

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	)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of February 6, 2023, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's September 30, 2022 Order, Rowan Water, Inc. (Rowan Water) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Rowan Water to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

Nancy Vunsh for

Linda C. Bridwell, PE  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED MAR 23 2023

cc: Parties of Record

Case No. 2022-00252

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COMMISSION STAFF'S REPORT ON ROWAN WATER, INC.

Rowan Water, Inc. (Rowan Water) is a non-profit water association created pursuant to the provisions of Chapter 273 of the Kentucky Revised Statutes and operates a water distribution system through which it provides retail water service to approximately 7,250 residential customers and 174 commercial customers located in Carter, Elliott, Fleming, Morgan, and Rowan counties, Kentucky.<sup>1</sup> On September 6, 2022,<sup>2</sup> Rowan Water filed an application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. Although not mentioned in the Reasons for the Application,<sup>3</sup> the application was ordered in the Commission's Order in Case 2021-00042, which required Rowan Water to file an application for an adjustment in base rates no later than

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<sup>1</sup> *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.

<sup>2</sup> 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 cured and the application was deemed filed on September 6, 2022.

<sup>3</sup> Application at 14.

May 19, 2022.<sup>4</sup> Rowan Water's only base rate increase was filed in Case No. 2002-00425, but the application was withdrawn and the case closed.<sup>5</sup> To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated September 30, 2022, amended on December 5, 2022 to allow for an informal conference, and amended again by Order dated February 6, 2023. Commission Staff and Rowan Water participated in an informal conference on December 12, 2022. Rowan Water responded to three<sup>6</sup> requests for information from Commission Staff. On February 16, 2023, the Commission expanded the original rate application case to include an investigation into leases that may have violated KRS 278.300 and the failure to comply with a Commission Order to file a rate case.<sup>7</sup>

### WATER LOSS

The Commission notes that in its 2021 Annual Report, Rowan Water reported a water loss of 21.36 percent.<sup>8</sup> Commission regulation 807 KAR 5:066 Section 6(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own

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<sup>4</sup> 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.

<sup>5</sup> Case No. 2002-00425, *An Adjustment of the Rates of Rowan Water, Inc.*, (Ky. PSC Jan 9, 2003).

<sup>6</sup> Rowan Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Nov. 4, 2022), Rowan Water's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Jan. 3, 2023), Rowan Water's Response to Commission Staff's Third Request for Information (Staff's Third Request) (filed Feb. 24, 2023).

<sup>7</sup> Order (Ky. PSC Feb. 16, 2023) at 1.

<sup>8</sup> 2021 Annual Report at 57.

operations. The annual cost to Rowan Water for water loss above the allowable 15 percent is \$104,720.<sup>9</sup> Rowan Water's total annual cost of water loss is \$351,701.<sup>10</sup>

### DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,<sup>11</sup> Rowan Water used the calendar year ended December 31, 2021, as the basis for its application. Using its pro forma test-year operations, Rowan Water determined that a revenue increase of \$693,869, or 21.95 percent over test-year normalized revenues of \$3,160,608, was warranted<sup>12</sup> as shown in the table below. The rates requested by Rowan Water would increase the monthly bill of a typical residential customer using 4,000 gallons per month by \$7.84 from \$35.76 to \$43.60, or approximately 21.92 percent.<sup>13</sup>

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	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 1,510,125	\$ 136,416	\$ 1,646,541
Multiplied by: Water Loss in Excess of 15 Percent	-6.36%	-6.36%	-6.36%
Total Costs due to Water Loss in Excess of 15 Percent	<u>\$ (96,044)</u>	<u>\$ (8,676)</u>	<u>\$ (104,720)</u>

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	Purchased Water	Purchased Power	Total
Pro Forma Expenses	\$ 1,510,125	\$ 136,416	\$ 1,646,541
Multiplied by: Total Water Loss	-21.36%	-21.36%	-21.36%
Total Annual Costs due to Water Loss	<u>\$ (322,563)</u>	<u>\$ (29,138)</u>	<u>\$ (351,701)</u>

<sup>11</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measureable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

<sup>12</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO Tab.

<sup>13</sup> Application, Customer Notice.

	<u>Rowan Water Inc.</u>
Operating Expenses	\$3,608,644
Add: Average Annual Debt Principal and Interest	375,957
Additional Working Capital	<u>75,191</u>
Overall Revenue Requirement	4,059,792
Less: Other Operating Revenue	(156,079)
Interest Income	<u>(49,236)</u>
Revenue Required from Water Sales	3,854,477
Less: Revenue from sales at Present Rates	<u>(3,160,608)</u>
Required Revenue Increase	<u>\$693,869</u>
Percentage Increase	<u>21.95%</u>

To determine the reasonableness of the rates requested by Rowan Water, Commission Staff performed a limited financial review of Rowan Water's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>14</sup> changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

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<sup>14</sup> Commission regulation 807 KAR 5:076, Section 9, sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *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 therefor; (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).

Commission Staff's findings are summarized in this report. William Foley reviewed the calculation of Rowan Water's Overall Revenue Requirement. Jason Green reviewed Rowan Water's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff determined that Rowan Water's required revenue from water sales is \$3,600,969 to meet the Overall Revenue Requirement of \$3,856,861 and that a \$463,665 revenue increase, or 14.78 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon the revenue requirement, Rowan Water proposed to increase all of its monthly retail water service rates evenly across the board. Rowan Water did not perform a cost of service study (COSS). Rowan Water stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.<sup>15</sup>

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Rowan Water and allocated the \$463,665 revenue increase across the board to Rowan Water's monthly retail water service rates.

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<sup>15</sup> Rowan Water's Response to Staff's First Request (filed Nov. 4, 2022), Item 5.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$3,600,969 Revenue Required from Water Sales, an approximate 14.52 percent increase. These rates will increase a typical residential customer's monthly water bill from \$30.83 to \$35.39, an increase of \$4.56, or approximately 14.79 percent.<sup>16</sup>

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>17</sup> Commission Staff reviewed Rowan Water's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours and their salaries and wages are an expense recovered in rates, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges to avoid double recovery of the same expense. Rowan Water provided the cost justification for the nonrecurring charges.<sup>18</sup> Commission Staff reviewed the cost justification information provided by Rowan Water and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

	<u>Nonrecurring Charge</u>	
	<u>Current Charge</u>	<u>Revised Charge</u>
Reconnection Charge	\$32.00	\$24.00
Collection of Delinquent Account	\$20.00	\$12.00

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<sup>16</sup> The typical residential customer uses approximately 3,397 gallons per month.

<sup>17</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>18</sup> Rowan District's Response to Staff's First Request (filed Nov. 4, 2022), Item 7.

Meter Test Charge	\$30.00	\$30.00
Bad Check Charge	\$20.00	\$16.00
Meter Tampering Charge	Actual Cost	Actual Cost

The adjustments to the Nonrecurring Charges results in a decrease in Other Operating Revenue of \$1,490 as shown below.

	Occurrences	Current Charge	Revised Charge	Adjustment	Pro Forma
Reconnection Charge	453	\$32.00	\$24.00	-\$3,624	\$10,872
Collection of Delinquent Acct	46	\$20.00	\$12.00	-\$368	\$552
Meter Test Charge	0	\$30.00	\$30.00	\$0	\$0
Bad Check Charge	106	\$20.00	\$16.00	-\$424	\$1,696
Meter Tampering Charge	75	Actual	Actual	\$0	\$13,683
Total				-\$4,416	
Pro Forma Test Year NRC Revenue					\$26,803
Less: Test Year NRC Revenue					\$31,219
Adjustment					<u><u>-\$4,416</u></u>

### PRO FORMA OPERATING STATEMENT

Rowan Water's Pro Forma Operating Statement for the test year ended December 31, 2021, as determined by Staff, appears below.

	<u>Test Year</u>	<u>Adjustment</u>	<u>Reference</u>	<u>Pro Forma</u>
Operating Revenues				
Retail Sales of Water	\$ 2,999,585	\$ (23,304)	(A)	\$ 2,976,281
Sales for Resale	161,023			161,023
Other Water Revenues				
Other Water Revenues	156,079	(4,416)	(B)	
Forfeited Discounts		54,993	(C)	206,656
	<u>3,316,687</u>	<u>27,273</u>		<u>3,343,960</u>
Total Operating Revenues				
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	513,998	48,189	(D)	562,187
Salaries and Wages - Officers	24,999			24,999
Employee Pensions and Benefits	309,950	29,165	(E)	
		(90,588)	(F)	248,527
Purchased Water	1,390,215	119,910	(G)	
		(96,044)	(I)	1,414,081
Purchased Power	135,397	1,019	(H)	
		(8,676)	(I)	127,740
Materials and Supplies	129,343	82,134	(J)	211,477
Contractual Services	43,427	10,920	(K)	54,347
Water Testing	15,480			15,480
Transportation Expenses	30,310	-	(L)	30,310
Insurance - Other	45,236			45,236
Bad Debt	42,952			42,952
Miscellaenous Expenses	138,681			138,681
	<u>2,819,988</u>	<u>96,029</u>		<u>2,916,017</u>
Depreciation Expense	639,685	(151,827)	(M)	487,858
Taxes Other Than Income		44,196	(N)	44,196
Income Taxes Expenses	38,698	(38,698)	(N)	-
	<u>3,498,371</u>	<u>(94,496)</u>		<u>3,403,875</u>
Total Operating Expenses				
Utility Operating Income(Loss)	<u>\$ (181,684)</u>	<u>\$ 121,769</u>		<u>\$ (59,915)</u>

(A) Billing Analysis. Rowan Water provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. In the 2021 Annual Report, total metered water sales revenue reported for the test year is

\$3,160,608.<sup>19</sup> Rowan Water provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be \$3,137,304. Subsequently, Commission Staff decreased test-year water sales revenue by \$23,304 to reflect the revenues from water rates generated by the billing analysis.

(B) Miscellaneous Service Revenues. As discussed above, the adjustments to the nonrecurring Charges result in a decrease in Other Water Revenues of \$4,416.

(C) Forfeited Discounts. During the test year, Rowan Water did not record any revenue received from Forfeited Discounts. However, Rowan Water provided information that indicated they actually recovered \$54,993 in Forfeited Discounts.<sup>20</sup> Therefore, Commission Staff increased test-year revenues from Forfeited Discounts by \$54,993.

(D) Salaries and Wages – Employees. In its application, Rowan Water proposed an adjustment to increase Salaries and Wages – Employees by \$44,678.<sup>21</sup> The adjustment was proposed to account for an increase in wages since 2021. Rowan Water provided its test-year, and current employee list,<sup>22</sup> employee hours worked,<sup>23</sup> and employee wages.<sup>24</sup> During the test year two employees left their positions, and three new employees were hired.<sup>25</sup> Commission Staff normalized the test year Salaries and Wages

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<sup>19</sup> 2021 Annual Report at 49, Total Metered Sales \$1,342,982.

<sup>20</sup> Rowan Water's Response to Staff's Second Request (filed Jan. 3, 2023), Item 8.

<sup>21</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, Adjustment B.

<sup>22</sup> Rowan Water's Response to Staff's First Request (filed Nov. 4, 2022), Item 1e.

<sup>23</sup> Rowan Water's Response to Staff's First Request (filed Nov. 4, 2022), Item 1d.

<sup>24</sup> Rowan Water's Response to Staff's First Request (filed Nov. 4, 2022), Item 1e.

<sup>25</sup> Rowan Water's Response to Staff's First Request (filed Nov. 4, 2022), Item 1e.

– Employees to 2,080 normal work hours;<sup>26</sup> in addition Rowan pays each field employee an additional \$25 per weekend in order to be on call during the weekends.<sup>27</sup> Therefore, based on the Normalized test year, Commission Staff determined Salaries and Wages – Employees to be \$562,187, and increased Salaries and Wages – Employees by \$48,189.

Position	Test Year Normalized Hours	Current Wage Rate	Normalized Standard Wages	On-Call Hours	On-Call Rate	On-Call Wages	Test Year Overtime Hours	Current Overtime Rates	Pro Forma Overtime Wages	Pro Forma Wages
Distribution Operator	2,080	\$ 27.31	\$ 56,805	54	\$ 25	\$ 1,350	151	\$ 40.97	\$ 6,186	\$ 64,341
Work Order Tech	2,080	16.00	33,280	54	25	1,350	102.5	24.00	2,460	37,090
Sec/ Customer Service	2,080	18.62	38,730				1.5	27.93	42	38,771
Maintenance	2,080	16.00	33,280	54	25	1,350	103	24.00	2,468	37,098
Equipment Operator	2,080	30.54	63,523	54	25	1,350	280.5	45.81	12,850	77,723
Maintenance Manager	2,080	26.23	54,558	54	25	1,350	278.5	39.35	10,958	66,866
Office Manager	2,080	Salary	67,350				2.5	48.57	-	75,000
Sec/ Customer Service	2,080	32.38	67,350				1	40.56	121	67,472
Meter Reader	2,080	27.04	56,243				1	40.56	41	56,284
	2,080	16.84	35,027	54	25	1,350	204.5	25.26	5,166	41,543
Total Pro Forma Salaries and Wages										562,187
Less: Test Year Expense										(513,998)
Increase(Decrease) to Test Year										<u>\$ 48,189</u>

(E) Employee Pensions and Benefits – Retirement. In its application, Rowan Water proposed two adjustments to decrease Employee Pensions and Benefits by a net of \$37,093. The first adjustment proposed is to reflect an increase in 401k contributions due the proposed increase to Salaries and Wages – Employees.<sup>28</sup> Rowan District does not participate in the County Employee Retirement System (CERS),<sup>29</sup> Rowan Water instead pays 7 percent of salaries into a 401k account.<sup>30</sup> However, Commission Staff determined a different adjustment to Employee Salaries and Wages – Employees in

<sup>26</sup> 40 hours worked per week x 52 weeks annually = 2,080 normal work hours.

<sup>27</sup> Rowan Water’s Response to Staff’s First Request (filed Nov. 4, 2022), Item 1e.

<sup>28</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO tab, adjustment C.

<sup>29</sup> Rowan Water’s Response to Staff’s First Request (filed Nov. 4, 2022), Item 1g.

<sup>30</sup> Rowan Water’s Response to Staff’s First Request (filed Nov. 4, 2022), Item 1f.

adjustment (D), Commission Staff calculated the retirement contribution amount of \$39,353 and determined an increase of \$29,165 is needed as shown below.

Pro Forma Salaries and Wages – Employees	\$562,187
Multiplied by: 401 Contribution rate	<u>7.00%</u>
Pro Forma Retirement Contribution amount	39,353
Less: Test Year Retirement contribution	<u>(10,188)<sup>31</sup></u>
Employee Pensions and Benefits Expense adjustment	<u><u>\$29,165</u></u>

(F) Employee Pensions and Benefits – Insurance. The second adjustment Rowan Water proposed to Employee Pensions and Benefits is in order to limit expenses associated with providing employees’ medical, dental, and vision insurance.<sup>32</sup> Rowan Water currently pays all full time employees 100 percent of a single health insurance plan but only current employee’s will receive 100 percent family coverage.<sup>33</sup> Rowan Water Employees also have a dental and vision policy.<sup>34</sup> Rowan currently pays four of its full time employees 100 percent of a single health insurance plan and five employees 100 percent of a family health insurance plan.<sup>35</sup> Seven employees receive dental and vision insurance for \$59.30 and \$23.72 per month, respectively; one receives the same benefits for \$29.45 and \$11.67 per month, respectively; and one does not receive dental or vision insurance.<sup>36</sup>

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<sup>31</sup> Rowan Water’s Response to Staff’s First Request (filed Nov. 4, 2022), Item 1b, account #60030 Retirement Expense.

<sup>32</sup> Application, Attachment 4, Adjustment I.

<sup>33</sup> Rowan Water’s Response to Staff’s First Request (filed Nov. 4, 2022), Item 1f.

<sup>34</sup> Rowan Water’s Response to Staff’s First Request (filed Nov. 4, 2022), Item 1f.

<sup>35</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, insurance tab.

<sup>36</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, insurance tab.

The Commission continues to place greater emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.<sup>37</sup>

Consistent with precedent<sup>38</sup> in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee's health insurance coverage, Commission Staff reduced Rowan Water's single health insurance premiums by 22 percent, and family health insurance premiums by 34 percent,<sup>39</sup> and dental insurance premiums by 60 percent<sup>40</sup> as shown in the calculation below. Accordingly, utilizing the most recent invoice amounts Commission Staff recalculated the proposed adjustment and decreased Employee Pensions and Benefits by a net of \$90,588 as shown below.

Type of Premium	Monthly Employer Insurance Contribution	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$10,806	22%	\$(2377)	\$ 8,429
Family Health Insurance	13,267	34%	(4,511)	8,756
Dental Insurance	445	60%	(267)	178
Vision Insurance	96	60%	(57)	39
Total Pro Forma Monthly Premium Time: 12 Months				17,401 12

<sup>37</sup> Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020); Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

<sup>38</sup> Case No. 2019-00053, *Electronic Application of Jackson Purchase Energy Corporation for a General Adjustment in Existing Rates*, (Ky. PSC June 20, 2019) at 8–12.

<sup>39</sup> Bureau of Labor Statistics, *Healthcare Benefits*, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>40</sup> Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Mar. 24, 2020). Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Mar. 5, 2021). Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

Total Annual Test Year Health, Dental, and Vision Insurance Expense	208,812
Less: Test Year Health and Dental Insurance	<u>(299,400)<sup>41</sup></u>
Employee Pension and Benefits Adjustment	<u><u>\$(90,588)</u></u>

(G) Purchased Water Expense. In its application, Rowan Water proposed an adjustment to increase purchased water expense by \$29,085 in reflect an increase from suppliers.<sup>42</sup> Subsequent to the test year, pursuant to the interlocal agreement, Morehead Utility Plant Board increased the cost of water Rowan Water pays for purchased water.<sup>43</sup> Rowan Water's purchased water expense includes a volumetric charge, a monthly contractual capital costs, and a monthly service charge.<sup>44</sup> Rowan Water provided the invoices for the test year purchased water,<sup>45</sup> the calendar year 2022 purchased water invoices,<sup>46</sup> as well as the current purchased water rates.<sup>47</sup> Commission Staff calculated the normalized purchased water expense and determined a total pro forma purchased water expense of \$1,510,125 as shown below, Rowan Water reported the test year

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<sup>41</sup>

<u>Account #</u>	<u>Account Name</u>	<u>Amount</u>
60030	Health Insurance	\$299,400

<sup>42</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO tab, adjustment D

<sup>43</sup> Rowan Water's Response to Staff's Second Request (filed Jan. 3, 2023), Item 2, Purchased\_Water\_Invoices.zip, Rowan Water- Purchased Water 2022 optimized, pdf, at 1.

<sup>44</sup> Rowan Water's Response to Staff's Second Request (filed Jan. 3, 2023), Item 2, Purchased\_Water\_Invoices.zip, Rowan Water- Purchased Water 2022 optimized, pdf, at 1.

<sup>45</sup> Rowan Water's Response to Staff's Second Request (filed Jan. 3, 2023), Item 2, Purchased\_Water\_Invoices.zip, Rowan Water- Purchased Water 2021 optimized, pdf.

<sup>46</sup> Rowan Water's Response to Staff's Second Request (filed Jan. 3, 2023), Item 2, Purchased\_Water\_Invoices.zip, Rowan Water- Purchased Water 2022 optimized, pdf.

<sup>47</sup> Rowan Water's Response to Staff's Second Request (filed Jan. 3, 2023), Item 2, Purchased\_Water\_Invoices.zip, Rowan Water- Purchased Water 2022 optimized, pdf, at 1.

purchased water expense to be \$1,390,215.<sup>48</sup> Therefore Commission Staff made an adjustment to increase Purchase Water Expense by \$119,910.

<u>Period</u>	<u>Gallons Purchased</u>	<u>Cost per Gallon</u>	<u>Total</u>
January 2021	57,113,000	\$.00168	\$95,836
February 2021	59,465,000	.00168	99,782
March 2021	59,097,000	.00168	99,165
April 2021	55,290,000	.00168	92,777
May 2021	58,216,000	.00168	97,686
June 2021	55,870,000	.00168	93,750
July 2021	55,477,000	.00168	93,090
August 2021	56,408,000	.00168	94,653
September 2021	54,808,000	.00168	91,969
October 2021	54,555,000	.00168	91,543
November 2021	55,364,000	.00168	92,901
December 2021	107,538,000	.00168	180,449
Pro Forma Volumetric Water Expense			1,223,601
Pro Forma Contractual Capital Costs			285,684 <sup>49</sup>
Pro Forma Service Charge			840 <sup>50</sup>
Total Pro Forma Purchased Water Expense			1,510,125
Less: Test Year Purchased Water			<u>(1,390,215)</u>
Pro Forma Purchased Water Adjustment			<u><u>\$119,910</u></u>

(H) Purchased Power Expense. In its application, Rowan Water proposed an adjustment to increase purchased water power by \$41,713 in reflect a rate increase from suppliers.<sup>51</sup> Rowan Water provided the invoices for the test year purchased water<sup>52</sup> and

<sup>48</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO tab.

<sup>49</sup> Monthly Contractual Capital Costs \$23,807 x 12 months = \$285,684.

<sup>50</sup> Monthly Service Charge \$70 x 12 months = \$840.

<sup>51</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO tab, adjustment E.

<sup>52</sup> Rowan Water's Response to Staff's Second Request (filed Jan. 3, 2023), Item 2, Purchased\_Water\_Invoices.zip, Rowan Water- Purchased power 2021 optimized, pdf.

invoices for the 2022 calendar year.<sup>53</sup> Commission Staff totaled the test year and 2022 Purchased Power invoices determined the expenses related to purchased power has increased since the test year. Commission Staff calculated a total pro forma purchased water expense of \$136,416, as shown below. Therefore, Commission Staff made an adjustment to increase Purchase Power Expense by \$1,019.

Period	2022 Purchased Power Expense
January 2022	\$13,738
February 2022	14,288
March 2022	13,407
April 2022	11,284
May 2022	9,711
June 2022	8,968
July 2022	9,630
August 2022	10,389
September 2022	10,470
October 2022	10,785
November 2022	10,569
December 2022	13,177
	<hr/>
2022 Total Purchased Power Expenses	136,416
Less: Test Year Purchased Power	<u>(135,397)<sup>54</sup></u>
Pro Forma Purchased Power Adjustment	<u>\$1,019</u>

(I) Expenses Attributable to Excess Water Loss. During 2021, Rowan Water reported water loss of 21.36 percent.<sup>55</sup> As mentioned earlier in the report, Commission regulations prohibit the recovery of expenses for water loss in excess of 15 percent. When Adjustments (G) and (H) is included in the Purchased Water and Purchased Power Calculation for expenses attributable to water loss, it results in a net decrease to

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<sup>53</sup> Rowan Water's Response to Staff's Second Request (filed Jan. 3, 2023), Item 2, Purchased\_Water\_Invoices.zip, Rowan Water- Purchased power 2022 optimized, pdf. Supplemental Response to Commission Staff's Second Request, Item 2, (filed Feb. 3, 2023).

<sup>54</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO tab.

<sup>55</sup> 2021 Annual Report at 58.

Purchased Water Expense of \$96,044 and Purchased Power Expense of \$8,676 for a total adjustment of \$104,720; as shown in the table below.

	<u>Purchased Water</u>	<u>Purchased Power</u>	<u>Total</u>
Pro Forma Expenses	\$1,510,125	\$ 136,416	\$1,646,539
Multiplied by: Water loss in excess of 15 percent	<u>6.36%</u>	<u>6.36%</u>	<u>6.36%</u>
Total Costs due to Excess Water Loss	<u>\$ 96,044</u>	<u>\$ 8,676</u>	<u>\$ 104,720</u>

(J) Materials and Supplies. In its application, Rowan Water proposed an adjustment to increase Materials and Supplies Expense by \$7,745 to reflect an increase in the most used supplies from suppliers.<sup>56</sup> Rowan Water provided the invoices for the 2022 calendar year for materials and Supplies.<sup>57</sup> Commission Staff totaled the test year and 2022 Materials and Supplies invoices determined the expenses related to Materials and Supplies has increased since the test year. Commission Staff calculated a total pro forma Materials and Supplies of \$211,477, as shown below. Therefore, Commission Staff made an adjustment to increase Materials and Supplies Expense by \$82,134.

(K) Rate Case Expense. In its application, Rowan Water proposed an adjustment to increase Contractual Services by \$12,444 to reflect the recovery of annual rate case expense.<sup>58</sup> Rowan Water supplied copies of the current expenses related to the rate case.<sup>59</sup> It is Commission precedent to amortize the cost of rate case assistance

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<sup>56</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO tab, adjustment F.

<sup>57</sup> Application, at 199, Information for Pro Forma Adjustment Materials and Supplies. Rowan Water's Response to Staff's Third Request (filed Feb. 17, 2023), Item 5.

<sup>58</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO tab, Adjustment G.

<sup>59</sup> Rowan Water's Notice of Filing Updated Rate Case Expense, (filed Mar. 8, 2023).

over three years in the absence of a different period requested by a utility.<sup>60</sup> Setting the amortization along the lines with the expected time between rate cases ensures regulatory assets are not over or under amortized. The Commission recommends utilities be subject to a rate and operations review every three years to ensure that revenue is adequate to properly operate the system over the long term.<sup>61</sup> Therefore, Commission Staff proposed to amortize the rate case expenses related only to the rate case over a three-year period. Therefore, Commission Staff increased Contractual Services by \$10,920 as shown below. Commission Staff makes no recommendation concerning the allowance of rate case expense related to the investigation in this proceeding.

	Currently Expensed
May 31, 2022	\$ 980
June 30, 2022	3,748
July 31, 2022	1,951
August 31, 2022	7,045
September 30, 2022	756
October 31, 2022	882
November 30, 2022	6,647
December 31, 2022	5,043
January 6, 2023	1,575
February 28, 2023	<u>4,135</u>
 Total	 32,760
Amortized over three years:	<u>3</u>
 Annual Rate Case Expense	 <u><u>10,920</u></u>

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<sup>60</sup> Case 2021-00475, *Electronic Application of Carroll County Water District #1 for an Adjustment of Rates Pursuant to 807 KAR 5:076* (Ky. PSC June 28, 2022), Order at 9–10.

<sup>61</sup> Case 2019-00041, *Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), Appendix L, at 25.

(L) Transportation Expense. In its application, Rowan Water proposed an adjustment to increase Transportation Expense by \$50,400 to reflect the inclusion for leases for trucks.<sup>62</sup> However, Rowan Water did not seek approval for the leases in order to acquire the trucks.<sup>63</sup> Rowan Water's alleged unauthorized leases are now a part of this case as an investigation into possible violations of KRS 278.300, as such, Commission Staff cannot include the expenses related to potentially unauthorized debt into the Revenue Requirement. Therefore, Commission Staff reduced the adjustment to Transportation Expense to \$0, leaving Pro Forma Transportation Expense as \$30,310.

(M) Depreciation Expense. In its application, Rowan Water reported Depreciation Expense of \$639,685, included in the Automotive Equipment asset group is ten Chevy trucks and truck/accessories.<sup>64</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled *Depreciation Practices for Small Water Utilities* (NARUC Study). When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Rowan Water included evidence that their radio read meters to have 20 year service lives.<sup>65</sup> Upon examination, Commission Staff disagrees with the remainder of Rowan District's service life methodology; Commission Staff calculated the

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<sup>62</sup> Application, SAO\_RR\_Ins.\_SalaryA.xlsx, SAO tab, Adjustment G.

<sup>63</sup> Rowan Waters Response to Staff's First Request (filed Jan. 3, 2023), Item 4a.

<sup>64</sup> Application, Depreciation, at 1.

<sup>65</sup> Application, Information for Depreciation on Meters, at 14.

depreciation expense of \$487,858 as shown below. Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. Therefore, Commission Staff decreased Rowan Water's Depreciation Expense by \$151,827 to \$487,858 as shown below.

<u>Asset Categories</u>	<u>Test Year Expense</u>	<u>Pro Forma Adjustment</u>	<u>Pro Forma Expense</u>
"Automotive" Equipment	\$70,391	\$ (18,518)	\$ 751,873
Building	25,824	(1,863)	23,961
Furniture & Fixtures	4,812	(2,552)	2,260
Pumping Station	28,090	1,739	29,829
Transmission and Distribution	28,090	(130,633)	379,935
Total	<u>\$639,685</u>	<u>\$ (151,827)</u>	<u>\$487,858</u>

(N) Taxes other Than Income – FICA. In its application, Rowan Water reported a Taxes other Than Income expense of \$38,698; this includes FICA/FUTA expenses of \$37,509 and Unemployment expenses of \$1,189.<sup>66</sup> The Taxes other than Income were mistakenly reported in Income Tax Expense and need to be reclassified. In addition, as explained in Adjustment (D) above, Commission Staff calculated pro forma Salaries and Wages – Employees of \$562,187. Therefore, Commission Staff calculated Payroll Taxes at \$43,007 and reallocated Unemployment Expenses to Taxes Other than Income. The net of the adjustments result in an increase to Taxes other Than Income of \$44,196 as shown below, and decreased Income tax expense by \$38,698.

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<sup>66</sup> Rowan Water's Response to Staff's First Request (filed Nov. 4, 2022), Item 1a, Response\_1a\_Attachment\_-\_2021\_Trial\_Balance\_Combined\_Detail\_Classified\_LS.xlsx.

Pro Forma Salaries and Wages – Employees	\$ 562,187
Pro Forma Salaries and Wages - Officers	<u>24,999</u>
Total Pro Forma Salaries and Wages	587,186
Multiply by: FICA Rate 7.65%	<u>7.65 %</u>
Pro Forma FICA Taxes	43,007
Plus Test year Unemployment Expense	<u>1,189</u>
Total Pro Forma Taxes Other than Income	<u><u>\$44,196</u></u>

### OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;<sup>67</sup> (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

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<sup>67</sup> The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

	Rowan Water Inc.	Commission Staff
Operating Expenses	\$ 3,608,644	\$ 3,403,875
Add: Average Annual Debt Principal and Interest	375,957	377,489
Additional Working Capital	75,191	75,498
Overall Revenue Requirement	4,059,792	3,856,861
Less: Other Operating Revenue	(156,079)	(206,656)
Interest Income	(49,236)	(49,236)
Revenue Requirement - Water Rates	3,854,477	3,600,969
Less: Normalized Revenue from Service	(3,160,608)	(3,137,304)
Required Revenue Increase	\$ 693,869	\$ 463,665
Percentage Increase	21.95%	14.78%

1. Average Annual Interest and Fees Payments. At the time of Commission Staff's review, Rowan Water had four outstanding United States Department of Agriculture, Rural Development (RD) promissory notes,<sup>68</sup> one Waterworks Revenue Bond,<sup>69</sup> and one outstanding Kentucky Rural Water Finance Corporation (KRWFC) Loan.<sup>70</sup> Rowan Water requested recovery of the average principal and interest on its indebtedness based on a five-year average of the annual interest and fee payments for

<sup>68</sup> Case No 2007-00385 *Application of Rowan Water for a CPCN to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Jan. 26, 2009). Case No. 2012-00189, *Application of Rowan Water, Inc. for a Certificate of Public Convenience and Necessity to Construct and Finance Improvement Projects and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Jul. 2, 2012). Case No. 2017-00250, *Application of the Rowan Water, Inc. for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (KY. PSC Aug. 3, 2017).

<sup>69</sup> Case No. 2019-00411 *Electronic Application of Rowan Water, Inc. for the Issuance of 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 KRS 278.023* (Ky. PSC Dec. 19, 2019).

<sup>70</sup> 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, 2021).

the years 2022 through 2026.<sup>71</sup> However, because the statutory date for a final Order to be issued in this proceeding is July 6, 2023, the 2022 payments will be recovered through Rowan Water’s existing rates. Therefore, only Debt Service payments that will be made after the new rates are placed into effect should be considered in determining Rowan Water’s Annual Interest and Fees expense. Commission Staff calculated the average annual principal and interest on a five-year average for the years 2023 through 2027 using only the leases that have been approved by the Commission in past cases. As shown below, Commission Staff calculated an Average Interest and Fees of \$377,489.

	2023	2024	2025	2026	2027	Total
<u>USDA #91-25</u>						
Principal	\$ 11,489	\$ 11,963	\$ 12,456	\$ 12,970	\$ 13,505	\$ 62,382
Interest	20,053	19,579	19,086	18,572	18,037	95,328
<u>USDA #91-27</u>						
Principal	17,640	18,125	18,623	19,133	19,662	93,183
Interest	22,161	21,676	21,178	20,665	20,139	105,819
<u>USDA #91-29</u>						
Principal	1,895	1,944	2,000	2,055	2,112	10,006
Interest	2,380	2,331	2,275	2,220	2,163	11,369
<u>USDA #91-30</u>						
Principal	18,416	18,900	19,396	19,905	20,428	97,045
Interest	26,577	26,093	25,597	25,088	24,565	127,920
<u>2020 Promissory Note</u>						
Principal	29,182	29,620	30,064	30,515	30,973	150,354
Interest	17,474	17,036	16,592	16,141	15,683	82,926
<u>KRWFC Bonds Series 2021 B</u>						
Principal	145,000	150,000	155,000	160,000	165,000	775,000
Interest	64,823	60,183	55,383	50,423	45,303	276,113
Total						\$ 1,887,444
Divide by: 5 years						<u>5</u>
Average Annual Interest Payment						<u>\$ 377,489</u>

2. Additional Working Capital. The Debt Service Coverage (DSC) method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district’s lenders that are

<sup>71</sup> Application, Copy\_of\_Debt\_Lead\_Schedule.xlsx. Application, SAO\_RR\_Ins.\_SalaryA.xlsx.

above its average annual debt payments. In its application, Rowan Water requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its loan payable to RD at the time of its application.

RD requires that Rowan Water charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission’s historic practice, Commission Staff agrees with Rowan Water. Therefore, as calculated below and shown in the table above, \$75,498 is included it in the revenue requirement.

Additional Working Capital	
Average Annual Principal and Interest Payments	\$377,489
Multiplied by: Debt Service Coverage Ratio	120%
Total Net Revenues Required	452,987
Less: Average Annual Principal and Interest Payments	(377,489)
Additional Working Capital	\$75,498

Signatures

/s/ William M. Foley

Prepared by: William Foley  
Revenue Requirement Branch  
Division of Financial Analysis

/s/ Jason Green

Prepared by: Jason Green  
Rate Design Branch  
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2022-00252 DATED MAR 23 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.

Monthly Water Rates

5/8-Inch Meter

First	2,000 Gallons	\$22.29	Minimum Bill
Next	3,000 Gallons	0.00938	Per Gallon
Next	10,000 Gallons	0.00875	Per Gallon
Next	10,000 Gallons	0.00855	Per Gallon
Next	10,000 Gallons	0.00811	Per Gallon
Next	15,000 Gallons	0.00774	Per Gallon
Over	50,000 Gallons	0.00748	Per Gallon

3/4-Inch Meter

First	4,000 Gallons	\$42.06	Minimum Bill
Next	1,000 Gallons	0.00938	Per Gallon
Next	10,000 Gallons	0.00875	Per Gallon
Next	10,000 Gallons	0.00855	Per Gallon
Next	10,000 Gallons	0.00811	Per Gallon
Next	15,000 Gallons	0.00774	Per Gallon
Over	50,000 Gallons	0.00748	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$51.42	Minimum Bill
Next	10,000 Gallons	0.00875	Per Gallon
Next	10,000 Gallons	0.00855	Per Gallon
Next	10,000 Gallons	0.00811	Per Gallon
Next	15,000 Gallons	0.00774	Per Gallon
Over	50,000 Gallons	0.00748	Per Gallon

1 1/2-Inch Meter

First	15,000 Gallons	\$138.86	Minimum Bill
Next	10,000 Gallons	0.00855	Per Gallon
Next	10,000 Gallons	0.00811	Per Gallon
Next	15,000 Gallons	0.00774	Per Gallon
Over	50,000 Gallons	0.00748	Per Gallon

2-Inch Meter

First	25,000 Gallons	\$224.39	Minimum Bill
Next	10,000 Gallons	0.00811	Per Gallon
Next	15,000 Gallons	0.00774	Per Gallon
Over	50,000 Gallons	0.00748	Per Gallon

Wholesale Rate

0.00243 Per Gallon

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