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02/05/2009

Jeff R. Derouen  
Executive Director  
Kentucky Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602-0615

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PUBLIC SERVICE  
COMMISSION

Dear Mr. Derouen,

In response to the concerns expressed by the Commission in its December 8, 2008 Order in Case 2006-00191 that Henry District's general rates are overdue for evaluation, we have arranged with an experienced independent financial consultant to prepare and submit to the Commission a cost-of service rate analysis as soon as possible.

The Order provides a six month grace period for the HCWD Offsetting Improvement Charge to allow time for the District "to develop and file an alternative mechanism that comprehensively addresses the allocation of costs associated with customer growth." The order suggests that, given the specifics of the District's circumstances, the use of the equity SDC methodology "would more effectively achieve Henry District's objective of parity between current and new customers without the problems presented by the Offsetting Improvement Charge."

The District is now considering the submittal of an equity charge, which can be made part of our rate case submittal if that is the PSC's preference. We request clarification and guidance from the Commission concerning its suggestion that we use the equity SDC approach. Since 1999, the District had spent a great deal of time and money on an impact fee which has recently been found to be unreasonable. To the greatest extent possible, we must avoid investing in a second charge if it is likely to be rejected. We need to understand very clearly the equity SDC requirements and approval criteria before we invest in the development, submittal, and review of such a charge.

In its May 15, 2001 Order, System Development Charge Administrative Case 375 stated that:

"While the equity method is the most appropriate when the system has been substantially built out, no major capacity or territorial expansions are envisioned, and depreciation is financed substantially from rates, we acknowledge that the

methodology may result in a fair and reasonable SDC in other instances. The Commission, however, cautions KLC and its members that in those instances the party proposing the SDC must demonstrate the appropriateness of basing its proposed charge upon the equity method.”

and that:

“While use of the equity method may in some instances result in an unreasonable rate, it is the applicant’s circumstances and the specific details of its proposal, not the methodology, that produces the unreasonable rate. The appropriateness of using the equity method, therefore, must be addressed in each proceeding in which an applicant proposed an SDC based upon that method.”

Our first question therefore concerns the appropriateness of the methodology. Given the Case 2006-00191 review of the Henry District’s circumstances and the Order’s suggestion that the equity method would more effectively achieve parity between our current and new customers, can the Commission now assure us that it has accepted the appropriateness of using the equity SDC methodology in Henry District?

Secondly, many of the SDC submittal requirements in 807 KAR 5:090 are related only to the incremental methodology. Which elements are required as being specifically necessary to an equity submittal? What information is needed other than these KAR requirements?

Thirdly, can the District receive guidance from Commission staff regarding the structure, calculation, and approval criteria of the equity charge prior to its submittal, in order to assure compliance with the principles under which it will be reviewed?

Thank you for your attention to this matter.

Sincerely,



Merle Brewer, Chairman  
Henry County Water District #2

Cc: Gary Larimore, Executive Director Kentucky Rural Water Association  
Honorable David Spenard, Assistant Attorney General  
Honorable Ernie Harris, State Senator, District 26  
Honorable Rick Rand, State Representative, District 47