

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**In re: Request for rate increase  
By St. Joe Natural Gas Company, Inc.**

---

**Docket No. 001447-GU**

**DIRECT TESTIMONY**

**of**

**RALPH C. ROBERSON**

**on behalf of**

**ST. JOE NATURAL GAS COMPANY, INC.**

DOCUMENT NUMBER DATE

16036 DEC 15 8

FPSC-RECORDS/REPORTING

**DIRECT TESTIMONY OF RALPH C. ROBERSON**

**INTRODUCTION**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**Q. Please state your name and business address.**

A. My name is Ralph C. Roberson. My business address is 214 Seventh Street, Port St. Joe, Florida, 32456.

**Q. By whom are you employed and in what capacity?**

A. I am self-employed as a Certified Public Accountant ("CPA").

**QUALIFICATIONS AND BACKGROUND**

**Q. Please describe your educational background.**

A. I received an Associates of Arts Degree in Business Administration from Tallahassee Community College in 1973. I received a Bachelor of Arts Degree in Accounting from the University of West Florida in 1976. In 1978, I obtained my CPA Certificate from the Florida Board of Accountancy.

**Q. Please describe your work experience.**

A. From 1973 to 1977 I was employed as a Cost Accountant for St. Joe Paper Company. I left St. Joe Paper Company in 1977 to serve as an Auditor in the State of Florida Auditor General's Office. I remained in that position for two years. I returned to St. Joe Paper Company in 1979 as a Division Controller. I served in that position until 1982 when I became a Sales Manager, which position I held until 1985 when I was promoted to General Manager (Financial and Operations Manager). St. Joe Paper Company was sold to Box USA Group in

**DIRECT TESTIMONY OF RALPH ROBERSON**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

1996. In 1996 and 1997, I was employed as the General Manager (Financial and Operations Manager) for Box USA Group. In 1997, I opened my own CPA practice. I currently have a staff of three, and our practice areas include tax, auditing, business consulting and write up services.

**Q. What is your relationship to St. Joe Natural Gas Company, Inc. ("SJNG" or the "Company")?**

A. I am currently engaged as an independent CPA to perform the Company's annual financial audit and to prepare the Company's federal and state tax returns. In addition, I have been engaged by the Company to assist it in the preparation of its Minimum Filing Requirements ("MFRs") in this rate case.

**Q. Has the Company asked you to do anything else in connection with this rate case ?**

A. Yes. The Company has asked me to testify on its behalf regarding the MFR Schedules that I assisted in preparing, and state and federal income tax issues.

**Q. What is the purpose of your testimony?**

A. My testimony will provide support for the Company's requested rate relief by addressing the Company's historical rate base, historical income, and projected income. I will also address the Company's capital structure. In addition, my testimony will discuss the

**DIRECT TESTIMONY OF RALPH ROBERSON**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Company's extraordinary tax liability associated with the bankruptcy of Florida Coast Paper Company, LLC ("Florida Coast").

**Q. Are there any exhibits to your testimony?**

A. Yes. I am sponsoring the following exhibits:

- Exhibit \_\_\_\_\_ (RCR-1)                      Resume of Ralph C. Roberson
- Exhibit \_\_\_\_\_ (RCR-2)                      List of MFR Schedules Sponsored  
by Ralph C. Roberson
- Exhibit \_\_\_\_\_ (RCR-3)                      SJNG's Application for Change in  
Accounting Method, IRS Form  
3115

The MFR Schedules and other exhibits I am sponsoring were prepared under my direction, supervision and control.

**RATE BASE (HISTORICAL)**

**Q. Please describe how SJNG's historic year rate base was calculated for purposes of this rate case.**

A. For the historic base year, a 13 month average rate base was calculated for the period ended December 31, 1999. The Historic Base Year also corresponds to the Company's fiscal year. MFR Schedule B-2 shows the calculation of the Company's Historic Base Year rate base. Net plant is defined as the sum of: (1) plant in service, less common plant allocated; (2) acquisition adjustments; and (3) construction work in progress ("CWIP"), less accumulated depreciation, and amortization. Net plant during the Historic Year

**DIRECT TESTIMONY OF RALPH ROBERSON**

1           was \$4,076,082. An allowance for working capital, after adjustments,  
2           in the amount of \$277,196 was then added to net plant to calculate  
3           the total rate base. As shown on MFR Schedule B-2, the total 13  
4           month average rate base for the Company, after adjustments, was  
5           \$4,353,279.

6  
7           **Q. Please explain any adjustments to rate base.**

8           A. The net adjustment to rate base totaled \$1,978,467. Assets were  
9           reduced by: non-utility note receivable of \$4,222; merchandise and  
10          jobbing - \$9,460; plant and operating material - \$13,175; and  
11          merchandise - \$4,343. Non-utility taxes payable was decreased by  
12          \$17,366. Capital structure was reduced by: a note payable of  
13          \$150,000; customer deposits of \$26,370; accumulated deferred income  
14          taxes of \$287,827; deferred credit amounts of \$1,578,595 for Florida  
15          Coast and \$222,393 for Gulf Correctional Institute. Other  
16          adjustments include customer gas accounts receivable reduction of  
17          \$163,617 for Florida Coast and a reduction in the accumulated  
18          provision for uncollectibles for Florida Coast in the amount of  
19          \$66,765.

20  
21          **Q. How has the Company recorded house piping expense?**

22          A. In accordance with Order No. PSC-96-1188-FOF-GU, the Company  
23          has recorded house piping expense above the line for recovery in base  
24          rates. See In Re: Investigation into earnings for 1994, 1995 and 1996

DIRECT TESTIMONY OF RALPH ROBERSON

1 of St. Joe Natural Gas Company, Inc., 96 F.P.S.C. 9:505, Docket No.  
2 960930-GU, Order No. PSC-96-1188-FOF-GU (Sept. 23, 1996).

3  
4 **Q. What are the appropriate depreciation rates for the Historic**  
5 **Base Year and the Projected Test Year?**

6 A. In Docket No. 980103-GU, by Order No. PSC-98-1686-FOF-GO  
7 issued December 10, 1998, the Company's present depreciation rates  
8 were approved by the Commission. These approved rates have been  
9 implemented and are used in this filing for both the Historic Base  
10 Year and the Projected Test Year.

11  
12 **INCOME (HISTORICAL)**

13 **Q. How did you derive the historical data used to determine the**  
14 **Company's income for the 12-month period ended December**  
15 **31, 1999?**

16 A. All data related to the Company's historical income was obtained  
17 from the Company's books and records. These books and records are  
18 kept in accordance with recognized accounting practices and the  
19 Uniform System of Accounts as prescribed by the Commission.

20  
21 **Q. What were the Company's operating revenues for the 12**  
22 **months ending December 31, 1999?**

23 A. SJNG's 1999 operating revenues were \$1,677,701. This information  
24 appears on Schedule C-1 of the MFRs.

25

**DIRECT TESTIMONY OF RALPH ROBERSON**

1           **Q.    What were the Company's operating expenses for the 12**  
2                   **months ending December 31, 1999?**

3           **A.    The Company's 1999 operating expenses were \$1,682,776.  This**  
4                   **information appears on Schedule C-1 of the MFRs.**

5

6           **Q.    How was the Company's income tax expense calculated?**

7           **A.    For MFR purposes, taxes on adjustments and projections were**  
8                   **calculated as follows:  Florida state income tax was calculated on**  
9                   **taxable income using a rate of 5.5%;  federal income tax was**  
10                  **calculated on taxable income at the incremental rate of 34%; and**  
11                  **income taxes on Historical Base Year and Base Year Minus One were**  
12                  **calculated using the federal corporate tax table, and the state tax**  
13                  **rate of 5.5%.**

14

15           **Q.    Please describe how the Company allocates costs to its**  
16                   **unregulated activities.**

17           **A.    The Company's non-utility operation involves the sale, installation**  
18                   **and repair of gas appliances.  The Company's non-utility operation**  
19                   **pays the utility \$2,520 each year in lieu of a cost allocation for office**  
20                   **space.  This revenue from rent is recorded above the line in**  
21                   **accordance with Order No. PSC-96-1188-FOF-GU.  All non-utility**  
22                   **labor activity performed by Company employees is recorded on each**  
23                   **employee's daily time sheet in account number 416 and non-utility**  
24                   **material is inventoried in accounts 155 and 156.  The Company uses**

**DIRECT TESTIMONY OF RALPH ROBERSON**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Work Orders for all work performed and non-utility work is booked in appropriate non-utility accounts.

**Q. Please explain any adjustments to the Company's historical operating revenues as identified on MFR Schedule C-2.**

A. The Company's revenues were reduced by the following: (1) \$5,961 for non-regulated revenue that is below the line income, (2) \$443,529 for purchased gas adjustment revenue, (3) \$24,302 for gross receipts tax and regulatory assessment fees that are imbedded in the rates, (4) \$1,384 for franchise fees paid to the City of Mexico Beach, Florida. In addition, the Company's historical operating revenues were reduced by \$227,039 for revenues the Company recorded in 1999 that will not be collected due to the bankruptcy of Florida Coast. This item is included as an adjustment for extraordinary circumstance. The Historic Base Year revenues are distorted without the adjustment. The Company will not receive revenues from Florida Coast in the future, and such revenues have been eliminated from the Projected Test Year forecast.

**Q. Please explain any increases or decreases in the Company's historical operating expenses as identified on MFR Schedule C-2.**

A. The Company's operating expenses were decreased by the following adjustments: (1) \$2,285 for donations; (2) \$554 for penalties; (3) \$531,075 for fuel costs; (4) \$17,059 for interest expense; and (5)



**DIRECT TESTIMONY OF RALPH ROBERSON**

1           \$1,384 for franchise fees paid to the City of Mexico Beach, Florida,  
2           which were also removed from the Company's historical operating  
3           revenues. In addition, the Company's operating expenses were  
4           decreased by \$227,039 for bad debt expenses associated with  
5           revenues billed, but not collected due to the Florida Coast  
6           bankruptcy. As I have previously stated, this amount was also  
7           removed from the Company's historical operating revenues.  
8           Operating expenses were increased by \$100,464 for unrecovered gas  
9           costs associated with the purchased gas adjustment; and \$29,620  
10          related to an additional allowance for Florida Coast bad debt  
11          expense.

**INCOME (PROJECTED)**

12  
13  
14          **Q. What are the Company's projected operating revenues for the**  
15          **test year?**

16          A. The projected operating revenues are \$ 1,588,523, reflecting the gas  
17          demand forecast and the application of the projected rates as  
18          sponsored by Mr. Householder in his prefiled direct testimony and  
19          MFR Schedule E-2.

20  
21          **Q. What are the Company's projected expenses for the test year?**

22          A. The Company's projected expenses for the 12 months ending  
23          December 31, 2001 are \$ 1,357,827, as reflected in MFR Schedule E-  
24          6.

25

DIRECT TESTIMONY OF RALPH ROBERSON

1           **Q.   How much of the projected expenses are allocated to rate**  
2           **case expense?**

3           A.   The Company's calculation of projected rate case expense for the  
4           current case is included on Schedule C-13 of the MFRs. The  
5           projection amounts to total rate case expense of \$140,551, which  
6           includes \$56,000 only in the event a hearing is required to resolve  
7           this case. This amount should be amortized over a period of 4 years.

8  
9           **Q.   What is included in the Company's projected rate case**  
10          **expense?**

11          A.   The projected rate case expense includes all of the Company's outside  
12          consultants, legal fees and costs anticipated for this rate case. The  
13          Company's outside consultants for this case are Jeff Householder and  
14          myself. Mr. Householder has been retained as a Company witness,  
15          testifying on a broad array of issues, including current market  
16          conditions, competitive energy alternatives, revenue projections, cost  
17          of service and rate design. The estimated professional fees included  
18          in the rate case expense for Mr. Householder total \$25,000, of which  
19          \$5,000 would only be expended in the event of a hearing. My  
20          estimated professional fees included in the rate case expense total  
21          \$27,800, of which \$6,000 would only be expended in the event of a  
22          hearing. The Company has retained the law firm of Holland &  
23          Knight LLP to provide legal services to the Company in connection  
24          with this rate case. The estimated legal fees for the rate case total  
25          \$87,751, of which \$ 45,000 would only be expended in the event of a

**DIRECT TESTIMONY OF RALPH ROBERSON**

1 hearing. Other miscellaneous expenses, which include travel  
2 expenses, fax and telephone charges and copying charges are  
3 estimated at \$2,500.  
4

**CAPITAL STRUCTURE**

5  
6 **Q. Have you prepared an exhibit showing the Company's capital  
7 structure for the projected test year?**

8 A. Yes. This information appears on Schedule G-3 of the MFRs at Page  
9 3. Consistent with the Company's request for waiver of portions of  
10 the MFR requirements, the adjustment to the Projected Test Year  
11 capital structure are based on the Commission's order in the  
12 Company's 1997 rate restructuring instead of the Company's 1967  
13 rate case.  
14

15 **Q. What debt to equity ratio did you employ?**

16 A. The calculation of capital structure reflects investor sources of capital  
17 as follows: equity, 51.65%; long term debt, 0%; and short term debt,  
18 3.5%.  
19

20 **Q. Please describe the capital structure for the Projected Test  
21 Year as shown on MFR Schedule G-3.**

22 A. The capital structure for the projected test year consists of common  
23 equity in the amount of \$2,053,795, or 46.99%, with a cost rate of  
24 11.5%; long term debt of \$251,770, or 5.76%, with a cost rate of 9%;  
25 short term debt in the amount of \$149,324, or 3.39%, with a cost rate

**DIRECT TESTIMONY OF RALPH ROBERSON**

1 of 10.75%; customer deposits in the amount of \$27,490 or .63% with  
2 a cost rate of 6%; deferred taxes in the amount of \$311,130 or 7.12%  
3 with a cost rate of 0%; other deferred credits for Florida Coast in the  
4 amount of \$1,578,595 or 36.11% with a cost rate of 0%.

5  
6 **Q. What is the appropriate Cost of Capital?**

7 A. The appropriate Cost of Capital for the projected test year is 11.5%  
8 mid-point for equity and 6.32% for the overall weighted Cost of  
9 Capital. See MFR Schedule G-3, p.2.

10  
11 **Q. What is the appropriate revenue expansion factor for the**  
12 **Projected Test Year?**

13 A. The appropriate revenue expansion factor is 1.6529 as calculated on  
14 MFR Schedule G-4.

15  
16 **EXTRAORDINARY TAX LIABILITY EXPENSE**

17 **Q. Please explain the extraordinary tax liability expense**  
18 **associated with the Florida Coast bankruptcy.**

19 A. The extraordinary tax liability stems from an August 23, 1991, Sale  
20 and Purchase Agreement ("Agreement") between SJNG and St. Joe  
21 Forest Products Company, Inc. ("St. Joe Forest"). The Agreement  
22 required St. Joe Forest to pay for delivery of a specified amount of  
23 gas each month whether or not such gas was actually taken by St.  
24 Joe Forest. This was necessary because the Company had secured a  
25 loan to construct a pipeline needed to provide service to St. Joe

**DIRECT TESTIMONY OF RALPH ROBERSON**

1 Forest's pulp and paper mill. To the extent the Agreement required  
2 St. Joe Forest to pay for gas not actually taken, such amount would  
3 be considered prepaid gas and would be credited to St. Joe Forest  
4 when St. Joe Forest's use of gas reached certain levels in other  
5 months.

6  
7 **Q. How is the Florida Coast bankruptcy related to the**  
8 **Agreement between SJNG and St. Joe Forest?**

9 A. On May 30, 1996, St. Joe Forest sold its pulp and paper mill to  
10 Florida Coast and assigned to Florida Coast its rights and obligations  
11 under the Agreement.

12  
13 **Q. How has the Agreement between SJNG and Florida Coast**  
14 **resulted in extraordinary tax liability expense for SJNG?**

15 A. Florida Coast closed its pulp and paper mill in late 1998 and declared  
16 bankruptcy on April 2, 1999. As a result, the Company's balance  
17 sheet shows a deferred credit representing prepaid gas under the  
18 Agreement, which will never be credited to Florida Coast. As of  
19 December 31, 1999, the deferred credit amount is \$1,578,595. The  
20 closure of the mill and Florida Coast's bankruptcy has now raised the  
21 issue of when the deferred credit should be recognized as taxable  
22 income. The Company has filed an *Application for Change in*  
23 *Accounting Method*, Internal Revenue Service ("IRS") Form 3115,  
24 with the IRS. A copy of the application is attached as Exhibit \_\_  
25 (RCR-3). Provided that the application is granted, the Company

**DIRECT TESTIMONY OF RALPH ROBERSON**

1           should be able to allocate its tax liability associated with the deferred  
2           credit over a period of no less than four years. See Rev. Proc. 97-27, §  
3           5.02(3).

4

5           **Q.   What is the amount of the extraordinary income tax liability?**

6           A.   The estimated federal tax liability on the deferred amount is  
7           \$131,223 per year, and the estimated state tax liability on the  
8           deferred amount is \$22,082 per year, or a total of \$613,220 for the  
9           four-year period.

10

11          **Q.   Does that conclude your direct testimony?**

12          A.   Yes.

13

14

15

16

17

18

19

20

21

22

23

24

25

## Resume

Ralph C. Roberson, CPA  
214 Seventh Street Port St. Joe, FL

### Education:

Port St. Joe High School  
Tallahassee Community College AA, Business Administration  
Florida State University  
University of West Florida BA, Accounting  
Florida Board of Accountancy, CPA Certificate

### Professional Experience:

St. Joe Paper Company, Cost Accountant 1974 – 1978  
Florida Auditor General, Auditor 1978 – 1979  
St. Joe Container Company, Division Controller 1979 – 1982  
Sales Manager 1983 – 1985  
Financial and Operations Manager 1985 - 1996  
Box USA Group, Financial and Operations Manager 1996 – 1997  
Ralph C. Roberson, CPA – accounting, auditing and tax practice  
1997 - Current

### Professional Associations:

Florida Institute of Certified Public Accountants  
American Institute of Certified Public Accountants

### Other Associations:

Gulf Coast Community College, Vice-Chair, Board of Trustees  
Gulf County Chamber of Commerce, Past President  
Rotary Club, Past President  
First United Methodist Church, Chair Administrative Board

**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
B-1 p. 10	13 Month Average – Balance Sheet – Assets
B-1 p. 11	13 Month Average – Balance Sheet – Liabilities & Capitalization
B-2 p. 12	Rate Base – 13 Month Average
B-3 p. 13	Rate Base Adjustments
B-4 p. 14	Monthly Utility Plant Balances Test Year – 13 Months
B-5 p. 15	Allocation of Common Plant
B-5 p. 16	Detail of Common Plant
B-5 p. 17	Detail of Common Plant (Cont.)
B-6 p. 18	Acquisition Adjustment
B-7 p. 19	Property Held for Future Use – 13 Month Average
B-7 p. 20	Property Held for Future Use Details
B-8 p. 21	Construction Work in Progress
B-9 p. 22	Depreciation Reserve Balances
B-10 p. 23	Amortization/Recovery Reserve Balances
B-11 p. 24	Allocation of Depreciation/Amortization Reserve – Common Plant



**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
B-12 p. 25	Customer Advances for Construction
B-13 p. 26	Working Capital – Assets
B-13 p. 27	Working Capital – Liabilities
B-14 p. 28	Detail of Miscellaneous Debits
B-15 p. 29	Detail of Other Deferred Credits
B-16 p. 30	Additional Rate Base Components
B-17 p. 31	Investment Tax Credits – Analysis
B-17 p. 32	Investment Tax Credits – Analysis (Cont.)
B-17 p. 33	Investment Tax Credits – Company Policies
B-17 p. 34	Investment Tax Credits – Section 46(f) Election
B-18 p. 35	Accumulated Deferred Income Taxes – Summary
B-18 p. 36	Accumulated Deferred Income Taxes – State
B-18 p. 37	Accumulated Deferred Income Taxes – Federal
C-1 p. 40	Net Operating Income
C-2 p. 41	Net Operating Income Adjustments
C-2 p. 42	Net Operating Income Adjustments (Cont.)

**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
C-3 p. 43	Operating Revenues by Month
C-4 p. 44	Unbilled Revenues
C-5 p. 45	Operations and Maintenance Expenses
C-5 p. 46	Operations and Maintenance Expenses (Cont.)
C-6 p. 47	Allocation of Expenses
C-7 p. 48	Conservation Revenues and Expenses
C-8 p. 49	Uncollectible Accounts
C-8 p. 50	Uncollectible Accounts (Cont.)
C-9 p. 51	Advertising Expenses
C-9 p. 52	Advertising Expenses (Cont.)
C-10 p. 53	Civic and Charitable Contributions
C-11 p. 54	Industry Association Dues
C-12 p. 55	Lobbying and Other Political Expenses
C-13 p. 56	Total Rate Case Expenses and Comparisons
C-14 p. 57	Miscellaneous General Expense
C-15 p. 58	Out of Period Adjustments to Revenues and Expenses

**MFR Schedules Sponsored By  
Ralph Roberson**

<b>Schedule No.</b>	<b>Title</b>
C-16 p. 59	Gain and Loses on Disposition of Plant or Property
C-17 p. 60	Monthly Depreciation Expense for the Historic Base Year – 12 Months
C-18 p. 61	Amortization/Recovery Schedule for the Historic Base Year – 12 Months
C-19 p. 62	Allocation of Depreciation/Amortization Expense – Common Plant
C-20 p. 63	Reconciliation of Total Tax Provision
C-21 p. 64	State and Federal Income Tax Calculation – Current
C-22 p. 65	Interest in Tax Expense Calculation
C-23 p. 66	Book/Tax Differences – Permanent
C-24 p. 67	Deferred Income Tax Expense
C-25 p. 68	Deferred Tax Adjustment
C-25 p. 69	Deferred Tax Adjustment (Cont.)
C-26 p. 70	Parent(s) Debt Information
C-27 p. 71	Income Tax Returns
C-28 p. 72	Miscellaneous Tax Information
C-29 p. 73	Consolidated Return

**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
C-30 p. 74	Other Taxes
C-30 p. 75	Other Taxes (Cont.)
C-31 p. 76	Outside Professional Services
C-32 p. 77	Transactions with Affiliated Companies
C-33 p. 78	Wage and Salary Increases Compared to C.P.I.
C-34 p. 79	O & M Benchmark Comparison by Function
C-35 p. 80	O & M Adjustments by Function
C-36 p. 81	Base Year Recoverable O & M Expenses by Function
C-37 p. 82	O & M Compound Multiplier Calculation
C-38 p. 83	O & M Benchmark Variance by Function
C-38 p. 84	O & M Benchmark Variance by Function (Cont.)
C-38 p. 85	O & M Benchmark Variance by Function (Cont.)
D-1 p. 87	Cost of Capital – 13 Month Average
D-1 p. 88	Applicant's Average Cost of Capital – Historical Data
D-2 p. 89	Long-Term Debt Outstanding
D-2 p. 90	Long-Term Debt Outstanding (Cont.)

**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
D-3 p. 91	Short Term Debt
D-4 p. 92	Preferred Stock
D-5 p. 93	Common Stock Issues – Annual Data
D-6 p. 94	Customer Deposits
D-7 p. 95	Sources and Uses of Funds
D-8 p. 96	Issuance of Securities
D-9 p. 97	Subsidiary Investments
D-10 p. 98	Reconciliation of Average Capital Structure to Average Jurisdictional Rate Base
D-11 p. 99	Financial Indicators – Calculation Interest and Preferred Dividend Coverage Ratios
D-11 p. 100	Financial Indicators – Calculation of Percentage of Construction Funds Generated Internally
D-11 p. 101	Financial Indicators – AFUDC as Percentage of Income Available for Common
D-12 p. 102	Applicant's Market Data
G-1 p. 148	Projected Test Year Rate Base
G-1 p. 149	Projected Test Year Working Capital – Assets

**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
G-1 p. 150	Projected Test Year Working Capital – Liabilities
G-1 p. 151	Rate Base Adjustments
G-1 p. 152	Historic Base Year + 1 Balance Sheets – Assets
G-1 p. 153	Historic Base Year + 1 Balance Sheet – Liabilities Capitalization
G-1 p. 154	Projected Test Year Balance Sheet – Assets
G-1 p. 155	Projected Test Year Balance Sheet – Liabilities & Capitalization
G-1 p. 156	Historic Base Year + 1 – 13 Month Average Utility Plant
G-1 p. 157	Projected Test Year – 13 Month Average Utility Plant
G-1 p. 158	Historic Base Year + 1 – Depreciation Reserve Balances
G-1 p. 159	Projected Test Year – Depreciation Reserve Balances
G-1 p. 160	Historic Base Year + 1 – Amortization Reserve Balances
G-1 p. 161	Projected Test Year – Amortization Reserve Balances
G-1 p. 162	Historic Base Year + 1 – Allocation of Common Plant
G-1 p. 163	Historic Base Year + 1 – Allocation of Common Plant – Detail

**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
G-1 p. 164	Historic Base Year + 1 – Allocation of Common Plant – Detail (Cont.)
G-1 p. 165	Projected Test Year – Allocation of Common Plant
G-1 p. 166	Projected Test Year – Allocation of Common Plant – Detail
G-1 p. 167	Projected Test Year – Allocation of Common Plant – Detail (Cont.)
G-1 p. 168	Historic Base Year + 1 – Allocation of Depreciation/Amortization. Reserve – Common Plant
G-1 p. 169	Projected Test Year – Allocation of Depreciation/Amortization – Common Plant
G-2 p. 176	Projected Test Year NOI – Summary
G-2 p. 177	Adjustments to Net Operating Income
G-2 p. 178	Adjustments to Net Operating Income (Cont.)
G-2 p. 179	Historic Base Year + 1 – Income Statement
G-2 p. 180	Projected Test Year – Income Statement
G-2 p. 187	Projected Test Year – Calculation of Distribution Expenses
G-2 p. 188	Projected Test Year – Calculation of Distribution Expenses (Cont.)

**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
G-2 p. 189	Projected Test Year – Calculation of Maintenance Expenses
G-2 p. 190	Projected Test Year – Calculation of Maintenance Expenses (Cont.)
G-2 p. 191	Projected Test Year – Calculation of Customer Account Expenses
G-2 p. 192	Projected Test Year – Calculation of Customer Service Expenses
G-2 p. 193	Projected Test Year – Calculation of Selling Expenses
G-2 p. 194	Projected Test Year – Calculation of Admin. And General Expenses
G-2 p. 195	Projected Test Year – Calculation of Admin. And General Expenses (Cont.)
G-2 p. 196	Projected Test Year – Total Expenses
G-2 p. 197	Historic Base Year + 1 – Depreciation/Amortization Expense
G-2 p. 198	Historic Base Year + 1 – Amortization Expense Detail
G-2 p. 199	Historic Base Year + 1 – Allocation of Depreciation/Amortization Expense
G-2 p. 200	Projected Test Year – Depreciation/Amortization Expense



**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
G-2 p. 201	Projected Test Year – Amortization Expense Detail
G-2 p. 202	Projected Test Year – Allocation of Depreciation/ Amortization Expense
G-2 p. 203	Historic Base Year + 1 – Reconciliation of Total Income Tax Provision
G-2 p. 204	Historic Base Year + 1 – State and Federal Income Tax – Current
G-2 p. 205	Historic Base Year + 1 – Deferred Income Tax Expense
G-2 p. 206	Projected Test Year – Reconciliation of Total Income Tax Provision
G-2 p. 207	Projected Test Year – State and Federal Income Tax – Current
G-2 p. 208	Projected Test Year – Deferred Income Tax Expense
G-3 p. 209	Historic Base Year + 1 – Cost of Capital
G-3 p. 210	Projected Test Year – Cost of Capital
G-3 p. 211	Projected Test Year – Long-Term Debt Outstanding
G-3 p. 212	Projected Test Year – Short-Term Debt Outstanding
G-3 p. 213	Projected Test Year – Preferred Stock

**MFR Schedules Sponsored By  
Ralph Roberson**

<u>Schedule No.</u>	<u>Title</u>
G-3 p. 214	Projected Test Year – Common Stock Issues
G-3 p. 215	Customer Deposits
G-3 p. 216	Financing Plans – Stock and Bond Issues
G-3 p. 217	Projected Test Year – Financial Indicators
G-3 p. 218	Projected Test Year – Financial Indicators (Cont.)
G-3 p. 219	Projected Test Year – Financial Indicators (Cont.)
G-3 p. 220	Projected Test Year – Revenue Expansion Factor
G-3 p. 221	Projected Test Year – Revenue Deficiency
G-3 p. 222	Projected Test Year – Major Assumptions
G-3 p. 223	Projected Test Year – Major Assumptions (Cont.)
G-3 p. 224	Projected Test Year – Major Assumptions (Cont.)

TAL1 #227539 v1

TAL1 #227539 v1

Form **3115**

(Rev. May 1999)

Department of the Treasury  
 Internal Revenue Service

# Application for Change in Accounting Method

OMB No. 1545-0152

Page

▶ See page 1 of the instructions for the Automatic Change Procedures.

Name of applicant (If a joint return is filed, also give spouse's name ) <b>ST JOE NATURAL GAS COMPANY, INC.</b>	Identification number (See page 3 of the instructions.) <b>59-1023614</b>
Number, street, and room or suite no. (If a P.O. box, see page 3 of the instructions ) <b>301 LONG AVENUE</b>	Tax year of change begins (mo., day, yr.) and ends (mo., day, yr.) <b>Begins 1/1/00 Ends 12/31/00</b>
City or town, state, and ZIP code <b>PORT ST. JOE FL 32456</b>	District director's office having jurisdiction <b>Atlanta, GA</b>
Name of person to contact (If not the applicant, a power of attorney must be submitted ) <b>John Michael Williams, C.P.A.</b>	Contact person's telephone number/Fax number <b>352-378-2461 / 352-378-2505</b>
Check the appropriate box to indicate who is filing this form. <input type="checkbox"/> Individual <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Cooperative (Sec. 1381) <input type="checkbox"/> Qualified Personal Service Corporation (Sec. 448(d)(2)) <input type="checkbox"/> Exempt organization. Enter code section ▶ _____	Check the appropriate box to indicate the type of accounting method change being requested. (See page 3 of the instructions.) <input type="checkbox"/> Partnership <input type="checkbox"/> S Corporation <input type="checkbox"/> Insurance Co. (Sec. 816(a)) <input type="checkbox"/> Insurance Co. (Sec. 831) <input type="checkbox"/> Other (specify) ▶ _____ <input type="checkbox"/> Depreciation or Amortization <input type="checkbox"/> Financial Products and/or Financial Activities of Financial Institutions <input checked="" type="checkbox"/> Other (specify) ▶ <b>Prepaid Income</b>

**Part I Eligibility To Request Change** (All applicants complete Parts I through IV.) (See page 2 of the instructions.)

		Yes	No
1 Is the applicant changing its method of accounting under a revenue procedure or other published guidance that provides for an automatic change? (See page 1 of the instructions.) If "Yes," enter the citation of the revenue procedure or other published guidance ▶ _____			X
2 Is the applicant changing its method of accounting under sections 263A, 447, 448, 460, or 585(c) for the first tax year the applicant is required to change? If "Yes," the applicant is required to make the change in accounting method under the automatic change procedures set forth in the applicable regulations.			X
3a Does the applicant have any Federal income tax returns under examination by the IRS? See section 3.07 of Rev. Proc. 97-27, 1997-1 C.B. 680. If "Yes," complete line 3b.			X
b Is the method of accounting the applicant is requesting to change: (i) an issue under consideration or (ii) an issue placed in suspense by the examining agent(s)? See sections 3.08(1) and 6.01 of Rev. Proc. 97-27 If "Yes," the applicant is not eligible to request the change in accounting method. If "No," complete lines 3c through 3e.	N/A		
c Indicate the "window period" the applicant is filing under or state if the change is being requested with the consent of the district director. ▶ _____ See section 6.01 of Rev. Proc. 97-27.			
d Has a copy of this Form 3115 been provided to the examining agent(s) for all examinations that are in process? See section 6.01 of Rev. Proc. 97-27.	N/A		
e Enter the name(s) and telephone number(s) of the examining agent(s). ▶ _____ See section 6.01 of Rev. Proc. 97-27.			
4a Is the applicant before an appeals office with respect to any Federal income tax return issue? If "Yes," complete line 4b.			X
b Is the method of accounting the applicant is requesting to change an issue under consideration by the appeals office? See sections 3.08(2) and 6.02 of Rev. Proc. 97-27 If "Yes," the applicant is not eligible to request the change in accounting method. If "No," complete lines 4c and 4d.	N/A		
c Has a copy of this Form 3115 been provided to the appeals officer? See section 6.02 of Rev. Proc. 97-27	N/A		
d Enter the name and telephone number of the appeals officer. ▶ _____ See section 6.02 of Rev. Proc. 97-27.			

**Signature — All Applicants** (See page 3 of the instructions.)

Under penalties of perjury, I declare that I have examined this application, including accompanying documents, and, to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and such facts are true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.

<p style="text-align: center;"><b>TAXPAYER'S COPY</b></p> <p style="text-align: center;">Applicant</p> <p>_____                  Officer's signature and date</p> <p>_____                  Name and title (print or type)</p> <p>_____                  Signature(s) of individual or firm preparing the application and date</p>	<p style="text-align: center;">Parent corporation (if applicable)</p> <p style="text-align: center;">NOT APPLICABLE</p> <p>_____                  Parent officer's signature and date</p> <p>_____                  Name and title (print or type)</p> <p>_____                  Name of firm preparing the application</p>
--	---

**Part I Eligibility To Request Change (continued)**

	Yes	No
5a Is the applicant before a Federal court with respect to any Federal income tax issue? . . . . . If "Yes," complete line 5b.		X
b Is the method of accounting the applicant is requesting to change an issue under consideration by the Federal court? See sections 3.08(3) and 6.03 of Rev. Proc. 97-27 . . . . . If "Yes," the applicant is not eligible to request the change in accounting method. If "No," complete line 5c and 5d.		X
c Has a copy of this Form 3115 been provided to the counsel for the government? See section 6.03 of Rev Proc. 97-27. . . . . N/A		
d Enter the name and telephone number of the counsel for the government. ► _____ See section 6.03 of Rev. Proc. 97-27.		
6a Is the applicant a member of an affiliated group filing a consolidated return for the year of change? . . . . .		X
b If "Yes," attach a statement listing the parent corporation's (1) name, (2) identification number, (3) address, and (4) tax year.		X
c Has the applicant ever been a member of a consolidated group other than the current group? . . . . . If "Yes," complete line 6b for each group of which the applicant was formerly a member.		X
d If the applicant is (or was formerly) a member of a consolidated group, is any consolidated group under examination, before an appeals office, or before a Federal court for a tax year(s) that the applicant was a member of the group? See sections 3.07(1) and 4.02(5) of Rev. Proc. 97-27 . . . . . N/A If "Yes," complete lines 3b through 3e, 4b through 4d, or 5b through 5d (whichever are applicable).		
7 If the applicant is an entity (including a limited liability company) treated as a partnership or an S corporation for Federal income tax purposes, is the method of accounting the applicant is requesting to change an issue under consideration in an examination of a partner, member, or shareholder's Federal income tax return or an issue under consideration by an appeals office or by a Federal court with respect to a partner, member, or shareholder's Federal income tax return? See sections 3.08 and 4.02(6) of Rev. Proc. 97-27 . . . . . N/A If "Yes," the applicant is not eligible to request the change in accounting method.		

**Part II Description of Change**

8 Is the applicant requesting to change its overall method of accounting? . . . . . If "Yes," check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting. Also complete Schedule A on page 4 of the form. Present method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Hybrid (attach description) Proposed method: <input type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Hybrid (attach description)		X
9 If the applicant is not changing its overall method of accounting, attach a description of each of the following: a The item being changed. SEE ATTACHED STATEMENTS AND SCHEDULE FOR ITEMS NUMBER 9 THROUGH 14b OF THIS PAGE b The applicant's present method for the item being changed. c The applicant's proposed method for the item being changed. d The applicant's present overall method of accounting (cash, accrual, or hybrid).		
10 Attach an explanation of the legal basis supporting the proposed method for the item being changed. Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method. The applicant is encouraged to include a discussion of any authorities that may be contrary to the proposed method.		
11 Attach a description of the applicant's trade or business, including the goods and services it provides and any other types of activities it engages in that generate gross income.		
12 Attach a copy of all documents directly related to the proposed change. (See page 3 of the instructions.)		
13 Attach a statement of the applicant's reasons for the proposed change.		
14a Attach an explanation of whether the proposed method of accounting will be used for the taxpayer's books and records and financial statements. (Insurance companies, see page 3 of the instructions.) b Attach an explanation of whether the proposed method of accounting conforms to generally accepted accounting principles (GAAP) and to the best accounting practice in the applicant's trade or business.		
15a Does the applicant have more than one trade or business as defined in Regulations section 1.446-1(d)? . . . . .		X
b If "Yes," is each trade or business accounted for separately? . . . . . N/A If "Yes," for each trade or business, attach a description of the type of business, the overall method of accounting, whether the business has changed any accounting method in the past 4 years, and whether the business is changing any accounting method as part of this application or as a separate application.		
16 If the applicant is a member of an affiliated group filing a consolidated return for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed? . . . . . If "No," attach an explanation.		X
17 If the applicant is changing to the cash method, or to the inventory price index computation (IPIC) method under Regulations section 1.472-8(e)(3), or is changing its method of accounting under sections 263A, 448, or 460, enter the gross receipts for the 4 tax years preceding the year of change. (See page 3 of the instructions.)		
1st preceding year ended: mo. yr.   2nd preceding year ended: mo. yr.   3rd preceding year ended: mo. yr.   4th preceding year ended: mo. yr.		
\$ .   \$   \$   \$		

**Part II Description of Change (continued)**

18 Attach a statement addressing whether the applicant has entered (or is considering entering) into a transaction to which section 381(c)(4) or (c)(5) applies (e.g., a reorganization or merger) during the tax year of change determined without regard to any (potential) closing of the year under section 381(b)(1). Also include in the statement an explanation of any changes in method of accounting that resulted (or will result) from the transaction(s).

**Part III Section 481(a) Adjustment**

19 Enter the net section 481(a) adjustment for the year of change. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. ▶ \$ 1,605,997

20 Has the section 481(a) adjustment been reduced by a pre-1954 amount? . . . . .

21a If the section 481(a) adjustment is less than \$25,000 (positive or negative), does the applicant elect to take the entire amount of the adjustment into account in the year of change? . . . . . N/A

b If "No," (or if the applicant declines to elect to take the entire amount of the adjustment into account in the year of change), enter the applicable period over which the applicant proposes to take the adjustment into account. ▶ \_\_\_\_\_

22 Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a controlled group, or other related parties? . . . . .  
 If "Yes," attach an explanation.

Yes	No
	X
	X

**Part IV Additional Information**

23 Has the applicant, its predecessor, or a related party requested or made (under either an automatic change procedure or a procedure requiring advance consent) a change in accounting method or accounting period in the past 4 years? . . . . .  
 If "Yes," attach a description of each change and the year of change.

If the application was withdrawn, not perfected, or denied, or if a Consent Agreement was sent to the taxpayer but was not signed and returned to the IRS, or if the change was not made, include an explanation.

24 Does the applicant, its predecessor, or a related party currently have pending any request for a private letter ruling, a request for change in accounting method or accounting period, or a request for technical advice? . . . . .

If "Yes," for each request, indicate the name(s) of the taxpayer, the type of request (private letter ruling, request for change in accounting method or accounting period, or request for technical advice), and the specific issue in the request.

25 Has the applicant attached Form 2848, Power of Attorney and Declaration of Representative? (See the instructions for line 25 and "Person To Contact" on page 3 of the instructions.) . . . . .

26 Does the applicant request a conference of right at the IRS National Office if the IRS proposes an adverse response? . . . . .

27 Enter the amount of user fee attached to this application. ▶ \$ 1,200 (See page 2 of the instructions.)

28 If the applicant qualifies for a reduced user fee for identical accounting method changes, has the information required by section 15.07 of Rev. Proc. 99-1, 1999-1 I.R.B. 6, been attached? . . . . . N/A

Yes	No
	X
	X
X	
X	

**Schedule A — Change in Overall Method of Accounting** (If Schedule A applies, Part I below must be completed.)

Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. On a separate sheet, state the accounting method used when preparing the balance sheet. If books of account are not kept, attach a copy of the business schedules submitted with the Federal income tax return or other return (e.g., tax-exempt organization returns) for that period. If the amounts in Part I, lines 1a through 1g, do not agree with those shown on both the profit and loss statement and the balance sheet, explain the differences on a separate sheet.

**Part I Change in Overall Method** (See page 3 of the instructions.)

1 Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also attach a statement providing a breakdown of the amounts entered on lines 1a through 1g.

- a Income accrued but not received .....
- b Income received or reported before it was earned. Attach a description of the income and the legal basis for the proposed method. (See page 3 of the instructions.) .....
- c Expenses accrued but not paid. ....
- d Prepaid expense previously deducted .....
- e Supplies on hand previously deducted .....
- f Inventory on hand previously deducted. Complete Schedule C, Part II .....
- g Other amounts (specify) ▶ .....
- h Net section 481(a) adjustment (Add lines 1a - 1g.) (See page 3 of the instructions.) .....

Amount
\$
\$

2 Is the applicant also requesting the recurring item exception (section 461(h))? (See page 4 of the instructions.)  Yes  No

**Part II Change to the Cash Method** (See page 4 of the instructions.)

Applicants requesting a change to the cash method must attach the following information.

- 1 A description of the applicant's investment in capital items and leased equipment used in the trade or business, and the relationship between these items and the services performed by the business.
- 2 A description of inventory items (items that produce income when sold) and materials and supplies used in carrying out the business.
- 3 The number of employees, shareholders, partners, associates, etc., and a description of their duties in carrying out the applicant's business.
- 4 A schedule showing the age of receivables for each of the 4 tax years preceding the year of change.
- 5 A schedule showing the applicant's taxable income (loss) for each of the 4 tax years preceding the year of change.
- 6 A profit and loss statement showing the taxable income (loss) based on the cash method for each of the 4 tax years preceding the year of change.

**Schedule B — Changes Within the LIFO Inventory Method** (See page 4 of the instructions.)**Part I General LIFO Information**

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all Forms 970, Application To Use LIFO Inventory Method, filed to adopt or expand the use of the LIFO method.

- 1 Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items.
  - a Valuing inventory (e.g., unit method or dollar-value method).
  - b Pooling (e.g., by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, pooling method authorized under inventory price index computation (IPIC) method, etc.).
  - c Pricing dollar-value pools (e.g., double-extension, index, link-chain, link-chain index, IPIC method, etc.).
  - d Figuring the cost of goods in the closing inventory over the cost of goods in the opening inventory (e.g., most recent purchases, earliest acquisitions during the year, average cost of purchases during the year, etc.).
- 2 If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.
- 3 If the proposed change is not requested for all the LIFO inventory, specify the inventory to which the change is and is not applicable.
- 4 If the proposed change is not requested for all of the LIFO pools, specify the LIFO pool(s) to which the change is applicable.
- 5 Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, the applicant should identify which inventory items are valued under each method.

**Part II Change in Pooling Inventories**

- 1 If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.
- 2 If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations section 1.472-8(b)(1) and (2):
  - a A description of the types of products produced by the applicant. If possible, attach a brochure.
  - b A description of the types of processes and raw materials used to produce the products in each proposed pool.
  - c If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, the applicant should explain the reasons for the separate facilities, indicate the location of each facility, and provide a description of the products each facility produces.
  - d A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.
  - e A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.
  - f A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.
  - g A statement addressing whether, within the proposed NBU pool(s), there are items sold to others and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.
- 3 If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).
- 4 If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).

**Part III Change to Inventory Price Index Computation (IPIC) Method** (See page 4 of the instructions.)

If changing to the IPIC method, attach the following items.

- 1 A completed Form 970.
- 2 A statement indicating which indexes, tables, and categories the applicant proposes to use.

**Schedule C — Change in the Treatment of Long-Term Contracts, Inventories, or Other Section 263A Assets**

**Part I Change in Reporting Income From Long-Term Contracts (Complete Part I and Part III below. See page 4 of the instructions.)**

- 1 To the extent not already provided, attach a description of the applicant's present and proposed methods for reporting income from long-term contracts. If the applicant is a construction contractor, include a description of its construction activities. Not Applicable
- 2a Are the applicant's contracts long-term contracts as defined in section 460(f)(1)? (See page 4 of the instructions.)  Yes  No
- b If "Yes," do all the contracts qualify for the exception under section 460(e)? (See page 4 of the instructions.)  Yes  No  
 If line 2b is "No," attach an explanation.
- 3a Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)?  Yes  No
- b If "Yes," explain the applicant's present and proposed method(s) of accounting for long-term manufacturing contracts.
- c If any of the manufacturing goods are sold or distributed without installation, attach an explanation.
- 4 If the applicant is requesting to use the percentage of completion method under section 460(b) for reporting its long-term contract income, indicate whether the applicant is electing to determine the completion factor for each long-term contract under the simplified cost-to-cost method. (See page 4 of the instructions.)
- 5 Does the applicant want to change the accounting method for all long-term contracts that were outstanding at the beginning of the year of change?  Yes  No  
 If "No," attach an explanation.
- 6 Attach a statement indicating whether any of the applicant's contracts are either cost-plus long-term contracts or Federal long-term contracts.

**Part II Change in Valuing Inventories (Complete Part III if applicable. See page 4 of the instructions.)**

- 1 Attach a description of the inventory goods being changed. Not Applicable
- 2 Attach a description of the inventory goods (if any) NOT being changed.
- 3 Is the applicant's present inventory valuation method in compliance with section 263A? (See page 4 of the instructions.)  Yes  No

4a Check the appropriate boxes below that identify the present and proposed inventory identification methods and valuation methods being changed and the present inventory identification methods and valuation methods not being changed.

Identification methods:

- Specific identification
- FIFO
- LIFO

Valuation methods:

- Cost
- Cost or market, whichever is lower
- Retail cost
- Retail, lower of cost or market
- Other (attach explanation)

Inventory Being Changed		Inventory Not Being Changed
Present method	Proposed method	Present method

- b Enter the value at the end of the tax year preceding the year of change
- 5 Attach the computation used to determine the section 481(a) adjustment. If the section 481(a) adjustment is based on more than one component, show the computation for each component.
- 6 If the applicant is changing from the LIFO inventory method to a non-LIFO method, attach the following information. (See page 4 of the instructions.)
- a Copies of Form(s) 970 filed to adopt or expand the use of the method.
- b A statement describing how the proposed method is consistent with the requirements of Regulations section 1.472-6.

**Part III Method of Cost Allocation (See page 4 of the instructions.)** Not Applicable

Complete this part if the requested change involves either property subject to section 263A or long-term contracts subject to section 460. Check the appropriate boxes in Sections B and C showing which costs, under both the present and proposed methods, are fully included, to the extent required, in the cost of property produced or acquired for resale under section 263A or allocated to long-term contracts under section 460. If a box is not checked, it is assumed that those costs are not fully included to the extent required. If a cost is not fully included, attach an explanation. Mark "N/A" in a box if those costs are not incurred by the applicant with respect to its production, resale, or long-term contract activities.



**Section A — Allocation and Capitalization Methods** (Schedule C, Part III continued.) (See page 4 of the instructions.)

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to property produced or acquired for resale. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to property produced or acquired for resale. The description must include the following information.

- 1 The method of allocating direct and indirect costs (i.e., specific identification method, burden rate method, standard cost method, or other reasonable allocation method).
- 2 The method of allocating mixed service costs (i.e., direct reallocation method, step-allocation method, simplified service cost method using the labor-based allocation ratio, or the simplified service cost method using the production cost allocation ratio).
- 3 The method of capitalizing additional section 263A costs (i.e., simplified production method with or without the historic absorption ratio election, simplified resale method with or without the historic absorption ratio election including permissible variations, or the U.S. ratio method).

**Section B — Direct and Indirect Costs Required To Be Allocated** (See Regulations under sections 263A and 451.)

	Present method	Proposed method
1 Direct material		
2 Direct labor		
3 Indirect labor		
4 Officers' compensation (not including selling activities)		
5 Pension and other related costs		
6 Employee benefits		
7 Indirect materials and supplies		
8 Purchasing costs		
9 Handling, processing, assembly, and repackaging costs		
10 Offsite storage and warehousing costs		
11 Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle		
12 Depletion		
13 Rent		
14 Taxes other than state, local, and foreign income taxes		
15 Insurance		
16 Utilities		
17 Maintenance and repairs that relate to a production, resale, or long-term contract activity		
18 Engineering and design costs (not including section 174 research and experimental expenses)		
19 Rework labor, scrap, and spoilage		
20 Tools and equipment		
21 Quality control and inspection		
22 Bidding expenses incurred in the solicitation of contracts awarded to the applicant		
23 Licensing and franchise costs		
24 Capitalizable service costs (including mixed service costs)		
25 Administrative costs (not including any costs of selling or any return on capital)		
26 Research and experimental expenses attributable to long-term contracts		
27 Interest		
28 Other costs (Attach a list of these costs.)		

**Section C — Other Costs Not Required To Be Allocated**

1 Marketing, selling, advertising, and distribution expenses		
2 Research and experimental expenses not included on line 26 above		
3 Bidding expenses not included on line 22 above		
4 General and administrative costs not included in Section B above		
5 Income taxes		
6 Cost of strikes		
7 Warranty and product liability costs		
8 Section 179 costs		
9 On-site storage		
10 Depreciation, amortization, and cost recovery allowance not included on line 11 above		
11 Other costs (Attach a list of these costs.)		

**Schedule D — Change in Reporting Advance Payments and Depreciation/Amortization**

**Part I Change in Reporting Advance Payments (See page 4 of the instructions.)**

- 1 If the applicant is requesting to defer advance payment for services under Rev. Proc. 71-21, 1971-2 C.B. 549, attach the following information. **Not Applicable**
  - a Sample copies of all service agreements used by the applicant that are subject to the requested change in accounting method. Indicate the particular parts of the service agreement that require the taxpayer to perform services.
  - b If any parts or materials are provided, explain how the parts or materials relate to the services provided and provide the cost of such parts or materials as an absolute number and a percentage of the contract price.
  - c If the change relates to contingent service contracts, explain how the contracts relate to merchandise that is sold, leased, installed, or constructed by the applicant and whether the applicant offers to sell, lease, install, or construct without the service agreement.
  - d A description of the method the applicant will use to determine the amount of income earned each year on contingent contracts and why that method clearly reflects income earned and related expenses in each year.
- 2 If the applicant is requesting a deferral of advance payments for goods under Regulations section 1.451-5, attach the following information. **Not Applicable**
  - a Sample copies of all agreements for goods or items requiring advance payments used by the applicant that are subject to the requested change in accounting method. Indicate the particular parts of the agreement that require the applicant to provide goods or items.
  - b A statement providing that the entire advance payment is for goods or items. If not entirely for goods or items, a statement that an amount equal to 95% of the total contract price is properly allocable to the obligation to provide activities described in Regulations section 1.451-5(a)(1)(i) or (ii) (including services as an integral part of those activities).

**Part II Change in Depreciation or Amortization (See page 4 of the instructions.) Not Applicable**

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section. Applicants must provide this information for each item or class of property for which a change is requested.

**Note:** If the property has been disposed of before the beginning of the year of change, a method change is not permitted for that property. See **Automatic Change Procedures** on page 1 of the instructions for information regarding automatic changes under sections 167, 168, and 197. Also see **When Not To File Form 3115** on page 4 of the instructions for information concerning retroactive elections and election revocations.

- 1 Is depreciation for the property figured under Regulations section 1.167(a)-11 (CLADR)?  Yes  No  
If "Yes," the only changes permitted are under Regulations section 1.167(a)-11(c)(1)(iii).
- 2 Is any of the depreciation or amortization required to be capitalized under any Code section (e.g., section 263A)?  Yes  No  
If "Yes," enter the applicable section ► \_\_\_\_\_
- 3 Has a depreciation or amortization election been made for the property (e.g., the election under section 168(f)(1))?  Yes  No  
If "Yes," state the election made ► \_\_\_\_\_
- 4a To the extent not already provided, attach a statement describing the property being changed. Include in the description the type of property, the year the property was placed in service, and the property's use in the applicant's trade or business or income-producing activity.
- b If the property is residential rental property, did the applicant live in the property before renting it?  Yes  No
- c Is the property public utility property?  Yes  No
- 5 To the extent not already provided in the applicant's description of its present method, explain how the property is treated under the applicant's present method (e.g., depreciable property, inventory property, supplies under Regulations section 1.162-3, nondepreciable section 263(a) property, property deductible as a current expense, etc.).
- 6 If the property is not currently treated as depreciable or amortizable property, provide the facts supporting the proposed change to depreciate or amortize the property.
- 7 If the property is currently treated and/or will be treated as depreciable or amortizable property, provide the following information under both the present (if applicable) and proposed methods.
  - a The Code section under which the property is depreciated or amortized (e.g., section 168(g)).
  - b If the property is depreciated under section 168, identify the applicable asset class in Rev. Proc. 87-56, 1987-2 C.B. 674. (If none, state so and explain why.) Also provide the facts supporting the asset class under the proposed method.
  - c The depreciation or amortization method of the property, including the applicable Code section (e.g., 200% declining balance method under section 168(b)(1)).
  - d The useful life, recovery period, or amortization period of the property.
  - e The applicable convention of the property.