

**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 MAGRUDER VILLAGE)	Case No.
WATER COMPANY)	2023-00218

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

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

FILED: August 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 MAGRUDER VILLAGE WATER COMPANY
CASE NO. 2023-00218

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

REQUEST NO. 1-1: Refer to Application, Exhibit 4, Agreement for Sale of Utility System. The agreement refers to Central States Water Resources, Inc. (CSWR) as buyer.

a. Provide an executed contract for transfer of wastewater treatment facilities between Magruder Village Water Company (Magruder Village) and Bluegrass Water.

b. Provide a copy of any documents authorizing the transfer by the governing body of Magruder Village.

c. Provide a copy of any documents authorizing the transfer by CSWR.

RESPONSE:

(a) Application, Exhibit 4, Agreement for Sale of Utility System is between Magruder Village and CSWR. If the Commission grants approval, an executed assignment of rights between CSWR and Bluegrass Water will be finalized at closing.

(b) The Company has requested this information from Magruder Village, but no supporting documentation has been made available. The Company will supplement this data request should the information become available in the future. Additionally, please see Section 27 in Application, Exhibit 4, Authority to Execute:

Each person whose signature appears hereon represents, warrants, and guarantees that he or she has been duly authorized and has full authority to execute this Agreement on behalf of the party whose behalf this Agreement is executed.

(Id.)

(c) Please see Section 18 in Application, Exhibit 4, Agreement for Sale of Utility System:

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This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. Buyer shall be permitted to assign its rights in this Agreement to an affiliated entity that the Buyer controls without need of consent by the Seller by providing written notice to the Seller of such assignment. Other than the foregoing permitted assignment, no Party may assign either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of Buyer and Seller, said approval not to be unreasonably withheld.

(Id.)

Witness: Aaron Silas

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

REQUEST NO. 1-2: Refer to Application, page 7, paragraph 28.

a. Provide an executed contract, proposed contract, or essential terms of a proposed agreement, including but not limited to amount of compensation and scope of work, with Clearwater Solutions to provide operator services for the Magruder Village wastewater facility.

b. Describe the process by which Bluegrass Water selected Clearwater Solutions to provide operator services for the Magruder Village wastewater facility.

c. If other potential operators were considered, provide bids or offers solicited from or provided to these operators.

d. Describe Clearwater Solutions' technical and managerial abilities with regards to operating wastewater treatment facilities.

e. List all of Clearwater Solutions' certified operators qualified to operate the Magruder Village wastewater facility.

RESPONSE:

(a) The Magruder Village acquisition will go out for bid to contracting firms that have gone through the Request for Qualification ("RFQ") process in August of 2023; all bids received from qualified contractors will be reviewed with the intent of selecting the lowest and best bid. The next state-wide vendor bidding process will then occur in the first half of 2024. Additionally, please see CONFIDENTIAL Exhibit PSC 1-2 for Bluegrass Water's current standard Operations Contract with Clearwater Solutions. The scope of work is outlined in Exhibit A.

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- (b) Please see the Company's response to sub-part (a).
- (c) Bids from qualified contractors can be provided when the Request for Proposal ("RFP") process is completed.
- (d) The Company understands and acknowledges its obligation to maintain the financial, technical, and managerial abilities to provide reasonable service. In connection with that obligation, the Company has done so in connection with each of its numerous acquisitions in the Commonwealth, each of which has involved the use of a third-party operator to manage technical and operational details of the multiple systems. The Company is pursuing the same strategy with respect to this proposed acquisition.

Although no vendor has been selected at this time, in the event Clearwater Solutions is selected, the Company's historical and ongoing experience with Clearwater Solutions (as the operational services vendor for the Company's other systems) reflects that it possesses appropriate technical and managerial expertise to ensure reasonable service, and the knowledgeable and experienced personnel who carry the necessary state licenses, and adequate insurance coverage necessary to manage the daily operations of the system. Additional details regarding Clearwater Solutions' extensive industry experience is detailed at its website: clearwatersol.com.

- (e) Please refer to the response to subpart-(d), above. If required, a list of all certified operators for the selected contractor can be provided following selection.

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

Witness: Todd Thomas

ELECTRONIC JOINT APPLICATION OF BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC FOR APPROVAL OF ACQUISITION AND TRANSFER OF OWNERSHIP AND CONTROL OF ASSETS OF MAGRUDER VILLAGE WATER COMPANY
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BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC'S RESPONSES TO THE COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

REQUEST NO. 1-3: Refer to Application, Exhibit 3, Engineering Memo.

a. Provide the estimated cost of implementing the plans (Engineering Memo, pages 4–5) to correct effluent exceedances.

b. Provide the estimated cost of implementing any other planned capital investment, including but not limited to remote monitoring equipment.

c. Provide any Corrective Action Plan or Agreed Order with the Division of Water regarding Magruder Village facilities that Bluegrass Water has provided or executed.

d. Identify any exceedances of permitted limits the Magruder Village wastewater facility has been cited for since 2013.

e. State whether Bluegrass Water intends to recover the cost of any construction projects to remedy problems with the Magruder Village facility via surcharge charged exclusively to Magruder Village customers.

RESPONSE:

(a) The estimated total cost of improvements in the engineering memorandum is [REDACTED] (please note that the total listed in Joint Application Exhibit erroneously stated [REDACTED], though the sum of the itemization was actually [REDACTED]). The Company further notes that part of its plans (and the estimate provided here) do involve the installation of remote monitoring equipment at this system, and the Company will seek appropriate permissions to install the remote monitoring equipment in a separate matter, unless the Commission agrees that the isolated installation of such equipment and performance of other

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repairs at this isolated system would constitute an ordinary extension of existing systems in the usual course of business, given the growing scope of the Company's Kentucky operations.

(b) Please see the Company's response to sub-part (a). Furthermore, please see page 6 of CONFIDENTIAL Exhibit 3 to the Joint Application.

(c) An Agreed Order is currently in negotiation. If the Commission approves the Application, the order will be finalized closer to the time of closing, and a Corrective Action Plan will be negotiated following the execution of the Agreed Order.

(d) Although it is unclear what the word "cited" means in this context, please see the Exhibit PSC 1-3(d) Magruder Village Effluent Limit Exceedances Report, (EPA ECHO) detailing effluent exceedances since January of 2013. In summary, the facility has exceeded effluent limits in 190 DMR measurements since 2013, most frequently exceeding the monthly average limit for ammonia with 29 exceedances. All of these violations are recorded in the ECHO system.

Please also see Exhibit PSC 1-3(d) Magruder Village Detailed Facility Report. This report contains the Compliance Monitoring History, Informal Enforcement Actions, and Formal Enforcement Actions showing dates of facility inspections, 15 informal enforcement acts (notices of violation), and 2 formal enforcement acts (State Administrative Orders of Consent). Please note that the information provided here corresponds to the maximum searchable range, which extends back to July of 2013, ten years prior to the time this information was gathered.

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(e) As nearly all of the wastewater treatment facilities acquired by Bluegrass Water have been acquired to attempt to bring out of compliance systems into compliance, most of the other facilities were in similarly poor condition with similar compliance histories at the time of acquisition. This means that the necessity of improvements for the public good at Magruder Village is not exceptional compared to the types of improvements required at other systems and therefore should likely not be handled with a separate surcharge as has been the case for all other similar systems.

Witness: Jake Freeman

ELECTRONIC JOINT APPLICATION OF BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC FOR APPROVAL OF ACQUISITION AND TRANSFER OF OWNERSHIP AND CONTROL OF ASSETS OF MAGRUDER VILLAGE WATER COMPANY
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BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC'S RESPONSES TO THE COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

REQUEST NO. 1-4: Refer to Application, page 11, paragraph 43, regarding rates.

a. Provide a calculation of the rate necessary to meet Bluegrass Water's revenue requirement for operation of the Magruder Village wastewater facility and recovery of any planned capital investments.

b. State whether and when Bluegrass Water intends to adjust Magruder Village wastewater facility customers' rates to Bluegrass Water's unified rate.

RESPONSE:

(a) Please refer to the attached Exhibit PSC 1-4 - Magruder Rates. This rate is hypothetical based on preliminary estimated expenses prior to closing and is subject to change in future rate proceedings once Bluegrass Water has acquired and run the Magruder Village system for a period of time. However, if in a future rate case Magruder Village is allowed to become part of Bluegrass Water's unified rate, as the Company would anticipate, the rate associated with recovering costs from this system, and only this system, would likely be significantly reduced.

(b) 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 Magruder Village under the Bluegrass Water unified rate in a future rate case.

Witness: Aaron Silas

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

REQUEST NO. 1-5: Refer to Application, page 9, paragraph 36. Describe Bluegrass Water's technical and managerial abilities with regards to operating wastewater treatment facilities.

RESPONSE: Bluegrass Water employs a Regional Manager who has 23 years of wastewater experience working with various treatment processes, in facilities that range from 0.05 to 16 million gallons per day. The Regional Manager's primary role is to work with and oversee the selected Qualified Contracting firm.

Witness: Todd Thomas

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BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC'S RESPONSES TO THE
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REQUEST NO. 1-6: Provide a copy of Bluegrass Water's most recent audited financial statements.

RESPONSE: Bluegrass Water does not compile audited financial statements. Please see Exhibit PSC 1-6, Bluegrass Water's unaudited financials from June 1, 2023 through June 30, 2023.

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 SUPPLEMENTAL REQUEST FOR INFORMATION

REQUEST NO. 1-7: Refer to Application, page 9, paragraph 34. Describe the effect of the proposed financing of this proposed acquisition on Bluegrass Water's debt-to-equity ratio.

RESPONSE: In the short term, and as a result of this acquisition, Bluegrass Water's debt-to-equity ratio is expected to remain slightly below a 1:1 ratio. In the long term, Bluegrass Water continues to seek a more balanced debt-to-equity ratio and source additional debt as lending institutions review the Company's ongoing operations and regulatory support.

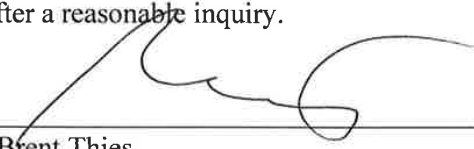
Witness: Brent Thies

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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.



Brent Thies
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 7th day of AUGUST, 2023.

My commission expires: OCT 16, 2024



Notary Public



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VERIFICATION

I, Todd Thomas, 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.

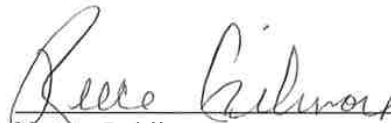


Todd Thomas
Senior Vice President
Bluegrass Water Utility Operating Company, LLC

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

SUBSCRIBED AND SWORN TO before me on this the 7th day of August, 2023.

My commission expires: OCT 16, 2024



Notary Public

