

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

In the Matter of:

ELECTRONIC JOINT APPLICATION OF)	
BLUEGRASS WATER UTILITY OPERATING)	
COMPANY, LLC FOR APPROVAL OF ACQUISITION)	
AND TRANSFER OF OWNERSHIP AND)	
CONTROL OF ASSETS OF COMMONWEALTH)	Case No.
WASTEWATER SYSTEMS, LLC, YUNG FARM)	2023-00181
ESTATES HOMEOWNERS' ASSOCIATION, INC.,)	
AND MOON RIVER MARINA & RESORT LLC)	

**BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC'S
RESPONSES TO COMMISSION STAFF'S FIRST REQUESTS FOR INFORMATION**

Bluegrass Water Utility Operating Company, LLC, (“Bluegrass Water” or the “Company”) by counsel, files its responses to the Commission Staff’s First Requests for Information, issued in the above-captioned case on June 27, 2023.

FILED: July 11, 2023

ELECTRONIC JOINT APPLICATION OF BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC FOR APPROVAL OF ACQUISITION AND TRANSFER OF OWNERSHIP AND CONTROL OF ASSETS OF COMMONWEALTH WASTEWATER SYSTEMS, LLC, YUNG FARM ESTATES HOMEOWNERS' ASSOCIATION, INC., AND MOON RIVER MARINA & RESORT LLC
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BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC'S RESPONSES TO THE COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

REQUEST NO. 1-1: Refer to the Application, page 6, indicating that the system operated by Moon River Marina & Resort, LLC (Moon River) provides service to a lakeside resort that includes 12 recreational vehicle sites, 15 single-family rental cottages, a food store, a restaurant, and a laundromat.

a. State whether the lakeside resort that is served by the Moon River system is also owned by Moon River.

b. Identify any property currently served by the Moon River system that is not owned by Moon River and describe the nature of service each such property receives.

c. State whether Moon River currently charges any rate for the service provided by its system and if so, provide any rates currently charged.

d. Explain what type of rate structure Bluegrass Water anticipates developing for the Moon River system, including whether Bluegrass Water anticipates bringing the Moon River system into Bluegrass Water's unified rate.

e. If the resort served by the Moon River system were to cease operations after Bluegrass Water made investments in the system, explain whether Bluegrass Water would expect to recover that investment from its other customers.

RESPONSE: **A. Yes. Moon River Marina & Resort, LLC owns both the Marina and the Resort.**

B. No other properties are served by the Moon River system.

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C. Moon River does not currently charge any rates for the service provided by its system.

D. Bluegrass Water intends to operate the system for a length of time to gain more familiarity with the costs associated with its operation, after which the Company will request to bring Moon River under the Bluegrass Water unified rate in a future rate case.

E. Moon River has no intent to cease operations at the resort. However, should the resort at Moon River cease operations, Bluegrass Water reserves the right to request relief to recover its stranded investment in the system.

Witness: Aaron Silas

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REQUEST NO. 1-2: Refer to the Application, pages 5–6.

a. Provide the initial rate that Bluegrass Water proposes to charge customers of the system currently owned by Yung Farm Estates Homeowners' Association, Inc. (Yung Farms), and explain how that initial rate was determined.

b. Explain how Bluegrass Water determined an initial rate for the Moon River system of \$21.00, including why it proposes a rate that it contends will not allow it to recover its cost of operating the Moon River system.

c. Provide a rate for the Moon River system that will cover the operating expenses of the Moon River system and any return on the Moon River system, and provide an Excel spreadsheet with all formulas rows, and columns unprotected and fully accessible showing how that rate was calculated.

RESPONSE: **A. The Company proposes to adopt the current owner's rates of \$60 per month. This rate was chosen because it mirrors the current rate and is consistent with practice in prior acquisitions.**

B. The Moon River system currently does not charge for sewer services to the Moon River resort at large or to any of the 30 connections: 12 recreational vehicle sites, 15 single-family rental cottages, a food store, a restaurant, and a laundromat. Therefore, the Company proposes to charge \$21.00 dollars per connection per month for a total monthly charge of \$630. The \$21.00 per connection sewer rate proposed by Bluegrass Water is meant to be an interim rate charged until Bluegrass Water files for Commission approval of

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permanent rates in a future rate proceeding. The Company is proposing this interim rate – as opposed to the current \$0 charge -- as a way to recoup a small portion of the operating expenses necessary to run this system.

C. Please see attached Exhibit PSC 1-2.

Witness: Aaron Silas

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REQUEST NO. 1-3: Provide an itemized breakdown of the annual operation and maintenance expenses Bluegrass Water expects to incur for each system that is proposed to be acquired.

RESPONSE: Please see attached Exhibit PSC 1-3 – Expected Annual O&M Expenses. These expenses represent preliminary estimates and are subject to change upon Bluegrass Water's operation of the systems in question.

Witness: Aaron Silas

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REQUEST NO. 1-4: Provide the current plant in service and accumulated depreciation by plant account for each system that is proposed to be acquired.

RESPONSE: Please see tab "4" of attached **CONFIDENTIAL** Exhibit PSC 1-4. Additionally, please refer to Bluegrass Water's response to PSC 1-10.

Witness: Brent Thies

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REQUEST NO. 1-5: Provide the estimated useful lives of the plant in service by plant account for each system that is proposed to be acquired, and explain how those useful lives were calculated.

RESPONSE:

Account 370; Land and Land Rights: Indefinite

Account 311; Structures & Improvements: 30 years

These amounts are adapted from the depreciation rates approved in Kentucky PSC Case No. 2020-00290.

Witness: Brent Thies

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REQUEST NO. 1-6: For each of the systems proposed to be acquired, provide every contract with an operator and every invoice from an operator for the last four years.

RESPONSE:

- **Commonwealth:** The Company has been informed by Commonwealth Wastewater, LLC ("Commonwealth") that no contract operators are utilized; therefore, no invoices can be provided.
- **Yung Farms:** The Company has been informed by Yung Farm that no contract operators are utilized; therefore no invoices can be provided.
- **Moon River:** The Company has been informed by Moon River that Russ, Inc. is responsible for testing and the addition of treatment chemicals. Please see the attached Exhibit PSC 1-6 for the associated invoices. No contract was provided.

Witness: Aaron Silas

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REQUEST NO. 1-7: Provide a copy of Commonwealth Wastewater Systems, LLC, Yung Farms, and Moon River balance sheet, income statement, and statement of retained earnings for the 12-month period ending December 31, 2022. If such documents are not available for the period ending December 31, 2022, provide them for the most recent period for which they are available.

RESPONSE: Please see attached Exhibit PSC 1-7, the balance sheet and income statement provided to the Company by Commonwealth. Commonwealth has informed the Company that it does not have the ability to run a statement of retained earnings.

The Company has been informed by Yung Farm that a balance sheet, income statement, and statement of retained earnings are not available.

The Company has requested this information from Moon River, but no supporting documentation has been made available. The Company will supplement this data request should the information become available in the future.

Witness: Aaron Silas

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REQUEST NO. 1-8: Provide any information and documentation regarding expenses paid by Yung Farms and Moon River for operation and maintenance of their wastewater facilities since 2019.

RESPONSE: Please see attached Exhibit PSC 1-8 – Yung Farm Invoices - 2022, provided to the Company by Yung Farm, for all available invoices for expenses paid for operation and maintenance.

The Company has requested this information from Moon River and will supplement this request if the information becomes available.

Witness: Aaron Silas

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REQUEST NO. 1-9: Provide the most recent audited financial statement for Bluegrass Water.

RESPONSE: Please see **CONFIDENTIAL Exhibit 9, attached to the Application, and PSC 1-9 – Bluegrass Water 2022 Annual Report. Bluegrass Water does not compile audited financial statements.**

Witness: Aaron Silas

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REQUEST NO. 1-10: Provide the journal entries that Bluegrass Water will use to record the acquisition of each system.

RESPONSE: Please see the attached **CONFIDENTIAL** Exhibit PSC 1-4, specifically, tabs "10-Commonwealth, 10-Moon River, 10-Yung Farms," for journal entries that Bluegrass Water will use to record the acquisition of each system.

Witness: Brent Thies

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REQUEST NO. 1-11: Explain how Bluegrass Water intends to fund any projects listed in the engineering report attached to the Application.

RESPONSE: All equity capital is obtained from CSWR, LLC. Bluegrass Water requests equity on an as-needed basis to fund necessary investments. In the event the Company is able to obtain access to additional debt financing, following the conclusion of the pending rate case, it may also utilize debt to fund the projects, as well. Please also see the response to PSC 1-13, below.

Witness: Aaron Silas

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REQUEST NO. 1-12: State whether Bluegrass Water currently anticipates the need, within the next five years, for any capital projects that are not listed in the engineering reports attached to the Application, to serve the customers of each system discussed therein. If so, provide an itemized list of the capital projects that Bluegrass Water has identified that it will construct for each system. For each such project, include the reason for the project, the cost to construct each project, and the source of funding Bluegrass Water expects to use for each project.

RESPONSE: No capital projects are currently anticipated for these systems, with the exception of those outlined in the engineering reports attached to the Application as CONFIDENTIAL Exhibits 2, 3, and 4. Nevertheless, the engineering reports are preliminary estimates. The Company expects that after acquiring and becoming more familiar with the systems in this Application, the list of capital improvements for the initial renovation of the system will be refined, which may require more or less improvements than those outlined in the engineering reports.

Witness: Jake Freeman

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REQUEST NO. 1-13: Provide an update regarding Bluegrass Water's efforts to obtain debt financing.

RESPONSE: Bluegrass Water has as its goal a balanced capital structure which over time will require more debt. As shown in Kentucky PSC Case No. 2022-00217, the Company was able to source debt from a commercial lender; that financing closed in December 2022. The Company will continue conversations with its current lender and other lenders over time, similar to the process followed in Kentucky PSC Case No. 2022-00217, to increase the amount of debt in its capital structure. Debt financing necessary to reach a 50/50 capital structure is subject to cash flow requirements which Bluegrass Water is currently unable to meet. The Company believes that the revenue change resulting from its current rate filing (Kentucky PSC Case. No. 2022-00432) will improve Bluegrass Water's creditworthiness and allow for the sourcing of additional commercial debt. The amount of additional debt that may be available will be dependent on the cash flow that results from the pending rate case, Kentucky PSC Case No. 2022-00432.

Witness: Brent Thies

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REQUEST NO. 1-14: Provide a of copy of Central States' and CSWR, LLC's cost allocation manual and any other written procedures that describe the methodology Central States and CSWR, LLC use to allocate costs among each of their subsidiaries, including any nonutility subsidiaries and out-of-state subsidiaries.

RESPONSE: Please find CSWR, LLC's Cost Allocation Manual, attached as Exhibit PSC 1-14. No costs associated with Central States are allocated to its affiliates.

Witness: Brent Thies

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REQUEST NO. 1-15: Explain whether Bluegrass Water intends to record on its books or on the books of each system acquired an acquisition adjustment to reflect the amount by which the purchase price of each utility exceeds the net book value of each utility acquired

RESPONSE: Bluegrass estimates it will need to book an acquisition adjustment of [REDACTED] on its books due to the purchase price exceeding Net Book Value for Commonwealth. Bluegrass Water estimates that it will not need to book an acquisition adjustment on its books for Moon River or Yung Farm.

Witness: Brent Thies

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REQUEST NO. 1-16: Explain the anticipated effect on future rates of each system in the Application.

RESPONSE: The Company cannot attest to the anticipated effect on the future rates of the systems to be acquired at this time, as too many variables exist. Bluegrass Water intends to operate the systems at the proposed interim rates for a length of time to gain more familiarity with the costs associated with their operation, after which the Company will request to bring the systems under the Bluegrass Water unified rate in a future rate case.

Witness: Aaron Silas

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REQUEST NO. 1-17: Provide the distance between each system that is proposed to be acquired and the closest point at which these facilities could be attached to the nearest known wastewater facilities. Provide any information and documentation regarding availability, feasibility, and cost of connecting each system that is proposed to be acquired to any other wastewater utility system.

RESPONSE:

- **Commonwealth:** The nearest available system is the Danville Municipal Sewer System, which, assuming that the nearest point of the collection system has capacity to support flows from the community, would require 3.2 miles of new mains along established utility corridors, and several lift stations to connect. No feasibility study was conducted as it is self-evident that this option would be more costly with the length of main required, alone, without considering lift station costs or cost of treatment. It is also likely that the nearest point where a connection can be made would be further than the 3.2-mile distance if the closest Danville main does not have capacity for flows from Commonwealth. Please see attached Exhibit PSC 1-17A - Commonwealth.
- **Moon River:** The nearest available system is the Cadiz Sewer Treatment Plant, which, assuming that the nearest point of the collection system has capacity to support flows from the community, would require 3.3 miles of new mains along established utility corridors, and several lift stations to connect.

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No feasibility study was conducted as it is self-evident that this option would be more costly with the length of main required, alone, without considering lift station costs or cost of treatment. It is also likely that the nearest point where a connection can be made would be further than the 3.3-mile distance if the closest Cadiz main does not have capacity for flows from Moon River. Please see attached Exhibit PSC 1-17B – Moon River.

- **Yung Farms: The nearest available system is the Northern KY Sanitation District 1 Dry Creek WWTP, which, assuming that the nearest point of the collection system has capacity to support flows from the community, would require 2.4 miles of new mains along established utility corridors, and several lift stations to connect. No feasibility study was conducted as it is self-evident that this option would be more costly with the length of main required, alone, not even considering lift station costs or cost of treatment. It is also likely that the nearest point where a connection can be made would be further than the 2.4-mile distance if the closest Northern Kentucky Sanitation District main does not have capacity for flows from Yung Farms. Please see attached Exhibit PSC 1-17C – Yung Farms.**

Witness: Jake Freeman

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REQUEST NO. 1-18: Irrespective of whether an official study has been conducted, state whether Bluegrass Water or the current owner of any system to be acquired has obtained an estimate of the cost to connect to the facilities of another sewer provider, regardless of whether it is the closest.

RESPONSE:

- **Commonwealth: No feasibility study has been completed. Please see Bluegrass Water's response to PSC 1-17 for more information.**
- **Moon River: No feasibility study has been completed. Please see Bluegrass Water's response to PSC 1-17 for more information.**
- **Yung Farms: No feasibility study has been completed. Please see Bluegrass Water's response to PSC 1-17 for more information.**

Witness: Aaron Silas

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VERIFICATION

I, Jacob Freeman, 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: Jacob Freeman
Title: Director of Engineering
Bluegrass Water Utility Operating Company, LLC

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

SUBSCRIBED AND SWORN TO before me on this the 11th day of JULY, 2023.

My commission expires: OCT 16th, 2026

Notary Public

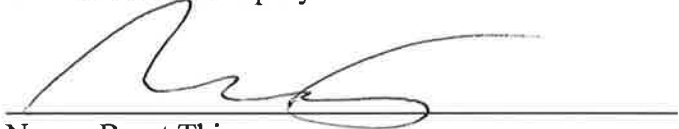


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BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC'S RESPONSES TO THE COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

VERIFICATION

I, Brent Thies, 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: Brent Thies
Title: Vice President and Corporate Controller
Bluegrass Water Utility Operating Company, LLC

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

SUBSCRIBED AND SWORN TO before me on this the 11th day of JULY, 2023.

My commission expires: OCT 16th, 2024


Notary Public