

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF ROWAN)	
WATER, INC. FOR THE ISSUANCE OF A)	
CERTIFICATE OF PUBLIC CONVENIENCE AND)	
NECESSITY TO CONSTRUCT A SYSTEM)	CASE NO.
IMPROVEMENTS PROJECT AND AN ORDER)	2019-00411
APPROVING A CHANGE IN RATES AND)	
AUTHORIZING THE ISSUANCE OF SECURITIES)	
PURSUANT KRS 278.023)	

ORDER

On November 18, 2019, Rowan Water, Inc., (Rowan Water) tendered an application for filing, pursuant to KRS 278.023 and 807 KAR 5:069, for a Certificate of Public Convenience and Necessity (CPCN) to construct a waterworks improvement project, approval of its plan to finance the proposed project, and an adjustment of its water rates. The Commission issued a deficiency letter on November 19, 2019, and Rowan Water cured the deficiency on November 20, 2019. Commission Staff issued discovery requests on November 26, 2019, and Rowan Water filed responses to the discovery on the same day. No person has sought intervention in this matter, and Rowan Water has not requested a hearing. The record for this case is complete, and the matter stands ready for decision.

Rowan Water, a non-profit water association organized under KRS Chapter 273, provides retail water service to approximately 7,142 water customers¹ in Carter, Elliott, Fleming, Morgan, and Rowan counties, Kentucky.²

The Commission noted in case No. 2017-00250 that in its 2015 Annual Report, Rowan Water reported a water loss of 21.4117 percent.³ Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes, a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Thus, the Commission cautioned Rowan Water that failure to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

In its 2018 Annual Report, Rowan Water reported an unaccounted-for water loss of 14.8949 percent, which is a significant reduction when compared to the 2015 Annual Report unaccounted-for water loss of 21.4117 percent. However, Rowan Water also reported a significant increase in water for system use of 219,353,000 gallons or 34.47 percent⁴ as compared to 176,276,000 gallons or 27.05 percent in the 2015 Annual Report for water for system use.⁵ Rowan Water's non-revenue water is 49.36 percent of its total

¹ *Annual Report of Rowan Water, Inc. for Water Operations for the Year Ended December 31, 2018*, at 49.

² *Id.* at 49.

³ 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), Order at 1.

⁴ *Annual Report of Rowan Water District, Water Utilities Report to the Kentucky Public Service Commission for the Year Ended December 31, 2018*, at 57.

⁵ *Annual Report of Rowan Water District, Water Utilities Report to the Kentucky Public Service Commission for the Year Ended December 31, 2015* at 61.

purchases of water from the Morehead utility Plant Board. This level of non-revenue water has a significant financial impact on the system and the customers of Rowan Water, and the Commission strongly encourages Rowan Water to pursue reasonable actions to reduce not only its water loss but the very large amount of water used for its own system.

Rowan Water proposes to replace approximately 6,000 of its 7,000 meters system-wide with radio read meters.⁶ Rowan Water asserts that in recent projects, it has installed approximately 1,000 radio read meters, and, in order to maintain consistency, the proposed project will use the same radio read meters that are currently in the system.⁷ Rowan Water contends that once the aging water meters are replaced, it should reduce water loss because the new meters are consistently accurate and because it requires fewer personnel to read the meters, which will allow Rowan Water to deploy more personnel to address water loss issues.⁸ Finally, Rowan Water states that due to the magnitude of the proposed project, it bid out the installation of the meters over a six-month period and will purchase the meters from project funds.⁹

The total estimated cost of the proposed project, including but not limited to construction, engineering, legal, administrative, land, appraisals, plus interest and contingencies, is approximately \$1,722,000.¹⁰ Rowan Water proposes to finance the cost

⁶ Rowan Water's Final Engineering Report at 7.

⁷ *Id.*

⁸ *Id.* at 3.

⁹ *Id.* at 7.

¹⁰ Application at 1–2; Rowan Water's Preliminary Engineering Report, Appendix B.

of the proposed project through the issuance of a \$1,222,000 promissory note maturing over a 40-year period, at an interest rate not to exceed 2.75 percent per annum; and a grant of \$500,000 from the United States Department of Agriculture (USDA) acting through Rural Development (RD).¹¹ Rowan Water has a commitment from RD to purchase the note.¹²

Under the proposed rates, the monthly bill of a retail customer with a 5/8" x 3/4" meter, who uses 3,500 gallons of water per month will increase from \$29.71 to \$31.68, or approximately 7 percent.¹³

Rowan Water has submitted its application pursuant to KRS 278.020 and KRS 278.023. Notwithstanding KRS 278.020(1), KRS 278.190, and KRS 278.300, KRS 278.023 requires the Commission to accept agreements between water districts and the USDA/RD regarding construction projects and to issue the necessary orders to implement the terms of such agreements within 30 days of satisfactory completion of the minimum filing requirements. KRS 278.023 does not grant the Commission any discretionary authority to modify or reject any portion of the agreement between the USDA/RD and Rowan Water or to defer the issuance of all necessary orders to implement the terms of that agreement. It further denies the Commission any authority to reject an application when the evidence of record indicates that a water utility's proposed facilities will result in the wasteful duplication of facilities, excessive investment, or its proposed rates are unfair, unjust, or unreasonable. The Commission, therefore, is not able to

¹¹ Application at 1–2.

¹² *Id.*

¹³ Exhibit D, Notice of Proposed Rate Change.

review this application using the same standards that are used for applications that are not filed pursuant to KRS 278.023.

IT IS THEREFORE ORDERED that:

1. Rowan Water is granted a CPCN for the proposed project as submitted.
2. Rowan Water's proposed plan of financing is approved.
3. Rowan Water is authorized to issue a note in the amount of \$1,222,000, maturing over a 40-year period with an interest rate not to exceed 2.75 percent per annum.
4. The proceeds from the note shall be used only for the purposes specified in Rowan Water's application.
5. Rowan Water is authorized to obtain a grant in the amount of \$500,000 from USDA/RD.
6. Rowan Water shall obtain approval from the Commission prior to performing any additional construction not expressly authorized by this Order.
7. Notwithstanding ordering paragraphs 4 and 6, if surplus funds remain after the approved construction has been completed, Rowan Water may use such surplus to construct additional plant facilities if USDA/RD approves of the use and the additional construction, and it will not result in a change in Rowan Water's rates for service. Rowan Water shall provide written notice of this additional construction in accordance with 807 KAR 5:069, Section 4.
8. Rowan Water shall file with the Commission documentation of the total costs of this project, including the cost of construction and all other capitalized costs (e.g., engineering, legal, and administrative), within 60 days of the date that construction is

substantially completed. Construction costs shall be classified into appropriate plant accounts in accordance with the Uniform System of Accounts for water utilities prescribed by the Commission.

9. Rowan Water shall file a copy of the “as-built” drawings and a certified statement from the engineer that the construction has been satisfactorily completed in accordance with the contract plans and specifications within 60 days of substantial completion of the construction certified herein.

10. Rowan Water shall require the construction to be inspected under the general supervision of a professional engineer with a Kentucky registration in civil or mechanical engineering to ensure that the construction work is done in accordance with the contract drawings and specifications and in conformance with the best practices of the construction trades involved in the project.

11. Rowan Water shall notify the Commission in writing one week prior to the actual start of construction and at the 50 percent completion point.

12. The rates set forth in the Appendix to this Order are approved for service that Rowan Water renders on and after the date of this Order.

13. Within 20 days of the date of entry of this Order, Rowan Water shall file revised tariff sheets with the Commission, using the Commission’s electronic Tariff Filing System, containing the rates set forth in the Appendix to this Order.

14. Any documents filed in the future pursuant to ordering paragraphs 6, 7, 8, 9, and 11 of this Order shall reference this case number and shall be retained in the post-case correspondence file.

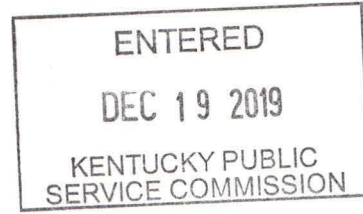
15. The Executive Director is delegated authority to grant reasonable extensions of time for filing of any documents required by this Order upon Rowan Water's showing of good cause for such extension.

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

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing, herein approved.

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By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2019-00411 DATED **DEC 19 2019**

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 x 3/4 -Inch Meter

First	2,000 gallons	\$19.42	Minimum Bill
Next	3,000 gallons	8.17	per 1,000 gallons
Next	10,000 gallons	7.62	per 1,000 gallons
Next	10,000 gallons	7.45	per 1,000 gallons
Next	10,000 gallons	7.07	per 1,000 gallons
Next	15,000 gallons	6.74	per 1,000 gallons
Over	50,000 gallons	6.52	per 1,000 gallons

3/4-Inch Meter

First	4,000 gallons	\$36.64	Minimum Bill
Next	1,000 gallons	8.17	per 1,000 gallons
Next	10,000 gallons	7.62	per 1,000 gallons
Next	10,000 gallons	7.45	per 1,000 gallons
Next	10,000 gallons	7.07	per 1,000 gallons
Next	15,000 gallons	6.74	per 1,000 gallons
Over	50,000 gallons	6.52	per 1,000 gallons

1-Inch Meter

First	5,000 gallons	\$44.80	Minimum Bill
Next	10,000 gallons	7.62	per 1,000 gallons
Next	10,000 gallons	7.45	per 1,000 gallons
Next	10,000 gallons	7.07	per 1,000 gallons
Next	15,000 gallons	6.74	per 1,000 gallons
Over	50,000 gallons	6.52	per 1,000 gallons

1 1/2-Inch Meter

First	15,000 gallons	\$120.98	Minimum Bill
Next	10,000 gallons	7.45	per 1,000 gallons
Next	10,000 gallons	7.07	per 1,000 gallons
Next	15,000 gallons	6.74	per 1,000 gallons
Over	50,000 gallons	6.52	per 1,000 gallons

2-Inch Meter

First	25,000 gallons	\$195.50	Minimum Bill
Next	10,000 gallons	7.07	per 1,000 gallons
Next	15,000 gallons	6.74	per 1,000 gallons
Over	50,000 gallons	6.52	per 1,000 gallons
Wholesale Rate		\$ 2.12	per 1,000 gallons

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