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Protection Cabinet

Christopher L. Lilly
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Commonwealth of Kentucky
Public Service Commission
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Mark David Goss
Chairman

John W. Clay
Commissioner

December 6, 2006

RECEIVED
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PUBLIC SERVICE
COMMISSION

Mr. Craig McNew
Martin Gas, Inc
P.O. Box 783
Hindman, Kentucky 4182202

RE: Case No. 2006-00504
Filing Deficiencies

The Commission staff has reviewed your application in the above case. The filing is rejected for the reasons set forth below:

1. Filing deficiencies pursuant to 807 KAR 5:076:

807 KAR 5:076: Section 2 Satisfactorily completed application form?

Please refer to the enclosed form. The noted deficiency refers to Section III, which is located on page 4 of this form. Please submit full responses to question 4a & 4b.

The statutory time period in which the Commission must process this case will not continue until the above mentioned information is filed with the Commission. You are requested to file 10 copies of this information within 15 days of this letter. If you need further assistance, please contact Isaac Scott at 502/564-3940.

Sincerely,

Michael F. Burford
Director
Division of Filings

Enclosure
/mb

III. Other Information

a. Please complete the following questions:

1) Please describe any events or occurrences, which may have an effect on this rate review that should be brought to the Commission's attention (e.g., excessive line losses, major repairs, planned construction).

2) Total number of Customers as of the date of filing: _____

3) Total amount of increased revenue requested: _____

4) Please circle Yes or No:

a) Does the utility have any outstanding indebtedness?

Attached
 Yes No

If yes, attach a copy of any documents such as promissory notes, bond resolutions, mortgage agreements, etc.

b) Were all revenues and expenses listed in the Annual Report for 2005 incurred and collected from January 1 to December 31 of that year?

Yes No

If no, list total revenues and total expenses incurred prior to or subsequent to this period and attach invoices or other analysis which show how amounts were calculated.

ALL REVENUES AND EXPENSES WERE INCURRED IN THE PERIOD. THE AMOUNTS INCURRED BUT NOT PAID ARE REFLECTED AS RECEIVABLES AND PAYABLES.

PROMISSORY NOTE

Martin Gas, Inc., a Kentucky corporation, with principal offices located at Rt. 80 Post Office Box 783, Hindman, Kentucky 41472, hereinafter referred to as "Maker", this 23rd day of Aug., 1999, for and in consideration of a loan in the amount of Three Hundred Fifty Seven Thousand Two Hundred Seventy Four Dollars and No Cents (\$357,274.00), the receipt of which is hereby acknowledged, does hereby promise to pay to the order of the Commonwealth of Kentucky, hereinafter referred to as the Commonwealth, acting by and for the use and benefit of the Department for Local Government's Gas System Restoration Project Account, payable at the offices of the Department for Local Government, 1024 Capital Center Drive #340, Frankfort, Franklin County, Kentucky 40601, in the principal amount of Three Hundred Fifty Seven Thousand Two Hundred Seventy Four Dollars and No Cents (\$357,274.00), with interest to run thereon at a rate of 4.000% compounded annually from July 1, 1999 to be paid in annual installment payments in the amount of Thirty Two Thousand One Hundred Thirty Three Dollars and Sixty Two Cents (\$32,133.62) for fifteen (15) years, with the annual installment payments first applied to interest and the balance to principal, the first annual installment payment in the amount of Thirty Two Thousand One Hundred Thirty Three Dollars and Sixty Two Cents (\$32,133.62) due and payable on the on the first day of July, 2000, and the remaining annual installment payments for each subsequent year during the life of the loan being due and payable the first day of July thereafter for fourteen (14) years, and with a final payment of interest and principal due and payable on the first day of July, 2014. A non-interest bearing escrow account shall be maintained by the Commonwealth for the Maker and to which the Maker shall make the monthly

installment payments yearly for purposes of accumulating sufficient funds to meet and be applied to the annual installment payments of interest and principal as hereinbefore stated, said monthly escrow installment payments to be made as follows: July, August, September and October escrow installment payments each in the amount of One Thousand One Hundred Twenty Four Dollars and Sixty Eight Cents (\$1,124.68) each, due and payable respectively on the first day of July, the first day of August, the first day of September and the first day of October, 1999, and the remaining July, August, September and October payments each of One Thousand One Hundred Twenty Four Dollars and Sixty Eight Cents (\$1,124.68) for each subsequent year during the life of the loan being due and payable respectively on the first day of July, the first day of August, the first day of September and the first day of October thereafter for fourteen years; the November and December escrow installment payments each in the amount of Two Thousand Two Hundred Forty Nine Dollars and Thirty Six Cents (\$2,249.36) each, due and payable respectively on the first day of November and the first day of December, 1999, and the remaining November and December payments each Two Thousand Two Hundred Forty Nine Dollars and Thirty Six Cents (\$2,249.36) for each subsequent year during the life of the loan being due and payable respectively on the first day of November and the first day of December thereafter for fourteen years; the January, February, March, and April escrow installment payments each in the amount of Four Thousand Six Hundred Fifty Nine Dollars and Thirty Seven Cents (\$4,659.37) each, due and payable respectively on the first day of January, the first day of February, the first day of March and the first day of April, 2000, and the remaining January, February, March and April payments each of Four Thousand Six Hundred Fifty Nine Dollars and

Thirty Seven Cents (\$4,659.37) for each subsequent year during the life of the loan being due and payable respectively on the first day of January, the first day of February, the first day of March and the first day of April thereafter for fourteen years; the May and June escrow installment payments each in the amount of Two Thousand Two Hundred Forty Nine Dollars and Thirty Five Cents (\$2,249.35) each, due and payable respectively on the first day of May and the first day of June, 2000, and the remaining May and June payments each of Two Thousand Two Hundred Forty Nine Dollars and Thirty Five Cents (\$2,249.35) for each subsequent year during the life of the loan being due and payable respectively on the first day of May and the first day of June thereafter for fourteen years. All monthly escrow installment payments shall be applied by the Commonwealth to the Maker's annual payment of interest and principal during the life of the loan as hereinbefore stated.

This Note is the Note referred to and secured by an Amended and Restated Mortgage and Security Agreement of even date herewith on real and personal property comprising all of the assets of Martin Gas, Inc., as described in said Amended and Restated Mortgage and Security Agreement, and the terms of said Amended and Restated Mortgage and Security Agreement are hereby made a part hereof and included herein by reference as if set out in full, the same being adopted, ratified and confirmed as if set out anew herein.

If the Martin Gas, Inc., shall fail to pay any installment when first due and payable, or breach any of the terms and conditions of this Note and/or the Amended and Restated Mortgage and Security Agreement securing the repayment of the same, all of said terms and conditions being considered material to this transaction, the breach of

which shall constitute default, the holder or holders of this note may declare all the remaining installments fully due and payable at once without notice of demand, the same as if said remaining installments were then fully due and payable, the time for payment having been accelerated at the option of the holder or holders of this Note by reason of said default, and the holder or holders of this Note may proceed to enforce their rights under the terms and conditions of this Note and the Amended and Restated Mortgage and Security Agreement which secures the repayment of the same by initiating foreclosure proceedings as provided by said terms or as provided by law, at the option of the aforesaid holder or holders.

Failure of the holder or holders of this Note to exercise any right or remedy, including but not limited by reason or enumeration, acceptance of partial or delinquent payments, shall not constitute a waiver of any obligation of the Martin Gas, Inc., or a waiver of the right or rights of the holder or holders of this Note or constitute a waiver of any other similar breach or default subsequently occurring.

The undersigned, drawers and endorsers, severally waive presentment or payment, protest, demand and notice of protest, dishonor or nonpayment.

IN TESTIMONY WHEREOF, witness the hand of the duly authorized agent, officer and representative of the Martin Gas, Inc., on behalf of said corporation.

MARTIN GAS, INC.

By Lois C. Weinberg
Lois Weinberg, President

Commonwealth of Kentucky
County of ~~KNOTT~~
STATE AT LARGE

Before me Wm R Weinberg a notary public, in and for the State and County aforesaid, this day personally appeared Lois Weinberg, President of Martin Gas, Inc. a Kentucky corporation, who is known to me to be the President of Martin Gas, Inc., and acknowledged that she, as the duly authorized representative of the aforesaid corporation, having been authorized by resolution of the corporation's Board of Directors, executed the foregoing Amended and Restated Mortgage and Security Agreement, on behalf of the foregoing corporation, and said mortgage was executed as and is the free and voluntary act and deed of Martin Gas, Inc., for the uses and purposes set forth therein; this 23rd day of Aug, 1999.

Wm R Weinberg
Notary Public

My commission expires: 3/13/02

This Instrument Prepared By:

MR

Richard J. Ornstein, Attorney
Department for Local Government
1024 Capital Center Drive, Suite 340
Frankfort, Kentucky 40601
(502) 573-2382

CONDITIONS OF LOAN TO MARTIN GAS, INC.

The undersigned MARTIN GAS, INC., (hereinafter referred to as gas system), being a natural gas distribution system operated wholly within the Commonwealth of Kentucky, and having received a loan from the Gas System Restoration Project Account (hereinafter referred to as GSRP Account) in the amount of Three Hundred Fifty Seven Thousand Two Hundred Seventy Four Dollars and No Cents (\$357,274.00), hereby agrees to the following terms as a condition of said loan:

1. The gas system shall be brought into and remain in compliance with all rules, regulations and safety standards of the Kentucky Public Service Commission (hereinafter referred to as PSC).
 - a. All construction shall be carried out in conformance with plans, specifications and documents previously approved by PSC until said construction is completed.
 - b. Gas system personnel shall assist and cooperate with PSC staff in conducting inspections of the gas system during the term of the loan.
2. Gas system loan application and/or engineering plans and specifications shall be submitted to the Kentucky Department for Environmental Protection for review and approval prior to construction; attention: Alex Barber.
3. KRS Chapter 45A, Kentucky Model Procurement Code, shall govern all contracts for construction financed by project funds. A list of all bids received shall be submitted to the Department for Local Government prior to acceptance of a bid.
3. Proceeds of the loan shall be used for refinancing of the existing GSRP loan and for construction as described in the loan application, and for no other purpose without the express written permission of the GSRP board.
4. Payment of proceeds of the loan for construction shall be in the form of progress payments to the contractor or engineer from the GSRP Account.

- a. Contractor or gas system owner/operator shall submit to the Department for Local Government the contractor's statement detailing the work performed and the amount due, as approved by the project engineer.
 - b. Fifteen percent (15%) of the amount of each construction pay estimate shall be withheld until all work is completed in accord with approved plans and specifications to the satisfaction of PSC and the project engineer.
 - c. Gas system owner/operator shall submit invoices for engineering inspection services or other construction-related costs to the Department for Local Government for payment.
5. The annual amount due GSRP Account from Gas System on this loan may be made payable in monthly installments which shall reflect the following percentages of total annual amount due: January – April, 14.5% per month; May – June, 7.0% per month; July – October, 3.5% per month; and November – December, 7.0% per month. Payment of principal and interest shall begin July 1, 1999.
 6. If ownership of the gas system is transferred by sale before repayment of this loan, the entire amount of outstanding principal and interest due shall be repaid before completion of the sale transaction.
 7. Gas system shall place three percent (3%) of its annual gross revenue in an escrow account for replacement or emergency repair of equipment until fifty thousand dollars and no cents (\$50,000.00) is accrued and the percentage may be reduced thereafter provided said amount is maintained in the escrow amount.
 - a. Gas system must petition for and gain written approval from the GSRP Account Review Board before funds may be withdrawn from its escrow account for any purpose.
 8. Gas system shall assist and cooperate with DLG staff in conducting semi-annual audits of the gas system.

- a. The auditor shall determine compliance of the gas system with the conditions of this document.
 - b. Audit reports shall include a narrative and shall be submitted to the gas system, PSC, GSRP Account Review Board, and such others as may be deemed appropriate by DLG.
 - c. The audit shall list and locate all extensions and service connections to the system constructed since the previous report.
 - d. Gas system shall take all necessary action to correct noncompliance with the conditions of this document, if any, before the next management audit is scheduled to be performed.
9. As security for the loan the Commonwealth of Kentucky shall have a lien on all assets and future earnings of the gas system, and said lien shall be superior to all others.
- a. In the event of substantial noncompliance by the gas system with any of the terms and conditions of this loan, the Commonwealth of Kentucky, Department for Local Government shall have the right to initiate foreclosure proceedings as provided by law upon thirty days' written notice to the gas system.
10. Gas System shall not discriminate in employment, operation or contractual activities on the ground of race, color, national origin, sex, religion, age or disability.
11. Public liability insurance shall be maintained for the term of the loan by the gas system to conform with their limits of the current policy or at the determination of the board, and the Commonwealth of Kentucky shall be named on said policy as an additional insured.
12. The gas system operator shall meet all requirements of the Davis-Bacon Act.
- a. The gas system shall assure that prevailing wages as determined by the U.S. Department of Labor are paid to workers hired specifically to perform activities funded by this loan.

- b. The gas system shall assure that these wages are paid onsite, and weekly.
 - c. The gas system shall assure that the wage scale shall be posted in the place of work.
13. Gas system operator shall sign and adhere to the provisions set forth in the following forms (attached hereto):
- a. Form ED-524, "Certification of Compliance with the Clean Air Act and the Federal Water Pollution Control Act."
 - b. Form ED-501A, "Certification of Non Relocation."
 - c. Form ED-168, "Relocation and Land Acquisition Certificate."
 - d. Form ED-503, "Assurances of Compliance with the Department of Commerce and Economic Development Administration Regulations under Title VI of the Civil Rights Act of 1964 and the Public Law 92-65."
 - e. Form ED-612, "Current and Projected Job Opportunities."

MARTIN GAS, INC.

By: Lois Weinberg
Lois Weinberg
President

Commonwealth of Kentucky

County of STATE AT LARGE

Before me Wm R Weinberg, a notary public, in and for the State and County aforesaid, this day personally appeared Lois Weinberg, President of Martin Gas, Inc. a Kentucky corporation, and acknowledged that she, as a duly authorized representative of the aforesaid corporation, having been authorized by resolution of the corporation's Board of Directors, executed the foregoing Schedule of Mortgaged Property and Collateral (Schedule), on behalf of the foregoing corporation, and said Schedule was executed as and is the free and voluntary act and deed of Martin Gas, Inc., for the uses and purposes set forth therein; this 23rd day of Aug, 1999.

Wm R Weinberg
Notary Public

My commission expires: 3/13/02

SCHEDULE OF MORTGAGED PROPERTY AND COLLATERAL

All property now owned or to be owned in the future by Debtor, MARTIN GAS, INC. wherever situated, both real and personal, tangible and intangible of whatever description or kind, including but not limited by reason of enumeration, any and all means and instrumentalities owned, operated, leased, licensed, used, furnished, or supplied for, by or in connection with the business of the MARTIN GAS, INC., accounts, both existing and those that will exist in the future, all rights of way, franchises, pipelines, pole lines, easements, railroad tracks, engines, cars, motor equipment, buildings, improvements and appurtenances presently standing or at any time hereafter constructed or placed upon the premises of the Debtor, or any part thereof, all furnaces, boilers, sprinkler systems, heating systems, air conditioning fixtures, plumbing fixtures, elevators, ventilating fixtures, gas and electric fixtures, elevators, electrical fixtures, all interior partitions, counters, railings, venetian blinds and traverse rods, asphalt tile floor coverings, wherever the same are situate.

MARTIN GAS, INC.

By: Lois Weinberg
 Lois Weinberg
 President

Commonwealth of Kentucky

County of ~~_____~~
STATE AT LARGE

Before me Wm R Weinberg, a notary public, in and for the State and County aforesaid, this day personally appeared Lois Weinberg, President of Martin Gas, Inc. a Kentucky corporation, and acknowledged that she, as a duly authorized representative of the aforesaid corporation, having been authorized by resolution of the corporation's Board of Directors, executed the foregoing Schedule of Mortgaged

Property and Collateral (Schedule), on behalf of the foregoing corporation, and said Schedule was executed as and is the free and voluntary act and deed of Martin Gas, Inc., for the uses and purposes set forth therein; this 23rd day of Aug, 1999.

Wm R. Harding
Notary Public

My commission expires: 3/13/02

STATE OF KENTUCKY
S.S.
COUNTY OF FLOYD

I, **CHRIS WAUGH**, Clerk of the County and State aforesaid certify that the foregoing Misc. Recording was on the 2nd day of September, 1999 at 3:22 o'clock P.m. lodged for record whereupon the same with the foregoing and this certificate have been duly recorded in my office.

Witness my hand, this 8th day of September, 1999.

CHRIS WAUGH
BY: Elizabeth Stratton D.C.