

MIDDLETOWN WASTE DISPOSAL, INC.
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PUBLIC SERVICE
COMMISSION

December 20, 2012

Executive Director
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, KY 40601

Dear Sirs,

Middletown Waste Disposal, Inc. has received and reviewed the PSC Staff Report issued on December 14, 2012 in Case No. 2012-00375. Middletown sincerely appreciates the professionalism of the Staff in processing our case and issuing the Staff Report in a timely manner, and we do not wish to contest most of the report's findings and conclusions. Instead, Middletown believes this case can be resolved with the issuance of an Amended Staff Report correcting one error and updating for two expense adjustments. Middletown wishes to avoid costly and time-consuming informal conferences, formal hearings, attorney fees, and other rate case expenses which do nothing to improve our cash flow. Therefore, we respectfully request that the current procedural schedule be suspended to allow the Staff to issue an Amended Staff Report in this case.

For the three adjustments at issue, we have attached more detailed comments to this letter. Please don't hesitate to contact me if you have any questions.

Sincerely,



Jack Kaninberg
Treasurer, Middletown Waste Disposal, Inc.

Middletown's Detailed Response to the Staff Report

Middletown believes this case can be resolved with the issuance of an Amended Staff Report correcting one error and updating for two expense adjustments. Relative to interest expense and electricity expense, the Staff Report at pages 6 and 14 recognized that increases to these expenses which may be known and measurable in January and February of 2013 should be factored into the Commission's final decision in this case. Relative to normalized revenues, Middletown is convinced that Staff has erred in its recommendations, and the issuance of an Amended Staff Report would serve to correct this error.

Electricity Expense

Middletown's rate application included a 25 percent adjustment to electricity expense to include both a projected 7 percent base-rate increase and an 18 percent increase projected by LG&E to pay for environmental costs through 2016. Middletown recognized in its application the timing issues associated with the environmental cost increases, and therefore proposed not only a lesser increase than the 30.1 percent increase it believed to be justified, but also a two-phase increase of 20 percent in year one and an additional 5 percent to be effective one year later.

Subsequent to the filing of Middletown's rate application, LG&E and the parties to its rate case have settled upon a 4.8 percent increase in base rates. If approved by the Commission, this increase should be known, measurable and effective in early 2013. The Staff Report at page 6 recognized this, and stated that "if the Commission were to approve the rates contained in the agreement prior to the issuance of a final Order in this proceeding, Middletown's test-year purchased power expense should be increased by \$996, which would increase Staff's recommended revenue requirement by \$1,192."

Middletown recognizes that the 7 percent base-rate increase projected in its rate application will surely be reduced, and agrees with Staff that the increase should be factored into its rates in this case. However, Middletown is confused by the Staff's determination of the increased amount, because the details of the \$996 calculation are not included in the Staff Report. On its face, a 4.8% electricity increase over the 2011 test year purchased power expense of \$35,338 produces an adjustment of \$1,696.22, which is higher than the \$996 (or 2.8%) adjustment recommended by Staff. Therefore, Middletown seeks clarification relative to the amount of this adjustment in an Amended Staff Report or the Commission's Final Order, but an informal conference or hearing is unnecessary to resolve this minor issue.

In addition, the Staff Report omits any discussion, recommendations, or even rejections of the proposed 18 increase related to the environmental surcharge mechanism. Since the filing of Middletown's application, newspaper reports

indicate LG&E has revised downward the projected increase from 18 percent to 12 percent, Middletown's research into this issue indicates any adjustment is complex and hard to determine at this time. Therefore, we do not contest this issue, but simply note that the increase will certainly impact Middletown over the 3-5 year period when new sewer rates are effective.

Revenue Normalization

The Staff Report at page 5 recommended normalized revenues of \$174,842 for Middletown, an adjustment of \$6,679 from the normalized revenue of \$168,163 produced by Middletown's billing analysis. Middletown believes Staff has misinterpreted the numbers in the summary billing analysis, and that Staff's \$6,679 adjustment is incorrect.

In the rate application, Middletown provided the following summary billing analysis to arrive at normalized revenues of \$168,163:

2011 Revenue and Usage Summary	Mo. Rate	Bimo. Rate	Bills	Revenue	Volumes
Commercial (27+)					
0 - 7,500 Gallons	\$35.03	\$70.06	172	\$12,050.32	2,228,585
Over 7,500 Gallons	\$4.67/th.		116	\$67,758.97	14,509,415
Tot. Commercial				\$79,809.29	16,738,000
Industrial (44+)					
0 - 20,000 Gallons	\$93.40	\$186.80	287	\$53,611.60	3,819,000
Over 20,000 Gallons	\$4.67/th.		28	\$8,387.37	1,796,000
Tot. Industrial				\$61,998.97	5,615,000
Tot. Residential (125+)	\$17.50	\$35.00	753	\$26,355.00	7,014,000
Totals				\$168,163.26	29,367,000

This billing analysis intended to show that Louisville Water Company (which bills Middletown's customers every two months and collects the revenues) issued 172 commercial bills and 287 industrial bills during the 2011 test year. For commercial customers, 116 bills included usage charges at \$4.67 per thousand gallons, and the remaining 56 bills included no usage charges. For industrial customers, 28 bills included usage charges, and the remaining 259 did not.

To arrive at Staff's proposed \$6,679 adjustment, it provided no detailed calculations, but only suggested that Middletown "failed to consider the revenue from minimum charge" on its high-volume commercial and industrial customers. Staff appears to have incorrectly assumed that 288 commercial bills (or 116 more than actual) and 315 industrial bills (or 28 more than actual) were issued during 2011, and that Middletown failed to include the minimum revenues associated with 116 high-volume commercial customers and 28 high-volume industrial customers. If so, Staff's adjustment appears to have been calculated roughly as follows:

Minimum Charges on High-Volume Users	Mo. Rate	Bimo. Rate	Bills	Revenue
Commercial	\$35.03	\$70.06	116	\$4,063.48
Industrial	\$93.40	\$186.80	28	\$2,615.20
			Total	\$6,683.68

If Middletown is correct, Staff's adjustment overstates both the number of bills issued and the revenue realized from high-volume commercial and industrial users.

To clarify this issue, Middletown provides the following table to clearly show the revenues produced from its commercial and industrial customers at the two rate steps:

2011 Revenue and Usage Summary	Mo. Rate	Bimo. Rate	Bills	Revenue	Volumes
Commercial (27+)					
Minimum Users					
0 - 7,500 Gallons	\$35.03	\$70.06	56	\$3,923.36	
High Volume Users					
0 - 7,500 Gallons	\$35.03	\$70.06	116	\$8,126.96	
Over 7,500 Gallons	\$4.67/th.		116	\$67,758.97	14,509,415
Tot. Commercial		Total	172	\$79,809.29	16,738,000
Industrial (44+)					
Minimum Users					
0 - 20,000 Gallons	\$93.40	\$186.80	259	\$48,381.20	
High Volume Users					
0 - 20,000 Gallons	\$93.40	\$186.80	28	\$5,230.40	
Over 20,000 Gallons	\$4.67/th.		28	\$8,387.37	1,796,000
Tot. Industrial		Total	287	\$61,998.97	5,615,000

As a test of reasonableness, Middletown compared the \$168,163 figure produced by its billing analysis to the actual revenues it received during 2011. Monthly reports provided by Louisville Water Company show that Middletown actually received \$167,772.87 before billing and collection charges were retained by Louisville Water. This amount is within approximately \$390 of the \$168,163 produced by the billing analysis, and we therefore concluded that it produced a reasonable and appropriate result.