

**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
SECOND REQUEST FOR INFORMATION**

Bluegrass Water Utility Operating Company, LLC, (“Bluegrass Water” or the “Company”) by counsel, files its responses to Commission Staff’s Second Request for Information, issued in the above-captioned case on July 25, 2023.

FILED: August 4, 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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REQUEST NO. 2-1: Refer to Bluegrass Water's response to Commission Staff's First Request for Information (Staff's First Request), Item 1(d) indicating that Bluegrass Water ultimately intends to bring the Moon River Marina & Resort LLC (Moon River) system into the unified rate. Explain how Moon River would be billed under the unified rate, including the rates in Bluegrass Water's current tariff under which Bluegrass Water expects each structure of the resort to take service.

RESPONSE: At this time, the Company anticipates asking Commission approval to set an Equivalent Residential Unit ("ERU") for the Moon River system that would allow the Company to incorporate the system into a unified tariff. Upon owning and operating the system for a period of time, the Company expects to be able to analyze flows and calculate an appropriate ERU.

Witness: Aaron Silas

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REQUEST NO. 2-2: Refer to Bluegrass Water's response to Staff's First Request, Item 1.a. indicating that Bluegrass Water reserves the right to request relief to recover its stranded investment in the system if the Moon River resort ceases operations. Explain why Bluegrass Water's other customers should bear the risk of a system with a single customer.

RESPONSE: The Company has no reason to believe that the Moon River resort will cease operations in the foreseeable future. But even if that were to occur, in the interim the resort has a right to safe, reliable, and environmentally responsible wastewater resources, and Bluegrass Water has the means to provide those resources.

Witness: Aaron Silas

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REQUEST NO. 2-3: Refer to Bluegrass Water's response to Staff's First Request, Item 2. Provide the amended tariff sheets that Bluegrass Water intends to file to implement any rates for the Moon River system and the Yung Farm Estates Homeowners' Association, Inc. (Yung Farm) system.

RESPONSE: Please see Exhibit PSC 2-3.

Witness: Aaron Silas

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REQUEST NO. 2-4: Refer to Bluegrass Water's response to Staff's First Request, Item 3, Exhibit PSC 1-3 – Expected Annual OM Expense by System.xlsx.

a. Provide a breakdown of the estimated outside contractor expense for each the systems, and explain how each item was estimated.

b. If not provided in response to subpart a., provide the estimated operator contractor expense for each system.

c. Provide a table showing the base monthly amount that Bluegrass Water currently pays for its operator contractors under each contract and identify the systems covered by each contract.

RESPONSE: Please refer to the estimated expenses provided in Exhibit PSC 1-3. Additionally, please see CONFIDENTIAL Exhibit PSC 2-4 for Bluegrass Water's consolidated operations contract and first amendment thereto. Base contract operations charges and scope of work are outlined therein. Furthermore, the estimates are based on Bluegrass Water's operating experience, and Bluegrass Water makes adjustments based upon plant size, plant type, and potential operational challenges. After Bluegrass Water owns and operates a system for a short period of time, it is then able to adjust these cost estimates, if necessary, to more accurately reflect the actual operating needs and characteristics of the system.

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Witness: **Aaron Silas**

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

REQUEST NO. 2-5: Refer to Bluegrass Water's response to Staff's First Request, Item 3, Exhibit PSC 1-3 – Expected Annual OM Expense by System.xlsx. Refer to Bluegrass Water's response to Staff's First Request, Item 2, Exhibit PSC 1-2 – Moon River Rates.xlsx.

a. Provide a rate for the Commonwealth Wastewater Systems, LLC (Commonwealth) system and the Yung Farm system that will cover the operating expenses of each system and any return on the expected rate base for each system, and provide an Excel spreadsheet, with all formulas, rows, and columns unprotected and fully accessible, showing how those rates were calculated.

b. Given the estimated expenses provided in response to Staff's First Request, Item 3, confirm that if Bluegrass Water purchases the systems at issue in this case and includes them in Bluegrass Water's unified rate, it will result in an increase in rates for Bluegrass Water's other customers, and if that cannot be confirmed, explain why it cannot be confirmed.

c. Given the estimated expenses provided in response to Staff's First Request, Item 3, confirm that if Bluegrass Water purchases the Commonwealth system and the Yung Farm system, it will result in an increase in the rates for the customers of those systems, and if that cannot be confirmed, explain why it cannot be confirmed.

d. Assuming that its purchase of the Commonwealth system will result in an increase in the rates of Bluegrass Water's current customers and the rates of the current customers of the

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Commonwealth system, explain why authorizing the purchase of that systems would be in the public interest.

RESPONSE:

(a) Please refer to the attached Exhibit PSC 2-5. The costs shown are preliminary estimates and are subject to change after the Company begins to operate the Commonwealth and Yung Farm systems.

(b) The Company is unable to accurately determine the impact that the systems at issue in this case may have on any future unified rate due to the number of outstanding factors at play in Case No. 2022-00432. Until the Company has further clarification on the impact of the current rate case, the Company is unable to accurately predict the impact of additional systems. If the acquisitions are approved, it is not possible at this time to fully determine what costs associated with these systems may be appropriate for recovery in a future matter or the amounts of those costs, as is typical of all utility acquisitions. To be clear, however, the Company does not seek to adjust its existing rates (or the rates proposed in Case No. 2022-00432) in connection with this pending application.

(c) The Company has proposed adopting the current rates for the Commonwealth and Yung Farm systems. As such, there will be no increase in rates for the customers of those systems as a result of the proposed transaction. The Company expects it will need to increase

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rates for these systems in the future, but it cannot accurately determine the amount of such a rate increase at this time. If Bluegrass Water determines that a rate increase is necessary for these systems, the Company will come before the Commission to request fair, just, and reasonable rates through an application for an adjustment of sewer rates.

(d) The Company believes that the acquisition of each of the systems produces economies of scale, other efficiencies, and general positive benefits that would be in the public interest. For example, these systems would be included within an entity consisting of 900+ small water and wastewater systems across 11 states. This creates economies of scale with regard to the provision of operational, legal, accounting, HR, customer experience, and other services that otherwise would not be accessible by the small systems in an independent capacity. The benefits of this expertise encourages enhanced operational capability, reliability, and a mitigation of the risks posed by historically substandard operational practices of prior operators or significant and unexpected maintenance issues that could easily overwhelm small, independent systems like those the Company has acquired. In addition, Bluegrass Water's access to capital would enable it to finance upgrades and improvements to these systems that ensures they are able to provide safe and reliable service to customers and comply with all health, safety, and environmental laws.

Witness: Aaron Silas

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

REQUEST NO. 2-6: Refer to Bluegrass Water's response to Staff's First Request, Item 4.

a. Explain where Bluegrass Water obtained the plant in service and accumulated depreciation balances for Commonwealth as of December 31, 2022, and provide any documentation relied on by Bluegrass Water to determine those balances.

b. State whether Bluegrass Water has any information regarding the plant in service based on the original cost and any associated accumulated depreciation for the Moon River system or the Yung Farm system, and if so, provide that information and explain what it is and where it came from.

c. State when the major components of the Moon River system and the Yung Farm system were placed in service, and provided the estimated remaining useful life of the major components.

RESPONSE:

(a) The Company utilized the 2022 Annual Report for Commonwealth, attached hereto as Exhibit PSC 2-6.

(b) Bluegrass Water currently does not have any information regarding the original cost of the plant in service or any information about associated accumulated depreciation for the Moon River system or the Yung Farm systems.

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(c) Although it sought this information from the sellers during the diligence work associated with the potential acquisition of these systems, Bluegrass Water does not have any documentation regarding when the major components of the Moon River or Yung Farm systems were placed in service or any remaining useful lives. Moon River and Yung Farm were unable to provide any such documentation.

Witness: Brent Thies

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REQUEST NO. 2-7: Refer to Bluegrass Water's response to Staff's First Request, Item 15.

a. Provide an Excel spreadsheet, with all formulas, rows, and columns unprotected and fully accessible, showing how the acquisition adjustment was calculated from the purchase price and the net book value for Commonwealth.

b. Explain Bluegrass Water's position that it intends to record an acquisition adjustment for Commonwealth "due to the purchase price exceeding Net Book Value for Commonwealth" in light of the net book value for Commonwealth provided in response to Staff's First Request, Item 4.

RESPONSE:

(a) Please see **CONFIDENTIAL Exhibit PSC 2-7** demonstrating the calculation of the acquisition adjustment.

(b) Exhibit PSC 2-6, the 2022 Annual Report for Commonwealth, shows an End of Year Balance of Contributions in Aid of Construction of \$61,204.48. This will result in the need for Bluegrass Water to record an acquisition adjustment.

Witness: Brent Thies

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REQUEST NO. 2-8: Refer to the Application, page 7, indicating that Bluegrass Water's proposed purchases are part of an ongoing effort to bring operational improvements, economies of scale, and other efficiencies to its Kentucky customers.

a. Explain separately for each system Bluegrass Water is proposing to purchase how Bluegrass Water's purchase of the system will produce economies of scale and other efficiencies for Bluegrass Water's current customers.

b. Explain separately for each system Bluegrass Water is proposing to purchase how Bluegrass Water's purchase of the system will produce economies of scale and other efficiencies for the current customers of the systems.

RESPONSE:

(a) Please see the response to PSC 2-5(d). The Company believes that the acquisition of each of the systems produces economies of scale, other efficiencies, and general positive benefits to existing customers in the same ways. As a single entity, Bluegrass Water can negotiate more favorable contracts with suppliers due to increased purchasing power. Operationally, the acquisition of these systems provides an even larger customer base to help mitigate risks of significant operations and maintenance costs that might otherwise cripple a small independent system. The current customers are also beneficiaries of economies of scale in the procurement of third-party engineering and construction services that would

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otherwise not be possible. In summary, as Bluegrass Water continues to acquire more systems it increases the operational capabilities and reliability of these systems; mitigates against unexpected expenses that could devastate smaller, independent systems; and improves purchasing power. All of these benefit the Company's current customers.

(b) Please see the response to PSC 2-5(d). In addition, and as with its existing systems and the description in subpart (a), above, acquisition of each of the three systems subject to this application will likewise produce economies of scale, other efficiencies, and general positive benefits to current customers. These systems would be included within an entity consisting of 900+ small water and wastewater systems across 11 states. This creates economies of scale with regard to the provision of operational, legal, accounting, HR, customer experience, and other services that otherwise would not be accessible by the small companies.

Witness: Aaron Silas

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REQUEST NO. 2-9: Refer to the Application, Exhibit 4, page 1. State whether Bluegrass Water or its representatives obtained water usage data from the water supply entity, and if so, explain what it indicated regarding the flows at the Moon River system and whether additional projects would be necessary in light of the flows.

RESPONSE: Please see Exhibit PSC 2-9, which was provided to Bluegrass Water from Moon River. Moon River informed Bluegrass Water that increased flows in the months of September and December 2022 and January 2023 were the result of water leaks which were subsequently repaired.

Witness: Aaron Silas

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REQUEST NO. 2-10: Identify all violations and exceedances at each of the systems Bluegrass Water is proposing to purchase in each of the last three calendar years and this year to date.

RESPONSE: Please see Exhibit PSC 2-10 for the compliance history Bluegrass Water was able to obtain from the EPA ECHO database. The Commonwealth facility is a non-discharging facility and, therefore, no additional information is available to provide.

Witness: Aaron Silas

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

REQUEST NO. 2-11: Describe any discussions between Bluegrass Water or its representatives and the Energy and Environment Cabinet regarding agreed orders or corrective actions plans for the systems Bluegrass Water is proposing to purchase.

RESPONSE: Bluegrass Water has begun negotiating Agreed Orders with the EEC/DOW for these systems. As the process continues, Bluegrass Water will prepare third-party engineering memoranda and proposed corrective action plans which identify current problems, set out proposed remedial measures to achieve compliance, and establish a schedule for completing these measures. Because Commonwealth is a non-discharging facility, it will not be placed on an Agreed Order.

Witness: Aaron Silas

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REQUEST NO. 2-12: Provide any agreed orders or corrective actions plans with the Energy and Environment Cabinet pertaining to the systems Bluegrass Water is proposing to purchase.

RESPONSE: The Company has not yet entered into any Agreed Orders or Corrective Action Plans with respect to the systems it is proposing to purchase. The current owners of the systems have also not identified any Agreed Orders or Corrective Action Plans for their respective systems.

Witness: Aaron Silas

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REQUEST NO. 2-13: Identify and explain all differences between each of the exhibits filed on July 12, 2023, and the corresponding exhibit filed with the Application on May 26, 2023. Explain what prompted the filing of the new or amended exhibits.

RESPONSE: There are no differences between the exhibits filed on July 12, 2023, and the corresponding exhibits filed with the Application on May 26, 2023. The exhibits were filed again on July 12, 2023 with the Company's Amendment to facilitate ease of reference by Commission staff. Per the Amendment filed on July 12, 2023:

18. The Joint Applicants previously requested that if the Commission grants the relief sought through the Joint Application, CONFIDENTIAL Exhibits 2, 3, 4, and 9 to the Joint Application remain confidential through the pendency of this proceeding. That request contained an unintentional clerical error with respect to the periods for which confidential treatment is sought. The following two paragraphs amend that request and address the periods for which Joint Applicants seek protection of the Confidential Information.

19. The Joint Applicants request that the Confidential Information contained in CONFIDENTIAL Exhibits 9, and 11 to the Joint Application remain confidential for a period of five (5) years from the date of this Motion, at which time the Confidential Information should be sufficiently outdated so that it could not be used to competitively disadvantage the Joint Applicants. 807 KAR 5:001, Section 13(2)(a)(2).

20. If the Commission grants the relief sought through the Joint Application, the Joint Applicants request that the Confidential Information contained in CONFIDENTIAL Exhibits 2, 3, 4, 5, 6, and 7 to the Joint Application remain confidential through the pendency of this proceeding. If the relief sought through the Joint Application is not granted by the Commission, the Joint

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Application request that this Confidential Information remain confidential for a period of five (5) 8 years from the date of this Motion, at which time the Confidential Information should be sufficiently outdated so that it could not be used to competitively disadvantage the Joint Applicants. 807 KAR 5:001, Section 13(2)(a)(2).

Id. (Emphasis added.)

Witness: Counsel

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REQUEST NO. 2-14: Describe the nature of the area in the vicinity of the Moon River resort, including whether there are other businesses or homes in the area to which Bluegrass Water expects to expand service.

RESPONSE: The Moon River Marina & Resort wastewater treatment facility is located in Trigg County, Kentucky on the East side of Lake Barkley, about 20 miles west of Hopkinsville, Kentucky. The Company does not currently expect to expand service.

Witness: Aaron Silas

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REQUEST NO. 2-15: Explain whether Bluegrass Water anticipates other customers seeking to connect to the Moon River system.

RESPONSE: Bluegrass Water does not currently anticipate other customers seeking to connect to the system.

Witness: Aaron Silas

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REQUEST NO. 2-16: Explain how Bluegrass Water will retain outside contractors to perform work on the systems it is proposing to purchase, including whether it will request proposals or bids from outside contractors and under what circumstances.

RESPONSE: The Company will utilize third-party operations contractors to perform O&M functions for the systems it is proposing to purchase. The Company intends to identify qualified contractors in the areas of the systems, evaluate the bids received, and then engage one or more contractors to provide the required services. All of this will be done through a Request for Qualification (RFQ) and Request for Proposal (RFP) process.

Witness: Aaron Silas

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REQUEST NO. 2-17: Provide the driving distance from each of the systems Bluegrass Water is proposing to purchase in this matter to the nearest Bluegrass Water system.

RESPONSE:

- The driving distance from Moon River to Center Ridge District #4 is approximately 26 miles.
- The driving distance from Commonwealth to Herrington Haven is approximately 17.5 miles.
- The driving distance from Yung Farms to Darlington Creek is approximately 14 miles.

Witness: Aaron Silas

