

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for rate increase in  
Highlands, Hardee, and Desoto Counties, by  
Sebring Gas System, Inc.

DOCKET NO. 20190083-GU  
ORDER NO. PSC-2020-0047-PAA-GU  
ISSUED: February 3, 2020

The following Commissioners participated in the disposition of this matter:

GARY F. CLARK, Chairman  
ART GRAHAM  
JULIE I. BROWN  
DONALD J. POLMANN  
ANDREW GILES FAY

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING RATE INCREASE FOR SEBRING GAS SYSTEM, INC.  
AND FINAL ORDER ON ACCOUNTING ADJUSTMENTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (Commission) that the actions discussed herein, except for the requirement for proof of adjustment of books and records, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code (F.A.C.). The requirement for proof of adjustment of books and records is a final agency action and subject to reconsideration and appeal as described below under the heading, "NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW."

**Background**

On April 1, 2019, Sebring Gas System, Inc. (Sebring or the Company) filed a test year notification letter with this Commission, pursuant to Rule 25-7.140, F.A.C., in which it stated its intent to use the calendar year 2020 as the projected test year for a proposed rate increase. The Company serves approximately 662 gas customers in Highlands, Hardee, and DeSoto counties.

By Order No. 24761, issued July 5, 1991, this Commission found Sebring to be a public utility subject to our jurisdiction. This Commission set initial rates for Sebring by Order No. PSC-92-0229-FOF-GU, issued April 20, 1992.<sup>1</sup> Since that time, the Company has only petitioned this Commission for a rate increase one time; in 2004 with rates effective in 2005. In that docket, this Commission approved a jurisdictional rate base of \$1,100,766 for the projected

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<sup>1</sup> Order No. PSC-92-0229-FOF-GU, issued April 20, 1992, in Docket No. 19910873-GU, *In re: Petition for approval of initial rates to be established by Sebring Gas System, a division of Coker Fuels, Inc.*

year ended December 31, 2005. This Commission also approved a weighted average overall rate of return of 8.64 percent, including a cost rate for common equity of 11.5 percent, with an authorized return on equity of plus or minus 100 basis points.<sup>2</sup>

On June 5, 2019, Sebring filed its petition for a permanent rate increase with this Commission. The Company requested we process its request as a Proposed Agency Action (PAA). In its petition filed on June 5, 2019, Sebring requested an increase of \$309,847 in additional annual revenues. Its request was based on a 13-month average rate base of \$5,085,214 for the projected test year ending December 31, 2020. Sebring's requested overall rate of return is 7.70 percent, including a 12.5 percent mid-point return on common equity.

In its instant petition, the Company stated that there are three key drivers for its request for a rate increase. According to the Company, the three key drivers include: 1) increases to rate base associated with extensions to serve new customers and additional personnel consistent with the expansion; 2) increases in regulatory costs, particularly those associated with federal pipeline safety, as well as increases in overall operating costs, including almost 15 years' worth of inflation; and 3) income tax not currently included in customer rates and deferred income tax expense accumulated since the Company's last rate case.<sup>3</sup> The Company also stated that it has managed to avoid seeking a base rate increase for over 15 years, but "[w]ithout the requested revenue increase...its overall rate of return will fall to 3.17%, well below its currently authorized rate of return of 8.64%."<sup>4</sup>

On April 3, 2019, the Office of Public Counsel (OPC) filed its Notice of Intervention in this proceeding, pursuant to Section 350.0611, Florida Statutes (F.S.). We acknowledged OPC's intervention by Order No. PSC-2019-0226-PCO-GU, issued on June 12, 2019.<sup>5</sup> A customer meeting was held on August 8, 2019. No customers attended the meeting and we have not received any customer complaints.

In response to our staff's data requests, Sebring submitted revised Minimum Filing Requirements (MFRs) G-Schedules on November 12, 2019, and revised MFR H-Schedules on November 21, 2019. In its revised MFR schedules, Sebring's requested increase of \$309,847 decreased to \$302,041, and its requested rate base of \$5,085,214 decreased to \$5,044,363. By email dated August 22, 2019, Sebring waived the 5-month effective date through the December Agenda Conference. Sebring extended this waiver through the January 7, 2020 Agenda Conference by email dated November 18, 2019. After the January Agenda Conference's rescheduling, Sebring extended its waiver through January 14, 2020, by email dated December 12, 2019. We have jurisdiction over this request for a rate increase under Section 366.06, F.S.

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<sup>2</sup> Order No. PSC-04-1260-PAA-GU, issued December 20, 2004, in Docket No. 20040270-GU, *In re: Application for rate increase by Sebring Gas System, Inc.*

<sup>3</sup> Document No. 04735-2019, Sebring's Petition, pp. 4 – 5, and Direct Testimony of Russell Melendy, p. 15.

<sup>4</sup> *Id.*, p. 3.

<sup>5</sup> Order No. PSC-19-0226-PCO-GU, issued June 12, 2019, in Docket No. 20190083-GU, *In re: Application for rate increase in Highlands, Hardee, and Desoto Counties, by Sebring Gas System, Inc.*

## **Review and Decision**

### 1. Test Year

Sebring proposed to use the projected test period ending December 31, 2020, as the projected test year, with the historic base year being the 12-month period ended December 31, 2018. Sebring used actual data for the 2018 base year rate base, net operating income, and capital structure.<sup>6</sup> The 2020 projected test year data was determined based upon the combination of 2018 data trended for customer growth, inflation, and payroll growth using the Commission-prescribed trending methodology, as well as a forecast of the Company's growth.<sup>7</sup> This growth includes the new service territories in the Cities of Wauchula and Arcadia as indicated in the Direct Testimony of Mr. Russell Melendy of Sebring.<sup>8</sup>

The purpose of the test year is to represent the financial operations of a company during the period in which the new rates will be effective. Sebring petitioned this Commission to approve the Company's proposed new tariff sheets with an effective date of January 1, 2020. The projected test year ending December 31, 2020 represents a relevant period upon which the Company's operations shall be analyzed for the purpose of establishing new base rates. This test period will reflect actual conditions and be indicative of the actual investments, expenses, and revenues during the first 12 months that new rates will be in effect. Therefore, Sebring's proposed projected test year matches the timing of the Company's projected investments and expenses with its projected revenues for the period following the date on which the new base rates become effective.

With the inclusion of our adjustments to Sebring's test year data, we believe that the 2020 projections of Sebring's financial operations are appropriate to use as the basis for setting new rates.

### 2. Customer Growth & Therms

For the instant rate case, Sebring utilized the historical base year (HBY) 2018 data as a basis to develop the forecasts of customer growth and therms growth by rate class for 2019, which is the historical base year plus one (HBY+1) and the 2020 projected test year (PTY).

To achieve its forecast of customer growth, Sebring identified the potential new service areas, including the Cities of Wauchula and Arcadia. It then determined the potential customer additions related to the new service areas, as well as for the Company's existing service territory.

Sebring primarily relied upon its management's local knowledge to determine its projections of customer additions related to the new service areas.<sup>9</sup> In his testimony, Mr. Russell

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<sup>6</sup> Sebring's working capital had been adjusted for any disallowed items before it was combined with Sebring's net utility plant to arrive at the Company's 2018 historical total rate base. Document No. 04735-2019, Direct Testimony of Jerry Melendy, pp.13 – 14.

<sup>7</sup> The trending methodology used is detailed in Document No. 10856-2019, revised MFR Schedule G-2, pp. 10 – 18.

<sup>8</sup> Document No. 04735-2019, Direct Testimony of Russell Melendy, pp. 2 – 4.

<sup>9</sup> Document No. 10721-2019, Sebring's Responses to Staff's Twelfth Data Request, p. 2.

Melendy, Project Manager of Sebring, testified that “[t]he Company is well aware of construction and building activities in the area,” and that he is very familiar with the proposed new service areas in the Cities of Wauchula and Arcadia.<sup>10</sup> Mr. Russell Melendy asserted that Coker Fuel, which is also owned by the Melendy family, provided propane service in these areas, and many of Sebring’s projected new commercial and industrial customers for this rate case currently use propane provided by Coker Fuel or other competing propane companies. Mr. Russell Melendy claimed that as a local business-owner/operator and a two-term Hardee County Commissioner, his professional and public service experiences further expanded his involvement and understanding of these communities. Additionally, he indicated that Mr. Jerry Melendy, “in his capacity as [Sebring’s] President, is active in the Sebring community, participating in numerous community and civic events.”<sup>11</sup> Mr. Russell Melendy averred that these activities, coupled with the Company management’s knowledge of the areas served through the ownership and participation in Coker Fuel, allow them the insight into the potential for customer growth in these areas.<sup>12</sup> Sebring’s personnel also examined each community to identify growth potential.<sup>13</sup> In its response to our staff’s data requests, Sebring indicated that the majority of the new commercial and industrial customers in Wauchula and Arcadia projected by the Company have either requested Sebring for service, or have already paid their deposits to Sebring; and one large industrial customer has recently become an active customer of Sebring.<sup>14</sup>

Using its forecast of customer growth, Sebring calculated the number of customers billed each month and by rate class for HBY+1 and PTY. It then multiplied that number by the average usage per customer each month to determine the projected therm usage. Sebring assumed that the average usage per customer, by month, for each rate class, for the HBY, HBY+1 and PTY is unchanged from the corresponding HBY month and rate class. The Company believes that this assumption is appropriate, and is not aware of any alternate methodology that would result in a more accurate projection of therm usage.<sup>15</sup> Sebring explained that 2018 is a representative year, because weather is not a primary driver of usage for the Company’s customers, and there were no unusual circumstances affecting customer usage; thus, year-over-year consumption patterns are consistent.<sup>16</sup> The Company further explained that a typical driver of therm usage for residential customers in many locations in the U.S. is cold weather. However, this is not so for Sebring due to the geographical location of the Company’s service territories and the competitiveness of the electric heat pump. Sebring has very few residential customers with furnaces. Commercial usage is usually more stable as it is rare for commercial accounts to utilize natural gas for traditional space heating purposes. As a result, the driver of the therm usage, by rate class, is simply the historical average usage per customer, by month.<sup>17</sup>

Based on the information provided by the Company and our analyses, we find that Sebring’s forecasts of customer growth and therms by rate class for the 2020 projected test year

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<sup>10</sup> Document No. 04735-2019, Direct Testimony of Russell Melendy, p. 5.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*, pp. 3 and 5.

<sup>13</sup> Document No. 10721-2019, Sebring’s Responses to Staff’s Twelfth Data Request, pp. 2 – 3.

<sup>14</sup> *Id.*, p. 3 and Document No. 08680-2019, Sebring’s Responses to Staff’s Sixth Data Request.

<sup>15</sup> Document No. 07608-2019, Sebring’s Response to Staff’s Fourth Data Request, pp. 1 – 3.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*, pp. 2 – 3.

as contained in MFR Schedule G-2, as revised on November 12, 2019, pages 8 and 8.5 of 31, are appropriate for the instant rate case.

### 3. Estimated Revenues From Sales of Gas

We have reviewed MFR Schedule E-2, Page 1, where Sebring calculated present revenues from sales of gas at present rates for the projected test year, in the amount of \$1,171,865, based upon its proposed billing determinants. The proposed billing determinants are derived from the forecasts of the number of customers and the therm usage per customer, consistent with our findings in the Customer Growth & Therms section of this Order.

We find that the Company's estimation of revenues, in the amount of \$1,171,865, from sales of gas, by rate class, at present rates for the 2020 projected test year is appropriate. As addressed separately in the Projected Operating Revenues section of this Order, this revenue amount, plus the amount identified as Miscellaneous Service revenue (\$14,335), equals the Commission-approved projected test year total operating revenue (\$1,186,200) for Sebring.

### 4. Quality of Service

Pursuant to Section 366.041, F.S., in fixing rates we are authorized to give consideration, among other things, to the efficiency, sufficiency, and adequacy of the facilities provided and the services rendered. Our staff held a publicly noticed meeting in Sebring, Florida on August 8, 2019. The meeting was scheduled to gather information regarding customer concerns about Sebring's quality of service and its request for a rate increase. No customers attended the meeting. The Company also indicated that it received no customer complaints during the years 2017 and 2018. Additionally, our staff searched this Commission's Consumer Complaint Tracking System, which showed no customer complaints filed against Sebring since January 1, 2014.

Pursuant to Rule 25-7.018, F.A.C., each utility shall keep a complete record of all interruptions affecting the lesser of 10 percent or 500 or more of its division meters. Based on the Company's filing, there were no customer interruptions affecting either 10 percent or 500 meters during the historic test year ended 2018. Pursuant to Rule 25-7.064, F.A.C., the Company has tested all of its meters within 120 months of the test year, and all have been determined to be in compliance with testing requirements.

A review of our staff's annual safety inspections of the Company's facilities was also conducted. There were a total of 29 safety violations logged against Sebring from 2014 through 2018. The Company responded to the identified violations (which were varying in nature), and all were corrected. There were no violations logged during the 2019 safety inspection, and on October 29, 2019, the system was found in satisfactory compliance with state and federal natural gas safety rules.

Based on a review of the information discussed above, we find that Sebring's quality of service is adequate.

## 5. Rate Base

### *A. Plant Additions*

Sebring's filing included capital additions of approximately \$1,960,692. We reviewed the Company's filings as well as its responses to our staff's data requests and find that the costs associated with the capital additions shall be included in rate base. Our review of the Company's requests is discussed in greater detail below.

### **Customer Additions & Expansion Projects**

The Company's traditional service territory has been the greater surroundings of the City of Sebring. In 2008, the Company developed a growth strategy that initially targeted two state prisons. This Commission approved Sebring's petitions for special contracts with these two prisons.<sup>18</sup> As part of the Company's MFRs, Sebring included costs related to plant additions to serve growth in its traditional service territory as well as growth in the City of Wauchula and the City of Arcadia.<sup>19</sup> The total estimated cost of these additions is \$1,920,692.

The Company stated that the Cities of Wauchula and Arcadia are experiencing growth in the residential, commercial, and small industrial sectors. Specifically, the Company is anticipating the addition of 55 new customers, many of which are larger commercial accounts and small industrial accounts (rate classes TS-4 and TS-5).<sup>20</sup> Considering the growth potential in those areas, the Company stated that it believes it is making a prudent investment in the initial distribution networks in those cities.

As discussed in the Customer Growth & Therms section of this Order, we have reviewed the Company's projected customer additions and believe they are appropriate for the instant case. In previous decisions addressing natural gas expansion, this Commission has recognized that all customers benefit from spreading fixed costs over a larger base of therm sales in future rate cases.<sup>21</sup> Additionally, we have recognized that all customers benefit from large load users, such as the aforementioned large commercial and small industrial accounts, because they are able to absorb a greater portion of fixed costs necessary to provide service.<sup>22</sup> Giving consideration to the discussion above, it is reasonable to believe that the Arcadia and Wauchula expansion projects will benefit all customers.

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<sup>18</sup> Order Nos. PSC-13-0367-PAA-GU, issued August 8, 2013, in Docket No. 20130079-GU, *In re: Petition for approval of special contract with the Florida Department of Corrections, by Sebring Gas System, Inc.* and PSC-13-0366-PAA-GU, issued August 8, 2013, in Docket No. 20130130-GU, *In re: Petition for approval of special contract with the Florida Department of Corrections – DeSoto Correctional Institution, by Sebring Gas System, Inc.*

<sup>19</sup> Sebring's initial filing included main costs associated with a third expansion project of its existing system. In a subsequent filing, the Company amended its request and removed main costs associated with this project.

<sup>20</sup> Document No. 08680-2019, Sebring's Responses to Staff's Sixth Data Request.

<sup>21</sup> Order Nos. PSC-93-1833-FOF-GU, issued December 27, 1993, in Docket No. 19930883-GU, *In re: Petition by Peoples Gas System, Inc. to include in rate base the calculated historic cost and cost of conversion of distribution assets* and PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No 20080366-GU, *In re: Petition for rate increase by Florida Public Utilities Company.*

<sup>22</sup> Order No. PSC-10-0029-PAA-GU, issued January 14, 2010, in Docket No. 20090125-GU, *In re: Petition for increase in rates by Florida Division of Chesapeake Utilities Corporation.*

In response to our staff's data request, Sebring explained that the costs associated with the requested additions are based on its recent experience with similar installations, as well as conversations with contractors and material vendors.<sup>23</sup> We find that Sebring's reliance on recent projects, as well as input from contractors and vendors, is a reasonable means for projecting these costs. Therefore, we find that \$1,920,692 for the discussed plant additions is appropriate for inclusion in rate base.

### **Bypass Re-build**

In its MFRs, Sebring also included \$40,000 for a re-build of a regulated bypass with Peoples Gas System. Additionally, through its Distribution Integrity Management Program (DIMP) plan, Sebring has determined that the safety risk of maintaining the existing equipment is greater than the cost of replacing the equipment. Therefore, based on its DIMP plan, Sebring is required to complete the replacement as soon as is reasonable.<sup>24</sup> Mr. Bruce Christmas, a consultant for the Company, indicated that the bypass re-build would incorporate over-pressure protection at the interconnection, and estimated that the re-build would occur in July of the projected test year.<sup>25</sup>

### **Conclusion**

Based on the discussion above, we find that capital additions totaling \$1,960,692, are appropriate for inclusion in rate base.

#### *B. Plant in Service for Projected Test Year*

This section addresses Sebring's forecasted amount of Plant in Service for the projected test year. In this case, Plant in Service can generally be described as the total installed cost of utility property that is projected to be used and useful in providing natural gas distribution service during the projected test year.

The Company's requested total amount of Plant in Service for the 2020 projected test year is \$7,946,544 (13-month average).<sup>26</sup> We find that \$7,928,320 (13-month average), for a difference of (\$18,226), is the appropriate amount of Plant in Service for the projected test year. The difference between the two figures equals our adjustments to Account 376.1 - Mains – Plastic and Account 380.1 - Services – Plastic.<sup>27</sup> The adjustments relate to plant items/amounts for which sufficient supporting documentation was not identified (Audit Control No. 2019-170-

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<sup>23</sup> Document No. 08568-2019, Sebring's Responses to Staff's Fifth Data Request.

<sup>24</sup> *Id.*

<sup>25</sup> Document No. 04736-2019, Direct Testimony of Bruce Christmas.

<sup>26</sup> Document No. 10856-2019, Revised MFR Schedule G-1, p. 10.

<sup>27</sup> Code of Federal Regulations, Title 18, Chapter I, Subchapter F, Part 201- Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act for further information regarding standardized accounting protocol and numeration.

1-1).<sup>28</sup> The corresponding proposed adjustments to Accumulated Depreciation are shown and discussed in the Test Year Accumulated Depreciation section of this Order.

The Company's proposed and Commission-approved projected test year plant amounts by function are shown in the table below.

**Proposed Projected Test Year (PTY) Plant in Service Amounts**

<b>Plant Accounts</b>	<b>Plant Group Classification</b>	<b>Sebring PTY 13-Month Average</b>	<b>Commission Adjustment</b>	<b>Commission- approved PTY 13-Month Average</b>
301-302	Intangible Plant	\$131,409	\$0	\$131,409
374-387	Distribution Plant	7,306,846	(18,226)	7,288,620
390-397	General Plant	<u>508,289</u>	<u>0</u>	<u>508,289</u>
<b>Total*</b>		<u>\$7,946,544</u>	<u>(\$18,226)</u>	<u>\$7,928,320</u>

Source: Sebring's proposed PTY Plant in Service amounts as shown on MFR Schedule G1-10 (revised).

\*May not sum due to rounding.

Based upon our analysis of the information filed in this proceeding, we find that \$7,928,320 (13-month average) is the appropriate amount of Plant in Service for the projected test year.

*C. Test Year Accumulated Depreciation*

This section addresses Sebring's forecasted amount of Accumulated Depreciation for the projected test year. Accumulated Depreciation can generally be described as the amount of capital recovered through depreciation expense. Accumulated Depreciation represents the measure/degree of capital recovery and is subtracted from gross plant (the difference of which represents net plant).

The Company's requested total amount of Accumulated Depreciation for the Projected Test Year is \$3,036,771 (13-month average).<sup>29</sup> We find that \$3,041,557 (13-month average), for a difference of \$4,787, is the appropriate amount. The difference between the two figures equals our adjustments to Account 376.1 - Mains – Plastic, Account 380.1 - Services – Plastic, and Account 392 - Transportation Equipment – Light Trucks. The adjustments relate to plant and reserve amounts for which sufficient supporting documentation was not identified (Audit Control No. 2019-170-1-1).<sup>30</sup>

Further, Sebring, through Document No. 10856-2019, adjusted (from its petition as originally filed) Account 301 - Organizational Costs by (\$4,400) due to an over-accrual which

<sup>28</sup> Document No. 08949-2019, Staff's Audit Report.

<sup>29</sup> Document No. 10856-2019, Revised MFR Schedules G.

<sup>30</sup> Document No. 08949-2019, Staff's Audit Report.



occurred in December 2019. The December 2019 accrual should have been \$400, rather than the \$4,800 that was booked. The adjustment results in a beginning 13-month average (December 2019) amount of Accumulated Depreciation and Amortization for Account 301 - Organizational Costs of \$108,602.

The Company's proposed and Commission-approved projected test year Accumulated Depreciation amounts by function are shown in the table below.

**Proposed Projected Test Year (PTY) Accumulated Depreciation Amounts**

<b>Plant Accounts</b>	<b>Plant Group Classification</b>	<b>Sebring PTY 13-Month Average</b>	<b>Commission Adjustment</b>	<b>Commission-approved PTY 13-Month Average</b>
301-302	Intangible Plant	\$111,002	\$0	\$111,002
374-387	Distribution Plant	2,645,685	(4,543)	2,641,142
390-397	General Plant	280,083	9,330	289,413
	<b>Total*</b>	<u>\$3,036,771</u>	<u>\$4,787</u>	<u>\$3,041,557</u>

Source: Sebring's proposed PTY Accumulated Depreciation amounts as shown on MFR Schedule G1-12 (revised).

\*May not sum due to rounding.

Based upon our analysis of the information filed in this proceeding, we find \$3,041,557 (13-month average) as the appropriate amount of Accumulated Depreciation for the projected test year.

*D. Test Year Working Capital Allowance*

Sebring recorded Working Capital Allowance for the projected test year of \$147,518.<sup>31</sup> Sebring used the balance sheet method to calculate the Working Capital Allowance which is determined by subtracting projected Current Liabilities from projected Current Assets. Current assets of \$351,851, less current liabilities of \$204,333, results in a Working Capital Allowance of \$147,518. We reviewed the Working Capital Allowance and find that no adjustments are necessary. Schedule No. 1A reflects the working capital for the projected test year. Schedule No. 1B reflects the approved Working Capital Allowance Calculation.

*E. Test Year Rate Base*

Sebring recorded Rate Base of \$5,044,363 for the projected test year.<sup>32</sup> Based upon our adjustments in the preceding sections of this Order, Rate Base shall be reduced by \$23,010, resulting in a total Rate Base of \$5,021,353. Schedule No. 1A reflects the approved Rate Base for the projected year.

<sup>31</sup> Document No. 10856-2019, Revised MFR Schedule G-1, pp. 2 – 3.

<sup>32</sup> Document No. 10856-2019, Revised MFR Schedule G-1, p. 1.

## 6. Cost of Capital

### *A. Capital Structure*

For the projected test year ending December 31, 2020, Sebring filed a revised capital structure consisting of 34.63 percent common equity, 54.72 percent long-term debt, and 0.75 percent short-term debt. In addition to the investor sources of capital, the Company's capital structure also includes 3.10 percent customer deposits and 6.79 percent accumulated deferred income taxes.

We made two adjustments to the Company's capital structure. First, we made a specific adjustment to reduce the accumulated deferred income tax balance by \$470 to recognize a decrease in the State of Florida corporate income tax rate from 5.50 percent to 4.458 percent for three taxable years beginning on or after January 1, 2019. This adjustment is explained in the Weighted Average Cost of Capital section of this Order. Second, we made a pro rata adjustment to remove \$22,540 to reflect adjustments to decrease the distribution plant balance. We made a corresponding pro rata adjustment to the capital structure to reconcile the capital structure balance with rate base for the projected test year ending December 31, 2020.

Accordingly, we find that the appropriate projected test year capital structure consists of 34.64 percent common equity, 54.73 percent long-term debt, 0.75 percent short-term debt, 3.10 percent customer deposits, and 6.78 percent deferred income taxes. Regarding investor capital, the Commission-approved capital structure consists of 38.43 percent common equity and 61.57 percent debt (60.73 percent long-term debt and 0.84 percent short-term debt).

### *B. Return on Common Equity*

Sebring's current allowed return on equity is 11.50 percent. In its petition, Sebring requested an allowed return on equity of 12.50 percent. We find that the appropriate allowed return on equity for Sebring is 11.00 percent with a range of plus or minus 100 basis points.

### *C. Weighted Average Cost of Capital*

Based on the Commission-approved capital structure, and the Commission-approved return on equity of 11.00 percent, the appropriate weighted average cost of capital (WACC) is 6.81 percent. We have approved an equity ratio of 38.43 percent based on investor sources. In its revised filing, Sebring requested a WACC of 7.72 percent for the projected test year. The Company based its request on a cost rate of 12.50 percent for common equity, 5.95 percent for long-term debt, and 6.00 percent for short-term debt. We made three adjustments to the Company's requested cost rates. In the Return on Common Equity section of this Order, we adjusted the return on equity from the Company's requested 12.50 percent to 11.00 percent. The cost rates for long-term debt and short-term debt shall both be reduced to 5.25 percent. In addition, we made two adjustments to the cost of capital balance. One, a specific adjustment to reduce the accumulated deferred income tax balance by \$470, and two, a pro rata adjustment of \$22,540 to reconcile the capital structure to rate base as discussed in the Capital Structure section of this Order.

### **Common Equity**

Sebring requested a common equity balance of \$1,746,957 at a cost rate of 12.50 percent for the revised projected test year ending December 31, 2020. We made a pro rata adjustment to reconcile the capital structure to rate base, which decreased the amount of common equity by \$7,807 to \$1,739,150. Accordingly, the appropriate amount of common equity is \$1,739,150 at a cost rate of 11.00 percent.

### **Long-Term Debt**

In its filing, the Company indicated it will require additions to its long-term debt balance to fund its capital projects and construction efforts. Sebring anticipates adding approximately \$1.2 million of long-term debt in the projected 2020 test year. The total amount of long-term debt in the revised projected test year ending December 31, 2020 is \$2,760,453. We made a pro rata adjustment to reconcile the capital structure to rate base which decreased the amount of long-term debt by \$12,336 to \$2,748,117. In his direct testimony, Mr. Russell Melendy stated that Sebring expects to pay 6.00 percent on its loan from Heartland National Bank and the average cost of long-term debt as reflected on MFR Schedule G-3, page 3, for the projected test year is 5.95 percent. However, the loan documents provided in our staff's audit indicate the interest rate charged by the bank is a variable rate based on the Prime Rate as published in the Wall Street Journal, plus 0.50 percent.<sup>33</sup> As of December 3, 2019, the Prime Rate as published in the Wall Street Journal was 4.75 percent. Further, the cost rate for long-term debt in the historic base year ended December 31, 2018, was 5.45 percent. Absent any documentation to support a cost rate of 6.00 percent, we believe a cost rate of 5.25 percent during the projected test year of 2020 is more reasonable and appropriate. Accordingly, we find that the appropriate amount of long-term debt is \$2,748,117 at a cost rate of 5.25 percent.

### **Short-Term Debt**

The Company included a balance of \$38,077 for short-term debt on MFR Schedule G3-2, page 2 of 11, in the revised projected test year ending December 31, 2020. We made a pro rata adjustment to reconcile capital structure to rate base which decreased the balance by \$170 to \$37,907. In his direct testimony, Mr. Russell Melendy stated the appropriate cost rate for short-term debt is 6.00 percent. This is based on a \$250,000 line of credit attached to the long-term debt loan agreement with Heartland National Bank.<sup>34</sup> The agreement is dated July 11, 2013. The agreement indicates the interest rate for a short-term line of credit is a variable rate based on Prime Rate plus 0.50 percent. However, the effective cost rate for short-term debt in the historic test year as reflected on MFR Schedule D-3 was 3.33 percent. In response to our staff's eleventh data request, Sebring explained market conditions are the reason for the increase in the interest rate from 3.33 percent to an estimated 6.00 percent. Our staff requested documentation supporting the Company's projected interest rate of 6.00 percent. Based on documents provided with the Company's response to our staff's eleventh data request, it appears Sebring was paying

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<sup>33</sup> Document No. 11449-2019, Staff Audit ACN 2019-170-1-1, Work Papers 33-3 to 33-3.6.

<sup>34</sup> Document No. 11449-2019, Staff Audit ACN 2019-170-1-1, Work Papers 33-3 to 33-3.6.

5.75 percent as recently as August 1, 2019. Prime Rate was 5.25 percent in August 2019. As of December 3, 2019, the Prime Rate as published in the Wall Street Journal was 4.75 percent. It appears Sebring's cost of short-term debt is the same as its long-term debt, Prime Rate, plus 0.50 percent. Accordingly, we find that the appropriate amount of short-term debt is \$37,907 at a cost rate of 5.25 percent.

### **Customer Deposits**

Sebring included a balance of \$156,205 for customer deposits at a cost rate of 2.86 percent in the revised projected test year. We verified the Company calculated the interest rate in adherence to Rule 25-7.083, F.A.C., Customer Deposits, and agree with the cost rate requested by the Company. We made a pro rata adjustment to reconcile capital structure to rate base which decreased the customer deposit balance by \$698 to \$155,507. Accordingly, we find that the appropriate amount of customer deposits is \$155,507 at a cost rate of 2.86 percent.

### **Accumulated Deferred Income Taxes**

The Company included a balance of \$342,671 for accumulated deferred income taxes (ADITs) at a zero cost rate in its capital structure for the revised projected test year ending December 31, 2020. We made a reduction of \$470 to recognize a decrease in the State of Florida corporate income tax rate from 5.50 percent to 4.458 percent for three taxable years beginning on or after January 1, 2019.<sup>35</sup> We calculated the effect of the reduced tax rate on the ADIT balance for the calendar years 2019 through 2021. The lower tax rate resulted in a decrease of \$157 per year. For the three-year period the total decrease is \$470. Further, in direct testimony, Mr. Russell Melendy stated that the Company does not anticipate an increase in the amount of ADITs during the projected test year. We concur with the Company that the pro forma projects requested by the Company should not generate additional ADITs. The Tax Cuts and Jobs Act of 2017 (TCJA) eliminated gas distribution systems from qualification for accelerated depreciation for Federal income tax purposes. Under the TCJA, certain types of property are not eligible for bonus depreciation in any taxable year beginning after December 31, 2017. One such exclusion from qualified property is for property primarily used in the trade or business of the furnishing or sale of gas or steam through a local distribution system or transportation of gas or steam by pipeline. This exclusion applies if the rates for the furnishing or sale have to be approved by a Federal, state, or local government agency, a public service or public utility commission, or an electric cooperative.<sup>36</sup> We reduced the ADITs by an additional \$1,529 as a result of the pro rata adjustment to reconcile capital structure to rate base. Accordingly, we find that the appropriate ADIT balance for the revised projected test year ending December 31, 2020 is \$340,672.

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<sup>35</sup> Section 220.1105, F.S.

<sup>36</sup> Internal Revenue Service Code Sections 1.168(k)-2 and 163(j)(7)(A)(iv).

## **Conclusion**

Based on the adjustments described above, we find that the appropriate WACC is 6.81 percent. The Commission-approved WACC, including the proper components, amounts and cost rates are presented in Schedule No. 2.

### 7. Net Operating Income

#### *A. Projected Operating Revenues*

We have reviewed Sebring's calculations presented in Document No. 10856-2019, revised MFR Schedules G-2, Page 1, and Schedule G-2, Pages 8 and 8.5 of 31. Sebring's projected revenues from the sales of gas, in the amount of \$1,171,865, and miscellaneous service revenues, in the amount of \$14,335, result in total operating revenue of \$1,186,200. We find that the Company's estimation of \$1,186,200 total operating revenues for the 2020 projected test year is appropriate.

#### *B. Number of Employees*

Sebring proposed to add one new accounting position to handle an increase in workload and complexity of the workload. As discussed in the Salaries and Benefits section of this Order, we approve the addition of the new accounting position.

As discussed in the Plant Additions section of this Order, Sebring has proposed two expansion projects into the cities of Arcadia and Wauchula. Sebring is proposing the addition of 10,640 feet of steel mains and 30,000 feet of plastic mains to construct its Arcadia distribution system, and 15,500 feet of plastic mains for its Wauchula distribution system. The potential number of new customers that the Company identified is 27 for Arcadia and 28 for Wauchula, which largely consists of commercial and industrial customers.<sup>37</sup> Due to the addition of these distribution systems, the Company requested two new field employees. The field employees will be responsible for tasks such as line locates, leak surveys, meter turn-ons/offers, and inspections of mains and services installations that will be completed by contractors. Additionally, these employees will be responsible for two prisons that are served by Sebring near Arcadia and Wauchula.

Based on our approval of the expansion projects in Arcadia and Wauchula, there will be a significant increase in the territory that Sebring will be serving. Also, Mr. Jerry Melendy indicated that the Arcadia, Sebring, and Wauchula distribution systems are not interconnected, and are therefore three separate systems. Considering the expansion of service, as well as the independent nature of the three distribution systems, we approve the addition of the two new field employees.

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<sup>37</sup> Document No. 08680-2019, Sebring's Response to Staff's Sixth Data Request.

*C. Salaries and Benefits*

Sebring included \$513,652 in salaries and benefits in the projected test year. We removed \$397 related to meter readings to reclassify the expense to Account 902.

In its petition, Sebring stated that, like much of the utility industry in Florida, Sebring has experienced difficulty attracting and retaining qualified personnel. In 2018, Sebring experienced turn-over in three of its six field positions. Sebring believes that keeping existing employees is more prudent because of the significant time and expense necessary to train new employees. To motivate current employees to remain and to attract qualified personnel, Sebring has plans to increase wages for employees by an average of five percent for 2019 and 2020.

Sebring projects to add two new field employees to serve customers in the previously unserved areas of Wauchula and Arcadia. The impact on Sebring's payroll expense is projected to be \$97,230 for the projected test year, of which \$20,241 will be capitalized.<sup>38</sup> With the projected growth and added complexity of managing a regulated natural gas company, Sebring proposes to add one accounting position with a projected salary of \$50,000. In response to our staff's data request, Sebring stated that the workload has increased to a level that requires the additional accounting position. The additional accounting position will ensure compliance with the complex accounting regulations.<sup>39</sup>

The Company's requested positions are approved. Also, we believe the increase in wages is reasonable. Therefore, the appropriate amount of salaries and benefits for the projected test year is \$513,255.

*D. Rate Case Expense and Amortization Period*

According to the MFRs, Sebring projected Rate Case Expense of \$132,500 for this proceeding. Sebring proposed a four-year amortization period, resulting in annual Rate Case Expense of \$33,125.

On October 17, 2019, Sebring provided an updated estimate of Rate Case Expense based on actual expense to date and an estimate to complete the case.<sup>40</sup> Sebring projected \$100,000 in consulting fees. The Company provided a flat rate contract from the consultant that matched this amount for the instant case. In the prior rate case in 2004, \$40,000 in Rate Case Expense was allowed for consulting service which was primarily related to the cost of service study. In the instant case, the consultant derived Sebring's capital costs for the Company's expansion, detailed capital costs related to other growth, and sponsored the cost of service study. We find that the increase in consulting fees is reasonable due to the additional work being provided by the consultant in the instant case and inflation since the last rate case. Therefore, we find that no adjustments for consulting services are necessary.

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<sup>38</sup> Document No. 04735-2019, Direct Testimony of Jerry Melendy, p. 24.

<sup>39</sup> Document No. 06177-2019, Sebring's Responses to Staff's Second Data Request.

<sup>40</sup> Document No. 09458-2019, Sebring's Redacted Responses to Staff's Tenth Data Request.

Sebring initially projected \$30,000 for legal fees. The updated amount for legal expenses is \$50,000, including \$33,000 already incurred. The contract for legal services established a “soft” cap of \$50,000.<sup>41</sup> Based upon the work already performed and the work expected to be performed, we believe legal expenses of \$50,000 is reasonable. Therefore, we increased legal expenses by \$20,000. Further, miscellaneous expenses were projected to be \$2,500. The updated amount for miscellaneous expense is \$1,295, thus miscellaneous expenses shall be reduced by \$1,205. The adjustments above result in an increase of \$18,795 (\$20,000 - \$1,205). This results in a total Rate Case Expense of \$151,295 (\$132,500 + \$18,795)

As presented in the MFRs, Sebring requested that the Rate Case Expense be amortized over a period of four years. We find that the four-year amortization period is reasonable and consistent with prior Commission decisions.<sup>42</sup>

Based on the above, we find that the appropriate amount of Rate Case Expense is \$151,295 to be amortized over four years. The appropriate annual amount to be included in Rate Case Expense is \$37,824 ( $\$151,295 / 4$ ). Therefore, Rate Case Expense shall be increased by \$4,699 ( $\$37,824 - \$33,125$ ).

#### *E. Test Year Operation and Maintenance Expense*

Sebring included \$739,587 in operation and maintenance (O&M) expenses for the projected test year. As discussed in the Salaries and Benefits section of this Order, we decreased salaries and benefits by \$397. Also, as discussed in the Rate Case Expense and Amortization section of this Order, we increased Rate Case Expense by \$4,699 for the projected test year. Based on our analysis, we find that the following additional adjustments to Sebring’s O&M expense for the projected test year appropriate.

### **Operation & Maintenance Expense**

#### *Meter Reading Expense (902)*

Sebring included \$6,596 of meter reading expense in Account 902. In analyzing Sebring’s projected test year expenses, we determined that \$397 in meter reading expense was incorrectly recorded in Account 920. We find that the projected test year meter reading expense shall be increased by \$397. Therefore, we find that the appropriate total projected test year meter reading expense is \$6,993.

#### *Office Supplies & Expense (921)*

Sebring included \$35,577 in the projected test year in Account 921, Office Supplies & Expense. Included in this amount is \$49 related to late payment fees, and \$1,831 for lobbying activities. We removed these costs, resulting in a total decrease to the projected test year Office

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<sup>41</sup> In the event total charges exceed \$50,000, the Company and the law firm would engage in discussions to determine what changes, if any, would be appropriate.

<sup>42</sup> Order Nos. PSC-04-1260-PAA-GU, issued December 20, 2004, in Docket No. 040270-GU, *In re: Application for rate increase by Sebring Gas System, Inc.* and PSC-04-0565-PAA-GU, issued June 2, 2004, in Docket No. 20030954-GU, *In re: Petition for rate increase by Indiantown Gas Company.*

Supplies & Expense of \$1,880. Therefore, we find that the appropriate total projected test year Office Supplies & Expense is \$33,697.

*Employee Pension & Benefits (926)*

The Company included \$43,146 for Employee Pension & Benefits expense in the projected test year. We reduced the projected test year expense by \$413 to remove costs not applicable to the period. Therefore, we find that the appropriate projected test year Employee Pension & Benefits expense is \$42,733.

**Conclusion**

Based on the above adjustments and those made in the Salaries and Benefits and the Rate Case Expense and Amortization sections, we find that O&M expense shall be increased by \$2,405 resulting in a total O&M expense of \$741,992 for the projected test year ending December 31, 2020.

The table below reflects the adjustments to Operation and Maintenance Expense.

**O&M Adjustments**

<b>Account</b>	<b>Commission Adjustment</b>
902 Meter Reading Expense	\$397
920 Administrative & General Salaries	(397)
921 Office Supplies & Expense	(1,880)
926 Employee Pension and Benefits	(413)
928 Regulatory Commission Expense	<u>4,699</u>
<b>Total</b>	<b><u>\$2,405</u></b>

Source: Commission Staff's Audit Report of Sebring Gas System, Inc.

\*May not sum due to rounding.

*F. Depreciation and Amortization Expense*

This section addresses Sebring's forecasted amount of Depreciation Expense for the projected test year. Depreciation expense can generally be described as the cost of utility plant (less net salvage) recovered over the service life of the asset. In ratemaking, depreciation expense is included in the revenue requirement calculation.

The Company's requested total amount of Depreciation and Amortization Expense for the projected test year is \$260,594.<sup>43</sup> We find that \$260,052, for a difference of (\$542), is the appropriate amount of Depreciation and Amortization Expense for the projected test year. The

<sup>43</sup> Document No. 10856-2019, Revised MFR Schedule G-2, p. 23.



difference between the two figures equals our adjustments to Account 376.1 - Mains – Plastic and Account 380.1 - Services – Plastic. The expense adjustments correspond to the Plant in Service findings identified in our staff’s Audit Report (Audit Control No. 2019-170-1-1) filed in this proceeding.<sup>44</sup> We note that the depreciation expense amounts were calculated using the current Commission-approved depreciation rates for Sebring.<sup>45</sup>

The Company’s proposed and Commission-approved projected test year Depreciation and Amortization Expense amounts by function are shown in the table below.

**Proposed Projected Test Year (PTY) Depreciation Expense**

<b>Plant Accounts</b>	<b>Plant Group Classification</b>	<b>Sebring PTY</b>	<b>Commission Adjustment</b>	<b>Commission-approved PTY</b>
301-302	Intangible Plant	\$4,800	\$0	\$4,800
374-387	Distribution Plant	215,273	(542)	214,731
390-397	General Plant	<u>40,521</u>	<u>0</u>	<u>40,521</u>
	<b>Total</b>	<u>\$260,594</u>	<u>(\$542)</u>	<u>\$260,052</u>

Source: Sebring’s proposed PTY Depreciation Expense amounts as shown on MFR Schedule G2-23 (revised).

\*May not sum due to rounding.

Based upon our analysis of the information filed in this proceeding, we find that \$260,052 is the appropriate amount of Depreciation and Amortization Expense for the projected test year.

*G. Test Year Taxes Other Than Income*

Sebring recorded a Taxes Other Than Income (TOTI) balance of \$22,931, for the projected test year. In response to our staff’s data request, Sebring provided an updated projected tangible property tax with a reduction of \$463 related to the low-income housing project that decided not to use natural gas in its facilities.<sup>46</sup> This adjustment results in a decrease of projected test year TOTI of \$463. Therefore, we find that the appropriate TOTI balance is \$22,468.

*H. Deferred Income Tax Expense*

The Company’s current rates do not include a provision for income tax expense. Further, the Company’s rates have never included current or deferred income tax expense. The Company explained that, in earlier years, Sebring incurred negative net income, which generated loss carry-forwards, which offset future Federal and State income taxes. Recently, the Company began to realize positive net income, which eventually eliminated the net loss carry-forwards. During this period, the Company did not recognize its Federal or State deferred tax liability in its

<sup>44</sup> Document No. 08949-2019, Staff’s Audit Report.

<sup>45</sup> Order No. PSC-16-0574-PAA-GU, issued December 19, 2016, in Docket No. 20160174-GU, *In re: Request for approval of 2016 depreciation study by Sebring Gas System, Inc.*

<sup>46</sup> Document No. 11050-2019, Sebring’s Responses to Staff’s Fourteenth Data Request.

rate filings, although it took advantage of accelerated depreciation and the reduced tax liability on its Federal and State income tax filings. Consequently, the Company incurred deferred tax liabilities from the timing differences between tax and book depreciation rates, but failed to recognize the deferred taxes in its rate filings. Sebring admitted it was at fault and solely responsible for the error.

Sebring calculated it has a deferred income tax balance of \$342,671 that will be reversing over the next 19.8 years, or approximately \$17,307 per year. The Company proposed to recover this expense through a 1.00 percent increase to its return on equity, which equates to a net income of \$17,289 per year. We disagree with Sebring's proposal and believe a more appropriate method to recover the expense is to calculate the exact amount and add it to the Company's income tax expense. As discussed in the Weighted Average Cost of Capital section of this Order, we made a \$470 reduction to the deferred income tax balance to recognize a decrease in the State of Florida corporate income tax rate from 5.50 percent to 4.458 percent for three taxable years beginning on or after January 1, 2019. Accordingly, the appropriate accumulated deferred income tax balance on Sebring's books is \$342,201 (\$342,671 - \$470).

The deferred taxes are expected to fully reverse over the next 18 years ending in a zero balance in 2037. The Company used an amortization period of 19.8 years that begins in early 2018 and ends in 2037. We find that an amortization period of 18 years, beginning in 2020 and ending in 2037, is appropriate to correspond to the period when the new rates will go into effect. This equates to an annual deferred income tax expense of \$19,011 (\$342,201 / 18 years). Accordingly, we find that the appropriate amount of annual income tax expense associated with the amortization of accumulated deferred income taxes for the projected test year ending December 31, 2020 is \$19,011.

#### *I. Total Operating Expense*

Sebring recorded Total Operating Expenses of \$1,021,137 in the projected test year. Based on our adjustments above, Total Operating Expenses for the projected test year shall be increased by \$20,411. Therefore, we find that the appropriate Total Operating Expenses for the projected test year is \$1,041,548. Schedule No. 4 reflects the application of our adjustments and the Commission-approved Total Operating Expenses for the projected test year.

#### *J. Net Operating Income*

Sebring recorded a Net Operating Income of \$165,063 in the projected test year. Based upon our findings above, the appropriate Net Operating Income for the projected test year is \$144,652. Schedule No. 3 reflects the Commission-approved Net Operating Income for the projected test year.

## 8. Revenue Requirements

### *A. Net Operating Income Multiplier*

The Company's calculation and our calculation of the appropriate net income multiplier are shown on Schedule No. 5. The only difference between the Company's calculation and our calculation is the state income tax rate. The Company used 5.5 percent for its state income tax rate. We reduced the tax rate to 4.458 percent. Effective January 1, 2019, the Florida corporate income tax rate was reduced from 5.5 percent to 4.458 percent. We recalculated the net operating income multiplier to reflect this reduction. As such, we find that the appropriate net income multiplier is 1.3315.

### *B. Annual Operating Revenue Increase*

Sebring requested an annual operating revenue increase of \$302,041 in the projected test year. Based upon our adjustments above, the annual operating revenue increase shall be reduced to \$262,805. Schedule No. 6 reflects the appropriate revenue requirement for the projected test year.

## 9. Cost of Service and Rate Design

### *A. Cost of Service Methodology*

The purpose of a cost of service study is to allocate the approved total revenue requirement of the utility system among the various rate classes. Then, base rates are designed to recover the total revenue requirement attributable to that class. Base rates for Sebring include the fixed customer charge and the variable per-therm transportation charge, which are addressed in the Customer Charges and Transportation Charges sections of this Order, respectively. In rate design, the fixed customer charge is typically determined first and represents a portion of the overall rate requirement. The per-therm transportation charge for each class is determined by taking the remaining revenue requirement, and dividing by the projected therm volume of each rate class.

On November 21 2019, Sebring filed a revised cost of service study.<sup>47</sup> We used Sebring's revised cost of service methodology and incorporated our adjustments to rate base, rate of return, operations and maintenance expenses, total depreciation and amortization, and the resulting annual operating revenue increase, as discussed in the Annual Operating Revenue Increase section of this Order. As such, the Commission-approved base rates are designed to recover \$1,434,672 for the 2020 projected test year.<sup>48</sup> In addition to base rate revenues, Sebring projects to receive \$14,335 in other operating revenues from miscellaneous service charges, for a total of \$1,449,007. The appropriate cost of service methodology to be used in allocating costs to the various rate classes is reflected in the cost of service study contained in Attachment A of this Order.

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<sup>47</sup> Document No. 11050-2019, Revised MFR Schedule H-3, p. 5.

<sup>48</sup> \$1,434,672 = \$1,171,865 (Section 3) + \$262,805 (Section 8.B.) (may not sum due to rounding).

*B. Customer Charges*

The customer charge is a fixed charge that applies to each customer's bill within a rate class, no matter the quantity of gas used for the month. The customer charge is typically designed to recover costs related to the meter, regulator, services, and billing that are incurred no matter whether any gas is consumed. For any given revenue requirement, any customer-related costs that are not recovered through the customer charge are recovered through the per-therm charge. For example, a higher customer charge results in a lower per-therm charge.

The table below shows the current customer charges, the Company-proposed customer charges, and the Commission-approved customer charges. Sebring classifies customers based on annual therm usage and does not distinguish between residential and commercial customers.

**Customer Charges by Rate Class**

<b>Rate Class</b>	<b>Current Charges</b>	<b>Company-proposed Charges</b>	<b>Commission-approved Charges</b>
Transportation Service 1 (TS-1)	\$9.00	\$15.00	\$12.00
Transportation Service 2 (TS-2)	\$12.00	\$30.00	\$20.00
Transportation Service 3 (TS-3)	\$35.00	\$200.00	\$70.00
Transportation Service 4 (TS-4)	\$150.00	\$650.00	\$225.00
Transportation Service 5 (TS-5)	\$500.00	\$3,875.00	\$1,000.00
Third Party Supplier (TPS)	\$3.00	\$3.50	\$3.50
Special Contracts	\$11,633.00	\$11,913.20	\$11,906.92

Source: Document No. 11050-2019, Revised MFR Schedule H-3, p 5.

As shown in the table above, we approved lower customer charges than the Company proposed for most rate classes. We have concerns that by significantly shifting cost recovery from the variable charge to the fixed customer charge, lower volume customers may see substantially higher bill increases, when compared to higher volume customers.

The Company's proposed shift in cost recovery may benefit large volume users who can offset the overall bill increase due to the higher customer charge with lower per-therm charges. Low-volume users, however, cannot benefit to the same extent from the lower per-therm charge. The shift to a higher fixed charge reduces the lower volume customer's ability to affect their overall bill. Additionally, a shift to higher fixed charges reduces the incentive for a customer to

conserve natural gas. We have evaluated the Company's proposed customer charges in light of these trade-offs for different usage levels.

The Third Party Supplier rate schedule is charged to third party suppliers who sell gas to Sebring customers. Sebring performs administrative and payment processing functions on behalf of the third party suppliers. The \$3.50 is a charge per customer served by the Third Party Supplier, and represents Sebring's administrative and billing cost to perform these tasks.

### **Sebring's Justification for Shifting Cost Recovery**

In his testimony, Mr. Christmas states that Sebring's proposed customer charges are a significant shift in the recovery of its approved revenue requirement through the fixed charge component of its proposed rate structure.<sup>49</sup> Mr. Christmas defines Straight Fixed Variable (SFV) rate design as recovering Sebring's fixed costs from its customers with fixed charges.

There is some merit in his argument that a Local Distribution Company (LDC) experiences little variable cost for building and maintaining infrastructure. SFV cost allocations are also consistent with the pricing schemes approved by the Federal Energy Regulatory Commission for interstate pipelines. The customer still experiences variability due to fluctuations in the cost of gas itself; however, purchased gas costs are a separate charge on customers' bills. We are cognizant of Mr. Christmas's arguments on behalf of shifting costs from the variable per-therm charge to the fixed customer charge, under the basis of SFV rate design.

In response to our staff's tenth data request, Sebring states that a benefit of its proposed customer charges is that bills are more leveled month-to-month. Sebring finds this to be beneficial for both customer and Company, because it "simulates a budget billing program" for the customer and the Company receives a more consistent cash flow month-to-month.<sup>50</sup> However, we do not believe the above argument outweighs the impacts of abnormally large increases to some customers' bills. Under the Company proposed rates, lower volume customers in most rate classes could experience a significant monthly rate increase.<sup>51</sup> Higher volume customers, on the other hand, may experience an overall decrease in their monthly bill, depending on usage.

Section 366.06(1), F.S., states that we shall, to the extent practicable, consider the cost of providing service to the class, as well as the rate history, value of service, and experience of the public utility. Shifting most of the Company's base rate costs from the variable per-therm charge to the fixed customer charge would unduly impact low-therm customers. These customers may not benefit from the correspondingly lower therm charge resulting from such a shift.

We believe a fairer approach is to set the customer charge to minimize the impact on low-therm users and let the therm charge capture the balance of the class revenue requirement. This is

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<sup>49</sup> Document No. 04736-2019, Direct Testimony of Bruce Christmas, pp. 18-20.

<sup>50</sup> Document No. 09451-2019, Sebring's Responses to Staff's Tenth Data Request.

<sup>51</sup> Document No. 09001-2019, Sebring's Responses to Staff's Ninth Data Request, based on actual monthly customer therm usage in the 2018 Historic Base Year.

consistent with this Commission's decisions in the 2004 Sebring rate proceeding,<sup>52</sup> the 2009 Florida Division of Chesapeake Utilities Corporation rate proceeding,<sup>53</sup> and the 2007 St. Joe Natural Gas Company, Inc. rate proceeding.<sup>54</sup> We are approving rates that should recover a greater proportion of costs through the fixed customer charge, compared to Sebring's current rate design. The Commission-approved rates are an incremental shift toward recognizing the operating characteristics of LDCs while providing some stability to customer rates and minimizing impacts on low users. Attachment B of this Order shows bill comparisons between Sebring's current rates and the Commission-approved rates.

### *C. Transportation Charges*

The table below shows the transportation charges that are currently in effect, Sebring's proposed charges as contained in the revised MFR Schedule H, and the Commission-approved charges.

<b>Transportation Charges (dollar per therm)</b>			
Rate Class	Current Rate	Company-proposed	Commission-approved
TS-1	0.57140	0.33481	0.71729
TS-2	0.49327	0.20787	0.49954
TS-3	0.46677	0.16529	0.53509
TS-4	0.33861	0.09619	0.41356
TS-5	0.38136	0.04027	0.42791

Source: Document No. 11050-2019, Revised MFR Schedule H-3, p 5.

The Commission-approved transportation charges are higher than the Company-proposed charges because we approved lower customer charges for certain rate classes. For any given class revenue requirement, costs not recovered through the customer charge are recovered through the per-therm transportation charge. Therefore, a lower customer charge results in higher transportation charges.

### *D. Effective Date of Revised Rates and Charges*

All new rates and charges shall become effective for meter readings on or after 30 days from January 14, 2020, the date of our vote approving them. This will insure that customers are aware of the new rates before they are billed for usage under the new rates, and prevent the billing of usage under the new rates prior to their approval.

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<sup>52</sup> Order No. PSC-04-1260-PAA-GU, issued December 20, 2004, in Docket No. 20040270-GU, *In re: Application for rate increase by Sebring Gas System, Inc.*

<sup>53</sup> Order No. PSC-10-0029-PAA-GU, issued January 14, 2010, in Docket No. 20090125-GU, *In re: Petition for increase in rates by Florida Division of Chesapeake Utilities Corporation.*

<sup>54</sup> Order No. PSC-08-0436-PAA-GU, issued July 8, 2008, in Docket No. 20070592-GU, *In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.*

Sebring shall file revised tariffs to reflect the Commission-approved final rates and charges for administrative approval within five business days after our vote on January 14, 2020. Pursuant to Rule 25-22.0406(8), F.A.C., customers shall be notified of the revised rates in their first bill containing the new rates. A copy of the notice shall be submitted to our staff for approval prior to its use.

10. Confirmation of Compliance (Final Agency Action)

Sebring shall be required to notify this Commission, in writing, that it has adjusted its books in accordance with our ordered adjustments. Sebring shall submit a letter within 90 days of the final order in this docket, confirming that the adjustments to all the applicable accounts have been made to the Company's books and records. In the event Sebring needs additional time to complete the adjustments, notice shall be provided within seven days prior to deadline. Our staff is hereby given administrative authority to grant an extension of up to 60 days upon the Company's showing of good cause.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Sebring Gas System, Inc.'s application for increased rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that Sebring Gas System, Inc. is authorized to collect increased revenues of \$262,805. It is further

ORDERED that Sebring Gas System, Inc.'s quality of service is adequate. It is further

ORDERED that \$1,960,692 for plant additions is appropriate for inclusion in rate base as set forth in the body of this Order. It is further

ORDERED that the appropriate total test year rate base for Sebring Gas System Inc. is \$5,021,353. It is further

ORDERED that the appropriate allowed return on equity for Sebring Gas System Inc. is 11.00 percent with a range of plus or minus 100 basis points. It is further

ORDERED that the appropriate Weighted Average Cost of Capital for Sebring Gas System Inc. is 6.81 percent. It is further

ORDERED that the appropriate total operating revenues for Sebring Gas System Inc. for the 2020 projected test year is \$1,186,200. It is further

ORDERED that the appropriate Total Operating Expenses for Sebring Gas System Inc. the projected test year is \$1,041,548. It is further

ORDERED that Sebring Gas System Inc.'s approved customer charges and transportation charges are shown on Attachment B. It is further

ORDERED that Sebring Gas System, Inc. shall file revised tariffs to reflect the Commission-approved final rates and charges for administrative approval within five business days after this Commission's vote on January 14, 2020. It is further

ORDERED that all new rates and charges shall become effective for meter readings on or after 30 days from January 14, 2020, the date of our vote approving them. It is further

ORDERED that Sebring Gas System, Inc. shall notify this Commission, in writing, that it has adjusted its books in accordance with the ordered adjustments. Sebring Gas System, Inc. shall submit a letter within 90 days of this Order, confirming that the adjustments to all the applicable accounts have been made to Sebring Gas System, Inc.'s books and records. In the event Sebring Gas System, Inc. needs additional time to complete the adjustments, notice shall be provided within seven days prior to deadline. Our staff is hereby given administrative authority to grant an extension of up to 60 days upon Sebring Gas System, Inc.'s showing of good cause. (*Final Agency Action*) It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of this Order, this docket shall be closed upon the issuance of a consummating order.



By ORDER of the Florida Public Service Commission this 3rd day of February, 2020.



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ADAM J. TEITZMAN  
Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399  
(850) 413-6770  
[www.floridapsc.com](http://www.floridapsc.com)

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MAD/RAD

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions are preliminary in nature, except for the requirement for proof of adjustment of books and records. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 24, 2020. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Office of Commission Clerk and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

**Sebring Gas Systems  
 Docket No. 20190083-GU  
 Rate Base Calculation**

	<u>COMPANY ADJUSTED</u>	<u>COMMISSION ADJS.</u>	<u>COMMISSION ADJUSTED</u>
<b>Utility Plant</b>			
Plant in Service	\$7,946,544		\$7,928,320
376.1 Mains -Plastic		(\$13,804)	
380.1 Services- Plastic		(4,422)	
CWIP	<u>0</u>		<u>0</u>
Total Utility Plant	\$7,946,544	(\$18,226)	\$7,928,320
Accum. Depr. And Amor. - Plant in Service	(\$3,036,771)		(\$3,041,557)
376.1 Mains - Plastic		1,767	
380.1 Services - Plastic		2,776	
392 Transportation Equip- Light Trucks		(9,330)	
Customer Advances for Constr.	(\$12,928)		(\$12,928)
Total Accum. Depr. And Cust. Adv.	(\$3,049,699)	(\$4,787)	(\$3,054,485)
Net Utility plant	\$4,896,845		\$4,873,835
Working Capital Allowance	<u>\$147,518</u>		<u>\$147,518</u>
Total Rate Base	<u>\$5,044,363</u>	<u>(\$23,010)</u>	<u>\$5,021,353</u>

Source: Sebring's proposed 2020 PTY Rate Base amount as shown on Revised MFR Schedule G1-1.

\*May not sum due to rounding.

**Sebring Gas Systems  
Docket No. 20190083-GU  
Working Capital Calculation**

<u>CURRENT &amp; ACCRUED ASSETS</u>	
CASH	\$209,874
ACCOUNTS REC - NATURAL GAS	44,089
ACCOUNTS REC - FUEL	0
PLANT & OPER. MATERIAL SUPPL	94,018
PREPAYMENTS	<u>3,870</u>
TOTAL CURR. & ACCR. ASSETS	<u>\$351,851</u>
 <u>CURRENT &amp; ACCRUED LIABILITIES</u>	
ACCOUNTS PAYABLE	\$142,718
NP COKER - CURRENT	0
FEDERAL INCOME TAXES PAYABLE	8,540
STATE INCOME TAXES PAYABLE	2,367
ACCRUED INTEREST PAYABLE	32,912
INTEREST PAYABLE - CUST DEPOSITS	2,556
UTILITY TAX - GROSS RECEIPTS	2,937
REGULATORY ASSESSMENT	1,784
REGULATORY ASSESSMENT - ECCR	0
SALES TAX PAYABLE	642
TANGIBLE & MUT TAX PAYABLE	<u>9,877</u>
TOTAL CURR. & ACCRUED LIAB.	<u>\$204,333</u>
NET WORKING CAPITAL INCLUDED IN RATE BASE	<u>\$147,518</u>

Source: Sebring's proposed 2020 PTY Working Capital as shown on Revised MFR Schedule G1-3.

\*May not sum due to rounding.

**Sebring Gas System**  
**Docket No. 20190083-GU**  
**Projected Test Year 12/31/2020**  
**Capital Structure – 13-Month Average**

COMPANY PROPOSED						
	PER BOOKS	Specific Adjustment	PRO RATA ADJUSTED	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY	\$1,746,957	\$0	\$1,746,957	34.63%	12.50%	4.33%
LONG TERM DEBT	\$2,760,453	\$0	\$2,760,453	54.72%	5.95%	3.26%
SHORT TERM DEBT	\$38,077	\$0	\$38,077	0.75%	6.00%	0.05%
CUSTOMER DEPOSITS	\$156,205	\$0	\$156,205	3.10%	2.86%	0.09%
DEFERRED INCOME TAX	\$342,671	\$0	\$342,671	6.79%	0.00%	0.00%
	\$5,044,363	\$0	\$5,044,363	100.00%		7.72%

	COMPANY AS FILED				COMMISSION ADJUSTMENTS					
	PER BOOKS	Specific Adjustment	PRO RATA ADJUSTED	Specific Adjustment	ADJUSTED BALANCE	PRO RATA	Reconciled to Rate Base	RATIO	COST RATE	WEIGHTED AVG COST
COMMON EQUITY	\$1,746,957	\$0	\$1,746,957		\$1,746,957	(\$7,807)	\$1,739,150	34.64%	11.00%	3.81%
LONG TERM DEBT	\$2,760,453	\$0	\$2,760,453		\$2,760,453	(\$12,336)	\$2,748,117	54.73%	5.25%	2.87%
SHORT TERM DEBT	\$38,077	\$0	\$38,077		\$38,077	(\$170)	\$37,907	0.75%	5.25%	0.04%
CUSTOMER DEPOSITS	\$156,205	\$0	\$156,205		\$156,205	(\$698)	\$155,507	3.10%	2.86%	0.09%
DEFERRED INCOME TAX	\$342,671	\$0	\$342,671	(\$470)	\$342,201	(\$1,529)	\$340,672	6.78%	0.00%	0.00%
	\$5,044,363	\$0	\$5,044,363			(\$22,540)	\$5,021,353	100.00%		6.81%

**Sebring Gas System  
Docket No.20190083-GU  
2020 Projected Test Year  
Net Operating Income**

	<u>COMPANY</u>	<u>COMMISSION</u>	
	<u>PTY 2020</u>	<u>COMMISSION ADJS.</u>	<u>COMMISSION ADJUSTED</u>
OPERATING REVENUES	\$1,033,155	\$0	\$1,033,155
REVENUES DUE TO GROWTH	153,045	0	153,045
TOTAL OPERATING REVENUES	<u>\$1,186,200</u>	<u>\$0</u>	<u>\$1,186,200</u>
<b>OPERATING EXPENSES</b>			
OPERATIONS AND MAINTENANCE	739,587	2,405	741,992
DEPRECIATION & AMORTIZATION	260,594	(542)	260,052
TAXES OTHER THAN INCOME	22,931	(463)	22,468
CURRENT FEDERAL INCOME TAX EXP.	(1,546)	0	(1,546)
CURRENT STATE INCOME TAX EXP.	(429)	0	(429)
DEFERRED FEDERAL INCOME TAX EXP.		14,906	14,906
DEFERRED STATE INCOME TAX EXP.		4,105	4,105
TOTAL OPERATING EXPENSES	<u>\$1,021,137</u>	<u>\$20,411</u>	<u>\$1,041,548</u>
NET OPERATING INCOME	<u>\$165,063</u>		<u>\$144,652</u>

**Sebring Gas System  
Docket No. 00832019-GU  
2020 Projected Test Year  
Operating Expenses**

	<u>COMPANY ADJUSTED</u>	<u>COMMISSION ADJS.</u>	<u>COMMISSION ADJUSTED</u>
<b>OPERATING EXPENSES</b>			
OPERATION & MAINTENANCE EXP.	\$739,587		
902 Meter Reading Exp.		\$397	
920 Admin & Gen Salaries		(\$397)	
921 Office Supplies Exp.		(\$1,880)	
926 Employee Pension & Benefits		(\$413)	
928 Regulatory Commission Exp.		\$4,699	
TOTAL O & M EXPENSE	\$739,587	\$2,405	\$741,992
DEPRECIATION & AMORT. EXP.	\$260,594		
376.1 Mains - Plastic		(\$400)	
380.1 Services - Plastic		(\$142)	
TOTAL DEPRECIATION & AMORT.	\$260,594	(\$542)	\$260,052
TAXES OTHER THAN INCOME	\$22,931		
		(\$463)	
TOTAL TAXES OTHER THAN INCOME	\$22,931	(\$463)	\$22,468
<b>INCOME TAX EXPENSE</b>			
Income Taxes - Federal	(\$1,546)		(\$1,546)
Income Taxes - State	(\$429)		(\$429)
Deferred Income Taxes - Federal	0	\$14,906	14,906
Deferred Income Taxes - State	0	\$4,105	4,105
TOTAL INCOME TAXES	(\$1,975)	\$19,011	\$17,036
<b>TOTAL OPERATING EXPENSES</b>	<b><u>\$1,021,137</u></b>	<b><u>\$20,411</u></b>	<b><u>\$1,041,548</u></b>

**Sebring Gas System  
 Docket No. 20190083-GU  
 2020 Projected Test Year  
 Net Operating Income Multiplier**

<u>DESCRIPTION</u>	<u>COMPANY PER FILING</u>	<u>COMMISSION</u>
REVENUE REQUIREMENT	100.0000%	100.0000%
REGULATORY ASSESSMENT RATE	0.5000%	0.5000%
BAD DEBT RATE	0.0000%	0.0000%
NET BEFORE INCOME TAX RATE	99.5000%	99.5000%
STATE INCOME TAX RATE	5.5000%	4.4580%
STATE INCOME TAX	5.4725%	4.4357%
NET BEFORE FEDERAL INCOME TAXES	94.0275%	95.0643%
FEDERAL INCOME TAX RATE	21.0000%	21.0000%
FEDERAL INCOME TAX	19.7458%	19.9635%
REVENUE EXPANSION FACTOR	74.2817%	75.1008%
NET OPERATING INCOME MULTIPLIER	<u>1.3462</u>	<u>1.3315</u>



**Sebring Gas System  
Docket No. 20190083-GU  
2020 Projected Test Year  
Revenue Deficiency Calculation**

<u>DESCRIPTION</u>	<u>COMPANY ADJUSTED</u>	<u>COMMISSION ADJUSTED</u>
RATE BASE (AVERAGE)	\$5,044,363	\$5,021,353
RATE OF RETURN	<u>7.72%</u>	<u>6.81%</u>
REQUIRED NOI	<u>\$389,425</u>	<u>\$342,020</u>
OPERATING REVENUES	\$1,186,200	\$1,186,200
OPERATING EXPENSES	<u>\$1,021,137</u>	<u>\$1,041,548</u>
ACHIEVED NOI	<u>\$165,064</u>	<u>\$144,652</u>
NOI DEFICIENCY	<u>\$224,361</u>	<u>\$197,368</u>
EXPANSION FACTOR	1.3462	1.3315
REVENUE DEFICIENCY	<u>\$302,041</u>	<u>\$262,805</u>

SEBRING GAS SYSTEM, INC.  
DOCKET NO: 20190083-GU  
MINIMUM FILING REQUIREMENTS  
INDEX

COST OF SERVICE STUDY SCHEDULES

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SCHEDULE H-1

COST OF SERVICE STUDY

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FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

CLASSIFICATION OF RATE BASE - PLANT  
 SCHEDULE A: PAGE 1 OF 2

LINE NO.	DESCRIPTION	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
1	INTANGIBLE PLANT	\$131,409		\$131,409		100% capacity
	<u>DISTRIBUTION PLANT:</u>					
2	LAND AND LAND RIGHTS	\$22,625		\$22,625		100% capacity
3	MAINS - STEEL	\$613,303		\$613,303		"
4	MAINS - PLASTIC	\$3,331,596		\$3,331,596		"
5	M & R EQUIPMENT - GENERAL	\$18,003		\$18,003		"
6	M & R EQUIPMENT - CITY GATE	\$1,252,572		\$1,252,572		"
7	SERVICES - STEEL	\$350,793	\$350,793			100% customer
8	SERVICES - PLASTIC	\$957,522	\$957,522			"
9	METERS	\$347,094	\$347,094			"
10	METER INSTALLATIONS	\$183,764	\$183,764			"
11	REGULATORS	\$49,387	\$49,387			"
12	REGULATOR INSTALLATIONS	\$81,543	\$81,543			"
13	CUSTOMER CONVERSIONS	\$35,310	\$35,310			"
14	OTHER EQUIPMENT	\$45,109	\$12,489	\$32,620		a/c 374 - 386
15	TOTAL DISTRIBUTION PLANT	\$7,288,620	\$2,017,902	\$5,270,719	\$0	
16	GENERAL PLANT	\$508,289	\$254,145	\$254,144		50% cust / 50% cap
17	GAS PLANT FOR FUTURE USE	\$0	\$0	\$0		
18	CWIP	\$0	\$0	\$0		
19	TOTAL PLANT	\$7,928,318	\$2,272,047	\$5,656,272	\$0	

SCHEDULE H-1

COST OF SERVICE STUDY

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FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

CLASSIFICATION OF RATE BASE ACCUMULATED DEPRECIATION SCHEDULE A: PAGE 2 OF 2						
LINE NO.	DESCRIPTION	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
1	INTANGIBLE PLANT	(\$111,002)		(\$111,002)		related plant
	<u>DISTRIBUTION PLANT:</u>					
2	LAND AND LAND RIGHTS	\$0		\$0		related plant
3	MAINS - STEEL	(\$191,270)		(\$191,270)		"
4	MAINS - PLASTIC	(\$1,008,767)		(\$1,008,767)		"
5	M & R EQUIPMENT - GENERAL	(\$10,548)		(\$10,548)		"
6	M & R EQUIPMENT - CITY GATE	(\$306,980)		(\$306,980)		"
7	SERVICES - STEEL	(\$425,988)	(\$425,988)			"
8	SERVICES - PLASTIC	(\$294,612)	(\$294,612)			"
9	METERS	(\$216,796)	(\$216,796)			"
10	METER INSTALLATIONS	(\$67,906)	(\$67,906)			"
11	REGULATORS	(\$29,213)	(\$29,213)			"
12	REGULATOR INSTALLATIONS	(\$45,124)	(\$45,124)			"
13	CUSTOMER CONVERSIONS	(\$32,868)	(\$32,868)			"
14	OTHER EQUIPMENT	(\$11,070)	(\$4,683)	(\$6,387)		"
15	TOTAL DISTRIBUTION PLANT	(\$2,641,142)	(\$1,117,190)	(\$1,523,952)	\$0	
16	GENERAL PLANT	(\$289,413)	(\$144,707)	(\$144,706)		50% cust / 50% cap
17	RETIREMENT WORK IN PROGRESS:	\$0	\$0	\$0		
18	TOTAL ACCUMULATED DEPRECIATION	<u>(\$3,041,557)</u>	<u>(\$1,261,897)</u>	<u>(\$1,779,660)</u>	<u>\$0</u>	
19	NET PLANT	\$4,886,761	\$1,010,150	\$3,876,612		
20	less: CUSTOMER ADVANCES	(\$12,928)	(\$6,464)	(\$6,464)		50% cust / 50% cap
21	plus: WORKING CAPITAL	\$147,518	\$73,759	\$73,759		oper & maint exp
22	TOTAL RATE BASE	<u>\$5,021,351</u>	<u>\$1,077,445</u>	<u>\$3,943,906</u>	<u>\$0</u>	

SUPPORTING SCHEDULES: G-1 p.1, G-1 p.4, G-1 p.12

RECAP SCHEDULES: H-3 p.1

SCHEDULE H-1

COST OF SERVICE STUDY

PAGE 3 OF 4

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

CLASSIFICATION OF EXPENSES AND  
 DERIVATION OF COST OF SERVICE BY COST CLASSIFICATION  
 SCHEDULE B: PAGE 1 OF 2

LINE NO.	DESCRIPTION	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
OPERATIONS AND MAINTENANCE EXPENSES						
DISTRIBUTION EXPENSES:						
1	SUPERVISION & ENGINEERING	\$28,154	\$15,554	\$12,600		ac 871-879
2	MAINS & SERVICES EXPENSE	\$54,313	\$13,528	\$40,786		a/c 376 + a/c 380
3	MEAS & REG - GENERAL	\$0		\$0		a/c 378
4	MEAS & REG - CITY GATE	\$0		\$0		a/c 379
5	METER & HOUSE REG EXPENSE	\$10,749	\$10,749			a/c 381 + a/c 383
6	CUSTOMER INSTALLATIONS	\$32,981	\$32,981			a/c 386
7	OTHER EXPENSES	\$11,225	\$3,108	\$8,117		a/c 387
8	SUPERVISION & ENGINEERING	\$3,732	\$1,304	\$2,428		ac 887-894
9	MAINTENANCE OF MAINS	\$18,653		\$18,653		a/c 376
10	MTCE OF MEAS & REG - GENERAL	\$0		\$0		a/c 378
11	MTCE OF MEAS & REG - GATE STATION	\$12,754		\$12,754		a/c 379
12	MAINTENANCE OF SERVICES	\$3,904	\$3,904			a/c 380
13	MTCE OF METERS & HOUSE REGULATORS	\$13,862	\$13,862			a/c 381 + a/c 383
14	MTCE OF OTHER EQUIPMENT	\$8,106	\$2,244	\$5,861		a/c 387
15	TOTAL DISTRIBUTION EXPENSES	\$198,432	\$97,233	\$101,199		
CUSTOMER ACCOUNTS EXPENSES:						
16	SUPERVISION	\$0	\$0			100% customer
17	METER READING EXPENSE	\$6,993	\$6,993			"
18	CUS RECORDS & COLLECTIONS	\$2,340	\$2,340			"
19	UNCOLLECTIBLE ACCOUNTS	\$637	\$637			"
20	TOTAL CUSTOMER ACCOUNTS EXPENSES	\$9,970	\$9,970	\$0	\$0	
21	CUSTOMER SVCE & INFORMATION	\$0	\$0			100% customer
22	SALES EXPENSE	\$0	\$0			100% customer
23	ADMINISTRATIVE & GEN EXP	\$533,590	\$274,482	\$259,109		O&M, excluding A&G
24	TOTAL O&M EXPENSES	\$741,992	\$381,685	\$360,308	\$0	

SCHEDULE H-1

COST OF SERVICE STUDY

PAGE 4 OF 4

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

CLASSIFICATION OF EXPENSES AND DERIVATION  
 OF COST OF SERVICE BY COST CLASSIFICATION  
 SCHEDULE B: PAGE 2 OF 2

LINE NO.	DESCRIPTION	TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE	CLASSIFIER
1	DEPRECIATION AND AMORTIZATION EXPENSE:	\$260,052	\$53,756	\$206,297			net plant
2	TAXES OTHER THAN INCOME TAXES:						
3	REVENUE RELATED	\$1,510				\$1,510	100% revenue
4	OTHER	\$22,272	\$4,604	\$17,668			net plant
5	TOTAL TAXES OTHER THAN INCOME TAXES	\$23,782	\$4,604	\$17,668	\$0	\$1,510	
6	REV.CRDT TO COS(NEG.OF OTHR OPR.REV)	(\$14,335)	(\$14,335)				100% customer
7	RETURN (REQUIRED NOI)	\$342,021	\$73,388	\$268,632	\$0		rate base
8	INCOME TAXES	\$81,159	\$17,414	\$63,744	\$0		return(noi)
9	TOTAL OVERALL COST OF SERVICE	\$1,434,671	\$516,513	\$916,649	\$0	\$1,510	

SCHEDULE H-2

COST OF SERVICE STUDY

PAGE 1 OF 4

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

DEVELOPMENT OF ALLOCATION FACTORS  
 SCHEDULE C

LINE NO.	DESCRIPTION	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER
<u>CUSTOMER COSTS</u>									
1	No. of Bills	8,725	6,215	608	1,284	522	72	24	0
2	Weighting	NA	1.00	1.82	6.11	13.21	22.02	22.02	0.00
3	Weighted No. of Bills	24,173	6,215	1,105	7,842	6,898	1,585	528	0
4	Allocation Factors	100.00%	25.71%	4.57%	32.44%	28.53%	6.56%	2.19%	0.00%
<u>CAPACITY COSTS</u>									
5	Peak & Avg. Monthly Sales Vol.(therms)	294,898	9,166	4,473	39,149	109,041	79,847	53,223	0
6	Allocation Factors	100.00%	3.108%	1.517%	13.275%	36.976%	27.076%	18.048%	0.000%
<u>COMMODITY COSTS</u>									
7	Annual Sales Vol.(therms)	1,906,511	40,641	17,628	430,636	645,684	504,685	267,237	0
8	Allocation Factors	100.00%	2.13%	0.92%	22.59%	33.87%	26.47%	14.02%	0.00%
<u>REVENUE-RELATED COSTS</u>									
9	Tax on Cust.Cap.& Commod.	1,433,160	103,622	20,944	319,971	384,075	287,657	286,386	30,506
10	Allocation Factors	100.00%	7.23%	1.46%	22.33%	26.80%	20.07%	19.98%	2.13%

SUPPORTING SCHEDULES: E-2 p.3, E-4 p.1, H-2 p.6

RECAP SCHEDULES: H-3 p.1

SCHEDULE H-2

COST OF SERVICE STUDY

PAGE 2 OF 4

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

ALLOCATION OF RATE BASE TO CUSTOMER CLASSES  
 SCHEDULE D

LINE NO.	RATE BASE BY CUSTOMER CLASS	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER	ALLOCATOR
DIRECT AND SPECIAL ASSIGNMENTS:										
RATE BASE										
	Customer									
1	Services	\$587,715	\$151,102	\$26,872	\$190,648	\$167,704	\$38,542	\$12,847	\$0	wtd.cust./direct
2	Meters	\$246,156	\$63,287	\$11,255	\$79,850	\$70,240	\$16,143	\$5,381	\$0	wtd.cust./direct
3	House Regulators	\$56,593	\$14,550	\$2,588	\$18,358	\$16,149	\$3,711	\$1,237	\$0	wtd.cust./direct
4	General Plant	\$109,438	\$28,137	\$5,004	\$35,500	\$31,228	\$7,177	\$2,392	\$0	wtd.cust./direct
5	All Other	\$77,543	\$19,936	\$3,545	\$25,154	\$22,127	\$5,085	\$1,695	\$0	wtd.cust./direct
6	Total	\$1,077,445	\$277,012	\$49,263	\$349,511	\$307,448	\$70,659	\$23,553	\$0	
	Capacity									
7	Mains	\$2,744,862	\$129,144	\$47,360	\$399,403	\$991,048	\$651,729	\$526,179	\$0	peak/avg sales/direct
8	M&R Equipment - General	\$7,455	\$232	\$113	\$990	\$2,757	\$2,019	\$1,345	\$0	peak/avg sales/direct
9	M&R Equipment - City Gate	\$945,592	\$1,961	\$957	\$8,377	\$23,334	\$17,086	\$893,876	\$0	peak/avg sales/direct
10	General Plant	\$109,438	\$3,401	\$1,660	\$14,528	\$40,466	\$29,631	\$19,751	\$0	peak/avg sales/direct
11	All Other	\$136,560	\$4,244	\$2,071	\$18,129	\$50,494	\$36,975	\$24,646	\$0	peak/avg sales/direct
12	Total	\$3,943,906	\$138,982	\$52,161	\$441,427	\$1,108,098	\$737,440	\$1,465,798	\$0	
	Commodity									
13	Account #									
14	Account #									
15	Account #									
16	All Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	annual sales
17	Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
18	TOTAL RATE BASE	\$5,021,351	\$415,994	\$101,424	\$790,937	\$1,415,546	\$808,098	\$1,489,351	\$0	

SUPPORTING SCHEDULES: H-2 p.5, H-2 p.6

RECAP SCHEDULES: H-3 p.1



SCHEDULE H-2

COST OF SERVICE STUDY

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FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

ALLOCATION OF COST OF SERVICE  
 TO CUSTOMER CLASSES  
 SCHEDULE E: PAGE 1 OF 2

LINE NO.	COST OF SERVICE BY CUSTOMER CLASS	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER	ALLOCATOR
DIRECT AND SPECIAL ASSIGNMENTS:										
COST OF SERVICE										
OPERATIONS & MAINTENANCE EXPENSE:										
CUSTOMER										
1	874 Mains & Services	\$13,528	\$3,478	\$619	\$4,388	\$3,860	\$887	\$296	\$0	wtd.cust./direct
2	878 Meters and House Regulators	\$10,749	\$2,764	\$491	\$3,487	\$3,067	\$705	\$235	\$0	wtd.cust./direct
3	892 Maint. of Services	\$3,904	\$1,004	\$179	\$1,266	\$1,114	\$256	\$85	\$0	wtd.cust./direct
4	893 Maint. of Meters & House Reg.	\$13,862	\$3,564	\$634	\$4,497	\$3,956	\$909	\$303	\$0	wtd.cust./direct
5	All Other	\$339,641	\$44,479	\$1,334	\$148,080	\$58,211	\$50,273	\$6,758	\$30,506	wtd.cust./direct
6	Total	\$381,685	\$55,288	\$3,257	\$161,718	\$70,209	\$53,030	\$7,677	\$30,506	
Capacity										
7	874 Mains and Services	\$40,786	\$1,269	\$619	\$5,414	\$15,081	\$11,043	\$7,361	\$0	peak/avg sales/direct
8	877 Measuring & Reg. Sta. Eq.- Gate Station	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	peak/avg sales/direct
9	887 Maint. of Mains	\$18,653	\$580	\$283	\$2,476	\$6,897	\$5,050	\$3,366	\$0	peak/avg sales/direct
10	891 Maint. of Meas.& Reg.Sta.Eq.- Gate Station	\$12,754	\$26	\$13	\$113	\$315	\$230	\$12,056	\$0	peak/avg sales/direct
11	All Other	\$288,115	\$8,955	\$3,370	\$44,248	\$88,533	\$91,010	\$51,999	\$0	peak/avg sales/direct
12	Total	\$360,308	\$10,830	\$4,285	\$52,251	\$110,826	\$107,333	\$74,782	\$0	
Commodity										
13	Account #	\$0								
14	Account #	\$0								
15	Account #	\$0								
16	All Other	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	annual sales
17	Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
18	TOTAL OPERATIONS & MAINTENANCE EXPENSE	\$741,993	\$66,118	\$7,542	\$213,969	\$181,035	\$160,363	\$82,459	\$30,506	
DEPRECIATION AND AMORTIZATION EXPENSE:										
19	Customer	\$53,756	\$13,821	\$2,458	\$17,438	\$15,339	\$3,525	\$1,175	\$0	wtd.cust./direct
20	Capacity	\$206,297	\$6,412	\$3,129	\$27,387	\$76,280	\$55,857	\$37,232	\$0	peak/avg sales/direct
21	TOTAL DEPRECIATION AND AMORTIZATION EXP	\$260,052	\$20,232	\$5,587	\$44,824	\$91,619	\$59,382	\$38,408	\$0	

SUPPORTING SCHEDULES: H-2 p.5, H-2 p.6

RECAP SCHEDULES: H-3 p.1

SCHEDULE H-2

COST OF SERVICE STUDY

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FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

ALLOCATION OF COST OF SERVICE  
 TO CUSTOMER CLASSES  
 SCHEDULE E: PAGE 2 OF 2

LINE NO.	COST OF SERVICE BY CUSTOMER CLASS	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER	ALLOCATOR
1	TAXES OTHER THAN INCOME TAXES:									
2	Customer	\$4,604	\$1,184	\$210	\$1,493	\$1,314	\$302	\$101	\$0	wtd.cust./direct
3	Capacity	\$17,668	\$549	\$268	\$2,346	\$6,533	\$4,784	\$3,189	\$0	peak/avg sales/direct
4	Subtotal	\$22,272	\$1,733	\$478	\$3,839	\$7,847	\$5,086	\$3,289	\$0	
5	Revenue	\$1,510	\$109	\$22	\$337	\$405	\$303	\$302	\$32	tx, cust cap & comm.
6	Total	\$23,782	\$1,842	\$501	\$4,176	\$8,251	\$5,389	\$3,591	\$32	
7	RETURN (NOI)									
8	Customer	\$73,388	\$18,868	\$3,355	\$23,806	\$20,941	\$4,813	\$1,604	\$0	wtd.cust./direct
9	Capacity	\$268,632	\$4,547	\$2,219	\$19,421	\$54,094	\$39,611	\$148,741	\$0	peak/avg sales/direct
10	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	annual sales
11	Total	\$342,021	\$23,415	\$5,574	\$43,227	\$75,035	\$44,424	\$150,345	\$0	
12	INCOME TAXES									
13	Customer	\$17,414	\$4,477	\$796	\$5,649	\$4,969	\$1,142	\$381	\$0	wtd.cust./direct
14	Capacity	\$63,744	\$1,981	\$967	\$8,462	\$23,570	\$17,259	\$11,505	\$0	peak/avg sales/direct
15	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	annual sales
16	Total	\$81,159	\$6,458	\$1,763	\$14,111	\$28,539	\$18,401	\$11,885	\$0	
17	REVENUE CREDITED TO COS:									
17	Customer	(\$14,335)	(\$14,335)	\$0	\$0	\$0	\$0	0	\$0	direct assignment
18	TOTAL COST OF SERVICE:									
18	Customer	\$516,513	\$79,303	\$10,076	\$210,105	\$112,772	\$62,812	\$10,937	\$30,506	
19	Capacity	\$916,649	\$24,319	\$10,867	\$109,866	\$271,303	\$224,844	\$275,449	\$0	
20	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
21	Subtotal	\$1,433,162	\$103,622	\$20,944	\$319,971	\$384,075	\$287,657	\$286,386	\$30,506	
22	Revenue	\$1,510	\$109	\$22	\$337	\$405	\$303	\$302	\$32	
23	Total	\$1,434,672	\$103,731	\$20,966	\$320,308	\$384,479	\$287,960	\$286,688	\$30,538	

SCHEDULE H-3

COST OF SERVICE STUDY

PAGE 1 OF 5

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

DERIVATION OF REVENUE DEFICIENCY  
 SCHEDULE F

LINE NO.	REVENUE DEFICIENCY	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER
1	CUSTOMER COSTS	\$516,513	\$79,303	\$10,076	\$210,105	\$112,772	\$62,812	\$10,937	\$30,506
2	CAPACITY COSTS	\$916,649	\$24,319	\$10,867	\$109,866	\$271,303	\$224,844	\$275,449	\$0
3	COMMODITY COSTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	REVENUE COSTS	\$1,510	\$109	\$22	\$337	\$405	\$303	\$302	\$32
5	TOTAL COST OF SERVICE	\$1,434,672	\$103,731	\$20,966	\$320,308	\$384,479	\$287,960	\$286,688	\$30,538
6	less: REVENUE AT PRESENT RATES (in the projected test year)	\$1,171,866	\$79,157	\$15,991	\$245,948	\$296,935	\$228,468	\$279,192	\$26,175
7	equals: GAS SALES REVENUE DEFICIENCY	\$262,806	\$24,574	\$4,975	\$74,360	\$87,544	\$59,492	\$7,496	\$4,363
8	plus: DEFICIENCY IN OTHER OPERATING REV.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
9	equals: TOTAL BASE-REVENUE DEFICIENCY	\$262,806	\$24,574	\$4,975	\$74,360	\$87,544	\$59,492	\$7,496	\$4,363
UNIT COSTS:									
10	Customer	\$4.933	\$1.063	\$1.381	\$13.636	\$18.003	\$72.700	\$37.976	\$0.000
11	Capacity	\$3.108	\$2.653	\$2.430	\$2.806	\$2.488	\$2.816	\$5.175	\$0.000
12	Commodity	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000

SCHEDULE H-3

COST OF SERVICE STUDY

PAGE 2 OF 5

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

RATE OF RETURN BY CUSTOMER CLASS  
 SCHEDULE G: PAGE 1 OF 2: PRESENT RATES

LINE NO.	RATE OF RETURN BY CUSTOMER CLASS	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER
REVENUES: (projected test year)									
1	Gas Sales (due to growth)	\$1,171,866	\$79,157	\$15,991	\$245,948	\$296,935	\$228,468	\$279,192	\$26,175
2	Other Operating Revenue	\$14,335	\$14,335	\$0	\$0	\$0	\$0	\$0	\$0
3	Total Revenues	\$1,186,201	\$93,492	\$15,991	\$245,948	\$296,935	\$228,468	\$279,192	\$26,175
EXPENSES:									
4	Purchased Gas Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5	O&M Expenses	\$741,993	\$66,118	\$7,542	\$213,969	\$181,035	\$160,363	\$82,459	\$30,506
6	Depreciation and Amortization Expenses	\$260,052	\$20,232	\$5,587	\$44,824	\$91,619	\$59,382	\$38,408	\$0
7	Taxes Other Than Income	\$22,272	\$1,733	\$478	\$3,839	\$7,847	\$5,086	\$3,289	\$0
8	Taxes Other Than Income--Revenue	\$1,510	\$109	\$22	\$337	\$405	\$303	\$302	\$32
9	Total Expes before Income Taxes	\$1,025,828	\$88,193	\$13,629	\$262,970	\$280,905	\$225,134	\$124,458	\$30,538
10	INCOME TAXES:	\$81,159	\$6,458	\$1,763	\$14,111	\$28,539	\$18,401	\$11,885	\$0
11	NET OPERATING INCOME	\$79,215	(\$1,159)	\$599	(\$31,133)	(\$12,509)	(\$15,068)	\$142,849	(\$4,363)
12	RATE BASE	\$5,021,351	\$415,994	\$101,424	\$790,937	\$1,415,546	\$808,098	\$1,489,351	\$0
13	RATE OF RETURN	1.58%	-0.28%	0.59%	-3.94%	-0.88%	-1.86%	9.59%	0.00%

SCHEDULE H-3

COST OF SERVICE STUDY

PAGE 3 OF 5

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

RATE OF RETURN BY CUSTOMER CLASS  
 SCHEDULE G: PAGE 2 OF 2: PROPOSED RATES

LINE NO.	RATE OF RETURN BY CUSTOMER CLASS	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER
REVENUES:									
1	Gas Sales	\$1,434,672	\$103,731	\$20,966	\$320,308	\$384,479	\$287,960	\$286,688	\$30,538
2	Other Operating Revenue	\$14,335	\$14,335	\$0	\$0	\$0	\$0	\$0	\$0
3	Total Revenues	\$1,449,007	\$118,066	\$20,966	\$320,308	\$384,479	\$287,960	\$286,688	\$30,538
EXPENSES:									
4	Purchased Gas Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5	O&M Expenses	\$741,993	\$66,118	\$7,542	\$213,969	\$181,035	\$160,363	\$82,459	\$30,506
6	Depreciation and Amortization Expenses	\$260,052	\$20,232	\$5,587	\$44,824	\$91,619	\$59,382	\$38,408	\$0
7	Taxes Other Than Income	\$22,272	\$1,733	\$478	\$3,839	\$7,847	\$5,086	\$3,289	\$0
8	Taxes Other Than Income--Revenue	\$1,510	\$109	\$22	\$337	\$405	\$303	\$302	\$32
9	Total Expes before Income Taxes	\$1,025,828	\$88,193	\$13,629	\$262,970	\$280,905	\$225,134	\$124,458	\$30,538
10	INCOME TAXES:	\$81,159	\$6,458	\$1,763	\$14,111	\$28,539	\$18,401	\$11,885	\$0
11	NET OPERATING INCOME	\$342,021	\$23,415	\$5,574	\$43,227	\$75,035	\$44,424	\$150,345	\$0
12	RATE BASE	\$5,021,351	\$415,994	\$101,424	\$790,937	\$1,415,546	\$808,098	\$1,489,351	\$0
13	RATE OF RETURN	6.81%	5.63%	5.50%	5.47%	5.30%	5.50%	10.09%	0.00%

SCHEDULE H-3

COST OF SERVICE STUDY

PAGE 4 OF 5

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

PROPOSED RATE DESIGN  
 SCHEDULE H

LINE NO.	PROPOSED RATE DESIGN	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER
PRESENT RATES (projected test year)									
1	GAS SALES (due to growth)	\$1,171,866	\$79,157	\$15,991	\$245,948	\$296,935	\$228,468	\$279,192	\$26,175
2	OTHER OPERATING REVENUE	\$14,335	\$14,335	\$0	\$0	\$0	\$0	\$0	\$0
3	TOTAL	\$1,186,201	\$93,492	\$15,991	\$245,948	\$296,935	\$228,468	\$279,192	\$26,175
4	RATE OF RETURN	1.58%	-0.28%	0.59%	-3.94%	-0.88%	-1.86%	9.59%	0.00%
5	INDEX	1.00	-0.18	0.37	-2.50	-0.56	-1.18	6.08	0.00
COMPANY PROPOSED RATES									
6	GAS SALES	\$1,434,672	\$103,731	\$20,966	\$320,308	\$384,479	\$287,960	\$286,688	\$30,538
7	OTHER OPERATING REVENUE	\$14,335	\$14,335	\$0	\$0	\$0	\$0	\$0	\$0
8	TOTAL	\$1,449,007	\$118,066	\$20,966	\$320,308	\$384,479	\$287,960	\$286,688	\$30,538
9	TOTAL REVENUE INCREASE	\$262,806	\$24,574	\$4,975	\$74,360	\$87,544	\$59,492	\$7,496	\$4,363
10	PERCENT INCREASE	22.16%	26.28%	31.11%	30.23%	29.48%	26.04%	2.68%	16.67%
11	RATE OF RETURN	6.81%	5.63%	5.50%	5.47%	5.30%	5.50%	10.09%	0.00%
12	INDEX	100.00%	82.64%	80.69%	80.24%	77.82%	80.71%	148.20%	0.00%

SCHEDULE H-3

COST OF SERVICE STUDY

PAGE 5 OF 5

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED  
 COST OF SERVICE STUDY

TYPE OF DATA SHOWN:  
 PROJECTED TEST YEAR: 12/31/2020

COMPANY: SEBRING GAS SYSTEM, INC.

DOCKET NO: 20190083-GU

CALCULATION OF PROPOSED RATES											
LINE NO.	CALCULATION OF PROPOSED RATES	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	SPECIAL CONTRACTS	THIRD PARTY SUPPLIER		
1	PROPOSED TOTAL TARGET REVENUES	\$1,449,007	\$118,066	\$20,966	\$320,308	\$384,479	\$287,960	\$286,688	\$30,538		
2	LESS:OTHER OPERATING REVENUE	\$14,335	\$14,335	\$0	\$0	\$0	\$0	\$0	\$0		
	LESS:CUSTOMER CHARGE REVENUES										
3	PROPOSED CUSTOMER CHARGES		\$12.00	\$20.00	\$70.00	\$225.00	\$1,000.00	\$11,945.32	\$3.50		
4	NUMBER OF BILLS	8,725	6,215	608	1,284	522	72	24	8,725		
5	CUSTOMER CHARGE REV. BY RATE CLASS	\$683,296	\$74,580	\$12,160	\$89,880	\$117,450	\$72,000	\$286,688	\$30,538		
6	EQUALS-PER-THERM TARGET REVENUES	\$751,376	\$29,151	\$8,806	\$230,428	\$267,029	\$215,960	\$0	\$0		
7	DIVIDED BY:NUMBER OF THERMS	1,906,511	40,641	17,628	430,636	645,684	504,685	267,237	0		
8	TRANSPORTATION RATE PER THERM (ROUNDED)		\$0.71729	\$0.49954	\$0.53509	\$0.41356	\$0.42791	\$0.00000	\$0.00000		
9	TRANSPORTATION RATE REVENUES		\$29,152	\$8,806	\$230,429	\$267,029	\$215,960	\$0	\$0		
	<b>SUMMARY:PROPOSED TARIFF RATES</b>										
10	CUSTOMER CHARGE		\$12.00	\$20.00	\$70.00	\$225.00	\$1,000.00	\$11,945.32	\$3.50		
11	TRANSPORTATION CHARGE (CENTS PER THERM)		71.729	49.954	53.509	41.356	42.791	0.000	0.000		
12	TOTAL CHARGES PER THERM		71.729	49.954	53.509	41.356	42.791	0.000	0.000		
	<b>SUMMARY:PRESENT TARIFF RATES</b>										
13	CUSTOMER CHARGE		\$9.00	\$12.00	\$35.00	\$150.00	\$500.00	\$11,633.00	\$3.00		
14	TRANSPORTATION CHARGE (CENTS PER THERM)		57.140	49.327	46.677	33.861	38.136	0.000	0.000		
15	TOTAL CHARGES PER THERM		57.140	49.327	46.677	33.861	38.136	0.000	0.000		
	<b>SUMMARY:OTHER OPERATING REVENUE</b>										
			<b>PRESENT REVENUE</b>			<b>PROPOSED REVENUE</b>					
			NUMBER	CHARGE	REVENUE	NUMBER	CHARGE	REVENUE			
16	ACCOUNT TURN-ON CHARGE - RES		211	\$25.00	\$5,275	211	\$25.00	\$5,275			
17	ACCOUNT TURN-ON CHARGE - COMM		14	\$50.00	\$700	14	\$50.00	\$700			
18	ACCOUNT OPENING CHARGE		22	\$10.00	\$220	22	\$10.00	\$220			
19	COLLECTION FEE		70	\$10.00	\$700	70	\$10.00	\$700			
20	LATE CHARGE			\$0.00	\$7,410		\$0.00	\$7,410			
21	RETURNED CHECK FEE			\$0.00	\$30		\$0.00	\$30			
22	TOTAL OTHER OPERATING REVENUE				\$14,335			\$14,335			

**Sebring Gas System, Inc.**  
**BILL COMPARISONS - PRESENT VS. COMMISSION-APPROVED RATES**

(Usage between 0 and 200 therms per year)  
 Average Usage: 6.5 therms per month

**PRESENT RATES - TS-1**

**APPROVED RATES - TS-1**

**Customer Charge**  
**\$9.00**

**Customer Charge**  
**\$12.00**

**Transportation Charge**  
**(Cents per Therm)**  
**57.14**

**Transportation Charge**  
**(Cents per Therm)**  
**71.729**

<b>Monthly Therm Usage</b>	<b>Present Monthly Bill</b>	<b>Approved Monthly Bill</b>	<b>Percent Increase</b>	<b>Dollar Increase</b>
2	\$10.14	\$13.43	32.45%	\$3.29
4	\$11.29	\$14.87	31.75%	\$3.58
6	\$12.43	\$16.30	31.18%	\$3.88
8	\$13.57	\$17.74	30.71%	\$4.17
10	\$14.71	\$19.17	30.30%	\$4.46
12	\$15.86	\$20.61	29.96%	\$4.75
14	\$17.00	\$22.04	29.66%	\$5.04
16	\$18.14	\$23.48	29.40%	\$5.33

Bills do not include the cost of natural gas, conservation costs, utility taxes, franchise fees, or gross receipts taxes.



**Sebring Gas System, Inc.**  
**BILL COMPARISONS - PRESENT VS. COMMISSION-APPROVED RATES**

(Usage between 201 and 1,000 therms per year)  
 Average Usage: 29 therms per month

**PRESENT RATES - TS-2**

**APPROVED RATES - TS-2**

**Customer Charge**

**\$12.00**

**Customer Charge**

**\$20.00**

**Transportation Charge**

**(Cents per Therm)**

**49.327**

**Transportation Charge**

**(Cents per Therm)**

**49.954**

<b>Monthly Therm Usage</b>	<b>Present Monthly Bill</b>	<b>Approved Monthly Bill</b>	<b>Percent Increase/Decrease</b>	<b>Dollar Increase/Decrease</b>
20	\$21.87	\$29.99	37.16%	\$8.13
30	\$26.80	\$34.99	30.55%	\$8.19
40	\$31.73	\$39.98	26.00%	\$8.25
50	\$36.66	\$44.98	22.68%	\$8.31
60	\$41.60	\$49.97	20.14%	\$8.38
70	\$46.53	\$54.97	18.14%	\$8.44
80	\$51.46	\$59.96	16.52%	\$8.50

Bills do not include the cost of natural gas, conservation costs, utility taxes, franchise fees, or gross receipts taxes.

**Sebring Gas System, Inc.**  
**BILL COMPARISONS - PRESENT VS. COMMISSION-APPROVED RATES**

(Usage between 1,001 and 10,000 therms per year)  
 Average Usage: 336 therms per month

**PRESENT RATES - TS-3**

**APPROVED RATES - TS-3**

**Customer Charge**

**\$35.00**

**Customer Charge**

**\$70.00**

**Transportation Charge**

**(Cents per Therm)**

**46.677**

**Transportation Charge**

**(Cents per Therm)**

**53.509**

<b>Monthly Therm Usage</b>	<b>Present Monthly Bill</b>	<b>Approved Monthly Bill</b>	<b>Percent Increase/Decrease</b>	<b>Dollar Increase/Decrease</b>
100	\$81.68	\$123.51	51.22%	\$41.83
200	\$128.35	\$177.02	37.91%	\$48.66
300	\$175.03	\$230.53	31.71%	\$55.50
400	\$221.71	\$284.04	28.11%	\$62.33
500	\$268.39	\$337.55	25.77%	\$69.16
600	\$315.06	\$391.05	24.12%	\$75.99
700	\$361.74	\$444.56	22.90%	\$82.82
800	\$408.42	\$498.07	21.95%	\$89.66

Bills do not include the cost of natural gas, conservation costs, utility taxes, franchise fees, or gross receipts taxes.

**Sebring Gas System, Inc.**  
**BILL COMPARISONS - PRESENT VS. COMMISSION-APPROVED RATES**

(Usage between 10,001 and 50,000 therms per year)  
 Average Usage: 1,239 therms per month

**PRESENT RATES - TS-4**

**APPROVED RATES - TS-4**

**Customer Charge**  
**\$150.00**

**Customer Charge**  
**\$225.00**

**Transportation Charge**  
**(Cents per Therm)**  
**33.861**

**Transportation Charge**  
**(Cents per Therm)**  
**41.356**

<b>Monthly Therm Usage</b>	<b>Present Monthly Bill</b>	<b>Approved Monthly Bill</b>	<b>Percent Increase/Decrease</b>	<b>Dollar Increase/Decrease</b>
1000	\$488.61	\$638.56	30.69%	\$149.95
1500	\$657.92	\$845.34	28.49%	\$187.43
2000	\$827.22	\$1,052.12	27.19%	\$224.90
2500	\$996.53	\$1,258.90	26.33%	\$262.38
3000	\$1,165.83	\$1,465.68	25.72%	\$299.85
3500	\$1,335.14	\$1,672.46	25.27%	\$337.33
4000	\$1,504.44	\$1,879.24	24.91%	\$374.80

Bills do not include the cost of natural gas, conservation costs, utility taxes, franchise fees, or gross receipts taxes.

**Sebring Gas System, Inc.**  
**BILL COMPARISONS - PRESENT VS. COMMISSION-APPROVED RATES**

(Usage 50,000 or more therms per year)  
 Average Usage: 6,985 therms per month

**PRESENT RATES - TS-5**

**Customer Charge**

**\$500.00**

**Transportation Charge**

**(Cents per Therm)**

**38.136**

**APPROVED RATES - TS-5**

**Customer Charge**

**\$1,000.00**

**Transportation Charge**

**(Cents per Therm)**

**42.791**

<b>Monthly Therm Usage</b>	<b>Present Monthly Bill</b>	<b>Approved Monthly Bill</b>	<b>Percent Increase/Decrease</b>	<b>Dollar Increase/Decrease</b>
5000	\$2,406.80	\$3,139.55	30.44%	\$732.75
6000	\$2,788.16	\$3,567.46	27.95%	\$779.30
7000	\$3,169.52	\$3,995.37	26.06%	\$825.85
8000	\$3,550.88	\$4,423.28	24.57%	\$872.40
9000	\$3,932.24	\$4,851.19	23.37%	\$918.95
10000	\$4,313.60	\$5,279.10	22.38%	\$965.50
11000	\$4,694.96	\$5,707.01	21.56%	\$1,012.05
12000	\$5,076.32	\$6,134.92	20.85%	\$1,058.60

Bills do not include the cost of natural gas, conservation costs, utility taxes, franchise fees, or gross receipts taxes.