COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

* * * * *

In the Matter of:

NOTICE OF PROPOSED ADJUSTMENT OF RATES AND APPLICATION FOR INTERIM RATE RELIEF, FOR MARTIN GAS, INC.	))))	CASE NO. 8730

O R D E R

PROCEDURAL BACKGROUND

On November 22, 1982, Martin Gas, Inc., ("Martin") filed its notice proposing to increase the rates and charges for gas service rendered to its customers after December 12, 1982, and requesting interim rate relief. The proposed increase would produce $56,414 in additional revenue or an increase of 17.16 percent. On December 14, 1982, the proposed rates and charges were suspended for a period of 5 months after December 12, 1982.

On December 21, 1982, the Commission held a public hearing to consider Martin's request for interim rate relief, and on January 20, 1983, the Commission denied Martin's request. On February 9, 1983, Martin requested a rehearing on the issue of interim rate relief, which the Commission granted on February 17, 1983. In order to determine the reasonableness of Martin's request for permanent rate relief and to hear additional testimony regarding Martin's request for interim rate relief, a public hearing was held on February 22, 1983. The Consumer

Protection Division of the Attorney General's Office was the sole intervenor in these proceedings.

In this Order the Commission affirms its interim Order of January 20, 1983, which denied Martin's request for interim rate relief and has granted Martin an increase in rates and charges to produce an increase in annual revenues of $18,215.

TEST PERIOD

Martin proposed and the Commission has accepted the 12-month period ending September 30, 1982, as the test period in this proceeding.

HISTORICAL BACKGROUND

Martin is the surviving corporation of a merger with Bucks Branch Gas Company, Inc., authorized by this Commission in Case No. 6670. Martin is engaged in the business of providing retail distribution and sale of gas to approximately 445 customers in the City of Martin and the surrounding area of Floyd County, Kentucky.

From 1979 through the end of the test period Martin has experienced an average line loss of 14.8 percent[1/] (18.2 percent for the test period). The Commission has a well-established policy of allowing maximum gas line loss of 5 percent for rate-making purposes. Martin has taken no steps to remedy its line loss, which has resulted in excessive and expensive gas purchases by Martin above the demand of its customers. This expense in turn has contributed to Martin's current financial picture.

Martin last requested general rate relief in 1978. The management of Martin, while aware of the excessive line loss and its corresponding financial drain, elected not to seek a rate increase but to keep the rates to its customers as low as possible.[2/] Martin's management did attempt to obtain funds from the Department for Local Government but was informed as early as January 1981 that funds would not be available.[3/] No plans for construction or financing to upgrade the system have ever been filed.

It is the opinion of this Commission that the directors and management of Martin have failed in their responsibility to provide safe, reliable service to their customers at the lowest costs possible. Line losses for a gas utility of 14 percent for an extended period of time cannot be characterized as safe nor cost effective. While the desire to keep rates low could have resulted in deferring action for a period of time, it does not validate management's total torpidity in light of the magnitude of the problems facing Martin.

INTERIM ORDER

The Commission, upon reconsideration of the evidence in this proceeding and after examining the additional testimony presented at the hearing of February 22, 1983, remains unconvinced that it erred in its decision not to allow interim rate relief and hereby reaffirms its Order of January 20, 1983. The Commission did err in stating that Martin did not request a Purchased Gas Adjustment to recover increased gas costs from its supplier, Columbia Gas Transmission Corporation, effective January 1, 1982, on a timely basis; Martin did request such a Purchased Gas

Adjustment. The error, however, has no material effect on the findings of that Order.

VALUATION METHOD

Net Investment Rate Base

At the end of the test period Martin had a net investment in its rate base of $67,996, as follows:

Plant In Service	$142,351
Cash Working Capital Allowance	7,909[4/]
Subtotal	$150,260
Less:	
Accumulated Provision for Depreciation	$ 82,264
Net Investment Rate Base	$ 67,996

REVENUES AND EXPENSES

Martin proposed several adjustments to its test period operations to more accurately reflect current operating conditions. The Commission has accepted these adjustments with the following exceptions:

Purchased Gas Expense

Martin proposed to increase its test period expense for purchased gas of $247,816 by $56,952 to a normalized level of $304,768.[5/] This adjustment reflects actual levels of gas purchased during the test period from its suppliers, Columbia Gas of Kentucky and Southeastern Gas Company. Since Martin's test period operations include an 18.2 percent line loss, the Commission has reduced Martin's proposed increase for purchased gas by $34,035[6/] to reflect the maximum 5 percent gas line loss allowed for rate-making purposes.

Wages and Salaries

Martin proposed to increase its test period level of wages and salaries by $2,514 to reflect an 8 percent wage increase granted its three employees effective January 1, 1983.[7/] In view of Martin's current ecomonic condition, the annual inflation rate at January 1983 of 3.54[8/] percent and the increased level of employee benefits granted Martin's employees during the test period,[9/] it is the opinion of this Commission that the wage increases granted by Martin to its employees are overly generous and ill-advised. Therefore, the Commission for rate-making purposes has reduced Martin's operating expenses by $943 to reflect the reduction of the proposed wage increase from 8 percent to 5 percent.

Outside Services Employed

The Commission has reduced Martin's proposed level of expenses for outside services by $400 to $3,850 to reflect the exclusion of non-recurring legal expenses booked by Martin during the test period.

Directors Fees

Martin has three directors who receive annual fees of $2,000 each. These directors are paid for "being in contact with each other at various times during the year plus a personal guarantee on the notes at the banks."[10/] These notes issued in 1976 in the principal amount of $25,000 have a current outstanding balance of $9,000.[11/] In view of Martin's poor financial and operational condition and the directors' apparent disinterest in the well-being of Martin and its customers, it is the opinion of this Commission that directors fees will not be allowed for rate-making purposes until such time as Martin is in sound financial condition and able to provide safe, cost-effective service to its customers. Therefore, the Commission has reduced Martin's operating expenses by $6,000.

Leak Detection Survey

As previously discussed, Martin's gas line loss during the test period exceeded 18 percent. The Commission finds this to be totally unacceptable. In order to reduce this gas line loss to a more reasonable level the Commission hereby directs Martin to perform a leak detection survey of its distribution system and to submit plans for the repair of the system within 60 days of the date of this Order. Based upon a previous survey of Martin's system, the Commission has determined that the survey should take approximately 5-1/2 days at a cost of approximately $275 per day for a total cost of $1,513. The Commission has increased Martin's adjusted operating expenses by this amount.

Therefore, the adjusted operations of Martin are stated as follows:

	Actual	Adjustments	Adjusted
Operating Revenues	$287,305	$ 46,108	$333,413
Operating Expenses	320,452	20,899	341,351
Net Operating Income	$(33,147)	$ 25,209	$ (7,938)

RATE OF RETURN

Based on its current financial condition Martin is not able to meet its operating expenses, nor service its debt. The Commission is of the opinion that Martin's loss (excluding any losses incurred due to gas line loss) is clearly unfair, unjust and unreasonable. The Commission, based on past experience and recent decisions on rate of return requirements for gas utilities, has determined that a rate of return on Martin's net investment rate base of 13 percent is fair, just and reasonable in that it will allow Martin the opportunity, after meeting its operating expenses and debt service requirements, to provide for reasonable equity growth with good management.

REVENUE REQUIREMENT

Based on the rate of return found fair, just and reasonable and Martin's adjusted operations, including the cost of the leak detection survey directed herein, the Commission has determined that Martin should be allowed to increase its rates and charges by $18,215 annually, determined as follows:

Required Net Operating Income	$ 8,839
Reciprocal (÷ .8148)	10,848
Adjusted Operation and Maintenance Expenses	341,351
Required Gross Operating Revenues	$352,199
Adjusted Gross Operating Revenues	333,413
Additional Gross Operating Revenues Required	$ 18,786

FINDINGS AND ORDERS

After examining the evidence of record and being advised the Commission is of the opinion and finds that:

(1) The Commission's Order of January 20, 1983, denying Martin's request for interim rate relief should be affirmed.

(2) The rates and charges in Appendix A are the fair, just and reasonable rates to be charged by Martin for gas service rendered to its customers on and after April 12, 1983.

(3) The rates and charges proposed by Martin in its notice should be denied upon application of KRS 278:030 in that they produce revenues in excess of those found fair, just and reasonable.

(4) Martin should perform a leak detection survey of its distribution system.

(5) Within 60 days of the date of this Order Martin should provide this Commission with its plans for repairing its distribution system in accordance with the findings of the leak detection survey.

(6) Within 30 days of the date of this Order Martin shall file its revised tariff sheets setting out the rates and charges approved herein.

IT IS THEREFORE ORDERED that the Commission's Order of January 20, 1983, denying Martin Gas, Inc., request for interim rate relief be and it hereby is affirmed.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are the fair, just and reasonable rates to be charged by Martin Gas, Inc., on and after April 12, 1983.

IT IS FURTHER ORDERED that Martin Gas, Inc., shall perform a leak detection survey of and provide the plans for repairs to its distribution system to this Commission within 60 days of the date of this Order.

IT IS FURTHER ORDERED that within 30 days of the date of this Order Martin Gas, Inc., shall file its revised tariff sheets with this Commission setting out the rates and charges approved herein.

Done at Frankfort, Kentucky, this 9th day of May, 1983.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

FOOTNOTES

1. Calculated from the Annual Reports for 1979, 1980 and 1981, and information provided in response to staff requests.
2. Transcript of Evidence, February 22, 1983, pages 35 and 36.
3. David Allen Exhibit No. 1.
4. 1/8 adjusted O & M expenses less purchased gas, depreciation and taxes.
5. Notice Exhibit 1.
6. $304,768 - ($304,768 ÷ 1.182 X 1.05) = $34,035.
7. Transcript of Evidence, February 22, 1983, page 25 and 26.
8. CPI-W, Urban Workers, January, 1983.
9. Transcript of Evidence, February 22, 1983, page 42 and 43.
10. Transcript of Evidence, February 22, 1983, page 26.
11. Notice Exhibit F.

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 8730 DATED MAY 9, 1983

The following rates and charges are prescribed for the customers in the area 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 this Commission prior to the effective date of this Order.

RATES: Monthly

First Mcf	$7.00 Per Mcf
Over Mcf	6.90 Per Mcf

Minimum Bill

The minimum bill shall be $7.00

The above rates have incorporated the rates established in PGA Case No. 7156-AA.