

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC PURCHASED WATER	)	CASE NO.
ADJUSTMENT FILING OF ROWAN WATER, INC.	)	2024-00301

ORDER

On September 18, 2024, Rowan Water, Inc. (Rowan Water) applied for approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 and 807 KAR 5:068.

LEGAL STANDARD

In accordance with KRS 278.012, when a wholesale supplier selling water to a water district increases its rates, the water district has the authority to increase its rate commensurate with the wholesale supplier. The water district must file, within the statutory and regulatory deadlines, a copy of the notice from the wholesale supplier showing the increase in the wholesale rate, and a statement of the volume of purchased water used to calculate the rate adjustment. The Commission shall approve the filing by order after the above documents are filed.

DISCUSSION AND FINDINGS

Rowan Water purchases all of its water supply from Morehead Utility Plant Board (Morehead). Morehead notified Rowan Water that its wholesale rate would increase from

\$1.626 per 1,000 gallons to \$2.284 per 1,000 gallons, effective July 1, 2024.<sup>1</sup> Rowan Water proposes to increase the water rates to its customers effective November 1, 2024, to reflect the increased cost of purchased water from Morehead. Rowan Water provided a schedule of Current and Proposed Rates in its application,<sup>2</sup> in which a scrivener error was found in the 5/8-inch meter, 'Next 15,000 gallons' tier of 'Current Rates'. Rowan Water listed the 'Next 15,000 gallons' for the 5/8-inch meter size in the 'Current Rates' column as \$0.00860 per gallon, instead of the correct rate of \$0.00869 per gallon as listed in the current tariff. The error flowed through to the 'Proposed Rates' column as well. The rates as listed in Appendix B of this Order are the correctly calculated rates.

#### Unaccounted-for Water Loss

Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of the total water produced and purchased, excluding water consumed by a utility in its own operations. In its 2021 Annual Report filed with the Commission, Rowan Water reported a water loss of 21.3638 percent.<sup>3</sup> In its 2022 Annual Report filed with the Commission, Rowan Water reported a water loss of 24.1245 percent.<sup>4</sup> In its 2023 Annual Report filed

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<sup>1</sup> Case No. 2024-00193, *Electronic Tariff Filing of Morehead Utility Plant Board to Revise its Wholesale Water Rates to and Enter into Revised Water Purchase Agreements with Bath County Water District and Rowan Water, Inc.* (Ky. PSC June 28, 2024).

<sup>2</sup> Application, Exhibit C.

<sup>3</sup> *Annual Report of Rowan Water to the Public Service Commission for the Year Ended December 31, 2021* (2021 Annual Report) at 57.

<sup>4</sup> *Annual Report of Rowan Water to the Public Service Commission for the Year Ended December 31, 2022* (2022 Annual Report) at 57.

with the Commission, Rowan Water reported a water loss of 21.8533 percent.<sup>5</sup> Rowan Water's three-year water loss average is 22.4472%.<sup>6</sup> Total water cost at new wholesale rate of Rowan Water is \$1,641,908.22.<sup>7</sup> The approximate cost of Rowan Water's total water loss using a three-year average is \$368,562.42.<sup>8</sup>

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

#### System Water Use- Flushing

In its 2021 Annual Report filed with the Commission, Rowan Water reported a water use for system flushing of 143,607,000 gallons or approximately 21.10 percent of the total water purchased.<sup>9</sup> In its 2022 Annual Report filed with the Commission, Rowan Water reported a water use for system flushing of 155,047,000 gallons or approximately 22.82 percent of the total water purchased.<sup>10</sup> In its 2023 Annual Report filed with the

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<sup>5</sup> *Annual Report of Rowan Water to the Public Service Commission for the Year Ended December 31, 2023* (2023 Annual Report) at 57.

<sup>6</sup>  $21.3638\% + 24.1245\% + 21.8533\% = 67.3416\% / 3 \text{ years} = 22.4472\%$ .

<sup>7</sup> Total gallons of water purchased from Morehead during the updated period ended August 31, 2024, of 718,874,000 divided by 1,000 times Morehead's new wholesale of \$2.284 rate equals total water cost at new wholesale rate of \$1,641,908.22.

<sup>8</sup> Total water cost at new wholesale rate of \$1,641,908.22 times 22.4472% water loss equals \$368,562.42.

<sup>9</sup> 2021 Annual Report at 57.

<sup>10</sup> 2022 Annual Report at 57.

Commission, Rowan Water reported a water use for system flushing of 166,144,000 gallons or approximately 24.18 percent of the total water purchased.<sup>11</sup> Rowan Water's three-year water use for system flushing average is 22.70 percent.<sup>12</sup>

The Commission notes that Rowan Water's system water use is extremely high. While this water use is due mainly to system flushing, the Commission strongly encourages Rowan Water to pursue reasonable actions to identify methods to reduce its system flushing water use. Failure by Rowan Water to make significant progress towards reducing system water use may cause the Commission to pursue additional action with the utility.

### Financial Condition and Rates

Based on a review of Commission records, Rowan Water's last rate adjustment was pursuant to 807 KAR 5:076, authorizing an alternative rate application, in Case No. 2022-00252<sup>13</sup> which issued new rates on June 30, 2023, and reflected an increase of \$496,941, or 15.84 percent.<sup>14</sup> Approximately 50 percent of the rate increase was realized in 2023, resulting in positive rate-based income for the district. In Case No. 2019-00041, the Commission made a key recommendation that water districts should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on

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<sup>11</sup> 2023 Annual Report at 57.

<sup>12</sup>  $21.10\% + 22.82\% + 24.18\% = 68.10\% / 3 \text{ years} = 22.70\%$ .

<sup>13</sup> Case No. 2022-00252, *Electronic Application of Rowan Water, Inc. for an Alternative Rate Adjustment and an Investigation into Rowan Water, Inc. and its Individual Directors, Larry Johnson, Randall Cox, Mike Collins, Enoch Blair, and its Manager, Jerry Patrick, for Allegedly Failing to Comply with KRS 278.300 and a Commission Order.* (Ky. PSC June 30, 2023), Order, utilized 2021 as the test year.

<sup>14</sup> Case No. 2022-00252, June 30, 2023 Order.

a more frequent basis.<sup>15</sup> Rowan Water should continue to review its finances for rate sufficiency and file an application for a rate adjustment as appropriate.

#### Purchased Water Adjustment Factor

In its application, Rowan Water proposed a purchased water adjustment factor of \$1.38 per 1,000 gallons. During the 12 months ended August 31, 2024, Rowan Water purchased 781,874,000 gallons of water from Morehead and sold 343,156,300 gallons of water to its customers. The increase in the cost of purchased water from Morehead is \$473,019.10, resulting in a purchased water adjustment factor of \$1.38 per 1,000 gallons.

The Commission finds that the purchased water adjustment factor of \$1.38 per 1,000 gallons, as calculated in Appendix A, and the rates set forth in Appendix B to this Order are fair, just and reasonable and should be approved for water service rendered by Rowan Water on and after November 1, 2024. The rates are supported by evidence of the increase in rates from Rowan Water's wholesale water supplier and the volume of purchased water used to calculate the rates in accordance with KRS 278.012.

IT IS THEREFORE ORDERED that:

1. The purchased water adjustment factor of \$1.38 per 1,000 gallons is approved.
2. The rates proposed by Rowan Water are denied.
3. The rates as set forth in Appendix B to this Order are approved for water service rendered by Rowan Water on and after November 1, 2024.

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<sup>15</sup> See Case No. 2019-00041, *Electronic Investigation into Excessive Water Loss by Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.


4. Within 20 days of the date of service of this Order, Rowan Water shall file with the Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets showing the rates approved herein.

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

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PUBLIC SERVICE COMMISSION

\_\_\_\_\_  
Chairman 

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Commissioner  
  
\_\_\_\_\_  
Commissioner

Commissioner John Stacy did not participate in the deliberations or decision concerning this case.

ENTERED  
OCT 18 2024 bsb  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

 *for*  
\_\_\_\_\_  
Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00301 DATED OCT 18 2024

	Base Rate	New Rate	Change
<u>Morehead</u>			
Purchases in Gallons	718,874,000	718,874,000	
Rate per 1,000 Gallons	<u>\$1.626/1,000</u>	<u>\$2.284/1,000</u>	
Subtotal	\$1,168,889.12	\$1,641,908.22	\$473,019.10
Total	\$1,168,889.12	\$1,641,908.22	
Increased water cost			\$473,019.10
Increased water cost		\$473,019.10	
Divided by Gallons sold/1,000		<u>343,156,300</u>	
Purchased water adjustment factor		\$1.38	per 1,000 Gallons
		or	\$0.00138 per Gallon



APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2024-00301 DATED OCT 18 2024

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	27.81	Minimum Bill
Next	3,000 Gallons	0.01192	Per Gallon
Next	10,000 Gallons	0.01121	Per Gallon
Next	10,000 Gallons	0.01099	Per Gallon
Next	10,000 Gallons	0.01050	Per Gallon
Next	15,000 Gallons	0.01007	Per Gallon
Over	50,000 Gallons	0.00979	Per Gallon

3/4-Inch Meter

First	4,000 Gallons	52.79	Minimum Bill
Next	1,000 Gallons	0.01192	Per Gallon
Next	10,000 Gallons	0.01121	Per Gallon
Next	10,000 Gallons	0.01099	Per Gallon
Next	10,000 Gallons	0.01050	Per Gallon
Next	15,000 Gallons	0.01007	Per Gallon
Over	50,000 Gallons	0.00979	Per Gallon

1-Inch Meter

First	5,000 Gallons	64.69	Minimum Bill
Next	10,000 Gallons	0.01121	Per Gallon
Next	10,000 Gallons	0.01099	Per Gallon
Next	10,000 Gallons	0.01050	Per Gallon
Next	15,000 Gallons	0.01007	Per Gallon
Over	50,000 Gallons	0.00979	Per Gallon

1 1/2-Inch Meter

First	15,000 Gallons	176.76	Minimum Bill
Next	10,000 Gallons	0.01099	Per Gallon
Next	10,000 Gallons	0.01050	Per Gallon
Next	15,000 Gallons	0.01007	Per Gallon
Over	50,000 Gallons	0.00979	Per Gallon

2-Inch Meter

First	25,000 Gallons	286.70	Minimum Bill
Next	10,000 Gallons	0.01050	Per Gallon
Next	15,000 Gallons	0.01007	Per Gallon
Over	50,000 Gallons	0.00979	Per Gallon

Wholesale Rate

Fleming Co. Water Association	0.00411	Per Gallon
City of Olive Hill	0.00411	Per Gallon

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

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

\*Peggy Stinson  
Rowan Water, Inc.  
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