BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase by Sebring Gas System, Inc.	DOCKET NO. 040270-GU ORDER NO. PSC-04-1260-PAA-GU ISSUED: December 20, 2004

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING IN PART THE REQUESTED RATE INCREASE OF SEBRING GAS SYSTEM, INC.

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the adjusting of the company's book in accordance with our final decisions, is 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.

I. BACKGROUND

This proceeding commenced on June 30, 2004, with the filing of a petition for a permanent rate increase by Sebring Gas System, Inc. (Sebring or the Company). Sebring requested an increase of $234,641 in additional annual revenues. The Company based its request on a 13-month average rate base of $1,132,523 for the projected test year (PTY) ending December 31, 2005. The requested overall rate of return is 8.65% based on an 11.50% return on common equity.

By Order No. PSC-04-0860-PCO-GU, issued September 2, 2004, in this docket, we granted an interim rate increase of $97,211. In that Order, we found the Company's rate base to be $782,836 for the interim test year ended December 31, 2003, and its allowed rate of return to be 6.08% using a return on equity of 10.00%.

This Commission set initial rates by Order No. PSC-92-0229-FOF-GU, issued April 20, 1992, in Docket No. 910873-GU, In Re: Petition for approval of initial rates to be established by

Sebring Gas System, a division of Coker Fuels, Inc. In that order we found the Company's jurisdictional rate base to be $1,055,175 for the projected year ended December 31, 1993. The allowed rate of return was found to be 10.86% for the test year using a 12.00% return on equity for the mid-point. Subsequent to that Order, by Order No. PSC-93-1774-FOF-GU, issued December 10, 1993, in Docket No. 931103-GU, In Re: Investigation into the appropriate equity return for Sebring Gas System, Inc., we lowered the 12.00% to an 11.00% mid-point for its authorized rate of return with a range of plus or minus 100 basis points.

Pursuant to Section 366.06(4), Florida Statutes (F.S.), Sebring requested that we process its petition for rate relief using Proposed Agency Action (PAA) procedures. A customer meeting was held on August 23, 2004. No customers attended the meeting and staff has not received any customer complaints. We have jurisdiction over this request for a rate increase and an interim rate increase under Sections 366.06(2) and (4), and 366.071, F.S.

II. TEST PERIOD

The Company used actual data for the 2003 test year rate base, net operating income, and capital structure. The 2005 projected test year balances were prepared using a combination of 2003 data trended for expected inflation, customer growth, and payroll growth, and specific budgeted increases. Certain plant additions in fiscal year 2003 have been audited by our auditors and analyzed by our staff as well.

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 in effect. New rates for Sebring Gas will go into effect 30 days after the November 30, 2004 agenda, or on December 30, 2004. Sebring Gas's 2005 fiscal year begins January 1, 2005, and ends December 31, 2005; therefore, we find that, with the appropriate adjustments, the year 2005 is an appropriate test year for setting rates.

We have reviewed the projected billing determinants contained in MFR Schedules G-2, Pages 6 and 8, for base year plus one and test year 2005, the historical customer count for years 1999 through year 2003, and the consistency of the projected values with the historical trends. The billing determinants contained in the MFR Schedule G-2 shall be approved with the exception of the TS-1 rate class which shall be adjusted to reflect our disallowance of the costs for the Company's proposed Residential Load Retention Program discussed later in this Order.

In response to our staff's First Data Request, Question 10, the Company stated that the base year plus one revenue forecast losses were assumed by the Company to be in the new TS-1 rate class (0-200 annual therms). Using the Company's estimated decline of 15 customers for 2003 to 2004, the 2005 rate class TS-1 billings should be reduced by 180 (15 customers x 12 months) and 750 therms. This reduction is based on the Company's projection that without the Residential Load Retention Program, the Company would continue to lose customers in the lower therm use category.

III. QUALITY OF SERVICE

A customer meeting was held in Sebring on August 23, 2004, to gather information from customers regarding the Company's quality of service and its request for a permanent rate increase. No customers attended the meeting.

Our staff researched the Commission's Division of Regulatory Compliance and Consumer Assistance records for complaints, and found that no complaints have been logged against the Company since our current complaint tracking system began in mid-1999. Our staff noted no ongoing safety concerns, and further noted that there were no customer interruptions affecting either 10% or 500 meters during the historic test year ending 2003. Finally, the Company has tested all of its meters within 120 months of the test year. For these reasons, we find that Sebring's quality of service is adequate.

IV. RATE BASE

A. Plant-in-Service

The Company's Plant-in-Service is overstated due to two prior-period adjustments and the reclassification of an expense item to plant. The Company retired a truck and reflected it in its December 2003 Earnings Surveillance Report, but failed to pick up that retirement in its MFRs. Therefore, 2005 PTY Plant-in-Service shall be reduced by $15,144 to incorporate the Company's 2003 retirement.

Our staff conducted a surveillance audit in Docket No. 010906-GU, In re: Request for approval of depreciation study for five-year period 1996 through 2000 by Sebring Gas System, Inc. as of December 31, 2001. In preparing its MFRs, the Company increased Plant-in-Service based on the prior audit findings. In the current audit, our staff determined that the Company overstated the adjustments by $22, net. Therefore, 2005 PTY Plant-in-Service shall be reduced by $22 to correct this.

Also, as set out below we have reclassified $2,000 for Nextel telephone/radios from Operation and Maintenance (O&M) Expense to plant, thereby increasing Plant-in-Service. The three adjustments result in an overall reduction to plant in service by the net amount of $13,166.

B. Accumulated Depreciation

To reflect the plant adjustments made above, we have made: (1) a $15,144 decrease due to the truck retirement, (2) a $9,788 increase due to prior period audit findings, and (3) a $94 increase due to the reclassification of Nextel communication equipment. The net effect of these adjustments is a $5,262 reduction to Accumulated Depreciation.

C. Working Capital Allowance

Our staff analyzed Working Capital using the balance sheet method. According to the Company, its cash needs during 2005 were based on the assumption that rates would not be increased. During the development of this proceeding, our staff asked the Company to consider the effect of a positive rate increase on its cash needs. The Company revised its cash budget to reflect a reduced need for cash. To reflect this reduced need for cash, we have reduced Working Capital in the amount of $24,158.

Also, later in this Order, we are reducing Taxes Other than Income by $610 for tangible taxes. With that adjustment, a commensurate reduction to Taxes Accrued – General in the amount of $305 is appropriate for the average of the expense adjustment. This increases Working Capital by $305. The net reduction to Working Capital for the two adjustments is $23,853.

D. Total Rate Base

Based upon our adjustments above, the Company's rate base is reduced from $1,132,523 to $1,100,766. Our calculation of rate base is shown on Attachment 1.

V. COST OF CAPITAL

A. Capital Structure

For the projected test year, Sebring filed a capital structure consisting of 52.5% common equity, 42.8% long-term debt, and 4.7% customer deposits. In developing this capital structure, Sebring made the following adjustments:

> 1) The Company increased retained earnings in December 2003 to reflect the recalculation of accumulated depreciation.
>
> 2) The Company reclassified an account payable from Coker Fuel as common equity in December 2003.
>
> 3) The Company included an increase of $100,000 in common equity in January 2005, which reflected an equity infusion from its owners.
>
> 4) The Company included an increase in long-term debt on $98,403 in June 2005 to finance capital improvements.

Based on a finding from the Commission staff's earnings surveillance audit in 2001, Sebring recalculated accumulated depreciation using the appropriate depreciation rates. Previously, the Company had used accelerated depreciation rates. The effect of this recalculation was a reduction to accumulated depreciation and an increase to retained earnings. Specifically, the Company increased retained earnings in December 2003 by $361,424. Staff agrees with this recalculation of accumulated depreciation and corresponding increase in retained earnings. However, earlier in this Order, we made adjustments to this recalculation of accumulated depreciation in calculating rate base. To properly reflect these adjustments to accumulated depreciation, we have reduced the test year average balance for common equity by $2,773.

Sebring's Vice-President, Jerry Melendy, noted in his testimony that Sebring and Coker Fuel are related companies in that they have the same owners but are separate corporations. Mr. Melendy stated that, over the past three years (through 2003), Sebring's revenues have not been sufficient to support it operations. During this period, Coker Fuel provided $222,053 to Sebring as of December 2003, and Sebring recorded this amount as an account payable. In May 2004, the Company decided to reclassify the account payable as paid-in capital as of December 2003. Sebring noted that it has a low equity ratio for the industry and it has had several years of negative net income.

We agree with the reclassification. The Company has not been in a position to reduce or eliminate the account payable. The funds are essentially a contribution from a related company, which has the same owners. Reclassifying these funds as common equity will place the Company in a better financial position for the future.

Sebring projected an equity infusion of $100,000 in January 2005 and an increase in long-term debt of $98,403 in June 2005. The Company stated that these funds would fund capital improvements and would be needed if rates remained at current levels. Because of the proposed increase in revenue in this case, and because this rate case should be completed before the 2005 projected test year, our staff requested revised equity and debt projections from the Company. Using these revisions, we have reduced the 13-month average balances for common equity and long-term debt for the projected test year by $13,388 and $10,770, respectively.

Given the adjustments discussed above, the appropriate capital structure for Sebring consists of 52.18% common equity, 42.74% long-term debt and 5.08% customer deposits. Regarding investor capital (long-term debt, short-term debt, preferred stock, and common equity), the capital structure consists of 54.97% common equity and 45.03% debt.

We note that we ordered equity ratio caps of 60% in the rate cases for St. Joe Natural Gas in Order No. PSC-01-1274-PAA-GU, issued June 8, 2001, in Docket No. 001447-GU, In re: Request for rate increase by St. Joe Natural Gas Company, Inc., and Indiantown Gas Company in Order No. PSC-04-0565-PAA-GU, issued June 2, 2004, in Docket No. 030954-GU, In Re: Petition for rate increase by Indiantown Gas Company. Sebring's debt cost rate is reasonable and it is in a position to maintain this low cost rate. To ensure that the Company continues to use significant amounts of debt to finance its rate base, Sebring's equity ratio shall be capped at 60%.

B. Cost Rate for Common Equity

Sebring decided not to retain the services of a cost of capital consultant because the Company viewed the cost of such services as not warranted in this case. The Company proposed a cost rate for common equity of 11.50% based on recent Commission decisions.

Listed below are our recent rate case decisions on the appropriate cost rate for common equity for natural gas distribution companies:

Company	Cost of Equity	Order	Date of Order
St. Joe Natural Gas Company	11.50%	PSC-01-1274-PAA-GU	June 8, 2001
TECO Peoples Gas	11.25%	PSC-03-0415-FOF-GU	March 25, 2003
City Gas Company of Florida	11.25%	PSC-04-0128-PAA-GU	February 9, 2004
Indiantown Gas Company	11.50%	PSC-04-0565-PAA-GU	June 2, 2004
Florida Public Utilities Company	11.25%	PSC-04-1110-PAA-GU	November 8, 2004

Sebring noted in its testimony that it is a small company similar to St. Joe Natural Gas and Indiantown Gas. Further, Sebring noted that small companies generally exhibit greater investment risk due to limited ability to absorb the loss of a customer, lack of revenue diversity, exposure to economic slowdowns, and difficulty in managing supply in a post-FERC 636 environment. The Company also stated that the lack of industrial customers increases its risk since industrial customers contribute higher returns than residential customers. Finally, Sebring stated that its opportunities for growth are limited and that financing growth can create risk.

Sebring is significantly smaller, both in revenues and throughput, than Peoples Gas, City Gas or Florida Public Utilities' gas division. Considering size and risk, we find that Sebring is similar to St. Joe Natural Gas and Indiantown Gas. For the reasons noted, we further find that 11.50% is a reasonable cost rate for common equity for this company. The appropriate range around the authorized return on equity is plus or minus 100 basis points.

C. Weighted Average Cost of Capital

Based on the approved capital structure and cost rate for common equity, the appropriate weighted average cost of capital is 8.64%. Our calculation of the cost of capital is shown on Attachment 2.

VI. NET OPERATING INCOME

A. Revenues From Sales of Gas

Per MFR Schedule E-2, Page 1, the Company calculated present revenues from sales of gas of $280,739 based on its projected billing determinants. However, we have reduced the Company's projected billing determinants by 15 customers, or 180 bills, and 750 therms. Accordingly, present revenues from sales of gas based on projected billing determinants shall be reduced by $1,526, to $279,213.

B. Total Operating Revenues

On MFR Schedule G-22, Page 8 of 31, the Company projected revenues of $280,739 from the sale of gas and Miscellaneous Revenues of $7,335, resulting in Total Operating Revenues of $288,074. In the section above, we have reduced revenues by $1,526. Therefore, Total Operating Revenues must be decreased by the same amount, $1,526 from $288,074 to $286,548.

C. Account 879, Customer Service Expense

For 2005, Sebring projected $10,000 for its Residential Load Retention Program and included these costs in Account 879, Customer Service Expense. As explained by Mr. Melendy, in his prefiled testimony, Sebring is experiencing a steady loss of its residential customers to electricity. Many of the residential customers have only one gas appliance and when that appliance needs to be replaced, Sebring is at risk of losing that customer. Mr. Melendy claims that since 1999, Sebring has lost 65 accounts which is over 10% of the residential customer base. at a loss of almost $36,000 in revenues over the past five years.

The Company proposes to initiate a Residential Load Retention Program to reduce the number of lost customers. Sebring proposes to identify at-risk single appliance customers that do not have gas water heaters. They are considering a number of incentives designed to add an appliance in the customer's home in conjunction with local trade allies. Generally, the program will focus on offering residential customers free water heater installations. For 2005, Sebring proposes to target 20 water heater installations at $500 each.

We note, in general, that customers benefit by an increasing customer base. Customers can realize savings through economies of scale and a larger customer base will help defray the cost of future plant projects. Likewise, customer attrition could result in higher rates from the spreading of fixed costs over fewer customers. For these reasons, a program designed to increase customer growth (or decrease customer attrition) may benefit customers. However, the cost of a program of this type should not exceed the benefit or revenue associated with the increased customers.

Earlier in this Order, we addressed projected test year therms and revenues and approved a $1,526 decrease to revenues to recognize the attrition of fifteen lower usage residential customers, which decrease has not been taken into consideration in the utility's projected revenues. Much of the benefit of the marketing program remains largely unquantified and would be expected to take place outside the projected test year. We find that expenses associated with customer retention and growth programs should not be included in rates without the corresponding effects on revenues resulting from increased customer retention and growth. Further, these expenses should only be included to the extent that revenues equal or exceed expenses.

Although the Company's marketing program may be successful in the long run, the $1,526 in lost revenues in the projected test year is far short of the $10,000 projected test year expenses in this issue. We believe there are two alternatives to address this situation: (1) we could impute revenues at least equal to the expenses and include both revenues and expenses in rates; or (2) remove both revenues and expenses. We find that removing the Residential Load Retention Program expenses and revenues is a more straightforward approach.

We do not have an opinion on the likely success of this program and believe only that this is the best methodology to properly set rates. Based on the above, Account 879, Customer Service Expense, shall be reduced by $10,000 to remove the cost associated with the Residential Load Retention Program, with the concomitant reduction in revenues of $1,526.

In Order No. PSC-04-0128-PAA-GU, issued February 9, 2004, in Docket No. 030569-GU, In re: Application for rate increase by City Gas Company of Florida, we made a similar finding and disallowed the estimated cost of marketing programs that were projected to promote customer growth and decrease customer attrition.

D. Account 921, Office Supplies and Expenses

1. Sebring included $2,950 in American Gas Association (AGA) and $400 in Florida Natural Gas Association (FNGA) dues in its 2003 O&M Expenses. Following discussions with the Company, our staff determined that approximately 15% of each association's dues relates to lobbying activities. Therefore, 2003 costs shall be reduced by $503. Applying the general inflation rates of 2.3% for 2004 and 2.4% for 2005, results in a $527 reduction to its projected 2005 O&M costs. Based on the above, Account 921, Office Supplies and Expenses, shall be reduced by $527 for the 2005 projected test year.

2. Sebring included $2,000 in its 2005 projected O&M Expenses for four Nextel telephone/radios. We found above that this expense should have been capitalized. Therefore, the $2,000 expense shall be removed from this account and shall be included in Account 397, Communication Equipment. We have already made the appropriate adjustments to plant and accumulated depreciation, and will make an appropriate adjustment to depreciation expense in the appropriate section below.

E. Account 923, Outside Services Employed

Pursuant to Commission Staff Audit Exception No. 3, Sebring Gas recorded accounting and legal expenses of $11,950 and $5,713, respectively, in Account 923, Outside Services Employed, totaling $17,663 for the period ended December 31, 2003. Of the accounting expenses recorded, $275 were determined to be out-of-period and $6,600 were determined to be related to work on this rate case. Of the $5,713 in legal expenditures, $3,611 were determined to be related to work on this rate case and $2,102 were determined to be related to the Company's transportation petition.

The 2003 accounting costs of $6,600 and the 2003 legal costs of $3,611, both of which are related to work on this case, will be considered in the section immediately below addressing Regulatory Commission Expense. The $275 shall be disallowed as an out-of-period expenditure and the $2,102 that was determined to be related to the Company's transportation petition shall also be disallowed. As determined in Order No. PSC-04-0499-TRF-GU, issued May 14, 2004, in Docket No. 031123-GU, In re: Petition for authority to convert and transfer all remaining sales customers to transportation service, to terminate merchant function, and for approval of certain tariff changes on experimental basis, by Sebring Gas System, Inc., a subsequent filing to address the over-recovery or under-recovery resulting from the PGA mechanism is required. The $2,102 in legal expenditures related to the foregoing proceeding shall be considered at the same time the over-recovery or under-recovery is considered and disposed of. Therefore, we find that it is appropriate to reduce this account by $12,588 for 2003 ($275+$6,600+$3,611+2,102). Applying the general inflation factor of 2.3% for 2004 and 2.4% for 2005, Account 923, Outside Services Employed shall be reduced by $13,187 for the 2005 projected test year.

F. Account 928, Regulatory Commission Expense

For 2005, Sebring projected $30,000 in rate case expense in Account 928. According to page 39 of Mr. Melendy's prefiled testimony, Sebring projects total rate case expenditures of $120,000, which appears to be an all-inclusive amount, and includes the $10,211 of 2003 rate case costs addressed in the section above. Sebring proposes a four-year amortization period, resulting in the $30,000 expense in the projected 2005 test year.

Our staff examined the support for services provided and expenditures through October 31, 2004, and also reviewed a flat fee contract for the preparation and filing of the MFRs and testimony and consulting services for this case. Rate case costs through October 31, 2004, including the flat fee contract, total $73,741. The Company anticipates additional legal expenditures of $10,000 for the months of November and December 2004, bringing its updated total to $83,741, which is $36,259 less than the total included in its MFRs. Using this amount results in rate case expense of $20,935 per year for four years.

In Order No. PSC-04-0565-PAA-GU, issued June 2, 2004, in Docket No. 030954-GU, In Re: Petition for rate increase by Indiantown Gas Company, this Commission authorized an increase for Indiantown. In that case, we found total rate case expenses of $52,500 to be prudent and amortized this amount over a four-year period. Indiantown projected rate case expense of $100,050, which included $35,000 for consulting fees, $55,050 for legal fees, and $10,000 for miscellaneous expenses. Its updated rate case expenses, which included actual expenses to date and projected expenses, providing there was no protest, were ultimately $52,500, and included $36,000 for consulting fees, $12,000 for legal fees and $4,500 for miscellaneous expenses.

Sebring and Indiantown Gas Company are extremely small gas companies. Furthermore, the two companies and their rate cases have other similarities. The instant petition filed by Sebring and Indiantown's petition were filed within eight months of one another. This is the first rate case for Sebring; the rate increase granted in Docket No. 030954-GU was Indiantown's first rate case. Both Indiantown and Sebring chose the proposed agency action process. One of Sebring's witnesses filed prefiled testimony in both cases. The consultant in both cases negotiated a flat fee contract for his services. However, for Sebring, the consultant prepared the MFRs and was one of two primary contacts for the proceeding, whereas the Company personnel in the Indiantown case responded to staff inquiries and fielded staff's questions.

For Sebring, the consultant charged a $50,000 consulting fee. We find that this is not justified and we shall reduce the fee by $10,000, which is more in line with the amount allowed in Indiantown.

Also, Sebring has projected that legal fees will be $10,000 for November and December, 2004. At the attorney's hourly billing rate, this would represent 50 hours of work. We find that 25 hours is more appropriate. Therefore, we shall reduce projected legal expense by $5,000.

Based on the above information, updated estimates, the similarities of Indiantown and Sebring and allowing for the differences between the processing of the two cases, we find that the appropriate total rate case expense is $68,741. Therefore, we shall reduce the total rate case expense by $51,259.

Also, we find that the four-year amortization period is reasonable and consistent with our other decisions. Applying the four-year amortization period to this reduction results in a $12,815 decrease to projected test year rate case expense, and Account 928, Regulatory Commission Expense, shall be reduced by this amount for the 2005 projected test year, for a total Regulatory Commission Expense of $17,185.

G. Payroll Taxes

Sebring Gas does not administer its own payroll. Instead, the Company contracts with an employee leasing company to provide its payroll services and administer other compensation activities. As a result, the payroll costs included in the O&M Expenses include the employer's portion of FICA, Medicare, State Unemployment Tax (SUTA) and Federal Unemployment Tax (FUTA), employer liability insurance, pension cost and the 2.25% administrative fee. Consequently, O&M Expenses are overstated and Taxes Other Than Income are understated.

To reflect the appropriate classification of costs, we have removed the non-payroll costs and reclassified them in the appropriate accounts. This reallocation reduces O&M payroll costs by $26,405, increases other O&M costs by $13,667 and increases Taxes Other Than Income Taxes by $12,738. The detail of the increases to the accounts is as follows:

Taxes Other Than Income (FICA)	$	9,819
Taxes Other Than Income (Medicare)		2,296
Taxes Other Than Income (SUTA)		312
Taxes Other Than Income (FUTA)		311
Account 923 (Outside Services Employed)		3,496
Account 925 (Injuries & Damages)		6,275
Account 926 (Employee Pensions & Benefits)		3,896

Based on the above, O&M Expenses shall be reduced by $12,738 to remove the payroll taxes.

H. Total O&M Expense

Based on the above adjustments, we have reduced O&M Expense by a total of $51,267, from $321,779 to 270,512.

I. Depreciation and Amortization Expense

As discussed above, we have capitalized $2,000 of radio equipment which the Company originally expensed, and placed it into plant Account Number 397 – Communication Equipment. This account has a Commission-approved depreciation rate of 9.4% which was applied to the $2,000 plant investment. This correction created an increase of $188 to Depreciation Expense and an increase of $94 to Accumulated Depreciation for the projected test year.

Also, as discussed earlier in this Order, the resulting Depreciation Expense for the projected test year was overstated and was reduced by $625. The net effect of the two adjustments is a reduction of $437 to the projected $64,755 Depreciation and Amortization Expense, therefore, establishing the appropriate level for the projected test year at $64,318.

J. Taxes Other Than Income (TOTI)

Per MFR Schedule G-2, Page 1 of 31, the Company proposed TOTI of $7,117. In response to a data request by our staff, the Company provided a breakdown of TOTI for 2005. The Company's and our adjusted TOTI for the 2005 projected test year are as follows:

	Per Company	Commission Adjustment	Per Commission
Payroll Taxes	0	12,738	12,738
Intangible Taxes	26	(26)	0
RAFs	1,449	(16)	1,433
Tangible Personal Property Tax	5,017	(610)	4,407
Occupational License	625	(145)	480
TOTAL	7,117	11,941	19,058

The Company did not include any Payroll Taxes in TOTI. The Company provided payroll data, including payroll taxes, for 2003. We used this data to calculate the percentages to apply to the 2005 payroll amount to calculate Payroll Taxes consisting of FICA, Medicare, Federal Unemployment Tax and State Unemployment Tax. This resulted in Payroll Taxes of $12,738, an increase of $12,738 to the Company requested amount of $0.

The Company included state intangible taxes of $26 in its MFRs. It was determined that the Intangible Taxes were paid by Sebring as agent for Florida stockholders. Consistent with our prior practice, Intangible Taxes paid on behalf of stockholders shall be disallowed. See Order No. PSC-01-1274-PAA-GU, and Order No. PSC-03-0351-PAA-SU, issued March 11, 2003 in Docket No. 020344-SU, In re: Application for Rate Increase in Monroe County by Key Haven Utility Corporation. As a result, TOTI shall be reduced by $26.

The Company projected 2005 Regulatory Assessment Fees (RAFs) of $1,449. To calculate this amount, the Company multiplied Total Revenues of $288,074 by .00503. We recalculated the RAFs by applying the RAF rate of .005 to the Company's Total Revenue, resulting in RAFs of $1,440. This adjustment results in a $9 decrease to RAFs. In addition, earlier in this Order, we decreased revenue by $1,526. The impact of this adjustment to revenue is to decrease RAFs by an additional $7. Therefore, we have reduced RAFs by $16 for total RAFs of $1,433.

The Company projected 2005 Tangible Personal Property Tax by increasing the 2003 MFR Property Tax of $4,775 by 2.5 percent for both 2004 and 2005. Per Audit Exception No. 4, property taxes billed in 2003 were only $4,445. In response to a staff data request, the Company provided a copy of the actual 2004 Personal Property Tax bill, which indicated Personal Property taxes for 2004 of $4,304, if paid during the November 4% discount period. Applying the 2.4% general inflation factor to the actual 2004 property tax bill of $4,304, results in projected 2005 Property Taxes of $4,407. This adjustment results in a decrease of $610 to the Company requested amount of $5,017.

The Company included $625 for occupational licenses in its MFRs. In response to a staff data request, the Company indicated the licenses are for the City of Sebring for $255 and Highlands County for $225 (total of $480). Neither the city nor the county has increased the fees for 2004, and there is no knowledge of any planned increase for 2005. Therefore, we find that the occupational license cost shall be $480, and the Company's requested $625 figure is reduced by $145, accordingly.

In summary, based on the above adjustments, TOTI shall be increased by $12,738 for Payroll Taxes, decreased by $26 for Intangible Taxes, decreased by $16 for RAFs, decreased by $610 for Tangible Personal Property Tax, and decreased by $145 for Occupational Licenses, resulting in a net increase of $11,941, and a net amount of $19,058 in TOTI.

K. Income Tax Expense

The Company included ($41,158) of income tax expense in its 2005 MFRs. Since the Company started operations in 1992, it has had net operating losses (NOLs) reflected on its income tax returns. As a result of the NOLs, the Company has never incurred a tax liability, and, therefore, the income tax expense recorded on its books has been zero since 1992. As of December 31, 2003, the Company has a significant amount of accumulated NOL carryforwards that are available to offset future tax expense. A corporation may carry forward a NOL up to 20 years. Although the Company may reflect positive net income in 2005 and the years to follow due to this rate increase, we find that it will take several years before the Company will be able to fully utilize the NOL carryforwards. Further, the customers have not benefited from the tax losses the Company has accumulated over the years, as evidenced by zero income tax expense reflected in prior years' Annual Reports and Earnings Surveillance Reports. Therefore, we find that the amount of income tax expense reflected in the MFRs shall be zero and the federal and state income tax factors in the revenue expansion factor shall be omitted.

L. Total Operating Expenses

Based on our adjustments above, Total Operating Expenses shall be increased by $1,395 to $353,888 for the 2005 projected test year.

M. Net Operating Income

Based on our adjustments above, Sebring's Net Operating Income of $(64,419) shall be decreased by $2,921 to ($67,340) for the projected 2005 test year.

VII. REVENUE REQUIREMENTS

A. Revenue Expansion Factor and Net Operating Income Multiplier

The Company's calculation and our calculation of the appropriate revenue expansion factor and the appropriate net operating income multiplier are shown on Attachment 4. The only difference between the Company's calculation and our calculation is the income tax expense factors. The Company used 5.5% for its State and 26.40% for its Federal Income Tax factors, whereas we used zero in each case because of our finding that the Company would incur no income tax expense in the foreseeable future. Consequently, we find that the revenue expansion factor shall be 99.50000% and the net operating income multiplier shall be 1.0050, as shown on Attachment 4.

B. Annual Operating Revenue Increase

Based upon all our adjustments, the annual operating revenue increase for the projected 2005 test year is $163,262. Our calculation of the revenue requirement is shown on Attachment 5.

VIII. COST OF SERVICE AND RATE DESIGN

A. Cost of Service Study

The appropriate cost of service methodology to be used in allocating cost to the various rate classes is reflected in our cost of service study contained in Attachment No. 6, pages 1-16.

The purpose of a cost of service study is to allocate the total costs of the utility system among the various rate classes. The results of the cost of service study are used to determine how any revenue increase granted by this Commission will be allocated to the rate classes. Once this determination is made, rates are designed for each rate class that recover the total revenue requirement attributable to that class. Our study reflects our adjustments to rate base, expenses, net operating income, billing determinants and projected test year base rate revenues.

B. Allocation to Rate Classes

Our allocation of the revenue increase is contained in Attachment 6, page 16 of 16. The allocation of the increase was designed to move each rate class towards the system rate of return (i.e., to parity), while taking into account the rate impact on each customer class.

C. Customer Charges

The customer charge is a fixed charge that applies to each customer's bill no matter the quantity of gas used for the month. The customer charge is typically designed to recover costs such as metering and billing that are incurred no matter whether any gas is consumed.

Currently, Sebring defines its rate classes based upon the end uses of the customers in the class, i.e., residential, commercial, and industrial. Sebring has proposed to restructure its rates in order to group customers based solely on the number of therms they use annually. This restructuring will result in five new rate schedules as shown in the table below.

The proposed therm usage threshold levels are designed to more accurately reflect similar patterns such as annual volume, load profile, and the assignment of fixed and variable costs of serving the various rate classes. We have recently approved similar rate restructuring for the Florida Division of Chesapeake Utilities Corporation, Indiantown Gas Company, and NUI City Gas of Florida. For these reasons, we find that the proposed volumetric-based rate classes are appropriate, and they are approved.

The rate class, the present charge, the Company's proposed charge and our approved customer charges are contained in the table below:

Rate Class	Present Charge	Company Proposed Charge	Commission Approved Charge
Transportation Service 1 (TS-1) 0-200 therms	$7.00 (Residential) $17.00 (Commercial)	$10.00	$9.00
Transportation Service 2 (TS-2) 201-1000 therms	$7.00 (Residential) $17.00 (Commercial)	$15.00	$12.00
Transportation Service 3 (TS-3) 1001-10K therms	$17.00	$80.00	$35.00
Transportation Service 4 (TS-4) 10,001-50K therms	$17.00	$250.00	$150.00
Transportation Service 5 (TS-5) >50,000 therms	$17.00 (<=100,000 therms) $100.00 (>100,000 therms)	$1,350.00	$500.00

As shown in the table above, the Company proposed substantial increases in its customer charges. While we have increased the current charges, our increases are below those proposed by Sebring. We find that the increases noted above represent a reasonable increase given the low level of Sebring's current customer charges and are more appropriate.

C. Per Therm Transportation Charges

Our approved per therm Transportation Charges are contained on Attachment 7.

D. Third Party Supplier (TPS) Rate Schedule

Sebring has proposed a new TPS rate schedule applicable to third party suppliers. In addition, Sebring has proposed to increase the TPS charge from $2 per monthly transportation bill to $3 per monthly transportation bill. The $2 TPS charge is currently included in the *Terms and Conditions for Transportation Service* section of Sebring's tariff. Sebring projects that it will render 6,631 transportation bills in the projected test year.

The proposed TPS charge is designed to recover $20,258 in administrative and billing service costs that Sebring provides to Third Party Suppliers. Specifically, Sebring has proposed to allocate portions of Accounts 902 (meter reading expense) and 893 (maintenance of meters and house regulators) to the TPS rate class. In addition, Sebring has proposed to recover a portion of the proposed incremental increase in salary expense through the TPS charge. The salary expense is related to the addition of a part-time position to help administer Sebring's aggregated transportation service.

Review of the proposed charge and the costs it is designed to recover shows that it is reasonable. Therefore, the proposed new TPS rate schedule and its associated charge is approved.

E. Therm Eligibility Threshold

Sebring has proposed to lower the annual therm eligibility threshold for Alternate Fuel, Interruptible, Special Contract, and Individual Transportation Service Customers from 100,000 to 50,000 therms. Currently, no customers are large enough to qualify for the above tariff provisions.

The Alternate Fuel, Interruptible, Special Contract, and Individual Transportation Service tariffs are designed to allow Sebring to negotiate customer-specific rates, terms, and conditions with large-volume customers. Specifically, Alternate Fuel customers are eligible to receive service under Sebring's Contract Transportation Service Rider that allows Sebring to flex the cents per therm Transportation Charge based upon the customer's alternate fuel capabilities. Customers designated as Interruptible and Special Contract customers can enter into special contracts with Sebring for the provision of gas. Individual Transportation Service customers may select their own gas marketer. For all other customers, Sebring's authorized pool manager purchases and delivers natural gas to the Company's distribution system.

By lowering the annual therm eligibility thresholds, Sebring's largest customer, as well as potential future large-volume customers, would qualify for the above described tariff provisions. We find that Sebring's proposal is reasonable and it is approved.

F. Effective Date for Revised Rates and Charges

All new rates and charges shall become effective for meter readings on or after 30 days from November 30, 2004, the date of our vote approving the rates and charges. This will insure that customers are aware of the new rates before they are billed for usage under the new rates.

IX. OTHER ISSUES

A. Interim Increase Refund

In this docket, the requested interim test year was the twelve months ended December 31, 2003. We granted the interim increase by Order No. PSC-04-0860-PCO-GU, issued September 2, 2004.

An interim increase is reviewed when final rates are derived to determine if any portion should be returned to the ratepayers. In this case, interim rates went into effect September 16, 2004. Therefore, 2004 is the appropriate year to analyze for affirmation of the interim increase.

Having reviewed the Company's 2004 financial projections and making adjustments appropriate for the 2004 test year, we find that no refund of the interim increase is required because the revenue requirement for the 2004 test year exceeds the revenue requirement awarded for the interim.

B. Required Entries and Adjustments

To ensure that the utility adjusts its books in accordance with our decisions, Sebring shall provide proof, within 90 days of the consummating order finalizing this docket, that the adjustments for all the applicable FERC USOA primary accounts have been made to its annual report, rate of return reports, and its books and records.

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 all findings set forth herein are approved. It is further

ORDERED that all matters contained in the attachments attached hereto are incorporated herein by reference. It is further

ORDERED that the provisions of this Order, except for the adjusting of the company's books in accordance with our final decisions, are issued as proposed agency action, and 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 Director, Division of the Commission Clerk and Administrative Services, 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 Sebring Gas System, Inc. is authorized to collect increased revenues of $163,262. It is further

ORDERED that no refund of the interim rate increase approved by Order No. PSC-04-0860-PCO-GU, issued September 2, 2004, shall be required. It is further

ORDERED that Sebring Gas System, Inc. shall file revised tariffs reflecting the increased rates and charges, the change in rate structure, and all other provisions approved in this Order and all other documents described herein. It is further

ORDERED that the rate increase shall be effective on billings rendered for all meter readings taken on or after December 30, 2004. It is further

ORDERED that Sebring Gas System, Inc. shall provide proof, within 90 days of the consummating order or order finalizing this docket, that the adjustments for all the applicable FERC USOA primary accounts have been made to its annual report, rate of return reports, and its books and records. 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 the Order, this docket shall be closed upon the issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 20th day of December, 2004.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

RRJ

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.

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.

As identified in the body of this order, our action, except for the adjusting of the Company's books, is preliminary in nature. 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 Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on January 10, 2005. 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 concerning the adjusting of the company's books in accordance with our final decisions may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services 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 Director, Division of the Commission Clerk and Administrative Services 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.

ATTACHMENT 1

SEBRING GAS SYSTEM, INC.
DOCKET NO. 040270-GU
PTY 12/31/05- FINAL RATES

ISSUE NO.		COMPANY TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	COMMISSION ADJS.	COMMISSION ADJUSTED
	Utility Plant					
	Plant In Service	$2,202,495		$2,202,495		
4	**Reflect Truck Retirement**				(15,144)	
4	**Correct Adjustment Error**				(22)	
15	**Nextel Radio/Telephones**				2,000	2,189,329
	Total Plant	$2,202,495	$0	$2,202,495	($13,166)	$2,189,329
	Common Plant Allocated			$0		$0
	Total Common Allocated	$0	$0	$0	$0	$0
	Acquisition Adjustment	$0		$0		$0
	Total Acquisition Adjustment	$0	$0	$0	$0	$0
	Plant Held For Future Use	0				
	Total Plant Held For Future Use	$0	$0	$0	$0	$0
	Construction Work In Prog.	$0		$0		$0
	Total Construction Work In Progress	$0	$0	$0	$0	$0
	Total Plant	$2,202,495	$0	$2,202,495	($13,166)	$2,189,329
	Deductions					
	Accum. Depr.- Plant In Service	$1,070,838		$1,070,838		
5	Reflect Truck Retirement				(15,144)	
5	Recalculation Using Commission Dep. Rates				9,788	
20	Nextel Radio/Telephones				94	1,065,576
	Total Accum. Depr.- Plant In Service	$1,070,838	$0	$1,070,838	($5,262)	$1,065,576
	Accum Depr. - Common Plant			$0		$0
	Total Accum. Depr. - Common Plant	$0	$0	$0	$0	$0
	Accum. Amort. – Acquis'n Adj.	$0		$0		$0
	Total Accum. Depr. - Acquisition Adj.	$0	$0	$0	$0	$0
	Customer Adv. For Constr.	$16,256	$0	$16,256	$0	$16,256
	Total Deductions	$1,087,094	$0	$1,087,094	($5,262)	$1,081,832
	Net Utility Plant	$1,115,401	$0	$1,115,401	($7,904)	$1,107,497
	Working Capital Allowance	$112	$17,010	$17,122	($23,853)	(6,731)
	Total Rate Base	$1,115,513	$17,010	$1,132,523	($31,757)	$1,100,766

ATTACHMENT 1A

COMPARATIVE WORKING CAPITAL COMPONENTS

SEBRING GAS SYSTEM, INC.
DOCKET NO. 040270-GU
PTY 12/31/05- FINAL RATES

		COMPANY AS FILED			COMMISSION	
ISSUE NO.		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	COMMISSION ADJS.	COMMISSION ADJUSTED
	WORKING CAPITAL					
	ASSETS					
	Nonutility Property	0		0	0	0
	Accum. Depr. - Nonutility Property	0		0		0
	Special Deposits	0		0		0
	Cash	57,211		57,211		
6	Reduce cash needs based on increase				(24,158)	33,053
	Working Funds & Cash Invest.	0		0		0
	Cust. Accounts Rec. - Gas	24,227		24,227		24,227
	Transporter Fuel Receivable	55,111	(55,111)	0		0
	Accum. Prov. Uncollect. Accts.	0		0		0
	Materials & Supplies	33,265		33,265		33,265
	Merchandise			0		0
	Prepayments	0		0		0
	Accrued Utility Revenue	0		0		0
	Adj. for Gain on Sale of Medley Prop.			0		0
	Other Regulatory Assets	0		0		0
	Deferred Conv. Cost & Piping Allowance	0		0		
	Misc. Deferred Debits	0		0		0
	Deferred FIT	0		0		0
	Unrecovered Gas Cost/ECCR/CRA	0		0		0
						0
	LIABILITIES					
	Notes Payable	0	0	0	0	0
	Accounts Payable	85,753		85,753		85,753
	Customer Deposits	55,865	(55,865)	0		0
	Accrued Taxes - General	4,877		4,877		
6	To correct tangible property tax accrual				(305)	4,572
	Accrued Interest	1,902		1,902		
	To correct interest payable					1,902
	Tax Collections Payable	5,049		5,049		
	To correct FICA, FIT, & PRT payable					5,049
	Misc. Current Liabilities	0		0		0
	Customer Advances for Construction	16,256	(16,256)	0		0
	Other Regulatory Liabilities	0		0		0
	Accum. Deferred Inc. Taxes	0		0		0
	Deferred Investment Tax Credit	0		0		0
	Deferred IT – Other	0		0		0
	Capital Lease	0		0		0
	Operating Reserves	0		0		0
	Other Deferred Credits	0		0		0
	TOTALS	112	17,010	17,122	(23,853)	(6,731)

ATTACHMENT 2

CAPITAL STRUCTURE

SEBRING GAS SYSTEM, INC.
DOCKET NO. 040270-GU
PTY 12/31/05- FINAL RATES
13 Month Average

	PER BOOKS	COMPANY ADJUSTMENTS: SPECIFIC	COMPANY ADJUSTMENTS: PRO RATA	ADJUSTED PER BOOKS
Common Equity	$623,540		(28,935)	$594,605
Long Term Debt	508,229		(23,584)	484,645
Short Term Debt	0			0
Customer Deposits	55,865		(2,592)	53,273
Def. Taxes - Zero Cost	0			0
Tax Credit - Zero Cost	0			0
	$1,187,634	$0	(55,111)	$1,132,523

	ADJUSTED PER BOOKS	COMMISSION RATE BASE ADJUSTMENTS: REVERSAL OF COMPANY ADJUSTMENTS	RESTATEMENT OF COMPANY PER BOOKS	SPECIFIC	PRO RATA	COMMISSION ADJUSTED	RATIO	COST RATE	ISSUE NO.	WEIGHTED COST
Common Equity	$594,605	28,935	623,540	(16,161)	(32,946)	$574,433	0.52185	11.50%	9	6.00%
Long Term Debt	484,645	23,584	508,229	(10,770)	(26,991)	470,468	0.42740	5.43%		2.32%
Short Term Debt	0				0	0	0.00000	0.00%		0.00%
Customer Deposits	53,273	2,592	55,865			55,865	0.05075	6.23%		0.32%
Def. Taxes - Zero Cost	0		0			0	0.00000			0.00%
Tax Credit - Zero Cost	0		0			0	0.00000			0.00%
	$1,132,523	$55,111	$1,187,634	($26,931)	($59,937)	$1,100,766	1.00000			**8.64%**

ATTACHMENT 3
Page 1 of 2

COMPARATIVE NOIs

SEBRING GAS SYSTEM, INC.
DOCKET NO. 040270-GU
PTY 12/31/05- FINAL RATES

ISSUE NO.		COMPANY TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	COMMISSION ADJS.	COMMISSION ADJUSTED
	OPERATING REVENUES	$288,074		$288,074		
11	Reflect disallowed Load Retention				(1,526)	
						$286,548
	REVENUES DUE TO GROWTH	0		0		0
				0		
						0
				0		0
				0		0
				0		0
	TOTAL REVENUES	$288,074	$0	$288,074	($1,526)	$286,548
	OPERATING EXPENSES:					
	COST OF GAS					
		0		0	0	0
		0		0	0	0
	TOTAL COST OF GAS	$0	$0	$0	$0	$0
	OPERATION & MAINTENANCE EXP.	$321,779		$321,779		
13	Residential Load Retention Program				(10,000)	
14	Lobbying Expenses				(527)	
15	Nextel Telephone/Radios				(2,000)	
16	Rate Case & Out-of-Period Costs				(13,187)	
17	Rate Case Costs				(12,815)	
18	Non-Payroll Cost				(12,738)	
						270,512
	TOTAL O & M EXPENSE	$321,779	$0	$321,779	($51,267)	$270,512
	CONSERVATION COSTS	0		0	0	0
	Conservation Costs					
	TOTAL CONSERVATION COSTS	$0	$0	$0	$0	$0

ATTACHMENT 3
Page 2 of 2

COMPARATIVE NOIs

SEBRING GAS SYSTEM, INC.
DOCKET NO. 040270-GU
PTY 12/31/05- FINAL RATES

		COMPANY			COMMISSION	
ISSUE NO.		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	COMMISSION ADJS.	COMMISSION ADJUSTED
	DEPRECIATION AND AMORT.	$64,755		$64,755		
20	Nextel Radio/Telephones				188	
20	Recalculation Adjustment				(625)	
						64,318
	TOTAL DEPRECIATION & AMORT.	$64,755	$0	$64,755	($437)	$64,318
	TAXES OTHER THAN INCOME	7,117		7,117		
21	Adj. for Payroll Taxes				12,738	
21	Remove Intangible Taxes				(26)	
21	Adj. to Regulatory Assessment Fees				(16)	
21	Adj. to Tangible Property Taxes				(610)	
21	Adj. to Occupational Licenses				(145)	
						19,058
	TOTAL TAXES OTHER THAN INC.	$7,117	$0	$7,117	$11,941	$19,058
	INCOME TAX EXPENSE					
	Income Taxes - Federal	(34,609)				
	Income Taxes - State	(7,630)				
	Deferred Income Taxes - Federal	0				
	Deferred Income Taxes - State	0				
	FIT & SIT Taxes on Company Adjs.		887			
	Interest Synchronization - Company Adj.		194	(41,158)		
22	Eliminate Income Tax Expense				41,158	
						0
	TOTAL INCOME TAXES	($42,239)	$1,081	($41,158)	**$41,158**	**$0**
	TOTAL OPERATING EXPENSES	$351,412	$1,081	$352,493	$1,395	$353,888
	NET OPERATING INCOME	($63,338)	($1,081)	($64,419)	($2,921)	($67,340)

ATTACHMENT 4

NET OPERATING INCOME MULTIPLIER

SEBRING GAS SYSTEM, INC.
DOCKET NO. 040270-GU
PTY 12/31/05- FINAL RATES

DESCRIPTION	COMPANY PER FILING	COMMISSION
REVENUE REQUIREMENT	100.0000%	100.0000%
REGULATORY ASSESSMENT RATE	0.5000%	0.5000%
BAD DEBT RATE	0.0000%	0.0000%
NET BEFORE INCOME TAXES	99.5000%	99.5000%
STATE INCOME TAX RATE	5.5000%	0.0000%
STATE INCOME TAX	5.4725%	0.0000%
NET BEFORE FEDERAL INCOME TAXES	94.0275%	99.5000%
FEDERAL INCOME TAX RATE	26.4000%	0.0000%
FEDERAL INCOME TAX	24.8233%	0.0000%
REVENUE EXPANSION FACTOR	69.2042%	99.5000%
NET OPERATING INCOME MULTIPLIER	1.4450	1.0050

Attachment 5

COMPARATIVE REVENUE DEFICIENCY CALCULATIONS

SEBRING GAS SYSTEM, INC.
DOCKET NO. 040270-GU
PTY 12/31/05- FINAL RATES

		COMPANY ADJUSTED	COMMISSION
RATE BASE (AVERAGE)		$1,132,523	$1,100,766
RATE OF RETURN	X	8.65%	8.64%
REQUIRED NOI		$97,963	$95,106
Operating Revenues		288,074	286,548
Operating Expenses:			
Operation & Maintenance		321,779	270,512
Depreciation & Amortization		64,755	64,318
Amortization of Environ. Costs		0	0
Taxes Other than Income Taxes		7,117	19,058
Income Taxes		(41,158)	0
Total Operating Expenses		352,493	353,888
ACHIEVED NOI		(64,419)	(67,340)
NET NOI DEFICIENCY		162,382	162,446
REVENUE TAX FACTOR		1.4450	1.0050
REVENUE DEFICIENCY		$234,641	$163,262

COST OF SERVICE
CLASSIFICATION OF RATE BASE
(Page 1 of 2: PLANT)

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
302 FRANCHISES AND CONSENTS	0				
LOCAL STORAGE PLANT	0		0		100% capacity
INTANGIBLE PLANT:	**113,772**		**113,772**		100% capacity
PRODUCTION PLANT	0				100% capacity
DISTRIBUTION PLANT:					
374 Land and Land Rights	15,625		15,625		100% capacity
375 Structures and Improvements	0				100% capacity
376 Mains	950,297		950,297		100% capacity
377 Comp. Sta. Eq.	0				100% capacity
378 Meas.& Reg. Sta. Eq. - Gen	10,419		10,419		100% capacity
379 Meas.& Reg. Sta. Eq. - CG	53,994		53,994		100% capacity
380 Services	603,565	603,565			100% customer
381- 382 Meters	188,784	188,784			100% customer
383- 384 House Regulators	69,270	69,270			100% customer
385 Industrial Meas. & Reg. Eq.	0		0		100% capacity
386 Property on Customer Premises	34,649	34,649			ac 374-385
387 Other Equipment	21,104	9,818	11,286		ac 374-386
Total Distribution Plant	**1,947,707**	**906,086**	**1,041,621**	**0**	
GENERAL PLANT:	**127,850**	**63,925**	**63,925**	**0**	50% customer,50%, capacity
TOTAL DIST. / INTANGIBLE / GENERAL	2,189,329	970,011	1,219,318	0	
PLANT ACQUISITIONS:	**0**	**0**		**0**	100% capacity
GAS PLANT FOR FUTURE USE:	**0**	**0**	**0**	**0**	100% capacity
CWIP:		**0**	**0**	**0**	dist.plant
TOTAL PLANT	**$2,189,329**	**$970,011**	**$1,219,318**	**$0**	

COST OF SERVICE
CLASSIFICATION OF RATE BASE
(PAGE 2 OF 2: ACCUMULATED DEPRECIATION)

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
LOCAL STORAGE PLANT:	0	0	0	0	related plant
INTANGIBLE PLANT	**42,456**	0	**42,456**	0	"
DISTRIBUTION PLANT:					
374 Land and Land Rights	0			0	"
375 Structures and Improvements	0			0	"
376 Mains	383,235		383,235	0	"
377 Comp.Sta.Eq.	0			0	"
378 Meas.& Reg.Sta.Eq.- Gen	2,631		2,631	0	"
379 Meas.& Reg.Sta. Eq. - CG	18,859		18,859	0	"
380 Services	389,853	389,853		0	"
381- 382 Meters	97,244	97,244		0	"
383- 384 House Regulators	33,913	33,913		0	"
385 Industrial Meas. & Reg. Eq.	0		0	0	"
386 Property on Customer Premises	15,310	15,310		0	"
387 Other Equipment	2,515	1,170	1,345	0	"
Total Distribution Plant	**$943,560**	**$537,490**	**$406,070**	**$0**	
GENERAL PLANT:	**79,560**	**39,780**	**39,780**	**0**	general plant
AMORT. ACQ. ADJUSTMENT	**0**				plant acquisitions
RETIREMENT WORK IN PROGRESS:		**0**	**0**		distribution plant 50% cust. 50% cap.
TOTAL ACCUMULATED DEPRECIATION	**$1,065,576**	**$577,270**	**$488,306**	**$0**	
NET PLANT (Plant less Accum. Dep.)	**1,123,753**	**392,741**	**731,012**		
less: CUSTOMER ADVANCES	**(16,256)**	**(8,128)**	**(8,128)**		50% cust. 50% cap.
plus: WORKING CAPITAL	**(6,731)**	**(4,751)**	**(1,980)**		oper. and maint. exp.
equals: TOTAL RATE BASE	**$1,100,766**	**$379,861**	**$720,905**		

**COST OF SERVICE
CLASSIFICATION OF EXPENSES
(PAGE 1 OF 2)**

**SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU**

	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
OPERATION & MAINTENANCE EXPENSES					
LOCAL STORAGE PLANT:					ac 301-320
PRODUCTION PLANT					100% capacity
DISTRIBUTION:					
870 Operation Supervision & Eng.	18,145	17,786	358	0	ac 871-879
871 Dist. Load Dispatch			0		100% capacity
872 Compr. Sta. Lab. & Ex.			0	0	ac 377
873 Compr. Sta.Fuel & Power				0	100% commodity
874 Mains and Services	304	118	186	0	ac376+ac380
875 Meas.& Reg. Sta. Eq. - Gen		0	0	0	ac 378
876 Meas.& Reg. Sta. Eq. - Ind.		0	0	0	ac 385
877 Meas.& Reg. Sta.Eq. - CG		0	0	0	ac 379
878 Meter and House Reg.	4,869	4,869	0	0	ac381+ac383
879 Customer Instal.	4,249	4,249	0	0	ac 386
880 Other Expenses	9,262	4,309	4,953	0	ac 387
881 Rents			0		100% capacity
885 Maintenance Supervision	5,716	2,470	3,246	0	ac886-894
886 Maint. of Struct. and Improv.		0	0	0	ac375
887 Maintenance of Mains	9,899	0	9,899	0	ac376
888 Maint. of Comp. Sta. Eq.		0	0	0	ac 377
889 Maint. of Meas.& Reg. Sta. Eq.- Gen		0	0	0	ac 378
890 Maint. of Meas.& Reg. Sta. Eq. - Ind.	-841		-841	0	ac 385
891 Maint. of Meas.& Reg.Sta. Eq. - CG	5,866	0	5,866	0	ac 379
892 Maintenance of Services	1,322	1,322	0	0	ac 380
893 Maint. of Meters and House Reg.	9,835	9,835	0	0	ac381-383
894 Maint. of Other Equipment	3,370	1,568	1,802		ac387
Total Distribution Expenses	$71,996	$46,526	$25,470	$0	
CUSTOMER ACCOUNTS:					
901 Supervision		0			
902 Meter-Reading Expense	3,410	3,410			
903 Records and Collection Exp.	18,631	18,631			
904 Uncollectible Accounts	499			499	100% commodity
905 Misc. Expenses		0			
Total Customer Accounts	$22,540	$22,041	$0	$499	
(907-910) CUSTOMER SERV.& INFO. EXP.	0	0			
(911-916) SALES EXPENSE		0			100% CUSTOMER
(932) MAINT. OF GEN. PLANT	8,912	4,456	4,456	0	
(920-931) ADMINISTRATIVE AND GENERAL	167,065	117,930	48,329	806	O&M excl. A&G
TOTAL O&M EXPENSE	$270,513	$190,952	$78,255	$1,305	

COST OF SERVICE
CLASSIFICATION OF EXPENSES
(Page 2 of 2)

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE	CLASSIFIER
DEPRECIATION AND AMORTIZATION EXPENSE:						
Depreciation Expense	64,318	22,479	41,839	0		Net plant
Amort. of Environmental			0			100% capacity
Amort. of Property Loss			0			100% capacity
Amort. of lease improvements / other			0			Intan/dist/gen plant
Amort. of Acquisition Adj.		0	0			Intan/dist/gen plant
Amort. of Conversion Costs				0		100% commodity
Total Deprec. and Amort. Expense	**64,318**	**22,479**	**41,839**	**0**	**0**	
TAXES OTHER THAN INCOME TAXES:						
Revenue Related	2,212				2,212	100% revenue
Other	17,662	6,173	11,489	0		Net plant
Total Taxes other than Income Taxes	**19,874**	**6,173**	**11,489**	**0**	**2,212**	
REV.CRDT TO COS (NEG.OF OTHER OPR.REV)	**(7,335)**	**(7,335)**				100% customer
RETURN (REQUIRED NOI)	**95,106**	**32,820**	**62,286**	**0**		Rate base
INCOME TAXES	**0**	**0**	**0**	**0**	**0**	Return (NOI)
TOTAL OVERALL COST OF SERVICE	**$442,476**	**$245,089**	**$193,870**	**$1,305**	**$2,212**	

COST OF SERVICE
SUMMARY

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE
Attrition	$0	$0	$0	$0	
Operation & Maintenance Expense	$270,513	$190,952	$78,255	$1,305	
Less: O&M Direct Assignments	($25,388)	($16,144)	($9,244)	$0	
Net O&M	$245,125	$174,808	$69,011	$1,305	$0
Depreciation Expense	$64,318	$22,479	$41,839	$0	$0
Amort. Of Other Gas Plant	$0	$0	$0	$0	$0
Amort. Of Property Loss	$0	$0	$0	$0	$0
Amort. Of Limited-Term Investment	$0	$0	$0	$0	$0
Amort. Of Acquisition Adjustment	$0	$0	$0	$0	$0
Amort. Of Conversion Costs	**$0**	**$0**	**$0**	**$0**	**$0**
Taxes Other Than Income Taxes	$19,874	$6,173	$11,489	$0	$2,212
Return	$95,106	$32,820	$62,286	$0	$0
Income Taxes	$0	$0	$0	$0	$0
Revenue Credited to COS	($7,335)	($7,335)	$0	$0	$0
Total Cost Of Service	**$442,476**	**$245,089**	**$193,870**	**$1,305**	**$2,212**
Rate Base	**$1,100,766**	**$379,861**	**$720,905**	**$0**	**$0**
Less: Rate Base Direct Assignments	**($915,459)**	**($340,609)**	**($574,850)**	**$0**	**$0**
Net Rate Base	**$185,307**	**$39,252**	**$146,055**	**$0**	**$0**

Known Direct & Special Assignments:

Rate Base Items (Plant-Acc.Dep):				
381-382 Meters	$91,540	$91,540	$0	$0
383-384 House Regulators	$35,357	$35,357	$0	$0
385 Industrial Meas.& Reg. Equip.	$0	$0	$0	$0
376 Mains	$567,062	$0	$567,062	$0
380 Services	$213,712	$213,712	$0	$0
378 Meas.& Reg. Sta. Eq. - Gen.	$7,788	$0	$7,788	$0
Total Rate Base Direct Assignments	**$915,459**	**$340,609**	**$574,850**	**$0**

O&M Items				
892 Maint. of Services O&M Items	$1,322	$1,322	$0	$0
876 Meas.& Reg. Sta. Eq. - Ind.	$0	$0	$0	$0
878 Meter & House Regulator	$4,869	$4,869	$0	$0
890 Maint. of Meas. & Reg. Sta. Eq. - Ind.	($841)	$0	($841)	$0
893 Maint.of Meters & House Regulators	$9,835	$9,835	$0	$0
874 Mains & Services	$304	$118	$186	$0
887 Maint. of Mains	$9,899	$0	$9,899	$0
Total O&M Direct Assignments	**$25,388**	**$16,144**	**$9,244**	**$0**

COST OF SERVICE
DEVELOPMENT OF ALLOCATION FACTORS

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
CUSTOMER COSTS							
No. of Bills	6,451	4,282	1,326	601	230	12	0
Weighting	N/A	1.00	1.43	2.17	6.67	15.04	0
Weighted No. of Bills	9,193	4,282	1,893	1,305	1,533	181	0
Allocation Factors	**100.00%**	**46.58%**	**20.59%**	**14.19%**	**16.68%**	**1.96%**	0.00%
CAPACITY COSTS							
Peak & Avg. Month Sales Vol. (therms)	144,701	9,077	15,320	39,798	65,406	15,100	0
Allocation Factors	**100.00%**	6.27%	**10.59%**	**27.50%**	**45.20%**	**10.44%**	**0.00%**
COMMODITY COSTS							
Annual Sales Vol.(therms)	765,630	29,264	52,639	224,118	373,721	85,888	0
Allocation Factors	**100.00%**	3.82%	**6.88%**	**29.27%**	**48.81%**	**11.22%**	0.00%
REVENUE-RELATED COSTS							
Tax on Cust., Cap. & Commod.	2,459	313	230	750	938	228	0
Allocation Factors	**100.00%**	12.73%	**9.35%**	**30.50%**	**38.15%**	**9.27%**	**0.00%**

COST OF SERVICE
ALLOCATION OF RATE BASE TO CUSTOMER CLASSES

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
RATE BASE BY CUSTOMER CLASS DIRECT AND SPECIAL ASSIGNMENTS:							
Customer							
Meters	91,540	42,637	18,846	12,992	15,268	1,797	0
House Regulators	35,357	16,468	7,279	5,018	5,897	694	0
Services	213,712	99,542	43,998	30,331	35,645	4,196	0
General Plant	24,145	11,246	4,971	3,427	4,027	474	0
All Other	15,107	7,037	3,110	2,144	2,520	297	0
Total Customer	$379,861	$176,931	$78,204	$53,911	$63,357	$7,459	$0
Capacity							
Industrial Meas. & Reg. Sta. Eq.	0	0	0	0	0	0	0
Meas. & Reg. Sta. Eq. - Gen.	7,788	489	825	2,142	3,520	813	0
Mains	567,062	35,571	60,037	155,963	256,317	59,175	0
General Plant	24,145	1,515	2,556	6,641	10,914	2,520	0
All Other	121,910	7,647	12,907	33,530	55,104	12,722	0
Total Capacity	$720,905	$45,222	$76,325	$198,275	$325,855	$75,229	$0
Commodity							
Account #	0	0	0	0	0	0	0
Account #	0	0	0	0	0	0	0
Account #	0	0	0	0	0	0	0
All Other	0	0	0	0	0	0	0
Total Commodity	0	0	0	0	0	0	0
TOTAL	$1,100,766	$222,152	$154,529	$252,186	$389,211	$82,687	$0

COST OF SERVICE
ALLOCATION OF EXPENSES TO CUSTOMER CLASSES

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
Customer	213,431	35,508	16,258	63,007	62,708	16,057	19,893
Capacity	120,095	7,533	12,715	33,030	54,284	12,532	0
Commodity	1,305	50	90	382	637	146	0
Revenue	0	0	0	0	0	0	0
Total	$334,831	$43,091	$29,063	$96,419	$117,629	$28,736	$19,893
OPERATION AND MAINTENANCE EXPENSE:							
DIRECT AND SPECIAL ASSIGNMENTS:							
Customer							
878 Meters and House Regulators	4,869	2,268	1,002	691	812	96	0
893 Maint. of Meters & House Reg.	9,835	4,581	2,025	1,396	1,640	193	0
874 Mains & Services	118	55	24	17	20	2	0
892 Maint. of Services	1,322	616	272	188	220	26	0
All Other	174,808	17,518	8,307	57,525	56,266	15,299	19,893
Total	$190,952	$25,038	$11,630	$59,817	$58,959	$15,616	$19,893
Capacity							
876 Measuring & Reg. Sta. Eq.- I	0	0	0	0	0	0	0
890 Maint. of Meas.& Reg.Sta.Eq.-I	(841)	(53)	(89)	(231)	(380)	(88)	0
874 Mains and Services	186	12	20	51	84	19	0
887 Maint. of Mains	9,899	621	1,048	2,723	4,474	1,033	0
All Other	69,011	4,329	7,306	18,981	31,194	7,202	0
Total	$78,255	$4,909	$8,285	$21,523	$35,372	$8,166	$0
Commodity							
Account #	0	0	0	0	0	0	0
All Other	1,305	50	90	382	637	146	0
Total	1,305	50	90	382	637	146	0
TOTAL O&M	$270,513	$29,997	$20,005	$81,722	$94,968	$23,929	$19,893
DEPRECIATION EXPENSE:							
Customer	22,479	10,470	4,628	3,190	3,749	441	0
Capacity	41,839	2,625	4,430	11,507	18,912	4,366	0
Total	$64,318	$13,095	$9,057	$14,698	$22,661	$4,807	$0
AMORT. OF ENVIRONMENTAL							
Capacity	0	0	0	0	0	0	0
AMORT. OF PROPERTY LOSS:							
Capacity	0	0	0	0	0	0	0
AMORT OF LEASEHOLD / OTHER							
Capacity	0	0	0	0	0	0	0
AMORT. OF ACQUISITION ADJ.:							
Customer	0	0	0	0	0	0	0
Capacity	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0
AMORT. OF CONVERSION COSTS:							
Commodity	0	0	0	0	0	0	0

COST OF SERVICE
ALLOCATION OF EXPENSES TO CUSTOMER CLASSES

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
TAXES OTHER THAN INCOME TAXES:							
Customer	6,173	2,875	1,271	876	1,030	121	0
Capacity	11,489	721	1,216	3,160	5,193	1,199	0
Subtotal	17,662	3,596	2,487	4,036	6,223	1,320	0
Revenue	2,212	282	207	675	844	205	0
Total	$19,874	$3,877	$2,694	$4,711	$7,067	$1,525	$0
RETURN (NOI)							
Customer	32,820	15,287	6,757	4,658	5,474	644	0
Capacity	62,286	3,907	6,594	17,131	28,154	6,500	0
Commodity	0	0	0	0	0	0	0
Total	$95,106	$19,194	$13,351	$21,789	$33,628	$7,144	$0
INCOME TAXES							
Customer	0	0	0	0	0	0	0
Capacity	0	0	0	0	0	0	0
Commodity	0	0	0	0	0	0	0
Total	$0	$0	$0	$0	$0	$0	$0
REVENUE CREDITED TO COS:							
Customer	(7,335)	(7,335)	0	0	0	0	0
TOTAL COST OF SERVICE:							
Customer	245,089	46,335	24,286	68,541	69,211	16,823	19,893
Capacity	193,870	12,161	20,526	53,321	87,631	20,231	0
Capacity LV	0	0	0	0	0	0	0
Commodity	1,305	50	90	382	637	146	0
Subtotal	440,264	58,546	44,901	122,244	157,479	37,200	19,893
Revenue	2,212	282	207	675	844	205	0
Total	$442,476	$58,828	$45,108	$122,919	$158,323	$37,405	$19,893

**COST OF SERVICE
SUMMARY**

**SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU**

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
Rate Base	$1,100,766	$222,152	$154,529	$252,186	$389,211	$82,687	$0
Attrition	$0	$0	$0	$0	$0	$0	$0
Operation And Maintenance	$270,513	$29,997	$20,005	$81,722	$94,968	$23,929	$19,893
Depreciation	$64,318	$13,095	$9,057	$14,698	$22,661	$4,807	$0
Amortization Expenses	$0	$0	$0	$0	$0	$0	$0
Taxes Other Than Income Tax (Sub Total)	$17,662	$3,596	$2,487	$4,036	$6,223	$1,320	$0
Taxes Other Than Income Tax (Revenue)	$2,212	$282	$207	$675	$844	$205	$0
Income Tax (Total)	$0	$0	$0	$0	$0	$0	$0
Revenue Credited To Cost Of Service	($7,335)	($7,335)	$0	$0	$0	$0	$0
Total Cost Of Service (Customer)	$245,089	$46,335	$24,286	$68,541	$69,211	$16,823	$19,893
Total Cost Of Service (Capacity)	$193,870	$12,161	$20,526	$53,321	$87,631	$20,231	$0
Total Cost Of Service (Commodity)	$1,305	$50	$90	$382	$637	$146	$0
Total Cost Of Service (Revenue)	$2,212	$282	$207	$675	$844	$205	$0
Total Cost Of Service	$442,476	$58,828	$45,108	$122,919	$158,323	$37,405	$19,893
No. Of Bills	6,451	4,282	1,326	601	230	12	0
Peak And Average Month Sales Vol.	144,701	9,077	15,320	39,798	65,406	15,100	0
Annual Sales	765,630	29,264	52,639	224,118	373,721	85,888	0

COST OF SERVICE
DERIVATION OF REVENUE DEFICIENCY

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
Customer Costs	245,089	46,335	24,286	68,541	69,211	16,823	19,893
Capacity Costs	193,870	12,161	20,526	53,321	87,631	20,231	0
Commodity Costs	1,305	50	90	382	637	146	0
Revenue Costs	2,212	282	207	675	844	205	0
Total - (Includes Rev. Credit For Other Inc.)	**$442,476**	**$58,828**	**$45,108**	**$122,919**	**$158,323**	**$37,405**	**$19,893**
Less: Revenue At Present Rates	**279,212**	**41,657**	**28,775**	**69,608**	**102,946**	**22,964**	**13,262**
Equals: Gas Sales Revenue Deficiency	**163,264**	**17,171**	**16,333**	**53,311**	**55,377**	**14,441**	**6,631**
Plus: Deficiency In Other Operating Rev.	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Equals: Total Base-Revenue Deficiency	**$163,264**	**$17,171**	**$16,333**	**$53,311**	**$55,377**	**$14,441**	**$6,631**
Unit Costs:							
Customer	$37.992	$10.821	$18.315	$114.045	$300.919	$1,401.915	N/A
Capacity	$1.33980	$1.33980	$1.33980	$1.33980	$1.33980	$1.33980	N/A
Commodity	$0.002	$0.002	$0.002	$0.002	$0.002	$0.002	N/A

COST OF SERVICE
RATE OF RETURN BY CUSTOMER CLASS
(PAGE 1 OF 2: PRESENT RATES)

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
REVENUES: (projected test year)							
Gas Sales (due to growth)	279,212	41,657	28,775	69,608	102,946	22,964	13,262
Other Operating Revenue	7,335	7,335	0	0	0	0	0
Total	$286,547	$48,992	$28,775	$69,608	$102,946	$22,964	$13,262
EXPENSES:							
Purchased Gas Cost	N/A	N/A	N/A	N/A	N/A	N/A	N/A
O&M Expenses	270,513	29,997	20,005	81,722	94,968	23,929	19,893
Depreciation Expenses	64,318	13,095	9,057	14,698	22,661	4,807	0
Amortization Expenses	0	0	0	0	0	0	0
Taxes Other Than Income--Fixed	17,662	3,596	2,487	4,036	6,223	1,320	0
Taxes Other Than Income--Revenue	1,396	178	131	426	533	129	0
Total Expenses excl. Income Taxes	353,889	46,865	31,680	100,881	124,384	30,186	19,893
INCOME TAXES	0	0	0	0	0	0	0
NET OPERATING INCOME	($67,342)	$2,127	($2,905)	($31,273)	($21,438)	($7,222)	($6,631)
RATE BASE	$1,100,766	$222,152	$154,529	$252,186	$389,211	$82,687	$0
RATE OF RETURN	-6.12%	0.96%	-1.88%	-12.40%	-5.51%	-8.73%	N/A

**COST OF SERVICE
RATE OF RETURN BY CUSTOMER CLASS
(Page 2 of 2: APPROVED RATES)**

**SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU**

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
REVENUES:							
Gas Sales	442,476	55,260	41,877	125,646	161,046	38,754	19,893
Other Operating Revenue	7,335	7,335	0	0	0	0	0
Total	$449,811	$62,595	$41,877	$125,646	$161,046	$38,754	$19,893
EXPENSES:							
Purchased Gas Cost	0	0	0	0	0	0	0
O&M Expenses	270,513	29,997	20,005	81,722	94,968	23,929	19,893
Depreciation Expenses	64,318	13,095	9,057	14,698	22,661	4,807	0
Amortization Expenses	0	0	0	0	0	0	0
Taxes Other Than Income--Fixed	17,662	3,596	2,487	4,036	6,223	1,320	0
Taxes Other Than Income--Revenue	2,212	282	207	675	844	205	0
Total Expenses excl. Income Taxes	$354,705	$46,969	$31,757	$101,130	$124,695	$30,261	$19,893
PRE TAX NOI	95,106	15,626	10,120	24,516	36,351	8,493	0
INCOME TAXES	0	0	0	0	0	0	0
NET OPERATING INCOME	$95,106	$15,626	$10,120	$24,516	$36,351	$8,493	$0
RATE BASE	$1,100,766	$222,152	$154,529	$252,186	$389,211	$82,687	$0
RATE OF RETURN	8.64%	7.03%	6.55%	9.72%	9.34%	10.27%	N/A

COST OF SERVICE SUMMARY
APPROVED RATE DESIGN

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
PRESENT RATES (projected test year)							
Gas Sales (due to growth)	279,212	41,657	28,775	69,608	102,946	22,964	13,262
Other Operating Revenue	7,335	7,335	0	0	0	0	0
TOTAL	$286,547	$48,992	$28,775	$69,608	$102,946	$22,964	$13,262
RATE OF RETURN	**-6.12%**	**0.96%**	**-1.88%**	**-12.40%**	**-5.51%**	**-8.73%**	**N/A**
INDEX	**1.00**	**-0.16**	**0.31**	**2.03**	**0.90**	**1.43**	**N/A**
APPROVED RATES							
Gas Sales	442,476	55,260	41,877	125,646	161,046	38,754	19,893
Other Operating Revenue	7,335	7,335	0	0	0	0	0
TOTAL	$449,811	$62,595	$41,877	$125,646	$161,046	$38,754	$19,893
TOTAL REVENUE INCREASE	163,264	13,603	13,102	56,038	58,100	15,790	6,631
PERCENT INCREASE	**56.98%**	**27.76%**	**45.53%**	**80.51%**	**56.44%**	**68.76%**	**50.00%**
RATE OF RETURN	**8.64%**	**7.03%**	**6.55%**	**9.72%**	**9.34%**	**10.27%**	**N/A**
INDEX	**1.00**	**0.81**	**0.76**	**1.13**	**1.33**	**1.57**	**N/A**

COST OF SERVICE SUMMARY
CALCULATION OF RATES

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU

	TOTAL	TS-1	TS-2	TS-3	TS-4	TS-5	THIRD PARTY SUPPLIER
Proposed Total Target Revenues	449,811	62,595	41,877	125,646	161,046	38,754	19,893
Less: Other Operating Revenue	7,335	7,335	0	0	0	0	0
Net Target Revenue	**$442,476**	**$55,260**	**$41,877**	**$125,646**	**$161,046**	**$38,754**	**$19,893**
Less: Customer Charge Revenues							
Proposed Customer Charges		$9.00	$12.00	$35.00	$150.00	$500.00	$3.00
Times: Number Of Bills	13,082	4,282	1,326	601	230	12	6,631
Customer Charge Revenues	**$135,878**	**$38,538**	**$15,912**	**$21,035**	**$34,500**	**$6,000**	**$19,893**
Equals: Per-Therm Target Revenues	**$306,598**	**$16,722**	**$25,965**	**$104,611**	**$126,546**	**$32,754**	**N/A**
Divided By: Number Of Therms	765,630	29,264	52,639	224,118	373,721	85,888	N/A
Equals: Per-Therm Rates (Unrounded)		$0.571402	$0.493265	$0.466768	$0.338611	$0.381357	N/A
Per-Therm Rates (Rounded)		$0.57140	$0.49327	$0.46677	$0.33861	$0.38136	N/A
Per-Therm-Rate Revenues (Rounded Rates)	$306,598	$16,721	$25,965	$104,612	$126,546	$32,754	N/A
Summary: Approved Tariff Rates							
Customer Charges		**$9.00**	**$12.00**	**$35.00**	**$150.00**	**$500.00**	**$3.00**
Transportation Charges (Cents Per Therm)		**57.140**	**49.327**	**46.677**	**33.861**	**38.136**	N/A
Gas Cost (Cents Per Therm)		84.700	84.700	84.700	84.700	84.700	84.700
Total (Including Gas Cost)		141.84	134.027	131.377	118.561	122.836	N/A
Summary: Present Tariff Rates							
Customer Charges		**$7.00**	**$17.00**	**$17.00**	**$17.00**	**$17.00**	**$2.00**
Non-Gas Energy Charges (Cents Per Therm)		**35.500**	**26.500**	**26.500**	**26.500**	**26.500**	**N/A**
Gas Cost (Cents Per Therm)		84.700	84.700	84.700	84.700	84.700	N/A
Total (Including Gas Cost)		120.200	111.200	111.200	111.200	111.200	N/A

Summary: Other Operating Revenue	Present		Approved	
	Charge	Revenue	Charge	Revenue
Connection Charge - Residential	$25.00	$100	$25.00	$100
Connection Charge - Commercial	$50.00	$150	$50.00	$150
Reconnection Charge	$25.00	$6,875	$25.00	$6,875
Change Of Account	$10.00	$120	$10.00	$120
Returned Check Charges	$15.00	$90	$15.00	$90
	TOTAL	$7,335		$7,335

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU
ALLOCATION OF REVENUE INCREASE

(1)	(2)	(3)	(4)		(5)	(6)	(7)	(8)	(9)		(10)
RATE	RATE BASE	PRESENT NOI	PRESENT ROR	INDEX	INCREASE FROM SERVICE CHARGES	INCREASE FROM SALES OF GAS	TOTAL INCREASE IN REVENUE	REQUIRED NOI	ROR	INDEX	REVENUE PERCENTAGE INCREASE
TS-1	$222,152	$2,127	0.96%	-0.16	$0	$13,603	$13,603	$15,626	7.03%	0.81	27.76%
TS-2	$154,529	-$2,905	-1.88%	0.31	$0	$13,102	$13,102	$10,120	6.55%	0.76	45.53%
TS-3	$252,186	-$31,273	-12.40%	2.03	$0	$56,038	$56,038	$24,516	9.72%	1.13	80.51%
TS-4	$389,211	-$21,438	-5.51%	0.90	$0	$58,100	$58,100	$36,351	9.34%	1.08	56.44%
TS-5	$82,687	-$7,222	-8.73%	1.43	$0	$15,790	$15,790	$8,493	10.27%	1.19	68.76%
TPS	$0	-$6,631	N/A	N/A	$0	$6,631	$6,631	$0	N/A	N/A	50.00%
TOTAL	$1,100,766	-$67,342	-6.12%	1.00	$0	$163,264	$163,264	$95,106	8.64%	1.00	56.98%

Attachment 7

SEBRING GAS SYSTEM, INC.
Docket No. 040270-GU
PRESENT AND APPROVED RATES

RATE SCHEDULE	PRESENT RATE	COMMISSION APPROVED RATE
TRANSPORTATION SERVICE - 1 (RESIDENTIAL)		
CUSTOMER CHARGE - PER MONTH	$7.00	$9.00
TRANSPORTATION CHARGE - CENTS PER THERM	35.500	57.140
TRANSPORTATION SERVICE - 1 (GENERAL SERVICE)		
CUSTOMER CHARGE - PER MONTH	$17.00	$9.00
TRANSPORTATION CHARGE - CENTS PER THERM	26.500	57.140
TRANSPORTATION SERVICE - 2 (RESIDENTIAL)		
CUSTOMER CHARGE - PER MONTH	$7.00	$12.00
TRANSPORTATION CHARGE - CENTS PER THERM	35.500	49.327
TRANSPORTATION SERVICE - 2 (GENERAL SERVICE)		
CUSTOMER CHARGE - PER MONTH	$17.00	$12.00
TRANSPORTATION CHARGE - CENTS PER THERM	26.500	49.327
TRANSPORTATION SERVICE - 3 (GENERAL SERVICE)		
CUSTOMER CHARGE - PER MONTH	$17.00	$35.00
TRANSPORTATION CHARGE - CENTS PER THERM	26.500	46.677
TRANSPORTATION SERVICE - 4 (GENERAL SERVICE)		
CUSTOMER CHARGE - PER MONTH	$17.00	$150.00
TRANSPORTATION CHARGE - CENTS PER THERM	26.500	33.861
TRANSPORTATION SERVICE - 5 (GENERAL SERVICE)		
CUSTOMER CHARGE - PER MONTH	$17.00	$500.00
TRANSPORTATION CHARGE - CENTS PER THERM	26.500	38.136