

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MARTIN GAS, INC. FOR AN)	
ADJUSTMENT OF RATES PURSUANT TO THE)	CASE NO.
ALTERNATIVE RATE FILING PROCEDURE FOR)	2006-00504
SMALL UTILITIES)	

O R D E R

On January 9, 2007,¹ Martin Gas, Inc. ("Martin") filed its application requesting that the Commission approve an adjustment of rates pursuant to 807 KAR 5:076, the alternative rate filing procedure for small utilities. Martin proposed to achieve rate parity within its distribution system by increasing the rates charged to customers acquired by Martin in 1999.² The proposed rates will increase the average residential bill for the former city of Hazard customers from \$55.36 to \$75.31, an increase of approximately 36.04 percent. Martin's proposed rates will generate annual revenues of \$385,905, an increase of \$39,768 or 11.5 percent over normalized test-year revenues of \$346,137.

Commission Staff performed a limited financial review of Martin's operations, and, on March 29, 2007, issued a report containing its findings and recommendations

¹ Martin submitted its application on November 30, 2006; however, the application was found to be deficient. On January 9, 2007, Martin filed additional information that cured the deficiencies and the application was declared filed.

² In 1999, Martin purchased a portion of its current distribution system from the city of Hazard. At the time of purchase, Martin adopted the tariff charged by the city of Hazard for those customers. The proposal to achieve rate parity would affect approximately 130 of Martin's 491 customers, based upon test-year information. The test year was calendar year 2005.

regarding the proposed rates. In its report, Staff agreed with Martin's determination of its proposed revenue increase resulting from achieving rate parity within its system. Staff determined that the proposed increase of \$39,768 was reasonable and recommended the approval of the proposed rates. Staff further reminded Martin that it was not in compliance with its gas cost adjustment clause ("GCA") tariff and that Martin should begin quarterly GCA filings pursuant to the terms in that tariff. Lastly, the Staff recommended that Martin monitor its overall financial condition and take the appropriate action to provide for financial stability.³

Martin, the only party to this proceeding,⁴ was directed to file written comments upon Staff's findings and recommendations or to request a conference or hearing no later than April 9, 2007. Martin was also directed to submit in writing no later than April 9, 2007 its acknowledgment that the proposed increase in revenues from the former city of Hazard customers would still result in a net loss for the test year of \$47,775. Martin did not file any comments on the Staff's findings and recommendations, nor did it request a conference or hearing. On April 16, 2007, Martin filed a statement acknowledging that the increase in revenues from the former city of Hazard customers would result in a net loss for the test year of \$47,775.

³ During the test year, Martin experienced a net loss of \$87,543. The addition of the proposed revenues the former city of Hazard customers would reduce the net loss to \$47,775. The existence of this net loss, coupled with Martin's failure to file quarterly GCAs, raised the concerns about the financial stability of Martin.

⁴ Martin included in its application a copy of the notice sent to customers concerning the proposed rate change. To date, no requests for intervention have been received and no letters or comments from the public have been filed concerning this proposed increase in rates.

The Commission is also concerned about the financial stability of Martin, given the information presented for the test year. The Commission notes that Martin's 2006 Annual Report has been filed and shows Martin experienced a net loss of \$38,082.⁵ During 2006, the proposed increase in rates for the former city of Hazard customers was not in effect. The results from 2006 and the proposed increase in revenues are positive factors that relieve some, but not all, of the Commission's concerns. Therefore, the Commission will require Martin to supplement its 2007 Annual Report with an analysis reflecting the impact of achieving rate parity within its distribution system. When it files the 2007 Annual Report, Martin should include an analysis of its revenues and net income that normalizes the increase granted by this Order as if the increase had been in effect for the entire calendar year. If this analysis shows there would have been a net loss for the year, Martin should include with the Annual Report a written narrative describing the actions it proposes to undertake to improve its overall financial condition.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. The recommendations and findings contained in the Staff Report are supported by the evidence of record and are reasonable.
2. Martin's proposed rates will produce annual revenues of \$385,905.
3. Martin should comply with the provisions in its tariff concerning the GCA and should submit its next GCA filing to correspond with the third calendar quarter as defined in its tariff.

⁵ 2006 Annual Report, page 28 of 42.

4. Martin should supplement its 2007 Annual Report to include the analysis described within this Order.

IT IS THEREFORE ORDERED that:

1. The recommendations and findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. Martin's proposed rates, which are set forth in Appendix A, are approved for service rendered by Martin on and after the date of this Order.

3. Within 20 days from the date of this Order, Martin shall file its revised tariff sheets showing the rates and charges approved herein, their effective date, their date of issue, and that they were issued pursuant to this Order.

4. Martin shall file its next GCA to correspond with the third calendar quarter as defined in its tariff.

5. Martin shall supplement its 2007 Annual Report filed with the Commission as described within this Order.

Done at Frankfort, Kentucky, this 31st day of May, 2007.

By the Commission

ATTEST:



Executive Director

Case No. 2006-00504

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2006-00504 DATED MAY 31, 2007

The following rates and charges are prescribed for the customers served by Martin Gas, 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.

All Mcf

First 1 Mcf	\$9.5162
Over 1 Mcf	\$9.3994