ORIGINAL

COMMISSIONERS:
LISA POLAK EDGAR, CHAIRMAN
MATTHEW M. CARTER II
KATRINA J. MCMURRIAN

STATE OF FLORIDA

TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

RECEIVED-FPSC
07 FEB 23 PM 3:42
COMMISSION CLERK

February 23, 2007

Mr. Jerry H. Melendy, Jr.
Sebring Gas Systems, Inc.
3515 U.S. Highway 27 South
Sebring, Florida 33870-5452

Re: Docket No. 060504-GU - Sebring Depreciation Study

Dear Mr. Melendy:

Enclosed is the Staff Report regarding your current depreciation study filed in the above-referenced docket. The Company's response to this report is due on March 23, 2007, in order to meet the targeted recommendation date of May 10, 2007. In your response, please provide us with any concurrences, differences, and/or additional input.

Should you have any questions, or need further information, please do not hesitate to contact Anne Marsh at (850) 413-6554.

Sincerely,

John Slemkewicz
Public Utilities Supervisor

JS/AEM:sc
Attachment
cc: Office of the General Counsel (Gervasi)
Division of the Commission Clerk and Administrative Services
Office of the Public Counsel
Division of Economic Regulation (Devlin, Willis, Bulecza-Banks)
Brimmer, Burek & Keelan LLP (Wesley Hufford)

DOCUMENT NUMBER-DATE
01779 FEB 23 07
FPSC-COMMISSION CLERK

2006 DEPRECIATION STUDY
Sebring Gas System, Inc.
Docket No. 060504-GU

General

Staff has not recommended any changes to the company's current depreciation rates or lives. A staff audit was performed in 2002 and the company completed a rate case in 2004 that also included a staff audit. Due to the recent nature of the booked adjustments, sufficient time has not passed to determine whether changes in life parameters and rates are needed. Staff will continue to monitor the company's depreciation through its annual status reports. The current lives and rates are reasonable when compared with industry averages.

The staff's recommended average service lives and average remaining lives are rounded to one decimal point up to 20 years and to the nearest whole year is used thereafter.

Distribution Plant

Mains, Steel (Account 376.1): The company stated in response to staff's initial review that it complies with Rule 25-12,945, Inactive Gas Service Lines. However, the company also noted that it had not accounted for the removals in its accounting. The appropriate depreciation life and rate cannot be determined until the corrections are made.

Mains, Plastic (Account 376.02): Upon staff's review of plant account data, the continuation of the currently approved 45 year average service life, and negative net salvage of 30 percent appears reasonable. Using the current average age of 11.1 years and the S3 curve, staff is proposing a remaining life of 34 years.

Measuring and Regulating Station Equipment-General (Account 378): Continuation of the currently approved R3 curve, with a 33 year average service life, and a negative net salvage of 2 percent appears reasonable. Using the current age of 18.4 years and the R3 curve, staff proposes a remaining life of 16.2 years.

Measuring and Regulating Station Equipment-New (Account 378): In the last depreciation study, it was determined that no activity had occurred in Account 378 since 1991. The commission found that any new additions should not bear the burden of recovery associated with the embedded investment. A whole life rate based on a 33-year average service life and a negative 2 percent salvage factor was approved. Since then, there has been no activity in the account. The approved life is in line with industry averages for the account. It appears reasonable to continue use of the R3 curve with a 33 year average service life and a negative net salvage of 2 percent for any future additions to the account.

Measuring and Regulating Station Equipment – City Gate (Account 379): The company's continued use of a 32 year average service life as prescribed in the last depreciation study appears reasonable. Using the current age of 16.3 years and the R3 curve, staff proposes a remaining life of 17.0 years.

Service Lines, Steel (Account 380.1): As previously discussed under Mains, Steel, the company also noted that it had not accounted for the removals in its accounting. The appropriate depreciation life and rate cannot be determined until the corrections are made.

Service Lines, Plastic (Account 380.2): The company's continued use of a 40 year average service life as prescribed in the last depreciation study appears reasonable, with a negative 30 percent net salvage. Using the current age of 6.6 years and the S2 curve, staff proposes a remaining life of 33 years.

Meters (Account 381): The company's continued use of a 25 year average service life as prescribed in the last depreciation study appears reasonable. Using the current age of 16.6 years and the R4 curve, staff proposes a remaining life of 9.3 years.

Meter Installations (Account 382): The company's continued use of a 34 year average service life as prescribed in the last depreciation study appears reasonable. Using the current age of 18.9 years and the S2 curve, staff proposes a remaining life of 16.8 years.

Regulators, (Account 383): The company's continued use of a 30 year average service life as prescribed in the last depreciation study appears reasonable. Using the current age of 17.5 years and the R4 curve, staff proposes a remaining life of 13.1 years.

Regulator Installations (Account 384): Continuation of the currently approved S2 curve, with a 34 year average service life, and a negative net salvage of 3 percent appears reasonable. Using the current age of 22 years and the S2 curve, staff proposes a remaining life of 15 years.

Property on Customer Premises (Account 386): Continuation of the currently approved S2 curve, with a 20 year average service life, and a negative net salvage of 2 percent appears reasonable. Using the current age of 14.4 years and the S2 curve, staff proposes a remaining life of 7.8 years.

Other Equipment (Account 387): Continuation of the previously prescribed life parameters of a 25 year average service life and a net salvage of zero percent appear reasonable and in line with the industry. Using the current average age of 10.0 years and the S4 curve, staff is recommending an average remaining life of 15.0 years.

General Plant

Leasehold Improvements (Account 390): This account was established in 1991 with a 40 year service life. However, the account was not included in subsequent depreciation studies. A staff audit adjustment was made as part of the 2001 study but was not discussed in that study. It appears that the account may be for some type of land rights or organizational costs, which would not be included as part of the depreciation study. Staff has asked for additional clarification of the account.

Although the company booked the adjustment, it has not been accruing annual depreciation. As part of the 2004 rate case, projected test year accumulated depreciation reserve was $1,235 as of December 2005. As of December 2006, the reserve amount should be $1,333. The expense amount for 2005 was $98. This amount is not reflected in the company's annual status report. The company should continue to depreciation the asset for future earnings considerations.

Office Furniture (Account 391.1): Staff accepts the company continuation of the previously prescribed life parameters of an 18 year average service life and a net salvage of zero percent appears reasonable and in line with the industry. Using the current average age of 15.6 years and the S2 curve, staff is recommending an average remaining life of 5.6 years.

Office Equipment (Account 391.2): Staff accepts the company continuation of the previously prescribed life parameters of a 12 year average service life and a net salvage of zero percent appears reasonable and in line with the industry. Using the current average age of 7.9 years and the S3 curve, staff is recommending an average remaining life of 4.6 years. Assuming no additions, this account will be fully depreciated by the time of the next study. Due to the short service life, staff believes no adjustment is necessary.

Transportation – Light Trucks (Account 392.1): Staff accepts the company continuation of the previously prescribed life parameters of an 8 year average service life and a net salvage of 15 percent appears reasonable and in line with the industry. Using the current average age of 5.7 years and the S2 curve, staff is recommending an average remaining life of 3.2 years. Assuming no additions, this account will be fully depreciated by the time of the next study. Due to the short service life, staff believes no adjustment is necessary.

Transportation Equipment – Other (Account 392.3): This account has a zero balance. It appears reasonable and in line with industry averages to continue use of an S5 curve for future additions, with a 20 year average service life, and zero net salvage.

Tools, Shop and Garage Equipment (Account 394): Staff accepts as reasonable for this account, the company's continuing the average service life of 15 years with a net salvage of zero percent. Using an S3 curve and an average age of 2.3 years, the average remaining life is 12.7 years.

Power Operated Equipment (Account 396): Staff accepts the company's continuation of the previously prescribed average service life of 15 years and zero net salvage which appears reasonable and in line with the industry. Using the S4 curve, average service life of 15 years, and the current average age of 4.3 years, staff is recommending an average remaining life of 10.7 years.

Communication Equipment (Account 397): Staff accepts the company's continuation of the previously prescribed average service life of 12 years and zero net salvage which appears reasonable and in line with the industry. Using the S4 curve, average service life of 12 years, and the current average age of 9.5 years, staff is recommending an average remaining life of 3 years. Assuming no additions, this account will be fully depreciated by the time of the next study. Due to the short service life, staff believes no adjustment is necessary.

Items for Company Response:

1. For steel lines and services still on the company's books, please provide the number of lines and dollar amount as follows:

    a) Inactive two years or less
    b) Inactive two to five years
    c) Inactive greater than five years.

2. Please update the 2006 data for all accounts from October through December 2006.

3. For all accounts, please provide the 2006 additions and retirements. This may be done by total for the year. It is not necessary to break down additions and retirements by month.

4. Please explain specifically what the item is that is included in Account 390, Leasehold improvements. Based on archived information, it appears that it may be some type of land rights.