

EXHIBIT

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

ELECTRONIC APPLICATION OF)
BLUEGRASS WATER UTILITY) Case No. 2025-00354
OPERATING COMPANY, LLC FOR)
AN ADJUSTMENT TO ITS RATES)

DIRECT TESTIMONY

OF

CAITLIN O'REILLY

ON BEHALF OF

BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC

FILED: December 11, 2025

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DIRECT TESTIMONY OF

CAITLIN O'REILLY

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DIRECT TESTIMONY OF

CAITLIN O'REILLY

I. INTRODUCTION

5 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

6 A. My name is Caitlin O'Reilly. My business address is 1630 Des Peres Road, Suite
7 140, St. Louis Missouri, 63131.

8 **Q. WHAT IS YOUR POSITION WITH BLUEGRASS WATER UTILITY**
9 **OPERATING COMPANY?**

10 A. I am the Accounting Manager – Regulatory Accounting at CSWR, LLC (“CSWR”),
11 the affiliated company that has operational/managerial oversight over the CSWR
12 utility operating companies including Bluegrass Water Utility Operating Company,
13 Inc. (“Bluegrass Water” or “Company”). I have been employed at CSWR since May
14 2021. At CSWR, my responsibilities include overseeing and ensuring compliance
15 with regulatory reporting requirements and accounting standards within both the
16 Company and its various utility operating companies. I collaborate with cross-
17 functional teams, including the finance, legal, and regulatory departments, to ensure
18 accurate and timely reporting to regulatory authorities.

19 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
20 **EXPERIENCE.**

21 A. My education includes a Bachelor of Science in Accounting and a Bachelor of
22 Science in Accounting Information Systems from Maryville University. Prior to
23 being employed by CSWR, I worked at Mastercard and Royal Canin in various
24 accounting roles with increasing levels of responsibility.

1 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY**
2 **PUBLIC SERVICE COMMISSION (“COMMISSION”)?**

3 A. While I have not testified before this Commission, I have testified before the state
4 utility commissions of Missouri and North Carolina.

5 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
6 **CASE?**

7 A. I will address the inclusion of Bluegrass Water’s O&M expenses, including the
8 projection of those expenses, for inclusion in the Company’s forward-looking test
9 period proposal.

10
11 **II. ACCOUNTING CONTROLS AND BUDGET PROCEDURES**

12 **Q. PLEASE SUMMARIZE THE CORPORATE ACCOUNTING POLICIES**
13 **FOR BLUEGRASS WATER AND CSWR.**

14 A. CSWR and Bluegrass Water keep and maintain financial accounting records on an
15 accrual basis in accordance with General Accepted Accounting Practices (“GAAP”)
16 in the United States. The Company uses the account structure and procedures
17 provided in the Uniform System of Accounts for Water and Wastewater Utilities as
18 published by National Association of Regulatory Utility Commissioners
19 (“NARUC”). CSWR has obtained unqualified audit opinions, based on GAAP,
20 annually since 2015. These audits have included a review of control procedures and
21 the corporate control environment.
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24 **Q. HOW ARE OPERATING BUDGETS FOR BLUEGRASS WATER**
25 **DEVELOPED?**
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A. The Company undertakes an annual budgeting process and proposes a budget to management in November of each year. Operating budgets are developed based on available data from prior periods which are adjusted for any changes to operations. For systems that have been owned and operated by Bluegrass Water, or any other affiliate, the most recent monthly results are analyzed by Internal Accounting and Finance Staff. Once known changes have been incorporated, the operating budgets are sent to Operations Staff for review and adjustment. For systems that are expected to be acquired, budgets are set by examining the records available from prior owners, by comparing historical data from similar facilities that are already owned by one of the Company’s affiliates, and by incorporating any estimates obtained for contracted services. Once the Operations Staff reviews, adjusts and confirms all amounts, the budgets are sent to senior management for review and approval.

Q. WHAT IS CSWR AND BLUEGRASS WATER’S CAPITALIZATION POLICY?

A. The Company is engaged in a significant amount of capital improvement in the systems that it owns across the Commonwealth of Kentucky. At the same time, operational enhancements and capital maintenance are ongoing. The Company seeks to capitalize all costs that represent new assets or are for assets that serve to restore, expand, or enhance the useful lives of existing assets. To limit *de minimis* items and inefficient procedures, the Company capitalizes costs of construction,

1 individually installed equipment or capital maintenance items that aggregate to \$500
2 or more.

3
4 **III. OPERATING EXPENSES**

5 **Q. PLEASE DESCRIBE THE OPERATING EXPENSES INCLUDED IN THE**
6 **WASTEWATER REVENUE REQUIREMENT CALCULATION.**

7 A. The operating expenses included in Bluegrass Water’s cost of service are categorized
8 into three main groups. ***First***, there are costs that are directly incurred by Bluegrass
9 Water, which include contract operations, fuel and power, chemicals, maintenance,
10 depreciation and amortization, property taxes, and administrative expenses. ***Second***,
11 there are costs that are incurred by Bluegrass Water that are part of contracts or
12 invoices in which services to all CSWR affiliates are combined for administrative
13 efficiency and are directly charged to the operating utility affiliates. These jointly
14 billed costs include property and liability insurance, certain software and
15 management consulting services, and billing system costs. ***Third***, there are indirect
16 charges in the form of overhead charges allocated to Bluegrass Water by its parent,
17 CSWR. The methodologies used to assign direct charges, jointly billed charges, and
18 indirect charges to Bluegrass Water apply to all CSWR affiliates and are part of
19 CSWR’s written accounting policy, as outlined in the Company’s Cost Allocation
20 Manual (“CAM”).¹

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¹ Details regarding the Company’s Cost Allocation Manual are described in greater detail below.

1 **Q. PLEASE EXPLAIN THE APPLICABLE TIME PERIODS FOR YOUR**
2 **DISCUSSION OF OPERATING EXPENSES.**

3
4 A. As Mr. Brent Thies describes, the Company is proposing a forward-looking test
5 period in this case. Although the Company is proposing a forward-looking test
6 period, it must still provide a revenue requirement calculation for the base period.
7 Moreover, the Commission's rules require that the base period must contain at least
8 six months of actual data with the remaining months consisting of estimated data
9 that is subsequently replaced with actual data.
10

11 In this case, the Company proposes a base period that consists of actual data
12 for the period of April 1, 2025, through September 30, 2025. In addition, the
13 Company proposes to estimate costs for six months of the base period running from
14 October 1, 2025, through March 31, 2026. Given the filing date of this case, and as
15 more fully discussed by Mr. Thies, the Company is proposing a forward-looking test
16 period of August 1, 2026, through July 31, 2027.
17

18 Therefore, my discussion of the various operating expenses will all consider
19 three different time periods:
20

21 Base period (actual data): April 1, 2025 – September 30, 2025

22 Base period (estimated data): October 1, 2025 – March 31, 2026

23 Forward-Looking Test Period: August 1, 2026 – July 31, 2027
24

25 **Q. PLEASE DESCRIBE HOW YOU SOUGHT TO QUANTIFY THE VARIOUS**
26 **O&M COSTS FOR THESE TIME PERIODS.**

1 A. In many instances, I was able to identify specific primary factors affecting future
2 levels of O&M costs. For instance, utilizing the terms of the operations contract, I
3 was able to utilize the escalators in that contract to project operations costs into the
4 estimated portion of the base period as well as the forward-looking test period.
5 Similarly, in order to project property taxes, I utilized the current tax rate and simply
6 multiplied projected capital investment for various time periods.
7

8
9 The factors affecting the future level of other expenses were not so easily
10 identified. For instance, the projection of maintenance and administrative costs are
11 tied primarily to the rate of inflation for the economy in general. Therefore, in order
12 to project costs that are affected primarily by the rate of inflation, I utilized the
13 Personal Consumption Expenditures (“PCE”) Price Index.
14

15 **Q. WHAT IS THE PCE PRICE INDEX?**

16 A. The PCE price index is an annual projection of inflation prepared by the Bureau of
17 Economic Analysis. It is my understanding that, as compared to the Consumer Price
18 Index, the PCE price index takes a broader, more comprehensive approach to
19 tracking inflation across the entire economy. For this reason, the PCE is used by the
20 Federal Reserve Board.²
21
22
23
24
25

26 ² [PCE vs. CPI: The Two Faces of U.S. Inflation | GovFacts](#)

1 **Q. WHAT WAS THE PCE INDEX THAT YOU USED FOR YOUR ANALYSIS?**

2 A. The PCE index that I used was issued by the Federal Reserve Board during its
3
4 September 16-17, 2025, meeting.³ Page 2 of the Projections indicates that the
5 economic projection for PCE inflation is 3.0% for June 2025, 2.6% for June 2026,
6 2.1% for June 2027, and 2.0% for June 2028.⁴

7
8 1. DIRECTLY ASSIGNED COSTS

9 **Q. WHAT SPECIFIC DIRECTLY ASSIGNED COSTS ARE INCLUDED IN**
10 **THE COMPANY'S OPERATING EXPENSES?**

11 A. These expenses include contract operations expense, bad debt expense, fuel and
12 power costs, chemicals, maintenance costs, depreciation and amortization expense,⁵
13 property taxes, and administrative expenses.

14
15
16 A. CONTRACT OPERATIONS EXPENSE

17 **Q. PLEASE DESCRIBE THE COMPANY'S CONTRACT OPERATIONS**
18 **EXPENSE.**

19 A. Bluegrass Water does not employ water or wastewater field operations staff but
20 instead contracts with professional third-party water and wastewater operations and
21 maintenance companies for the operations and maintenance needs of its Kentucky
22

23
24
25 ³ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20250917b.htm>

26 ⁴ [Summary of Economic Projections, September 17, 2025](#)

⁵ While a directly assigned cost, depreciation and amortization expense, because it is directly related to capital investment, is discussed in Mr. Thies' testimony.

1 systems.⁶ These contractors are managed by an employee of CSWR who is assigned
2 to manage the system operations of Bluegrass Water.⁷ This model provides the
3 ability to expense operations and maintenance costs in a direct manner that does not
4 require further allocation. Since these contract operations costs are incurred
5 exclusively for Bluegrass Water, they are billed directly to Bluegrass Water.
6 Similarly, operations and maintenance costs for other state utility operating affiliates
7 are billed directly to that affiliate.
8
9

10 **Q. WHAT IS THE STATUS OF THE BLUEGRASS WATER OPERATIONS**
11 **CONTRACT?**

12 A. As Mr. Todd Thomas relates, Bluegrass Water executed a single, unified contract
13 with Clearwater Solutions (“Clearwater”). That contract was executed on May 1,
14 2024, and is scheduled to expire on April 30, 2027.
15

16 **Q. WHAT WERE CONTRACT OPERATIONS EXPENSE FOR THE ACTUAL**
17 **EXPENSE PORTION OF THE BASE PERIOD (APRIL 1 – SEPTEMBER 30,**
18 **2025)?**

19 A. The contract operations expense for the actual expense portion of the base period is
20 \$59,647 for Water and \$768,303 for Wastewater operations for the period April 1 –
21 September 30, 2025.
22
23
24

25 ⁶ Bluegrass Water’s process for operating and maintaining its properties using outside contractors is discussed in greater
26 detail in the direct testimony of Company witness Mr. Thomas.

⁷ See the testimony of Todd Thomas for a discussion of the duties of Bluegrass Water’s regional manager.

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Q. WHAT IS THE COMPANY'S PROJECTION FOR CONTRACT OPERATIONS EXPENSE FOR THE REMAINDER OF THE BASE PERIOD?

A. The operations contract was executed on May 1, 2024, with a three-year term. The contract provides for an annual 3% escalator. The second year of the contract is May 1, 2025-April 30, 2026, and the third year is May 1, 2026-April 30, 2027. The estimated projection for the remainder of the base period for water is \$33,531 and \$906,282 for wastewater. Therefore, utilizing the rates and escalators in the operations contract, the total operations expense for the base period is \$93,198 for water and \$1,674,585 for wastewater operations.

Q. WHAT IS YOUR QUANTIFICATION OF CONTRACT OPERATIONS EXPENSE FOR THE FORWARD-LOOKING TEST PERIOD?

A. Contract operations expense for the forward-looking test year is \$69,115 for water and \$1,866,940 for wastewater. This amount is based upon the rates and escalators in the operations contract. While that contract expires three months prior to the end of the forward-looking test period, I utilized the same rate rather than assuming any further escalation upon the expiration of the contract.

1 B. BAD DEBT EXPENSE

2 **Q. WHAT AMOUNT OF BAD DEBT EXPENSE IS INCLUDED IN THE**
3 **FILING?**

4
5 A. Historically, the Company has experienced a bad debt expense equivalent to 1% of
6 gross revenue. This is also the amount the Company uses for planning purposes and
7 is the amount included in this filing.

8
9 **Q. WHAT WAS BAD DEBT EXPENSE FOR THE ACTUAL EXPENSE**
10 **PORTION OF THE BASE PERIOD (APRIL 1 – SEPTEMBER 30, 2025)?**

11 A. As mentioned, bad debt expense is 1% of gross revenues. Gross wastewater
12 revenues for the period April 1, 2025, through September 30, 2025, were \$1,381,455,
13 therefore bad debt expense was \$13,815. Similarly, gross water revenues for the
14 period April 1, 2025, through September 30, 2025, were \$131,958, therefore bad
15 debt expense was \$1,320.

16
17 **Q. WHAT IS THE COMPANY'S PROJECTION FOR BAD DEBT EXPENSE**
18 **FOR THE REMAINDER OF THE BASE PERIOD AND FOR THE**
19 **FORWARD-LOOKING TEST PERIOD?**

20
21 A. In her testimony, Ms. Emily Harlow provides the projection of base period and
22 forward-looking test period revenues. As she indicates, based upon current rates, the
23 Company projects wastewater revenues for the period October 1, 2025, through
24 March 31, 2026, to be \$1,374,996. Additionally, based upon current rates, she
25 estimates forward-looking test period wastewater revenues of \$2,697,919.
26

1 Given this, I calculate wastewater bad debt expense for the remainder of the
2 base period and for the forward-looking test period to be \$13,745 and \$26,979
3 respectively. Similarly, I calculate water bad debt expense for the remainder of the
4 base period and for the forward-looking test period to be \$1,298 and \$2,614
5 respectively.
6

7
8 C. FUEL AND POWER COST

9 **Q. PLEASE DESCRIBE FUEL AND POWER COSTS?**

10 A. Fuel and power costs primarily relate to the cost of electricity to pump water or
11 wastewater through the treatment and distribution processes.
12

13 **Q. WHAT WERE FUEL AND POWER COSTS FOR THE ACTUAL EXPENSE**
14 **PORTION OF THE BASE PERIOD (APRIL 1 – SEPTEMBER 30, 2025)?**

15 A. Fuel and power cost for water operations for the first portion of the base period is
16 \$5,260. Similarly, fuel and power cost for wastewater operations for the first six
17 months of the base period is \$151,153.
18

19 **Q. WHAT IS THE COMPANY’S PROJECTION FOR FUEL AND POWER**
20 **COSTS FOR THE REMAINDER OF THE BASE PERIOD?**

21 A. The Company’s fuel and power costs projection for the remainder of the base period
22 is \$6,442 for water and \$180,512 for wastewater. These amounts were projected
23 using the respective electric utility’s approved rates as of the time of filing.
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Q. WHAT IS YOUR QUANTIFICATION OF THE FUEL AND POWER COSTS FOR THE FORWARD-LOOKING TEST PERIOD?

A. The Company’s total fuel and power costs for the test period are \$11,702 for water operations and \$365,065 for wastewater operations. Power cost for the estimated portion of the base year and for the forward-looking test period are based on either the current rates the power company is charging or the rates pending before the Commission at the time of filing. On the other hand, fuel costs were projected by utilizing the PCE index that I previously discussed.

D. CHEMICAL COSTS

Q. PLEASE DESCRIBE CHEMICAL COSTS?

A. Chemical costs primarily relate to the cost of chemicals used in the water and wastewater treatment processes.

As detailed in Provision 7 of the Clearwater operations contract, Bluegrass Water was able to pass the risk of escalations for these costs to Clearwater. Specifically, the cost of sludge hauling, chemical expense, and lab testing are all included in the base monthly fee. As such, the Company does not incur additional chemical cost beyond the base monthly fee.

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E. MAINTENANCE COSTS

Q. PLEASE DESCRIBE MAINTENANCE COSTS?

A. Maintenance costs refer to all expenses required to keep water and wastewater systems functioning safely, reliable, and efficiently.

Q. WHAT WERE MAINTENANCE COSTS FOR THE ACTUAL EXPENSE PORTION OF THE BASE PERIOD (APRIL 1 – SEPTEMBER 30, 2025)?

A. The total actual maintenance costs for the beginning portion of the base period are \$2,410 (actuals of \$7,985 less adjustment of \$5,575) for water and \$46,533 (actuals of \$151,316 less adjustment of \$104,784) for wastewater.⁸

Q. WHAT IS THE COMPANY’S ESTIMATE OF MAINTENANCE COSTS FOR THE REMAINDER OF THE BASE PERIOD?

A. I projected maintenance costs for the remainder of the base period by utilizing the PCE index. Given this, the total maintenance costs for the remainder of the base period are \$8,437 for water and \$32,492 for wastewater. Therefore, the total maintenance expense for the base period is \$10,847 for water and \$79,024 for wastewater operations.

Q. WHAT IS YOUR ESTIMATE OF MAINTENANCE COSTS FOR THE FORWARD-LOOKING TEST PERIOD?

⁸ Adjustments were designed to reflect a 50% reduction in expected maintenance as a result of capital improvement projects. Adjustments also reflect the removal of mowing / lawn maintenance.

1 A. Again, I projected maintenance costs into the future by utilizing the PCE Index.
2 Given this, the total maintenance costs for the forward-looking test period are
3 \$11,153 for water operations and \$81,666 for wastewater operations. These amounts
4 include savings accomplished through efficiencies attributable to investments made
5 to upgrade and improve the Company's facilities, which resulted in reduced
6 maintenance costs, and the elimination of certain expense items that are not expected
7 to recur during the period rates set in this case are in effect.
8
9

10 F. PROPERTY TAXES

11 **Q. PLEASE DESCRIBE PROPERTY TAXES?**

12 A. Account 408.160 provides for the recording of all ad valorem taxes related to utility
13 property. Bluegrass Water does not own personal property, such as vehicles.
14 Therefore real property is the only ad valorem tax the Company pays.
15

16 **Q. WHAT WERE PROPERTY TAXES FOR THE ACTUAL EXPENSE**
17 **PORTION OF THE BASE PERIOD (APRIL 1 – SEPTEMBER 30, 2025)?**

18 A. Property taxes for the actual expense portion of the base period consisted of \$76,243
19 (actuals of \$64,341 plus missing month of \$11,902) for wastewater and \$6,395
20 (actuals of \$5,113 plus missing month of \$1,282) for water. This consisted of both
21 the 2024 property tax bills and monthly accruals from prior years' bills.
22

23 **Q. WHAT IS THE COMPANY'S ESTIMATED PROPERTY TAXES FOR THE**
24 **REMAINDER OF THE BASE PERIOD?**
25
26

1 A. The Company's estimated property taxes for the remainder of the base period are
2 \$71,483 for wastewater and \$7,693 for water. This was calculated based on the 2024
3 tax rate of 0.00109 multiplied by future capital plant in service at the end of the base
4 period.
5

6 **Q. WHAT IS THE COMPANY'S ESTIMATED PROPERTY TAXES FOR THE**
7 **FORWARD-LOOKING TEST PERIOD?**
8

9 A. The Company's estimated property tax for the test period is \$146,419 for wastewater
10 and \$15,387 for water. Similar to the methodology used to project property taxes
11 for the remainder of the base period, the projection of property taxes for the forward-
12 looking test period was calculated based on the 2024 tax rate of 0.00109 multiplied
13 by future capital plant in service at the end of the test period.
14

15 G. ADMINISTRATIVE AND GENERAL EXPENSES
16

17 **Q. PLEASE DESCRIBE ADMINISTRATIVE COSTS?**

18 A. There are two types of administrative cost recorded by Bluegrass Water. First, the
19 Company incurs direct administrative costs consisting of bank fees, software, legal,
20 regulatory, and permit fees directly related to Bluegrass Water operations. Second,
21 the Company incurs indirect administrative costs which are recorded by the parent
22 company and allocated to the various affiliates. Indirect administrative costs include
23 information technology, human resources, customer experience, business services,
24 and executive management. In this section, I will address the direct administrative
25
26

1 costs incurred by the Company. Indirect administrative costs, allocated by CSWR,
2 are discussed in the following section involving Indirect Charges.

3
4 **Q. WHAT WERE DIRECT ADMINISTRATIVE COSTS FOR THE ACTUAL**
5 **EXPENSE PORTION OF THE BASE PERIOD (APRIL 1 – SEPTEMBER 30,**
6 **2025)?**

7 A. The Company’s actual direct administrative costs for the base period were \$11,464
8 (actuals of \$15,316 less adjustments in legal of \$3,177 and customer billing of \$675)
9 for water and \$87,053 (actuals of \$99,213 less adjustments in legal of \$6,674 and
10 customer billing of \$5,487) for wastewater.⁹

11
12 **Q. WHAT IS THE COMPANY’S ESTIMATED DIRECT ADMINISTRATIVE**
13 **COSTS FOR THE REMAINDER OF THE BASE PERIOD?**

14 A. I projected direct administrative costs by utilizing the PCE Index. Given this, the
15 Company’s estimated direct administrative costs for the remainder of the base period
16 are \$9,591 and \$130,745 for water and wastewater operations respectively.
17 Therefore, the total direct administrative costs for the base period are \$21,054 for
18 water and \$217,797 for wastewater operations.

19
20
21 **Q. WHAT IS THE COMPANY’S ESTIMATED DIRECT ADMINISTRATIVE**
22 **COSTS FOR THE FORWARD-LOOKING TEST PERIOD?**
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⁹ Adjustments were made to reflect removal of non-recurring costs as well as reductions due to the introduction of InterLogix (see testimony of Mr. Silas).

1 A. As with the estimated portion of the base period, I utilized the PCE Index to project
2 these administrative costs into the forward-looking test period. Therefore, the
3 Company's estimated direct administrative costs for the test period are \$21,734 for
4 water and \$224,510 for wastewater.
5

6 H. SOFTWARE COSTS
7

8 **Q. PLEASE DESCRIBE SOFTWARE COSTS?**

9 A. Software costs consist of a subscription to a telecom agency called High Tide
10 Communications. This subscription provides Bluegrass Water with the ability to
11 monitor water and wastewater plants remotely. These software costs are billed
12 directly to Bluegrass Water for the High Tide units deployed in Kentucky.
13

14 **Q. WHAT WERE SOFTWARE COSTS FOR THE ACTUAL EXPENSE**
15 **PORTION OF THE BASE PERIOD (APRIL 1 – SEPTEMBER 30, 2025)?**
16

17 A. The software costs for the actual data portion of the base period were \$1,530 for
18 water and \$10,088 for wastewater operations.

19 **Q. WHAT IS THE COMPANY'S ESTIMATE OF SOFTWARE COSTS FOR**
20 **THE REMAINDER OF THE BASE PERIOD?**
21

22 A. Software costs were projected into the estimated portion of the base period by
23 utilizing the PCE Index. Therefore, the estimated software costs for the remainder
24 of the base period were \$1,350 for water and \$9,385 for wastewater operations.
25
26

1 **Q. WHAT IS YOUR ESTIMATE OF SOFTWARE COSTS FOR THE**
2 **FORWARD-LOOKING TEST PERIOD?**

3
4 A. I also used the PCE Index to project software costs into the forward-looking test
5 period. As such, the projected software costs for the forward-looking test period are
6 \$2,973 for water and \$20,101 for wastewater operations.

7
8 2. JOINTLY BILLED COSTS

9 **Q. HOW DOES CSWR ALLOCATE JOINTLY BILLED COSTS?**

10 A. As the managing entity for its various operating utility affiliates, CSWR can
11 negotiate agreements on behalf of its affiliates that reflect economies of scale and
12 administrative efficiencies each individual affiliate could not achieve on its own.
13 The Company refers to these costs as jointly billed costs. Examples include
14 insurance costs and certain software costs. When this situation occurs, CSWR
15 identifies the cost drivers related to the service for which the costs were incurred and
16 directly allocates total costs to each of its utility operating affiliates consistent with
17 the methodology stated in the CAM.
18
19

20
21 A. INSURANCE EXPENSE

22 **Q. PLEASE DESCRIBE INSURANCE EXPENSE?**

23 A. Account 656 – 659 of the Uniform System of Accounts have various accounts for
24 insurance costs. Property, general liability, and environmental liability insurance
25 coverage is provided to Bluegrass Water and other utility affiliates as part of a single
26

1 policy held by CSWR. The policy is billed to CSWR but covers all its regulated
2 utility affiliates. Procuring a combined policy creates cost efficiencies and results in
3 better coverage than might otherwise be obtained should each utility operating
4 company seek an individual policy. Total costs CSWR incurs for insurance coverage
5 are therefore allocated to Bluegrass Water and each of the other regulated utility
6 affiliates based on the total insured value of each utility operating company.
7

8
9 **Q. WHAT WERE THE COMPANY'S INSURANCE EXPENSES FOR THE**
10 **ACTUAL EXPENSE PORTION OF THE BASE PERIOD (APRIL 1 –**
11 **SEPTEMBER 30, 2025)?**

12 A. The Company's actual insurance expenses for the historical base period are \$6,614
13 and \$54,616 for water and wastewater operations respectively.
14

15 **Q. WHAT IS THE COMPANY'S ESTIMATED INSURANCE EXPENSE FOR**
16 **THE REMAINDER OF THE BASE PERIOD?**

17 A. As of September 30, 2025, property insurance was 0.07% of Utility Plant in Service
18 ("UPIS"). Therefore, I calculated property insurance expense for the remainder of
19 the base period by multiplying the UPIS balance reflected in Mr. Thies' testimony
20 for the remainder of the base period. Therefore, the Company's estimated insurance
21 expense for the remainder of the base period is \$5,321 and \$55,101 for water and
22 wastewater operations respectively. Therefore, the total insurance expense for the
23 base period is \$11,934 for water and \$105,716 for wastewater operations.
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Q. WHAT IS THE COMPANY’S ESTIMATED INSURANCE EXPENSE FOR THE FORWARD-LOOKING TEST PERIOD?

A. I projected property insurance for the forward-looking test period in a similar manner to the method used for the estimated portion of the base period. Given this, the Company’s estimated insurance expense for the forward-looking test period is \$10,641 for water and \$122,651 for wastewater operations.

3. **INDIRECT CHARGES**

Q. PLEASE DESCRIBE THE COMPANY’S INDIRECT CHARGES FOR OVERHEAD EXPENSES.

A. Costs that cannot be directly charged to the operating affiliates are considered indirect charges. For instance, certain general and administrative expenses from their parent, CSWR, are allocated to Bluegrass Water and other operating affiliates. These expenses support the operations of all operating affiliates, including Bluegrass Water, and include the cost of services such as executive management, legal, accounting, human resources, customer experience, and other business services. These shared administrative expenses allow Bluegrass Water and its affiliates to benefit from cost efficiencies and the shared expertise of a larger organization that otherwise would not be available to a company like Bluegrass Water on a stand-alone basis. Further, if CSWR did not provide these types of services to Bluegrass

1 Water, the Company would need to employ personnel to provide those services
2 because they are required for utility operations.

3
4 **Q. HOW ARE INDIRECT CHARGES ALLOCATED TO BLUEGRASS**
5 **WATER?**

6 A. CSWR uses a three-factor formula to allocate general and administrative costs and
7 other corporate overhead costs that cannot otherwise be directly assigned or jointly
8 charged to its affiliates. The component factors of the allocation formula are
9 operating expenses, customer count, and utility plant in service (“UPIS”). These
10 factors correspond to the significant drivers of the corporate overhead expenses that
11 CSWR incurs for its affiliates.

12
13 For example, a higher level of operating expense in a particular affiliate would
14 naturally require more time and higher expense at the corporate level to perform
15 necessary accounting procedures to track costs and ensure timely payment of
16 vendors. Similarly, a larger number of customers at a particular affiliate would result
17 in more management time, and associated compensation expense, from groups like
18 the Customer Experience staff. Finally, an increased level of plant in service at a
19 particular affiliate would necessitate more attention and cost from the CSWR
20 engineering and operations departments.

21
22 Calculation of the three-part overhead allocation factor is reviewed at the end
23 of each fiscal quarter by CSWR management. To determine the amount of Bluegrass
24 Water’s allocation that was included in this filing, total allocated overhead expense
25
26

1 during the test year was determined using the actual cost incurred by CSWR for the
 2 period and was then adjusted for known and measurable items. The table below
 3 shows the percentages used to allocate expenses to Bluegrass Water.
 4

Factors for Allocation of CSWR, LLC Expense			
	Bluegrass Water	Other Regulated Utility Affiliates	Total
Q3-2024	2.40%	97.60%	100.0%
Q4-2024	2.74%	97.26%	100.0%
Q1-2025	2.51%	97.49%	100.0%
Q2-2025	2.52%	97.48%	100.0%
Q3-2025	2.51%	97.49%	100.0%

12
 13 **Q. DO THESE COSTS INCLUDE PAYROLL AND BENEFITS COSTS?**

14 A. Yes. The overhead allocations include payroll and benefits costs for CSWR
 15 employees who perform tasks and provide services that are included in
 16 administrative and general and corporate overhead expenses.
 17

18 **Q. HAS BLUEGRASS WATER INCLUDED ANY COSTS ASSOCIATED WITH**
 19 **CHARITABLE OR CIVIC CONTRIBUTIONS, LEGISLATIVE-ADVOCACY**
 20 **EXPENSES OR POLITICAL/PROMOTIONAL ADVERTISING?**

21 A. No. Those costs are removed from the base expense amount before the allocation
 22 factor is applied. In other words, these expenses are incurred at the CSWR level and
 23 never allocated to Bluegrass Water (or any other regulated affiliate). As a result, no
 24
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1 costs of this type need to be removed from any expenses that are allocated to
2 Bluegrass Water.

3
4 **Q. DOES CSWR EXCLUDE ANY OTHER COSTS FROM THE POOL OF**
5 **INDIRECT ALLOCATION EXPENSES?**

6 A. Yes. CSWR incurs certain other expenses that also are excluded from the calculation
7 of costs allocated to its affiliates. In addition to costs such as advertising, lobbying
8 and charitable donations, CSWR also excludes certain charges that are related
9 exclusively to its business development activities. Consistent with this approach,
10 CSWR does not include expenditures such as organization membership dues,
11 initiation fees, country club expenses, charitable contributions, marketing, sales and
12 advertising costs, professional services, civic or political activities, employee parties
13 and outings, employee gifts, and rate case expenses in the pool of indirect allocation
14 costs.
15

16
17 **Q. IS CSWR'S COST ALLOCATION APPROACH REASONABLE?**

18 A. Yes. As reflected in Exhibit JC-1 attached to the direct testimony of Mr. Josiah Cox,
19 CSWR has several affiliate entities. The affiliates are organized by state. When
20 allocating costs, CSWR directly assigns costs as much as possible. To the extent
21 that a cost is directly incurred on behalf of a particular state utility operating
22 company, it is billed entirely to that company. In this way, CSWR avoids the
23 possibility that a cost incurred in one state is borne by customers in another state. As
24 discussed previously, however, there are instances when costs cannot be directly
25
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1 billed to CSWR's utility operating affiliates. These jointly billed costs are incurred
2 by CSWR and are assigned to the operating companies that benefit from the expense
3 in the manner I previously described. This helps to maintain principles of cost
4 causation by ensuring that the state that receives the benefits of these costs also pays
5 the costs.
6

7 In addition to the policies for directly charging and allocating expenses, it is
8 worth noting that CSWR does not have any non-regulated operations. While CSWR
9 uses many vendors for engineering, construction, operations, and some customer
10 service functions, these are all third parties, independent from CSWR. With no non-
11 regulated operations, CSWR has no reason to shift these costs or allocations among
12 its affiliates in an unreasonable way. Ultimately, other than equity and working
13 capital contributions provided by CSWR or the allocation of indirect costs from
14 CSWR, the state operating entities do not engage in any affiliate transactions. Given
15 that there are limited affiliate transactions and that CSWR provides the same services
16 for all its regulated utility affiliates, I believe that CSWR's allocation methodology
17 is reasonable to its customers.
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21 **Q. ARE BLUEGRASS WATER'S ALLOCATED CORPORATE COSTS**
22 **HIGHER THAN THE COSTS CHARGED TO OTHER AFFILIATES FOR**
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THE SAME ITEM OR ITEMS OR TO UNAFFILIATED PERSONS OR CORPORATIONS?

A. No. The costs charged to Bluegrass Water are based on the same component costs as those used to make allocations to other affiliates; therefore, the prices charged to Bluegrass Water are no higher than the prices CSWR charges to other affiliates for the same item.

Q. WHAT WAS THE TOTAL AMOUNT OF INDIRECT ADMINISTRATIVE COSTS ALLOCATED TO BLUEGRASS WATER FROM CSWR DURING THE FIRST SIX MONTHS OF THE BASE PERIOD?

A. CSWR allocated \$20,048 for water and \$165,904 for wastewater to Bluegrass Water for the six-month historical portion of the base period.

Q. WHAT IS THE COMPANY’S ESTIMATED ALLOCATION OF INDIRECT ADMINISTRATIVE COSTS FOR THE REMAINDER OF THE BASE PERIOD?

A. I utilized the PCE Index to project indirect administrative costs for the estimated portion of the base period. As such, the Company estimates indirect administrative costs of \$32,666 for water and \$273,823 for wastewater operations.

Q. WHAT IS THE COMPANY’S ESTIMATE OF ALLOCATED INDIRECT ADMINISTRATIVE COSTS FOR THE FORWARD-LOOKING TEST PERIOD?

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A. I utilized the PCE Index to project indirect administrative costs for the forward-looking test period. Therefore, the Company estimates indirect administrative costs of \$54,318 for water and \$453,097 for wastewater for the test period.

IV. RATE CASE EXPENSES

Q. PLEASE DESCRIBE ANY RATE CASE EXPENSE THE COMPANY HAS INCLUDED IN THIS FILING.

A. Rate case expense reflects the costs the Company will incur to file and prosecute this rate case. Estimated costs related to this filing include legal fees, consultants' costs, travel expenses, and other related expenses. Bluegrass Water proposes that these costs be amortized over a three-year period.

Q. SHOULD REASONABLE AND PRUDENTLY INCURRED RATE CASE EXPENSE BE RECOVERED?

A. Yes. The cost of litigating a rate case is a normal and essential cost of service for any regulated utility and should be treated as such. As a regulated utility, Bluegrass Water has a legal obligation to provide safe and adequate service to its customers at just and reasonable rates. Periodic rate changes are necessary to support the Company's continued provision of safe and adequate service to its customers. The only way that the Company can change its base rates is through the rate case process, and that process is prescribed in Kentucky statutes and the Commission's rules.

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V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

**ELECTRONIC APPLICATION OF BLUEGRASS WATER UTILITY OPERATING
COMPANY, LLC FOR AN ADJUSTMENT OF RATES
CASE NO. 2025-00354**

VERIFICATION

I, Caitlin O'Reilly, Accounting Manager – Regulatory Accounting, verify, state, and affirm that I prepared or supervised the preparation of the Direct Testimony filed with this Verification, and that Direct Testimony is true and accurate to the best of my knowledge, information, and belief after a reasonable inquiry on this 8th day of December, 2025.

Caitlin O'Reilly

Caitlin O'Reilly
Accounting Manager – Regulatory
Accounting

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

SUBSCRIBED AND SWORN TO before
me on this 8th day of December, 2025.

Roshawne Vallandingham
Notary Public, State of Missouri

My Commission expires: 04-10-2027

