

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MARTIN GAS, INC. FOR )  
AUTHORITY TO ADJUST RATES AND TO ) CASE NO. 90-402  
EXTEND CURRENT SURCHARGE )

O R D E R

IT IS ORDERED that Martin Gas, Inc. ("Martin") shall file an original and 12 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. The information requested herein is due no later than February 25, 1991.

1. Item 4 of the Commission's Order of January 25, 1991 requested an explanation of differences between the test-year-end income statement and the sum of the 12 monthly income statements for specific accounts. Martin responded that the differences were

due to calendar year end accounting adjustments. This response does not adequately answer the request in Item 4. Provide a thorough and detailed explanation for the differences for each account listed in Item 4 of the January 25, 1991 Order. Also, provide narrative explanations for each of the calendar year end accounting adjustments made for Martin.

2. Provide a copy of the court order terminating the receivership of Martin.

3. Concerning the response to Item 1 of the January 25, 1991 Order, Exhibit 1, page 1 of 5, Adjustment 1, provide the following information:

a. Explain why the \$3.12 surcharge was included in the determination of the pro forma gas sales.

b. Indicate whether the \$3.12 surcharge was included in the actual gas sales of \$262,926.

c. Explain how sales to the City of Martin Housing Authority ("Housing Authority") customers have been treated in the determination of the pro forma gas sales.

4. Concerning the response to Item 1, Exhibit 1, page 1 of 5, Adjustment 2, provide the following information:

a. In its application, Martin indicated that the annualization of the Housing Authority revenues would produce an increase in gas sales revenues of \$4,908. In its response to Item 1, it indicates a reduction in gas sales revenues of \$3,473 will occur. Explain this difference.

b. Explain the basis for the estimated sales of 501 Mcf for the Housing Authority customers.

c. Explain why the \$3.12 surcharge was included in the determination of this adjustment.

5. Concerning the response to Item 1, Exhibit 1, page 2 of 5, Adjustment 4, provide a detailed explanation of why the \$54,614 was recorded in Account No. 421, Miscellaneous Nonoperating Income, instead of Account No. 434, Extraordinary Income.

6. Concerning the response to Item 1, Exhibit 1, page 2 of 5, Adjustment 5, provide the following information:

a. Explain how the gas purchases for the Housing Authority customers have been treated in the determination of the adjustment.

b. Explain how Martin determined the estimated losses of 1,500 Mcf.

c. Explain why Martin is seeking to recover these losses over a 3-year period.

7. Concerning the response to Item 1, Exhibit 1, page 3 of 5, Adjustment 7, provide the following information:

a. State when the \$252,274 investment is expected to be made.

b. Explain why a composite depreciation rate was used and the basis for that rate.

c. For each item of new utility plant included in the \$252,274 investment, list the applicable depreciation rates.

d. For each item of new utility plant included in the \$252,274 investment, indicate the portion of Martin's existing utility plant to be replaced. Include the original cost and accumulated depreciation for each item of utility plant replaced.

8. Concerning the response to Item 1, Exhibit 1, page 3 and 4 of 5, Adjustment 8, provide the following information:

a. A copy of the referenced 1990 property tax bills. List the date each bill was paid.

b. Identify the payroll taxes included in the rate of 11.2 percent and indicate the appropriate rate for each tax.

c. Explain why the manager's salary is listed as \$1,500 per month when the payroll records indicate his monthly salary to be \$1,800.

d. Explain why an adjustment of \$3,637 was included when the calculations on page 3 of 5 support an adjustment of \$4,087.

9. Concerning the response to Item 1, Exhibit 1, page 4 of 5, Adjustment 9, explain why an income tax rate of 25 percent was used in calculating this adjustment. Provide the calculations which support the use of this tax rate.

10. Concerning the response to Item 1, Exhibit 1, page 4 of 5, Adjustment 10, provide the following information:

a. An amortization schedule for the Department of Local Government loan.

b. Explain why Adjustment 10 in the application indicates an increase of \$7,020 while the amount on page 4 of 5 is \$7,883.

11. Concerning the response to Item 1, Exhibit 1, page 5 of 5, Adjustment 11, provide the following information:

a. For the \$3.12 surcharge, explain why the monthly payment to First Guaranty Bank increased from \$1,318.25 to

\$1,358.45 in March 1988, as shown in the response to Item 5, Exhibit 5, page 4 of 4.

b. State whether the amounts shown as collections for the \$3.12 surcharge represent amounts billed or actual surcharge receipts.

c. Explain why Martin is seeking to recover the "collections short" of \$7,471.16 by amortizing the amount and including it in general rates, rather than changing the amount of the surcharge.

d. State whether the interest expense related to the \$3.12 surcharge loan with First Guaranty Bank has been included in Martin's income statement. If yes, explain why Martin has not proposed to remove the interest expense as it did in Case No. 10204.<sup>1</sup>

12. Concerning the response to Item 2 of the January 25, 1991 Order, Exhibit 2, provide the following information:

a. Explain why Martin should be allowed a rate of return on its existing utility plant of 15 percent. Include any analysis or studies relied upon to reach this determination.

b. If the new plant of \$252,274 will be replacing a portion of the existing plant, which will be removed from the plant accounts, explain the impact on the requested composite rate of return.

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<sup>1</sup> Case No. 10204, The Adjustment of the Rates of Martin Gas, Inc., for an Increase in Gas Rates, Order dated September 16, 1988.

c. Indicate what rate of return on common equity would result from the composite rate of return on rate base of 10 percent.

d. Indicate what rate of return on common equity is required by Martin's investors.

13. Concerning the service agreement between Martin and Estill Branham, provide the following information:

a. A copy of the service agreement in effect for calendar year 1991.

b. Explain how the amount of \$7,000 per month was determined to be appropriate and adequate.

c. Explain why the amount which reflects the difference between the charges paid directly by Martin and the \$7,000 monthly payment has been paid to the KISU Service Company, Inc. ("KISU") instead of Mr. Branham, as required by the service agreement.

14. Provide an explanation how the monthly office rental charge of \$500 was determined. Provide an itemized list of what this monthly rental charge covers. Explain whether the reference on the office rental bills to "Estill Branham Rental" refers to Mr. Branham or a separate company.

15. Provide the following information concerning the office building rented by Martin:

- a. The name of its owner;
- b. The total square footage of office area;
- c. The total square footage of any storage area;
- d. Its total cost;

e. The total property taxes paid on the building in 1990;

f. The total premium for insurance coverage on the building;

g. The average monthly utility bill for the building;

h. The average annual maintenance expense for the building;

i. The estimated useful life of the building;

j. The method used to finance the construction of the building;

k. Identify all companies or other business entities utilizing the office and/or storage area available in the building as a primary business office;

l. Identify all companies or other business entities which utilize the building for any purpose;

m. The monthly rent paid by the companies which are either located in or utilize the building.

16. Concerning the acquisition of the utility plant serving the Housing Authority customers, provide the following information:

a. The total original cost of the utility plant.

b. The total accumulated depreciation on the utility plant up to the date of transfer to Martin.

c. A listing of the types of utility plant acquired, the original service lives, the remaining service lives, and the depreciation rates used.

17. Concerning the response to Item 7 of the January 25, 1991 Order, Exhibit 7, page 1 of 2, provide the following information about Martin's payroll:

a. Explain the basis for Mr. Branham's annual salary of \$21,600. Include a discussion of how the amount was determined.

b. Identify the number and names of the employees of Martin as of February 1, 1991. Indicate the employees added since test-year end, listing their beginning date of employment, their hourly wage rates, and the average normal level of hours worked weekly.

18. Concerning interest on customer deposits, provide the following information:

a. State whether Martin paid interest on any customer deposits refunded during the test year. If yes, provide the normal accounting entries made to record the refund, complete with account numbers and titles.

b. State whether Martin accrued interest on customer deposits during the test year. If yes, provide the normal accounting entries made to record the accrual, complete with account numbers and titles.

19. Provide an explanation of the amounts recorded during the test year in Account No. 165.02, Prepaid Rate Case. Include a description of the transactions recorded and the reasons for accruing this current asset.

20. Concerning the amounts recorded in Account No. 241, Customer Advance - Surcharge, provide the following information:



a. According to the Uniform System of Accounts, Account No. 252, Customer Advances for Construction, shall include advances for construction. Explain why Martin is using Account No. 241.

b. Explain why the balance in this account is not reduced when the surcharge loan payments are made.

c. Explain what accounting treatment Martin intends to use for this account in future years.

21. Concerning Account No. 239, Pensions and Benefits Reserve, explain the purpose of this account and the transactions recorded in it.

22. Concerning the transportation expenses incurred by Martin in the test year, provide the following information:

a. Identify by make, model, and license number the vehicles utilized by Martin.

b. Identify the individuals authorized to make gasoline purchases for Martin. Include a list of Martin's gasoline credit cards and the persons authorized to use the credit cards.

23. In addition to being the manager of Martin, Mr. Branham is President of Auxier Road Gas Company, Inc. ("Auxier Road") and is Manager of Johnson County Gas Company, Inc. ("Johnson County"). Provide the number of gas customers for Auxier Road and Johnson County as of September 30, 1990.

24. Martin's response to Item 7 of the January 25, 1991 Order identified its employees for the period October 1, 1989 through September 30, 1990. For each employee listed therein who

also worked for Auxier Road and/or Johnson County indicate his number of hours worked and his salary or wage.

25. During the test year, Martin had several transactions with KISU. Provide the following information concerning KISU:

- a. The services provided by KISU to Martin.
- b. KISU's mailing address and phone number.
- c. The location of KISU's offices and storage facilities.
- d. Identify all employees of Martin, Auxier Road, or Johnson County who were also employees of KISU during the period October 1, 1989 through September 30, 1990.


26. Identify any business relationships which exist between the employees or shareholders Martin and the employees or shareholders of KISU. Business relationships include, but are not limited to, the ownership of stock; holding executive, administrative, or any position receiving compensation; or serving in an advisory or consultant capacity.

27. Provide a month-by-month schedule of the Gas Purchases Expense by wholesale supplier of \$110,162 as shown on the Income Statement.

28. Indicate whether Martin has considered revising its PGA Clause to allow for quarterly filings. Provide a narrative explaining the effect upon the utility of such a tariff revision, providing all calculations necessary to substantiate that conclusion.

Done at Frankfort, Kentucky, this 15th day of February, 1991.

PUBLIC SERVICE COMMISSION

  
For the Commission

ATTEST:



Executive Director