

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING APPLICATION OF) CASE NO.
MIDDLETOWN WASTE DISPOSAL, INC.) 2009-00227

COMMISSION STAFF'S FIRST INFORMATION REQUEST
TO MIDDLETOWN WASTE DISPOSAL, INC.

Middletown Waste Disposal, Inc. ("Middletown"), pursuant to 807 KAR 5:001, is to file with the Commission the original and six copies of the following information, with a copy to all parties of record. The information requested herein is due within 15 days of the date of this information request. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Middletown shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Middletown

fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. In its July 2, 2009 response to the Commission's June 26, 2009 deficiency letter, Middletown submitted a Revised Attachment B. In its Revised Attachment B, Middletown referenced a flat residential rate of \$15.00 per month in the present and proposed rate comparison.

- a. When did Middletown establish the \$15.00 monthly residential rate?
- b. Explain how Middletown calculated the \$15.00 monthly residential rate.
- c. Cite the proceeding in which the Commission authorized Middletown's flat residential rate of \$15.00 per month.
- d. Identify Middletown's tariff page that lists the flat residential rate of \$15.00 per month.
- e. Staff is unable to duplicate the test year Normalized Revenue Table. Provide the table in a Microsoft Excel 2003 or earlier version digital format. The table should allow for unrestricted view of all formulas. In the event that there are no formulas, provide a detailed description of the calculations used to derive the normalized revenue numbers.

f. Provide a detailed explanation as to why Middletown did not propose to increase the residential rate. Also, explain why Middletown believes this to be reasonable.

2. At page 3 of the Application, Middletown states that in 2009 it has been mandated by the Health Department to spend an estimated \$10,000 to \$15,000 for additional repairs.

a. Provide an itemized list describing the construction the Health Department is mandating Middletown to complete in 2009.

b. Identify the Health Department that Middletown is referencing and provide any written notification from the Health Department that mandated Middletown to perform the construction.

c. Provide bids to support the estimated construction costs.

d. Provide an estimated construction schedule.

3. At page 3 of the Application, Middletown states that it may have to spend an additional \$100,000 in the coming years to properly repair the plant. Provide a detailed description of the \$100,000 of construction costs referenced by Middletown and the anticipated year(s) the construction will be performed. Also, explain if these repairs are mandated by the Health Department and if Middletown will request the Commission to issue a Certificate of Public Convenience and Necessity ("Certificate") before beginning construction.

4. In its Revenue Requirement Calculation, Attachment A of the Application, Middletown uses an income tax gross-up factor. In prior proceedings, the Commission has noted that for subchapter S Corporations there is no income tax liability at the corporate

level and, therefore, the Commission does not allow a provision for income taxes in the utility's revenue requirement.¹ Provide a detailed discussion to persuade the Commission Staff that this prior Commission position is unreasonable.

5. Refer to Attachment A of the Application, Adjustment B, Owner/Manager Fee. Middletown states that in the test period Donald Lorenz, Middletown's Secretary/Treasurer, was paid \$10,800 to manage the day-to-day operations of Middletown's system and to perform various engineering services.

a. Provide a detailed list of the management duties and engineering services being performed by Mr. Lorenz.

b. Does Mr. Lorenz track the amount of hours he spends performing the daily management and engineering services for Middletown?

(1) If yes, provide documentation to support the number of hours Mr. Lorenz devotes to the management of Middletown. Also, document the number of hours Mr. Lorenz provides engineering services to Middletown.

(2) If no, given that this is a less-than-arm's-length transaction, provide documentation to show that Mr. Lorenz's annual salary of \$10,800 is reasonable.

6. Refer to Attachment A of the Application, Adjustment B, Owner/Manager Fee. Middletown states that in the test period Paul Lichtefeld, Middletown's President, was paid an owner/manager fee of \$3,600 and that Middletown is proposing to increase the annual owner/manager fee to \$6,000.

¹ Case No. 2006-00171, Application of Cow Creek Gas, Inc. for Authority to Adjust Its Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities (Ky. PSC June 8, 2006).

a. Provide a detailed list of the management duties being performed by Mr. Lichtefeld.

b. Does Mr. Lichtefeld track the amount of hours he spends performing the management of Middletown?

(1) If yes, provide documentation to support the number of hours Mr. Lichtefeld devotes to the management of Middletown.

(2) If no, given that this is a less-than-arm's-length transaction, provide documentation to show that Mr. Lichtefeld's proposed annual salary of \$6,000 is reasonable.

7. Refer to Attachment A of the Application, Adjustment B, Owner/Manager Fee. Middletown states that Mr. Lorenz is responsible for the management of Middletown's daily operations and that Mr. Lichtefeld is responsible for maintaining the sewer plant. Given the size of Middletown,² explain in detail why it requires two owner/managers to oversee its operations. Provide documentation to support Middletown's response.

8. Refer to Attachment A of the Application, Adjustment C, Fuel and Power Expense. Provide legible copies of the Louisville Gas and Electric, AT&T, and Louisville Water Company invoices for the period of November 1, 2007 through March 31, 2009.

9. Refer to Attachment A of the Application, Adjustment E, Maintenance of Collection System Expense, Adjustment M, Amortization Expense; and Attachment G, Lift Station and Sewer Repairs.

² Annual Report of Middletown to the Public Service Commission of the Commonwealth of Kentucky for the Calendar Year Ended December 31, 2008 ("2008 Annual Report") at 8. Middletown reports that it was serving 120 residential customers and 75 commercial customers in 2008.

- a. Provide a detailed description of the construction that was performed at the lift stations.
- b. Explain why Middletown did not file an application with the Commission requesting a Certificate for the lift station construction project.
- c. Provide the date the lift stations were originally installed and the depreciation life used by Middletown.
- d. Provide documentation to support the proposed three-year amortization period.
- e. Provide any written notification from the Health Department that mandated Middletown to perform the construction at its lift stations.

10. Refer to Attachment A of the Application, Adjustment F, Maintenance of Pumping System Expense; Adjustment M, Amortization Expense; and Attachment G of the Application, Lift Station and Sewer Repairs. In 2008, Middletown spent \$49,251 to make repairs to the sewer collection lines to comply with Health Department requirements. Middletown is proposing to remove the \$49,251 from test-period operating expenses and to amortize those repair costs over a three-year period.

- a. Provide a detailed description of the construction that was performed to repair the sewer collection lines.
- b. Explain why Middletown did not file an application with the Commission requesting a Certificate for a sewer collection line construction project.
- c. Provide the date the sewer collection lines were originally placed into service.

d. It is Middletown's responsibility to show that its proposed amortization period is reasonable. Provide documentation to support the proposed three-year amortization period.

e. Provide any written notification from the Health Department that mandated Middletown to perform the construction at its lift stations.

11. Refer to Attachment A of the Application, Adjustment K, Rents Expense Office. Middletown is proposing to include office rent of \$200 per month that is to be paid to Mr. Lorenz for the use of "office space, utilities, and all office equipment."

a. Provide a schedule listing by month the following costs incurred by Mr. Lorenz in calendar years 2007 and 2008:

- (1) Office rent;
- (2) Telephone;
- (3) Utilities (gas, electricity, etc.);
- (4) Equipment; and
- (5) Furnishings.

b. Identify all affiliated and/or nonaffiliated companies that share Mr. Lorenz's office.

c. Provide the rent/office overheads paid by each affiliated or nonaffiliated tenant during the calendar years 2007 and 2008.

d. Provide a list of the tenants that share the office with Middletown. For each tenant listed, identify if the tenant is affiliated with Middletown, Mr. Lichtefeld or Mr. Lorenz.

e. Identify the total square footage of the office and the amount that is occupied by each tenant listed in the response to 11(d).

f. The office rent paid to Mr. Lorenz is considered a less-than-arm's-length transaction;³ provide documentation to show that the actual test-period office rent of \$1,200 and the proposed annual rent of \$2,400 are reasonable.

12. Refer to Attachment A of the Application, Adjustment M, Amortization Expense.

a. Provide documentation to support the proposed five-year amortization period for the two capital charges totaling \$8,390.

b. Provide a copy of the KPDES permit referenced in the adjustment description.

c. Provide a legible copy of the invoice(s) to support the rate case consulting fees of \$3,300.

13. Refer to Attachment H of the Application, General Ledger.

a. For each item listed in Table 1 below, provide a copy of the supporting invoice.

Table 1					
	<u>Acct #</u>	<u>Date</u>	<u>Vendor</u>	<u>Chk #</u>	<u>Amount</u>
(1)	503	02/04/08	Beckmar	4951	\$ 1,100.00
(2)	503	03/03/08	Beckmar	5969	\$ 880.00
(3)	503	04/01/08	Beckmar	4993	\$ 880.00
(4)	503	05/07/08	Beckmar	5022	\$ 1,150.00
(5)	503	06/02/08	Beckmar	5040	\$ 880.00
(6)	503	07/09/08	Beckmar	5061	\$ 880.00
(7)	503	08/18/08	Beckmar	5089	\$ 1,155.00
(8)	503	09/15/08	Beckmar	5109	\$ 925.00
(9)	503	10/06/08	Beckmar	5125	\$ 880.00
(10)	503	11/19/08	Beckmar	5153	\$ 880.00

³ The current owner of the office and Middletown are affiliated.

	<u>Acct #</u>	<u>Date</u>	<u>Vendor</u>	<u>Chk #</u>	<u>Amount</u>
(11)	503	12/15/08	Beckmar	5174	\$ 880.00
(12)	503	12/31/08	Beckmar	5182	\$ 1,100.00
(13)	504	03/26/08	James Headden Septic Service	4982	\$ 385.00
(14)	504	07/09/08	James Headden Septic Service	5062	\$ 4,990.00
(15)	504	10/20/08	James Headden Septic Service	5133	\$ 1,773.50
(16)	605	01/21/08	Judy Puckett - Spencer Co. Clerk	4937	\$ 98.37
(17)	605	07/09/08	KY State Treasurer	5063	\$ 256.88
(18)	605	07/28/09	KY State Treasurer	5074	\$ 225.15
(19)	605	11/19/08	Jefferson County Sheriff's Office	5155	\$ 1,031.76
(20)	605	12/01/08	City of Middletown	5167	\$ 168.00
(21)	605	12/01/08	Lou. Metro Health Dept.	5168	\$ 1,600.00
(22)	607	03/03/08	VOIT - Lee Insurance Co.	4970	\$ 1,650.45
(23)	607	04/23/08	State Farm	5007	\$ 288.99
(24)	607	06/05/08	Motorist Mutual Insurance Co.	5042	\$ 562.83
(25)	607	07/09/08	VOIT - Lee Insurance Co.	5065	\$ 5,677.88
(26)	607	08/18/08	VOIT - Lee Insurance Co.	5088	\$ 1,566.66
(27)	607	12/31/08	Prepaid Insurance Adjustment	AJE 1	\$ 225.33
(28)	6112	02/20/08	Sanders Sales & Service	4957	\$ 665.00
(29)	6112	02/20/08	Sanders Sales & Service	4957	\$ 2,616.59
(30)	6112	03/24/08	Sanders Sales & Service	4978	\$ 2,006.69
(31)	6112	04/23/08	Sanders Sales & Service	5008	\$ 3,499.17
(32)	6112	05/12/08	Sanders Sales & Service	5027	\$ 1,257.40
(33)	6112	08/18/08	Sanders Sales & Service	5092	\$ 1,496.31
(34)	6112	09/03/08	Sanders Sales & Service	5103	\$ 1,451.70
(35)	6112	09/24/08	Sanders Sales & Service	5113	\$ 1,153.07
(36)	6112	10/29/08	Sanders Sales & Service	5150	\$ 1,919.95
(37)	6112	12/18/08	Sanders Sales & Service	5178	\$ 5,067.86
(38)	6112	12/31/08	Sanders Sales & Service	AJE 1	\$ 2,059.60
(39)	6114	06/18/08	General Services Co.	5046	\$ 470.00
(40)	6114	07/09/08	General Services Co.	5066	\$ 445.00
(41)	6114	07/21/08	General Services Co.	5070	\$ 75.00
(42)	6114	08/18/08	General Services Co.	5091	\$ 445.00
(43)	6114	09/15/08	General Services Co.	5107	\$ 330.00
(44)	6114	10/22/08	General Services Co.	5135	\$ 205.00
(45)	6114	10/29/08	General Services Co.	5146	\$ 150.00
(46)	6114	11/19/08	General Services Co.	5157	\$ 330.00
(47)	6141	05/07/08	Dahl, Green & Associates	5025	\$ 2,183.75
(48)	6141	08/01/08	Smith, Greenberg & Leightty LLC	5081	\$ 448.50
(49)	6141	09/15/08	Smith, Greenberg & Leightty LLC	5111	\$ 1,857.04
(50)	6141	10/06/08	Davis A. Black PSC	5126	\$ 44.00
(51)	6141	10/08/08	Smith, Greenberg & Leightty LLC	5128	\$ 585.00
(52)	6141	12/15/08	Smith, Greenberg & Leightty LLC	5173	\$ 214.50
(53)	618	01/14/08	CHASE	4936	\$ 52.92
(54)	618	02/14/08	Credit Card Services	4954	\$ 53.80
(55)	618	03/24/08	Cardmember Services	4977	\$ 27.14
(56)	618	05/14/08	Cardmember Services	5028	\$ 57.67
(57)	618	07/09/08	CHASE	5068	\$ 140.15
(58)	618	08/18/08	CHASE	5093	\$ 73.52
(59)	618	10/15/08	Cardmember Services	5132	\$ 56.01
(60)	618	12/15/08	Cardmember Services	5170	\$ 43.75

b. In its 2008 Annual Report, Middletown states that it does not have a full- or part-time employee. However, in its 2008 General Ledger, Middletown recorded paying Samantha Fuller \$10,865.

(1) Identify the company where Ms. Fuller is employed, explain if the company is affiliated with Middletown, provide her title, and include a detailed list of the duties she performs for Middletown.

(2) Provide the amount of time Ms. Wood spends performing services for Middletown. Include documentation to support this response.

(3) Provide Ms. Fuller's total salary and document how the \$10,865 was allocated to Middletown.

14. Middletown reports a note payable to associated companies of \$49,234.

a. Identify the associated company that holds the note payable.

b. Provide a current amortization schedule that includes the entire life of the note payable and that details the payment amounts, principal retirements, interest payments, interest rates, and outstanding balances.

c. Provide a description of the use of the borrowed funds.

15. Middletown reports a note payable to L&L Enterprises of \$49,234 and a note payable to Citizens Union Bank of \$27,277.

a. Identify if L&L Enterprises is affiliated with Middletown.

b. Identify the Commission proceeding wherein Middletown was authorized to obtain the note payable to L&L Enterprises.

c. Provide a current amortization schedule that includes the entire life of the note payable and that details the payment amounts, principal retirements, interest payments, interest rates, and outstanding balances.

d. Provide a description of the use of the borrowed funds.



Jeff R. DeLoach
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DATED: SEP 28 2009

cc: Parties of Record

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