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**PUBLIC SERVICE
COMMISSION**

January 6, 2026

Kentucky Public Service Commission (PSC)

Attn: Chair Angie C. Hatton

Commissioner Mary Pat Regan

Commissioner Andrew W. Wood

211 Sower Blvd.

Frankfort, KY 40601

Re: Case # 2025-00354 (the filing), Bluegrass Water Utility Operating Company, LLC
(BWUOC, Bluegrass Water, the Company)

I am contacting you to oppose the proposed BWUOC rate increase as well as other application requests, and to provide supporting information underlying the opposition as well as observations and questions arising from my review of the application documents. In my view, this rate increase request should be denied because BWUOC's financial distress is the result of excessive, imprudent, and opaque costs driven by its private-equity business model—not by insufficient existing rates.

It quickly became clear that a complete understanding of the case requires considerable time and expertise; hopefully, the public can rely upon a thorough examination by the PSC. That said, I have reviewed over 24 case documents totaling 800 pages along with 54 financial worksheets, which include the testimony of seven affiliate staff members and one expert witness. The documents are summarized on Schedule 1. Following is my understanding of the case based on these documents and given my time/expertise limitations.

Bluegrass Water Overview

BWUOC is an affiliate of CSWR, LLC (CSWR) founded by Josiah Cox in 2018 and headquartered in St. Louis, MO. CSWR owns and operates water and wastewater utilities in 11 states through its holding companies, one of which is Bluegrass Water. CSWR's mission is to acquire rural/suburban privately held water and wastewater operations that are operating inefficiently, in need of equipment upgrades/replacement, or out of compliance with regulatory requirements, and effect a "turnaround" of each as part of a consolidated for-profit utility. To accomplish this, Mr. Cox raised private equity funding and assembled a management team to conduct acquisitions and perform operational duties. The ownership and controlling interests of the entities are not included in the filing.

In 2019 BWUOC was formed to acquire the assets of "failing" water and wastewater systems in Kentucky and purchased its first nine systems in September 2019. Since then, the Company has purchased the assets of 13 additional wastewater systems and 4 water systems. The case documents do not indicate the purchase price of each.

Bluegrass Water is a for-profit business that provides water and wastewater treatment services to 2,812 customers in 14 Kentucky counties. Sales to these customers aggregated \$3.0 million in each of 2024 and 2025 with 91% of revenue generated from wastewater treatment. The largest *residential* wastewater system in terms of revenue is Persimmon Ridge development in Shelby County with over 400 residential connections, while the smallest appears to be Magruder Village in McCracken County with 16 residential connections.

Wastewater Revenue by Location - Exhibit 11
6 mos actual / 6 mos estimate

Location	\$	% total
Primarily Residential		
Persimmon Ridge	339,053	12.4%
LH Treatment	306,041	11.2%
Delaplain Residential	295,039	10.8%
Airview	183,173	6.7%
River Bluffs	161,579	5.9%
Great Oaks	141,670	5.2%
Brocklyn	135,031	4.9%
Kingswood	121,236	4.4%
Darlington Creek	106,022	3.9%
Woodland Acres	81,775	3.0%
Timberland	61,606	2.3%
Equestrian Woods Springcrest	39,196	1.4%
Carriage Park	35,154	1.3%
Marshall Ridge	34,154	1.3%
Fox Run	33,461	1.2%
Lake Columbia	30,719	1.1%
Golden Acres	26,130	1.0%
Herrington Haven	22,465	0.8%
Arcadia Pines	21,464	0.8%
Yung Farm Estates	14,400	0.5%
Magruder Village	6,720	0.2%
Commonwealth Wastewater	5,448	0.2%
Total Revenue	2,201,536	80.6%
Delaplain Commercial	529,483	19.4%
Total Wastewater Sales	2,731,019	100.0%

To provide these services BWUOC owns, operates, and maintains fixed assets representing varying types of treatment equipment and processes at 22 wastewater and 4 water system locations. The total in-service equipment cost at the end of 2025 is \$14.5 million which consists of the asset purchase price of each system, equipment additions & improvements, and other capital improvements.

BWUOC operations (billing, collection, customer service, maintenance, payroll, accounting, etc.) do not operate as most businesses or utilities and are part of a complex organization structure with cost assessments and third-party providers. Succinctly stated, Bluegrass Water outsources everything:

- BWUOC does not have any employees, there is zero payroll expense.
- Billing & collection activities are outsourced to Nitor Billing Services, LLC, Chesterfield, MO. Nitor was dissolved in December 2025 according to Missouri Secretary of State.
- Invoices are issued in the name of an affiliate, Central States Water Resources, Inc.
- Sales are recorded at BWUOC P&L
- Facilities and equipment repairs & maintenance are outsourced to Clearwater Solutions, LLC, Auburn, AL
- All R&M expenses are direct costs recorded on BWUOC P&L
- Certain direct costs such as property taxes are recorded on the BWUOC P&L
- Some administrative expenses that are specific to BWUOC activities are paid by CSWR and charged to Bluegrass Water, e.g., legal fees, permits.
- Some administrative expenses are incurred by CSWR and allocated to Bluegrass Water, e.g., management compensation, insurance, software, accounting.

In summary, Bluegrass Water is a \$3.0 million business with all its assets in Kentucky serving 2,812 customers in the state, the majority of which are wastewater clients. However, it is

headquartered in St. Louis, MO, it has no employees, and all management, maintenance, and administrative functions have been outsourced to affiliated and unaffiliated companies in Alabama and Missouri.

Case Overview

Bluegrass Water's application contains three core requests: (1- an increase in existing customer service rates, (2- one single rate charge (\$114.00) for all but three wastewater customers to replace the rates currently in effect, and (3- use of a forward-looking test period in lieu of historical-looking.

BWUOC has "pulled out all the stops" to make its case as evidenced by the testimonies, financial schedules, photos, and data to support these three requests. In addition to testimonies of the seven executives & management from St. Louis, BWUOC engaged Dinsmore & Shohl for representation in the case, a top national law firm headquartered in Cincinnati, OH, and hired an industry expert witness out of Framingham, MA to testify in support of the capital structure and rate of return. This is all quite overwhelming for customers to assimilate and would require assembling a team of experts to thoroughly examine BWUOC's claims and data. It also raises a red flag for those grounded in business fiscal responsibility.

Excluding the time and travel costs of the affiliate testifiers, the case filing indicates that the legal and expert witness fees are estimated to be \$575,000. Management is spending \$575,000 on professional fees to obtain a price increase for a \$3.0 million business, or 19% of 2025 Bluegrass Water sales, which amounts to \$204 per customer who is bearing the cost. Most business owners would consider this unreasonable, and it is indicative of excessive spending as well as a lack of cost control which are addressed below as the primary argument for rejecting the rate increase request.

Operating Costs

This is a small \$3.0 million business that has incurred operating losses for at least the past two years, why? The answer is straightforward: it is either revenue is too low, or expenses too high, and we know CSWR's position from the filing. But my initial reaction from a macro perspective of the income statement is that expenses are too high. These wastewater systems are relatively low maintenance, simple, and reliable, designed for minimal operator intervention. When we developed Persimmon Ridge, an aerated lagoon system, the type of system selected was based on the premise of low future maintenance costs. Assuming that the failing systems have been repaired and brought into compliance as indicated in the filing, one would expect maintenance and operations costs to be minimal. Yet, O&M expenses represent the largest cost component of operating costs.

In search of answers, I searched the KY PSC site to find common size data for comparable size wastewater utilities. No such data was available leading me to find similar utilities in revenue size and examine the *2024 annual reports filed with the KY PSC*. Time constraints limited the sample size, and there are many variables for utilities making an apples-to-apples comparison not entirely accurate. Nonetheless, the data below provides some guidance and insight.

The Company's G&A expenses as a percentage of revenue are significantly higher than the three other utilities below, and BWUOC's G&A cost/customer is ten times that of the smallest utility. Likewise, except for the private utility, the Company's O&M expenses far exceed those of the other utilities as a percentage of sales. Notably BWUOC's O&M cost/customer is higher than all three comparables exceeding the other private utility cost by 10%. It is also noteworthy that Bluegrass Water's revenue/customer is above all others, although it includes Delaplain

commercial's revenue. The O&M cost/customer decreases to \$904 after adjusting for Delaplain using data from Exhibit 11 of the filing, which is still higher than the other utilities.

Ownership	private		private		public		public	
Data Source	exhibit 9		annual rpt		annual rpt		annual rpt	
	Bluegrass Water		Kentucky-American Water Company		Grant County Sanitary Sewer		Hardin County Water District	
	2024		2024		2024		2024	
	\$	% sales	\$	% sales	\$	% sales	\$	% sales
Revenue	3,050,477	100%	1,181,456	100%	933,497	100%	7,687,824	100%
Operating Expense								
General & Administrative	1,385,354	45%	112,045	9%	83,349	9%	740,377	10%
Operations & Maintenance	2,133,393	70%	943,525	80%	518,742	56%	3,445,034	45%
Total Cash Expenses	3,518,747	115%	1,055,570	89%	602,091	64%	4,185,411	54%
Depreciation & Amortization	723,331	24%	535,150	45%	223,668	24%	2,777,998	36%
Total Operating Expense	4,242,078	139%	1,590,720	135%	825,759	88%	6,963,409	91%
Operating Inc/(Loss)	(1,191,601)		(409,264)		107,738		724,415	
# customers	2,812		1,365		1,665		9,843	
\$ plant in service (cost)	10 million		17 million		9 million		153 million	
# systems	26		5		1		1	
\$ per Customer Data								
Revenue	1,085		866		561		781	
General & Administrative	493		82		50		75	
Operations & Maintenance	759		691		312		350	

Since Bluegrass Water consists of many small systems, I used generative AI to identify low revenue wastewater utilities so that I could extract and calculate the data below which can be verified against the publicly filed PSC 2024 annual reports. As a percentage of revenue, the Company's G&A rate of 45% and O&M rate of 70% are considerably above the average and median rates for these utilities.

Small System Utilities	PSC ID	2024 Total Oper Rev
Columbia/Adair Utilities District	9003500	1,547,687
Grant County Sanitary Sewer District	9002500	933,497
Fountain Run Water District #1	22221800	379,185
Hardin County Water District #2	9004200	597,931
Graves County Water District (sewer)	9003200	100,463
Oldham Woods Sanitation, Inc.	48250	94,999
Edmonson County Water District (sewer)	22221300	51,790
Big Bear Wastewater, Inc. (2023 — latest available)	9000100	51,011
	Mean	Median
Revenue	469,570	379,185
G&A	43,248	11,976
% sales	9%	3%
O&M	233,559	83,964
% sales	50%	22%

While the macro view indicates that G&A and O&M expenses are excessive, the devil is always in the detail, and I am sure the Bluegrass Water customers would like to receive more information on the integrity of the various expenses. "Admin Expenses Transferred" of \$620,165 in 2024 is highly questionable for operating this size business, not to mention the lack of detail. But the lack of transparency is not surprising considering the business model employed by CSWR.

Business Model

As stated in Mr. Cox's testimony, CSWR was formed to consolidate failing utility systems, realize economies of scale, restore functionality and compliance, and so on. Undoubtedly these small, rural/suburban wastewater utilities were not professionally operated and maintained, as well as without capital reserves to replace aging fixed assets. It also appears that many if not all have been physically updated and improved in one form or another. But a for-profit, privately held enterprise financed with private equity funding inherently is not acting in the best interest of its customers, which is the underpinning of a utility operation that has no competition.

Public versus private ownership has been an ongoing debate for decades in multiple industries such as utilities, education, and health care to name a few. Privatization makes sense in some instances, but utilities are not one of them as private utilities charge 59% more than public utilities according to Food & Water Watch. This is apparent in BWUOC's rates, which are significantly higher than the average water and wastewater rate in counties in which the Company operates according to a December 2025 comparability study conducted by Larry Averitt, a BWUOC customer.

CSWR's business model is even more egregious to its customers:

1. The primary objective for private equity investors and management, who presumably also have an equity interest, is to make money and increase value. Unquestionably there is an exit strategy for these parties who have no desire to continue their interest in perpetuity.
2. Claims of improved efficiencies and economies of scale are frequently unrealized by private equity teams. Even if realized, the utility owners are the beneficiaries, not the customers in the form of lowered rates.
3. Consolidation of small wastewater systems may benefit the consolidator but not necessarily the wastewater customer. This is a simple business with no competition, no marketing need, limited management oversight, and minimal labor and administrative requirements. The 22 wastewater systems have no need for a President, AVP Customer Experience, Director of Engineering, and more.
4. The ownership has reduced their risk by outsourcing primary functions which increases costs to rate payers, reduces accountability, and decreases transparency.
5. The business model consists of multiple entities, intercompany transactions, allocated costs, direct and indirect costs, and third-party providers, all of which obfuscate true business performance.

Lack of Information & Questions

During my review questions arose or data was sought that I was unable to find or was overlooked due to the sheer volume of text and schedules. The following information would be useful to further assess the case requests, and I would have thought customarily available.

Information by System

The most glaring omission is absence of data for each system. Revenue by system is available in Exhibit 11 of the filing, but an income statement disclosing direct expenses in detail and a

balance sheet should be provided for each. It is inconceivable the Company does not measure profitability by system. Other information that should be disclosed in the filing for each system includes customer count metrics, cap spending, acquisition purchase price, fixed asset listing, regulatory violations, pending litigation, service complaint counts, service outages, # service visits, real estate and equipment liens, and any other key operating information. At a minimum, the per system data should consist of the latest interim year and last two calendar years.

Ownership Transparency

There are multiple entities involved in this case – holding companies, affiliates, third party providers, operating companies, lenders, private equity firm(s). Bluegrass Water is a for-profit company with no competition, and rate payers should be aware of potential conflicts of interest and officer/employee equity interests. The Company should provide the following:

- The ownership of and respective interest in BWUOC; BWUHC; Kentucky CSWR, LLC; CSWR, LLC; US Water Systems, LLC; Central States Water Resources, Inc.
- The name of the private equity firm and any interests of any form (e.g contract) that BWUOC/related party officers and members may have with the firm.
- Ownership of Nitor Billing Services and details of its dissolution in December 2025.
- Any transactions and contractual agreements between the Company and its affiliates and the testifying individuals.

Data Accuracy

All the financial statements in the case filings are internal statements and projections prepared by management. The audited financial statements are for the consolidation of CSWR, LLC and Subsidiaries, not Bluegrass Water which represents 3% of CSWR's revenue. The audited statements do not affirm the veracity of the Company financials nor disclose imprudent spending, much less even consider the latter. In short, the financial data presented by the Company is taken at management's word and not independently verified.

Data Detail

A review of P&L expense categories indicates that there are numerous expenses that do not appear reasonable requiring further detail and explanation, such as “contract operations” (\$1,077k in 2024), “admin expenses transferred” (\$630k in 2024), “uncollectible accounts” (\$259k in 2024) to name a few. The write-off of customer accounts is almost 10% of sales, typically an indicator of ineffective management.

System-Level Transparency and Independent Review

As previously mentioned, a fundamental deficiency in the Company's filing is the absence of system-level operating and financial information. While BWUOC aggregates revenues and expenses across its portfolio, such consolidation prevents meaningful evaluation of whether costs are reasonable, whether efficiencies have been achieved, or whether customers of one system are subsidizing excessive or imprudent costs incurred by another. It also obscures cost causation and materially limits the Commission's ability to evaluate the reasonableness of the requested rate increase.

At a minimum, I would think that the Company should be required to provide system-level income statements and balance sheets, including detailed operating and maintenance expenses, affiliate charges, capital expenditures, acquisition costs, customer counts, and service metrics for each system, covering the most recent interim period and prior two calendar years.

Furthermore, given the Company's extensive reliance on affiliated entities, allocated costs, and internally prepared financial statements, an independent, system-level prudence review would materially assist the Commission. Such a review should assess whether operating and

administrative costs for each system are consistent with industry norms for similar wastewater utilities, and whether BWUOC's ownership and management structure results in costs that are reasonable and necessary to provide service.

If an independent review were to find that operating costs are persistently excessive due not to system-specific conditions but to the ownership, governance, or affiliate-driven business model itself, the Commission may wish to consider whether alternative ownership or governance structures would better serve the public interest. In my research I have found other jurisdictions having addressed similar concerns through customer-controlled entities, public or quasi-public authorities, or other models designed to better align operational incentives with ratepayer interests.

Without such transparency and independent evaluation, I believe customers and the Commission are left to rely solely on management's representations in a highly complex and opaque organizational structure—an outcome that is inconsistent with the Commission's responsibility to ensure rates are fair, just, and reasonable.

Single Rate Tariff

Bluegrass Water has requested a unitary rate to be paid by customers of 19 systems. This consolidated rate concept was approved by the PSC for the Company's last rate increase, so contesting this at this point seems moot. Yes, the smaller or more costly system benefits from the larger or more efficient systems under a consolidated rate. But prior to BWUOC's acquisition of each system, presumably every customer was aware of who was providing their wastewater service and their monthly cost. I do not think any of these small system customers expected the sale of the wastewater assets and subsequently benefiting from a new unified rate. All 22 systems were operating independently and now because of a change in ownership a consolidated rate is in effect for all. Large systems now pay for small system costs. Bluegrass Water has a wide range of system sizes, from 16 connections at Magruder Village (\$6,720 revenue) to 400+ at Persimmon Ridge which generates \$339,053 for BWUOC. It does not seem equitable to me.

Mr. Cox quoted a passage from the 2008 National Regulatory Research Institute as support of single tariff pricing. What he left out of the cited paragraph was the last three sentences which read "One objection to single tariff rates is that they mask spatial differences in the cost of providing service. A 1999 study revealed that some commissions utilize single tariff pricing on a case-by-case basis. Twenty-two commissions had allowed single tariff pricing at the time of the study." Moreover, the study did not advocate single tariff pricing but mentioned it as just one approach state commissions can apply to improve conditions at small water utilities. The report is titled "Small Water Systems: Challenges and Recommendations" and does not promote consolidation or unitary rates as insinuated by Mr. Cox. On the contrary, the report has recommendations for continuation and success of individual small utilities which the study classifies as water systems serving between 25 and 3,300 people.

Forward-looking Test Period

The consolidation concept has been applied to CSWR's request for a forward-looking test period. The testifier's rationale for this is that the recent large capital expenditure to update the Delaplain system requires a forward-looking base to earn the appropriate return and would be harmed if a historical base was used. In other words, all 22 wastewater systems should be on a forward-looking basis because of one system's current cap spend. That system, Delaplain, is the largest revenue source (31%) due to its commercial account which makes up 64% of Delaplain sales processing 42 million wastewater gallons annually. Comparing Delaplain to Magruder, Fox Run, and the other small systems is the equivalent of comparing IU football with Centre College and further illustrates the fallacy of CSWR's business model.

Summary & Recommendations

In summary, Bluegrass Water Utility Operating Company's request for a rate increase appears to be driven not by insufficient existing rates, but by excessive operating costs, extensive reliance on affiliates and third-party providers, and a business model that prioritizes investor returns over ratepayer protection. The Company's unusually high G&A and O&M expenses, significant affiliate allocations, and extraordinary professional fees raise serious concerns regarding cost control, prudence, and transparency.

The record, as filed, does not provide sufficient system-level financial detail, ownership disclosure, or independently verified data to allow customers—or the Commission—to fully assess the reasonableness of the requested rate relief. Moreover, the proposed single-rate tariff and forward-looking test period would further obscure cost causation and shift financial burdens among dissimilar systems and customers without adequate justification.

Accordingly, I respectfully recommend that the Commission:

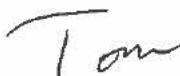
1. **Deny the requested rate increase** unless and until BWUOC demonstrates that its costs are reasonable, prudently incurred, and directly related to providing service to Kentucky ratepayers and consistent with industry norms.
2. **Require supplemental disclosures**, including system-level income statements and balance sheets, acquisition costs, affiliate transaction details, ownership interests, and contractual arrangements with all related parties.
3. **Consider engaging a third-party expert** to conduct an independent review of each system's operating expenses to determine if such costs are excessive and unreasonable within industry norms based on each system's specific facts.
4. **Closely scrutinize and potentially disallow affiliate charges, allocated G&A, professional fees, and uncollectible account expenses** that are excessive, insufficiently supported, or not demonstrably beneficial to customers.
5. **Reject or limit the use of a forward-looking test period**, particularly where capital expenditures are concentrated in a single system and do not reflect the operating realities of the remaining systems.
6. **Re-examine the appropriateness of a consolidated single-rate tariff**, given the wide disparities in system size, cost structure, and customer base.

The Commission's aim is to ensure that rates are fair, just, and reasonable. Based on the information currently in the record, BWUOC has not met its burden of proof. Kentucky ratepayers should not be asked to subsidize an opaque and costly business model that lacks adequate accountability and cost discipline.

We used to have a saying early in my financial career when encountering situations that just did not seem right – "does it pass the smell test?" I think the answer is apparent in this case.

Please feel free to call or email me should you have any questions.

Sincerely,



Thomas W. Colbert

Schedule 1

Bluegrass Water Utility Operating Company
KY PSC Case No. 2025-00354

Document	T - testimony	# pages	Key Subject Matter
	O - other		
Bluegrass_Water_-_Application_for_Rate_Adjustment_-_Case_No._2025-00354	O	22	application for rate increase
Bluegrass_Water_-_Case_No._2025-00354_-_Motion_for_Confidential_Treatment	O	7	request to treat certain info confidential eg. Off comp
Bluegrass_Water_-_Motion_for_Deviation_from_Filing_Requirements_-_Case_No._2025-00354	O	7	request to waive meeting certain requirements
Exhibit_1_-_Direct_Testimony_of_Josiah_Cox PRESIDENT	T	26	business and rate increase request overview
Exhibit_2_-_Corporate_Org_Chart	O	3	entity org chart of affiliates
Exhibit_3_-_Financial_Exhibit	O	2	statement of no material business changes since 12-31-24
Exhibit_4_-_Statutory_and_Regulatory_Index	O	20	cross ref of application requirements to exhibits
Exhibit_5_-_Direct_Testimony_of_Aaron_Silas_(Public) AVP CUST EXP & REG OPS	T	169	corp communications and customer service
Exhibit_6_-_Affidavit_of_Aaron_Silas	O	16	letters sent to customers of rate increase
Exhibit_7_-_Direct_Testimony_of_Brent_Thies (1) VP & CONTROLLER	T	85	support for revenue requirement and rate base
Exhibit_8_-_Direct_Testimony_of_Jake_Freeman DIRECTOR ENGINEERING	T	121	updates 4 wastewater, 4 water sys; discuss 3 acquisitions
Exhibit_9_-_Financial_Workbook	O	excel	54 wkshts, income stmt, bal sht, detail wkshts
Exhibit_10_-_Josiah_Cox_Attestation	O	3	president's assertion of forecast accuracy
Exhibit_11_-_Direct_Testimony_of_Emily_Harlow MGR RATES & REVENUE	T	31	quantification of revenues by system
Exhibit_12_-_Audit_Reports	O	24	2024 independent audit rpt of CSWR
Exhibit_13_-_List_of_Software	O	2	list of software used in filing
Exhibit_14_-_Direct_Testimony_of_Caitlin_Oreilly ACCTG MGR REG ACCTG	T	31	costs: direct, allocated by BWUOC, assessed by CSWR
Exhibit_15_-_KY_Rate_Case_Expense	O	2	rate increase case filing expense detail - 575k
Exhibit_16_-_Analysis_of_Employee_Compensation_(Public)	O	1	stmt compensation is confidential, not disclosed
Exhibit_17_-_Direct_Testimony_of_Matt_Howard DIRECTOR, SCOTTMADDEN INC	T	82	cap structure and rate of return
Exhibit_18_-_Third_Party_Beneficiary_Agreement	O	9	CSWR guarantee of 2 contractor pmts -operations, billing
Exhibit_19_-_Service_Contracts_(Public)	O	40	3rd party contr agreements
Exhibit_20_-_Direct_Testimony_of_Todd_Thomas Sr VP CSWR	T	88	use of 3rd party providers
Exhibit_21_-_Tax_Returns_(Public)	O	1	stmt tax returns are confidential, not disclosed
	24	792	