

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PURCHASED WATER ADJUSTMENT FILING OF)	CASE NO.
ROWAN WATER, INC.)	2025-00308

ORDER

On September 11, 2025, Rowan Water, Inc. (Rowan Water), a water association formed pursuant to KRS Chapter 273, tendered an application requesting approval to adjust its rates pursuant to the purchased water adjustment procedure set forth in KRS 278.012 and 807 KAR 5:068. On September 12, 2025, the Commission notified Rowan Water that its application was rejected for certain filing deficiencies. On September 16, 2025, Rowan Water submitted further documentation to correct the filing deficiencies, and the application was deemed filed as of September 16, 2025. Rowan Water also responded to one request for information from Commission Staff.¹

LEGAL STANDARD

In accordance with KRS 278.012, when a wholesale supplier selling water to a water association increases its rates, the water association has the authority to increase its rate commensurate with the wholesale supplier. The water association 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

¹ Rowan Water's Response to Commission Staff's First Request for Information (Staff's First Request) (filed Oct. 6, 2025).

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 water from Morehead Utility Plant Board (Morehead). Morehead notified Rowan Water that its wholesale rate would increase by \$1.326, from \$2.284 per 1,000 gallons to \$3.61 per 1,000 gallons, effective July 1, 2025.² Rowan Water proposes to increase the water rates to its customers effective November 1, 2025, to reflect the increased cost of purchased water from Morehead.

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 2024 Annual Report filed with the Commission, Rowan Water reported a water loss of 20.8365 percent.³ In its 2023 Annual Report filed with the Commission, Rowan Water reported a water loss of 21.8533 percent.⁴ In its 2022 Annual Report filed with the Commission, Rowan Water reported a water loss of 24.1245 percent.⁵ Rowan

² 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 Feb. 18, 2025).

³ *Annual Report of Rowan Water to the Public Service Commission for the Year Ended December 31, 2024* at 57.

⁴ *Annual Report of Rowan Water to the Public Service Commission for the Year Ended December 31, 2023* at 57.

⁵ *Annual Report of Rowan Water to the Public Service Commission for the Year Ended December 31, 2022* at 57.

Water's three-year water loss average is 22.2714 percent.⁶ The approximate cost of Rowan Water's total water loss using a three-year average is \$600,759.02.⁷

Based upon a review of the annual and audit reports filed with the Commission, Rowan Water's 2017 through 2024 annual reports reflect elevated non-revenue water levels and significant operational usage (i.e., flushing) with a 30.1 percent average system use percent. The elevated non-revenue and operational uses do not preempt a KRS 278.012 pass-through increase but may affect the water association's overall financial condition and future rate increases. Rowan Water's responses to informational requests in this Case indicate that several occurrences in the past 12 months required more system flushing than usual:

- Extreme cold in January.⁸
- Two new pump stations were placed into service.⁹
- Installation of new lines.¹⁰
- Replaced a creek crossings following high water.¹¹
- Very dry summer weather.¹²

⁶ $20.8365\% + 21.8533\% + 24.1245\% = 66.8143\%$ / 3 years = 22.2714%.

⁷ Total water cost at new wholesale rate of \$2,697,446.15 times 22.2714% water loss equals \$600,759.02.

⁸ Rowan Water's Response to Staff's First Request, Item 2.b.

⁹ Rowan Water's Response to Staff's First Request, Item 2.b.

¹⁰ Rowan Water's Response to Staff's First Request, Item 2.b.

¹¹ Rowan Water's Response to Staff's First Request, Item 2.b.

¹² Rowan Water's Response to Staff's First Request, Item 2.b.

Rowan Water also corrected an error in the customer count in its 2024 Annual Report.¹³ Additionally, Rowan Water stated that it has been experiencing greater than 20% line loss in the past few years but that it is diligently working to reduce the line loss.¹⁴

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold. The Commission encourages Rowan Water to continue to pursue reasonable actions to reduce its unaccounted-for water loss.

Financial Condition and Rates

Based on a review of Commission records, Rowan Water last filed for an alternative rate adjustment in Case No. 2022-00252.¹⁵ In that case, the Commission authorized an increase to Rowan Water's rates of \$496,941 or 15.84 percent.¹⁶ Since then, Rowan Water's only rate increases have occurred as a condition for federal financing of a construction project in accordance with KRS 278.023 or through Purchased Water Adjustments. In accordance with the provisions of KRS 278.023, the Commission's review of such applications is a limited review of a utility's total financial stability and operational viability.

In Case No. 2019-00041, the Commission discussed the problems that can occur when utilities intentionally avoid a review of their financial records by relying solely on

¹³ Rowan Water's Response to Staff's First Request, Item 3_Rowan_Water_Customer_Count.pdf. Rowan Water submitted an attachment showing that the year-end customer count reported in its 2024 Annual Report was listed as 6,995 total customers instead of the correct amount of 7,494 customers. The increase in customer count corresponded with the increase in gallons sold.

¹⁴ Rowan Water's Response to Staff's First Request, Item 1.b.

¹⁵ See Case No. 2022-00252, *Application of Rowan Water Inc for an Alternative Rate Adjustment* (Ky. PSC June 30, 2023), final Order.

¹⁶ See Case No. 2022-00252, June 30, 2023 final Order.

financing cases to increase rates.¹⁷ A key recommendation from that proceeding was that water associations should monitor the sufficiency of their base rates closely and, in general, apply for base rate adjustments on a more frequent basis.¹⁸

Based upon a review of the annual and audit reports filed with the Commission, Rowan Water's rate based income, or adjusted net income minus principal payments, was positive in 2020 and 2024 but was negative from 2021 to 2023. Approximately 50 percent of the rate increase from Case No. 2022-00252 was recognized in 2023 with the other 50 percent being recognized in 2024. Cash basis income, or rate based income plus depreciation was positive in each year of the study. A chart summarizing rate based and cash basis income is presented below.

¹⁷ See Case No. 2019-00041, *Electronic Investigation Into Excessive Water Loss By Kentucky's Jurisdictional Water Utilities* (Ky. PSC Nov. 22, 2019), final Order.

¹⁸ See Case No. 2019-00041, Nov. 22, 2019 final Order.

Description / Year	Audited 2020	Audited 2021	Audited 2022	Audited 2023	Audited 2024
<i>Adjusted Net Income</i>					
Net Income / (Loss) before Contributions	\$ 65,892	\$ (344,878)	\$ (305,492)	\$ 142,923	\$ 1,838,469
Other Non-recurring Items ()	267,102	29,233	13,832	(156,596)	(1,385,214)
Adjusted Net Income / (Loss) before Contributions	\$ 332,794	\$ (315,445)	\$ (291,660)	\$ (13,673)	\$ 253,255
Subtract: Principal Payments ()	(112,305)	(211,742)	(235,744)	(276,035)	(230,551)
Rate Based Income	\$ 220,489	\$ (527,187)	\$ (527,404)	\$ (289,708)	\$ 22,704
Add: Depreciation Expense	576,277	639,885	637,764	638,483	652,497
Cash Basis Income	\$ 796,766	\$ 112,498	\$ 110,360	\$ 348,775	\$ 675,201
Cash Basis Income as Percent of Depreciation	138%	18%	17%	55%	103%
 Capital Spending	 \$ 1,905,518	 \$ 117,185	 \$ 141,742	 \$ 97,044	 \$ 2,494,391
 <i>Cash and Investments</i>					
Unrestricted Cash and Investments	\$ 470,964	\$ 580,359	\$ 421,884	\$ 712,502	\$ 849,877
Restricted Funds	304,175	227,913	235,896	265,293	462,323
Adjusted Cash Balances	775,139	808,272	657,580	967,795	1,312,200
 Net Increase (Decrease) in Cash	 \$ (34,324)	 \$ 33,133	 \$ (150,892)	 \$ 310,215	 \$ 344,405
 <i>Selected Statistical Information (PSC Annual Reports)</i>					
Customer Count	7,384	7,426	7,459	7,546	6,996
Gallons Purchased	673,166	680,575	679,421	667,135	733,611
Gallons Sold	341,607	327,645	325,788	328,969	339,982
Gallons Used for Internal Use	160,371	207,533	189,726	208,004	240,770
Water Loss Gallons	171,188	145,397	163,907	150,162	152,859
System Use Percentage	23.8234%	30.4938%	27.9247%	30.2712%	32.8198%
Water Loss Percentage	25.4303%	21.3638%	24.1245%	21.8533%	20.8365%
 Gallons Sold Per Customer Per Month	 3,855	 3,677	 3,640	 3,633	 4,050
 Revenues from Sale of Water Sales	 \$ 3,100,581	 \$ 3,180,808	 \$ 3,188,619	 \$ 3,798,419	 \$ 4,227,601
Purchased Water Expense	1,283,767	1,390,215	1,316,560	1,547,097	1,578,072
Purchased Water Expense Over 15% Water Loss	133,900	88,471	120,130	106,028	92,104
Water Loss Expense Over 15% as Percentage of Water Revenue	4.32%	2.80%	3.77%	2.79%	2.18%

The Commission finds that Rowan Water should monitor its operating performance annually and file future rate cases no less than every three to five years, depending on operating performance, to ensure that its revenue is sufficient to support adequate and reliable service.

Purchased Water Adjustment Factor

In its application, Rowan Water proposed a purchased water adjustment factor of \$2.93 per 1,000 gallons. During the 12 months ended July 31, 2025, Rowan Water purchased 747,215,000 gallons of water from Morehead and sold 338,885,200 gallons of water to its customers. The increase in the cost of purchased water from Morehead is \$990,807.09, resulting in a purchased water adjustment factor of \$2.93 per 1,000 gallons.

The purchased water adjustment factor of \$2.93 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, 2025, because 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 \$2.93 per 1,000 gallons is approved.
2. The rates proposed by Rowan Water are approved.
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, 2025.
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.

PUBLIC SERVICE COMMISSION


Chairman


Commissioner


Commissioner

ATTEST:

 
Executive Director



Case No. 2025-00308

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00308 DATED OCT 15 2025

	Base Rate	New Rate	Change
<u>Morehead</u>			
Purchases in Gallons	747,215,000	747,215,000	
Rate per 1,000 Gallons	<u>\$2.284/1,000</u>	<u>\$3.61/1,000</u>	
Subtotal	\$1,706,639.06	\$2,697,446.15	\$990,807.09
Increased water cost			\$990,807.09
Increased water cost		\$990,807.09	
Divided by Gallons sold/1,000		<u>338,885,200</u>	
Purchased water adjustment factor		\$2.9237	per 1,000 Gallons
		or \$ 0.00293	per Gallon

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2025-00308 DATED OCT 15 2025

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 Rates

5/8 X 3/4-Inch Meter

First	2,000 Gallons	\$33.67	Minimum Bill
Next	3,000 Gallons	0.01485	Per Gallon
Next	10,000 Gallons	0.01414	Per Gallon
Next	10,000 Gallons	0.01392	Per Gallon
Next	10,000 Gallons	0.01343	Per Gallon
Next	15,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01272	Per Gallon

3/4-Inch Meter

First	4,000 Gallons	\$64.51	Minimum Bill
Next	1,000 Gallons	0.01485	Per Gallon
Next	10,000 Gallons	0.01414	Per Gallon
Next	10,000 Gallons	0.01392	Per Gallon
Next	10,000 Gallons	0.01343	Per Gallon
Next	15,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01272	Per Gallon

1-Inch Meter

First	5,000 Gallons	\$79.34	Minimum Bill
Next	10,000 Gallons	0.01414	Per Gallon
Next	10,000 Gallons	0.01392	Per Gallon
Next	10,000 Gallons	0.01343	Per Gallon
Next	15,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01272	Per Gallon

1 1/2-Inch Meter

First	15,000 Gallons	\$220.71	Minimum Bill
Next	10,000 Gallons	0.01392	Per Gallon
Next	10,000 Gallons	0.01343	Per Gallon
Next	15,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01272	Per Gallon

2-Inch Meter

First	25,000 Gallons	\$359.95	Minimum Bill
Next	10,000 Gallons	0.01343	Per Gallon
Next	15,000 Gallons	0.01300	Per Gallon
Over	50,000 Gallons	0.01272	Per Gallon

Wholesale Rate

Fleming County Water	0.00704	Per Gallon
City of Olive Hill	0.00704	Per Gallon

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