

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of 2021
depreciation study, by Sebring Gas System,
Inc.

DOCKET NO. 20210183-GU
ORDER NO. PSC-2022-0153-PAA-GU
ISSUED: April 22, 2022

The following Commissioners participated in the disposition of this matter:

ANDREW GILES FAY, Chairman
ART GRAHAM
GARY F. CLARK
MIKE LA ROSA
GABRIELLA PASSIDOMO

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING 2021 DEPRECIATION STUDY BY SEBRING GAS SYSTEM, INC.

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission (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 (F.A.C.).

Background

Rule 25-7.045, F.A.C., requires natural gas public utilities to file a comprehensive depreciation study with the Commission for review at least once every five years from the submission date of the previous study or pursuant to Commission order. Sebring Gas System, Inc.'s (Sebring or the Company) last depreciation study was filed on July 20, 2016. The Company's 2021 depreciation study was due to be filed on or before July 20, 2021. Sebring filed its 2021 depreciation study on November 18, 2021. However, no parties were materially impacted as a consequence of the late filing.

Sebring serves approximately 711 customers, and reported 2020 operating revenues of approximately \$1,242,000.¹We conducted a comprehensive review of Sebring's plant depreciation data filed in this docket.

We are vested with jurisdiction over these matters through several provisions of the Florida Statutes (F.S.), including Sections 350.115, 366.05, and 366.06, F.S.

¹ Sebring Gas System's Annual Report of Natural Gas Utilities Form PSC/AFA 20, at December 31, 2020, filed on May 21, 2021.

Decision

I. Revising the currently prescribed depreciation rates for Sebring Gas System

Sebring's last depreciation study was filed on July 20, 2016. By Order No. PSC-16-0574-PAA-GU, we approved revised depreciation rates that became effective January 1, 2017.²

Rule 25-7.045, F.A.C., requires natural gas companies to file a comprehensive depreciation study at least once every five years from the submission date of the previously filed study or pursuant to Commission order. A review of the Company's plant activity and data indicates the need for revising currently prescribed depreciation rates. Our approved depreciation components and rates are discussed herein and shown on Attachments A, B, and C attached hereto.

II. The implementation date for newly approved depreciation rates

Rule 25-7.045, 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, 2022. We therefore approve January 1, 2022, for implementing newly-approved depreciation rates as shown on Attachments A, B, and C to this Order.

III. The appropriate depreciation parameters and resulting rates

Attachments A and C to this Order show a comparison of certain current depreciation parameters and rates to those approved rates which will become effective January 1, 2022. The Company agrees with the newly-approved depreciation parameters and the resulting rates.³ Displayed on Attachment B is a comparison of depreciation expenses between current and newly-approved rates based on December 31, 2021 investments.

The Company provided plant addition and retirement data spanning 2017-2021 (2021 projected), proposed net salvage values, proposed average service lives, and proposed Iowa-type survivor curves.⁴ With this information, we determined the average age of investments on an account-by-account basis, then applied the results to Sebring's proposed curve/life combinations for determining account-specific average remaining lives. Sebring's proposed account-specific average service lives are unchanged from its prior study.

² Order No. PSC-16-0574-PAA-GU, issued December 19, 2016, in Docket No. 20160174-GU, *In re: Request for approval of 2016 depreciation study by Sebring Gas Systems, Inc.*

³ Sebring's Response to 2021 Depreciation Study Staff Report, No. 2 and "Sebring March 7, 2022 Correspondence – Response to Staff Account 382.1 Depreciation Parameters" DN-01657-2022.

⁴ "Iowa-type Curves" are a widely-used group of generalized survivor curves that contain the range of survivor characteristics usually experienced by public utilities, as well as companies in other industries.

Plant Additions

Sebring's total plant investment experienced moderate growth over the current study period. In its last depreciation study filing, the Company experienced substantial growth (almost 89 percent) mainly due to initiating gas service to two state correctional institutes in Hardee and Desoto Counties. The Company stated in 2016 that it did not foresee similar levels of investment growth and believed that its system would revert to more typical growth patterns for this study period.⁵ In keeping with the Company's expectation, during the 2017-2021 period (2021 projected), the Company's system grew by approximately 22 percent, or from approximately \$5.8 million to approximately \$7.1 million. Over half of this system growth is attributable to the additions within Account 376.2 – Mains – Plastic and Account 380.2 – Services – Plastic.

Plant Retirements

The Company's plant has experienced minimal retirement activity over the study period. Expressed as a percentage of study period additions, plant retirements total approximately three percent from 2017-2021.⁶

Average Service and Remaining Lives

We will not change the Company's currently-authorized, account-specific, average service lives. Consistent with our review of the Company's prior depreciation study, and as mentioned above, we computed account-specific average remaining lives (shown on Attachment A) by first aging Sebring's projected plant investments at December 31, 2021, then applying the results to the Company's Iowa Curve and service life selections on an account-by-account basis. Based on this review, we determined that no changes were necessary to the average service lives. However, the Company must closely monitor the life characteristics of all its investments for evaluating if any average service life adjustments are warranted as part of future depreciation studies.

Net Salvage

Without experiencing meaningful levels of retirement over a period of time, Company-specific net salvage investigations proved inconclusive. Therefore, we compared the Company's currently-authorized/proposed-for-continued-use net salvage levels to those experienced by other natural gas distribution companies. With the exception of Account 392.1 – Transportation – Trucks, Sebring's currently-authorized/newly approved net salvage values remain in line with those net salvage values currently being estimated by its industry peers and will continue to be used for applicable ratemaking purposes.

In its filing, the Company did not request any changes to its currently authorized net salvage levels.⁷ However, in response to the Staff Report⁸ and discussions between our staff and

⁵ Docket No. 20160174-GU, Sebring's Responses to Staff's First Data Request, No. 7, DN 08031-2016.

⁶ Formula is Study Period Retirements ÷ Study Period Additions or \$41,051 ÷ \$1,321,694 = 3.11%

⁷ Sebring's Petition for approval of 2021 depreciation study, filed November 18, 2021.

⁸ DN 01519-2022.

Sebring's accountant, the Company provided our staff with information that substantiates the need for a lower net salvage percentage for Account 392.1 – Transportation – Trucks. Sebring stated that over the last five years, net salvage related to this account was between five and ten percent. The Company also explained that at the time of retirement, these trucks had very high mileage, which lowered the resale value.

We compared Sebring's net salvage level for this account to the approved net salvage levels of three other natural gas companies in Florida. The average net salvage level for those three companies is eleven percent. Based on the foregoing, we approve a ten percent net salvage value for Account 392.1 – Transportation – Trucks.

Iowa Curves

Sebring did not request any changes to its current application of Iowa curves to its plant accounts. As part of our review, we evaluated each account's projected net book value five years into the future. This timeframe matches the timing of the filing of Sebring's next depreciation study, when we would next have a chance to adjust Sebring's depreciation rates. Two accounts, Accounts 380.1 – Services – Steel and 386 – Property on Customer's Premises, indicated a negative net book value by the end of 2026 if no further investments were made in these accounts. Our analysis shows that applying the S1 curve to both accounts more appropriately matches each account's life characteristics and would prevent the probable over-depreciation issue found with maintaining the currently-approved S2 curve. Therefore, we approve the application of the S1 curve to both accounts as shown on Attachment C.

Reserve Transfers

As part of reviewing Sebring's 2021 Depreciation Study, we calculated the book reserve balance of each plant account. We also calculated the associated theoretical reserve balance of each plant account, using the current life and net salvage inputs. The difference between an account's book and theoretical reserve amounts may be described as an imbalance, either positive or negative, or as a surplus or deficiency. When imbalances are present, corrective transfers among accounts are considered, and applied if warranted.

The specific depreciation reserve transfer proposals are presented in Table 1, and explained further herein:

Table 1
Accumulated Depreciation Transfers

Acct. No.	Account Title	Transfer Amount
380.1	Service - Steel	(100,184)
380.2	Service - Plastic	108,283
386	Property on Customers' Premises	(8,099)

We evaluated each account's reserve imbalance as a percentage of its book reserve. Accounts 380.1 and 386 had the largest imbalance on a percentage basis. Therefore, we made transfers to reduce those accounts to their theoretically correct levels. We then used the total from those two transfers to increase the reserve of Account 380.2 – Service – Plastic. The approved rates set out in this Order incorporate all proposed reserve transfers discussed in this section.

Conclusion

We approve the lives, net salvages, reserves, and resulting depreciation rates for Sebring that are shown on Attachments A and C. The expense effect of the approved plant depreciation rates, which is shown on Attachment B, is an increase of \$4,342 annually, or 1.8 percent, based on December 31, 2021 investments.

IV. Revising current amortization of investment tax credits (ITCs) and flow back of excess deferred income taxes (EDITs) to reflect the approved depreciation rates and amortization schedules

We approve of revised depreciation rates for the Company, which reflect changes to most accounts' remaining lives to be effective January 1, 2022. Revising a utility's book depreciation lives generally results in a change in its rate of ITC amortization in order to comply with the normalization requirements of the Internal Revenue Code (IRC or Code) set forth in Federal Tax Regulations under the Code sections,⁹ Sections 168(f)(2) and (i)(9),¹⁰ former IRC Sections 167(l), and 46(f),¹¹ and Section 203(e) of the Tax Reform Act of 1986 (the Act).¹²

This Commission, the Internal Revenue Service (IRS), and independent outside auditors look at a company's books and records, and the orders and rules of the jurisdictional regulatory authorities to determine if the books and records are maintained in the appropriate manner. The books are also reviewed to determine if they are in compliance with the regulatory guidelines in regard to normalization.

Former IRC Section 46(f)(6) of the Code indicated that the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility.¹³ While Section 46(f)(6) was repealed, under IRC Section 50(d)(2), the terms of former IRC Section 46(f)(6) remain applicable to public utility property for which a regulated utility previously claimed ITCs. Since we approve of changes to the Company's remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of IRC Section 50(d)(2), and its

⁹ Treas. Reg. §1.168; Treas. Reg. §1.167; Treas. Reg. §1.46.

¹⁰ 26 US Code §§168(f)(2) and (i)(9).

¹¹ Under IRC Section 50(d)(2), the terms of former 26 US Codes §167(l) and §46(f), which were repealed by the Revenue Reconciliation Act of 1990 (Pub. L. No. 101-508, §11812(a)(1-2)(1990)), remain applicable to public utility property for which a regulated utility previously claimed ITCs, which is the case here. (I.R.S. Priv. Ltr. Rul. 200933023, In.1 (May 7, 2009)).

¹² Tax Reform Act of 1986, Pub. L. No. 99-514 (100 Stat. 2085, 2146)(1986).

¹³ Former 26 USC §46(f)(6) (establishing proper determination of ratable portion).

underlying Treasury Regulations. The consequence of an ITC normalization violation is a repayment of unamortized ITC balances to the IRS. Therefore, the current amortization of ITCs shall be revised to match the actual recovery periods for the related property. The Company shall file detailed calculations of the revised ITC amortization at the same time it files its earnings surveillance report covering the period ended December 31, 2021, as specified in Rule 25-7.1352, F.A.C.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the lives, net salvages, reserves, and resulting depreciation rates for Sebring Gas System, Inc. that are shown on Attachments A and C attached hereto are approved, effective January 1, 2022. It is further

ORDERED that the expense effect of the plant depreciation rates, which is shown on Attachment B attached here to, is an increase of \$4,342 annually, or 1.8 percent, based on December 31, 2021 investments, is approved, effective January 1, 2022. It is further

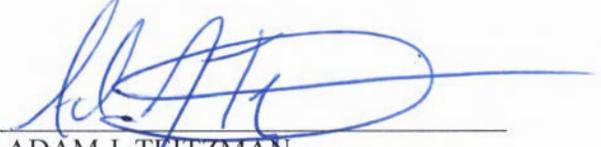
ORDERED that Sebring Gas System shall revise its current amortization of Investment Tax Credits and the flow back of Excess Deferred Income Taxes to reflect the changes approved in this order. It is further

ORDERED that the provisions of this Order, issued as a proposed agency action, shall become final and effective upon the filing 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 this Order becomes final, this docket shall be closed.

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By ORDER of the Florida Public Service Commission this 22nd day of April, 2022.



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

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

RS

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 May 13, 2022.

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.

Comparison of Rates and Components									
Acct. No.	Account Title	Current ¹			New Appvoed				
		Average Remaining Life (yrs)	Future Net Salvage (%)	Remaining Life Rate (%)	Average Remaining Life (yrs)	Theoretical Reserve (%)	Future Net Salvage (%)	Remaining Life Rate (%)	
Distribution Plant									
376.1	Main - Steel	14.6	(30)	2.9	11.8	95.73		(30)	2.4
376.2	Main - Plastic	33.8	(30)	2.9	31.1	39.81		(30)	3.0
378	Measuring & Regulating Equip. Gen - Embedded	16.0	(2)	3.1	16.7	50.28		(2)	3.0
379	Measuring & Regulating Ept. - City Gate	27.6	(2)	3.2	22.9	28.58		(2)	3.2
380.1	Service - Steel	11.8	(30)	1.0	13.1	94.63	*	(30)	2.7
380.2	Service - Plastic	30.7	(30)	3.2	26.2	43.62	*	(30)	3.3
381	Meters	9.4	0	3.8	9.1	63.71		0	4.0
382	Meter Installations	19.5	(5)	3.1	22.6	34.94		(5)	3.1
383	House Regulations	7.0	0	3.1	12.0	60.47		0	3.3
384	House Regulator Installations	14.7	(3)	3.0	15.3	57.25		(3)	2.9
386	Property on Customers' Premises	6.9	0	2.3	6.6	73.60	*	0	4.0
387	Other Equipment	16.8	0	4.0	11.8	52.69		0	4.1
General Plant									
390	Leasehold Improvements	40.0	0	2.5	27.6	30.98		0	2.5
391.1	Office Furniture	25.0	0	4.0	16.3	34.74		0	4.1
391.2	Office Equipment	15.0	0	4.4	2.2	85.26		0	0.3
392.1	Transportation - Trucks	8.0	15	9.0	1.9	68.53		10	8.0
394	Tools, Shop & Garage Equipment	15.0	0	6.7	7.2	51.51		0	6.5
396	Power Operated Equipment - New	15.0	0	6.7	4.1	72.43		0	2.0
397	Communication Equipment	18.0	0	5.6	12.7	28.94		0	5.4

¹ Order No. PSC-16-0574-PAA-GU

*Denotes a Reserve Transfer

Comparison of Expenses						
Account No.	Account Title	Current		New Approved		Change In Expense (\$)
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	
Distribution Plant						
376.1	Main - Steel	2.9	5,435	2.4	4,498	(937)
376.2	Main - Plastic	2.9	85,484	3.0	88,431	2,947
378	Measuring & Regulating Equip. Gen - Embedded	3.1	705	3.0	682	(23)
379	Measuring & Regulating Ept. - City Gate	3.2	39,732	3.2	39,732	(0)
380.1	Service - Steel	1.0	3,498	2.7	9,446	5,948
380.2	Service - Plastic	3.2	34,400	3.3	35,475	1,075
381	Meters	3.8	14,179	4.0	14,925	746
382	Meter Installations	3.1	6,934	3.1	6,934	(0)
383	House Regulations	3.1	1,618	3.3	1,723	105
384	House Regulator Installations	3.0	2,505	2.9	2,421	(84)
386	Property on Customers' Premises	2.3	812	4.0	1,412	600
387	Other Equipment	4.0	928	4.1	952	24
	TOTAL DISTRIBUTION PLANT		196,230		206,631	10,401
General Plant						
390	Leasehold Improvements	2.5	332	2.5	332	0
391.1	Office Furniture	4.0	121	4.1	124	3
391.2	Office Equipment	4.4	1,471	0.3	100	(1,371)
392.1	Transportation - Trucks	9.0	27,693	8	24,616	(3,077)
394	Tools, Shop & Garage Equipment	6.7	2,262	6.5	2,194	(68)
396	Power Operated Equipment - New	6.7	2,070	2.0	618	(1,452)
397	Communication Equipment	5.6	2,624	5.4	2,530	(94)
	TOTAL GENERAL PLANT		36,573		30,514	(6,059)
	TOTAL		232,803		237,145	4,342

Current and Proposed Depreciation Components								
Account No.	Account Title	Curve Type	Current			New Approved		
			Service Life	Age	Average	Curve Type	Service Life	Age
Distribution Plant								
376.1	Main - Steel	S3	45	33.4		S3	45	38.4
376.2	Main - Plastic	S3	45	11.2		S3	45	13.9
378	Measuring & Regulating Equip. Gen - Embedded	R3	33	18.7		R3	33	17.8
379	Measuring & Regulating Ept. - City Gate	R3	32	4.5		R3	32	9.5
380.1	Service - Steel	S2	48	49.0		S1	48	53.7
380.2	Service - Plastic	S2	40	9.4		S2	40	14.2
381	Meters	R4	25	16.5		R4	25	16.8
382	Meter Installations	S2	34	15.3		S2	34	11.7
383	House Regulations	R4	30	24.5		R4	30	18.9
384	House Regulator Installations	S2	34	21.9		S2	34	21.1
386	Property on Customers' Premises	S2	25	23.6		S1	25	28.6
387	Other Equipment	S4	25	8.2		S4	25	13.2
General Plant								
390	Leasehold Improvements	R3	40	8.0		R3	40	13.0
391.1	Office Furniture	S2	25	16.6		S2	25	9.0
391.2	Office Equipment	S3	15	13.1		S3	15	17.2
392.1	Transportation - Trucks	S2	8	7.4		S2	8	8.4
394	Tools, Shop & Garage Equipment	S3	15	10.2		S3	15	8.0
396	Power Operated Equipment - New	S4	15	6.3		S4	15	11.3
397	Communication Equipment	S4	18	2.5		S4	18	5.3