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Public Service Commission

October 5, 2016

Mr. Jerry Melendy, Jr.
Vice President
Sebring Gas Systems
3515 Highway 27 South
Sebring, FL. 33870-5452

RECEIVED-FPSC
2016 OCT -5 PM 12: 16
COMMISSION
CLERK

Re: Docket No. 160174-EI, Request for approval of 2016 depreciation study by Sebring Gas Systems, Inc.

Mr. Melendy:

Staff has completed its report regarding Sebring Gas System's current depreciation study. This report documents staff's preliminary positions concerning Sebring's study. Please provide a response by November 4, 2016, specifically indicating whether Sebring is in agreement and/or disagreement with staff's preliminary positions.

Should you have any questions, or need further information, please do not hesitate to contact me at (850) 413-6433.

Sincerely,

A handwritten signature in black ink, appearing to read "Devlin Higgins".

Devlin Higgins
Public Utilities Analyst

Attachment

cc: Office of Commission Clerk
Office of Public Counsel
Cong Nguyen, of Brimmer, Burek & Keelan LLP

DEPRECIATION STUDY REPORT

1. As shown on Sebring’s “Analysis of Entries in Accumulated Depreciation & Amortization” schedules for the years 2011-2015, there are reserve entries/amounts associated with Account 399 for \$9,788. Staff understood this reserve amount is associated with a prior audit finding and was identified by Commission Order PSC-04-1260-PAA-GU. Staff, in cooperation with Sebring (see Sebring’s Responses to Staff’s First Data Request, No. 1), allocated the surplus reserve of Account 399 – Prior Period Adjustment, as detailed below:

Acct. No.	Account Title	Transfer Amount
376.1	Mains – Steel	2,357
379	Meas. & Reg. Equip.(City Gate)	2,129
380.2	Services - Plastic	2,058
382	Meter Installations	119
387	Other Equipment	153
394	Tools, Shop & Garage Equipment	2,972
399	Prior Period Adjustment	(9,788)

Staff’s methodology was to first bring any accounts with a theoretically negative reserve to a theoretically correct level. In doing so, staff was left with a remainder of \$2,058. Staff chose to allocate this entire amount to Account 380.2 – Services – Plastic, due to simplicity and the fact that the account has an approximate 31-year average remaining life in which the surplus is spread over. Staff believes any effects of the transfer are minimized by the long service life and size of investment relative to the transfer amount.

2. Shown on the “Analysis of Entries in Accumulated Depreciation & Amortization” of Sebring’s Annual Status Report, year ending Dec. 31, 2011, for Account 392 – Trans. Equipment – Other Vehicles, is a reserve of \$180. This Account currently has no investment. Staff intends to recommend the Commission authorize transferring this reserve amount to Account 392 – Trans. Equipment – Light Trucks.
3. In accordance with Sebring’s Responses to Staff’s First Data Request, No. 5, the projected reserve at the end of 2016 for Account 392.1 – Transportation Equipment – Trucks, has been reduced by \$14,964, and preliminarily restated to \$131,499. Please comment as to whether Sebring is in agreement and/or disagreement with staff concerning this updated reserve amount.
4. In accordance with Sebring’s Responses to Staff’s First Data Request, No. 6, the projected reserve at the end of 2016 for Account 397 – Communication equipment, has

been reduced by \$37,530, and preliminarily restated to \$4,170. Please comment if in disagreement with staff's understanding on this update reserve amount.

5. Commission Rule 25-7.014, F.A.C., Records and Reports in General requires that natural gas utilities under Florida Public Service Commission jurisdiction shall maintain its accounts and records in conformity with the Uniform System of Accounts for Natural Gas Companies (USOA), as found in the Code of Federal Regulations, Title 18, Subchapter F, Part 201. Part 201 - Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act, under "Gas Plant Instructions," Section 10. "Additions and retirements of gas plant," B.(2), it is written that:

When a retirement unit is retired from gas plant, with or without replacement, the book cost thereof shall be credited to the gas plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

Staff understands the specific passage "the book cost of the unit retired and credited to gas plant shall be charged to the accumulated provision for depreciation applicable to such property" to mean that property is retired at book cost. Please explain Sebring's methodology for booking retired property to accumulated depreciation over the period 2011-2016, specifically for: Account 380.2 – Services – Plastic, Account 384 – House Regulator Installations, and Account 392.1 – Transportation Equipment – Trucks. Please also explain how Sebring intends to book retired plant to accumulated depreciation in the future.

6. Based on Sebring's Responses to Staff's First Data Request, staff has attached copies of its preliminary understanding of, and positions on, Sebring's 2016 Depreciation Study as it relates to depreciation components and rates (Attachment A), and current and preliminary annual expenses (Attachment B).¹ Please comment as to whether Sebring is in agreement and/or disagreement with any of staff's preliminary positions.

¹ Order No. PSC-12-0043-PAA-GU, issued January 26, 2012, in Docket No. 110233-GU, In re: Petition for approval of 2011 Depreciation Study by Sebring Gas Systems, Inc.

Comparison of Rates and Components									
Account Number	Account Title	Current ¹			Staff Preliminary				
		Ave. Rem. Life (yrs.)	Future Net Salvage (%)	Remaining Life Rate (%)	Ave. Rem. Life (yrs.)	Reserve (%)		Future Net Salvage (%)	Remaining Life Rate (%)
376.1	Mains - Steel	12.7	(30)	2.9	14.6	87.66%	*	(30)	2.9
376.2	Mains - Plastic	34.2	(30)	2.9	33.8	32.50%		(30)	2.9
378	Meas. & Reg. Equip. (Embedded)	13.1	(2)	3.1	16.0	52.87%		(2)	3.1
379	Meas. & Reg. Equip.(City Gate)	16.5	(2)	3.2	27.6	13.68%	*	(2)	3.2
380.1	Services - Steel	14.3	(30)	1.7	11.8	117.74%		(30)	1.0
380.2	Services - Plastic	32.0	(30)	3.1	30.7	31.29%	*	(30)	3.2
381	Meters	12.1	0	4.0	9.4	65.25%		0	3.7
382	Meter Installations	17.1	(5)	3.1	19.5	44.55%	*	(5)	3.1
383	House Regulators	10.5	0	3.3	7.0	78.21%		0	3.1
384	House Regulator Installations	13.7	(3)	3.0	14.7	59.17%		(3)	3.0
386	Property on Customers' Premises	9.5	0	4.0	6.9	83.87%		0	2.3
387	Other Equipment	15.5	0	4.0	16.8	32.80%	*	0	4.0
390	Leasehold Improvements	38.0	0	2.5	40.0	19.85%		0	2.5
391.1	Office Furniture	8.8	0	4.0	25.0	58.08%		0	4.0
391.2	Office Equipment	5.8	0	6.7	15.0	83.18%		0	4.4
392.1	Transportation - Trucks	2.7	15	10.6	8.0	71.84%		15	7.3
394	Tools, Shop & Garage Equipment	10.3	0	6.7	15.0	63.15%	*	0	6.7
396	Power Operated Equipment	5.4	0	6.7	15.0	48.99%		0	5.9
397	Communication Equipment	5.0	0	5.6	18.0	13.63%		0	5.6

¹ Order No. PSC-12-0043-PAA-GU.

*Denotes a Reserve Transfer.

Comparison of Expenses						
Account Number	Account Title	Current ¹		Staff Preliminary		
		Depreciation Rate (%)	Annual Expense (\$)	Depreciation Rate (%)	Annual Expense (\$)	Change In Expense (\$)
376.1	Mains - Steel	2.9	5,409	2.9	5,409	0
376.2	Mains - Plastic	2.9	65,547	2.9	65,547	0
378	Meas. & Reg. Equip. (Embedded)	3.1	505	3.1	505	0
379	Meas. & Reg. Equip.(City Gate)	3.2	39,442	3.2	39,442	0
380.1	Services - Steel	1.7	5,992	1.0	3,525	(2,467)
380.2	Services - Plastic	3.1	20,891	3.2	21,565	674
381	Meters	4.0	11,044	3.7	10,216	(828)
382	Meter Installations	3.1	3,529	3.1	3,529	0
383	House Regulators	3.3	1,063	3.1	999	(64)
384	House Regulator Installations	3.0	1,892	3.0	1,892	0
386	Property on Customers' Premises	4.0	1,432	2.3	824	(608)
387	Other Equipment	4.0	894	4.0	894	0
390	Leasehold Improvements	2.5	332	2.5	332	0
391.1	Office Furniture	4.0	33	4.0	33	0
391.2	Office Equipment	6.7	2,096	4.4	1,377	(719)
392.1	Transportation - Trucks	10.6	19,402	7.3	13,362	(6,040)
394	Tools, Shop & Garage Equipment	6.7	1,071	6.7	1,071	0
396	Power Operated Equipment	6.7	2,647	5.9	2,331	(316)
397	Communication Equipment	5.6	1,713	5.6	1,713	0
Total			184,934		174,566	(10,368)

¹ Order No. PSC-12-0043-PAA-GU.