

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION FOR RATE ADJUSTMENT FOR) CASE NO.
MARTIN GAS, INC.) 2006-00504

O R D E R

On November 30, 2006, Martin Gas, Inc. ("Martin") submitted its application requesting that the Commission approve an adjustment of rates pursuant to 807 KAR 5:076, the alternative rate filing procedure for small utilities. After curing noted deficiencies, the application was declared filed on January 9, 2007. Commission Staff, having performed a limited financial review of Martin's operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 10 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or informal conference.
2. Martin shall, no later than 10 days from the date of this Order, submit in writing its acknowledgment that the proposed increase in revenues from the former city of Hazard customers will still result in a net loss for the test year of \$47,775.

3. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing.

4. If no request for a formal hearing or informal conference is received by this due date, this case shall stand submitted to the Commission for a decision on all issues raised by the application.

Done at Frankfort, Kentucky, this 29th day of March, 2007.

By the Commission

ATTEST:


Executive Director *for Beth O'Donnell*

STAFF REPORT
ON
MARTIN GAS, INC.
CASE NO. 2006-00504

On November 30, 2006, Martin Gas, Inc. ("Martin") submitted its application requesting that the Commission approve an adjustment of rates pursuant to 807 KAR 5:076, the alternative rate filing procedure for small utilities. Martin's application was found to be deficient, and the Commission rejected the application by letter dated December 6, 2006. Martin filed additional information to address the deficiencies on January 9, 2007. The additional information cured the deficiencies noted in the December 6, 2006 letter, and the application was declared filed on January 9, 2007.

In its application, Martin proposed to achieve rate parity within its distribution system by increasing the rates charged to customers acquired by Martin in 1999. In 1999, Martin purchased a portion of its current distribution system from the City of Hazard. At the time of purchase, Martin adopted the tariff charged by the City of Hazard for those customers ("Hazard group"). Using calendar year 2005 as its test period, Martin calculated the increase in revenues expected from charging all its customers the same rates. The scope of the Staff's review was limited to determining the reasonableness and accuracy of Martin's calculations.

Martin determined that applying its current rates to all customers would produce an additional \$39,768, or an increase of 11.5 percent. Below is a comparison of the rates currently charged to the Hazard group and the proposed rates:

<u>Units</u>	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Percentage Increase</u>
First 1 Mcf	\$9.16	\$9.5162	3.89%
Next 49 Mcf	\$6.60	\$9.3994	42.42%
Next 50 Mcf	\$6.54	\$9.3994	43.72%
Next 100 Mcf	\$6.51	\$9.3994	44.38%
Next 800 Mcf	\$6.47	\$9.3994	45.28%
Over 1,000 Mcf	\$6.43	\$9.3994	46.18%

The rates for the Hazard group reflect the use of a declining block while the rest of Martin's customers have a flat rate after the first Mcf. Under Martin's proposal, all customers would pay \$9.5162 for the first Mcf and a flat rate of \$9.3994 per Mcf after the first Mcf. A customer with an average monthly usage of 8 Mcf would see the monthly bill increase from \$55.36 to \$75.31, an increase of approximately 36.04 percent. The proposed rate increase would affect approximately 130 of Martin's 491 customers. Martin included a copy of its notice to customers in its application, and as of the date of this Staff Report, the Commission has not received any correspondence from customers opposing the proposed rate increase.

For the calendar year 2005, Martin experienced a net loss of \$87,543. As shown on page 2 of its application, the proposed increase in revenues from the Hazard group would reduce the net loss to \$47,775. In conjunction with this report, the Staff examined Martin's tariffs. Martin established a quarterly gas cost adjustment clause ("GCA") effective January 1, 2005. However, Staff determined that Martin has not filed a gas cost adjustment case since 2004. Staff is concerned that Martin is operating at a net loss and has not been filing quarterly GCAs.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue increase of \$39,768 is reasonable and will allow Martin to achieve rate parity among the customers within its distribution system. The

Staff recommends the rates proposed for the Hazard group of customers be approved as proposed. The Staff also reminds Martin that it is required by law to comply with its tariff and that Martin should begin quarterly GCA filings pursuant to the terms contained in its tariff. The Staff further recommends that Martin monitor its overall financial condition and take the appropriate action to provide for financial stability.

Signatures

Prepared by: Isaac S. Scott
Branch Manager, Electric and Gas
Revenue Requirements Branch
Division of Financial Analysis

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