

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 INITIAL 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 November 23, 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 ("Application"), specifically, the page headed REASON FOR APPLICATION, and the paragraph referencing the recently established line of credit.

a. Identify, by vendor and amount, all specific "outstanding obligations for gas purchases" that Martin paid using the line of credit funds.

b. Confirm that no amount of interest expense on the line of credit is included in the expenses Martin seeks to recover through its proposed rate increase.

c. Confirm that the term, or payment schedule, for the line of credit is 36 months.

2. Refer to the Application, specifically the page headed REASON FOR APPLICATION, and the paragraph that refers to Martin's intention to begin a meter replacement program.

a. Provide the total estimated cost of the meter replacement program, as well as the detail concerning the estimated cost per meter.

b. Provide the average age, estimated useful life, original cost, and accumulated depreciation for the meters currently in use.

c. Provide details concerning Martin's current meter inventory, including models and manufacturers, whether they are temperature-compensating meters, and the relative ease or difficulty in maintaining them and obtaining replacement parts.

d. Provide details concerning the meter upgrade and replacement program, including models and manufacturers of replacement meters or components, whether some meters will be retained and under what circumstances, and whether Martin intends to replace existing meters with meters that have Automated Meter Reading capability.

e. Provide an estimate of the benefits of the meter upgrade and replacement program. The estimate should include, but not be limited to benefits resulting from improved meter reading accuracy and reduced meter reading cost.

3. Refer to the Application, specifically, the page headed REASON FOR APPLICATION, and the paragraph that refers to Martin as having "begun an inspection of all of its pipeline system."

a. Provide the estimated cost to repair, replace, and reroute pipelines in Martin's system.

b. Provide the average age and estimated useful life of the pipelines Martin proposes to replace.

c. Provide the composition of Martin's existing pipelines, whether they are cast iron, bare steel, plastic, etc., and the length of each.

d. There is a reference to “an unacceptable line loss with the Martin system.” Applying the purchases, sales, and unaccounted for gas volumes in the gas account schedule in Martin’s 2015 annual report on file with the Commission results in a line loss calculation for calendar year 2015 of 4.38 percent. Explain what Martin considers to be “an unacceptable line loss” and why.

4. Refer to the Application, specifically, pages 1–2 of the SCHEDULE OF ADJUSTED OPERATIONS – GAS UTILITY (“SAO-G”) and the SUPPLEMENT TO SCHEDULE OF ADJUSTED OPERATIONS (“SSAO”).

a. Page 1 of the SAO-G does not reflect any revenues from Martin’s Non-Recurring Charges, which are set out in its tariff on file with the Commission, the first page of its Rules and Regulations. Provide the revenues Martin received in 2015 as well as in 2013 and 2014 from each of the activities for which it collects a charge from its customers (late-payment penalties, reconnections, meter installations at an existing connection, customers moving to a different location, collections, returned checks, and mobile trailer connections).

b. Page 1 of the SAO-G shows a \$15,760 adjustment to Transmission Expenses which is referenced to B. on page 2 as repairs and maintenance. Explain if this adjustment reflects the amount Martin proposes for the repairs and maintenance described on the second page of the SSAO.

c. Page 1 of the SAO-G shows an adjustment to Administrative and General Expenses of \$80,374 for which the referenced C. on page 2 refers to the SSAO “which breaks down this amount into the different categories that comprise it.” Provide a list of the items, including the dollar amounts, that make up the \$80,374 adjustment.

d. Page 1 of the SAO-G shows an adjustment to Taxes Other Than Income of \$18,535 for which the reference to D. on page 2 includes a reference to the SSAO which states, "This tax increase is a result of the increase in sales revenues." Identify the specific taxes to which this adjustment applies and provide the calculation of the \$18,535 adjustment.

5. Refer to the Application, specifically, page 1 of the SSAO, the paragraph identified as Advertising, which refers to Martin's starting an advertising program for the purpose of gaining customers. Martin's annual reports on file with the Commission show virtually no change in its customer count for the period 2011–2015.

a. Explain how Martin expects to gain customers through advertising.

b. Describe the type of newspaper advertisements Martin intends to use in its efforts to gain new customers.

c. Explain whether Martin is familiar with Administrative Regulation 807 KAR 5:016, which establishes parameters governing the types of advertising for which the costs may be recovered through rates and the types of advertising for which the costs may not be recovered through rates.

6. Refer to the Application, specifically, page 1 of the SSAO, the paragraph identified as Health Insurance.

a. Provide the amount of Martin's health insurance expense in 2015.

b. Show the calculation of the \$6,466 increase which is described as representing the actual amount that Martin should have paid.

c. Identify employees covered by Martin's employer-provided health insurance by position. Indicate whether they are full-time or part-time and whether coverage is provided for employee family members.

7. Refer to the Application, specifically, page 2 of the SSAO, the paragraph identified as Automobile Insurance.

a. Provide the expense for auto insurance in 2015 and the calculation of the \$2,551 adjustment.

b. Explain why Martin's auto insurance expense is increasing.

8. Refer to the Application, specifically, page 2 of the SSAO, the paragraph identified as Workers Compensation Insurance.

a. Provide the expense for workers' compensation insurance in 2015 and the calculation of the \$2,812 adjustment.

b. Explain why Martin's workers' compensation insurance expense is increasing.

9. Refer to the Application, specifically, page 2 of the SSAO, the paragraph identified as Management, which indicates that "Martin plans to hire additional part-time staff to implement its changes . . ."

a. Provide the number of part-time employees Martin intends to hire.

b. Provide the amount of expense Martin expects to incur for the part-time employees it plans to hire and show how it was calculated.

c. Identify and describe the changes Martin plans to implement.

10. Refer to the Application, specifically, page 2 of the SSAO, the paragraph identified as Clerical Expense. The description in the paragraph states that over the

past few years Martin has required “more accounting services from Clean Gas, Inc. as additional customers were added.”

a. According to its annual reports on file with the Commission, Martin had 433 customers from 2011 to 2014 and in 2015 it had 437 customers. Given these customer levels, explain how the increase in required accounting services from Clean Gas, Inc. (“Clean Gas”) is due to an increase in customers in Martin’s system.

b. Provide the amount of clerical expense incurred by Martin in 2015 for services provided by Clean Gas, any known and measurable increase in that amount, and the calculation of any such increase.

11. Refer to the Application, specifically, page 2 of the SSAO, the paragraph identified as Legal Fees.

a. Provide a more detailed description of Martin’s litigation involving claims for gas purchases including the number of claims, when each claim was initiated, and when Martin anticipates each claim will be resolved.

b. Explain whether legal costs were incurred in 2015 in connection with the aforementioned litigation and, if such costs were incurred, provide the amount.

c. Explain why \$12,000 is the amount Martin anticipates it will incur annually in legal fees for the referenced litigation.

12. Refer to the Application, specifically, page 2 of the SSAO, the paragraph identified as Legal Fees for this Application. Explain how the amount of \$25,000 was determined to be the expected legal costs for this case and show how it was calculated (hours worked, hourly rates, etc.).

13. Refer to the Application, specifically, page 2 of the SSAO, the paragraph identified as Office Supplies. Provide the expense incurred by Martin in 2015 for office supplies and show the calculation of the proposed increase of \$3,467.

14. Refer to the Application, specifically, page 2 of the SSAO, the paragraph identified as Property Insurance. Clarify that the discussion of the increase means that, while the 2015 cost was \$10,680, Martin recorded \$9,249, or \$1,431 less than \$10,680.

15. Refer to the Application, specifically, pages 2–3 of the SSAO, the section identified as Accounts Payable.

a. Provide the year Martin incurred the payable of \$51,245 to Heritage Gas Company, LLC and state whether \$51,245 was the original amount of the payable.

b. Provide the year Martin received the loan from shareholders with a current balance of \$12,200 and state whether \$12,200 was the original amount of the loan. If \$12,200 was not the original amount, provide the original amount and state when Martin made payment(s) to reduce the balance to the current \$12,200.

16. Refer to the Application, specifically, ARF FORM 1 – ATTACHMENT RR-OR, which is used to perform the revenue requirement calculation using the operating ratio method. After adjustments, total pro forma operating expenses for the 2015 test year are \$492,568 as shown on the SAO-G. Subtracting the \$189,124 cost of natural gas from this amount leaves \$303,444 in non-gas pro forma operating expenses. Reconcile this amount with the \$314,300 in pro forma operating expenses used on the first line of the attachment to begin the revenue requirement calculation.

17. Refer to the Application, the Supplement to Declining Block Rates Analysis, filed October 10, 2016. State how long Martin has billed its minimum bill rate

structure as though it contained a customer charge and a flat-rate volumetric rate for all gas consumed.

18. Refer to the Application, the Revenue Table showing Revenue from Proposed Rates, filed October 10, 2016.

a. State what base rate is proposed and what gas cost is used in the proposed \$14.285 per Mcf rate.

b. Subtracting the \$366,067 Revenue from Present Rates on the previous table from the \$590,491 Revenue from Proposed Rates produces a revenue increase in the amount of \$224,424. Confirm the amount of revenue increase that Martin is proposing.

19. Refer to the schedule of Gas Operation and Maintenance Expenses in Martin's 2015 annual report on file with the Commission, specifically, to Administrative and General Expenses. Refer also to its annual reports from 2010 through 2014.

a. Provide a breakdown of the \$51,119 shown for Administrative and General Salaries, Account 920, for 2015, which shows by position, the employees and amounts of their salaries.

b. Provide a breakdown of the \$59,990 shown for Outside Services Employed, Account 923, for 2015, which identifies each service provider and shows the amount the service provider was paid by Martin. Include a description of the services provided by each service provider.

c. Martin's 2013 and 2014 annual reports include amounts similar to its Outside Services Employed expense for 2015. The annual reports for the preceding three years, 2010, 2011, and 2012, show no expense for Outside Services Employed.

Explain what has caused Martin to incur roughly \$60,000 annually for the last three years for this specific expense after it reported no amount for the three prior years.

20. Refer to the Gas Utility Plant in Service schedules in Martin's 2013, 2014, and 2015 annual reports on file with the Commission. Confirm that the amount of \$453,399 shown in Account 377, Compressor Station Equipment, in the 2014 and 2015 reports was unintentionally moved to that account from Account 376, Mains, in 2013 as the beginning and ending balances for those accounts in the 2013 annual report indicate. If this cannot be confirmed, explain why.

21. Refer to Martin's tariff, the first Rules and Regulations page.

a. Confirm that Martin is not proposing any change to its Non-Recurring Charges.

b. Confirm that Martin is aware that it is no longer required to pay 6 percent interest on deposits, and that that its tariff should be revised to reflect the current language of KRS 278.460 regarding the requirement for utilities to pay interest on deposits.

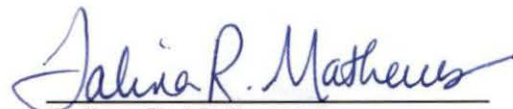
22. Refer to Martin's 2013, 2014, and 2015 annual reports, page 29 of 42. Confirm that Martin has reported no expense amounts in Account 904, Uncollectible Accounts, for these three years. If this cannot be confirmed, explain why.

23. Regarding the equipment on Martin's system:

a. Explain whether Martin has regulating equipment on its system. If so, provide the level of investment and number of regulating stations. If not, explain why not and how Martin regulates the pressure on its system.

b. Explain whether Martin has measurement equipment on its system. If so, provide the level of investment and number of measurement stations. If not, explain why not and how Martin measures natural gas coming on its system.

24. Provide the amount Martin expects to spend for the corrections set out in the findings from the Commission Inspection Report dated September 23, 2015.



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cc: Parties of Record

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