a), Mr. D'Ascendis relied on Bloomberg's default
beta calculation. Because this is Bloomberg's default setting, it would reflect data relied on
by investors.**

(c) **Please see Exhibit PSC 3-26 (c) - Bloomberg Five Year Betas.**

Witness: Dylan D'Ascendis

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-27: Refer to Bluegrass Water's response to Staff's Second Request, Item 15.

a. Provide the 2022 long-term debt, short-term debt, and equity for Bluegrass Water's regulated affiliates that are owned by CSWR that was requested in Staff's Second Request, Item 15.

b. Explain whether the commission or any party in the other jurisdictions have taken the position that the capital structure of Bluegrass Water's regulated affiliates should include more debt to move toward a 50 percent debt and 50 percent common equity ratio.

RESPONSE: (a) Please see **CONFIDENTIAL Exhibit 3-27(a)**, which is the audited, consolidated financial statements of CSWR, LLC as of December 31, 2022. This Exhibit contains the long-term debt, short-term debt and equity for each regulated utility owned by CSWR, LLC. However, Bluegrass Water maintains, and reserves the right to object to, discovery of information related to capital structures of affiliates in other jurisdictions.

The ability of Bluegrass Water to access the capital markets and the ability of regulated affiliates owned by CSWR to access the capital markets are not the same. The cost of debt and ability to incur debt is based on factors unique to each entity, including the amount of cash flow derived from rates for each entity and the assets of each entity. As such, the capital structure of different entities are not relevant to whether Bluegrass Water has proposed a fair, just and reasonable rate based upon the capital structure of Bluegrass Water.

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

(b) The Missouri Office of the Public Counsel recommended a different capital structure which contains 45% common equity. This rate case is not final, and as a result, the proposal has not been adopted by the Missouri Public Service Commission. In contrast, in the recently completed rate case of Bluegrass Water's Louisiana affiliate, the Louisiana Commission Staff based its rate recommendation on a capital structure consisting of 100% equity.

Witness: Brent Thies

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

REQUEST NO. 3-28: Provide the total number of connections and the total customer count
of systems managed by CSWR at the end of each calendar year for each of the last five years.

RESPONSE: Please see Exhibit PSC 3-28 Calendar Year Connections -
CSWR.

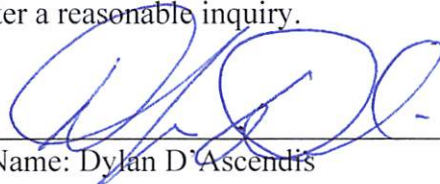
Witness: Aaron Silas

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 THE
COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

VERIFICATION

I, Dylan D'Ascendis, 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: Dylan D'Ascendis

Title: Partner

ScottMadden, Inc.

STATE OF NEW JERSEY

)

) ss:

COUNTY OF BURLINGTON

)

SUBSCRIBED AND SWORN TO before me on this the 12 day of June, 2023.

My commission expires: 6/9/2024

Margaret A Clancy
Notary Public of New Jersey
My Commission Expires 6/9/2024

Margaret A Clancy

Notary Public

