

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MARTIN GAS, INC. FOR)	
RATE ADJUSTMENT FOR SMALL UTILITIES)	CASE NO.
PURSUANT TO 807 KAR 5:076)	2016-00332

COMMISSION STAFF'S SUPPLEMENTAL REQUEST FOR INFORMATION TO
MARTIN GAS, INC.

Martin Gas, Inc. ("Martin"), pursuant to 807 KAR 5:001, is to file with the Commission the original and eight copies of the following information, with a copy to all parties of record. The information requested herein is due on or before December 22, 2016. Responses to requests for information should 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 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.

Martin shall make timely amendments 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 Martin 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 should 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 filing a document containing personal information, Martin shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Martin's application, the Schedule of Adjusted Operations – Gas Utility ("SAO-G") and response to the Commission Staff's Initial Request for Information ("Staff's First Request"), Item 4.b. With an adjustment of \$15,760 proposed for repairs and maintenance, the pro forma expense is \$28,800. Provide a detailed explanation of, and show, how the \$28,800 pro forma expense amount was determined.

2. Refer to the SAO-G and Martin's response to Commission Staff's First Request, Item 18.b.

a. Confirm that the \$150,016 shown as an adjustment to Operating Revenues on the SAO-G is the amount of the increase that Martin is requesting.

b. Explain the \$78,660 that is included as an adjustment to Other Gas Revenues on the SAO-G.

3. Refer to Martin's response to Staff's First Request, Items 1.b. and 4.c. While Item 1.b. requested that Martin confirm that no interest expense on its recently established line of credit was included in the expenses for which it was seeking recovery in this case, the response to Item 1.b. states that no interest expense is

included in the expenses Martin seeks to recover through its proposed rate increase. However, the response to Item 4.c. shows that \$6,028 in interest expense is included in Martin's proposed \$80,374 adjustment to increase its test-year administrative and general ("A&G") expenses.

a. Clarify which of the two responses is correct and state whether the response to Item 1.b. was intended to apply only to interest on the line of credit and not all interest, as its wording seems to indicate.

b. If the response to Item 1.b. is correct, explain whether the \$80,374 proposed adjustment should be reduced by \$6,028, or whether some other resolution to these conflicting responses is required.

c. If the response to Item 4.c. is correct, identify the debt on which the interest expense was calculated and provide the calculation of the \$6,028 amount.

4. Refer to Martin's response to Staff's First Request, Item 1.c.

a. Explain whether Martin is familiar with KRS 278.300, which requires that a jurisdictional utility receive Commission approval before issuing securities or evidences of indebtedness that are payable over a period more than two years from their date of issue.

b. Explain why Martin entered that into a new line of credit with a 36-month term without prior Commission approval under KRS 278.300.

5. Refer to Martin's response to Staff's First Request, Items 2.a. and 2.c.

a. Explain how Martin plans to fund its meter replacement program.

b. Provide the percentage of meters currently in use that are temperature compensating.

6. Refer to Martin's response to Staff's First Request, Item 3.c.
 - a. Explain how Martin plans to fund its pipeline restoration program.
 - b. Provide the percentage of Martin's existing system composed of cast iron pipe, and explain whether the steel pipe is cathodically protected.
 - c. Provide the percentage of Martin's existing system the 12 miles of plastic pipe represents.

7. Refer to Martin's response to Staff's First Request, Item 4.a. If Martin is unable to obtain test-year data for non-recurring charge revenues, provide an estimate of its annual revenues related to: (1) late-payment penalties; (2) collections; (3) meter installations at an existing connection; (4) returned checks; (5) customers moving to a different location; (6) reconnections; and (7) mobile trailer connections. The estimates should include the number of instances assumed for each of the seven activities for which Martin assesses a charge.

8. Refer to Martin's responses to Staff's First Request, Items 4.c. and 6, and to the Attorney General's Initial Data Request ("AG's Initial Request"), Items 4.a., 4.d., and 4.e.

- a. Clarify the amounts paid by Clean Gas Inc. ("Clean Gas") and Martin for Martin's employees' health insurance premiums in 2015 and for the adjusted health insurance expense amount included in Martin's rate request.

- b. Explain whether Martin's management has considered requiring its employees to contribute to their health insurance premiums.

9. Refer to Martin's response to Staff's First Request, Item 4.c., its response to the AG's Initial Request, Items 4.h. and 4.i., and to its application, the second page of

the SSAO, the paragraph identified as Management. Confirm that the \$10,000 identified as Management in the response to Item 4.c. as part of the proposed \$80,374 adjustment to increase A&G expenses is related to Martin's plan to hire one or more part-time employees after this rate case.

10. Refer to Martin's responses to Staff's First Request, Item 4.c., and to the AG's Initial Request, Item 4.i. Confirm that Martin is seeking to amortize its estimated legal fees related to this case over three years for ratemaking purposes and that this will reduce the amount of the adjustment shown in the response to Staff's First Request from \$25,000 to \$8,333.

11. Refer to Martin's response to Staff's First Request, Item 4.d., and the AG's Initial Request, Item 4.b.

a. Identify the source(s) of the respective amounts of \$4,151.05 and \$6,433.67 shown on the School Tax and Sales Tax lines and explain why 43 percent is the ratio by which these two amounts are multiplied.

b. Confirm that this response indicates that the proposed adjustment to Taxes Other Than Income Taxes should be in the amount of \$4,551 rather than the amount of \$18,535 included in Martin's application.

c. Explain why Management Fees, Accounting Expense, Legal Fees, and Clerical Expense would "all be converted to payroll deductions" and increase payroll tax expense by \$11,010. Provide a calculation of this amount.

12. Refer to Martin's responses to Staff's First Request, Items 4.c. and 8, the AG's Initial Request, Item 4.g., and Martin's application, the second page of the SSAO.

a. Taken together, the documents other than the response to the AG's Initial Request, Item 4.g., indicate that the proposed adjustment increasing the expense for Workers Compensation Insurance is \$2,812, which will result in a total expense of \$4,681. The response to the AG's request, however, refers to the \$4,681 amount as an increase. Confirm that, as proposed, the total amount of the expense will be \$4,681 and that the amount of the proposed adjustment is \$2,812.

b. The responses to Items 8.a. and 8.b. of Staff's First Request refer to Martin's plan to add staff and to its anticipation of additional wages if this proposed rate increase is approved. For the proposed increase to Workers Compensation Insurance of \$2,812, provide a breakdown showing how much of that amount is due to Martin's picking up the cost that had been paid by Clean Gas and how much is due to Martin's plan to add staff if its proposed rate increase is approved.

13. Refer to Martin's responses to Staff's First Request, Item 5, and to the AG's Initial Request, Item 4.c. Based on its familiarity with the components of 807 KAR 5:016, provide Martin's best current estimate of the portion of its planned advertising cost of \$6,000 that should not be recoverable through its rates and explain how this estimate was derived.

14. Refer to Martin's response to Staff's First Request, Item 11.

a. Explain whether Martin has retained Goss Samford PLLC or some other legal firm for the litigation with Vinland Energy, LLC.

b. Provide the calculation of the \$12,000 amount Martin has proposed as the annual legal expense related to this litigation, including estimated hours of work

and estimated hourly rates for legal work to be performed. Also include an explanation of how the number of hours was determined.

15. Refer to Martin's responses to Staff's First Request, Item 12, and to the AG's Initial Request, Item 4.m. The response to the AG indicates that, to date, Martin has incurred approximately \$11,150 in expense related to this case.

a. Provide an update to this expense with the response to this request, due December 22, 2016.

b. Provide a further update to this expense once Martin has received a December billing for legal fees.

16. Refer to Martin's responses to Staff's First Request, Item 13, the AG's Initial Request, Item 4.a., and Martin's application, the "Management Services Contract" between Martin and Clean Gas.

a. Explain whether any portion of Martin's office supply expense is accounted for in the fee it pays Clean Gas per the "Management Services Contract."

b. Provide the amount of office supplies expense Clean Gas incurred on Martin's behalf in the test year and explain any difference between this amount and the adjusted total expense amount of \$3,600.

17. Refer to Martin's response to Staff's First Request, Item 15, and to its application, the SSAO, beginning on the second page at the paragraph identified as Accounts Payable and continuing through the following paragraph.

a. Confirm that Martin has proposed no adjustment to include any part of the \$51,245 account payable to Heritage Gas, LLC ("Heritage") for rate recovery in this case. If this can be confirmed, explain why no adjustment has been proposed.

Confirm that as a cost of natural gas, the amount payable to Heritage would have been recoverable at the approximate time of its purchase through Martin's Purchased Gas Adjustment ("PGA") mechanism.

b. Confirm that Martin has proposed no adjustment to include any part of the \$12,200 account payable to shareholders for rate recovery in this case, and if so, explain why no adjustment has been proposed.

c. Clarify whether the last sentence in each paragraph stating that no promissory note exists for the account means that Martin has no documentation for the subject transactions.

d. Provide Martin's understanding of the term "retroactive ratemaking" and what is meant by the phrase "prohibition against retroactive ratemaking."

18. Refer to Martin's response to Staff's First Request, Item 16, and to Items 5 and 6 of this request. Confirm that, if the adjustments in Items 5 and 6 herein are reduced as indicated, the amount of operating expenses used in the revenue requirement calculation will be reduced by \$30,648, from \$303,444 to \$272,796.

19. Refer to Martin's response to Staff's First Request, Item 17, and the Supplement to Declining Block Rates Analysis filed with Martin's application.

a. Provide the number of 2015 bills that were for the minimum bill amount only.

b. Provide the number of Mcf used in 2015 by customers who were charged only the minimum bill (customers using 0 to one 1 Mcf).

c. Provide the number of Mcf used in 2015 by all customers who received bills for more than the minimum bill.

d. Using the information from the responses to parts a. through c. of this request, provide a corrected Declining Block Rate Analysis to calculate revenue from Martin's current rates.

20. Refer to Martin's response to Staff's First Request, Item 19.b., and to the AG's Initial Request, Item 4.b.

a. Explain whether the \$768 of Accounting Expense for "accounting software update" would be included in the amount "converted to payroll deductions."

b. Explain whether Martin is currently paying any payroll taxes for Zach Weinberg, Kevin Jacobs, or the part-time Clean Gas employee who provides clerical work for Martin.

21. Refer to Martin's responses to Staff's First Request, Item 19.b., the AG's Initial Request, Items 4.a. and 4.b., and to the application, the "Management Services Contract."

a. For clerical expenses, provide the portions of the test-year amount of \$6,311 and the pro forma amount of \$9,600 that are labor-related and supply-related.

b. Explain where the \$1,500 monthly fee (\$18,000 annually) to Clean Gas, Inc. is reflected in Martin's test-year expenses, or why it is not reflected.

22. Refer to Martin's response to Staff's First Request, Item 20. Clarify that it is Martin's position that the amount of \$453,399 listed in Account 376, Mains, until the end of 2013 (when that amount was moved to Account 377, Compressor Station Equipment) is correctly listed as Compressor Station Equipment and that the zero balance in Account 376, Mains, is correct.

23. Refer to Martin's response to Staff's First Request, Item 21, and Martin's 2015 annual report filed with the Commission. Clarify whether the interest accrued on customer deposits of \$120 is based on a 6 percent rate or some other interest rate.

24. Refer to Martin's response to Staff's First Request, Item 24. Provide a list of the corrections for which the \$10,000 will be spent and state when Martin intends to make those expenditures.

25. Refer to the AG's Initial Request, Item 3.b.

a. Confirm that the sample bills on pages 2–4 of 4 contain billing rates that were approved by the Commission in Case No. 2016-00093¹ effective April 1, 2016.

b. Confirm that, subsequent to its approval of the rates shown on the sample bills, the Commission approved decreases in gas cost rates and consequently in total billing rates in Orders issued in Case Nos. 2016-00188² effective July 1, 2016, and 2016-00301³ effective October 1, 2016.

c. Explain whether Martin decreased its rates pursuant to the Commission's Orders in the PGA cases cited in b. above, or whether it continued to charge the April 1, 2016, rates as indicated in the sample bills.

d. Provide the rates that Martin is currently charging its customers.

¹ Case No. 2016-00093, *Purchased Gas Adjustment Filing of Martin Gas, Inc.* (Ky. PSC Mar. 11, 2016).

² Case No. 2016-00188, *Purchased Gas Adjustment Filing of Martin Gas, Inc.* (Ky. PSC June 14, 2016).

³ Case No. 2016-00301, *Purchased Gas Adjustment Filing of Martin Gas, Inc.* (Ky. PSC Sept. 22, 2016).

e. If the answer to part c. of this request is that Martin did not decrease its rates on the prescribed effective dates pursuant to Commission Orders cited in part b. of this request, provide a calculation of over-recovery of gas cost from July 1, 2016, through Martin's most current billing.

f. Explain whether Martin changed its rates quarterly pursuant to the Commission's Orders in PGA cases prior to April 1, 2016. If not, provide details of the rates charged by Martin and any resulting under- or over-recovery of gas cost.

26. Refer to Martin's response to the AG's Initial Request, Item 4.

a. Confirm that the sum of the amounts shown in the response to part a. is \$226,151. If Martin cannot confirm this, explain why, and provide the correct total.

b. Provide a description of the Interest Expense of \$7,366 in part a. of the response and show how it was calculated.

c. Explain whether the amounts in part b. of the response for School and Sales Taxes are for taxes Martin collects from its customers and remits to either the state or a local taxing authority.



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cc: Parties of Record

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