

ORIGINAL

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June 30, 2004

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COMMISSION
CLERK

BY HAND DELIVERY

Ms. Blanca Bayó, Director
Commission Clerk and Administrative Services
Room 110, Easley Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Docket No. 040270-GU

Dear Ms. Bayó:

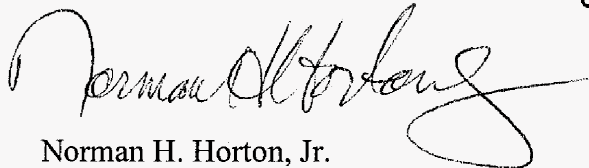
Enclosed for filing on behalf of Sebring Gas System, Inc. are an original and twenty copies of the Sebring Gas System, Inc.'s Petition, Testimony, and Minimum Filing Requirements in the above referenced docket. A copy of the Petition, Testimony and Minimum Filing Requirements have been provided to the Office of Public Counsel. Additionally, a copy of the Petition has been served on the Chief Executive Officer of counties and municipalities within the service area of the Company. Attached is a certificate of service listing the officials to whom the Petition was provided.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

DNs 07167-04
thru
07172-04

Sincerely yours,



Norman H. Horton, Jr.

- CMP _____
- COM 5 *orig for transcript*
- CTR _____
- ~~ECB~~ 9 *item Kewicz*
- GCL 1
- OPC 1
- MMS _____
- RCA 1 cc: Mr. Jerry H. Melendy, Jr.
- SCR _____
- SEC 1
- OTH _____

NHH/amb
Enclosures

RECEIVED & FILED

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Sebring Gas System, Inc.)
Company for an increase in its rates) Docket No. 040270-GU
and charges in their Natural Gas Operations) Date Filed: June 30, 2004
_____)

PETITION FOR PERMANENT AND INTERIM RATE INCREASE

Sebring Gas System, Inc. (“Petitioner” or “the Company”), by and through its undersigned counsel requests approval to increase its rates and charges on a permanent basis pursuant to Section 366.06, Florida Statutes, and on an interim basis pursuant to Section 366.071, Florida Statutes and as a basis would show:

1. The exact name and address of the principal business office of the Petitioner is as follows:

Sebring Gas System, Inc.
3515 U.S. Highway 27, South
Sebring, FL 33870-5452

2. Notices and communications with respect to this petition and docket should be addressed to:

Norman H. Horton, Jr.
Messer, Caparello & Self, P. A.
Suite 701, First Florida Bank Building
Post Office Box 1876
Tallahassee, FL 32302-1876

Jerry H. Melendy, Jr.
Sebring Gas System, Inc.
3515 U.S. Highway 27, South
Sebring, FL 33870-5452

3. Sebring Gas System, Inc. first began providing natural gas service in 1992 pursuant to authority issued by the Commission in Order No. 24761 issued in Docket No. 910537-GU on July 5, 1991. Initial rates for natural gas service were approved by Order No.

25456 issued December 9, 1991 in Docket No. 910873-GU and permanent rates were established in the same docket by Order PSC—92-0229-FOF-GU issued April 20, 1992. Sebring Gas System, Inc. has continued to provide natural gas service since the authority was granted, but has not had an adjustment to its base rates since they were first established.

4. The Petitioner is engaged in business as a natural gas utility company providing distribution and gas transportation service as defined in Section 366.02, Florida Statutes, and is subject to the jurisdiction of the Florida Public Service Commission. The Company provides service to customers located in and around Sebring, Florida.

5. With the petition for a permanent increase, the Company is requesting that the Commission approve a permanent increase in rates and charges sufficient to provide revenues to provide service and to determine an appropriate return on equity and a fair and reasonable overall rate of return using that return on equity. Revised rate schedules reflecting the rates and charges necessary to produce adequate revenues for the Company are included with this request and the Company requests that these schedules be approved.

6. Petitioner's present base rates for natural gas were established in 1992 based on a return on common equity of 12 percent and an overall rate of return of 10.86 percent. In 1993, as a result of an industry wide review of equity returns conducted by Staff, Sebring Gas agreed to utilize a mid-point on equity of 11% for all regulatory purposes. In this docket, Sebring Gas is requesting the Commission to approve an Return on Equity of 11.50 percent as the fair and reasonable return.

7. The test period for the requested permanent increase is the projected 12 month period ending December 31, 2005, with the historical period being the 12 months ended December 31, 2003. As reflected in the request for test period previously filed by Petitioner with the Commission, the Company believes the test period to be appropriate for establishing permanent rates.

8. Since the Company received authority to provide natural gas service, it has offered reasonable and adequate service to its customers; however the rates at which the service has been provided has not produced revenues sufficient to maintain the level of service and produce a fair rate of return. Despite conducting operations with minimal resources, and efforts at limiting expenses, Sebring Gas has not earned near the floor of its authorized return and requires additional revenues to continue to operate and maintain its system and to have access to capital necessary for expansion. Expenses for repairs, maintenance, insurance and other items continue to increase and the Company's present rates as approved by the Commission are not sufficient to allow the Company an opportunity to realize a fair and reasonable compensation for the services provided.

9. The Company is not currently earning a return on its investment. Without the requested relief, the revenues will further deteriorate and without relief, the projected test year return is shown to be -11.87%. For Sebring Gas to be able to provide reasonable, adequate service and expand its system, rate relief is necessary.

10. Sebring Gas is requesting approval to permanently increase its rates and charges to generate additional base rate revenues of \$234,641 and to revise its rates and schedules

accordingly. The proposed tariffs are attached hereto. This additional revenue will allow the Company an opportunity to earn a fair and reasonable rate of return based on a return on equity of 11.50%. The requested return on equity is fair, reasonable, and appropriate for the Company. Further, the increase will provide financial strength to the Company and insure a continuation of reasonable and efficient service to its customers.

11. With the filing of this petition, the Company is filing the Minimum Filing Requests required by Rule 25-7.039, Florida Administrative Code, which contain the accounting, engineering, rate and capital details which support the request and need for relief. Also accompanying this Petition are Direct Testimony and Exhibits of Jerry Melendy, Jr. and Jeff Householder. Through the MFRs, testimony and exhibits, the Company has provided support for the requested increase in interim and permanent rates.

12. Coincident with the request for permanent relief, Sebring Gas also requests that the commission approve an increase in annual revenues of \$110,957 on an interim basis pursuant to Section 366.071, Florida Statutes. Interim relief is necessary to avoid further deterioration of earnings, and is required in order to allow the Company an opportunity to earn a fair rate of return as authorized by the Commission. The amount of the interim relief requested has been calculated pursuant to Section 366.071(5), Florida Statutes and is reflected in Section F of the MFRs which is included herein. As required by Rule 25-7.040(2)(a), Florida Administrative Code, Sebring Gas will allocate the interim rate relief “across the board” and the interim rates which shall apply will be calculated consistent with that requirement. Development of the rates is described in detail in Section F of the MFRs.

13. With this petition Sebring is also proposing a rate restructuring so that a customer's rate class will be based on annual therm usage rather than type of usage. The traditional classification as residential, commercial, industrial and related classifications will be dropped and the new structure will be based on usage.

14. As required by Section 366.071, Florida Statutes, and Rule 25-7.040(3), Florida Administrative Code, the Company agrees that the interim rate relief collected is under bond or corporate undertaking and subject to refund with interest at a rate determined in accordance with Rule 25-7.040(3), Florida Administrative Code. For purposes of this interim request, Sebring Gas would propose that the interim amount be secured by a corporate undertaking.

15. As permitted by Section 366.06(4), Florida Statutes, which authorizes natural gas utilities to have their petition for rate relief processed under the proposed agency action ("PAA") process, Sebring Gas elects to proceed under the PAA procedures. Although the Company elects to proceed under the PAA process, Rule 25-7.039, Florida Administrative Code requires that direct testimony and exhibits be submitted at the same time that the Company files its petition for rate relief. Accordingly, Sebring Gas has prefiled its testimony but reserves the right to supplement or file additional testimony should the PAA order be protested.

Wherefore, for the reasons given, Sebring Gas requests that the Commission:

a. authorize the Company to increase its rates on an interim basis as authorized by Section 366.071, Florida Statutes, by \$110,957, subject to corporate undertaking and refund, and to recover the interim amount as permitted by Rule 25-7.040, Florida Administrative Code;

- b. consent to placing in effect the new rate schedules filed with this Petition which increase the rates and charges for natural gas offered by the Company and produce additional annual revenue of \$234,641;
- c. find the capital structure to be appropriate and that a fair and reasonable rate of return for Sebring Gas is a weighted average cost of capital of 8.65% using a return on equity of 11.50%;
- d. approve the proposed rates, charges, and other proposed changes to its tariff;
- e. conduct its review of this request pursuant to the Proposed Agency Action process authorized by Section 366.06(4), Florida Statutes, should the Commission elect to withhold consent to the placing in effect of the proposed new rate schedules; and
- f. grant to the Company such further relief as the Commission may find reasonable and proper.

Respectfully submitted this 30th day of June, 2004.

MESSER, CAPARELLO & SELF, P. A.
Post Office Box 1876
Tallahassee, FL 32302-1876
(850) 222-0720


NORMAN H. HORTON, JR., ESQ.

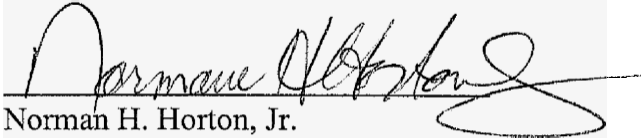
Attorneys for Sebring Gas System, Inc.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the Petition have been served upon the following parties by Hand Delivery this 30th day of June, 2004.

Ralph Jaeger, Esq.
Office of General Counsel
Room 370, Gunter Building
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Office of Public Counsel**
111 Madison Street, Room 812
Tallahassee, FL 32399-1400


Norman H. Horton, Jr.

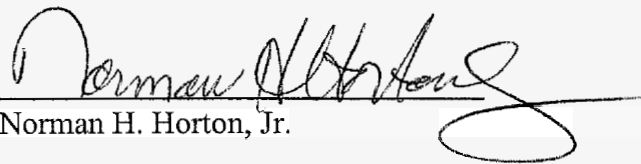
**including Minimum Filing Requirements

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the Petition have been served upon the following parties by U.S. Mail this 30th day of June, 2004.

Chairman
Highland County Board of County Commissioners
600 South Commerce Avenue
P.O. Box 1926
Sebring, FL 33872-1926

Chief Executive Officer
City of Sebring
368 S. Commerce Ave.
Sebring, Florida 33870



Norman H. Horton, Jr.