

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Request for approval of depreciation study for five-year period 2001 through 2005 by Sebring Gas System, Inc. | DOCKET NO. 060504-GU
ORDER NO. PSC-07-0482-PAA-GU
ISSUED: June 7, 2007

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
MATTHEW M. CARTER II
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING DEPRECIATION RATE CHANGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein 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.

Background

Rule 25-7.045, Florida Administrative Code (F.A.C.), requires natural gas companies to file a comprehensive depreciation study once every five years from the submission date of the previously filed study. On July 21, 2006, Sebring Gas System, Inc. (Sebring or company) filed its 2006 depreciation study in compliance with this rule. The company's last depreciation review was filed June 25, 2001.¹ Sebring has 2005 operating revenues of \$477,097, and fewer than 500 customers.

A review of the company's activity data indicates the need for revising depreciation rates. We have jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes.

¹ By Order No. PSC-03-0260-PAA-GU, issued February 24, 2003, 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., this Commission approved revised depreciation rates and components for Sebring effective January 1, 2002.

DOCUMENT NUMBER DATE

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FPSC-COMMISSION CLERK

Implementation Date

Rule 25-6.0436, F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, "shall be brought to the effective date of the proposed rates." The supporting data and calculations provided by Sebring match an implementation date of January 1, 2007.

Depreciation Rates

Our findings are the result of a comprehensive review of Sebring's depreciation study. Attachment A shows a comparison of the currently approved depreciation rate parameters and those approved herein, with which the company agrees. Attachment B shows a comparison of resultant expenses based on January 1, 2007, investments.

This filing was essentially a staff-assisted study. The company provided raw data with regard to additions and retirements for the 2001 - 2006 period. Our staff determined the average age and worked with the company in developing life and salvage values. As a result of the review and analytical process, our staff and Sebring agree on lives, net salvages, and resultant depreciation rates for all accounts. The account reserve positions shown on Attachment A reflect the corrective adjustments detailed herein.

Depreciation Parameters

The changes in the depreciation life characteristics and the salvage parameters for the distribution and general plant accounts approved herein can be attributed mainly to two factors: 1) updated account ages to reflect activity since the last represetation, such as new investment; and 2) changes in the associated reserve position. The accounts with substantial changes are discussed below.

A staff surveillance audit was performed in 2002 in conjunction with Sebring's 2001 depreciation study, and the company completed a rate case in 2004. Due to the recent nature of the booked adjustments, sufficient time has not passed to determine whether changes in life parameters and rates are needed for many of the accounts. Except as discussed below, changes are due to increased or decreased investment which results in a change in age. The current lives and rates are reasonable when compared with industry averages.

Leasehold Improvements (Account 390)

This account was established in 1991 with a 40-year service life and a whole-life depreciation rate of 2.5%. However, the account was not included in subsequent depreciation studies. A staff audit adjustment was made as part of the 2004 rate case. At that time, a rate of 3.3% was used to bring the reserve up to date. In response to questions in the current case, the company advised that the account contains improvements to buildings that are not owned by the company.

The company booked an audit adjustment to add plant investment of \$2,800, with a reserve balance of \$1,039. However, the company has not accrued annual depreciation. We find that the reserve balance is \$1,309 as of December 31, 2006. An adjustment to add \$270, to correct the lack of accruals, is necessary to bring the reserve current as of December 2006. A curve is used to estimate the distribution of retirements. Using an R3 curve, an average service life of 40 years, and the current average age of 15.5 years, we find that the account has an average remaining life of 24.5 years and zero net salvage.

Transportation Equipment – Other (Account 392.3)

Due to the findings of the 2001 FPSC audit, the company should have removed \$743.50. This adjustment was made in the rate case, but not in the depreciation study. The company was also informed to remove the investment of \$1,030. However, the journal entries were not completed until 2004. During the intervening period, the company continued to book depreciation expense. As a result, the company is carrying a \$180 reserve balance. We find it appropriate for an adjustment to be made to the company's books to reduce the reserve to zero. We have made the appropriate changes for this study.

The account appears reasonable and in line with industry averages to continue use of an S5 curve for future additions, with a 20 year average service life, and zero net salvage. Moreover, we establish a whole life rate of 5.0% for future additions.

Power Operated Equipment (Account 396)

In the 2001 study, it was noted that the investment in this account had been fully recovered. A whole life rate was established for new equipment. In 2005, the company added investment to the account, but calculated the depreciation on the entire investment, including the portion that had previously been fully depreciated. The company also used the old rate of 2.1% instead of the whole life rate of 6.7%. This resulted in errors to depreciation expense and to the reserve. Using the half-year convention, we find that the reserve balance for the new equipment is \$784.

The company advised that the old equipment is still in use. Therefore, we find it appropriate to place the new investment in a sub-account with a reserve of \$784 as of January 1, 2007, with annual depreciation expense of \$523. All depreciation of the old equipment shall cease.

We approve the company's continuation of the previously prescribed average service life of 15 years and zero net salvage, which appears reasonable and in line with the regulated gas industry.

Reserve Allocations

As part of our review of the company's depreciation study, we reviewed the reserve position for each account. When significant surpluses and deficits exist, corrective reserve transfers between accounts should be recovered as quickly as possible, unless such recovery prevents the company from earning a fair and reasonable return on its investments. The effect of prior depreciation rates, average service lives, and net salvage projections results in surpluses and deficits that should be addressed. The reserve transfers presented are based upon the company's planning and expectation of future retirements, which may further impact several plant account balances. As we review the company's annual status report of plant accounts, we will continue to monitor the company's reserve position. Therefore, we find it appropriate to transfer these related reserve surpluses to help correct the existing reserve deficiencies in the accounts, as shown below.

RESERVE ALLOCATIONS					
Accounts		Actual Reserve 1/1/2007	Theoretical Reserve	Commission Approved Allocation	Restated Reserve 01/01/2007
	Distribution Plant				
376.1	Mains-Steel	\$119,112	\$124,967	\$ 5,855	\$124,967
376.2	Mains-Plastic	309,448	298,981	(10,467)	298,981
378.0	Measuring & Regulating Equip.-Gen. Embedded	2,709	5,395	2,686	5,395
379	Measuring & Regulating Equip.-City Gate	20,985	25,701	4,716	25,701
380.1	Services-Steel	336,908	339,302	2,394	339,302
380.2	Services-Plastic	103,577	56,828	(22,222)	81,355
381.0	Meters	79,015	90,162	11,147	90,162
382.0	Meter Installations	26,985	27,761	776	27,761
383.0	House Regulators	13,293	15,943	2,650	15,943
384.0	House Regulator Installations	22,899	24,019	1,120	24,019
386.0	Property on Customers' Premises	18,492	21,137	2,645	21,137
387.0	Other Equipment	3,809	2,509	(1,300)	2,509
	Total-Distribution Plant	\$1,057,232	\$1,032,705	0	\$1,057,232
	General Plant				
391.1	Office Furniture	204	330	126	330
392.1	Transportation-Trucks	45,649	35,610	(126)	45,523
	Total-General Plant	45,853	35,940	0	45,853
	Total Plant	\$1,103,085	\$1,068,645	0	\$1,103,085

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the depreciation rate changes described in the body of this Order are approved for Sebring Gas System, Inc. It is further

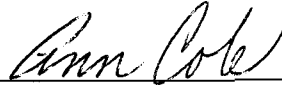
ORDERED that the depreciation rate changes shall be effective as of January 1, 2007. It is further

ORDERED that Attachments A and B, attached hereto, are incorporated herein by reference. It is further

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

ORDERED that in the event his Order becomes final, this docket shall be closed upon issuance of a Consummating Order.

By ORDER of the Florida Public Service Commission this 7th day of June, 2007.



ANN COLE
Commission Clerk

(S E A L)

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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 that is available under Section 120.57, 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 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.

The action proposed herein 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 Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 28, 2007.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

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

SEBRING GAS SYSTEM, INC.
 DOCKET NO. 060504-GU
 2006 DEPRECIATION STUDY

ATTACHMENT A

COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT					COMMISSION APPROVED					
	AVERAGE SERVICE	AVERAGE REMAINING	NET	1/1/2002	REMAINING LIFE	AVERAGE SERVICE	AVERAGE REMAINING	NET	1/1/2007	REMAINING LIFE	
	LIFE	LIFE	SALVAGE	RESERVE	RATE	LIFE	LIFE	SALVAGE	RESERVE	RATE	
	(YRS.)	(YRS.)	(%)	(%)	(%)	(YRS.)	(YRS.)	(%)	(%)	(%)	
DISTRIBUTION PLANT											
376.1 - Mains - Steel	45.0	17.1	-30.0	93.49	2.1	45.0	14.9	-30.0	86.79	*	2.9
376.2 - Mains - Plastic	45.0	36.0	-30.0	38.85	2.5	45.0	34.0	-30.0	31.40	*	2.9
378 - Measuring and Regulating Ept. - Gen. - Embedded	33.0	20.0	-2.0	89.11	0.6	33.0	16.2	-2.0	51.78	*	3.1
378.1 - Measuring and Regulating Ept. - Gen. - New	33.0	33.0	-2.0	N/A	3.1	33.0	33.0	-2.0	N/A		3.1
379 - Measuring and Regulating Ept. - City Gate	32.0	21.0	-2.0	50.27	2.5	32.0	17.0	-2.0	47.60	*	3.2
380.1 - Services - Steel	40.0	12.8	-30.0	110.91	1.5	40.0	10.5	-30.0	95.35	*	3.3
380.2 - Services - Plastic	40.0	28.0	-30.0	49.78	2.9	40.0	33.4	-30.0	28.32	*	3.0
381 - Meters	25.0	11.5	0.0	61.78	3.3	25.0	9.3	0.0	62.80	*	4.0
382 - Meter Installations	34.0	19.7	-5.0	58.95	2.3	34.0	16.7	-5.0	53.23	*	3.1
383 - House Regulators	30.0	17.2	0.0	53.49	2.7	30.0	13.1	0.0	56.77	*	3.3
384 - House Regulator Installations	34.0	17.8	-3.0	69.53	1.9	34.0	14.8	-3.0	58.60	*	3.0
386 - Property on Customers' Premises	20.0	11.5	0.0	43.62	4.9	20.0	7.8	0.0	61.00	*	5.0
387 - Other Equipment	25.0	13.3	0.0	47.74	3.9	25.0	15.0	0.0	40.00	*	4.0
GENERAL PLANT											
390.0 Leasehold Improvements	40	29.5	0.0	30.25	3.3	40.0	24.5	0.0	46.75		2.2
391.1 - Office Furniture	18	8.4	0.0	0.00	11.9	18.0	5.6	0.0	68.61	*	5.6
391.2 - Office Equipment	12	7.2	0.0	73.76	3.6	12.0	4.6	0.0	84.95		3.3
392.1 - Transportation Trucks	8	3.4	15.0	42.41	12.5	8.0	3.2	15.0	65.53	*	6.1
392.3 - Transportation - Other	20	10.5	0.0	56.60	9.7	20.0	0.0	0.0	N/A		5.0
394 - Tools, Shop & Garage Equipment	15	5.5	0.0	31.67	12.4	15.0	12.7	0.0	19.54		6.3
396 - Power Operated Equipment - Embedded	15	0.0	0.0	N/A	N/A	15.0	0.0	0.0	100.00		N/A
396 - Power Operated Equipment - New	15	15.0	0.0	N/A	6.7	15.0	13.5	0.0	10.05		6.7
397 - Communication Equipment	12	7.5	0.0	29.84	9.4	12.0	3.0	0.0	76.85		7.7

*Denotes restated reserves after transfers

SEBRING GAS SYSTEM, INC.
DOCKET NO. 060504-GU
2006 DEPRECIATION STUDY

ATTACHMENT B

COMPARISON OF EXPENSES

ACCOUNT	CURRENT				STAFF RECOMMENDED			CHANGE IN EXPENSES
	1/1/2007 INVESTMENT	1/1/2007 RESERVE	RATE	EXPENSES	RATE	ESTIMATED EXPENSES		
	(\$)	(\$)	(%)	(\$)	(%)	(\$)		
DISTRIBUTION PLANT								
376.1 - Mains - Steel	143,988	124,967	* 2.1	3,024	2.9	4,176	1,152	
376.2 - Mains - Plastic	952,168	298,981	* 2.5	23,804	2.9	27,613	3,809	
378 - Measuring and Regulating Ept. - Gen. - Embedded	10,419	5,395	* 0.6	63	3.1	323	260	
378.1 - Measuring and Regulating Ept. - Gen. - New	0	0	3.1	N/A	3.1	N/A	N/A	
379 - Measuring and Regulating Ept. - City Gate	53,994	25,701	* 2.5	1,350	3.2	1,728	378	
380.1 - Services - Steel	355,849	339,302	* 1.5	5,338	3.3	11,743	6,405	
380.2 - Services - Plastic	287,298	81,355	* 2.9	8,332	3.0	8,619	287	
381 - Meters	143,570	90,162	* 3.3	4,738	4.0	5,743	1,005	
382 - Meter Installations	52,152	27,761	* 2.3	1,199	3.1	1,617	418	
383 - House Regulators	28,084	15,943	* 2.7	758	3.3	927	169	
384 - House Regulator Installations	40,988	24,019	* 1.9	779	3.0	1,230	451	
386 - Property on Customers' Premises	34,650	21,137	* 4.9	1,698	5.0	1,733	35	
387 - Other Equipment	6,273	2,509	* 3.9	245	4.0	251	6	
TOTAL DISTRIBUTION PLANT	2,109,433	1,057,232		51,328		65,703	14,375	
GENERAL PLANT								
390.0 Leasehold Improvements	2,800	1,309	3.3	92	2.2	62	-30	
391.1 - Office Furniture	481	330	* 11.9	57	5.6	27	-30	
391.2 - Office Equipment	19,801	16,820	3.6	713	3.3	653	-60	
392.1 - Transportation Trucks	69,468	45,523	* 12.5	8,684	6.1	4,238	-4,446	
392.3 - Transportation - Other	0	0	9.7	0	5.0	0	0	
394 - Tools, Shop & Garage Equipment	6,897	1,348	12.4	855	6.3	435	-420	
396 - Power Operated Equipment - Embedded	1,444	1,444	N/A	0	N/A	0	0	
396 - Power Operated Equipment - New	7,799	784	6.7	523	6.7	523	0	
397 - Communication Equipment	972	747	9.4	91	7.7	75	-16	
TOTAL GENERAL PROPERTY	109,662	68,305		11,015		6,013	-5,002	
TOTAL Distribution & General Plant	2,219,095	1,125,537		62,343		71,716	9,373	
TOTAL PLANT	2,219,095	1,125,537		62,343		71,716	9,373	

*Denotes restated reserves after transfers