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May 14, 2013

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**BY HAND DELIVERY**
Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 130079-GU

Dear Ms. Cole:

Enclosed are an original and five copies of Sebring Gas System, Inc.'s Responses to Staff's First Data Request.

If you have any questions, please call me.

Sincerely yours,

Norman H. Horton, Jr.

NHH/amb
Enclosures
cc: File for Docket 130079-GU

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**Sebring Gas System, Inc.**
**Responses to Staffs First Data Requests**
**Docket No. 130079-GU**

**RE: Docket No. 130079-GU -- Petition for approval of special contract with the Florida Department of Corrections, by Sebring Gas System, Inc.**

1. As required by Rule 25-9.034(1), Florida Administrative Code, Contracts and Agreements, please provide a complete and detailed justification for deviating from Sebring Gas System, Inc.'s (Sebring) standard approved rate schedules and offering the Florida Department of Corrections (DOC) a Special Contract.

   **Sebring's Response:** Sebring determined that a Special Contract was necessary after performing a cost of service study for the Hardee Correctional Institution (HCI) and comparing the results of the study to the expected revenues that would have been derived from the standard approved rate schedule that HCI would have qualified for with their expected 150,000 therms per year usage. The expected usage was based on actual propane usage information provided to Sebring by the DOC for the previous twelve (12) months. Using the expected 150,000 therms per year usage and applying the TS-5 (greater than 50,000 therms per year) rates, the annual revenues would have been approximately $63,204 ($500 Customer Charge per Month times 12 months plus 150,000 therms per year times $0.38136 per therm). Per the Company's approved Tariff Sheet No. 57, the Maximum Allowable Construction Cost shall equal four (4) times the estimated annual revenue to be derived from the extension. This amount would be $252,816, well below the capital expenditures shown in the Cost of Service Study filed with this Petition of $745,300. Furthermore, negotiations with the DOC revealed that the DOC was not willing to pay any amount up front, so any aid-of-construction was not an option. As a result of this analysis and early negotiations with DOC, it became apparent to the Company that it had no other available tariff options other than a Special Contract. The negotiated Special Contract rate results in revenues from HCI equal to or greater than the Cost of Service, thus providing an adequate return on Sebring's investment and substantial benefits to the Company's other rate payers.

2. Does DOC have the ability to bypass Sebring and directly interconnect with Gulfstream? Please explain your response.

   **Sebring's Response:** Yes, the DOC does have the ability to bypass Sebring and directly interconnect with Gulfstream. However, this option would have resulted in substantial up front costs to the DOC that it was unwilling to pay (Gulfstream tap, gate station, etc), and the DOC would have then been responsible for ownership of the distribution system and the ongoing operating and maintenance costs of the system. To the Company's knowledge, the DOC does not own natural gas distribution assets and does not have the resources to operate and maintain any such systems.

3. Absent the proposed Special Contract, what Sebring tariff would apply? What would be the monthly payment by the DOC under Sebring's applicable tariff?

   **Sebring's Response:** The applicable Sebring tariff is TS-5 (greater than 50,000 therms annually). As shown in the Company's response to Data Request No. 1, the Customer Charge is $500.00 per month and the Transportation Charge is $0.38136 per therm. Therefore, assuming an average of 12,500 therms per month (annual usage of 150,000 therms divided by 12 months), the monthly billing to the DOC is estimated to be approximately $5,267 per month.

4. Does Sebring intend to recover the difference between its standard tariffed rate and the Special Contract rate from its general body of rate payers between rate cases? If yes, please explain how.

   **Sebring's Response:** No. The Special Contract rate ($10,417 per month) will generate more revenues than the standard tariff rate ($5,267 per month), therefore, there is nothing to recover from the general body of rate payers between rate cases.

5. How are Sebring and its general body of ratepayers protected from default by the DOC during the term of the contract in the event of non-appropriations or insufficient appropriations by the Legislature (as discussed in Section 7.5 of the Special Contract)? How would Sebring recover its investment to serve DOC under this scenario?

   **Sebring's Response:** Sebring believes that the likelihood of non-appropriations or insufficient appropriations by the Legislature is very remote. The HCI facility is a maximum security facility and houses very dangerous prisoners. However, in the very unlikely event that the Legislature does not provide sufficient funding for HCI, Sebring would not have any protection from this default. During negotiations, the Company determined that the DOC would not provide any type of security deposit. It is the Company's belief that none of the natural gas utilities in Florida has any type of security deposit from any of the State of Florida facilities served (prisons or other facilities).

In this unlikely hypothetical scenario, Sebring would attempt to recover any remaining investment from its other rate payers through a general rate increase filing made to the Commission. The Company fully understands that it would have the burden of demonstrating why such remaining investment should be recoverable through rates from its remaining rate payers. The Commission would have full authority to either approve or disallow such recovery from the Company's remaining rate payers.