

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BLUEGRASS)	
WATER UTILITY OPERATING COMPANY, LLC)	CASE NO.
FOR ISSUANCE OF EVIDENCE OF)	2022-00217
INDEBTEDNESS)	

ORDER

On August 19, 2022, Bluegrass Water Utility Operating Company, LLC (Bluegrass Water) filed an application requesting authority to issue certain evidences of indebtedness in connection with a proposed multiple advance, senior secured, amortizing term loan of up to \$5,000,000 (Loan). Bluegrass Water responded to one request for information and there are no intervenors. The case now stands submitted for a decision based on the evidentiary record.

LEGAL STANDARD

KRS 278.300 requires Commission approval before a utility may “issue any securities or evidence of indebtedness or assume any obligation or liability in respect to the securities or evidence of indebtedness of any other person.”¹ The legal standard contained in KRS 278.300(3) establishes the purview of Commission review, stating:

The commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and the proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate for or consistent with the proper performance by the utility of

¹ KRS 278.300(1).

its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

Additionally, KRS 278.300(8) establishes that KRS 278.300 does not apply if the proposed issuance of securities or indebtedness is payable at periods of not more than two years from the issuance date and any renewals of such notes do not exceed six years from the initial issuance date.

BACKGROUND

Bluegrass Water requested authorization from the Commission to incur debt of up to \$5,000,000. The purpose of the Loan proceeds is to reimburse Bluegrass Water's general cash reserves and working capital expenses incurred in connection to four pending certificate of public convenience and necessity (CPCN) applications listed below, as well as to finance further operational needs.² The four CPCN applications for which the funds are intended have a total cost of \$1,371,700,³ and the balance of the loan proceeds, or \$3,628,300 will be used to pay back intercompany working capital and improve Bluegrass Water's debt-to-capitalization percentage.⁴ The CPCN projects are as follows:

² Application, paragraph 7.

³ Application, paragraph 10.

⁴ Application, paragraph 20.

1. Delaplain, Case No. 2022-00104.⁵ CPCN requested to install a moving bed biofilm reactor treatment system and improve its solids handling enhancement. Total cost of the improvements is \$609,900.⁶

2. Herrington Haven, Case No. 2022-00102.⁷ CPCN requested to install a moving bed biofilm reactor treatment system, install a peracetic acid disinfection system, and install a solids processing system. Total cost of the improvements is \$206,550.⁸

3. Persimmon Ridge, Case No. 2022-00046.⁹ CPCN requested to install a moving bed biofilm reactor treatment system. Total cost of the improvement is \$253,000.¹⁰

4. Woodland Acres, Case No. 2022-00015.¹¹ CPCN to install a moving bed biofilm reactor treatment system, install a peracetic acid disinfection system, and install wet weather overflow prevention measures. Total cost of the improvements is \$302,250.¹²

⁵ Case No. 2022-00104, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Delaplain Site* (Ky. PSC, filed Mar. 28, 2022).

⁶ Application, paragraph 10, section a, subsection iv.

⁷ Case No. 2022-00102, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Herrington Haven Site* (Ky. PSC, filed Mar. 24, 2022).

⁸ Application, paragraph 10, section b, subsection iv.

⁹ Case No. 2022-00046, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Persimmon Ridge Site* (Ky. PSC, filed Feb. 24, 2022).

¹⁰ Application, paragraph 10, section c, subsection iv.

¹¹ Case No. 2022-00015, *Electronic Application of Bluegrass Water Utility Operating Company, LLC for Certificates of Convenience and Necessity for Projects at the Woodland Acres Site* (Ky. PSC, Sep. 1, 2022).

¹² Application, paragraph 10, section d, subsection iv.

Bluegrass Water stated that the proposed financing will move the utility towards compliance with the Commission's previously-stated objective regarding Bluegrass Water's debt-to-capitalization percentage of 50/50.¹³ If approved and if the total \$5,000,000 is drawn, Bluegrass Water stated the resulting debt-to-capitalization percentage would be approximately 35 percent debt and 65 percent equity.¹⁴

Regarding the terms of the Loan, Bluegrass Water may receive at least \$2,900,000 and up to \$5,000,000 from CoBank, ACB (CoBank).¹⁵ The closing will take place no later than October 30, 2022.¹⁶ Bluegrass Water is entitled to choose an interest rate structure and Bluegrass Water stated that it will choose the rate that is most economically favorable at the time of closing.¹⁷ Closing costs include the origination fee, legal cost for both CoBank and Bluegrass Water, as well as miscellaneous filing fees.¹⁸ Bluegrass Water noted that it does not presently plan to engage in any hedging activities.¹⁹

DISCUSSION AND FINDINGS

Having considered the evidence of record and being otherwise sufficiently advised, the Commission finds that the authorization to issue the evidences of indebtedness in the

¹³ Application, paragraph 8. *See also*, Case No. 2019-00104, *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, Brocklyn Utilities, LLC, Fox Run Utilities, LLC, and Lake Columbia Utilities, Inc.* (filed Apr. 16, 2019).

¹⁴ Application, paragraph 18.

¹⁵ Application, paragraph 18.

¹⁶ Application, paragraph 18.

¹⁷ Application, paragraph 18.

¹⁸ Application, paragraph 19 and Bluegrass Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Sep. 16, 2022), Item 2.

¹⁹ Bluegrass Water's Response to Staff's First Request, Item 4.

proposed Loan in the aggregate amount of \$5,000,000 with CoBank are for lawful objects within the corporate purposes of Bluegrass Water's utility operation, which is to provide adequate, efficient and reasonable service at fair, just and reasonable rates in accordance with KRS 278.300. Additionally, the Commission finds that the proposed indebtedness are (1) necessary and appropriate for and consistent with the proper performance of Bluegrass Water's service to the public and will not impair Bluegrass Water's ability to perform that service as the Loan proceeds are for system improvements and general corporate needs; and (2) are reasonably necessary and appropriate for such purposes because the proposed Loan is for the construction needed to provide adequate, efficient and reasonable service. Further, the proposed Loan will allow for system compliance and will move Bluegrass Water towards a reasonable capital structure.

IT IS THEREFORE ORDERED that:

1. Bluegrass Water is authorized to enter into the Loan as describe in the application in an amount up to \$5,000,000.
2. The proceeds from the transaction authorized therein shall be used only for the lawful purposes set out in the application.
3. Bluegrass water shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of evidences of indebtedness authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

4. Any documents filed in the future pursuant to ordering paragraph 3 herein shall reference this case number and shall be retained in the post-case correspondence file of this proceeding.

5. This case is closed and removed from the Commission's docket.

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