

December 1, 2010

Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Post Office Box 615
Frankfort, KY 40602

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COMMISSION

Re: Ridgelea Investments, Inc. 2009-00500 PSC Staff Report

Dear Sirs:

Ridgelea has reviewed the PSC Staff Report issued on November 24, 2010, and requests that an informal conference be held the week of December 13 or December 20 to attempt to resolve many issues raised by the Staff Report. Specifically, Ridgelea disagrees with many of the Staff Report conclusions, including but not limited to the following:

Monthly Surcharge of \$5.45:

Ridgelea agrees with a surcharge mechanism to fund the \$26,000 Inflow and Infiltration Study, but disagrees with the 24-month surcharge period. Ridgelea filed this case almost one year ago, and proposed a surcharge in an effort to streamline this proceeding and quickly fund the mandates required by the Kentucky Division of Water. The study should be done promptly, but there is nothing prompt about a 24-month surcharge period added to 12 months that this case has already taken – not to mention the additional time that will be needed to resolve the case in a way that allows Ridgelea to fund its operations and maintenance needs. In summary, the monthly surcharge amount should be increased and the surcharge period should be shortened.

Wholly Inadequate Base-Rate Revenue Requirement:

Ridgelea is a small utility that has struggled to learn the PSC's regulatory and ratemaking requirements since it assumed ownership of the troubled Mulberry plants in 2003. In 2007 and 2008, Ridgelea requested and received PSC staff assistance to file a rate case, which culminated in the PSC granting a \$30 rate in late 2008. Among many issues decided in that case, the PSC allowed a \$71,640 revenue requirement, operating expenses of \$63,043, and an owner/manager fee of \$9,055 for the three Franklin County plants.

In this case, the Staff recommends a revenue requirement of \$76,135, which is only \$4,495 more than the revenue requirement allowed in the prior case. However, Staff also recognized that Ridgelea is mandated to use outside testing services that were not required to be used at the time of the prior rate case, and included an increased cost of \$11,900 for effluent testing. In addition, Staff

recognized that Ridgelea needed to improve its bookkeeping, and included an expense of \$3,000. If these two allowable expenses totaling \$14,900 are added to the \$63,043 in allowable operating expenses from the 2008 rate case, the resulting revenue requirement (using the 88% operating ratio) becomes \$88,572.

To arrive at its proposed revenue requirement, Staff has essentially revisited and rewritten the 2008 rate case decisions, including slashing the allowance of a \$9,055 owner/manager fee to zero for the three plants. In addition, by ignoring Ridgelea's true costs (such as increased billing and collection expenses), the Staff Report guarantees that no profits will be made by the utility, which means that Staff is suggesting that I work for no compensation whatsoever. For Ridgelea - a small utility struggling to comply with both PSC and DOW regulatory mandates - it is unfair, unjust, and unreasonable to be treated in this fashion.

In addition, Staff also has failed to consider the fact that the three Franklin County plants have accumulated accounts payable of \$54,740 to Perfectawaste because the sewer utility has been unable to pay these bills. In other words, the costs to maintain the three aging plants are typically understated in Ridgelea's income statements because Ridgelea operates on a cash basis.

The Staff Report also fails to recognize that Ridgelea owns and operates three (not one) troubled and aging plants that need rate increases to properly operate. It is clear that three aging plants serving 199 customers are more expensive to operate than one such plant.

In summary, the three Franklin County plants need additional money to solve the problems I inherited, and the Staff Report recommendations fail to recognize this. Therefore, I am requesting that an informal conference be held as soon as possible.

Sincerely,

Charles Hungler, Jr., President
Ridgelea Investments, Inc.