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February 8, 2017

PARTIES OF RECORD

Re: Case No. 2016-00332

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter.

If you have any questions, please contact Virginia Gregg, Commission Staff Attorney, at 502-782-2584.

Sincerely,

Talina R. Mathews

Talina R. Mathews
Executive Director

VG/ph

Attachment

INTRA-AGENCY MEMORANDUM

KENTUCKY PUBLIC SERVICE COMMISSION

TO: Case File

FROM: Virginia W. Gregg, Staff Attorney

DATE: February 3, 2017

RE: Case No. 2016-00332
Application of Martin Gas, Inc. for Rate Adjustment for Small Utilities Pursuant to 807 KAR 5:076

Pursuant to the Commission's Order of January 18, 2017, an informal conference was held on January 27, 2017, at the Commission's offices in Frankfort, Kentucky, for the purpose of discussing substantive and procedural issues in this case. A list of the attendees is attached hereto.

The conference began with the Attorney General of the Commonwealth of Kentucky, by and through his office of Rate Intervention ("AG") questioning Martin Gas, Inc. ("Martin") about its outstanding debt for gas purchases and stockholder loans. The AG questioned whether or not Martin was still paying for gas from Heritage Gas Company, LLC or Clean Gas, Inc. Martin confirmed that it is now purchasing its gas from EQT and Basin Energy. Martin then discussed the history of the gas cost component of Martin's rates, including a period when the billing rate was not changed pursuant to the Commission's orders in Martin's Purchased Gas Adjustment cases. Commission Staff ("Staff") stated that any under-or over-recovery of the gas cost due to Martin's failure to charge the authorized rates would need to be collected from or returned to its customers. Martin stated that it had not yet confirmed the total dollar amount of any under-or over-recovery, but estimated that it over-recovered no more than $5,000.

Staff also questioned Martin about incidences of charging its non-recurring charges, such as charges for bad checks. Martin indicated that in the past it had not charged its customers for such items as bad checks, disconnections and reconnections, etc. Martin estimated that it was charged $10 by its bank, for any returned checks. Martin acknowledged the need to charge its customers for such items in situations where it has approved non-recurring charges contained in its Tariff and stated it is considering requesting Commission approval of additional non-recurring charges in the future. Staff noted that there could be an offset to Martin's revenue requirement based on estimates of non-recurring charge revenue.

The AG questioned Martin about its cost for pipeline repairs, which Martin confirmed is generally required because of damage caused by third party contractors. Staff noted that repair costs include such items as equipment rental, lost gas, and the cost of labor, including applicable benefits and over-time. Staff mentioned that in the past the Commission has approved the use of a monthly surcharge for pipeline replacement programs ("PRP"), and in some instances for the replacement of aged meters. Martin stated that it was not currently interested in a PRP program and had paid for its needed infrastructure repairs and replacements through a loan from the Department of Local Government, which has since been repaid. Staff mentioned that immaterial pipeline repairs should be reflected as operation and maintenance expenses, but that substantial pipeline repairs, new pipeline installation, and meter replacements should be reflected as a capital expense. Martin explained that it uses a threshold of $3,500 to determine if pipeline repairs are capitalized or expensed. The requirement for Martin to offer budget billing was also discussed.

Staff next questioned Martin on the total volume of gas used by its customers who received minimum bills during the 2015 test year. Martin agreed that it would analyze its billing records and provide this information in a supplementary data response. There was also discussion of Martin's latest Commission safety inspection in December 2016, which Martin stated was a "good" inspection.

Staff questioned the estimated $10,000, which Martin had described as owed for a completed leak survey and a completed regulator survey. Martin stated that the $10,000 estimate was for the total cost of both surveys. Martin indicated that it had received an invoice for the leak survey, which was approximately $4,000. Martin agreed to follow up on the outstanding cost for the regulator survey when an invoice was received.

Staff questioned Martin about a complaint which was received by the Commission's Consumer Services Branch regarding a higher than normal bill received by a Martin customer. Martin confirmed that this occurred as the result of a meter reader who had not read meters for approximately 1 ½ years, and had submitted estimated usages to Martin. Martin stated that the meter reader was no longer employed by Martin. Also discussed was Martin's line loss for the years 2011-2015, and any effect that estimated meter readings might have had on the increased line loss of roughly 4 percent for 2015. Martin stated that yearly total volume usage for 2011-2015 was fairly consistent and that it does not believe estimated meter readings have affected its line loss calculation.

Staff questioned Martin about its classification of increased sales and school taxes as an expense in the adjusted test year. Martin confirmed that it collects sales and school taxes from its customers and remits them to the proper entities. Martin explained that for income tax purposes, sales and school taxes are considered an expense because they are included in total revenues but confirmed that the calculation of test year revenues does not include these taxes.

Martin agreed to provide in a supplemental response the following information: an analysis of its over-recovery of gas cost, which Martin estimates occurred over 1 ¾ years, or 7 quarters; a proposal for refunding the over-recovery to its customers; total volume billed for customers receiving minimum bills during the 2015 test year; and invoices to support the actual cost of its leak survey and its regulator survey. Martin agreed to provide all this information within 14 days. Finally, in response to a question from Staff, the AG and Martin both stated that they were not requesting an evidentiary hearing and that this matter could be determined on the record.

There being no further discussions, the informal conference was adjourned.

Attachment

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

Informal Conference – January 27, 2017

Please sign in:

NAME	REPRESENTING
Kent Chandler	KY OAG
Allyson Honaker	Goss Samford for Martin Gas
Zach Weinberg	Martin Gas
John Pinson	Martin Gas
Kevin Jacobs	Martin Gas
Jeff Shaw	PSC - Fin. Analysis
Bob Russell	PSC
Mary Whitaker	PSC-FA
Nancy Vinsel	PSC-Legal
Leah Faulkner	PSC-FA
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