

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PROPOSED ACQUISITION BY)	
BLUEGRASS WATER UTILITY OPERATING)	
COMPANY, LLC AND THE TRANSFER OF)	
OWNERSHIP AND CONTROL OF ASSETS)	CASE NO.
BY: DELAPLAIN DISPOSAL COMPANY;)	2020-00297
HERRINGTON HAVEN WASTEWATER)	
COMPANY, INC.; SPRINGCREST SEWER)	
COMPANY, INC.; AND WOODLAND ACRES)	
UTILITIES, LLC)	

COMMISSION STAFF'S FIRST 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 within 14 days. Pursuant to the Commission's Orders in Case No. 2020-00085,¹ issued March 16, 2020, and March 24, 2020, Bluegrass Water SHALL NOT FILE the original paper copy of all requested information at this time, but rather shall file original paper copies 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

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.

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 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, Frontier 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 paragraph 22 of the Application for approval of acquisition and transfer of ownership and control of utility assets. State whether the agreements require the sellers to maintain any cash or other assets to settle any liabilities that arose prior to the transfer, and if so, identify those provisions. If not, explain how the sellers could settle

any liabilities that arose prior to the transfers but did not become known until after the transfers.

2. Refer to paragraph 24 of the Application. Provide an itemized breakdown of the costs that Central States Water Resources, Inc. (Central States) has incurred to date and is expected to incur until such time as the closings for each transferring utility occurs.

3. Refer to paragraph 26 of the Application in which Joint Applicants state that each transferring utility will require various improvements and repairs post-closing, but in which they also state that each of the utilities and Bluegrass Water have begun the process of working through these issues, if necessary, to move the facilities in the right direction prior to closing to ensure continuity of service to the affected customers.

a. For each transferring utility, explain what work needs to be completed to bring each system into full compliance. Also, explain what work each transferring utility has done to date to bring the respective utility system into full compliance, and provide an itemized breakdown of costs incurred as a result.

b. Confirm whether the statement made in paragraph 26 of the Application is a contingency required to be met by the transferring utilities in the respective agreements reached by Joint Applicants. If so, state whether there is a date certain by which full compliance by each transferring utility needs to be completed.

4. Refer to paragraph 36 of the Application in which Bluegrass Water states that it anticipates that there will be regionalization and other consolidation benefits from its acquisition of the systems. Identify and describe those anticipated regionalization and other consolidation benefits, and quantify them if possible.

5. Refer to the purchase and sales agreements attached as Exhibits G, H, I, and J to the Application.

a. Explain why the purchase and sales agreement for the Delaplain Disposal Company indicates that the purchase price will be allocated in Exhibit D to that contract, but the purchase price will not be allocated in the other contracts.

b. Explain how Bluegrass Water could establish a purchase price for the assets of the various utilities without first identifying the real and personal property that will be purchased in the contracts.

c. Explain whether Bluegrass Water's purchase of the assets of the utilities to be acquired in this matter includes the purchase of any intangible assets.

6. For each system that is proposed to be acquired, provide the following information:

a. The number of employees currently employed by each utility.

b. The number of employees to be retained by the new owners.

c. The number of employees to be employed at each utility.

d. A copy of the current permits.

e. If no current permits exist, a copy of the most recent expired permits and any applications to renew permits.

f. Customer deposits held, if any, and identify how those customer deposits will be credited to the customers.

g. The number of customers served and the rates charged.

h. For each system, provide the location of the nearest sewer regional facility.

i. For each system, state whether a study has been considered or completed to determine the cost of connecting to the nearest regional facility versus rebuilding or rehabilitating the current system. If so, provide the study. If not, explain why the study has not been conducted.

7. Confirm the pro forma income statement uses the most recently filed annual report for each utility to estimate operating revenues and expenses.

8. Provide an itemized breakdown of the annual operation and maintenance expenses Bluegrass Water expects to incur for each system that is proposed to be acquired.

9. Provide the anticipated effect on future rates of each utility in the Application.

10. Provide the effect on the unified rate tendered in Case No. 2020-00290 of removing the revenue and expenses for the systems proposed to be acquired in this matter from the calculation of the unified rate.

11. Describe the methodology that Central States will use to allocate costs to each utility for all management, financial reporting, underground utility safety and locations services, Commission and environmental regulatory reporting and management, recordkeeping, and other work performed by personnel at Central States' corporate office. Also, state whether Bluegrass Water is considered one utility or more than one utility for purposes of allocating costs.

12. Provide a copy of Central States' and CSWR, LLC's cost allocation manual and any other written procedures that describe the methodology Central States

and CSWR use to allocate costs among each of their subsidiaries, including any non-utility subsidiaries and out of state subsidiaries.

13. Explain whether Bluegrass Water intends to record on its books or on the books of each utility acquired an acquisition adjustment to reflect the amount by which the purchase price of each utility exceeds the net book value of each utility acquired.

14. a. State whether Central States or Bluegrass Water has reviewed the Commission's most recent inspection reports for each of the utilities to be acquired.

b. Explain how Bluegrass Water will resolve each of the outstanding violations cited by Commission Staff on all plants involved in the proposed transfer.

15. Provide a copy of the current and long-term debts for each system proposed to be acquired, including lender's name, the date the debt was incurred, the original amount of the indebtedness, and the amount outstanding as of the date of Joint Applicants' Exhibit N, Pro-Forma Balance Sheet - Bluegrass Water Utility Operating Company, LLC.

16. Provide a schedule showing the current capital structure of Bluegrass Water in both dollars and percentages.

17. Provide schedules showing the current capital structure of Central States and CSWR, LLC's in both dollars and percentages.

18. Explain how Bluegrass Water distinguishes or will distinguish the debt financing it receives from CSWR, LLC from the equity financing it receives from CSWR, LLC, if Bluegrass Water will obtain both debt and equity from CSWR, LLC.

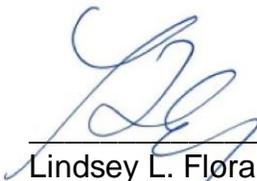
19. Explain the process by which CSWR, LLC raises equity capital on behalf of Bluegrass Water.

20. Explain the process by which CSWR, LLC raises debt capital on behalf of Bluegrass Water.

21. Explain why the systems managed by CSWR, LLC and Central States in Kentucky are connected to CSWR, LLC through Bluegrass Water UOC, LLC; Bluegrass Water UHC, LLC; and Kentucky CSWR, LLC; and identify which entity will own the assets for which transfer approval is requested in this matter.

22. State whether Bluegrass Water UOC, LLC; Bluegrass Water UHC, LLC; and Kentucky CSWR, LLC have any employees, and if so, identify the number of persons employed by each entity and describe the roll of each such person.

23. Provide the most recent balance sheet for Bluegrass Water UOC, LLC; Bluegrass Water UHC, LLC; and Kentucky CSWR, LLC.



Lindsey L. Flora
Deputy Executive Director
Public Service Commission
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DATED OCT 21 2020

cc: Parties of Record

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