

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

In the Matter of:

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

**BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC’S
SUPPLEMENTAL RESPONSES TO COMMISSION STAFF’S
SECOND REQUEST FOR INFORMATION**

Bluegrass Water Utility Operating Company, LLC, (“Bluegrass Water” or the “Company”) by counsel, files its supplemental responses to the Commission Staff’s Second Request for Information, issued in the above-captioned case on April 28, 2023.

FILED: September 15, 2023

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REQUEST NO. 2-3: Refer to the D'Ascendis Direct Testimony, pages 9–11. Explain the specific business risks that are associated with Bluegrass Water.

RESPONSE: Recognizing that the pending rate case is confined solely to wastewater services, Bluegrass Water is answering this data request from that viewpoint. In general, Bluegrass Water references the Direct Testimony of Josiah Cox, Jacob Freeman, and Dylan D'Ascendis for a discussion of the business risks faced by Bluegrass Water.

At pages 9-12 of his Direct Testimony, Mr. D'Ascendis provides a description of the business risks faced by the wastewater industry in general. Bluegrass Water believes that it is exposed to each of these general business risks identified by Mr. D'Ascendis.

In addition, Bluegrass Water faces business risks beyond those faced by the industry in general. For instance, as Mr. D'Ascendis discusses at pages 48-49, unlike most other wastewater utilities, Bluegrass Water purchases “troubled” systems that are typically in a state of non-compliance with environmental permitting limits. As reflected in Mr. Freeman's testimony, to address this risk Bluegrass Water seeks to engage the environmental regulator, through Agreed Orders, to address a timeline for bringing these systems into compliance. There is a substantial business risk associated with relying on the environmental regulator to continue to allow a grace period for bringing such systems into compliance especially in the recent era of continued industrial equipment supply chain issues. Some wastewater equipment like large electrical panels and variable frequency drives have 55 week lead times compared to 16 weeks pre-pandemic. These supply chain issues slow project development and puts Bluegrass Water in potential violation of agreed orders.

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In addition, at the time that it purchases these systems, Bluegrass Water adopts the rates that are currently in place for those systems. As Mr. Cox states, in some instances, these systems have not sought rate increases in years or even decades. As such, these adopted rates do not come close to reflecting current operating and compliance costs, including recent inflation-driven cost increases. As an example, a wastewater system with inoperable or missing blowers and aerators will not utilize much electricity. Similarly, a system with a faulty disinfection system will not utilize any or very much disinfection agent. Upon acquisition, Bluegrass Water will install such blowers / aerators and will begin dosing with proper amounts of disinfection chemicals. As such, these operation expenses are immediately increased well beyond the amounts that are included in the adopted rates. As a result of the inadequate rates and the increased operating expenses for these systems, Bluegrass Water is immediately exposed to operating losses that will continue until rates are increased. This is a substantial business risk.

In addition, Bluegrass Water is exposed to regulatory lag associated with capital improvements. For instance, in many cases, the systems acquired by Bluegrass Water were built to treat permitted limits existing at the time of construction. As new pollutants are identified and / or permitted limits become increasingly stricter, these systems are incapable of meeting permitted limits with the processes existing at that treatment plant. For this reason, as explained by Mr. Freeman, Bluegrass Water has had to invest capital for process improvements beyond those existing at the plant. For instance, Mr. Freeman discusses the MBBR's planned for Persimmon Ridge, Delaplain, and Herrington Haven. Other types of

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BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC'S SUPPLEMENTAL RESPONSES TO THE COMMISSION STAFF'S FOURTH REQUEST FOR INFORMATION capital improvements include, but are not limited to, solids handling at Delaplain and a peroxyacetic acid treatment system at Herrington Haven.

These operating losses and capital improvement regulatory lag are increasingly risky when one recognizes Bluegrass Water's small size. As Mr. D'Ascendis explains at pages 4953 of his testimony, Bluegrass Water's "smaller size relative to the Utility Proxy Group companies indicates greater relative business risk for the Company because, all else being equal, size has a material bearing on risk."

A further risk particular to Bluegrass is the concentration of revenue from a small group of commercial customers in a single service area. Bluegrass' commercial customers are concentrated almost exclusively in the Delaplain service area. In fact, a group of only 5 commercial customers accounts for 10% of the Company's revenue. Any economic or other event affecting that service area and those specific customers could significantly impact the revenues of the Company. Any efforts to mitigate this risk through cost allocation or rate design are hampered by the fact that the Delaplain service area also provides service to a significant number of residential customers in addition to the commercial customers.

SUPPLEMENTAL RESPONSE: Recognizing that the pending rate case is confined solely to wastewater services, Bluegrass Water is answering this data request from that viewpoint. In general, Bluegrass Water references the Direct Testimony of Josiah Cox, Jacob Freeman, and Dylan D'Ascendis for a discussion of the business risks faced by Bluegrass Water.

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In addition, Bluegrass Water faces business risks beyond those faced by the industry in general. For instance, as Mr. D'Ascendis discusses at pages 48-49, unlike most other wastewater utilities, Bluegrass Water purchases "troubled" systems that are typically in a state of non-compliance with environmental permitting limits. Please see Exhibit PSC 2-3 for a representative depiction of the state of the systems when purchased by Bluegrass Water, and a representative sample of improvements made thereto. As reflected in Mr. Freeman's testimony, to address this risk Bluegrass Water seeks to engage the environmental regulator, through Agreed Orders, to address a timeline for bringing these systems into compliance. There is a substantial business risk associated with relying on the environmental regulator to continue to allow a grace period for bringing such systems into compliance especially in the recent era of continued industrial equipment supply chain issues. Some wastewater equipment like large electrical panels and variable frequency drives have 55 week lead times compared to 16 weeks pre-pandemic. These supply chain issues slow project development and puts Bluegrass Water in potential violation of agreed orders.

In addition, at the time that it purchases these systems, Bluegrass Water adopts the rates that are currently in place for those systems. As Mr. Cox states, in some instances, these systems have not sought rate increases in years or even decades. As such, these adopted rates do not come close to reflecting current operating and compliance costs, including recent

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These operating losses and capital improvement regulatory lag are increasingly risky when one recognizes Bluegrass Water's small size. As Mr. D'Ascendis explains at pages 49 -

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Witness: Josiah Cox