

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

In the Matter of:

**Electronic Application of Bluegrass
Water Utility Operating Company, LLC
For an Adjustment of Water and
Sewage Rates**

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Case No. 2025-00354

**POST-HEARING BRIEF OF
BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC**

October 16, 2026

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**BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC’S
POST-HEARING BRIEF**

Bluegrass Water Utility Operating Company, LLC (“Bluegrass Water” or the “Company”), by counsel, hereby files its post-hearing brief with the Kentucky Public Service Commission (“Commission”). As set forth below, the Commission should approve the Company’s application to adjust its wastewater and water rates because the proposed rates are fair, just, and reasonable.

I. INTRODUCTION

Bluegrass Water’s mission is to bring safe, reliable, and environmentally responsible water and wastewater service to systems that have experienced historically significant degrees of operational and managerial neglect.¹ As the Kentucky-based operating affiliate of CSWR, LLC (“CSWR”), Bluegrass Water specializes in acquiring water and wastewater systems with histories of health and environmental violations and using innovative technologies to bring the systems into regulatory compliance.² For many water and wastewater systems, Bluegrass Water has either successfully brought them into compliance or is actively working to bring them into compliance.³

¹ See Redlined Direct Testimony of Josiah Cox, 8-9 (filed June 8, 2026).

² *Id.*

³ See Bluegrass Water’s Response to PSC 2-32 (filed on Mar. 2, 2026); *see also* Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 11:08:40 AM – 11:09:33 AM (“Q: Can you tell me from the customer experience, how are they going to measure better reliability, outages, customer service, from their experience? A: So, you know, they’re not being exposed to human pathogens.

Bluegrass Water's mission of acquiring and investing in dilapidated wastewater and water infrastructure is a critical one. Across the country, there has been significant underinvestment in the nation's aging and fragmented water and wastewater infrastructure.⁴ Over time, these aging systems become unable to adequately treat wastewater and water due to deterioration or, oftentimes, operational neglect, which can result in human health hazards such as unauthorized discharges of pollutants into waterways or unsafe drinking water.⁵ These declining water and wastewater infrastructure issues are only compounded by the fact there is a glaring lack of federal or state funding to invest in this infrastructure.⁶ As testified by Josiah Cox, the projected deficit between water and wastewater infrastructure needs and government funds presently available to invest in that infrastructure is a staggering \$1.2 trillion.⁷

Notwithstanding the general lack of funding opportunities, Bluegrass Water still believes it is imperative to ensure that communities have access to clean, safe wastewater and water. Therefore, as part of this critical mission, Bluegrass Water has made significant investments into

It's a human health risk. I mean, it's really extraordinary how bad it is in the small water and wastewater world, especially when we bought these systems. I mean, people were literally being exposed to human health hazards. So, those are the kinds of things that we've solved in this state, and they were endemic, long-term problems that no one's willing to kind of step in and fix.”). Please note that the citations herein referring to the September 21 and September 22 public hearing in this matter will list the date and time of day of the relevant testimony.

⁴ American Society of Civil Engineers, *2025 Infrastructure Report Card for Drinking Water*, 2025, https://infrastructurereportcard.org/wp-content/uploads/2025/03/Drinking-Water.pdf?_gl=1*1i444xc*_up*MQ..*_ga*MTA0NTA5NzY5Ny4xNzkwODY3MzUx*_ga_C9EX6BGYX5*czE3OTA4NjczNTAkzEkZzAkDDE3OTA4NjczNTAkajYwJGwwJGgw.

⁵ For example, last year, there was a tank failure at the City of Eddyville Sewer Treatment Plant which resulted in the discharge of 800,000 gallons of partially treated sewage into the local area: <https://www.wkrn.com/news/kentucky/tank-at-sewer-treatment-plant-undergoes-catastrophic-failure/>. This is simply one example of what can happen as a result of neglected wastewater infrastructure.

⁶ American Water Works Association, *Beyond the Replacement Era: Balancing Compounding Infrastructure Needs With Household Affordability*, <https://www.awwa.org/wp-content/uploads/Beyond-the-Replacement-Era.pdf>.

⁷ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 11:16:53 AM – 11:17:25 AM.

the Commonwealth's deteriorating wastewater and water infrastructure – the Delaplain system, Woodland Acres, Persimmon Ridge, Herrington Haven, and Center Ridge, to name a few.⁸ With the approval of the Commission, Bluegrass Water has incurred significant capital expenses upgrading these treatment facilities in order to bring clean water and wastewater service to Kentuckians.⁹ Additionally, Bluegrass Water has acquired three new wastewater systems since its last rate case, all of which were approved by the Commission.¹⁰ In fact, the primary drivers of the need for Bluegrass Water's requested rate increase are these capital improvements and increased

⁸ See Direct Testimony of Jacob Freeman, Application Exhibit 8, pgs. 19-20; 36-42; 45-51; 59-64; 68-77 (filed December 11, 2025); *see also* Exhibit PSC 6-24 – Project Information (filed on August 28, 2026). *See also* Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:47:30 PM – 12:49:00 PM (noting that the primary reason for the increase in rates is because of the capital that has been invested in systems and the three new systems that have been added since the last rate case).

⁹ *See In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC*, Case No. 2022-00104, Order (Ky. PSC Mar. 30, 2023) (granting Bluegrass Water's request for a CPCN for the proposed improvements at Delaplain); *see also* Order (Ky. PSC May 9, 2024) granting Bluegrass Water's request for a deviation from the originally approved plans at Delaplain); *In the Matter of: 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, Order (Ky. PSC Nov. 3, 2022) (granting Bluegrass Water's request for a CPCN for the proposed project at Persimmon Ridge); *In the Matter of 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. 2022-00015, Order (Ky. PSC Sept. 1, 2022) (granting Bluegrass Water a CPCN for the proposed project at Woodland Acres); *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Public Convenience and Necessity for Projects at the Herrington Haven Site*, Case No. 2022-00102, Order (Ky. PSC Nov. 7, 2022) (granting a CPCN for the projects at Herrington Haven).

¹⁰ *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 Wastewater Systems, LLC, Yung Farm Estate Homeowners' Association, Inc. and Moon River Marina and Resort, LLC*, Case No. 2023-00181, Final Order (Sept. 22, 2023); *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 Water Company*, Case No. 2023-00218, Final Order (Oct. 20, 2023).

operating costs associated with these system acquisitions,¹¹ all of which were reviewed and determined by the Commission to be necessary and serving the public interest.

In addition to primarily seeking recovery of costs incurred with the approval of the Commission, Bluegrass Water has shown that many of the expenses for which it seeks recovery are expended to fulfill directives issued by the Commission. Namely, Bluegrass Water has brought its operations team in-house in order to provide improved day-to-day service to customers, a decision the Commission explicitly directed be considered in Bluegrass Water's prior rate case.¹² Bluegrass Water has undertaken more debt to move toward an approximately 50% debt and 50% equity capital structure to align with the Commission's expectation of having utilities with reasonably balanced capital structures such that customers are not burdened to the benefit of shareholders.¹³ Finally, the Company has further prioritized customer outreach initiatives in order to promote transparency and ensure that customers clearly understand the improvements being made to their systems, which was a concern identified by the Commission in the last rate case.¹⁴

¹¹ See Bluegrass Water's Supplemental Response to PSC 2-52 (filed on May 8, 2026); Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:47:30 PM – 12:49:00 PM (noting that the primary reason for the increase in rates is because of the capital that has been invested in systems and the three new systems that have been added since the last rate case).

¹² See Bluegrass Water's Second Supplemental Response to Staff's Fourth Request for Information 4-29 (filed September 17, 2026); see also *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 59 (Ky. PSC Feb. 14, 2024) (“[T]he Commission also questions whether Bluegrass Water might be able to realize savings by bringing its operations in-house, and would direct Bluegrass Water to consider that option, or provide a study to evidence the potential cost of that option in any future rate proceedings.”).

¹³ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 82 (Ky. PSC Feb. 14, 2024); see also Exhibit 9 – Financial Workbook-WITH LINKS (filed on June 3, 2026) (under tab labeled “Capital Structure”).

¹⁴ See Redlined Direct Testimony of Aaron Silas, pgs. 6-8 (filed on June 8, 2026); see also Exhibit AJS-1 to the Redlined Direct Testimony of Aaron Silas (filed on June 8, 2026) (providing an example of the Welcome Letter sent to customers of the new systems in which Bluegrass Water acquires); see also Exhibit AJS-2 to the Redlined Direct Testimony of Aaron Silas (filed on June

Through these continued improvements, Bluegrass Water has demonstrated its commitment to Kentucky ratepayers and remains committed to its mission of providing safe, reliable, and environmentally responsible water and wastewater resources to every community.

However, Bluegrass Water cannot follow through with this commitment without a rate adjustment. Bluegrass Water must be able to recoup its capital expenses associated with the necessary and Commission-approved improvements to its infrastructure and operating expenses necessary to fund day-to-day operations. Bluegrass Water is presently experiencing a revenue shortfall, which has resulted in Bluegrass Water failing to meet its required debt covenants with respect to its credit facility with CoBank.¹⁵ Given that the overwhelming amount of investments by Bluegrass Water have occurred with the express approval of the Commission, regulatory support through increased rates to recover these expenditures is imperative – not only to Bluegrass Water, but all regulated utilities across Kentucky.

Authorization of the rates proposed by Bluegrass Water will signal regulatory support of Bluegrass Water, which will allow the Company to generate the revenues sufficient to pay its bills, be in compliance with its debt covenants, provide investors the opportunity to earn a reasonable return, and continue to provide safe, reliable service to Kentuckians. Authorized rate recovery for investments explicitly approved by the Commission will also allow Bluegrass Water to attract debt and equity capital to sustain efficient, reliable operations in the Commonwealth. Finally, the

8, 2026) (providing an example of Bluegrass Water’s annual letter sent to customers providing an update of the improvements that have been completed).

¹⁵ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 11:35:30 AM – 11:36:20 AM (“We have coverage ratios in terms of cash flows, you know, those kind of standard debt covenants, and the state of Kentucky has not been able to hit those debt covenants, and thus we’ve had to get waivers from CoBank for the state of Kentucky. Q: So just to be clear, at present rates, you’re not in compliance with debt covenants? A: That is correct. We are not in compliance with our service coverage ratio.”).

Commission's support of Bluegrass Water will ensure that other Kentucky utilities are not negatively affected due to a perceived lack of regulatory support from the Commission by not allowing recovery of reasonable costs to operate its water and wastewater systems, which occurred previously when the Rural Electrification Administration (now known as Rural Utilities Service) and the Rural Telephone Bank suspended all loans and loan guarantees to electric and telephone utilities in Kentucky.¹⁶

For the reasons set forth herein, Bluegrass Water requests that the Commission approve its requested rates and tariff changes as fair, just, and reasonable.

II. SUMMARY OF RELIEF REQUESTED

a. Revenue Requirement

As mentioned above, Bluegrass Water seeks to increase its water and wastewater rates to bridge the current revenue shortfall – which has prevented the Company from ever achieving positive net income – and to recover the costs associated with the substantial investments the Company has made in its infrastructure. To that end, Bluegrass Water is asking the Commission to approve a total annual revenue requirement of **\$5,346,144** for the Company's wastewater operations and **\$361,378** for its water operations.¹⁷

¹⁶ Exhibit, REA Letter. The REA letter was filed in the public record in Case No. 2013-00199, previously before the Commission, as part of Big Rivers Electric Corporation's Rebuttal Testimony of Daniel Walker filed on December 17, 2013. Because the REA Letter is in the public record, Bluegrass Water respectfully requests that the Commission take judicial notice of the REA Letter. *See* Case No. 8248-1, Order (Ky. PSC July 20, 1984) ("The Commission takes judicial notice of the higher rates for purchased water resulting from its Final Order in Case No. 8927..."); *see also* Case No. 7790, Order (Ky. PSC Sept. 26, 1980) ("The SCB request in question was filed in Case 7774. The Commission takes judicial notice of that filing and of its Order in that case wherein SCB was granted rates to produce 10.47% return on Kentucky Intrastate operations.").

¹⁷ Exhibit 9 – Financial Workbook-WITH LINKS (filed on June 3, 2026) (under tabs labeled "Revenue Requirement Water" and "Revenue Requirement WW").

b. Proposed Rates

To achieve the requested revenue requirement, Bluegrass Water proposes the following consolidated rates for its classes of customers:

- Residential Wastewater: \$111.72 per month
- Multi-Residential Wastewater: \$83.80 per month
- Commercial Wastewater: \$279.31 per month
- Delaplain Non-Residential: \$279.31 per month, plus a usage charge of \$54.75 per 1000 gallons.
- Residential Water: \$105.85 per month.¹⁸

Bluegrass Water seeks to include its three newly acquired systems – Commonwealth Wastewater, Magruder Village, and Yung Farm Estates – into the consolidated residential rate and tariff applicable to all systems.

c. Proposed Tariff Changes

In addition to the requested changes in rates, the Company proposes certain changes to its water and wastewater tariffs designed to enhance Bluegrass Water's ability to provide quality service. Specifically, Bluegrass Water seeks to implement two changes to the terms and conditions of its tariff. First, the Company seeks to add an express termination for nonpayment policy to Section 5.3 of the Industrial/Commercial Rules and Regulations (Sheet No. 31) of the wastewater tariff. This change is intended to preserve Bluegrass Water's right to terminate service for nonpayment consistent with 807 KAR 5:006, Section 15 and limit the Company's exposure to bad debt.¹⁹ Second, Bluegrass Water proposes revising its policy for new service connections (Sheet

¹⁸ See Exhibit PSC 5-24 – Consolidated Wastewater Tariff – Redlined; Exhibit PSC 5-24 – Consolidated Water Tariff – Redlined; *see also* Exhibit 9 – Financial Workbook – WITH LINKS (filed on June 3, 2026).

¹⁹ Exhibit PSC 5-24 – Consolidated Wastewater Tariff – Redlined.

No. 15 of the wastewater tariff and Sheet No. 4.5 of the water tariff). The revised policy requires that the customer pays for the actual cost of connection and an \$82.50 inspection fee if a licensed plumber performs the connection.²⁰

Finally, Bluegrass Water seeks to implement certain non-recurring charges to the consolidated water tariff (Sheet No. 2). Specifically, the Company seeks to implement a late payment penalty of 10% and a returned check fee to fully recover the fee charged by Bluegrass Water's bank.²¹ These charges mirror the late payment penalty and returned check fee in the Company's consolidated wastewater tariff, which were approved by the Commission in the last rate case.²²

III. LEGAL STANDARD

Under KRS 278.030(1), "[e]very utility may demand, collect and receive fair, just and reasonable rates for the services" it renders. Consistent with the statute, the Commission "must ensure that utility rates are fair, just, and reasonable to discharge its duty under KRS 278.040 to ensure that utilities comply with state law."²³ The Commission is required to consider what is fair, just, and reasonable "within the factual context of the specific case before the Commission."²⁴ While the Commission must consider the factual context of each specific rate case, the law is clear that rates must allow a company to operate successfully, maintain its financial integrity, attract

²⁰ Exhibit PSC 5-24 – Consolidated Wastewater Tariff – Redlined; Exhibit PSC 5-24 – Consolidated Water Tariff – Redlined.

²¹ Redlined Direct Testimony of Brent Thies, pg. 49: 1-22 (filed on June 8, 2026). *See also* Exhibit PSC 4-11 – Returned Check Fee (showing that the returned check fee charged by Bluegrass Water's bank has increased to \$16).

²² *Id.*

²³ *Ky. Pub. Serv. Comm'n v. Commonwealth ex rel. Conway*, 324 S.W.3d 373, 377 (Ky. 2010).

²⁴ *Oldham County Water District v. Public Service Commission of Kentucky*, Civil Action No. 24-CI-00725 (Opinion and Order from Franklin Cir. Ct. Sept. 25, 2025).

capital, and compensate its investors for the risks assumed in investing in the utility.²⁵ The Supreme Court of Kentucky has recognized that “fair, just and reasonable is not inconsistent with appropriate classifications that distinguish among customers, service and rates.”²⁶

IV. REVENUE REQUIREMENT

As fully set forth herein, Bluegrass Water’s revenue requirement will result in rates that are fair, just, and reasonable and will also provide the financial stability to allow Bluegrass Water to continue providing safe, reliable, and environmentally responsible service to its Kentucky customers.

a. It is Reasonable to Use a Forward-Looking Test Year Because of Bluegrass Water’s Ongoing Capital Investments.

In accordance with KRS 278.192(1) and (2), the Company is proposing using a forward-looking test period that ends on July 31, 2027. Bluegrass Water filed the initial Application on December 11, 2025, using a base period from April 1, 2025, through March 31, 2026. However, by the Commission’s Order entered on May 26, 2026, Bluegrass Water’s Application was deemed amended as of May 8, 2026. A forward-looking test period is reasonable in this case to account for the significant capital improvements at the Delaplain system, which are yet to be completed. As mentioned in the Redlined Direct Testimony of Josiah Cox, “under a historical test period approach the Company would have to place [the Delaplain improvements] in service and then wait until its next rate case before incorporating the financial impact of the capital addition into its revenue requirement and ultimately its rates.”²⁷ If a historical test period were used, Bluegrass Water would not be able to recover the expenses associated with Delaplain, which would prevent

²⁵ See generally *Federal Power Commission v. Hope Nat. Gas Co.*, 320 U.S. 591, 603 (1944).

²⁶ *Pub. Serv. Comm’n of Ky. v. Commonwealth*, 320 S.W.3d 660, 666 (Ky. 2010) (internal quotation marks omitted).

²⁷ Redlined Direct Testimony of Josiah Cox, pg. 13: 2-9 (filed on June 8, 2026).

it from having adequate cash flow to comply with its debt covenants.²⁸ Because the Company's use of a forward-looking test period is intended to account for this substantial and ongoing capital project, the Commission should accept the forward-looking test year as reasonable.

Additionally, the Company has properly provided the required actual financial data consistent with KRS 278.192. In its May 26, 2026 Order, the Commission required Bluegrass Water to file actual financial data for the months subsequent to the base period, similar to a base period update. Bluegrass Water has complied with this directive and has filed actual financial data for the months of April 2026 through August 2026.²⁹

b. Rate Base

The Commission should accept Bluegrass Water's proposed rates as reasonable given the Company's vast additions to its rate base in the form of capital improvements. Rate base generally consists of utility plant in service ("UPIS"), acquisition adjustments, accumulated depreciation, working capital allowance, and contributions in aid of construction ("CIAC").³⁰ As demonstrated by the Redlined Direct Testimony of Brent Thies, Bluegrass Water's rate base has increased significantly since the last rate case, which is primarily attributable to Bluegrass Water's significant capital investments in its wastewater and water infrastructure for which the Company obtained Certificates of Public Convenience and Necessity ("CPCNs") in Case No. 2022-00104, Case No. 2022-00102, Case No. 2022-00015, and Case No. 2022-00046.³¹ These capital

²⁸ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 11:35:30 AM – 11:36:20 AM.

²⁹ Financial Workbook – Supplemental April 2026 Actuals (filed on July 7, 2026); Financial Workbook – Financial Workbook – May 2026 Actuals (filed on July 7, 2026); *see also* Financial Workbook – June 2026 Actuals (filed on August 6, 2026); *see also* Financial Workbook – July 2026 Actuals (filed on September 2, 2026); *see also* Financial Workbook – August 2026 Actuals (filed on October 5, 2026).

³⁰ Redlined Direct Testimony of Brent Thies, pg. 17: 6-14 (filed on June 8, 2026).

³¹ *See* Redlined Direct Testimony of Brent Thies, pgs. 22-23 (filed on June 8, 2026); *see also* Exhibit PSC 6-24 – Project Information.

investments have, in turn, increased the Company's UPIS. The increase in UPIS is further attributable to the Company's acquisition of three new wastewater systems: Commonwealth Wastewater, Magruder Village, and Yung Farm Estates.³² In addition, Bluegrass Water requests an increase in rate base due to the requested acquisition adjustment for Commonwealth Wastewater.³³ The various component increases to the Company's rate base are detailed below.

1. Delaplain Disposal

- a) Bluegrass Water obtained a CPCN to complete the Delaplain project and should recover the full value of the capital improvements.

First, Bluegrass Water's rate base has increased because of the significant capital additions to the Delaplain system. Indeed, the Delaplain project is the primary driver of the requested rate increase.³⁴ As outlined in the Direct Testimony of Jacob Freeman, these upgrades were necessary to replace system components that were at the end of their useful life and to address system issues that had contributed to consistent violations of permitting effluent limits.³⁵ Among the several issues with the operation of the Delaplain system, Mr. Freeman's Direct Testimony highlights that the pre-existing treatment process at Delaplain was incapable of meeting required permitting limits for BOD, suspended solids, dissolved oxygen, *E. coli*, and TRC.³⁶ There were several large items

³² Redlined Direct Testimony of Brent Thies, pgs. 19-20 (filed on June 8, 2026).

³³ *Id.* at pg. 25: 17-21.

³⁴ Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:47:31 PM – 12:48:05 PM (affirming that the Delaplain project is one of the primary drivers of this rate increase).

³⁵ Direct Testimony of Jacob Freeman, Application Exhibit 8, pg. 53: 3-10 (filed December 11, 2025). *See also In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Order at 9 (Ky. PSC Mar. 30, 2023) ("The evidence indicates that the Delaplain system has exceeded permit limits for the past three years with respect to ammonia, BOD, TSS, and *E. coli*, and that action is needed to ensure compliance with applicable laws.").

³⁶ Direct Testimony of Jacob Freeman, Application Exhibit 8, pgs. 53-59 (filed December 11, 2025).

of equipment that were either broken or in poor condition, such as the comminutor, diffusers, clarifier, and disinfection system, which required replacement or repairs.³⁷

Further, the capital improvements were intended to rectify certain treatment and capacity issues that were present at the treatment facility at the time of its acquisition. For example, the pre-existing processes in the Delaplain treatment facility were originally designed for residential wastewater treatment only.³⁸ Now, however, the Delaplain system has a sizable number of commercial and industrial customers. Therefore, the improvements were necessary to accommodate the increased demand placed on the Delaplain treatment facility by these users.³⁹ Moreover, as indicated in the hearing testimony of Josiah Cox, the Division of Water is presently enforcing a moratorium on sewer line extensions and tap-ons at Delaplain because the treatment system has been operating beyond its maximum capacity.⁴⁰ To address this collective of issues, Bluegrass Water essentially overhauled the entire treatment facility.⁴¹

Importantly, Bluegrass Water received a CPCN from the Commission to complete this facility overhaul project. With the Commission's approval, the Company is working to install a moving bed biofilm reactor ("MBBR") treatment system, a filtration system, and modifications to the disinfection system. Specifically, in the Order granting the CPCN in Case No. 2022-00104, the Commission found that, "[t]he proposed projects, which are consistent with Bluegrass Water's [Corrective Action Plan], are necessary to meet permitted effluent limits for ammonia, BOD, TSS,

³⁷ *Id.*

³⁸ Sept. 21, 2026 Hearing, Testimony of Jacob Freeman, 1:55:18 – 1:55:42 PM.

³⁹ *Id.* (affirming that there are industrial and commercial customers on the Delaplain system today).

⁴⁰ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 11:21:15 AM – 11:22:22 AM; *see also* Sept. 21, 2026 Hearing, Jacob Freeman Hearing Testimony, 1:33:03 PM – 1:33:14 PM.

⁴¹ Direct Testimony of Jacob Freeman, Application Exhibit 8, pg. 59: 6-21 (filed December 11, 2025).

and *E. coli*. Thus, the Commission finds that there is a need for the proposed projects.⁴² The Commission further found that the proposed project was the least-cost reasonable alternative among a handful of other proposals for bringing Delaplain into regulatory compliance.⁴³ One such alternative involved connecting Delaplain to the City of Georgetown’s wastewater system, which the Company estimated to cost approximately \$4,398,000 at the time of the CPCN application, which is significantly more than the remediation option the Company elected to pursue.⁴⁴

On December 20, 2023, Bluegrass Water sought a deviation from the approved construction plans once it became apparent that certain unforeseen subsurface conditions materially changed the project and increased the total cost to \$1,322,958.⁴⁵ The Company provided updated construction plans to the Commission, noting that the increase in cost was primarily attributable to the need to bring the filter building to a higher elevation due to the underlying soil conditions and the building’s location within a flood zone.⁴⁶ This relocation in turn required the

⁴² *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Order at 9 (Ky. PSC Mar. 30, 2023) (emphasis added).

⁴³ *Id.* at 11.

⁴⁴ See *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Bluegrass Water’s Response to Staff’s First Request for Information No. 31, Attachment labeled, “1PSC31e-Delaplain_city_connection_estimatedcosts.xlsx” (https://psc.ky.gov/pscecf/2022-00104/keckert%40mcbrayerfirm.com/06132022063226/1PSC31e_Delaplain_City_connection_estimatedcosts.xlsx).

⁴⁵ See Direct Testimony of Jacob Freeman, Application Exhibit 8, pgs. 65-66 (filed on December 11, 2025); see also *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Order at 1 (Ky. PSC May 9, 2024).

⁴⁶ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Order at 3-4 (Ky. PSC May 9, 2024) (“Bluegrass Water stated that the increase was attributable to the following requirements identified by its selected contractor: (1) geotech boring revealed that the bearing elevations for the filter building would need to be lowered to the underlying bedrock due to the soil quality; (2) the height of the filter building needed to be raised

addition of a pump station, a new valve vault, and additional piping to cause the flow to move uphill.⁴⁷ Further, the increased cost of labor and construction materials in the wake of the COVID-19 pandemic also contributed to the increase in cost of the project.⁴⁸ During this process, Bluegrass Water provided the Commission with updated cost analyses with respect to alternatives to the project, including connection to the City of Georgetown system, which was still significantly more expensive than the proposed project.⁴⁹ On May 9, 2024, the Commission approved the deviation from the original construction plans, finding that “the proposed projects, as modified, are still the least-cost reasonable alternative to correct the effluent exceedances when compared to other options.”⁵⁰

During the pendency of the Commission’s review of the proposed changes to the Delaplain project, Bluegrass Water’s contractor indicated it was no longer interested in the project and withdrew its bid.⁵¹ As a result, Bluegrass Water had to solicit another round of bids, which only

in order to properly remove and perform maintenance on the filter disks within the building; and (3) relocation of the filter building because it was located within a flood zone, which necessitated a higher elevation, a pump station, a new valve vault, and additional piping.”).

⁴⁷ *Id.*

⁴⁸ *Id.* at 4.

⁴⁹ *Id.*; see also Direct Testimony of Jacob Freeman, Application Exhibit 8, pgs. 65-66 (filed on December 11, 2025).

⁵⁰ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Order at 4 (Ky. PSC May 9, 2024). The Commission also noted that, “With the exception of the much more expensive alternative of connecting to the city of Georgetown sewer system, the other ways of addressing the effluent exceedances were similarly affected by subsurface and elevation issues as well as post-COVID-19 economic factors.”

⁵¹ Direct Testimony of Jacob Freeman, Application Exhibit 8, pgs. 65-66 (filed on December 11, 2025); see also *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Notice of Change in Cost at 2, (Ky. PSC Oct. 22, 2025) (filed in the Post-Case Files by Bluegrass Water).

further delayed commencement of the construction.⁵² Bluegrass Water only received two bids in response, and the Company ultimately awarded the contract to the lowest bidder – Thieneman Construction – at a price of \$2,107,220.⁵³ Given the additional increase in cost, Bluegrass Water provided notice to the Commission, and the Commission did not reopen the proceeding.⁵⁴ During the course of construction, unanticipated expenses arose that were necessary to complete the approved scope of work, such as repairing storm damage and performing additional electrical work.⁵⁵ While the cost of repairing the Delaplain system ended up being higher than originally anticipated at the time of the CPCN application, as well as the subsequent cost increase notification, the total cost is still far less than the alternative of connecting to the City of Georgetown wastewater system, which was estimated to be approximately \$4,398,000 at the time of the CPCN application, and which has undoubtedly only increased.⁵⁶

Recovery of the Delaplain capital improvements is the invariable result of the Commission’s previous finding that the Delaplain construction was necessary to rectify the permitting issues and insufficient capacity present in that treatment facility. Notwithstanding the increased cost of construction, the project was still the least cost-alternative presented. The

⁵² Direct Testimony of Jacob Freeman, Application Exhibit 8, pg. 66:6-18 (filed on December 11, 2025).

⁵³ *Id.*; see also *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Bluegrass Water’s Notice of Change in Cost at 2-3, (Ky. PSC Oct. 22, 2025) (filed in the Post-Case Files by Bluegrass Water).

⁵⁴ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Bluegrass Water’s Notice of Change in Cost at 2-3, (Ky. PSC Oct. 22, 2025) (filed in the Post-Case Files by Bluegrass Water).

⁵⁵ Sept. 21, 2026 Hearing, Jacob Freeman Hearing Testimony, 1:18:38-1:19:07 PM.

⁵⁶ See *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site*, Case No. 2022-00104, Bluegrass Water’s Response to Staff’s First Request for Information No. 31, Attachment labeled, “1PSC31e-Delaplain_city_connection_estimatedcosts.xlsx.”

Delaplain investment is vital to the efficacy and availability of wastewater service to the Delaplain area and will serve these customers for years to come. Given the Commission's previous approval of the Delaplain project in Case No. 2022-00104, the Commission should award full recovery of this investment.

b) The renewed Delaplain wastewater treatment facility will attract economic development to Scott County.

Notwithstanding the assertions in the public comments that the proposed rates for the Delaplain non-residential class will deter economic development in Scott County, the upgrades to the facility should encourage economic development in Scott County. Absent these needed improvements, the Delaplain system would have continued violating the effluent requirements, resulting in undertreated wastewater being deposited into the local watershed.⁵⁷ Moreover, the treatment facility would have continued operating in excess of maximum capacity, and the moratorium enforced by the Division of Water would have continued to prevent new commercial and industrial customers from being able to connect to the Delaplain system.⁵⁸ Without an available wastewater system in which to connect, it would be impossible to attract new businesses to the industrial park served by Delaplain.

Given the increase in capacity, the moratorium enforced by the Division of Water is likely to be lifted after the treatment facility is operative, which, in turn, will allow new commercial or industrial customers to be able to connect to the Delaplain system.⁵⁹ Therefore, contrary to Scott County's assertions and sentiments expressed by public commenters, the improvements to

⁵⁷ Direct Testimony of Jacob Freeman, Application Exhibit 8, pgs. 53-59 (filed December 11, 2025).

⁵⁸ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 11:21:15 AM – 11:22:22 AM.

⁵⁹ Sept. 21, 2026 Hearing, Jacob Freeman Hearing Testimony, 1:55:45 PM – 1:55:52 PM. *See also* Sept. 22, 2026 Hearing, Aaron Silas Hearing Testimony, 9:29:49 AM – 9:29:53 AM.

Delaplain are anticipated to accommodate growth in Scott County and allow the Company to provide safe and reliable service to the customers in that area.

2. Herrington Haven

The Company's rate base has further increased because of the capital improvements to the Herrington Haven system. Similar to the Delaplain project, the Commission granted a CPCN for the improvements at Herrington Haven in Case No. 2022-00102.⁶⁰ As discussed in the testimony of Jacob Freeman, the improvements at the Herrington Haven aeration treatment plant were needed to address significant human health and environmental hazards associated with the system's effluent limit violations, which involved excessive levels of phosphorus, total suspended solids ("TSS"), ammonia, *E. coli*, and total residual chlorine in the discharged wastewater.⁶¹ Among several issues with the treatment plant, one noteworthy issue was that a broken return-activated sludge line contributed to sludge accumulation in the plant, and, in turn, this accumulated sludge would overflow into the surrounding area during rain events.⁶² To remedy the array of issues facing the Herrington Haven plant, Bluegrass Water proposed installing an MBBR in the aeration basin, overhauling the facility aeration equipment, installing a digester, installing a new peracetic acid disinfection system, and other monitoring and site improvements.⁶³

The Commission granted a CPCN for the project at Herrington Haven.⁶⁴ In approving the proposed project, the Commission noted specifically, "[t]he proposed projects, which are

⁶⁰ *In the Matter of: 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, Order at 17 (Ky. PSC Nov. 7, 2022).

⁶¹ Direct Testimony of Jacob Freeman, Application Exhibit 8, pg. 19: 1-6 (filed on December 11, 2025).

⁶² *Id.* at pg. 16: 2-5.

⁶³ *Id.* at pgs. 19-20.

⁶⁴ Sept. 21, 2026 Hearing, Jacob Freeman Hearing Testimony, 1:54:10 PM – 1:54:50 PM. *See also In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for*

consistent with Bluegrass Water’s [Corrective Action Plan], are necessary to meet permitted limits for TSS, ammonia, *E. coli*, and chlorine. Thus, the Commission finds that there is a need for the proposed projects.”⁶⁵ The Commission further concluded that the proposed projects were “the least-cost reasonable alternatives for correcting *E. coli*, chlorine, TSS, and ammonia exceedances” when compared to other potential alternatives, such as connecting to the City of Danville’s or City of Lancaster’s sewer systems.⁶⁶

After Bluegrass Water received this regulatory approval, the Company provided the Commission with notice of a material increase in cost pursuant to the Commission’s Order.⁶⁷ The Commission did not reopen the proceeding following notice of this cost increase. As shown in Exhibit PSC 6-24 – Project Information, the actual cost of the project was approximately \$525,420 (the awarded contract price), which is still significantly less than the proposed alternatives of connecting to the City of Lancaster’s sewer system, which was estimated to cost around \$4,330,800 at the time of the CPCN Application, or connecting to the City of Danville’s sewer system, which was estimated to cost around \$3,493,760 at the time of the CPCN Application.⁶⁸

Because the Commission granted Bluegrass Water a CPCN to complete the capital improvements at the Herrington Haven system, finding they were necessary to cure environmental

Certificates of Convenience and Necessity for Projects at the Herrington Haven Site, Case No. 2022-00102, Order at 17 (Ky. PSC Nov. 7, 2022).

⁶⁵ *In the Matter of: 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, Order at 13 (Ky. PSC Nov. 7, 2022).

⁶⁶ *Id.* at 14-15.

⁶⁷ *Id.* at 17 (“Bluegrass Water shall immediately notify the Commission upon knowledge of any material changes to the project, including, but not limited to a material increase in costs and any significant delays in construction.”).

⁶⁸ Exhibit PSC 6-24 – Project Information; see also *In the Matter of 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, Order at 14 (Ky. PSC Nov. 7, 2022).

violations at the Herrington Haven system, the Commission should include the full value of these capital improvements in the Company's rate base.

3. Woodland Acres

Bluegrass Water's rate base has further increased because of the capital improvements to the Woodland Acres system. Similar to Delaplain and Herrington Haven, the deteriorated treatment equipment present at Woodland Acres at the time of the system's acquisition created several human health and environmental hazards for the surrounding area. For example, the facility's tanks were extremely deteriorated, which caused unauthorized discharge of partially treated wastewater into the ground, and groundwater infiltration into the tanks.⁶⁹ The poor condition of the tanks also posed a serious structural issue for the entire plant, with the potential for a tank collapse and the unauthorized release of thousands of gallons of undertreated sewage.⁷⁰ More broadly, though, the treatment facility's aeration system, blowers, sludge returns, clarifier, and disinfection system were run-down and not properly functioning to adequately treat wastewater, leading to a chronic history of violations of effluent limits for BOD, TRC, *E. coli*, ammonia, and TSS.⁷¹ Bluegrass Water proposed a treatment system overhaul of the Woodland Acres facility to remedy these issues.⁷²

⁶⁹ Direct Testimony of Jacob Freeman, Application Exhibit 8, pg. 27: 11-19 (filed on December 11, 2025).

⁷⁰ *Id.* Tank failures in wastewater systems can be catastrophic and can result in thousands of gallons of undertreated wastewater being leaked into the surrounding environment. For example, see the tank failure at the City of Eddyville Sewer Treatment Plant in January 2025: <https://www.wkrn.com/news/kentucky/tank-at-sewer-treatment-plant-undergoes-catastrophic-failure/>.

⁷¹ Direct Testimony of Jacob Freeman, Application Exhibit 8, pg. 34: 15-23, pgs. 27-34 (filed on December 11, 2025).

⁷² *Id.* at 36: 1-9.

The Commission granted Bluegrass Water a CPCN to complete this facility overhaul project at Woodland Acres in Case No. 2022-00015.⁷³ Here again, the Commission found that the proposed projects were “necessary to meet permitted limits for TSS, ammonia, BOD, chlorine, and *E. coli*. Thus, the Commission finds that there is a need for the proposed projects.”⁷⁴ Further, the Commission found that the proposed project at Woodland Acres was the least-cost reasonable alternative to fixing the effluent violations when compared to several alternatives, such as an entire plant replacement or connection to the City of Shepherdsville’s sewer system.⁷⁵

After receiving the CPCN, Bluegrass Water provided the Commission with notice of a material increase in cost pursuant to the Commission’s Order.⁷⁶ The Commission did not reopen the proceedings following notice of the increase in cost. The awarded contract price increased to \$602,752.⁷⁷ However, the final cost of the project was approximately \$757,581, which is attributable to unexpected expenses that were deemed necessary to achieve the intended purpose of the project during the course of construction.⁷⁸ Even so, this project cost was less expensive than the proposed alternatives of connecting to the City of Shepherdsville’s sewer system, which was estimated to cost between \$3 million and \$6 million at the time of the CPCN Application, and replacing the Woodland Acres treatment facility, which was estimated to cost between \$800,000

⁷³ Sept. 21, 2026 Hearing, Jacob Freeman Hearing Testimony, 1:54:10 PM – 1:54:50 PM.

⁷⁴ *In the Matter of: 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. 2022-00015, Order at 10 (Ky. PSC Sept. 1, 2022).

⁷⁵ *Id.* at 10-13.

⁷⁶ *In the Matter of: 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. 2022-00015, Bluegrass Water’s Ordering Paragraph 2 Notice (Ky. PSC June 28, 2023) (filed by Bluegrass Water in the Post-Case Files).

⁷⁷ *Id.*; see also Exhibit PSC 6-24 – Project Information (cell K6).

⁷⁸ Exhibit PSC 6-24 – Project Information.

and \$1,200,000 at the time of the CPCN Application and “would also waste components that are still functioning.”⁷⁹

Here again, because the Commission granted a CPCN for the capital improvements at Woodland Acres and the improvements have remedied environmental violations at the least cost to Bluegrass Water’s ratepayers, these amounts should be included in the Company’s rate base in this proceeding.

4. *Persimmon Ridge*

The Commission should recognize that Bluegrass Water’s rate base has increased because of the CPCN-approved capital improvements to the Persimmon Ridge system. Once again, the neglect of the Persimmon Ridge aerated lagoon treatment plant under the system’s previous ownership created substantial human health and environmental risks. Just as with Delaplain, Herrington Haven, and Woodland Acres, the Persimmon Ridge system regularly exceeded limits for BOD, TRC, *E. coli*, dissolved oxygen, and TSS.⁸⁰ Among the numerous issues with the Persimmon Ridge facility, an effluent pipe was found to be improperly discharging into a nearby open dirt channel and portions of the aeration system were entirely out of service.⁸¹ Given these issues, Bluegrass Water proposed certain capital improvements in order to bring the treatment facility into long-term regulatory compliance, and such improvements included installation of an MBBR, upgrades to the lagoon aeration system, repairs to the lagoon structure, and other electrical and site repairs.⁸²

⁷⁹ *In the Matter of: 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. 2022-00015, Order at 13 (Ky. PSC Sept. 1, 2022).

⁸⁰ Direct Testimony of Jacob Freeman, Application Exhibit 8, pg. 43: 14-26.

⁸¹ *Id.* at pg. 44: 11-28.

⁸² *Id.* at pg. 45: 11-17.

As with the systems discussed earlier, the Commission granted a CPCN for the proposed capital improvements at Persimmon Ridge in Case No. 2022-00046.⁸³ The Commission found that there was a public need given Persimmon Ridge’s past exceedances of permit limits for ammonia and BOD.⁸⁴ In addition, the Commission concluded that the project did not constitute wasteful duplication and was the least-cost reasonable alternative in comparison to other alternatives, such as additional aeration, an algae wheel, building a new treatment plant, or connection to the KJC Correction Institute for Women’s (“KJC”) sewer system.⁸⁵

As with the systems discussed earlier, Bluegrass Water provided notice to the Commission once it was determined that the cost of the project materially increased to \$492,696 due to post-pandemic inflationary factors and material shortages. Following that notice, the Commission did not reopen the proceeding. As shown in Exhibit PSC 6-24 – Project Information, the final cost of the project was approximately \$496,545. That cost is still less expensive than the proposed alternative of building a new treatment plant, which was estimated to cost between \$1.42 million and \$1.704 million at the time of the CPCN Application, or connecting to the KJC sewer system, which was similarly estimated to cost several millions of dollars.⁸⁶

⁸³ Exhibit PSC 6-24 – Project Information. *See also In the Matter of: 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, Order at 9 (Ky. PSC Nov. 3, 2022).

⁸⁴ *Id.* at 7.

⁸⁵ *Id.*

⁸⁶ Exhibit PSC 6-24 – Project Information; *In the Matter of: 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, Order at 4-5 (Ky. PSC Nov. 3, 2022). While the cost of implementing an algae wheel was estimated to be around \$300,000 at the time of the CPCN Application, it is likely that the cost of this alternative would have been similarly impacted by the post-COVID-19 pandemic inflationary factors, and would have taken longer to implement due to the required construction of a greenhouse and new technology testing by the DOW.

Because the Commission granted a CPCN for the project at Persimmon Ridge to remedy environmental violations at the least cost to Bluegrass Water’s ratepayers, the Commission should include these capital additions in the Company’s rate base.

5. Newly Acquired Systems: Commonwealth Wastewater, Magruder Village, and Yung Farm Estates.

Along with the foregoing capital improvement projects for which Bluegrass Water obtained CPCNs, the Company’s rate base has further increased due to acquiring Commonwealth Wastewater, Magruder Village, and Yung Farm Estates since the last rate case.⁸⁷ The Commission approved Bluegrass Water’s acquisition of Commonwealth Wastewater and Yung Farm Estates in Case No. 2023-00181, specifically finding that “there has been no evidence that any person or entity other than Bluegrass Water is interested in operating [Yung Farm Estates].”⁸⁸ Similarly, in Case No. 2023-00218, the Commission granted the Company a CPCN to operate the non-jurisdictional Magruder Village facility, finding that the transfer to Bluegrass Water was necessary to remedy the “numerous effluent exceedances that the current owner has been unable to permanently rectify” and represented a cheaper alternative than connection to the City of Paducah’s sewer system.⁸⁹ As outlined in the Direct Testimony of Jacob Freeman, the Company has already undertaken certain improvements to these systems in order to improve the quality of

⁸⁷ Direct Testimony of Jacob Freeman, Application Exhibit 8, pg. 78: 4-7 (filed on December 11, 2025).

⁸⁸ *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 Wastewater Systems, LLC, Yung Farm Estate Homeowners’ Association, Inc., and Moon River Marina and Resort, LLC*, Case No. 2023-00181, Order at 14-15 (Ky. PSC Sept. 22, 2023).

⁸⁹ *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 Water Company*, Case No. 2023-00218, Order at 5 (Ky. PSC Oct. 20, 2023).

service.⁹⁰ Thus, with the approved acquisition and improvements to these systems, the Company's rate base has further increased.

Notably, the Commission approved Bluegrass Water's purchase of Commonwealth Wastewater, Magruder Village, and Yung Farm Estates with the understanding that these systems would be subject to the rules and regulations in the Company's unified rate and tariff.⁹¹ By the time the Commission approved the acquisition of these three systems, the Commission had already authorized Bluegrass Water to use a unified rate for its residential customers in the past two rate cases, Case No. 2020-00290 and Case No. 2022-00432, finding that "[a] separate rate for each geographically distinct merged system of Bluegrass Water would create unreasonable and undue hardship to individuals in some areas served by Bluegrass Water."⁹² In recognizing these benefits in Case No. 2022-00432, the Commission approved the unified rate for Bluegrass Water's then-recently acquired systems, bringing a 72.82% rate increase to Darlington Creek customers, a 522.16% increase to Delaplain residential customers, a 56.60% increase to Herrington Haven, a 182.52% increase to Springcrest, and a 299.44% increase to Woodland Acres.⁹³ Thus, at the time

⁹⁰ Direct Testimony of Jacob Freeman, Application Exhibit 8, pgs. 80-86; 90-100; 104-117 (filed on December 11, 2025).

⁹¹ *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 Wastewater Systems, LLC, Yung Farm Estate Homeowners' Association, Inc., and Moon River Marina and Resort, LLC*, Case No. 2023-00181, Order at 16-17 (Ky. PSC Sept. 22, 2023) ("The general rules and regulations for residential service are currently applicable to all Bluegrass Water residential customers and govern how Bluegrass Water administers service. Such general terms are necessary for utilities to provide service, and it is reasonable for Bluegrass Water to apply the same general terms to the Yung Farm system as it does to other residential customers served by its systems.").

⁹² *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 96 (Ky. PSC Feb. 14, 2024). See also *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction*, Case No. 2020-00290, Order at 13 (Ky. PSC Aug. 2, 2021).

⁹³ *Id.* at 96-97.

Bluegrass Water acquired Commonwealth Wastewater, Magruder Village, and Yung Farm Estates, the Commission had already recognized the benefits of the unified rate charged to all of Bluegrass Water's residential customers and had previously approved moving newly acquired systems to the unified rate.

Bringing all systems onto the unified rate in this proceeding is necessary to ensure the Company's financial stability. An alternative approach, such as phase-in rates, would defer recovery of a portion of the required revenue requirement and possibly also result in unrecovered carrying costs, which will only exacerbate the Company's negative cash flow issues and increase the total costs to Bluegrass Water's customers. Because a phase-in of rates necessarily means the Company is recovering less than the approved revenue requirement, both the deferred revenue and carrying costs must be recovered in the future. If the Company cannot recover the deferred portion of the revenue requirement and carrying costs, then this risks violating the Due Process Clause as an unconstitutional taking because the Commission is effectively ordering that the Company recover less than the authorized revenue requirement. Moreover, under a phase-in rate, customers pay not only the deferred revenue amounts, but also any approved carrying costs associated with those deferred balances, creating the risk that the Company recovers more revenues from customers for the same service.⁹⁴ Therefore, approving the unified rate for all systems at one time is the best result for both customers and Bluegrass Water.

6. The costs of the foregoing capital improvements must be recovered through rates.

The capital improvements performed at Delaplain, Herrington Haven, Woodland Acres, and Persimmon Ridge, as described above, have resulted in improved wastewater service to the

⁹⁴ Bluegrass Water's Response to Staff's PHDR 43 (filed on October 12, 2026).

customers of each respective system. With the express approval from the Commission, the previously dilapidated or broken treatment equipment has been upgraded, replaced, repaired, and placed back into service such that each system is now able to meet the relevant effluent requirements and provide wastewater service consistent with the stated policy goal of safe, secure wastewater access for all Kentuckians.⁹⁵

Accordingly, a rate increase is required to recover the costs associated with these necessary capital improvements as well as Bluegrass Water's day-to-day operating costs, and to allow the Company to earn a fair return. Bluegrass Water has undertaken these projects with the consent of the Commission, and as a result, the rate base has increased rather significantly. In accordance with accepted ratemaking principles, Bluegrass Water must be able to charge a rate to allow it to earn a fair return on its investments in its wastewater systems.⁹⁶ Bluegrass Water must be able to recover these costs through rates because the Company is not able to reliably obtain federal or grant funding, as there is a \$1.2 trillion federal funding deficit for the nation's wastewater/water infrastructure and there are no known and available grant opportunities available in Kentucky.⁹⁷ The reality is that until Congress, the Kentucky General Assembly, or another agency provides public funding or grant opportunities which are accessible to investor-owned utilities to help mitigate costs, the only option to improve water and wastewater infrastructure in the communities in which Bluegrass Water serves is to make additional capital investment, which Bluegrass Water has done.⁹⁸ Even if such public funding were available to the Company, adequate rates are still

⁹⁵ See Bluegrass Water's Response to PSC 2-32 (filed on Mar. 2, 2026); *see also* KRS 224A.300(1) ("The General Assembly finds that it is necessary to encourage regionalization, consolidation, and partnerships among governmental agencies, and private parties when appropriate, with the goal of making public water and wastewater treatment secure for all Kentuckians.").

⁹⁶ *Federal Power Commission v. Hope Nat. Gas Co.*, 320 U.S. 591, 603 (1944).

⁹⁷ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 11:15:30 AM – 11:17:30 AM.

⁹⁸ *See id.*

required to cover continuing operating costs and to allow a return on the Company's rate base. Therefore, the Commission should approve the rates proposed in the Application to allow Bluegrass Water to recover its expenses and to allow a fair return on its investments.

7. Acquisition Adjustment

For the reasons set forth herein, the Commission should authorize Bluegrass Water to recover the acquisition adjustments requested in this proceeding. Because this is Bluegrass Water's first rate adjustment following the acquisition of the Commonwealth Wastewater system, Bluegrass Water seeks recovery of a positive acquisition adjustment because the purchase price of this system was above the net book value reported in the Annual Reports filed by the previous owners.⁹⁹

Acquisition adjustments are intended to provide an incentive to larger utilities to acquire troubled systems and allow the acquiring utility to exploit economies of scale that will benefit customers by integrating the small system into its broader operations and bringing them into compliance.¹⁰⁰ KRS 278.295(2) allows for such acquisition adjustments in a utility's rate base, provided the utility is able to satisfy the *Delta* test, which consists of the five following factors: (1) the asset acquisition price was established by arms-length negotiations; (2) the asset acquisition price plus the cost of restoring the acquired facilities to required standards will not materially adversely impact the overall costs or rates of the acquiring utility's existing and new customers; (3) acquisition of the asset will result in operational economies; (4) the purchase prices of the utility and non-utility assets are clearly identified, and where practical, separated; and (5) the acquisition will result in overall financial and service benefits of the acquiring utility's

⁹⁹ Redlined Direct Testimony of Brent Thies, pg. 25: 7-15 (filed on June 8, 2026); *see also* Response to OAG 4-14 (filed on July 30, 2026) and Exhibit OAG 4-14 – Acquisition Premium (under tabs labeled “114 Summary” and “Commonwealth”) (filed on July 30, 2026).

¹⁰⁰ Redlined Direct Testimony of Brent Thies, pg. 26: 5-21 (filed on June 8, 2026).

operations.¹⁰¹ As outlined herein, Bluegrass Water has undoubtedly met the *Delta* test and is entitled to an acquisition adjustment.

First, the final purchase price of the Commonwealth Wastewater system was determined through arms-length negotiations. The buyer and seller in this transaction were not related or affiliated in any way. Moreover, Bluegrass Water's objective in any negotiation is to pay the least amount that a seller of a system will accept.¹⁰² In the negotiations with the previous owners of Commonwealth Wastewater, the seller similarly acted in their own self-interest in demanding the purchase price Bluegrass Water ultimately was required to pay.¹⁰³

Second, the acquisition price and the cost of restoring the Commonwealth Wastewater system did not materially adversely impact the overall rates of Bluegrass Water's existing and new customers. As set forth in the Redlined Direct Testimony of Brent Thies, the Commonwealth Wastewater system was acquired for \$12,723.¹⁰⁴ Since then, Bluegrass Water has made approximately \$77,576 of improvements to restore the system, bringing the total investment to \$90,299.¹⁰⁵ This amount represents approximately 0.89% of the Company's total wastewater rate base as of September 30, 2025.¹⁰⁶ Similarly, the total acquisition adjustment (\$12,755) represents only 0.13% of the Company's total rate base.¹⁰⁷

Third, the Company has been able to create operational economies through acquiring Commonwealth Wastewater. Through its relationship with CSWR, Bluegrass Water has

¹⁰¹ KRS 278.295(2).

¹⁰² Redlined Direct Testimony of Brent Thies, pg. 29: 8-23 (filed on June 8, 2026); *see also* Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:08:20 PM – 12:09:00 PM.

¹⁰³ *Id.*

¹⁰⁴ *Id.* at pg. 30: 3-13.

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

sophisticated capabilities with respect to legal, engineering, accounting, human resources, customer service, and other utility services.¹⁰⁸ With the integration of this system into Bluegrass Water's network, customers have access to more sophisticated services at a lower cost than what could be provided to Commonwealth Wastewater customers on a standalone basis.¹⁰⁹

Fourth, with the acquisition of Commonwealth Wastewater, the purchase price of the utility and non-utility property can be clearly identified. In this instance, Bluegrass Water only acquired utility assets and did not acquire any non-utility property.¹¹⁰

Finally, the acquisition of Commonwealth Wastewater has resulted in overall benefits in the financial and service aspects of Bluegrass Water's operations. As discussed earlier, Commonwealth Wastewater customers have access to the sophisticated services provided by Bluegrass Water at a lower cost than would otherwise be possible if Commonwealth Wastewater provided those operations itself.¹¹¹ Moreover, Bluegrass Water has already made significant improvements to the system in order to bring it back into regulatory compliance and to ensure the Commonwealth Wastewater customers have access to safe and reliable wastewater service that complies with all applicable health, safety, and environmental laws and regulations.¹¹² In addition to these service benefits, there have been financial benefits because with the acquisition of Commonwealth Wastewater, Bluegrass Water was able to achieve a sufficient size and revenue stream to obtain debt financing. In turn, this allowed the Company to achieve a more balanced

¹⁰⁸ *Id.* at pg. 30: 16-26.

¹⁰⁹ *Id.*

¹¹⁰ *Id.* at pg. 31: 5-8.

¹¹¹ *Id.* at pg. 31: 12-21; *see also id.* at pg. 30: 16-26.

¹¹² *Id.* at pg. 31: 12-21; *see also id.* at pg. 30: 3-13.

capital structure that is less dependent upon shareholders and more beneficial for customers.¹¹³ Collectively, these benefits are sufficient to satisfy the fifth factor of the *Delta* test.

8. Cash Working Capital

The Commission should accept Bluegrass Water's proposed cash working capital as reasonable. The Company opted to use the 1/8th method to calculate cash working capital in lieu of a lead/lag study because the expense associated with conducting an outside study would outweigh any potential benefit of a more precise mathematical estimation.¹¹⁴ In Case No. 2022-00432, the Commission noted, "[t]he Commission finds the 1/8th approach to be a reasonable approach for Bluegrass Water, particularly given its size and relative sophistication."¹¹⁵ Thus, Bluegrass Water requests that the Commission accept its valuation of cash working capital as a part of its rate base.

c. Bluegrass Water's Expenses are Prudently Incurred and Allow the Company to Provide Safe and Reliable Service.

Bluegrass Water seeks to recover expenses that were responsibly incurred and has properly excluded expenses that are not recoverable in rates, such as business development expenses, lobbying expenses, and expenses incurred on behalf of CSWR's other operating affiliates.¹¹⁶ Thus, the Commission should allow Bluegrass Water to fully recover its expenses because they result in fair, just, and reasonable rates.

1. Allocated Expenses

As discussed in the prior rate case, CSWR uses a Cost Allocation Manual ("CAM") that outlines the procedures used to allocate costs incurred at the CSWR level to Bluegrass Water.

¹¹³ *Id.* at pg. 31: 12-21.

¹¹⁴ Rebuttal Testimony of Brent Thies, pg. 9: 19-28 (filed on Sept. 10, 2026).

¹¹⁵ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 54 (Ky. PSC Feb. 14, 2024).

¹¹⁶ Redlined Direct Testimony of Caitlin O'Reilly, pg. 24: 13-25 (filed on June 8, 2026).

Consistent with the CAM, CSWR first excludes all costs that are not recoverable, such as business development expenses and lobbying expenses.¹¹⁷ The remaining expenses, including operating expenses and employee and executive compensation, are then allocated in accordance with the procedures in the CAM.¹¹⁸

Under the CAM, recoverable costs are categorized as (1) directly billed charges, (2) jointly billed charges, or (3) indirect charges.¹¹⁹ The cost allocation procedures in the CAM ensure that Bluegrass Water is able to maintain appropriate financial, operational, and regulatory capabilities by having shared personnel, processes, technology, and systems at the CSWR level.¹²⁰

To quantify Bluegrass Water's allocated expenses for the forecasted test year, the Company projected its expenses based on the Personal Consumption Expenditures Price Index ("PCE").¹²¹ The PCE Index is used by the Federal Reserve and takes a broader approach to tracking inflation across the entire economy, which generally produces lower inflation factors than the Consumer Price Index ("CPI"), resulting in a more conservative forecast of future expenditures.¹²² Thus, Bluegrass Water's forecasted allocated expenses result in fair, just, and reasonable rates, as using the CPI to forecast inflation would result in higher rates. As demonstrated in the Excel files

¹¹⁷ Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 4:10:10 PM – 4:10:21 PM (affirming that all lobbying expenses incurred at the CSWR level are removed from the overhead allocation for all affiliates); *see also* Redlined Direct Testimony of Caitlin O'Reilly, pg. 24: 21-26 (filed on June 8, 2026).

¹¹⁸ Exhibit PSC 1-1 – CAM (filed on Dec. 22, 2025).

¹¹⁹ *Id.* at pg. 7.

¹²⁰ Rebuttal Testimony of Caitlin O'Reilly, pg. 12: 1-7 (filed on Sept. 10, 2026).

¹²¹ Redlined Direct Testimony of Caitlin O'Reilly, pg. 8: 8-14 (filed on June 8, 2026).

¹²² *See* Bluegrass Water's Response to PSC 4-18 (filed on July 2, 2026); *see also* Redlined Direct Testimony of Caitlin O'Reilly, pg. 8: 16-21 (filed on June 8, 2026); *see also* Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 3:49:10 PM – 3:49:42 PM.

provided as Exhibit PSC 5-17 – OHA Workpapers, CSWR typically allocates approximately 3% or less of its total overhead expenses to Bluegrass Water.¹²³

The recoverable expenses allocated to Bluegrass Water, for which Bluegrass Water seeks recovery, are prudently incurred and result in fair, just, and reasonable rates.

2. Operations Expenses

At the time of filing the Application, Bluegrass Water had a contract with Clearwater Solutions to perform operations and maintenance on all of its Kentucky systems and facilities, as well as other states where CSWR’s utility affiliates operate.¹²⁴ However, during the course of this proceeding, Bluegrass Water made the decision to bring its operations in-house.¹²⁵ Bluegrass Water and Clearwater Solutions mutually agreed to terminate the operations contract, given CSWR’s decision not to renew the contracts with Clearwater Solutions in several other states.¹²⁶ The Company did not have to pay any kind of penalty for terminating the contract.¹²⁷ Ultimately, Bluegrass Water elected to internalize operations by directly hiring certain employees who had previously worked for Clearwater Solutions.¹²⁸ Now, Bluegrass Water conducts its own operations and maintenance by directing its employees to perform “routes,” during which they visit certain treatment facilities, perform inspections, required testing, and other responsibilities.¹²⁹ Generally, Bluegrass Water will directly allocate these operations costs between water and wastewater

¹²³ Exhibit PSC 5-17 – OHA Workpapers (provided on a quarterly basis from 2023-2025) (filed on July 30, 2026).

¹²⁴ See Application Exhibit 19 – Service Contracts (providing the contract with Clearwater Solutions); Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 10:38:20 AM – 10:40:00 AM.

¹²⁵ Bluegrass Water’s Second Supplemental Response to PSC 4-29 (filed on September 17, 2026).

¹²⁶ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 10:38:20 AM – 10:40:00 AM.

¹²⁷ *Id.*

¹²⁸ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 10:49:30 AM – 10:50:46 AM.

¹²⁹ See CONFIDENTIAL Exhibit PSC 4-29 – Kentucky Operations Model (under tab labeled “Routes”); see also Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 10:50:28 AM – 10:52:28 AM.

functions based on the utility function benefitting from the work; for example, the expenses associated with the licenses, certifications, and operational responsibilities for the KY-Route 1 servicing the Center Ridge system are allocated to the Company's water operations. However, for expenses that benefit both water and wastewater, the Company allocates the expenses using an allocation methodology based on the relative customer counts of the affected wastewater and water operations.¹³⁰

As testified by Josiah Cox, bringing operations in-house will allow the Company to have greater oversight and control over operations and improve customer service.¹³¹ The decision to bring operations in-house is consistent with the Commission's directive in the last rate case.¹³² In the Final Order, the Commission specifically noted, "[T]he Commission also questions whether Bluegrass Water might be able to realize savings by bringing its operations in-house, and would direct Bluegrass Water to consider that option, or provide a study to evidence the potential cost of that option in any future rate proceedings."¹³³ The Company has now complied with that directive by bringing the operations in-house (and by providing a study, the other option directed by the Commission).¹³⁴

Although the cost data is still preliminary, the cost of moving operations in-house has proved to be more expensive than originally contemplated by the Operations Study.¹³⁵ This is in

¹³⁰ See Bluegrass Water's Response to PHDR 39(c) (filed on October 12, 2026).

¹³¹ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 10:43:13 AM – 10:44:05 AM; 10:51:00 AM – 10:51:52 AM.

¹³² Sept. 22, 2026 Hearing, Aaron Silas Hearing Testimony, 10:54:45 AM – 10:56:03 AM.

¹³³ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 59, (Ky. PSC Feb. 14, 2024) (emphasis added).

¹³⁴ See CONFIDENTIAL Exhibit PSC 4-29 – Operations Study; *see also* Bluegrass Water's Second Supplemental Response to PSC 4-29 (filed on September 17, 2026).

¹³⁵ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 10:43:13 AM – 10:44:05 AM; 12:51:50 PM – 12:52:36 PM ("...We do models, and models are just that, they're projections. But as we

part due to initial startup expenses, such as onboarding costs for full-time employees, payroll taxes, employee benefits, vehicle-related costs (including fuel, transportation, and insurance), materials and equipment used by the operations personnel, and other information technology and operational support costs that were previously paid to the contractor.¹³⁶ Despite these initial costs, Bluegrass Water believes that these costs will level out in the long-term, while still allowing the Company to have greater control over its customer service and improved maintenance over its assets.¹³⁷

Accordingly, at a minimum, the Commission should permit Bluegrass Water to recover the full amount of the operating expenses arising from the contract with Clearwater Solutions, its prior third-party operations firm, as provided in the Application, and which are less than Bluegrass Water's actual operating expenses since May 1, 2026.

3. *Bad Debt Expense*

The Commission should allow Bluegrass Water to recover the proposed bad debt expense, which consists of 1% of the Company's gross revenue.¹³⁸ Using 1% of gross revenue as the forecast for bad debt expense is reasonable and consistent with CSWR's bad debt expense levels in its eleven other affiliates.¹³⁹ Contrary to the recommendation of Mr. John Defever, using the historical average of actual write-offs, while selectively excluding the calendar year of 2024, as the basis for valuing Bluegrass Water's bad debt expense is not a reasonable or accurate estimation.¹⁴⁰

actually brought the employees in-house and brought their salaries, trucks, the expense associated with that, that has turned out to be slightly more expensive than contracts ops originally.”).

¹³⁶ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 10:43:07 AM – 10:43:14 AM. *See also* Sept. 22, 2026 Hearing, Josiah Cox Hearing Testimony, 12:51:50 PM – 12:52:36 PM; Bluegrass Water's Response to PHDR 39 (filed on October 12, 2026).

¹³⁷ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 10:50:57 AM – 10:51:53 AM.

¹³⁸ Redlined Direct Testimony of Caitlin O'Reilly, pg. 13: 5-7 (filed on June 8, 2026); *see also* Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 3:46:42 PM – 3:47:06 PM.

¹³⁹ Rebuttal Testimony of Caitlin O'Reilly, pg. 10: 21-28 (filed on September 10, 2026).

¹⁴⁰ *See* Errata Testimony of John Defever, pg. 17 (filed on September 9, 2026).

First, excluding the calendar year 2024 from the calculation of average historical write-offs simply because there were a higher amount of write-offs during that year does not produce a representative measure of the actual bad debt expense that is expected to occur in the forecasted period.¹⁴¹ It simply skews the average. Second, Bluegrass Water's history of bad debt expense is not a reasonable forecast because the Company has yet to establish a sufficiently reliable history of bad debt expense based on present customer payment patterns, given the Company's continually growing customer base with the new systems it acquires.¹⁴² Therefore, Bluegrass Water believes that using 1% of gross revenues is a fair and accurate forecast of bad debt expense based on the Company's affiliates in other states.

4. Employee Health Care Expenses

Similarly, the Commission should allow Bluegrass Water to recover the requested employee health care expenses. As demonstrated by the Rebuttal Testimony of Caitlin O'Reilly and the uncontroverted wage and benefits study provided as Exhibit PSC PHDR 35, Bluegrass Water's employee health care expenses are reasonable because they are part of a broader compensation package necessary to attract and retain qualified personnel.¹⁴³ Although Mr. John Defever recommends cutting the Company's employee health care expenses to align with the Bureau of Labor Statistics ("BLS") average, this recommendation is short-sighted and fails to consider any of the competitive conditions facing Bluegrass Water and CSWR.¹⁴⁴

As outlined in Ms. O'Reilly's Rebuttal Testimony, CSWR must be able to offer competitive compensation and benefits packages to employees in order to adequately compete in

¹⁴¹ Rebuttal Testimony of Caitlin O'Reilly, pg. 10: 4-10 (filed on September 10, 2026).

¹⁴² *Id.* at pg. 10: 11-20.

¹⁴³ *Id.* at pg. 7: 12-19. *See also* Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 4:08:20 PM – 4:08:52 PM; *see also* Exhibit PSC PHDR 35 – Bluegrass Water Wage & Benefits Study (filed on October 12, 2026).

¹⁴⁴ Errata Testimony of John Defever, pg. 11 (filed on Sept. 9, 2026).

the labor market.¹⁴⁵ CSWR does not maintain large departments of employees for each state in which it operates; rather, it has a small number of employees who often work across jurisdictions and support multiple functions for each affiliate, such as regulatory, accounting, compliance, operations, customer service, information technology, and management functions.¹⁴⁶ Given this relatively small, specialized workforce, CSWR must be able to compete in private labor markets (and not just the utility labor market) to attract qualified, experienced employees that can serve these functions.¹⁴⁷

This competitive compensation and benefits package is also critical in retaining CSWR's present employees.¹⁴⁸ Without an attractive benefits package, there is a risk that these highly trained and experienced employees leave CSWR, which in turn creates costs associated with having to recruit, hire, and train a new employee to fill that position.¹⁴⁹ These costs associated with employee turnover would be higher than any perceived cost savings from reducing the benefits packages.¹⁵⁰ Because the employee health care expenses are a necessary part of attracting and retaining qualified personnel to support CSWR's broad array of functions, the Company should be allowed to recover all of these expenses in this proceeding.

Furthermore, Mr. Defever's recommendation to reduce the Company's employee health care expenses based on the Commission's use of the BLS average is unsupported by law. In *Oldham County Water District v. Public Service Commission of Kentucky*, Oldham County Water

¹⁴⁵ Rebuttal Testimony of Caitlin O'Reilly, pg. 6: 3-10 (filed on Sept. 10, 2026). *See also* Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 4:08:20 PM – 4:08:52 PM.

¹⁴⁶ *Id.* at pgs. 5-6. *See also* Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 4:08:20 PM – 4:08:52 PM.

¹⁴⁷ *Id.*

¹⁴⁸ *Id.* at pg. 7: 1-9.

¹⁴⁹ *Id.*

¹⁵⁰ *Id.*

District (“OCWD”) similarly sought to recover its expenses associated with paying 100% of its employees’ health insurance premiums.¹⁵¹ Similar to Bluegrass Water, OCWD presented evidence that paying for employee health insurance premiums was the most important factor in attracting and retaining experienced employees in light of the competitive conditions in the Oldham County labor market.¹⁵² The Commission disregarded this evidence and instead applied an internal rule, which provided that utilities can only recover the amount of employee health insurance expenses based on the BLS and Willis Benchmarking Survey’s national averages for employers’ share of health and dental premiums.¹⁵³ The Franklin Circuit Court rejected the Commission’s blanket application of the unpromulgated policy, finding that using the BLS or Willis data as the rule of decision in every case was arbitrary, especially without consideration of the specific evidence supporting that allowing recovery of the health insurance costs was fair, just, and reasonable.¹⁵⁴ Further, the Court found that the BLS and Willis surveys were arbitrary, outdated, and not adequately reflective of the business goals of utilities.¹⁵⁵ Ultimately, the Court reversed the Commission’s Final Order and allowed OCWD to recover 100% of its expenses associated with paying employee health insurance premiums.¹⁵⁶

Nearly the same circumstances are present here. Bluegrass Water has similarly presented evidence that paying 99% of its employees’ health insurance premiums is fair, just, and reasonable because it is necessary in attracting experienced and qualified employees in the competitive labor

¹⁵¹ 24-CI-00725 (Franklin Cir. Ct. Sept. 25, 2025).

¹⁵² *Id.* at 3.

¹⁵³ *Id.* at 3-4.

¹⁵⁴ *Id.* at 7.

¹⁵⁵ *Id.* at 8 (“The standard operating expectations for a utility should be based on promulgated standards that are specific to the utility sector.”).

¹⁵⁶ *Id.* at 10.

markets in which CSWR must recruit.¹⁵⁷ In fact, there is no evidence in the record contradicting that it is necessary for Bluegrass Water to provide these benefits in order to adequately compete for top talent.¹⁵⁸ Such a change in this policy or disallowing Bluegrass Water to recover these expenses risks losing critical employees and having to incur increased expenses associated with employee turnover. Thus, the Commission should allow Bluegrass Water to recover the requested amount of employee health insurance expenses as provided in the Application.

5. Lobbying Expenses

As stated in the Rebuttal Testimony of Caitlin O'Reilly, the Company has properly excluded all lobbying expenses from its overhead allocated expenses.¹⁵⁹ Despite Mr. Defever's conclusions to the contrary, the responsibilities of CSWR's government affairs employee are not considered lobbying.¹⁶⁰ Instead, this individual is tasked with certain public communications and regulatory education relating to the Company's operations and infrastructure.¹⁶¹ These are reasonable operating expenses designed to improve transparency and educate the public and government officials about the Company's mission of investing in distressed water systems.¹⁶² Thus, Bluegrass Water should be permitted to recover its government affairs expenses because they are fair, just, and reasonable, and not related to lobbying.

¹⁵⁷ Rebuttal Testimony of Caitlin O'Reilly, pgs. 6-7 (filed on Sept. 10, 2026).

¹⁵⁸ See Exhibit PSC PHDR 35 – Bluegrass Water Wage & Benefits Study.

¹⁵⁹ Rebuttal Testimony of Caitlin O'Reilly, pgs. pg. 8: 3-15 (filed on Sept. 10, 2026). See also Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 4:10:10 PM – 4:10:21 PM (affirming that all lobbying expenses incurred at the CSWR level are removed from the overhead allocation for all affiliates).

¹⁶⁰ Errata Testimony of John Defever, pg. 11 (filed on Sept. 9, 2026).

¹⁶¹ Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 3:45:57 PM – 3:46:40 PM. See also Rebuttal Testimony of Caitlin O'Reilly, pg. 8: 3-14 (filed on Sept. 10, 2026).

¹⁶² *Id.*

6. Business Development Expenses

Similar to the above, Bluegrass Water has properly excluded all charges relating to business development activities from its expenses.¹⁶³ Bluegrass Water is able to properly exclude these expenses from the overhead allocation because the individuals who participate in business development activities have that term in their job title.¹⁶⁴ Thus, those individuals' salaries and benefits (including bonuses and vehicle allowances) are excluded from the overhead allocation.¹⁶⁵ In addition, because executives generally supervise all business development employees, a certain pro rata percentage of executive salary is excluded from the overhead allocation factor, which is calculated by first dividing the monthly salaries of business development employees by total monthly salaries.¹⁶⁶ Then, the percentage is applied to total executive compensation to determine the portion of executive salaries attributable to business development, which is then excluded from the overhead allocation factor.¹⁶⁷ Accordingly, Bluegrass Water has not included any expenses associated with business development in the Application.

d. Randview Stranded Investment

Bluegrass Water seeks to recover the stranded costs associated with its investments in the Randview system. As set forth in the Rebuttal Testimony of Brent Thies, Bluegrass Water was compelled into selling the Randview system to the City of Mayfield once it learned that the City

¹⁶³ Redlined Direct Testimony of Caitlin O'Reilly, pg. 24: 21-26 (filed on June 8, 2026).

¹⁶⁴ Bluegrass Water's Response to PSC 5-22 (filed on July 30, 2026).

¹⁶⁵ *See id.*; *see also* Sept. 21, 2026 Hearing, Caitlin O'Reilly Hearing Testimony, 4:00:00 PM – 4:01:00 PM; *see also* Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:41:33 PM – 12:41.46 PM; *see also* CONFIDENTIAL Exhibit PSC PHDR 17 – Business Development Detail.

¹⁶⁶ *See* Bluegrass Water's Response to PHDR 18 (filed on October 12, 2026).

¹⁶⁷ Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:41:33 PM – 12:42:13 PM (affirming that this percentage is determined by dividing the salary of the business development employees by the total cost of compensation to derive a percentage, and in turn, this percentage is applied to the executives' salaries to exclude that portion of their salary from the allocation factor).

was planning to annex the system.¹⁶⁸ At the time Bluegrass Water learned of this, it had already incurred costs making initial improvements to the highly deteriorated system it acquired and was in the process of assessing the most effective route to bring Randview into regulatory compliance.¹⁶⁹ However, Bluegrass Water determined it had little to no recourse to oppose the City's annexation because Kentucky law does not provide any protections to investor-owned utilities facing annexation of utility systems by government-owned utilities, nor does it provide any guarantee that the investor-owned utility will be fully compensated for the value of the assets "stranded" as a result of such annexation.¹⁷⁰ In an effort to receive at least some compensation for the system, Bluegrass Water negotiated a sale price of \$100,000 for the Randview system, which is by far more than what the Company would have received if it had opposed the annexation in a legal proceeding.¹⁷¹ Bluegrass Water had invested a total of \$173,410 into Randview, net of accumulated depreciation, that was not recovered through the sale price.¹⁷²

Importantly, Bluegrass Water did not request recovery of the stranded costs associated with Randview in Case No. 2022-00432. During the pendency of that case, the Commission approved the sale of Randview to the City of Mayfield. Because Bluegrass Water no longer operated that system, Bluegrass Water updated its revenue requirement to remove plant in service and ongoing operating expenses associated with Randview. As such, Bluegrass Water did not request recovery

¹⁶⁸ Rebuttal Testimony of Brent Thies, pg. 6: 7-28 (filed on Sept. 10, 2026); *see also* Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:36:57 PM – 12:37:25 PM.

¹⁶⁹ Redlined Direct Testimony of Brent Thies, pg. 41: 16-23 (filed on June 8, 2026).

¹⁷⁰ Rebuttal Testimony of Brent Thies, pg. 6: 21-28 (filed on Sept. 10, 2026).

¹⁷¹ Redlined Direct Testimony of Brent Thies, pg. 42: 1-5 (filed on June 8, 2026); *see also* Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:46:00 PM – 12:46:43 PM ("Q: Do you think it benefits ratepayers to get \$100,000 versus possibly zero? A: I do.").

¹⁷² *Id.* at pg. 42: 8-11. *See also* Exhibit PSC 2-27 – Randview. *See also* Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:02:15 PM – 12:03:00 PM; 12:05:40 PM – 12:06:00 PM.

of the stranded investment or seek any return on that investment, and the Commission did not make any decision whether to allow recovery of such stranded investment.¹⁷³

It is fair, just, and reasonable for Bluegrass Water to recover the \$173,410 of the stranded investment in Randview over a ten-year period.¹⁷⁴ First, Bluegrass Water incurred these costs in an effort to bring safe, clean service to the Randview customers, and thus utility ratemaking principles favor recovery of this investment.¹⁷⁵ Second, disallowing the recovery of the Randview stranded investment is directly contrary to the stated public policy goal of Kentucky to encourage regionalization and consolidation of water systems.¹⁷⁶ If Bluegrass Water were prohibited from recovering this stranded investment, this sets a dangerous precedent for water and wastewater utilities who acquire small, distressed systems and could inhibit their ability to attract capital. Knowing that an investment could be easily stranded due to threats of annexation without any kind of recourse creates increased risk to investors and potential lenders.¹⁷⁷ With that higher risk, that can result in outright denial of funding or, alternatively, lenders or investors could require a higher return to account for that risk, which would result in a higher cost of debt or rate of return.¹⁷⁸ Of course, these higher costs of attracting capital would be ultimately passed on to ratepayers.¹⁷⁹ Alternatively, investors could decide not to invest in Kentucky utilities at all, and instead invest in

¹⁷³ See Bluegrass Water's Response to PSC PHDR 30 (filed on October 12, 2026).

¹⁷⁴ Redlined Direct Testimony of Brent Thies, pg. 45: 17-21 (filed on June 8, 2026).

¹⁷⁵ *Id.* at 41: 6-23.

¹⁷⁶ KRS 224A.300(1) ("The General Assembly finds that it is necessary to encourage regionalization, consolidation, and partnerships among governmental agencies, and private parties when appropriate, with the goal of making public water and wastewater treatment secure for all Kentuckians.").

¹⁷⁷ Rebuttal Testimony of Brent Thies, pg. 8: 11-28 (filed on Sept. 10, 2026); *see also* Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:03:35 PM – 12:04:45 PM.

¹⁷⁸ *Id.* *See also* Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:37:28 PM – 12:38:45 PM.

¹⁷⁹ Rebuttal Testimony of Brent Thies, pg. 8: 11-28 (filed on Sept. 10, 2026).

utilities in other jurisdictions that have protections against the possibility of a stranded investment. To ensure that the Commonwealth is providing necessary support to utilities who consolidate water systems and to ensure those utilities are compensated for that risk, the Commission should allow Bluegrass Water to recover its stranded investment associated with Randview.

e. Depreciation Expense

The Commission should accept Bluegrass Water's proposed depreciation rates as fair, just, and reasonable. While Bluegrass Water did not perform a depreciation study in this case, the Company provided a depreciation study in the last wastewater rate case, Case No. 2022-00432.¹⁸⁰ The Commission approved the depreciation rates provided in that study, and therefore the Company relied upon the same depreciation rates for this case with respect to its wastewater assets.¹⁸¹

Similarly, Bluegrass Water did not commission a depreciation study for its water assets because the cost of conducting one would far exceed any benefit of having precise depreciation rates for its minimal water assets.¹⁸² Instead, Bluegrass Water has applied depreciation rates typically used in the water industry.¹⁸³ In the Company's last water rate case, Case No. 2020-00290, the Commission applied a composite depreciation rate to the Company's water assets; however, Bluegrass Water does not seek recovery based on the same composite rate here.¹⁸⁴

¹⁸⁰ Redlined Direct Testimony of Brent Thies, pg. 46: 8-21 (filed on June 8, 2026).

¹⁸¹ *Id.*; see also Exhibit PSC 5-8 – Forecasted Depreciation Expense (filed on July 30, 2026); *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 49 (Ky. PSC Feb. 14, 2024).

¹⁸² Redlined Direct Testimony of Brent Thies, pg. 46: 8-21 (filed on June 8, 2026); see also Bluegrass Water's Response to PSC 4-4 (filed on July 2, 2026).

¹⁸³ *Id.* See also Exhibit PSC 5-8 – Forecasted Depreciation Expense (filed on July 30, 2026).

¹⁸⁴ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction*, Case No. 2020-00290, Order at 57 (Ky. PSC Aug. 2, 2021) ("Given that the Commission's forecasted UPIS is not broken down by account it is using a composite rate based on the NARUC.").

Consistent with generally accepted accounting principles, Bluegrass Water has used depreciation rates which are specific to plant accounts rather than a uniform rate for all accounts, which is more appropriate to account for depreciation of specific assets.¹⁸⁵ Therefore, the proposed depreciation rates for wastewater and water assets are fair, just, and reasonable and should be accepted by the Commission.

f. Late Fee Revenue

As outlined in the Redlined Direct Testimony of Brent Thies, Bluegrass Water seeks to retain the full amount of late fee revenues collected since the last rate case.¹⁸⁶ In Case No. 2022-00432, the Commission authorized Bluegrass Water to charge a 10% late fee to its wastewater customers.¹⁸⁷ To prevent Bluegrass Water from over collecting on its approved revenue requirement, the Commission included the test-year level of late fees of \$14,244 as an offset to the revenue requirement and further ordered Bluegrass Water to track all invoiced late fees and record them as a regulatory asset or liability to the extent they exceed \$14,244 in any given year.¹⁸⁸ In compliance with this directive, Bluegrass Water has recorded as a regulatory liability the late fee amounts that have exceeded the \$14,244 threshold.¹⁸⁹

Bluegrass Water proposes that the Commission take no action on the regulatory liability for late fees and allow the Company to retain these amounts as revenue. Allowing Bluegrass Water to keep the late fees is fair, just, and reasonable because the Company has under collected on its approved revenue requirement in the last case.¹⁹⁰ Thus, the late fees will not result in customers

¹⁸⁵ See Exhibit PSC 5-8 – Forecasted Depreciation Expense (filed on July 30, 2026).

¹⁸⁶ Redlined Direct Testimony of Brent Thies, pgs. 52-53 (filed on June 8, 2026).

¹⁸⁷ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 44-45 (Ky. PSC Feb. 14, 2024).

¹⁸⁸ *Id.*

¹⁸⁹ Redlined Direct Testimony of Brent Thies, pg. 52: 14-19 (filed on June 8, 2026).

¹⁹⁰ *Id.* at pg. 53: 10-18.

over-compensating Bluegrass Water or in the Company realizing any windfall. Rather, these late fees will be a crucial tool in bridging the Company's present revenue shortfall in Kentucky and bringing the Company closer to compliance with its required debt covenants.¹⁹¹

g. Unaccounted-For Water Loss

The Commission should not include an unaccounted-for water loss adjustment to Bluegrass Water's proposed rates because there is no evidence in the record that suggests Bluegrass Water has water loss in excess of 15%. Notwithstanding the conclusions of Mr. Defever, Bluegrass Water is not able to accurately track such water loss information because the customers on the Company's sole water system, Center Ridge, receive service on a flat, unmetered rate.¹⁹² The system received service on a flat, unmetered rate at the time the Commission approved Bluegrass Water's acquisition of it, and Center Ridge was a regulated utility with prior rate adjustment proceedings before the Commission. There is no evidence of the Commission making an adjustment to the revenue requirement in those cases due to unaccounted-for water loss.¹⁹³

The Commission should further reject Mr. Defever's calculated average of unaccounted-for water loss of an alleged "proxy" group of five other water utilities in Kentucky.¹⁹⁴ As Mr. Defever testified, the "proxy" group was selected by picking the first five utilities located by Mr. Defever's assistant, not based on whether the water utilities are similar in size or operating

¹⁹¹ Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:46:30 PM – 12:46:34 PM ("Q: And again, I think you said Bluegrass Water has not actually turned a profit? A: Correct.").

¹⁹² Sept. 22, 2026 Hearing, Aaron Silas Hearing Testimony, 9:46:15 AM – 9:48:19 AM.

¹⁹³ *E.g., In the Matter of: Application of Center Ridge Water District, Inc. for an Adjustment of Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities*, Case No. 2010-00397, Order (Ky. PSC June 24, 2011).

¹⁹⁴ Errata Testimony of John Defever, pgs. 21-22 (filed on Sept. 9, 2026).

characteristics to Bluegrass Water.¹⁹⁵ Thus, nothing in the record supports an unaccounted-for water loss adjustment to the Company's proposed rates.

V. RATE OF RETURN

Based on Bluegrass Water's capital structure, the Commission should approve the recommendation of Mr. Matt Howard, who proposes an overall weighted average cost of capital of 9.77% for the forecasted test year, which includes a recommended return on common equity of 11.5% and a 7.98% cost of long-term debt for Bluegrass Water.

a. Capital Structure

As supported by the uncontroverted Direct Testimony of Mr. Howard, the Commission should authorize wastewater and water rates based upon Bluegrass Water's actual capital structure, which consists of 50.46% debt and 49.54% common equity for the base year ending on March 31, 2026, and 49.24% debt and 50.76% common equity for the forecasted test year ending on July 31, 2027.¹⁹⁶ As explained by Mr. Howard, Bluegrass Water's capital structure for both the base year and the forecasted test year are within the range of common equity ratios of the Utility Proxy Group, upon which Mr. Howard bases his recommendation.¹⁹⁷

Furthermore, the Commission should accept the actual capital structure because Bluegrass Water has successfully shifted its capital structure to align with the 50/50 ratio, consistent with the Commission's directive that "Bluegrass Water's equity-to-capitalization percentage should not

¹⁹⁵ Sept. 21, 2026 Hearing, John Defever Hearing Testimony, 3:07:28 PM – 3:08:26 PM (affirming that there were no set parameters used to form the proxy group).

¹⁹⁶ See Direct Testimony of Matthew Howard, Application Exhibit 17, pg. 15: 5-9 (filed on December 11, 2025). See also Exhibit 9 – Financial Workbook – WITH LINKS (under tab labeled "Capital Structure") (filed on June 3, 2026).

¹⁹⁷ Direct Testimony of Matthew Howard, Application Exhibit 17, pg. 15: 12-18 (filed on December 11, 2025).

exceed 50% and that every effort must be made to lower that percentage.”¹⁹⁸ Bluegrass Water has made great efforts to achieve this goal, having a capital structure of approximately 61.16% common equity and 38.84% debt in its 2022 wastewater rate case.¹⁹⁹

At the time of the last rate case, Bluegrass Water already had a long-term loan from CoBank, the terms of which were approved by the Commission in Case No. 2022-00217.²⁰⁰ In that case, the Commission actually approved an indebtedness of up to \$5,000,000; however, CoBank only extended a loan of \$2,900,000 to Bluegrass Water given its inadequate cash flow and then-approved rate of return.²⁰¹ Even following the implementation of the approved rates in Case No. 2022-00432, Bluegrass Water failed to maintain an adequate cash flow to maintain the required debt covenants as required under the CoBank loan agreement.²⁰²

¹⁹⁸ See Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:44:55 PM – 12:45:27 PM; *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 82-83 (Ky. PSC Feb. 14, 2024) (quoting *In the Matter of: Electronic Proposed Acquisition by Bluegrass Water Utility Operating Company, LLC and the Transfer of Ownership and Control of Assets by P.R. Wastewater Management, Inc., Marshall County Environmental Services, LLC, LH Treatment Company, LLC Kingswood Development, Inc., Airview Utilities, LLC, Brooklyn Utilities, LLC, Fox Run Utilities, LLC, and Lake Columbia Utilities, Inc.*, Case No. 2019-00104, Order (Ky. PSC Apr. 16, 2019)).

¹⁹⁹ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 74-75 (Ky. PSC Feb. 14, 2024).

²⁰⁰ *Id.*; see also Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:43:14 PM – 12:44:41 PM; see also *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for Issuance of Evidence of Indebtedness*, Case No. 2022-00217, Order at 4-5 (Ky. PSC Sept. 28, 2022).

²⁰¹ *Id.*; see also Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:30:12 PM – 12:31:28 PM.

²⁰² Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:23:40 PM – 12:24:21 PM (affirming that Bluegrass Water has been in default for the past two years); same at 12:44:25 PM – 12:44:40 PM.

Due to this technical default, Bluegrass Water would almost certainly be unable to obtain a loan from any other lender to support the Company's necessary debt capitalization.²⁰³ Consequently, in an effort to move toward the 50/50 capital structure and to supply Bluegrass Water with needed short-term and working capital, CSWR and Bluegrass Water entered into an intercompany loan agreement.²⁰⁴ With the addition of the intercompany loan, Bluegrass Water was able to successfully increase its percentage of debt and achieve a more balanced capital structure to the benefit of Kentucky ratepayers. Thus, Bluegrass Water asks the Commission to accept the proposed capital structure and base its rates upon the actual ratio of debt to equity. Similarly, when determining the actual cost of debt, the Commission should use the actual interest rates charged by the Bluegrass Water and CSWR lender respectively, which is consistent with the Commission's Final Order in Case No. 2022-00432.²⁰⁵

b. Return on Common Equity

Additionally, the Commission should approve Mr. Howard's recommended return on common equity ("ROE") of 11.5%. Indeed, there is no evidence in the record upon which the Commission may rely in rejecting Mr. Howard's recommended ROE. As detailed in Mr. Howard's testimony, this recommendation was derived through Mr. Howard's selection of the Utility Proxy Group and application of various financial models to approximate the ROE required by

²⁰³ *Id.*; see also Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:45:30 PM – 12:45:40 PM.

²⁰⁴ See Bluegrass Water's Response to OAG 1-15; see also Financial Workbook – WITH LINKS (under tab labeled "Balance Sheet Detail") (filed on June 3, 2026).

²⁰⁵ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 85 (Ky. PSC Feb. 14, 2024) ("[T]he Commission finds that the proposed long-term debt rate of 6.80 percent is reasonable and should be approved considering this was the rate that Bluegrass Water actually obtained during its debt financing.").

investors.²⁰⁶ Mr. Howard selected the Utility Proxy Group to assess the proper ROE on investments in other similar enterprises with corresponding risks.

Just days before Mr. Howard's spot date of October 31, 2025, two of the utilities, American Water Works Company, Inc., and Essential Utilities, Inc., announced a merger.²⁰⁷ These utilities remained in the Utility Proxy Group because, at the time of Mr. Howard's analysis, there was insufficient market data to determine whether the merger affected them such that they should be excluded from the Utility Proxy Group.²⁰⁸ Even so, Mr. Howard has maintained that, even with a Utility Proxy Group consisting of five utilities, this represents an adequate sample size upon which to recommend a rate of return.²⁰⁹

Application of the Discounted Cash Flow Model ("DCF"), the Capital Asset Pricing Model ("CAPM"), and the Risk Premium Model ("RPM") results in a reliable, reasonable ROE which accounts for a broad array of market conditions. Application of these models resulted in a range of common equity ratios between 10% - 11%.²¹⁰

Mr. Howard then applied a business risk adjustment of 1% to the recommended ROE. Bluegrass Water faces increased risk because it primarily acquires troubled water and wastewater systems, which typically require capital investment and can create challenges in providing reliable service.²¹¹ Mr. Howard also noted that Bluegrass Water's small size as compared to the Utility

²⁰⁶ Direct Testimony of Matt Howard, Application Exhibit 17, pgs. 16-17 (filed on December 11, 2025).

²⁰⁷ Direct Testimony of Matt Howard, Application Exhibit 17, pg. 14: 12-19 (filed on December 11, 2025).

²⁰⁸ *Id.*

²⁰⁹ See Bluegrass Water's Response to PSC 7-1; see also Sept. 21, 2026 Hearing, Matt Howard Hearing Testimony, 11:49:47 AM – 11:50:25 AM; see also Bluegrass Water's Response to Staff's PHDR 6.

²¹⁰ Direct Testimony of Matt Howard, Application Exhibit 17, pg. 52: 1-2 (filed on December 11, 2025).

²¹¹ *Id.* at pg. 53: 3-11.

Proxy Group affects its business risk, as smaller companies “are less able to handle fluctuations in revenues, expenses, and capital outlays than larger companies.”²¹²

Based on Mr. Howard’s market analysis and in light of Bluegrass Water’s present levels of risk, investors require an ROE of 11.5% to invest in Bluegrass Water.²¹³ Neither the Office of the Attorney General nor Scott County have presented any evidence rebutting the reasonableness of Mr. Howard’s recommended ROE. Therefore, the Commission should adopt Mr. Howard’s recommended ROE, which is the only evidence in the record upon which the Commission may make a decision, in order to allow Bluegrass Water to sufficiently maintain its financial integrity and attract capital.

c. Long-Term Cost of Debt

As outlined by Mr. Howard, the Commission should approve a debt cost of 8.02% for the base period ending on March 31, 2026, and 7.98% for the forecasted test period ending on July 31, 2027, both of which reflect the blended debt costs for the Company for these periods. The blended debt cost reflects the actual interest rate of Bluegrass Water’s long-term debt, which is consistent with the Commission’s decision in Case No. 2022-00432.²¹⁴

VI. RATE DESIGN

For the reasons set forth herein, the Commission should approve the rate design as proposed by Bluegrass Water, which generally consists of unified, flat rates for water and wastewater customers. As set forth more fully in the Redlined Direct Testimony of Aaron Silas, the rates were designed by using the same class equivalencies approved by the Commission in the

²¹² *Id.* at pg. 53: 14-22.

²¹³ Sept. 21, 2026 Hearing, Matt Howard Hearing Testimony, 11:53:07 AM – 11:54:05 AM.

²¹⁴ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Sewage Rates*, Case No. 2022-00432, Order at 85 (Ky. PSC Feb. 14, 2024).

last rate case and by dividing the monthly revenue requirement by the relevant customer counts for each customer class.²¹⁵ The Company further proposes that 40% of the revenue requirement be allocated to the Delaplain non-residential customers consistent with cost causation principles.

a. The Commission Should Adopt the Consolidated Rates for All Systems.

The Commission should continue to allow Bluegrass Water to charge consolidated rates to all of its water and wastewater customers. Similar to prior rate cases, Bluegrass Water proposes bringing all of its newly acquired systems onto a unified rate across the Commonwealth.²¹⁶ Bluegrass Water seeks to continue using the consolidated rates because over the long-term, consolidated rates actually stabilize costs for customers as the Company continues to invest in various systems and bring them into compliance. As the Commission has previously recognized:

[A] unified rate is likely to promote regionalization, which should drive down costs in the long term by allowing utilities to take advantage of economies of scale, and that a unified rate will serve to levelize rates in the long term so that each system will not experience a significant rate shock every time it requires significant investment or some unexpected cost, which all systems will experience at some point.²¹⁷

For these reasons, the Commission has previously approved the Company's use of consolidated rates in the past two rate cases, Case No. 2020-00290 and Case No. 2022-00432.

The benefits of consolidated rates are not just theoretical. Bluegrass Water's consolidated rate structure has resulted in levelizing costs for Kentucky customers, as demonstrated by the significant capital improvements to the Delaplain system.²¹⁸ Absent a consolidated rate structure, the Delaplain customers would be paying rates significantly higher than what is being proposed

²¹⁵ Redlined Direct Testimony of Aaron Silas, pgs. 23-24 (filed on June 8, 2026).

²¹⁶ Redlined Direct Testimony of Josiah Cox, pg. 18: 4-8 (filed on June 8, 2026).

²¹⁷ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction*, Case No. 2020-00290, Order at 13 (Ky. PSC Aug. 2, 2021).

²¹⁸ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 9:22:30 AM – 9:23:36 AM.

by the Company, which would impose an unnecessary and undue hardship on those customers.²¹⁹ Currently, the unified rate is allowing for the financial burdens common to all systems to be distributed in a manner that is beneficial for all ratepayers in the long-term.

Bluegrass Water believes that consolidated rates create fair, just, and reasonable rates for all customers over the long-term by ensuring that small handfuls of customers do not experience waves of rate shock immediately following improvements to their systems, which, as the Commission has recognized, will occur at all systems at some point.²²⁰ For these reasons, Bluegrass Water respectfully requests that the Commission continue to allow Bluegrass Water to use consolidated rates and to bring Commonwealth Wastewater, Magruder Village, and Yung Farm Estates into the unified rate structure.

b. The Commission Should Approve the Proposed Revenue Requirement Allocation for Rate Design Because it is Consistent with Cost Causation Principles.

Bluegrass Water has proposed allocating 40% of the revenue requirement to the Delaplain non-residential class based upon the significant capital costs incurred with improving that system to accommodate the non-residential customers.²²¹ As set forth more fully above, Bluegrass Water engaged in a facility overhaul of the Delaplain treatment facility in order to rectify the consistent permitting violations and to increase the system's overall capacity to meet commercial customers'

²¹⁹ See Exhibit PSC PHDR 38 – Revenue Requirement by System Final (filed on October 12, 2026); see also Direct Testimony and Exhibits of Michael Gorman, pg. 13: 8-16 (filed on August 13, 2026); see also Exhibit MPG-3 (recommending a residential rate of \$147.12 for residential customers).

²²⁰ *In the Matter of: Electronic Application of Bluegrass Water Utility Operating Company, LLC for an Adjustment of Rates and Approval of Construction*, Case No. 2020-00290, Order at 13 (Ky. PSC Aug. 2, 2021).

²²¹ Redlined Direct Testimony of Aaron Silas, pg. 23: 9-21 (filed on June 8, 2026).

increased demands upon the system.²²² The Delaplain treatment facility was originally designed to treat only residential wastewater. Given the proportionally higher flows from the commercial customers, this caused the treatment facility to consistently operate beyond its maximum capacity, resulting in a new-connection moratorium from the Division of Water. Under the moratorium, Bluegrass Water was unable to connect new commercial or residential customers to help offset the costs of the Delaplain improvements. The additional capacity and increased size of the facility were the primary goals of the construction project and were intended to accommodate the commercial customers.

The costs associated with treating the wastewater from the Delaplain non-residential customers support the proposed revenue requirement allocation. As designed, the facility was not previously designed to remove the oil, grease, and other corrosive substances emitted by the Delaplain commercial customers.²²³ Before the system improvements, industrial wastewater would often kill the living biology used at the plant to break down wastewater, thereby contributing to inadequate wastewater treatment and permitting violations.²²⁴ In addition to contributing to

²²² Sept. 21, 2026 Hearing, Jacob Freeman Hearing Testimony, 1:13:00 PM – 1:14:00 PM (“Q: How does....[inflow and infiltration] impact the [Delaplain] system? A: So, when you, I want to say that the treatment plant was designed for 240,000 gallons a day. And we’ve seen flows as high as about a million over that. So, when you get that much water coming in, in addition to the regular sewage, you don’t have time in the treatment [basin] to properly treat to the permit limits. And then, going into the clarifier, which was the original last step before disinfection, it just blows solids out the back of the plant into the receiving waters. Q: Okay. And...when you say it goes above or almost to a million gallons over per day, that was your testimony there, right? A: Yes. Q: Is that from customers discharging into the system or is that rain water also getting into the system? A: It’s both.”); *see also* Sept. 21, 2026, Hearing, Testimony of Jacob Freeman, 1:55:18 – 1:55:42 PM.

²²³ Sept. 21, 2026 Hearing, Jacob Freeman Hearing Testimony, 1:22:05 PM – 1:23:05 PM; 1:55:23 PM – 1:55:46 PM.

²²⁴ *Id.*

more wastewater flow,²²⁵ the strength and characteristics of the wastewater emitted from the Delaplain non-residential customers has caused the necessity of the capital improvements. Because the Delaplain project is one of the primary drivers of this rate increase, principles of cost causation favor fairly allocating the cost of the capital project to the Delaplain non-residential customers.²²⁶

Similarly, the Commission should wholly reject the recommendation of Scott County's witness, Mr. Michael Gorman, because his recommendation deviates from the principle of cost causation. As outlined in Mr. Gorman's testimony, he recommends that the revenue requirement be distributed evenly across residential and non-residential customers, which in turn leads to a proposed residential wastewater rate of \$147.12.²²⁷ This allocation is unfair as it ignores that the facility overhaul project, which included additional size, capacity, and treatment process modifications to the plant, were required to adequately serve the commercial customers. Mr. Gorman's recommendation places a disproportionate amount of the cost of the Delaplain improvements upon residential customers, proposing to increase the residential customer rates, when the reality is that non-residential customers have predominantly caused this cost.²²⁸

c. The Commission Should Approve the Proposed Flat Rate Structure.

Finally, Bluegrass Water's proposed flat rates should be accepted by the Commission as fair, just, and reasonable. Except for the Delaplain non-residential customers, the Company's water and wastewater systems provide unmetered service. While several public comments suggested that rates should be predicated upon customer usage, the Commission should reject this assertion

²²⁵ Sept. 22, 2026 Hearing, Aaron Silas Hearing Testimony, 9:18:22 AM – 9:19:06 AM; 9:30:20 AM – 9:34:13 AM. *See also* Exhibit PSC 7-10 – Delaplain Flow Data 2022-2026 and CONFIDENTIAL Exhibit PSC 7-11 – Delaplain Combined Annual Usage.

²²⁶ Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:47:31 PM – 12:48:05 PM (affirming that the Delaplain project is one of the primary drivers of this rate increase).

²²⁷ Direct Testimony and Exhibits of Michael Gorman, pg. 13: 8-16 (filed on August 13, 2026); *see also* Exhibit MPG-3.

²²⁸ Sept. 22, 2026 Hearing, Aaron Silas Hearing Testimony, 9:44:40 AM – 9:46:05 AM.

because, regardless of customer usage, Bluegrass Water's costs of operating wastewater treatment facilities remain the same.²²⁹ Moreover, there is no evidence in this case that water usage accurately reflects the demand a customer places on a wastewater system. The Company is required to provide full facility capacity to all customers on a treatment system regardless of each individual customer's usage. Because the facilities must be continually operational at full capacity, obtaining individual customer usage data would not change Bluegrass Water's actual cost of service. In fact, adding meters to the Company's existing infrastructure would only increase rates by requiring Bluegrass Water to purchase, install, maintain, and eventually replace meters consistent with Commission regulations.²³⁰

VII. DENIAL OF FULL RATE RELIEF WILL DRASTICALLY IMPACT THE FINANCIAL VIABILITY OF BLUEGRASS WATER.

Bluegrass Water's future financial viability depends on this request for a rate increase. Bluegrass Water faces serious financial hardship. As stated herein, Bluegrass Water has been operating at an approximate \$7 million loss since entering the Kentucky market.²³¹ Insufficient revenue streams at current rates and inflated operating costs in recent years have resulted in the Company being unable to turn a profit, much less earn a return on any of its investments in its systems. At present rates, Bluegrass Water is in technical default of its loan obligation with CoBank.²³²

The only reason the loan has not been accelerated is due to CSWR's close working relationship with CoBank across several state-level affiliates, which allowed CSWR to negotiate

²²⁹ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 9:20:14 AM – 9:21:40 AM.

²³⁰ See Bluegrass Water's Response to PSC 6-3 (filed on August 28, 2026).

²³¹ Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 9:25:25 AM – 9:26:05 AM.

²³² Sept. 21, 2026 Hearing, Josiah Cox Hearing Testimony, 11:35:30 AM – 11:36:20 AM.

a waiver of the debt covenant condition with CoBank.²³³ As a consequence, Bluegrass Water's creditworthiness has suffered, and, without adequate rate relief, the Company would have an exceedingly difficult time obtaining financing from another lender or attracting investments from outside investors. Without this financial stability, Bluegrass Water faces a significant risk of being unable to adequately maintain its Kentucky water and wastewater assets. The rates requested herein are designed to mitigate these issues and allow the Company to maintain financial stability so it may continue providing adequate, reliable service to Kentuckians.

Additionally, the rates requested herein are largely attributable to the Company having undertaken activities and actions consistent with the Commission's prior directives. When Bluegrass Water acquired its first systems, the Company made clear that its intent was to invest in small, distressed water and wastewater systems in the Commonwealth to bring them into regulatory compliance. Once the Commission approved these acquisitions, Bluegrass Water followed through on this commitment.

Following the issuance of four CPCNs for capital improvements and three CPCNs for the acquisition of systems known to be in violation of numerous environmental regulations, Bluegrass Water invested in the Commonwealth's deteriorated wastewater infrastructure by making capital improvements, bringing the affected systems into regulatory compliance and rectifying a number of human health and environmental hazards that were present. Moreover, Bluegrass Water has undertaken other changes to its business in response to specific instructions from the Commission, including, but not limited to, bringing operations in-house and obtaining additional debt financing to bring the capital structure in alignment with the 50/50 capitalization ratio. The Commission should authorize the rates requested in this proceeding to signal full regulatory support of utilities

²³³ Sept. 22, 2026 Hearing, Brent Thies Hearing Testimony, 12:24:00 PM – 12:24:21 PM.

complying with Commission Orders and investing in dilapidated infrastructure to better the lives of Kentuckians.

The denial of Bluegrass Water's proposed rates would constitute an unexpected withdrawal of regulatory support from the Commission, suggesting that, even though the Commission has expressly permitted, or other times ordered, the Company to take these actions, recovery of these expenses is not possible. Such a withdrawal of regulatory support would create serious consequences for Bluegrass Water's ability to attract debt and equity capital by unjustifiably increasing the risks associated with investing in Bluegrass Water. Lenders or investors may refuse to provide support to the Company, or, worse, existing lenders and investors may similarly withdraw their support for the Company's operations.

Moreover, the financial consequences of denying Bluegrass Water's proposed rates may not be limited to Bluegrass Water, but could extend to other utilities across the Commonwealth. While this result may be unthinkable, it has happened in the past. For example, in 1987, the Commission denied a rate adjustment to Big Rivers Electric Corporation in Case No. 9613. One of Big Rivers's lenders, REA, sent a letter to the Commission, noting that the denial of rates raised "profound and disturbing questions about the future feasibility and security of loans made or guaranteed by the [REA]." In light of the rate denial, the REA stated that it and the Rural Telephone Bank "will suspend all loan and loan guarantee approvals and advances on loans and loan guarantees already approved to all electric and telephone borrowers in Kentucky."²³⁴

The proposed rates are necessary for Bluegrass Water to maintain its financial integrity and attract necessary capital for continued operations. The proposed rates are designed to address the Company's financial issues discussed above, such as bridging the present revenue shortfall, curing

²³⁴ See Exhibit, Letter from the REA.

the technical default of its loan agreement, and recovering the costs of the necessary investments made into its wastewater systems – all of which have been expressly approved by the Commission.

VIII. CONCLUSION

For the reasons set forth herein, and as otherwise established in this proceeding, Bluegrass Water respectfully requests that the Commission grant its Application for an Adjustment of Sewer and Water Rates and permit Bluegrass Water to adjust its wastewater and water rates.

Respectfully submitted,

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Certification

I hereby certify that a copy of this filing has been served electronically on all parties of record through the use of the Commission's electronic filing system, and there are currently no parties that the Commission has excused from participation by electronic means. Pursuant to the Commission's July 22, 2021 Order in Case No. 2020-00085, a paper copy of this filing has not been transmitted to the Commission.

/s/ R. Brooks Herrick

Counsel to Bluegrass Water Utility

Operating Company, LLC