

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BLUEGRASS)	
WATER UTILITY OPERATING COMPANY, LLC)	CASE NO.
FOR AN ADJUSTMENT OF RATES AND)	2020-00290
APPROVAL OF CONSTRUCTION)	

COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION
TO BLUEGRASS WATER UTILITY OPERATING COMPANY, LLC

Bluegrass Water Utility Operating Company, LLC (Bluegrass Water), pursuant to 807 KAR 5:001, is to file with the Commission an electronic version of the following information. The information requested herein is due on March 22, 2021. The Commission directs Bluegrass Water to the Commission's March 16, 2020 and March 24, 2020 Orders in Case No. 2020-00085¹ regarding filings with the Commission. The Commission expects the original documents to be filed with the Commission within 30 days of the lifting of the current state of emergency. All responses in paper medium shall be appropriately bound, tabbed, and indexed. Electronic documents shall be in portable document format (PDF), shall be searchable, and shall be appropriately bookmarked.

Each response shall include the name of the witness responsible for responding to the questions related to the information provided. Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 16, 2020), Order at 5–6. Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC Mar. 24, 2020), Order at 1–3.

preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Bluegrass Water shall make timely amendment to any prior response if Bluegrass Water obtains information that indicates the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Bluegrass Water fails or refuses to furnish all or part of the requested information, Bluegrass Water shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations. When filing a paper containing personal information, Bluegrass Water shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to the Direct Testimony of Jacob Freeman (Freeman Testimony).
 - a. For each capital project described, starting from the time of acquisition, provide the monthly budget to actual capital expenditure comparisons, and explain any material differences.

b. Confirm that Bluegrass Water intends to capitalize the costs labeled “Construction Design and Investigative Services.” If confirmed provide the estimated life that will be used to capitalize the costs.

2. Refer to BGUOC2020RateCase-IncomeStatement_(Sewer).xlsx and BGUOC2020RateCase-IncomeStatement_(Water).xlsx filed by Bluegrass Water in response to Commission Staff’s First Request for Information (Staff’s First Request).

a. Explain the difference between the services received by Bluegrass Water in consideration for the expenses for Allocated Overhead and the expenses for Administrative Services and why it is reasonable for Bluegrass Water’s customers to pay both.

b. Explain how Bluegrass Water allocated the Administrative Services expenses and its portion of the overhead costs between its water and sewer services.

c. Explain what expenses are included within Sewer – Maintenance and Water – Maintenance, e.g., only amounts paid to Midwest Operators in excess of monthly obligations.

3. Refer to BGUOC2020RateCase-Schedule_CE4.xlsx filed by Bluegrass Water in response to Staff’s First Request.

a. Identify who provided the Manage Consult and IT services for sewer and water by providing their name, job title, and employer.

b. Identify any specific Manage Consult and IT services such persons provided; explain the scope of the services they provided; and explain how those services differed from services provided by CSWR, LLC’s (CSWR).

c. Provide all contracts and invoices for the Manage Consult and IT services identified in BGUOC2020RateCase-Schedule_CE4.xlsx.

d. Explain how Bluegrass Water projected the cost of the Manage Consult and IT services in the forecasted period, including specifically the basis for each adjustment between the base and forecasted periods.

4. Refer to BGUOC2020RateCase-Schedule_SE3.xlsx filed by Bluegrass Water in response to Staff's First Request.

a. Provide, or if already provided identify specifically, itemized bills that correspond to the maintenance work identified.

b. Explain in detail how Bluegrass Water estimated maintenance expense in any projected period (whether in the base or forecasted periods).

c. Explain how Bluegrass Water distinguishes between maintenance expenses and costs that are capitalized as plant in service.

5. Refer to BGUOC2020RateCase-RateBase_(Sewer).xlsx filed by Bluegrass Water in response to Staff's First Request at tab Dep – B3.1.

a. Explain each basis for Bluegrass Water's contention that a negative 10 percent net salvage value is reasonable for plant in NARUC Acct. No. 311.

b. Explain each basis for Bluegrass Water's contention that a negative 10 percent net salvage value is reasonable for plant in NARUC Acct. No. 372.

c. Provide any estimates of decommissioning or removal costs that support the negative net salvage values.

6. Refer to BGUOC2020RateCase-RateBase_(Water).xlsx filed by Bluegrass Water in response to Staff's First Request at tab Dep – B3.1. Provide any estimates of

decommissioning or removal costs that support the negative net salvage values for NARUC Acct. No. 304 and NARUC Acct. No. 333.

7. Refer to 2-PSC-05b_(RateBase-Sewer).xlsx filed by Bluegrass Water in response to Commission Staff's Second Request for Information (Staff's Second Request), Item 5.

a. Refer to tab Dep - BY B3.1. Provide a comparison of the calculated depreciation expense using the current average service lives and calculated depreciation expense using the midpoint lives found in the NARUC Study titled *Depreciation Practices for Small Water Utilities*² and the O&M Guide for the Support of Rural Water-Wastewater Systems.³

b. Refer to tab Dep - FY B3.1. Provide a comparison of the calculated depreciation expense using the current average service lives and calculated depreciation expense using the midpoint lives found in the NARUC Study titled *Depreciation Practices for Small Water Utilities* and the *O&M Guide for the Support of Rural Water-Wastewater Systems*.

8. Refer to 2-PSC-07b_(RateBase-Water).xlsx filed by Bluegrass Water in response to Staff's Second Request, Item 7.

a. Refer to tab Dep - BY B3.1. Provide a comparison of the calculated depreciation expense using the current average service lives and calculated depreciation expense using the midpoint lives found in the NARUC Study titled *Depreciation Practices*

² National Association of Regulatory Commissioners. Depreciation Practices for Small Water Utilities, Figure 1, p. 11, 1979 (included in the appendix hereto).

³ O&M Guide for the Support of Rural Water-Wastewater Systems by Commission on Rural Water, Chicago, Illinois, 1974, p246-247 (included in the appendix hereto).

for Small Water Utilities and the O&M Guide for the Support of Rural Water-Wastewater Systems.

b. Refer to tab Dep - FY B3.1. Provide a comparison of the calculated depreciation expense using the current average service lives and calculated depreciation expense using the midpoint lives found in the NARUC Study titled *Depreciation Practices for Small Water Utilities and the O&M Guide for the Support of Rural Water-Wastewater Systems.*

9. Refer to confidential attachment PSC 2-14.xlsx, at tabs “FY 2018,” “FY 2019,” and “FY 2020,” filed by Bluegrass Water in response to Staff’s Second Request, Item 14.

a. Provide an explanation for the high levels of variation in employer contributions to healthcare premiums.

b. Provide a detailed list of all healthcare plans available to employees. Clearly indicate any and all plans that are available only to executive employees.

10. Refer to 2 PSC 04.xlsx filed by Bluegrass Water in response to Staff’s Second Request, Item 4.

a. Identify the month and year in which the work that corresponds to each of the costs identified in the “Invoice Support” tab was performed.

b. Explain whether the work that corresponds to the costs identified in the “Invoice Support” tab was performed as part of the due diligence associated with purchasing the relevant system, and if so, explain why such costs should be capitalized and recovered from customers.

11. Refer to KY2020-00290_BW_0078 filed by Bluegrass Water in response to Staff's First Request, Item 18; 2-PSC-01c.xlsx filed by Bluegrass Water in response to Staff's Second Request, Item 1; and PSC 2-14.xlsx filed in by Bluegrass Water in response to Staff's Second Request, Item 14.

a. State whether all of the company expense, as distinguished from amounts paid by employees, reflected in KY2020-00290_BW_0078 for the forecasted test year is included in the amounts reflected in 2-PSC-01c.xlsx as part of the overhead that is allocated to Bluegrass Water, and if not, identify those company expenses reflected on KY2020-00290_BW_0078 that are not included in the amounts reflected in 2-PSC-01c.xlsx.

b. If the total company expense reflected in KY2020-00290_BW_0078 for the forecasted test year is included in a line item in 2-PSC-01c.xlsx, such as Admin & Human Resources, that includes other expenses, explain what each of those other expenses represent.

c. Identify those company expenses reflected in PSC 2-14.xlsx for the forecasted test year that are considered BD Expense in Schedule OHA 1.

d. If the total company expenses in PSC 2-14.xlsx would not be equal to the total company expenses in KY2020-00290_BW_0078 after the BD Expense, if any, is removed, explain each reason for the discrepancy.

12. Refer to 2-PSC-01c.xlsx filed by Bluegrass Water in response Staff's Second Request, Item 1.

a. Provide a breakdown between the office supplies and the travel expenses in that line item.

b. Identify who provides the Management Consulting services and the cost for the same in each of the last two calendar years.

c. Explain what services are received in consideration for the amount reflected for Management Consulting and how that amount was projected for the forecasted test year.

d. Explain what services are received in consideration for the amount reflected for Engineering Consulting and how that amount was projected for the forecasted test year.

13. Refer to 2-PSC-01(f-g) CONFIDENTIAL.xlsx filed by Bluegrass Water in response to Staff's Second Request, Item 1, and refer to Schedule OHA 1.

a. Explain why the plant in service and direct labor for Bluegrass Water and other affiliated utilities is projected to be lower at the end of the first quarter of 2022 than it is at the end of the fourth quarter of 2021.

b. Explain any differences in how plant in service, revenue, and direct labor was projected for 2-PSC-01(f-g) CONFIDENTIAL.xlsx as compared to Schedule OHA 1.

14. Refer to Bluegrass Water's response to Staff's Second Request, Item 1(d).

a. Assuming that comparing plant in service, direct labor, and revenue result in an accurate allocation of shared overhead in a given period, as Bluegrass Water contends with its proposal to use to Massachusetts method, confirm that using a 13-month average of projected plant in service during the forecasted test year, projected direct labor expenses for the entire forecasted test period, and projected revenue for the entire forecasted test year would provide for a more accurate allocation of shared

overhead for the forecasted test period. If Bluegrass Water is not able to confirm, explain each basis for why it is unable to do so.

b. Provide the projected Utility Plant in Service, as that term is used in Schedule OHA 1, for each utility identified in Schedule OHA 1 for each month from April 2021 through April 2022, and provide the projected annual Revenue and Direct Labor, as those terms are used in Schedule OHA 1, for each utility identified in the schedule for the year ending April 2022.

15. Refer to Bluegrass Water's response to Staff's Second Request, Item 9.

a. Confirm that Bluegrass Water is indicating that neither it nor any affiliated entity with which it files a consolidated tax return immediately expense any expenditures that are capitalized in Bluegrass Water's books and that neither it nor any affiliated entity with which it files a consolidated tax return uses accelerated tax depreciation for Bluegrass Water's plant. If Bluegrass Water is not able to confirm, explain each basis for why it is unable to do so.

b. Confirm that the immediate expensing of expenditures for tax purposes that are capitalized in Bluegrass Water's books, such as certain repairs and the use of accelerated tax depreciation for Bluegrass Water's plant gives Bluegrass Water access to no cost capital analogous to a zero interest loan from the government. If Bluegrass Water is not able to confirm, explain each basis for why it is unable to do so.

c. Explain why Bluegrass Water does not immediately expense expenditures that are capitalized for book purposes but may be expensed for tax purposes, such as expenses for certain repairs.

d. Explain why Bluegrass Water does not use accelerated depreciation for tax purposes.

16. Refer to Bluegrass Water's response to the Joint Intervenor's Initial Request for Information, Items 5 and 7.

a. State whether the potential financing referred to in response to Item 7b is conditional upon completion of this rate case.

b. The potential financing referred to in Item 7b is to expire on a date certain identified confidentially. Explain whether Bluegrass Water will be entering into a contract, and if so, when Bluegrass Water anticipates filing with the commission the proposed financing.

17. Identify those portions of the itemized costs for capital projects in the Freeman Testimony that are attributable to the decommissioning or removal of existing plant or any portion thereof. If no such costs can be separately identified, explain whether Bluegrass Water contends that no portion of the costs are attributable to removing portions of existing plant to install new plant or upgrades to existing plant.

18. Explain the criteria under which CSWR's employees are entitled to receive 401(k) profit sharing contributions, and if there is a written policy governing the payment of 401(k) profit sharing contributions, provide a copy of that policy.

19. Explain why including the expense for 401(k) profit sharing contributions in the share overhead allocated to Bluegrass Water customers is reasonable given the Commission's previous decisions indicating that compensation tied to increased share

prices or other earnings measures are intended to benefit owners and, therefore, are not recoverable.⁴

20. Provide all requests for proposals and similar requests for a bid sent to persons or entities other than Midwest Water Operation, LLC, when soliciting operation and maintenance services for Bluegrass Water's sewage systems; any responses thereto; and any written correspondence between Bluegrass Water and the persons or entities regarding or relating to the requests for proposals or any proposal or bid offered in response thereto.

21. Provide all requests for proposals and similar requests for a bid sent to persons or entities other than Midwest Water Operation, LLC, when soliciting operation and maintenance services for Bluegrass Water's water systems; any responses thereto; and any written correspondence between Bluegrass Water and the persons or entities regarding or relating to the requests for proposals or any proposal or bid offered in response thereto.

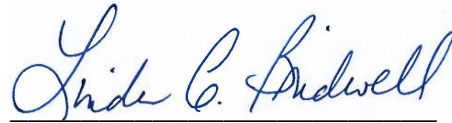
22. Describe the procedures used to allocate expenses between the SG&A Budget and the BD Expense in Schedule OHA1, including a specific description of how it determines whether the expense of an employee should be in one category or the other.

23. Provide an itemized breakdown of the BD Expense for both quarters included in Schedule OHA 1.

⁴ See, e.g., Case No. 2017-00321, *Electronic Application of Duke Energy Kentucky, Inc., for: 1) an Adjustment of the Electric Rates; 2) Approval of an Environmental Compliance Plan and Surcharge Mechanism; 3) Approval of New Tariffs; 4) Approval of Accounting Practices to Establish Regulatory Assets and Liabilities; and 5) All Other Required Approvals and Relief* (Ky. PSC Apr. 13, 2018).

24. State whether the rates proposed by Bluegrass Water include any expenses for the preparation of this case, and if so:

- a. Identify those expenses in the relevant schedules and workpapers;
- b. Explain how those expenses were projected;
- c. Provide an itemized breakdown of those expenses as projected to calculate the revenue requirement and rates in the forecasted test year;
- d. Provide an itemized breakdown of the actual expenses incurred to date (and updates going forward); and
- e. Provide detailed invoices and contracts with third-party vendors that support those actual costs.



Linda C. Bridwell, PE.
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DATED MAR 08 2021

cc: Parties of Record

APPENDIX

APPENDIX TO A REQUEST FOR INFORMATION OF THE KENTUCKY PUBLIC
SERVICE COMMISSION IN CASE NO. 2020-00290 DATED MAR 08 2021

TWO PAGES TO FOLLOW

**Typical Average Service Lives, Salvage Rates, and Depreciation Rates
for
Small Water Utilities**

NARUC Account Number	Class of Plant	Average Service Life (yrs)	Net Salvage (%)	Depreciation Rate (%)
<u>Source of Supply Plant</u>				
311	Structures and Improvements	35-40		2.9-2.5
312	Collecting & Impounding Reservoirs	50-75		2.0-1.3
313	Lake, River and Other Intakes	35-45		2.9-2.2
314	Wells and Springs	25-35		4.0-2.9
315	Galleries and Tunnels	25-50		4.0-2.0
316	Supply Mains	50-75		2.0-1.3
317	Other Source of Water Supply Plant	30-40		3.3-2.5
<u>Pumping Plant</u>				
321	Structures and Improvements	35-40		2.9-2.5
324-7	Pumping Equipment	20		5.0
328	Other Pumping Plant	25		4.0
<u>Water Treatment Plant</u>				
331	Structures and Improvements	35-40		2.9-2.5
332	Water Treatment Equipment	20-35		5.0-2.9
<u>Transmission and Distribution Plant</u>				
341	Structures and Improvements	35-40		2.9-2.5
342	Reservoirs and Tanks	30-60		3.3-1.7
343	Transmission and Distribution Mains	50-75		2.0-1.3
344	Fire Mains	50-75		2.0-1.3
345	Services	30-50		3.3-2.0
346	Meters	35-45	10	2.6-2.0
347	Meter Installations	40-50		2.5-2.0
348	Hydrants	40-60	5	2.4-1.6
<u>General Plant</u>				
390	Structures and Improvements	35-40		2.9-2.5
391	Office Furniture and Equipment	20-25	5	4.8-3.8
392	Transportation Equipment	7	10	12.9
393	Stores Equipment	20		5.0
394	Tools, Shop & Garage Equipment	15-20	5	6.3-4.
395	Laboratory Equipment	15-20		6.7-5.0
396	Power Operated Equipment	10-15	10	9.0-6.0
397	Communication Equipment	10	10	9.0

Note: These lives are intended as a guide; longer or shorter lives should be used where conditions warrant.

Source: NATIONAL ASSOCIATION OF REGULATORY COMMISSIONERS
Depreciation Practices for Small Water Utilities, Figure 1, p. 11, 1979

Table 44
Average Service Lifetimes, Major Systems Components
Wastewater Systems

Description	Average Service Lifetimes
<u>Septic Tank-Soil Absorption</u>	
Septic Tank	20-50 years
Soil Absorption System	10-30 years
<u>Home Aerobic Tanks</u>	
Tank	20-50 years
Mechanical Components	3-10 years
<u>Collection Systems</u>	
Gravity Sewers, clay, cement	25-50 years
Gravity Sewers, cast iron	30-75 years
Gravity Sewers, plastic	30-75 years
Manholes, structures	20-50 years
Lift Station, structures	20-50 years
Lift Station, pumps, etc.	7 years
Pressure sewers, plastic, small dia.	5-10 years
Small (household) sewage pumps	5-10 years
Pressure Mains-same as gravity sewers	
<u>Treatment Systems</u>	
Primary	
Comminutors	5 years
Screens	10 years
Clarifier Tanks, concrete	20 years
Clarifier Tanks, metal	20 years
Grit and Sludge Handling Equipment	5-10 years
Secondary	
Lagoons	5-25 years
Extended Aeration tankage, concrete	20-50 years
Extended Aeration tankage, metal	20-30 years
Aerator Compressors	5-10 years
Air diffusers	3 years
Sludge pumps	5-10 years
Clarifier Tankage, Concrete	20-50 years
Clarifier Tankage, Metal	20-30 years
Chlorinators	10 years
Sludge Digesters-same as aeration tankage	
Advanced Wastewater Treatment	
Sand Filters	5-10 years
Sludge Disposal Equipment	
Drying beds	5-15 years
Incinerators	
Dewatering devices	
Effluent Disposal	
Irrigation Pumps	5-10 years
Sprinkler Heads	2-5 years
<u>General Use Equipment</u>	
Laboratory instrumentation	3-10 years
Service Vehicles	3-5 years
Pumper/Tank trucks	5-10 years
Automatic Controls	5-20 years

Source: O & M Guide for the Support of Rural Water-Wastewater Systems by Commission on Rural Water, Chicago, Illinois, 1974, p 246-247

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