

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ROWAN)	
WATER, INC. FOR AN ALTERNATIVE RATE)	
ADJUSTMENT AND AN INVESTIGATION INTO)	
ROWAN WATER, INC. AND ITS INDIVIDUAL)	
DIRECTORS, LARRY JOHNSON, DANNY)	CASE NO.
STEVENS, DANNY COX, MIKE COLLINS,)	2022-00252
ENOCH BLAIR, AND ITS MANAGER, JERRY)	
PATRICK, FOR ALLEGEDLY FAILING TO)	
COMPLY WITH KRS 278.300 AND A)	
COMMISSION ORDER)	

ORDER

On September 6, 2022,¹ Rowan Water, Inc. (Rowan Water) filed its application with the Commission requesting an adjustment to its water rates pursuant to 807 KAR 5:076. Rowan Water filed this proceeding in compliance with the final Order in Case No. 2021-00042.² In that proceeding, Rowan Water was ordered to file an application by May 19, 2022, for either a general adjustment in rates or for an alternative rate adjustment (ARF) to ensure its revenue is sufficient to support adequate and reliable service.

¹ Rowan Water tendered its application on September 2, 2022. By letter dated September 6, 2022, the Commission rejected the application for filing deficiencies. The deficiencies were subsequently cured, and the application is deemed filed on September 6, 2022.

² Case No. 2021-00042, *Electronic Application of Rowan Water, Inc. to Issue Securities in the Approximate Principal Amount of \$2,450,000 for the Purpose of Refunding Certain Outstanding Indebtedness of the Association Pursuant to the Provisions of KRS 278.300 And 807 KAR 5:001* (Ky. PSC Apr. 19, 2022) at 7, ordering paragraph 5.

In its application, Rowan Water requested rates that would increase its annual water sale revenues by \$693,869, or a 21.95 percent increase to pro forma present rate water sale revenues.

To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated September 30, 2022, which, among other things, required the Commission Staff to file a report containing its recommendations regarding Rowan Water's application. Rowan Water responded to three requests for information from Commission Staff. On February 16, 2023, the Commission issued an Order that expanded the case's scope and docket case name to include the remaining issues of Rowan Water, its individual directors, and its manager for allegedly failing to comply with a Commission Order and possible violations of KRS 278.300. The hearing for these matters is set for August 1, 2023.

Commission Staff's Report was filed on March 23, 2023, summarizing its findings and recommendations regarding Rowan Water's requested rate adjustment. In the Commission Staff's Report, Commission Staff found that Rowan Water's adjusted test year operations support an overall revenue requirement of \$3,856,861, and that an annual revenue increase of \$463,665, or 14.78 percent, is necessary to generate the overall revenue requirement. In the absence of a cost of service study (COSS), Commission Staff allocated its recommended revenue increase evenly across the board to calculate its recommended water rates.

On April 6, 2023, Rowan Water filed its response to Commission Staff's Report. In its written comments,³ Rowan Water stated it appreciated Commission Staff's review

³ Comments on Staff Report, (filed Apr. 6, 2023).

of the information and for Commission Staff's Report.⁴ Rowan Water did not have any comments on Commission Staff's Report.⁵ However, Rowan Water did request to implement the rate increase in two phases.⁶ With its response, Rowan Water did not request an informal conference or hearing be held. The case now stands submitted for a decision by the Commission.

LEGAL STANDARD

Alternative rate adjustment proceedings, such as this one, are governed by Commission regulation 807 KAR 5:076, which establishes a simplified process for small utilities to use to request rate adjustments, with the process designed to be less costly to the utility and the utility ratepayers. The Commission's standard review of a utility's request for a rate increase is well established. In accordance with KRS 278.030 and case law, Rowan Water is allowed to charge its customers "only fair, just and reasonable rates."⁷ Further, Rowan Water bears the burden of proof to show that the proposed rate increase is just and reasonable under KRS 278.190(3).

UNACCOUNTED-FOR WATER LOSS

Pursuant to 807 KAR 5:066, Section 6(3), water loss is limited to 15 percent for ratemaking purposes. As noted in the Commission Staff's Report, Rowan Water's test-

⁴ Comments on Staff Report, (filed Apr. 6, 2023), Item 1.

⁵ Comments on Staff Report, (filed Apr. 6, 2023), Item 2.

⁶ Comments on Staff Report, (filed Apr. 6, 2023), Item 3.

⁷ *City of Covington v. Public Service Commission*, 313 S.W.2d 391 (Ky. 1958); and *Public Service Comm'n v. Dewitt Water District*, 720 S.W.2d 725 (Ky. 1986).

year water loss was 21.36 percent. Accordingly, Commission Staff reduced test-year expenses by \$104,720 to account for the 6.36 percent excess water loss.⁸

	Purchased Water	Purchased Power	Total
Test Year Water Purchase and Pumping Costs	\$ 1,510,125	\$ 136,416	\$ 1,646,541
Multiplied by: Water Loss in excess of 15 Percent	6.36 %	6.36 %	6.36 %
Cost of Line loss in Excess of the 15% Limit	<u>\$ 96,044</u>	<u>\$ 8,676</u>	<u>\$ 104,720</u>
Test Year Water Purchase and Pumping Costs	\$ 1,510,125	\$ 136,416	\$ 1,646,541
Multiplied by: Test Year Water Loss	21.36 %	21.36 %	21.36 %
Total Cost of Line Loss	<u>\$ 322,563</u>	<u>\$ 29,138</u>	<u>\$351,701</u>

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Rowan Water to pursue reasonable actions to reduce its water loss. Failure by Rowan Water to make significant progress toward reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

BACKGROUND

Rowan Water is a non-profit water association organized pursuant to KRS Chapter 273. It owns and operates a water distribution system through which it provides water service to approximately 7,250 residential customers and 174 commercial customers that reside in Carter, Elliott, Fleming, Morgan, and Rowan counties, Kentucky.⁹ Rowan Water does not produce any of its own water; rather, it purchases its water from the Morehead Utility Plant Board. A review of the Commission’s records indicates this is Rowan Water’s

⁸ Commission Staff’s Report at 2–3.

⁹ *Annual Report of Rowan Water, Inc. to the Public Service Commission for the Calendar Year Ended December 31, 2021* (2021 Annual Report) at 12 and 49.

first alternative rate adjustment. Rowan Water’s only base rate increase was filed in Case No. 2002- 00425, but the application was withdrawn, and the case closed.¹⁰

TEST PERIOD

The calendar year ended December 31, 2021, was used as the test year to determine the reasonableness of Rowan Water’s existing and proposed water rates as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

The Commission Staff’s Report summarizes Rowan Water’s pro forma income statement as follows:

	Commission Staff's Report		
	Test-Year Operations	Pro Forma Adjustments	Commission Staff Report Pro Forma
Operating Revenues	\$ 3,316,687	\$ 27,273	\$ 3,343,960
Operating Expenses	3,498,371	(94,496)	3,403,875
Net Utility Operating Income	\$ (181,684)	\$ 121,769	\$ (59,915)

REVIEW AND MODIFICATIONS TO COMMISSION
STAFF’S RECOMMENDATIONS

Rowan Water proposed adjustments to its revenues and expenses to reflect current and expected operating conditions. In the Commission Staff’s Report, Commission Staff proposed additional adjustments. The Commission accepts the findings contained in the Commission Staff’s Report. The Commission has one modification to the Rate Case Expense adjustment and one mathematical correction. In the Commission Staff’s Report, Commission Staff failed to include the Taxes Other than Income amount of \$44,196 in the Revenue Requirement calculation. Therefore, the

¹⁰ Case No. 2002-00425, *An Adjustment of the Rates of Rowan Water, Inc.*, (Ky. PSC Jan. 9, 2003).

Revenue Requirement calculation was understated. When the Commission calculated the Revenue Requirement it included the Taxes Other than Income.

	Test Year	Corrected Commission Staff Adjustment	Commission Adjustment	Pro Forma
Operating Revenues				
Retail Sales of Water	\$ 2,999,585	\$ (23,304)	\$ -	\$ 2,976,281
Sales for Resale	161,023			161,023
Other Water Revenues				
Other Water Revenues	156,079	(4,416)	-	
Forfeited Discounts		54,993	-	206,656
Total Operating Revenues	3,316,687	27,273	-	3,343,960
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	513,998	48,189		562,187
Salaries and Wages - Officers	24,999			24,999
Employee Pensions and Benefits	309,950	29,165		
		(90,588)		248,527
Purchased Water	1,390,215	119,910		
		(96,044)		1,414,081
Purchased Power	135,397	1,019		
		(8,676)		127,740
Materials and Supplies	129,343	82,134		211,477
Contractual Services	43,427	10,920	(10,920)	43,427
Water Testing	15,480			15,480
Transportation Expenses	30,310	-		30,310
Insurance - Other	45,236			45,236
Bad Debt	42,952			42,952
Miscellaneous Expenses	138,681			138,681
Total Operation and Maintenance Expenses	2,819,988	96,029	(10,920)	2,905,097
Depreciation Expense	639,685	(151,827)	-	487,858
Taxes Other Than Income		44,196	-	44,196
Income Taxes Expenses	38,698	(38,698)	-	-
Total Operating Expenses	3,498,371	(50,300)	(10,920)	3,437,151
Utility Operating Income(Loss)	(181,684)	77,573	10,920	(93,191)
Interest and Dividend Income	49,236	-		49,236
Income Available to Service Debt	\$ (132,448)	\$ 77,573	\$ 10,920	\$ (43,955)

REVENUE REQUIREMENTS

Billing Analysis. Rowan Water provided usage data by meter size, listing the water usage and water sales revenue for the 12-month test year ended December 31, 2021.

Commission Staff calculated the data provided within a normalized billing analysis, which determined that \$3,137,304 for all retail customers is an accurate representation of the normalized test-year revenue from water sales. In the Commission Staff's Report, Commission Staff recommended a decrease to Rowan Water's test-year Water Sales Revenue of \$23,304.¹¹ The Commission finds that this adjustment is reasonable because an examination of Rowan Water's billing analysis was completed by Commission Staff and a normalized revenue was based on the information provided.

Miscellaneous Service Revenues – Nonrecurring Charges. In the Commission Staff's Report, Commission Staff recommended reducing Rowan Water's Miscellaneous Service Revenues by \$4,416 to reflect the removal of estimated labor expenses from the nonrecurring charges.¹² The Commission finds the nonrecurring charges to be reasonable and should be accepted.

Forfeited Discounts. Rowan Water did not include any revenue in the test year Forfeited Discounts, in Other Water Revenues. In the Commission Staff's Report, Commission Staff recommended an increase to Rowan Water's test year Other Water Revenues in the amount of \$54,993 to reflect the inclusion of Late Payment Fees, in Rowan Water's Other Water Revenues.¹³ The Commission finds that this adjustment is

¹¹ Commission Staff's Report at 8–9, Adjustment A.

¹² Commission Staff's Report at 9, Adjustment B.

¹³ Commission Staff's Report at 9, Adjustment C.

a known and measurable change¹⁴ to Other Water Revenues, and is reasonable and should be accepted.

Salaries and Wages – Employees. In the Commission Staff's Report, Commission Staff recommended an increase to Rowan Water's Salaries and Wages – Employees of \$48,189¹⁵ to reflect the normalization of employee wages. The adjustments includes an increase in employee wages, changes in test year staffing levels, normalization of 2,080 normal hours worked. The Commission finds that this adjustment is a known and measurable change to Salaries and Wages – Employees, and is reasonable and should be accepted.

Employee Pensions and Benefits – Retirement. In Commission Staff's Report, Commission Staff recommended an increase to Rowan Water's Employee Pensions and Benefits Expense of \$29,165¹⁶ to account for the increased contribution amount of pro forma wage adjustment multiplied by the 401k contribution percentage rate of 7 percent. The Commission finds that this adjustment, is a known and measurable change to Employee Pensions and Benefits, and is reasonable, and should be accepted.

Employee Pensions and Benefits – Insurance. In Commission Staff's Report, Commission Staff recommended a decrease to Rowan Water's Employee Pensions and

¹⁴ See 807 KAR 5:001, Section 16.1.(a); Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue Its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018); and Case No. 2019-00080, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of the City of Pikeville to Mountain Water District* (Ky. PSC Dec. 19, 2019).

¹⁵ Commission Staff's Report at 9–10, Adjustment D.

¹⁶ Commission Staff's Report at 10–11, Adjustment E.

Benefits of \$90,588¹⁷ to reflect the adjustment of single insurance premiums paid by Rowan Water from 100 percent to 78 percent and family insurance premiums from 100 percent to 64 percent. In addition, dental and vision insurance premiums were reduced from 100 percent to 40 percent to be consistent Commission precedent regarding premiums paid for health benefits. The Commission finds that this adjustment is an appropriate change to Employee Pensions and Benefits, and is reasonable, and should be accepted.

Purchased Water Expense. In Commission Staff's Report, Commission Staff recommended an increase to Rowan Water's Purchased Water Expense of \$119,910¹⁸ to reflect the normalization of Purchased Water Expense. The Commission finds that this adjustment is a known and measurable change to Purchased Water, and is reasonable, and should be accepted.

Purchased Power Expense. In Commission Staff's Report, Commission Staff recommended an increase to Rowan Water's Purchased Power Expense of \$1,019¹⁹ to reflect increased cost of Purchased Power Expense subsequent to the test year to match the 2022 Purchased Power invoices. The Commission finds that this adjustment is a known and measurable change to Purchased Power Expense, and is reasonable, and should be accepted.

Excess Water Loss. Rowan Water's test year water loss was 21.36 percent. Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for

¹⁷ Commission Staff's Report at 11–13, Adjustment F.

¹⁸ Commission Staff's Report at 13–14, Adjustment G.

¹⁹ Commission Staff's Report at 13–14, Adjustment H.

ratemaking purposes, unless the Commission finds an alternative level is reasonable. In the Commission Staff's Report, Commission Staff recommended a decrease to Rowan Water's Purchased Water Expense by \$96,044 and Purchased Power Expense by \$8,676²⁰ to reflect the costs associated with the production of water in excess of 15 percent water loss. The Commission finds that this adjustment is an appropriate change to Purchased Water Expense and Purchased Power Expense, is reasonable, and should be accepted.

Materials and Supplies. In the Commission Staff's Report, Commission Staff recommended an increase to Rowan Water's Materials and Supplies Expense of \$82,134²¹ to reflect increased cost of Materials and Supplies used subsequent to the test year to match the materials and supplies invoices. The Commission finds that this adjustment is a known and measurable change to Materials and Supplies, and is reasonable, and should be accepted.

Rate Case Expense. In the Commission Staff's Report, Commission Staff recommended an increase to Rowan Water's Contractual Services of \$10,920²² to reflect the three year amortization of rate case expenses related only to the preparation of the ARF rate case. However, the Commission finds that, since Rowan Water received a rate increase as part of Case No. 2023-00046,²³ this requested rate increase is duplicative and therefore, the rate case expense should not be approved for recovery by Rowan

²⁰ Commission Staff's Report at 15–16, Adjustment I.

²¹ Commission Staff's Report at 16, Adjustment J.

²² Commission Staff's Report at 16–17, Adjustment K.

²³ Case No. 2023-00046 *Electronic Application of Rowan Water, Inc. for a Certificate of Public Convenience and Necessity to Construct a System Improvements Project and an Order Approving a Change in Rates and Authorizing the Issuance of Securities Pursuant To KRS 278.023* (Ky. PSC Mar. 23, 2023).

Water. Therefore, the Commission finds that it is necessary to decrease the Revenue Requirements by an additional \$10,920.

Transportation Expense. In the Commission Staff's Report, Commission Staff recommended the Commission reject Rowan Water's proposed inclusion of \$50,400 in Transportation expense in order to acquire utility trucks; to reflect the possible violation(s) of KRS 278.300.²⁴ The Commission finds that the adjustment to not include the truck leases, is an appropriate change to Transportation Expense, and is reasonable, and should be accepted.

Depreciation. In the Commission Staff's Report, Commission Staff recommended a decrease to Rowan Water's Depreciation Expense of \$151,827²⁵ to reflect the adjustment of the useful life of capital assets to the midpoint of the National Association of Regulatory Utility Commissioners' (NARUC) depreciation study titled *Depreciation Practices for Small Water Utilities* (NARUC Study). The Commission finds that this adjustment is an appropriate adjustment to Depreciation Expense, and is reasonable, and should be accepted.

Taxes Other than Income – FICA. In Commission Staff's Report, Commission Staff recommended an increase to Rowan Water's Taxes Other than Income Expense by \$44,196 and a decrease to Income Tax expense.²⁶ The adjustment is to account for the increased contribution amount of pro forma wage adjustment multiplied by the FICA percentage rate of 7.65 percent and the reclassification of payroll taxes from Income tax

²⁴ Commission Staff's Report at 18, Adjustment L.

²⁵ Commission Staff's Report at 18–19, Adjustment M.

²⁶ Commission Staff's Report at 19–20, Adjustment N.

to Taxes other than Income. The Commission finds that this adjustment, is a known and measurable change to Taxes Other than Income and Income Tax, and is reasonable, and should be accepted.

In the Commission Staff's Report, Commission Staff failed to include the Taxes Other than Income amount of \$44,196 into the Revenue Requirement calculation. The omission has been corrected and the Taxes Other Than Income amount is properly recorded in the Commission's Revenue Requirement Calculation. Therefore, the Revenue Requirement is increased by \$44,196.

Based upon the Commission's findings discussed above, the following table summarizes Rowan Water's adjusted pro forma:

	Corrected Commission Staff Report Pro Forma	Commission Adjustments	Final Pro Forma
Total Operating Revenues	\$ 3,343,960	-	\$ 3,343,960
Utility Operating Expenses	3,448,071	\$ (10,920)	3,437,151
Utility Operating Income	(104,111)	10,920	(93,191)
Interest and Dividend Income	49,236	-	49,236
Income Available for Debt Service	<u>\$(54,875)</u>	<u>\$ 10,920</u>	<u>\$(43,955)</u>

OVERALL REVENUE REQUIREMENT

Based upon the Commission's findings and determinations herein, Rowan Water requires an increase in revenues from water sales of \$496,941, or 15.84 percent above pro forma present water rate revenues as shown below. This increase is required for Rowan Water to remain operationally and financially sound while providing adequate, efficient and reasonable service to its customers.

Pro Forma Operating Expenses	\$ 3,437,151
Plus: Average Annual Debt Principal and Interest	377,489
Additional Working Capital	<u>75,498</u>
Overall Revenue Requirement	3,890,137
Less: Other Operating Revenue	(206,656)
Interest Income	<u>(49,236)</u>
Revenue Required from Water Sales	3,634,245
Less: Normalized Revenue from Service	<u>(3,137,304)</u>
Required Revenue Increase	<u>\$ 496,941</u>
Percentage Increase	<u>15.84%</u>

SUMMARY

After consideration of the evidence of record and being otherwise sufficiently advised, the Commission finds that the recommendations contained in the Commission Staff's Report are supported by the evidence of record and are reasonable. However, in Case No. 2023-00046,²⁷ the Commission granted a Certificate of Public Convenience and Necessity (CPCN) for the installation of approximately 5,500 linear feet (LF) of 4-inch water main to replace an existing line and an additional 3,000 LF of 10-inch Polyvinyl chloride (PVC) water main on US 60 to replace the existing water main on the discharge side of a new pump station. In addition, the project includes new pump stations on KY 32 and US 60. The KY 32 pump station will provide additional pressure along Christy Creek. Most importantly, the Commission approved the loan agreement and grant from the Kentucky Rural Utilities Service (RUS) and administered by the United States Department of Agriculture Rural Development (RD), which required an approximate 29 percent increase in water rates.

²⁷ Case No. 2023-00046, Mar. 23, 2023 Order.

Although counsel has not requested to withdraw the application for a rate adjustment, the Commission does not believe that another rate increase is appropriate. The rate increase recommended as a result of this case was calculated to be less than that required by RD. As such, the Commission adopts only those charges recommended by Commission Staff that are nonrecurring and unaffected by the increase ordered in Case No. 2023-00046. While the rate case is being addressed in this Order, this case will remain open to address the alleged failure to comply with KRS 278.300 as well as a Commission Order. The Commission intends to address any remaining issues at a hearing scheduled on August 1, 2023, and Rowan Water shall continue to respond to any data requests issued in this matter. The hearing is scheduled on August 1, 2023, and Rowan Water shall continue to respond to any data requests issued in this matter.

IT IS THEREFORE ORDERED that:

1. This case will remain open for the continued investigation into whether Rowan Water, its individual directors, and its manager failed to comply with a Commission Order as well as possible violations of KRS 278.300.
2. The recommendations contained in the Commission Staff's Report are adopted as modified in this Order and incorporated by reference into this Order.
3. The water service rates proposed by Rowan Water denied.
4. The nonrecurring charges set forth in the Appendix to this Order are approved for services rendered by Rowan Water on and after the date of service of this Order.
5. Within 20 days of the date of service of this Order, Rowan Water shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff

sheets setting forth the rates and charges approved herein and their effective date, and stating that the charges were authorized by this Order.


6. Rowan Water shall use the midpoint of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed in the application and agreed upon by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation or retained earnings should be made to account for this change in the accounting estimate.

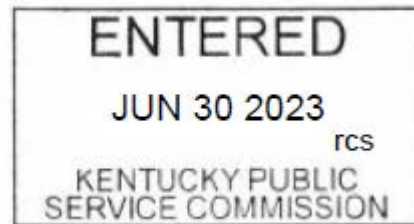
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PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2022-00252 DATED JUN 30 2023

The following rates and charges are prescribed for the customers in the area served by Rowan Water, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Nonrecurring Charges

Reconnection Charge	\$ 24.00
Collection of Delinquent Account	\$ 12.00
Meter Test Charge	\$ 30.00
Bad Check Charge	\$ 16.00
Meter Tampering Charge	Actual Cost

*L. Allyson Honaker
Honaker Law Office, PLLC
1795 Alysheba Way
Suite 6202
Lexington, KENTUCKY 40509

*Rowan Water, Inc.
1765 Christy Creek Road
Morehead, KY 40351

*Jerry Patrick
Rowan Water, Inc.
1765 Christy Creek Road
Morehead, KY 40351