



Brimmer, Burek & Keelan LLP

Certified Public Accountants

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March 13, 2017

Mr. Andrew L. Maurey
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Dear Mr. Maurey:

We are enclosing the Company's semi-annual Earnings Surveillance Report as of December 31, 2016

Please contact me at (813) 282-3400 if you have any questions.

Sincerely,

BRIMMER, BUREK & KEELAN LLP
Cong Nguyen, CPA

Members of:
Center for Audit Quality

American Institute of
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Florida Institute of Certified
Public Accountants

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FLORIDA PUBLIC SERVICE COMMISSION

INVESTOR-OWNED NATURAL GAS UTILITY
EARNINGS SURVEILLANCE REPORT

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REGISTRATION OF
ACCOUNTS OF PRIVATE

SEBRING GAS SYSTEM, INC.
EARNINGS SURVEILLANCE REPORT SUMMARY
December 2016

SCHEDULE 1

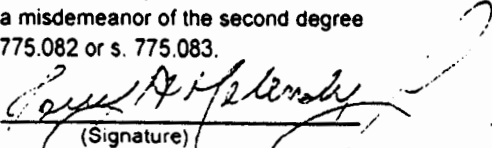
	(1) <u>ACTUAL PER BOOKS</u>	(2) <u>FPSC ADJUSTMENTS</u>	(3) <u>FPSC ADJUSTED</u>	(4) <u>PRO FORMA ADJUSTMENTS</u>	(5) <u>PRO FORMA ADJUSTED</u>
I. <u>AVERAGE RATE OF RETURN (JURISDICTIONAL)</u>					
NET OPERATING INCOME	\$ 267,326	\$ 290	\$ 267,616		\$ 267,616
AVERAGE RATE BASE	\$ 3,733,766	\$ 0	\$ 3,733,766		\$ 3,733,766
AVERAGE RATE OF RETURN	7.16%		7.17%		7.17%
II. <u>YEAR END RATE BASE (JURISDICTIONAL)</u>					
	\$ 3,799,503	\$ 0	\$ 3,799,503		

III. <u>REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE (FPSC ADJUSTED BASIS)</u>	
LOW	7.42%
MIDPOINT	7.85%
HIGH	8.29%

IV. <u>EARNED RETURN ON EQUITY (FPSC ADJUSTED BASIS)</u>	
A. INCLUDING FLEX RATE REVENUES	9.94%
B. EXCLUDING FLEX RATE REVENUES	9.94%

I am aware that Section 837.06, Florida Statutes, provides:

Whoever knowingly makes a false statement in writing with
the intent to mislead a public servant in the performance of his
official duty shall be guilty of a misdemeanor of the second degree
punishable as provided in s. 775.082 or s. 775.083.

Jerry H. Melendy, Jr. - President		03/14/2017
(Name and Title of Chief Financial Officer)	(Signature)	(Date)

PSC/AFA13

**SEBRING GAS SYSTEM, INC.
AVERAGE RATE OF RETURN
RATE BASE
December 2016**

SCHEDULE 2
PAGE 1 OF 2

	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)
	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	5,695,830	(2,234,730)	3,461,100	0	3,701	3,464,801	268,965	3,733,766
<u>FPSC ADJUSTMENTS:</u>								
TOTAL FPSC ADJUSTMENTS	0	0	0	0	0	0	0	0
FPSC ADJUSTED	5,695,830	(2,234,730)	3,461,100	0	3,701	3,464,801	268,965	3,733,766
<u>FLEX RATE REVENUES</u>								
ADJUSTED FOR								
FLEX RATE REVENUES	5,695,830	(2,234,730)	3,461,100	0	3,701	3,464,801	268,965	3,733,766
<u>PRO FORMA REVENUE INCREASE AND</u>								
<u>ANNUALIZATION ADJUSTMENTS:</u>								
TOTAL PRO FORMA ADJUSTME	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	5,695,830	(2,234,730)	3,461,100	0	3,701	3,464,801	268,965	3,733,766

**SEBRING GAS SYSTEM, INC.
AVERAGE RATE OF RETURN
INCOME STATEMENT
December 2016**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	OPERATING REVENUES	O & M GAS EXPENSE	O & M OTHER	DEPRECIATION & TAXES AMORTIZATION	OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
PER BOOKS, as adjusted January 2016 through December 2016	960,535	0	481,270	187,153	24,786	0	0	0	0	693,209	267,326
FPSC ADJUSTMENTS:											
Disallowed lobbying expenses			(290)							(290)	290
TOTAL FPSC ADJUSTMENTS	0	0	(290)	0	0	0	0	0	0	(290)	290
FPSC ADJUSTED	960,535	0	480,980	187,153	24,786	0	0	0	0	692,919	267,616
FLEX RATE REVENUES ADJUSTED FOR	0	0	0	0	0	0	0	0	0	0	0
FLEX RATE REVENUES	960,535	0	480,980	187,153	24,786	0	0	0	0	692,919	267,616
PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:											
TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	960,535	0	480,980	187,153	24,786	0	0	0	0	692,919	267,616
PER BOOKS CURRENT MONTH AMOUNT	80,309	0	51,580	15,631	1,251	0	0	0	0	68,462	11,847

Sebring Gas System, Inc.
 Schedule 2 Worksheet - Average Rate of Return
 Dec-16

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Plant in Service	Accumulated Depreciation Amortization	Net Plant in Service	Property Held for Future Use	Construction Work in Progress	Net Utility Plant	Working Capital	Total Rate Base
13 Month Average								
Dec-15	5,437,566	(2,155,774)	3,281,792	0	1,267	3,283,059	387,934	3,670,993
Jan-16	5,464,971	(2,170,289)	3,294,682	0	19,065	3,313,747	363,007	3,676,754
Feb-16	5,477,336	(2,185,368)	3,291,968	0	20,414	3,312,382	379,967	3,692,349
Mar-16	5,514,499	(2,200,497)	3,314,002	0	737	3,314,739	388,012	3,702,751
Apr-16	5,541,131	(2,215,715)	3,325,416	0	737	3,326,153	380,594	3,706,747
May-16	5,577,628	(2,231,036)	3,346,592	0	737	3,347,329	362,063	3,709,392
Jun-16	5,667,114	(2,247,051)	3,420,063	0	737	3,420,800	278,764	3,699,564
Jul-16	5,752,901	(2,247,800)	3,505,101	0	737	3,505,838	209,566	3,715,404
Aug-16	5,863,169	(2,263,736)	3,599,433	0	737	3,600,170	160,133	3,760,303
Sep-16	5,921,768	(2,279,857)	3,641,911	0	737	3,642,648	82,950	3,725,598
Oct-16	5,931,813	(2,296,070)	3,635,743	0	737	3,636,480	157,796	3,794,276
Nov-16	5,938,203	(2,231,342)	3,706,861	0	737	3,707,598	177,728	3,885,326
Dec-16	5,957,689	(2,326,950)	3,630,739	0	737	3,631,476	168,027	3,799,503
Thirteen month totals	<u>74,045,788</u>	<u>(29,051,485)</u>	<u>44,994,303</u>	<u>0</u>	<u>48,116</u>	<u>45,042,419</u>	<u>3,108,607</u>	<u>48,538,960</u>
Thirteen month averag	<u>5,695,830</u>	<u>(2,234,730)</u>	<u>3,461,100</u>	<u>0</u>	<u>3,701</u>	<u>3,464,801</u>	<u>239,124</u>	<u>3,733,766</u>

SEBRING GAS SYSTEM, INC.
YEAR END RATE BASE
December 2016

SCHEDULE 3

	(1)	(2)	(3)	(4)	(5)	(7)	(8)	(9)
	PLANT IN SERVICE	ACCUMULATED DEPRECIATION & AMORTIZATION	NET PLANT IN SERVICE	PROPERTY HELD FOR FUTURE USE	CONSTRUCTION WORK IN PROGRESS	NET UTILITY PLANT	WORKING CAPITAL	TOTAL RATE BASE
PER BOOKS	<u>5,957,689</u>	<u>(2,326,950)</u>	<u>3,630,739</u>	<u>0</u>	<u>737</u>	<u>3,631,476</u>	<u>168,027</u>	<u>3,799,503</u>
 <u>FPSC ADJUSTMENTS:</u>								
TOTAL FPSC ADJUSTMENTS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FPSC ADJUSTED	<u><u>5,957,689</u></u>	<u><u>(2,326,950)</u></u>	<u><u>3,630,739</u></u>	<u><u>0</u></u>	<u><u>737</u></u>	<u><u>3,631,476</u></u>	<u><u>168,027</u></u>	<u><u>3,799,503</u></u>

SEBRING GAS SYSTEM, INC.
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
December 2016

AVERAGE	PER BOOKS	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
		SPECIFIC	PRO RATA			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	1,789,698		778	1,790,476	47.9536%	5.1036%	2.4474%	5.1036%	2.4474%	5.1036%	2.4474%
SHORT TERM DEBT	192,332		84	192,415	5.1534%	5.1905%	0.2675%	5.1905%	0.2675%	5.1905%	0.2675%
PREFERRED STOCK	0	0	0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
CUSTOMER DEPOSITS	109,082		47	109,129	2.9228%	2.8553%	0.0835%	2.8553%	0.0835%	2.8553%	0.0835%
COMMON EQUITY	1,641,032	0	713	1,641,745	43.9702%	10.5000%	4.6169%	11.5000%	5.0566%	12.5000%	5.4963%
DEFERRED INCOME TAXES	0		0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
TAX CREDITS - ZERO COST	0		0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
TAX CREDITS - WEIGHTED COST	0		0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
TOTAL	3,732,144	0	1,622	3,733,766	100.0000%		7.4152%		7.8549%		8.2946%

YEAR END	PER BOOKS	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
		SPECIFIC	PRO RATA			COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)
LONG TERM DEBT	1,709,830		(8,642)	1,701,188	44.7740%	5.3277%	2.3854%	5.3277%	2.3854%	5.3277%	2.3854%
SHORT TERM DEBT	252,648		(1,277)	251,371	6.6159%	5.3277%	0.3525%	5.3277%	0.3525%	5.3277%	0.3525%
PREFERRED STOCK	0		0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
CUSTOMER DEPOSITS	112,880		(571)	112,309	2.9559%	2.8553%	0.0844%	2.8553%	0.0844%	2.8553%	0.0844%
COMMON EQUITY	1,743,447		(8,812)	1,734,635	45.6543%	10.5000%	4.7937%	11.5000%	5.2502%	12.5000%	5.7068%
DEFERRED INCOME TAXES	0		0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
TAX CREDITS - ZERO COST	0		0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
TAX CREDITS - WEIGHTED COST	0		0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
TOTAL	3,818,805	0	(19,302)	3,799,503	100.0000%		7.6160%		8.0725%		8.5291%

Sebring Gas System, Inc.
Schedule 4 Worksheet - Capital Structure
12/31/16

<u>13 Month Average</u>	<u>Dec-15</u>	<u>Jan-16</u>	<u>Feb-16</u>	<u>Mar-16</u>	<u>Apr-16</u>	<u>May-16</u>	<u>Jun-16</u>	<u>Jul-16</u>	<u>Aug-16</u>	<u>Sep-16</u>	<u>Oct-16</u>	<u>Nov-16</u>	<u>Dec-16</u>	<u>Average Per Books</u>
Long-term Debt	1,872,662	1,858,983	1,845,337	1,831,645	1,817,949	1,804,224	1,790,498	1,776,779	1,763,060	1,736,833	1,735,605	1,722,668	1,709,830	1,789,698
Short-term Debt	163,769	163,831	163,856	163,921	163,985	164,073	164,156	164,227	214,293	214,053	254,117	253,384	252,648	192,332
Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer Deposits	106,205	106,405	107,005	107,605	107,655	108,555	108,605	109,455	110,305	110,830	110,980	111,580	112,880	109,082
Common Stock	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Paid in Capital	774,880	774,880	774,880	774,880	774,880	774,880	774,880	774,880	774,880	774,880	774,880	774,880	774,880	774,880
Current Year Profit (Loss)	107,444	12,567	38,396	66,084	79,003	94,915	105,170	121,013	129,802	122,640	154,889	178,299	185,638	107,374
Retained Earnings (Deficit)	557,395	766,092	766,092	766,092	766,092	766,092	766,092	781,129	781,129	781,129	781,129	781,129	781,129	756,979
Common Equity	<u>1,441,519</u>	<u>1,555,339</u>	<u>1,581,168</u>	<u>1,608,856</u>	<u>1,621,775</u>	<u>1,637,687</u>	<u>1,647,942</u>	<u>1,678,822</u>	<u>1,687,611</u>	<u>1,680,449</u>	<u>1,712,698</u>	<u>1,736,108</u>	<u>1,743,447</u>	<u>1,641,032</u>
Deferred Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tax Crs Zero Crs	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Tx Crs-Weighted Cst	0	0	0	0	0	0	0	0	0	0	0	0	0	0
				8						8				
Total	<u><u>3,584,155</u></u>	<u><u>3,684,561</u></u>	<u><u>3,697,366</u></u>	<u><u>3,712,027</u></u>	<u><u>3,711,364</u></u>	<u><u>3,714,539</u></u>	<u><u>3,711,201</u></u>	<u><u>3,729,283</u></u>	<u><u>3,775,269</u></u>	<u><u>3,742,165</u></u>	<u><u>3,813,400</u></u>	<u><u>3,823,740</u></u>	<u><u>3,818,805</u></u>	<u><u>3,732,144</u></u>

Sebring Gas System, Inc.
Schedule 4 Worksheet - Average Interest Rates
12/31/16

<u>13 Month Average</u>	<u>Dec-15</u>	<u>Jan-16</u>	<u>Feb-16</u>	<u>Mar-16</u>	<u>Apr-16</u>	<u>May-16</u>	<u>Jun-16</u>	<u>Jul-16</u>	<u>Aug-16</u>	<u>Sep-16</u>	<u>Oct-16</u>	<u>Nov-16</u>	<u>Dec-16</u>	<u>Average Per Books</u>
HNB Credit Line	-	-	-	-	-	-	-	-	50,000	49,693	89,693	89,693	89,693	28,367.00
Interest Rate									5%	5%	5%	5%	5%	
Book Interest	-	-	-	-	-	-	-	-	138	378	-	1009	1009	1,524.50
Ford Credit 289 Balance	21,249	20,854	20,457	20,059	19,658	19,256	18,852	18,446	18,038	17,628	17,217	16,803	16,488	18,847
Ford Credit 289 Interest Rate	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%	5.49%	5.66%
Book Interest	101	99	97	95	94	92	90	88	86	84	82	81	79	1,067
Hartland National Balance#224.13	1,998,500	1,986,000	1,973,500	1,961,000	1,948,500	1,936,000	1,923,500	1,911,000	1,898,500	1,873,500	1,873,500	1,861,000	1,848,500	1,922,538
Hartland National #224.13 Interest F	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.10%
Book Interest	8,369	8,589	8,546	7,938	8,428	8,110	8,332	8,006	8,219	8,172	7,855	8,065	7,751	98,011
Ford Credit 969 Balance	16,682	15,961	15,236	14,508	13,776	13,041	12,302	11,560	10,815	10,065	9,312	8,556	7,797	12,278
Ford Credit 969 Interest Rate	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.69%	5.86%
Book Interest	83	79.1	76	72	69	65	62	58	55	51	48	44	41	720
Total Debt	2,036,431	2,022,815	2,009,193	1,995,566	1,981,934	1,968,297	1,954,654	1,941,006	1,977,353	1,950,886	1,989,722	1,976,052	1,962,478	1,982,030
	4.94%	5.10%	5.46%	4.78%	5.27%	4.95%	5.28%	4.95%	4.98%	5.27%	4.95%	5.04%	5.33%	5.11%
	8,552	8,767	8,718	8,106	8,590	8,267	8,484	8,152	8,360	8,445	8,363	8,190	8,880	101,322
Long-term Portion	1,872,662	1,858,983	1,845,337	1,831,645	1,817,949	1,804,224	1,790,498	1,776,779	1,763,060	1,736,833	1,735,605	1,722,668	1,709,830	1,789,698
	4.94%	5.10%	5.46%	4.78%	5.27%	4.95%	5.28%	4.95%	4.98%	5.27%	4.95%	5.04%	5.33%	5.10%
	7,864	8,057	8,007	7,440	7,879	7,578	7,771	7,462	7,454	7,518	7,295	7,140	7,737	91,339
Short-term Portion	163,769	163,831	163,856	163,921	163,985	164,073	164,156	164,227	214,293	214,053	254,117	253,384	252,648	192,332
	4.94%	5.10%	5.46%	4.78%	5.27%	4.95%	5.28%	4.95%	4.98%	5.27%	4.95%	5.04%	5.33%	5.19%
	688	710	711	666	711	689	712	690	906	927	1,068	1,050	1,143	9,983
<u>Customer Deposits</u>														
Residential	16,180	16,380	16,630	16,030	16,080	16,180	16,230	16,380	16,530	16,580	16,730	17,030	17,230	16,476
	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
	27	27	28	27	27	27	27	27	28	28	28	28	29	330
Commercial	90,025	90,025	90,375	91,575	91,575	92,375	92,375	93,075	93,775	94,250	94,250	94,550	95,650	92,606
	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.01%
	225	225	226	229	229	231	231	233	234	236	236	236	239	2,785
Total	106,205	106,405	107,005	107,605	107,655	108,555	108,605	109,455	110,305	110,830	110,980	111,580	112,880	109,082
	2.85%	2.85%	2.84%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.86%
	252	252	254	256	256	258	258	260	262	263	264	265	268	3,115

SEBRING GAS SYSTEM, INC.
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
December 2016

SCHEDULE 5

A. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY
INCLUDING FLEX RATE REVENUES

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	<u>7.17%</u>	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	2.45%	
SHORT TERM DEBT	0.27%	
PREFERRED STOCK	0.00%	
CUSTOMER DEPOSITS	0.08%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	<u>0.00%</u>	
SUBTOTAL	<u>2.80%</u>	
 TOTAL	 4.37%	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>43.97%</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>9.94%</u></u>	

B. FPSC ADJUSTED AVERAGE JURISDICTIONAL RETURN ON COMMON EQUITY
EXCLUDING FLEX RATE REVENUES

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 267,616	(Schedule 2, p. 2 of 2)
 RATE BASE EXCLUDING FLEX RATE REVENUES	 \$ <u>3,733,766</u>	 (Schedule 2, p. 1 of 2)
 FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	 <u>7.1675%</u>	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	2.45%	
SHORT TERM DEBT	0.27%	
PREFERRED STOCK	0.00%	
CUSTOMER DEPOSITS	0.08%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	<u>0.00%</u>	
SUBTOTAL	<u>2.80%</u>	
 TOTAL	 4.37%	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>43.97%</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>9.94%</u></u>	