

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALTERNATIVE RATE FILING OF)	CASE NO. 2012-00375
MIDDLETOWN WASTE DISPOSAL WASTE)	
DISPOSAL, INC.		

ORDER

Pursuant to 807 KAR 5:076, Middletown Waste Disposal, Inc. ("Middletown Waste Disposal"), has applied for an adjustment of its sewer service rates. It proposes to adjust its rates in two phases over a 12-month period that would ultimately result in additional revenues of \$42,041 annually. By this Order, the Commission establishes rates that will produce annual revenues from sewer service of \$191,145, an increase of \$22,982 over normalized annual revenues of \$168,163.

Middletown Waste Disposal, a Kentucky corporation, owns and operates sewage treatment and collection facilities that serve approximately 120 residential customers and 77 commercial customers in Jefferson County, Kentucky.

On August 21, 2012, Middletown Waste Disposal tendered to the Commission its application for a rate adjustment.¹ The Commission did not accept the application for filing because of its failure to comply with certain provisions of 807 KAR 5:076. After Middletown Waste Disposal sought and was permitted to deviate from those provisions, the Commission on October 5, 2012 accepted the application for filing purposes.

On December 14, 2012, Commission Staff issued a report of its findings and recommendations regarding the proposed rate and Middletown Waste Disposal's

¹ The Attorney General is the only person who sought leave to intervene in this matter. The Commission granted his motion for intervention on October 11, 2012.

operations during the test period. It found that, based upon Middletown Waste Disposal's test-period operations and using the Commission's operating ratio methodology, Middletown Waste Disposal required total revenues of \$188,356 to meet its reasonable operating expenses and earn a reasonable rate of return. It further found that, to reach this level of revenue, Middletown Waste Disposal required a rate adjustment to generate additional annual revenues of \$13,514, or 7.73 percent, over pro forma revenue from rates of \$174,842.

Middletown Waste Disposal filed exceptions to Commission Staff's findings and recommendations. After discussions between the parties and Commission Staff, Commission Staff and Middletown Waste Disposal entered into a stipulation regarding the principal factual issues in this matter. The Attorney General, while not a signatory to the stipulation, has reviewed the stipulation and noted no objections to its contents. This stipulation was filed with the Commission on January 30, 2013. Middletown Waste Disposal and the Attorney General have waived a hearing in this matter.

Having considered the Stipulation and the other evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. The calendar year ending December 31, 2011, should be used as the test period to determine the reasonableness of Middletown Waste Disposal's existing and proposed rates.
2. Based upon pro forma test-period operations, Middletown Waste Disposal's pro forma annual revenues are \$168,163.

3. Based upon pro forma test-period operations, Middletown Waste Disposal's pro forma total operating expenses, after adjusting for known and measurable changes, is \$166,054.

4. The operating statement set forth in Appendix A to this Order reflects Middletown Waste Disposal's pro forma operating expenses for the test period.

5. Middletown Waste Disposal's utilities expense reflects increases in its electric power costs due to an increase in the rates for service of its electric utility that occurred on January 1, 2013.²

6. Middletown Waste Disposal's interest expense includes interest expense associated with its loan agreement with Chase Bank, NA, executed on February 19, 2013.³

7. Given that no basis exists to determine an appropriate rate of return for Middletown Waste Disposal, the use of an operating ratio⁴ to determine its total revenue requirement is appropriate.⁵

² Case No. 2012-00222, *Application of Louisville Gas and Electric Company for an Adjustment of Its Electric and Gas Rates, a Certificate of Public Convenience and Necessity, Approval of Ownership of Gas Service Lines and Risers, and a Gas Line Surcharge* (Ky. PSC Dec. 20, 2012).

³ See Case No. 2012-00526, *Application of Middletown Waste Disposal, Inc. for Approval of Financing Pursuant to KRS 278.300* (Ky. PSC Feb. 8, 2013). Middletown Waste Disposal submitted evidence of its proposed loan agreement with Chase Bank, NA on February 26, 2013. While the case record had already closed, the Commission finds that notice of the transactions should be taken.

⁴ Operating Ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues. It is illustrated by the following equation:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

⁵ See, e.g., Case No. 8468, *An Adjustment of the Rates of Plantation Hill Sewage Treatment Plant, Inc.* (Ky. PSC Jun. 25, 1982); 1 A.J.G. Priest, *Principles of Public Utility Regulation* (Michie 1969) 220-224.

8. An operating ratio of 0.88 will permit Middletown Waste Disposal to meet its reasonable operating expenses and provide a fair and reasonable return for equity growth and should be used to determine Middletown's total revenue requirements.

9. Applying an operating ratio of 0.88 to Middletown Waste Disposal's pro forma total operating expenses of \$166,054 and then adding pro forma interest expense produces a total revenue requirement of \$191,145⁶ or \$22,982 in additional annual revenue than Middletown Waste Disposal's current rates produce.⁷

10. Middletown Waste Disposal's proposed rates will produce annual revenues in excess of \$191,145 and should be denied.

11. The rates set forth in Appendix B to this Order will produce the required total revenue requirement and will apply level of the required increase by an equal percentage to all customer classes.

IT IS THEREFORE ORDERED that:

1. Middletown Waste Disposal's proposed rates for sewer service are denied.

2. Middletown Waste Disposal is authorized to assess the rates set forth in Appendix B to this Order for sewer service provided on and after the date of this Order.

3. Within 20 days of the date of this Order, Middletown Waste Disposal shall, using the Commission's Electronic Tariff Filing System, file a revised tariff sheet with the Commission setting forth the rates approved in this Order.

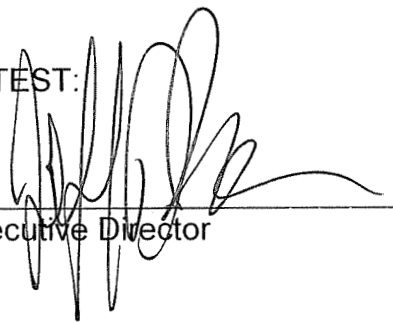
⁶ Operating Expenses	\$166,054
Divided by: Operating Ratio	<u>÷ 0.88</u>
	188,698
Plus: Interest Expense	<u>2,447</u>
Total Revenue Requirement	<u>\$191,145</u>

⁷ \$191,145 - \$168,163 = \$22,982.

By the Commission

ENTERED
APR 02 2013
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00375 DATED APR 02 2013

PRO FORMA OPERATING STATEMENT

	<u>2011 Annual Report</u>	<u>Adjustments</u>	<u>Pro Forma Operations</u>
Sewer Service Revenues	\$162,976	\$ 5,187	\$168,163
Operating Expenses:			
Operation and Maintenance Expenses			
Owner Manager Fee		3,600	3,600
Sludge Hauling	6,383		6,383
Purchased Water	4,595		4,595
Fuel & Power Expense	35,338	1,549	36,887
Chemicals	3,363	1,580	4,943
Testing	11,440		11,440
Routine Maintenance Fee	7,980	420	8,400
Maint. Treatment/Disposal	31,050	(1,247)	29,803
Agency Collection Fee	1,860		1,860
Office Expense	1,324		1,324
Outside Services	17,690	(4,944)	12,746
Insurance Expense	7,885	1,220	9,105
Misc. General Expense	660	48	708
Rent	<u>1,200</u>	<u>600</u>	<u>1,800</u>
Total Operation and Maintenance Expenses	130,768	2,826	133,594
Depreciation Expense	6,957	2,117	9,074
Amortization Expense		16,200	16,200
Taxes Other Than Income	7,186	0	7,186
Income Taxes – State	175	(175)	0
Total Operating Expenses	<u>145,086</u>	<u>20,968</u>	<u>166,054</u>
Net Operating Income	<u>\$ 17,890</u>	<u>\$(15,781)</u>	<u>\$ 2,109</u>

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2012-00375 DATED APR 02 2013

The following rates and charges are prescribed for the customers in the area served by Middletown Waste Disposal, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Residential Rate

Flat Rate \$ 19.89 per month

Industrial Rate

First 20,000 Gallons \$ 106.17 minimum bill

Over 20,000 Gallons \$ 5.31 per 1,000 gallons

Commercial Rate

First 7,500 Gallons \$ 39.82 minimum bill

Over 7,500 Gallons \$ 5.31 per 1,000 gallons

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