



**Sebring Gas System, Inc.
Docket No. 20190083-GU
Responses to Staff's
Seventh Set of Data Requests**

1. Witness Jerry Melendy, on page 7 of his testimony, states that the Company is seeking a permanent annual rate increase of \$309,847. How much of the requested increase is associated with the construction costs identified in Schedule G-1 pages 23 and 26.

Response: The Company is uncertain how to perform such a calculation. However, if the Company were to use the filed Historic Base Year Adjusted Rate Base (\$3,716,502) in place of the Adjusted Rate Base for the Projected Test Year, as shown on Schedule G-5 (\$5,085,214), the permanent annual rate increase would have been \$167,968 or a reduction of \$141,879 from the Company's actual request of \$309,847.

2. Witness Russell Melendy, on page 3 of his testimony, states that there is potential for the addition of approximately 50 low-income housing units in Sebring. Please provide the estimated annual revenues associated with the discussed housing units.

Response: The Company expects to individually meter each unit; therefore, the estimated annual revenues associated with these customers, using current rates, is projected to be \$7,614 per year, assuming all units are active for the full 12 months and each use the TS-1 average annual consumption (see MFR Schedule G-2, Page 6) of 77.5 therms annually. These customers would generate, using the proposed rates, annual revenues of \$10,083.

3. Witness Christmas, on page 4 of his testimony, states that the initial part of the Arcadia system will be designed to serve a large customer (TS-5). Please provide the estimated annual revenues associated with the discussed large customer.

Response: The large TS-5 customer referenced for addition in Arcadia is the Columbia Care facility. Based on discussions with the potential customer, the facility has the potential to use several hundred thousand therms per year, but this is highly speculative. The Company is uncertain what the annual usage may actually turn out to be. In the instant case, the Customer is projected to use the average TS-5 annual therms of 84,114.1 for the Projected Test Year, as reflected on Schedule G-2, Page 8.5 of 31. At current TS-5 rates, the customer would generate



annual revenues of \$38,078. At the proposed TS-5 rates, the annual revenues would be \$50,707.

4. Witness Christmas, on pages 3-11 of his testimony, describes the Company's projected plant additions for the Historic Base Year +1 and the Projected Test Year.

a. Please provide the total construction cost for plant additions in Arcadia.

Response; The projected total construction cost for plant additions in Arcadia for both the Historic Base Year + 1 and the Projected Test Year are as follows: Mains – Steel - \$425,600; Mains – Plastic - \$712,500; Service Lines – Plastic - \$87,488; Meters - \$27,500; Meter Installations - \$7,330; Regulators - \$8,860; and Regulator Installations - \$2,900. The total projected construction costs for the initial distribution system, as detailed herein, is \$1,272,178.

b. Please provide the estimated annual cost associated with the Company's investment in the Arcadia plant additions including return on investment, operations and maintenance expense, depreciation, and taxes.

Response: See attached excel spreadsheet for calculation of the estimated annual cost associated with the Company's investment in the Arcadia plant additions including return on investment, operations and maintenance expense, depreciation and taxes.

c. Please provide the estimated annual revenues associated with the plant additions in Arcadia. For this response, please assume existing rates.

Response: For the customers projected to be added in Arcadia through the end of the Projected Test Year, the estimated annual revenues, using existing rates, is \$139,492.

d. Please provide four years of estimated annual revenues associated with the plant additions in Arcadia. For this response, please assume existing rates.

Response: Four years of estimated annual revenues generated from the projected Arcadia customers is \$557,968. It is important to note that the projected customers included in the instant case reflect only those customers in Arcadia that the Company believes that it can reasonable add to the system through December 2020. There are many other customers in the Arcadia service area that the Company expects to reasonable add over time in this community. The initial costs to construct a new distribution network in a new service territory should not be subject to the MACC test, but instead reflect a long-term investment of the Company to serve a new community. For example, the size and materials used to construct the



distribution system included in this case are sized to provide service to many other customers that the Company expects to add over the next decade or more as the community grows. It would not be prudent for the Company to size the distribution network to only serve the first group of customers to sign up for service.

- e. Please provide the total construction cost for plant additions in Wauchula.

Response: The total construction cost for plant additions in Wauchula included in the instant case is as follows: Mains – Plastic - \$343,750; Service Lines – Plastic - \$61,925; Meters - \$22,230; Meter Installations - \$5,285; Regulators - \$6,710; and Regulator Installations - \$2,300. The total projected construction costs for the initial distribution system, as detailed herein, is \$442,200.

- f. Please provide the estimated annual cost associated with the Company's investment in the Wauchula plant additions including return on investment, operations and maintenance expense, depreciation, and taxes.

Response: See attached excel spreadsheet for calculation of the estimated annual cost associated with the Company's investment in the Wauchula plant additions including return on investment, operations and maintenance expense, depreciation and taxes.

- g. Please provide the estimated annual revenues associated with the plant additions in Wauchula. For this response, please assume existing rates.

Response: For the customers projected to be added in Wauchula through the end of the Projected Test Year, the estimated annual revenues, using existing rates, is \$99,514.

- h. Please provide four years of estimated annual revenues associated with the plant additions in Wauchula. For this response, please assume existing rates.

Response: Four years of estimated annual revenues generated from the projected Wauchula customers is \$398,056. It is important to note that the projected customers included in the instant case reflect only those customers in Wauchula that the Company believes that it can reasonable add to the system through December 2020. There are many other customers in the Wauchula service area that the Company expects to reasonable add over time in this community. The initial costs to construct a new distribution network in a new service territory should not be subject to the MACC test, but instead reflect a long-term investment of the Company to serve a new community. For example, the size and materials used to construct the distribution system included in this case are sized to provide service to many



other customers that the Company expects to add over the next decade or more as the community grows. It would not be prudent for the Company to size the distribution network to only serve the first group of customers to sign up for service.

- i. Please provide the total construction cost for plant additions in Sebring.

Response: The total construction cost for plant additions in Sebring included in the instant case is as follows: Mains – Plastic - \$268,750; Service Lines – Plastic - \$21,312; Meters - \$6,380; Meter Installations - \$3,655; Regulators - \$2,150; and Regulator Installations - \$1,475. The total projected construction costs for the initial distribution system, as detailed herein, is \$303,722.

- j. Please provide the estimated annual cost associated with the Company's investment in the Sebring plant additions including return on investment, operations and maintenance expense, depreciation, and taxes.

Response: See attached excel spreadsheet for calculation of the estimated annual cost associated with the Company's investment in the Sebring plant additions including return on investment, operations and maintenance expense, depreciation and taxes.

- k. Please provide the estimated annual revenues associated with the plant additions in Sebring. For this response, please assume existing rates.

Response: For the customers projected to be added through the end of the Projected Test Year, the estimated annual revenues, using existing rates, is \$10,869.

- l. Please provide four years of estimated annual revenues associated with the plant additions in Sebring. For this response, please assume existing rates.

Response: Four years of estimated annual revenues generated from the projected Sebring customers is \$43,476. As with Arcadia and Wauchula, the extension of this distribution main puts the Company in position to provide service to future customers in this area, not just the number of customers projected in the instant case.

5. Has Sebring considered or evaluated any contribution-in-aid-of-construction as it relates to the plant additions discussed by witness Christmas? If yes, please describe the results of Sebring's considerations and/or evaluations. If no, please explain why not.

Response: No, the Company has not considered any contribution-in-aid-of-construction ("CIAC") as it related to the plant additions discussed in Mr.



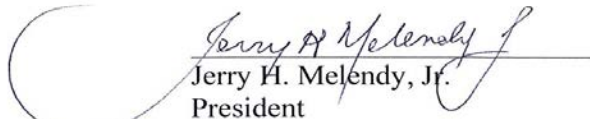
Christmas' Direct Testimony. The Company believes that it is making a prudent investment in the initial distribution networks of Wauchula and Arcadia that appropriately balances the mid-term (10-15 years) growth potential of these systems with the immediate need to keep the rate impacts to customers at a reasonable level. The Company believes that it has the correct balance as evidenced by the size and type of Mains used in each service area. The Company has minimized the use of more expensive steel Mains and instead is utilizing more High Density Poly-Ethylene (HDPE) pipe, which has both a lower cost of materials and installation, as the HDPE pipe comes in 500-foot coils rather than 40-foot steel segments. Steel pipe requires a specialized welder (expensive) versus fusing together HDPE pipe, which any qualified employee can perform (not expensive). HDPE pipe has a lower O&M cost than steel pipe, which must be cathodically protected.

A second item is the fact that the Company has avoided very expensive interconnects with the closest interstate pipeline, which in both instances is several miles away from either City. These interconnects alone typically cost, including the cost of the city gate station, approximately \$1.5 million. On top of this, the Company would have had to construct several miles of steel Mains from these interconnects to the proximity of both Cities. These costs have been avoided by the Company. The Company, instead, has contracted with near-by LDC's for service at very reasonable costs.

As the Company approaches the end of the initial time horizon of 10-15 years, it intends to evaluate its options for further growth, need for additional interconnections with interstate, intrastate or LDC facilities to increase the local distribution system capacity and other operational needs. It is important to note that there is a strong history in Florida of interstate and intrastate pipeline expansions to meet market demands. The Company expects this to continue to occur, thus providing a new set of opportunities to evaluate as the end of the initial time horizon nears.

For these reasons (and others not detailed herein), the Company does not believe that any CIAC is required for these prudent Company expansions into the Cities of Wauchula and Arcadia.

Response Provided By:


Jerry H. Melendy, Jr.
President

9/16/2019
Date