COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ADJUSTMENT OF THE RATES OF MARTIN GAS, INC., FOR AN INCREASE IN GAS RATES	)))	CASE NO. 9550

O R D E R

On March 31, 1986, Martin Gas, Inc., ("Martin") filed an Application and Notice of proposed adjustments to its rates. The proposed rates were to become effective April 20, 1986. After a review of the application, the Commission determined that further investigation of their reasonableness was necessary. Pursuant to KRS 278.190, the proposed rates were suspended for 5 months.

Commentary

Martin has had both financial and safety deficiencies for many years. The current receivership is the latest manifestation of the marginal condition of the company. In February, 1986, Estill Branham was appointed receiver to attempt to operate the system and restore some degree of financial and physical integrity. From the information the Commission has reviewed, it appears that Mr. Branham is making a good faith effort to comply with his obligations as receiver. In the rehearing of Case 9291, In the Matter of Adjustment of Rates of Martin Gas, Inc., he presented evidence of his efforts to upgrade the physical plant and to set up and maintain an acceptable system of accounts.

However, due to the deteriorated condition of the system, funds previously thought to be adequate to restore the system to minimum Commission requirements quickly proved to be inadequate. Safety problems as well as line loss continue to be concerns. In an effort to eliminate as soon as possible all deficiencies, Mr. Branham has filed this rate application seeking funds to enable him to continue to operate on a day-to-day basis, as well as address the long range construction problems.

In seeking to work with Mr. Branham and to restore the viability of the system, the Commission is attempting in this case to reach a reasonable accord on the financial needs of Martin. After reviewing the application, it is apparent that more funds are necessary for the continued operation of the system. However, in arriving at a determination of reasonableness of the proposed rates, the Commission must weigh not only the short term needs of the company, but the long range impact a sudden, significant increase in rates may have on it. If, for example, gas rates exceed alternative fuel rates, the company may be harmed in the long run by loss of customers. The result of this analysis by the Commission leads to the finding that an increase is required. As discussed below, the increase in rates is not as great as Martin proposed, but is sufficient to allow it to operate and to continue to rebuild the system at a steady pace.

Revenue Requirements

Martin based its rate request in this application on the test period 1985. Columbia Gas of Kentucky ("Columbia"), the former receiver of the system, operated Martin throughout the test period proposed in this case. The current receiver, Estill Branham, had no documentation of the costs Columbia incurred during the test period. Even when the Commission staff attempted to obtain documentation directly from Columbia, documentation was not provided. Apparently Columbia either kept inadequate records or the records were dispersed in various locations and not readily available. Also, even though certain basic expenses may stay the same regardless as to who is operating the system, other expenses are likely to vary with management and thus the calendar year 1985 is not necessarily a good indicator of operations under the current receiver.

Because of the above inadequacies in the test period data, and because of the extremely poor financial and service conditions of the system, Commission staff and representatives of Martin met in an informal conference in the Commission's offices on September 18, 1986, in an attempt to work out a reasonable solution to this case.

At this meeting Martin presented a "pro forma" statement of operations based on its projections under the current receiver. The pro forma statement represented gas sales and purchases constant at the 1985 level but showed other operating expenses adjusted to expected levels to be incurred under the current receiver. The actual operating expenses less purchased gas incurred while Columbia was receiver in 1985 totaled $73,063. The expected pro forma operating expenses under the current receiver were $96,009, or $22,926 above the actual 1985 level. The normalized loss for 1985 was $4,988, and the anticipated loss under current receivership was $27,934; neither figure includes any payback to Columbia for arrearages totaling approximately $165,000 at the end of the test period.

After lengthy discussions in the informal conference, representatives of the Commission's staff and Martin both agreed that the surcharge discussed in a subsequent section of this Order should be extended for a period not to exceed 5 years. Further, representatives of Martin proposed that a rate increase of $15,000 would be adequate throughout the winter heating season until the results of actual operations under the current receiver were available and a case based on these operations could be filed.

The Commission has reviewed the proposals and is of the opinion that the surcharge discussed in a subsequent section of this Order is necessary. The Commission is further of the opinion that a rate increase of $15,000 is reasonable and should be approved until a full analysis of 12 months of operations under the current receiver can be completed. The Commission will require that its staff investigate Martin's financial condition no later than March, 1987, and report as to whether a formal investigation to reduce rates is required. Martin has the option of filing for a rate increase if it considers that option to be necessary.

Surcharge For Construction

In Case No. 9291, the Commission established a surcharge of $3.12 per month per customer to be accumulated for payment toward partial rebuilding and repairing the most hazardous portions of Martin's lines. This surcharge is effective only through

December 31, 1986. Work has been done toward the rehabilitation of this area of the system, but extensive additional work is needed in order for the system to be safe and to reduce the cost of gas lost. In the informal conference with representatives of Martin and the Commission's staff, Martin stated that additional construction funds of $70,000 to $75,000 would be needed in order to complete the necessary construction.

The Commission is of the opinion that this estimate is reasonable and that the construction is immediately necessary. The Commission is, therefore, of the opinion that the surcharge should be extended for a period not to exceed 5 years but satisfactory to pay in full the principal amount of a loan for this construction. Moreover, the Commission finds that Martin should immediately obtain a loan with the guarantee of this extended surcharge as security. The surcharge will be dedicated solely to the repayment of the principal amount of this loan. Martin should then immediately undertake and complete this construction with the proceeds of the loan as soon as it can and, hopefully, within the next 2 to 3 months of the date of this Order.

Summary

The Commission, after consideration of the evidence of record and being advised, is of the opinion and FINDS that:

1. The rates proposed by Martin would produce revenue in excess of that found reasonable herein and, therefore, should be denied upon application of KRS 278.030.

2. The rates in Appendices A and B are the fair, just and reasonable rates for Martin to charge for gas service rendered on and after the date of this Order.

3. The surcharge of $3.12 per customer per month in Appendices A and B should be extended until the proceeds of the loan for construction as described herein is paid in full or for a period not to exceed 5 years on and after the date of this Order, whichever comes first.

4. All revenues received from the surcharge should be dedicated strictly to repayment of the loan for construction.

5. Martin should apply for and obtain a loan, the proceeds of said loan to pay for the construction of the most unsafe portions of its system.

6. Martin should file a copy of the valid agreement within 10 days of closing on said financing.

7. In the event Martin cannot obtain financing within 30 days of the date of this Order, it should file a statement to that effect along with a detailed listing of all lending institutions contacted.

8. Martin should file on a monthly basis a statement of the receipts and a verified statement from the lending institution showing payment toward the loan balance.

9. Another Order in this proceeding detailing additional accounting and reporting requirements should be entered at a subsequent date.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Martin be and they hereby are denied.

2. The rates in Appendices A and B are the fair, just and reasonable rates which Martin shall charge for gas service rendered on and after the date of this Order.

3. The surcharge of $3.12 per customer per month in Appendices A and B shall be extended until the loan for construction as described herein is paid in full or for a period not to exceed 5 years on and after the date of this Order, whichever is first.

4. All revenues received from the surcharge shall be dedicated strictly to repayment of the loan for construction.

5. Martin shall apply for and obtain a loan, the proceeds of which shall be used for the construction of the most unsafe portions of its system.

6. Martin shall file a copy of the valid loan agreement within 10 days of closing on said financing.

7. In the event Martin cannot obtain financing within 30 days of the date of this Order, it shall file a statement to that effect along with a detailed listing of all lending institutions contacted.

8. Martin shall file, on a monthly basis, a statement of the receipts from the surcharge and a verified statement from the lending institution showing payment toward the loan balance.

9. Another Order in this proceeding, detailing additional accounting and reporting requirements, shall be entered at a subsequent date.

10. Martin shall file its tariffs setting out the rates approved in Appendix A within 20 days of the date of this Order.

Done at Frankfort, Kentucky, this 10th day of October, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Heman Jr.

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9550 DATED 10/10/86

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 this Commission prior to the effective date of this Order. This Order includes all changes in rates through Case No. 9291-B.

RATES: Monthly

First 1 Mcf	$6.3811 Per Mcf
Over 1 Mcf	$6.2811 Per Mcf

Minimum Bill

The minimum bill shall be $6.3811

Temporary Surcharge $3.12

The base rate for the future application of the purchased gas adjustment clause of Martin Gas, Inc., shall be:

	Commodity
Columbia Gas of Kentucky, Inc.	$4.379 per Mcf
Southeastern Gas Company	$.14 per Mcf

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9550 DATED 10/10/86

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 this Commission prior to the effective date of this Order.

The temporary surcharge is extended for an additional five years and is in addition to the current monthly rates and charges as on file with the Kentucky Public Service Commission. It is to be in effect for a period of no longer than six years from the date of the Order in Case No. 9291. The temporary surcharge is to be set out as a separate item on all bills.

RATES: Monthly

Temporary Surcharge	$3.12 per month