

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF HENRY COUNTY WATER)	
DISTRICT NO. 2 FOR APPROVAL TO ADJUST)	
WATER RATES AND CHARGES AND TO)	CASE NO. 2009-00370
IMPLEMENT A SYSTEM DEVELOPMENT)	
CHARGE)	

ORDER

Henry County Water District No. 2 (“Henry District”) has applied to the Commission for authority to adjust its general rates for water service and to establish a system development charge. It has requested deviations from certain sections of 807 KAR 5:090.

Henry District proposes to establish a system development charge that is calculated using the equity method. Contending that several sections of 807 KAR 5:090 are applicable only to a system development charge that is based upon the incremental methodology, Henry District seeks a deviation from those sections. As Section 3 of that regulation is the only section that addresses filing requirements, the Commission will limit its discussion in this Order to the water district’s requested deviation from Section 3(6), which requires an applicant to file a capital improvement plan with its application.

The Commission has previously noted that two recognized methodologies exist for the design and assessment of system development charges, equity method and

incremental cost method.¹ The equity buy-in method is based on the principle of achieving capital equity between new and existing customers. It attempts to assess new customers a fee to approximate the equity or debt-free investment position of current customers. Under this method, the new user becomes an investor in the system and the investment fee is the proportionate share of equity in the system.

In contrast, the incremental cost method is based on the concept of new development paying for the incremental cost of system capacity needed to serve new demand. It is intended to mitigate the impact of new growth on customer user rates through the assessment of a fee on new customers sufficient to recoup the cost of new investments required to serve new demand. A capital improvement plan that identifies the needed improvements to meet expected new demand is essential in determining the cost of these new investments.

Henry District argues that, as its proposed charge is not based upon proposed improvements to its facilities to meet new customer demand but is instead based upon existing system equity, a capital improvement plan is unnecessary and would provide no assistance in evaluating the proposed system development charge. We agree and find that good cause exists to grant the requested deviation from Section 3(6).

IT IS THEREFORE ORDERED that:

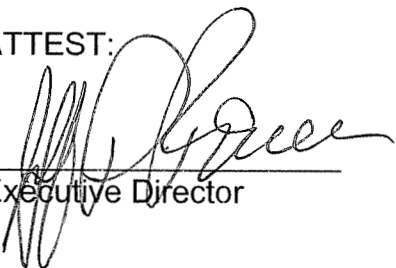
1. Henry District's request for permission to deviate from 807 KAR 5:090, Section 3(6), is granted.
2. Henry District's application is accepted for filing as of February 10, 2010.

¹ Administrative Case No. 375, *An Investigation Into the Design and Use of System Development Charges* (Ky. PSC May 15, 2001).

By the Commission

ENTERED *EW*
MAR 12 2010
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

Case No. 2009-00370