State of Florida

Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: January 10, 2012

TO: Ann Cole, Commission Clerk, Office of Commission Clerk

FROM: Devlin Higgins, Regulatory Analyst III, Division of Economic Regulation

RE: 110233-GU - Petition for approval of 2011 Depreciation Study by Sebring Gas Systems, Inc.

Would you be so kind as to add the attached data request responses and email correspondences in the above docket file. Thank you very much.

COMMISSIONERS:
ART GRAHAM, CHAIRMAN
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

STATE OF FLORIDA

MARSHALL WILLIS, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

August 2, 2011

Mr. Cong Nguyen, CPA
Brimmer, Burek and Keelin LLP
5601 Mariner Street, Suite 200
Tampa, FL 33609

Re: Sebring Gas Systems 2011 Depreciation Study

Dear Mr. Nguyen:

Please find the results of staff's initial review of Sebring Gas Systems 2011 Depreciation Study. We ask that you please provide responses to staff's inquiries by September 6, 2011; please provide your responses in hard copy and in electronic format (in Word or Excel, as applicable.)

Should you have any questions, or need further information, please do not hesitate to contact Devlin Higgins at (850) 413-6433 or David Dowds at (850) 413-6542.

Sincerely,

Dave Dowds
Supervisor, Cost Analysis Section

Attachment
cc: Office of the General Counsel (Barerra)
Jerry Melendy

General

1) The Reserve percentages shown on Schedule B of the company's petition are its Theoretical Reserve Percentages. However, this schedule is intended to show the company's 12/31/2010 Book Reserve.

Accounts 376.1 (Mains – Steel) and 376.2 (Mains – Plastic)

2) The plant balance for Mains – Plastic, increased from $952,169 at the end of 2006 to $1,379,200 at the end of 2010. During the same period, the plant balance for Mains – Steel, decreased from $144,754 to $144,105.

    a. Please explain the reasons for the additions to Mains - Plastic. For example, are the additions the result of company expansion, the result of a replacement program for Mains – Steel, or for some other reason?

    b. If the additions are the result of company expansion, please describe how and where Sebring is expanding.

    c. If the additions are the result of a replacement program for Mains – Steel, please describe the replacement program in detail, including when it began, how long it is expected to last, and the rate of replacement.

    d. If Sebring has a replacement program for Mains – Steel, are all of the additions for Mains – Plastic between 2006 and 2010 due to the replacement program? If not, please explain the reasons for the additions.

3) The end-of-year 2006 plant balance for Mains – Plastic was $952,169; however, the beginning-of-year 2007 balance was $952,934, an increase of $765. In 2007, there was a retirement in Mains – Steel of $765, without a corresponding retirement in Accumulated Depreciation and Amortization. Was the Mains – Steel 2007 retirement of $765 added to the beginning-of-year 2007 plant balance for Mains – Plastic? Please explain your answer.

4) In 2007 and 2009, retirements were reflected in the Analysis of Plant in Service Accounts for Mains – Plastic. Please explain why there were no corresponding retirements reflected in accumulated depreciation.

Account 378.1 – Measuring and Regulating Equipment – New

5) As far as staff can tell, there has never been any investment in this account. Is this true? If so, please provide details.

    a. Does Sebring anticipate adding investment to this account? Please explain your answer.

Account 379 – Measuring and Regulating Equipment – City Gate

6) Please explain the nature of the 2010 addition of $11,214, which increased the plant balance from $54,007 to $65,221.

Account 380.1 – Services – Steel and Account 380.2 – Services – Plastic

7) Does Sebring have any inactive steel or plastic service lines? If yes, please explain what actions Sebring is taking to retire and remove these lines.

8) Between 2006 and 2010, Services – Steel had additions only in 2010. Please identify what was added to the account and explain why it was added.

9) The account balance of Services – Plastic increased from $287,297 at the end of 2006 to $413,307 at the end of 2010.

    a. Please explain the reasons for the additions to Services – Plastic. For example, are the additions the result of company expansion, the result of a replacement program for Services – Steel, or for some other reason?

    b. If the additions are the result of company expansion, please describe how and where Sebring is expanding.

    c. If the additions are the result of a replacement program for Services – Steel, please describe the replacement program in detail, including when it began, how long it is expected to last, and the rate of replacement.

    d. If Sebring has a replacement program for Services – Steel, are all of the additions between 2006 and 2010 due to the replacement program? If not, please explain the reasons for the additions.

Account 382 – Meter Installations

10) In 2007 and 2009, retirements were reflected in the Analysis of Plant in Service Accounts for Meter Installations. Please explain why there were no corresponding retirements reflected in accumulated depreciation.

Account 383 – House Regulators

11) Between 2006 and 2010, there were additions only in 2010. Please identify what was added to the account and explain why it was added.

Account 387 – Other Equipment

12) Please detail the nature of the $3,489 addition in 2009.

<u>Account 390 – Leasehold Improvements</u>

13) Please detail the nature of the $10,478 addition in 2009.

<u>Account 392.1 – Transportation Equipment - Light Trucks</u>

14) Please explain why the 2009 retirement amount of $2,294 was only reflected on Sebring's Plant in Service account with no corresponding entry to accumulated depreciation.

15) Please detail the nature of the $64,825 addition in 2009.

16) Please detail the nature of the $30,783 retirement in 2010.

17) Does Sebring have a specific replacement program in place for Transportation Equipment – Light Trucks? If so, please describe Sebring's vehicle replacement program for light trucks.

<u>Account 392.3 – Transportation Equipment - Other Vehicles</u>

18) Please explain why the 2008 ending account balance does not equal the 2009 beginning plant balance.

19) Please explain the nature of the $2,451 addition in 2008. Has this $2,451 investment been retired?

20) Please explain the nature of the reserve amount of $180 in 2007 with no corresponding investment.

<u>Account 394 – Tools/Shop/Garage Equipment</u>

21) Please detail the nature of the $4,942 addition in 2008.

22) Please explain why the 2008 ending account balance does not equal the 2009 beginning plant balance.

<u>Account 396 – Power Operating Equipment (Embedded)</u>

23) Please explain why the ending 2008 plant in service balance does not equal the 2009 beginning balance.

Brimmer, Burek & Keelan LLP

Certified Public Accountants
5601 Mariner Street, Suite 200 • Tampa, Florida 33609
(813) 282-3400 • Fax (813) 287-8369

Terry R. Brimmer, CPA
Brian B. Burek, CPA
Walter C. Copeland, CPA
Richard M. Herman, CPA
Elizabeth C. Hopkins, CPA
John F. Keelan, CPA
Donald T. Keyes, CPA
Kara K. Keyes, CPA
Frank D. Lagor, CPA
Gemma Thomas
(License in Colorado)

A Firm Registered
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American Institute of
Certified Public Accountants

Florida Institute of Certified
Public Accountants

11 SEP -6 AM 7:09
ECONOMIC REGULATION

September 2, 2011

To: David Dowds
Supervisor, Cost Analysis Section
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Sebring Gas Systems 2011 Depreciation Study

Dear Mr. Dowds:

Please see the responses to the staff's inquiries below. We are emailing the electronic version to Devlin Higgins and will mail the hard copy today.

Should you have any questions, or need further information, please do not hesitate to contact Cong Nguyen at 813-282-3400.

Sincerely,

Cong Nguyen, CPA
Brimmer, Burek and Keelan LLP

Response to 2011 Depreciation Study Staff's Inquires

1) We agreed with the Commission's determination.

Accounts 376.0 (Mains – Steel) and 376.1 (Mains – Plastic)

2) The plant balances for Mains – Plastic, increased from $952,169 at the end of 2006 to $1,379,200 at the end of 2010. During the same period, the plant balance for Mains – Steel, decreased from $144,754 to $144,105.

a. Please explain the reasons for the additions to Mains – Plastic.
Reply: The greatest additions to Mains – Plastic were for expansion of our gas main system.

b. The majority of the increase in Mains – Plastic, was due to the following:
   1. Extension a 6" HDPE line to the Sebring Airport. Sebring Gas System (SGS) shared in the cost of the approximately 8 mile line to an industrial area owned and located within the Sebring Airport. Although the project started in the year 2006, the project carried into 2007. Customers gained by this extension were: Turf Care, E Stone USA, Funder, Runway Café and Sheraton Hotel.
   2. Extension our 4" PE gas line into Shelby's Crossing, a new shopping center adjacent to our existing gas main along US Hwy 27. SGS extended our PE gas main to the shopping center to gain several new customers. Those customers were Panera's Bread, Olive Garden and Gold's Gym.
   3. Extension of our 4" PE to La Quinta Hotel.
   4. Extension of our 4 " PE to Cornerstone Hospice, approximately 2,000' from our existing main.
   5. Extension of our 2" PE to Mason's Ridge, a Habitat for Humanity project.
   6. Extension of our 2" PE to Stone Ridge, a housing project on Ben Easton Road in Sebring.

c. The additions were not a result of replacement of steel.

d. Please see b.

3) The end-of-year 2006 plant balance for Mains – Plastic was $952,169.

a. On December 31, 2006, SGS booked an invoice for $765.00, received from our Tallahassee attorney firm Messer, Caparello & Self. This invoice was for legal work for the Sebring Airport extension. This extension required negotiations and contracts with Highlands County and the Sebring Airport Authority. The invoice was booked to account Number 376.01, Mains-Plastic.

4) Retirement is the result of $36,017 on 10/15/2007 payment from Expertech . In the year 2007, SGS extended its natural gas main to the Sebring Airport. The extension was performed by a partnership between Highlands County, Sebring Airport Authority and Sebring Gas System, Inc. Because the extension was not feasible for SGS to construct the extension along, Highlands County applied and received a grant for the construction. SGS contributed funds to the project. The county would be the owner of the pipeline until after the construction was completed. The contractor, Expertech, was required to supply an inspector for the construction.

The county's position was that the contractor was not to supply an inspector to observe their work, but it was their obligation to pay the fee for the service. Because SGS would own and operate the gas system after completion, it was decided that SGS would supply the inspector for the project. SGS supplied, and paid William Greer, an outside inspector, to inspect the project. When the contractor applied for and received draws on the contract, they would reimburse SGS for the cost of the inspector. When SGS received a bill form the inspector, we booked the amount to 376.1, Mains, Plastic. When we were reimbursed from the contractor, we reversed the entry to remove the amount to 376.1.

<u>Account 378.1 – Measuring and Regulation Equipment – New</u>

5) At the inception of SGS, Sebring Utilities Commission (SUC) had a natural gas fired generator. The City of Sebring and SGS received natural gas from the same transmission line. SGS had a meter, regulator station and odorizer downstream from the SUC generator. Upstream from the SGS meter and SUC generator, SGS had a regulator station. SGS was billed by Florida Gas Transmission (FTG) from the SGS meter, with SUC paying the difference between the FGT meter and the SUC meter. After the removal of the SUC generator, with more use of natural gas by SUC, SGS used, and still uses, the upstream gate as our city gate.

a. SGS has not added investment in this account and does not anticipate adding investment. Because SGS is now using it upstream city gate, there is no need to add investment in this account. Our "upstream" gate is designated as the Dinner Lake Gate Station.

Account 379 – Measuring and Regulating Equipment – City Gate

6) In December 2010, SGS replaced the top run piping, 3 spool pieces, strainer, 2 regulators, gauges, valves tubing and fittings at the Dinner Lake Gate Station. The total cost of this replacement was $11,214.20, which included engineering, material and labor. The work was performed by The Avanti Company. SGS still has possession of the old regulators and top run piping of the city gate. The only value is salvage.

Account 380.1 – Services – Steel and Account 380.2 – Services – Plastic

7) Sebring Gas System does have inactive steel and plastic service lines.
The utility operates under the guidelines of the Florida Public Service Commission as outlined in Chapter 25-12, Safety of Gas Transportation by Pipeline. Under the directive of this chapter, Sebring Gas System, Inc. performs the following:

When a customer no longer requires natural gas, the gas meter is locked off and the disconnected from the home or business.

When a service has been inactive for a period of two years, the meter and regulator is removed and the riser is locked off and plugged, as directed in PSC Order No. PSC-07-0488-PAA-GUand *clarified in Order No.* PSC-07-0830-AS-GU issued on June 8, 2007.
The following number of services became inactive in the years 2007 through 2010:

Year 2007 10 services
Year 2008 16 services
Year 2009 10 services
Year 2010 37 services

As granted in the above Orders, Sebring Gas System has not retired or removed any inactive services. Through its marketing and conservation programs Sebring Gas System anticipates reactivating many of these services.

8) Services – Steel
The records of Sebring Gas System show no additions to Services – Steel, Account No. 380.00.

9) Services- Plastic
a. Sebring Gas System accomplished the installation of several plastic services during the period January 1, 2007 – December 31, 2010.

b. The additions to plastic services were due to the expansion of our system.
The plastic services were added for the following customers:

- Marriott Hotel
- Panera's Bread Restaurant
- Olive Garden Restaurant
- Circuit City Electronics Store
- Love Bug's Carwash
- Gate gas station
- Four Points Sheraton Hotel
- Funder International
- Turf Care Fertilizer
- Ross Department Store
- Southside Baptist Church
- Pizza Hut
- Highlands Village Assisted Living
- Fred Wild Elementary School
- Gold's Gym
- Fraternal Order of Eagles
- Moose Lodge
- St. Catherine Catholic Church
- Alan Jay Lincoln-Ford Dealership
- Habitat for Humanity, Mason's Ridge Subdivision

c. The additions were due to expansion.

d. The additions were due to expansion.

<u>Account 382- Meter Installations</u>

10) The retirements were related to purchase returns several months prior. In all of these cases, the depreciation for the underlying assets cannot be determined therefore the Company did not reduce the accumulated depreciation.

<u>Account 383 – House Regulators</u>

11) Regulators were added during 2010 from Avanti Company as the prior regulators wear out, and needs replacements.

Account 387 – Other equipment

12) Other equipment purchases were Sensit O2 monitor for $222.15 and Sensit Gold CGI with Carbon monoxide calibration for $3267.50.

Account 390 –Leasehold Improvements

13) Prior to the year 2009, SGS shared a business office with another company. The decision was made for SGS to occupy space in the building, designated as its area. SGS renovated a portion of the building for its purposes. The areas renovated were for serving walk-in new and existing customers, Operations Managers' office, Pipeline Technicians' work area, records storage area and an area for our testing equipment, which SGS fells should be kept in an air conditioned area. The SGS business area consists of 3 offices totaling approximately 735 square feet. The Leasehold Improvement costs include:

- Building permit
- Doors (security for entrance and office)
- Dry wall for ceiling and walls.
- Paint
- Carpet
- Drops for data for computers.
- New electrical wiring.
- Additional air conditioning drops.
- Trim, additional materials.
- Labor

Account 392.1 – Transportation equipment – Light Trucks

14) The retirement amount is payment for a truck purchased during 4/30/2002 at $17,959.15, the truck should be fully depreciated.

15)

- In February 2008, SGS purchased a 2008 Ford utility truck, Model F250, for $20,646.60. This vehicle, No. 876 is used in the operations by a pipeline technician.
- In October 2009, SGS purchased a 2009 GMC utility truck, Model 3500HD for $44,179.19. This vehicle, No. 462 is used in the operations by a pipeline technician.

16) The retirement of $30,783 relates to a truck purchased during 9/13/2000, the truck was deemed fully depreciated. Therefore there is an offsetting amount on accumulated depreciation.

17) At the inception of SGS, no specific replacement program was in place for Transportation Equipment Light Trucks. The company replaced light trucks when it was determined that the maintenance costs indicated that replacement was needed. Recently the management has adopted an internal policy of replacement of 5 years or 100,000 miles, whichever occurred first.

Account 392.3– Transportation Equipment – Other Vehicles

18) The difference is the result of confusion at the time the Mustang Squeeze tool was purchased at $2,451, this amount should not have been added to account 392.3 as it was already included in account 394.

19) See #18 response

20) The $180 reserve amount is carry forward from 2004, upon the review of the account details, it is determined that the reserve should be adjusted to zero.

Account 394 – Tools/Shop/Garage Equipment

21) In March 2008, SGS purchased Mustang squeeze-off tool purchased for $2,451. There was an error in the other addition amount of $2,491; this amount should not have been in the addition. This hydraulic tool squeezed off large diameter PE gas pipe used on our mains.

22) See #18 and #21 responses for explanation of the difference.

Account 396 – Power Operating Equipment

23) The variance is due to the purchase of the Friactec Eltrofusion Equipment from Consolidated Supplies on January 2008 in the amount of $4,942. This equipment addition was erroneously added to account 394 when it should have been added to account 396.

Devlin Higgins

From: Nguyen, Cong [CongN@BBKM.COM]
Sent: Wednesday, October 12, 2011 11:19 AM
To: David Dowds
Cc: Sue Ollila; Devlin Higgins
Subject: RE: Additional information
Follow Up Flag: Follow up
Flag Status: Red

Dear Mr. Dowds,

My apology for not getting the responses to you sooner.
Please see the responses below to your inquiries and advise of questions you may have.

Best Regards,

Cong Nguyen, CPA
Brimmer, Burek and Keelan LLP
5601 Mariner Street, Suite 200
Tampa, FL 33609
Phone: 813.282.3400, ext. 261
Fax: 813.287.8369

From: David Dowds [mailto:DDowds@PSC.STATE.FL.US]
Sent: Monday, September 19, 2011 12:45 PM
To: Nguyen, Cong
Cc: Sue Ollila; Devlin Higgins
Subject: Additional information

For the following few questions, which refer to Sebring's responses to staff's initial review for items 2 through 6, we request if possible that you provide expedited responses (e.g., within 7-10 days) to ensure that staff is able to stay on schedule as to the processing of Sebring's depreciation. If you have any questions about these items, please do not hesitate to contact Sue Ollila at (850) 413-6540 or me.

1. Does Sebring expense or capitalize its cost of removal and salvage? If Sebring expenses its cost of removal and salvage, please explain why.
The Company would capitalize the cost of removal or salvage as defined on 25-7.0461(4)

2. Please refer to Sebring's response to No. 4, the last 2 sentences. Should the entry reversal have been recorded as an adjustment? If yes, does Sebring plan to correct the entry?

In the year 2007, SGS extended its natural gas main to the Sebring Airport. The extension was performed by a partnership between Highlands County, Sebring Airport Authority and Sebring Gas System, Inc. Because the extension was not feasible for SGS to construct the extension along, Highlands County applied for and received a grant for the construction. SGS contributed funds to the project. The county would be the owner of the pipeline until after the construction was completed. The contractor, Expertech, was required to supply an inspector for the construction. The county's position was that the contractor was not to supply an inspector to observe their work, but it was their obligation to pay the fee for the service. Because SGS would own and operate the gas system after completion, it was decided that SGS would supply the inspector for the project. SGS supplied, and paid William Greer, an outside inspector, to inspect the project. When the contractor applied for and received draws on the contract, they would reimburse SGS for the cost of the inspector. When SGS received a bill form the inspector, we booked the amount to 376.1, Mains, Plastic. When we were reimbursed from the contractor, we reversed the entry to remove the amount from 376.1

3. Please refer to Sebring's response to No. 6. Does Sebring intend to retire the old regulators? If so, when?

The top run, regulators and appetencies have been retired and are located in our Sebring warehouse. The items have no useful value and will be sold for scrap.

4. Please refer to Sebring's response to No. 8. In this response, Sebring stated that there were no additions to Account 380, steel services. Staff refers Sebring to its Annual Status Report, Analysis of Plant in Service Accounts, 2010, Account 380, steel services. Sebring reported $1,295 in additions to this account. Please identify what was added to the account and explain why it was added.

Upon review of book entries during the year 2010, it was determined that three invoices for gas services were booked improperly. On 01/27/2010, 05/07/2010 & 05/29/2010 entries booked as Steel Services were changed to the correct account, Plastic Services. Steel Services, account number 380.00, and Plastic Services, account number 380.01, have similar numbers, causing the mistake.
The correct 2010 beginning and ending balance for Services, Steel (380.01) was $355.849, as reflected on the company's Balance Sheet.

5. Please refer to Sebring's response to No. 10. Please explain why "the depreciation for the underlying assets cannot be determined." Does Sebring understand that when retirements occur and the accumulation depreciation is not reduced accordingly, that Sebring is overstating its accumulated depreciation and thus its rate base?

The assets retirements $52.00 in 2007 and $52.00 in 2009 were purchased several months prior and return to the vendor, Triangle Hardware as excess materials, the materials returned were not used in the operation. The Company should not have reported the credit as disposal but rather a reduction to the additions to account 382 the during the year, thus not affecting the accumulated depreciation.

6. Please refer to Sebring's response to No. 11. In this response, Sebring stated that regulators were added as the prior regulators wore out and needed replacement. Does Sebring retire the regulators that have worn out?
Regulators that are removed are sent to Precision Meter in Plant City, Fl. to be rebuilt. The term "wear out" was an incorrect explanation of meter removal. Meters are removed, in keeping with our meter change out program. The majority of the meters are not defective, but instead need to be cleaned and recalibrated, which is performed by the before-mentioned meter company.

Dave Dowds
Supervisor, Cost Analysis Section, Economic Regulation
Florida Public Service Commission
(850)413-6542
ddowds@psc.state.fl.us

10/12/2011

Devlin Higgins

From: Nguyen, Cong [CongN@BBKM.COM]
Sent: Wednesday, October 12, 2011 1:08 PM
To: Devlin Higgins
Subject: RE: Additional information

Mr. Higgins,

The Company is capitalizing within the definition 25-7.0461(4).

Thank you,

Cong Nguyen, CPA
Brimmer, Burek and Keelan LLP
5601 Mariner Street, Suite 200
Tampa, FL 33609
Phone: 813.282.3400, ext. 261
Fax: 813.287.8369

From: Devlin Higgins [mailto:DHIGGINS@PSC.STATE.FL.US]
Sent: Wednesday, October 12, 2011 12:41 PM
To: Nguyen, Cong
Cc: David Dowds; Sue Ollila
Subject: RE: Additional information

Mr. Nguyen:

Thank you for the response. Just a quick clarifying question though. Sebring's response to question number 1, "The Company would capitalize the cost of removal or salvage as defined on 25-7.0461(4)." Does "would" mean the company *will capitalize*, or *is capitalizing*, or something entirely different? Thanks again.

Devlin Higgins
Regulatory Analyst
Division of Economic Regulation
Florida Public Service Commission

DHIGGINS@PSC.STATE.FL.US

Voice: 850-413-6433
Fax: 850-413-6434

From: Nguyen, Cong [mailto:CongN@BBKM.COM]
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To: David Dowds
Cc: Sue Ollila; Devlin Higgins
Subject: RE: Additional information

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Cong Nguyen, CPA
Brimmer, Burek and Keelan LLP
5601 Mariner Street, Suite 200
Tampa, FL 33609
Phone: 813.282.3400, ext. 261
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Sent: Monday, September 19, 2011 12:45 PM
To: Nguyen, Cong
Cc: *Sue Ollila; Devlin Higgins*
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Dave Dowds
Supervisor, Cost Analysis Section, Economic Regulation
Florida Public Service Commission
(850)413-6542
ddowds@psc.state.fl.us

12/13/2011

COMMISSIONERS:
ART GRAHAM, CHAIRMAN
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

STATE OF FLORIDA

MARSHALL WILLIS, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

October 21, 2011

Mr. Cong Nguyen, CPA
Brimmer, Burek and Keelin LLP
5601 Mariner Street, Suite 200
Tampa, FL 33609

Re: Docket No. 110233-GU Sebring Gas Systems 2011 Depreciation Study

Dear Mr. Nguyen:

Enclosed is the Staff Report regarding the Sebring depreciation study filed in the above referenced docket. Please provide your response to the attached report by November 23, 2011. In your response, please identify areas of concurrences or differences, and feel free to provide additional input.

Should you have any questions, or need further information, please do not hesitate to contact Devlin Higgins at (850) 413-6433 or David Dowds at (850) 413-6542.

Sincerely,

Dave Dowds
Supervisor, Cost Analysis Section

Attachment
cc: Office of the Commission Clerk
Office of the General Counsel (Barerra)
Jerry Melendy

Sebring Gas System
2011 Depreciation Study
Docket No. 110233-GU
Staff Report

As a general statement, the only areas addressed in the staff report are those areas where staff disagrees with Sebring's (or Company) proposals, or where there is a need for further clarification or information. Staff also notes that adjustments and transfers of property in and out of accounts are best handled as Transfers or Adjustments in the respective columns provided on the Company's Annual Status Report, not as reductions to investment amounts (or retirements).

Distribution Plant

Account 376.1, Mains – Steel

1. Does Sebring have a steel replacement program in place for Account 376.1, Mains – Steel? If yes, please describe Sebring's steel replacement program. If no, does Sebring plan to implement a steel replacement program? Please explain your answer.

2. According to the Annual Status Report, Analysis of Plant in Service Accounts, 2007, page 1, there was a $765 retirement in Account 376.1, Mains – Steel. Please explain why there is no corresponding amount shown in the Analysis of Entries in Accumulated Depreciation and Amortization.

Account 378.1, Measuring & Regulating Equipment – New

3. Does Sebring believe this Account should be retained? Please explain why or why not.

Account 380.1, Services – Steel

4. Does Sebring have a steel replacement program in place for Account 380.1, Services – Steel? If yes, please describe Sebring's steel services replacement program. If no, does Sebring plan to implement a steel replacement program? Please explain your answer.

5. The age for this Account, as calculated by staff, is 43.0 years; however, the average service life (ASL) is 40 years. Staff notes that there were $0 retirements and $1,295 in additions in this Account between 2006 – 2010. Staff believes that it is reasonable to lengthen the ASL for this Account. Assuming no retirements or additions, the average age will be approximately 48.0 years at the time of Sebring's next depreciation study. Absent a current or near term (i.e., beginning in 2012) steel replacement program, staff believes that a 48-year average service life is appropriate for this Account.

General Plant

Account 390 - Leasehold Improvements

6. Is an average service life of 40 years for this Account appropriate?

Account 391.1 – Office Furniture

7. Staff has calculated an average age of 19.6 years for this Account. The Company has proposed an average service life of 18 years. Staff believes a 25-year ASL for this Account better reflects the actual mortality experience.

Account 391.2 – Office Equipment

8. Staff has calculated an average age of 9.8 years for this Account. The Company has proposed an average service life of 12 years. Staff believes a 15-year ASL for this Account better reflects the actual mortality experience.

Account 396 – Power Operating Equipment (New)

9. Staff has calculated an average age of 9.7 years for this Account. Given a zero net salvage percentage, and a 15-year ASL, staff has calculated the ARL to be 5.4 years. Please explain why the Company is proposing a 13.5-year ARL.

Account 397 – Communication Equipment

10. Staff has calculated the average age of this Account to be 13.5 years. The Company has proposed an average service life of 12 years. Staff believes a 18-year average service life is more appropriate.

BBK

Brimmer, Burek & Keelan LLP

Certified Public Accountants
5601 Mariner Street, Suite 200 • Tampa, Florida 33609
(813) 282-3400 • Fax (813) 287-8369

Terry R. Brimmer, CPA
Brian B. Burek, CPA
Walter C. Copeland, CPA
Richard M. Herman, CPA
John F. Keelan, CPA
Donald T. Keyes, CPA
Kara K. Keyes, CPA
Frank D. Lagor, CPA
Gemma Thomas
(License in Colorado)

A Firm Registered
with PCAOB

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Center for
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American Institute of
Certified Public Accountants

Florida Institute of Certified
Public Accountants

November 4, 2011

To: David Dowds
Supervisor, Cost Analysis Section
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Sebring Gas Systems 2011 Depreciation Study

Dear Mr. Dowds:

Please see the responses to the staff's inquiries on Docket no. 110233-GU below. We are emailing the electronic version to Devlin Higgins and will mail the hard copy today.

Should you have any questions, or need further information, please do not hesitate to contact Cong Nguyen at 813-282-3400.

Sincerely,

Cong Nguyen

Cong Nguyen, CPA
Brimmer, Burek and Keelan LLP

Response to 2011 Depreciation Study Staff Report, Docket no. 110233-GU

Distribution Plant

Accounts 376.1, Mains - Steel

1) Sebring Gas does not have a Mains-steel replacement program at this time. Sebring Gas operates under Rule 25.12, which requires regular leak surveys and maintenance. These required leak surveys and maintenance are performed, as inspected and documented by the Field Inspector of the Commission.

2) The Sebring Gas Annual Report and the Sebring Gas books are off by $765 at the end of 2006. The difference, although the balance of all Gas Plant-In Service accounts is correct, is offsetting in Account 376.00, Mains-Steel and Account 376.01, Mains-Plastic. The correction was made on the Annual Report for the year ending December 31, 2007. At that time, the balances of the two "Main" accounts reconcile with the Sebring Gas books. It appears that human error caused the discrepancy in the balances; due to the fact the account numbers are similar.

Account 378.1, Measuring & Regulating Equipment – New

3) Yes, because Sebring Gas still have operating assets in the account

Account 380.1, Services- Steel

4) Sebring Gas operates under Rule 25-12.045, and waivers authorized by the Commission, which dictates the removal of steel mains.

5) Sebring Gas agrees with the staff's finding.

General Plant

Account 390 – Leasehold Improvements

6) Yes, the Sebring Gas believes that 40 years service life is appropriate based on the type of assets placed in service.

Account 391.1 – Office Furniture

7) Sebring Gas agrees with the staff's finding.

Account 391.2 – Office Equipment

8) Sebring Gas agrees with the staff's finding.

Response to 2011 Depreciation Study Staff Report, Docket no. 110233-GU

Account 396 – Power Operating Equipment (New)

9) Sebring Gas agrees with the staff's finding that the ARL is to be 5.4 year.

Account 397 – Communication Equipment

10) Sebring agrees with the staff's finding.

Devlin Higgins

From: Nguyen, Cong [CongN@BBKM.COM]
Sent: Wednesday, November 09, 2011 1:05 PM
To: Devlin Higgins
Subject: RE: Sebring Gas Depreciation Study

Hello Devlin,

Please see below for the 2010 customer count of Sebring Gas and let me know if you require anything further.

SGS billed the following customers in December 2010:

Residential	392
Commercial	143
Industrial	4
TOTAL	539

Best regards,
Cong

Cong Nguyen, CPA
Brimmer, Burek and Keelan LLP
5601 Mariner Street, Suite 200
Tampa, FL 33609
Phone: 813.282.3400, ext. 261
Fax: 813.287.8369

From: Devlin Higgins [mailto:DHIGGINS@PSC.STATE.FL.US]
Sent: Monday, November 07, 2011 10:35 AM
To: Nguyen, Cong
Subject: RE: Sebring Gas Depreciation Study

Mr. Nguyen,

Quick question, what was Sebring's customer count in 2010? That information seems to be missing on the company's annual status report. Thanks!

Devlin Higgins
Regulatory Analyst
Division of Economic Regulation
Florida Public Service Commission

DHIGGINS@PSC.STATE.FL.US
Voice: 850-413-6433
Fax: 850-413-6434

From: Nguyen, Cong [mailto:CongN@BBKM.COM]
Sent: Friday, November 04, 2011 2:33 PM
To: Devlin Higgins
Cc: David Dowds; Sue Ollila
Subject: RE: Sebring Gas Depreciation Study

You are welcome.

Cong Nguyen, CPA
Brimmer, Burek and Keelan LLP
5601 Mariner Street, Suite 200
Tampa, FL 33609
Phone: 813.282.3400, ext. 261
Fax: 813.287.8369

From: Devlin Higgins [mailto:DHIGGINS@PSC.STATE.FL.US]
Sent: Friday, November 04, 2011 2:24 PM
To: Nguyen, Cong
Cc: David Dowds; Sue Ollila
Subject: RE: Sebring Gas Depreciation Study

Mr. Nguyen:

Thank you very much, we appreciate it.

Devlin Higgins

Regulatory Analyst
Division of Economic Regulation
Florida Public Service Commission

DHIGGINS@PSC.STATE.FL.US
Voice: 850-413-6433
Fax: 850-413-6434

From: Nguyen, Cong [mailto:CongN@BBKM.COM]
Sent: Friday, November 04, 2011 1:54 PM
To: Devlin Higgins
Subject: Sebring Gas Depreciation Study

Hi Devlin,

We have the responses ready!
Attached is our response to the staff's questions and I will be mailing the hard copy out today. Let me know if you have any questions or need further information.

Best regards,
Cong

Cong Nguyen, CPA
Brimmer, Burek and Keelan LLP
5601 Mariner Street, Suite 200
Tampa, FL 33609
Phone: 813.282.3400, ext. 261
Fax: 813.287.8369