

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: October 5, 2016

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: ^{D.H.} Devlin Higgins, Public Utility Analyst IV, Division of Economics

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

Would you be so kind as to add the two separate attached documents, titled "Staff's Initial Review," and "Sebring's Responses to Staff's Initial Review," to the above referenced docket file. I appreciate it, thank you.

COMMISSION
CLERK

2016 OCT -5 PM 1:46

RECEIVED-FPSC



SEBRING GAS SYSTEM, INC.

3515 U.S. Highway 27 South Sebring, Florida 33870-5452 863.385.0194 Fax 863.385.3423

August 29, 2016

To: Greg Shafer
Supervisor, Cost Analysis Section
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Sebring Gas Systems 2016 Depreciation Study Docket No. 160174-EI

Dear Mr. Shafer:

Please see the responses to the staff's inquiries below. We are emailing the electronic version to Devlin Higgins and will mail the hard copy today.

Should you have any questions, or need further information, please do not hesitate to contact Cong Nguyen at 813-282-3400.

Sincerely,

Jerry Melendy Jr.
Sebring Gas Systems, Inc

COMMISSION
CLERK

2016 OCT -5 PM 1:46

RECEIVED-PPSC

Responses to 2016 Depreciation Study Staff's Inquiries

- 1) The Company currently does not have any proposal for the reserve amount of \$9,788; the staff is welcome to recommend allocating the reserve in a rational manner to other plant accounts to the Commission.
- 2) Yes, the Company would like request the Commission approved the transfer to the \$180 reserve to account 392 – Trans. Equipment – Light Trucks as there is no cost basis for the Trans. Equipment – Other Vehicles.
- 3) The Company reduced the reserve for account 381 by \$330 is due to the asset was in service for approximately 23 months prior to disposal. Therefore the Company estimates the reserve to be \$330 at the time of disposal in 2012.
- 4) The Company receives \$21 credit for purchase of PPE from Lakeview Inc relating to account #380- Service Plastic which were combined with other disposals.

The Company recorded retirement reserve of \$14,955 for the disposal of the 2008 Truck with cost basis of \$20,647 is the result of the truck was placed in service for 82 months at depreciation rate of 10.6% per year.

The Company therefore believes the adjustment to the accumulated depreciation is not necessary.

- 5) The Company calculated expense for the account was \$15,325; however an entry was misposted to the account 392 reserve in the amount of \$14,964 during December 2014. Therefore the Company is proposing an entry to correct by debiting the reserve account by \$14,964 and credit to account 236.50.
- 6) The Company would like to restate the 2016 projected reserve for account 397- Communication Equipment to \$4,170 instead of the \$41,700 initial proposal.
- 7) The Company does not foresee the level of investment like that of 2013; we expect investments in our plants to revert back to historical level.
- 8) The Company has stop capitalizing asset purchases less than \$500 starting on October 2013 and plans to continue to only capitalize asset purchases greater than \$500 going forward.

9) The Company does not maintain gross salvage or cost of removal analysis.

COMPARISON OF EXPENSES

ACCOUNT	PROJECTED		CURRENT RATES		PROPOSED RATES		CHANGE IN EXPENSES (\$)
	INVESTMENT AS OF 12/31/16 (\$)	RESERVE AS OF 12/31/16 (\$)	DEPRECIATION RATE (%)	EXPENSES (\$)	DEPRECIATION RATE (%)	EXPENSES (\$)	
	(a)	(b)	(c)	(d) = (c)*(a)	(e)	(f) = (e)*(a)	
DISTRIBUTION PLANT							
Account number and description, as applicable:							
376.1 - Mains - Steel	\$ 186,533	\$ 161,159	2.900%	5,409	2.5%	4,663	(746)
376.2 - Mains - Plastic	2,260,250	734,500	2.900%	65,547	2.9%	65,547	-
378 - Measuring and Regulating Ept. Gen - Embedded	16,301	8,619	3.100%	505	3.1%	505	-
379 - Measuring and Regulating Ept. - City Gate	1,232,577	166,488	3.200%	39,442	3.0%	36,977	(2,465)
380.1 - Services - Steel	352,463	415,007	1.700%	5,992	1.0%	3,525	(2,467)
380.2 - Services - Plastic	673,915	208,821	3.100%	20,891	3.0%	20,217	(674)
381 - Meters	276,107	180,152	4.000%	11,044	4.0%	11,044	-
382 - Meter Installations	113,841	50,598	3.100%	3,529	3.1%	3,529	-
383 - House Regulations	32,227	25,206	3.300%	1,063	3.3%	1,063	-
384 - House Regulator Installations	63,066	37,319	3.000%	1,892	3.0%	1,892	-
386 - Property on Customers' Premises	35,806	30,032	4.000%	1,432	4.0%	1,432	-
387 - Other Equipment	22,339	7,174	4.000%	894	4.0%	894	-
TOTAL DISTRIBUTION PLAN	\$ 5,265,426	\$ 2,025,075		\$157,642		\$151,290	\$ (6,352)
GENERAL PLANT							
Account number and description, as applicable:							
390.0 - Leasehold Improvements	13,278	2,636	2.500%	332	2.5%	332	-
391.1 - Office Furniture	835	485	4.000%	33	4.0%	33	-
391.2 - Office Equipment	31,292	26,029	6.700%	2,097	6.7%	2,097	-
392.1 - Transportation - Trucks	183,039	146,463	10.600%	19,402	9.5%	17,389	(2,013)
394 - Tools, Shop & Garage Equipment	15,982	7,120	6.700%	1,071	6.7%	1,071	-
396 - Power Operated Equipment - New	39,512	19,358	6.700%	2,647	6.7%	2,647	-
397 - Communication Equipment	30,588	4,170	5.600%	1,713	6.7%	2,049	336
TOTAL GENERAL PLANT	\$ 314,525	\$ 206,261		27,295		25,618	(1,677)
CAPITAL RECOVERY SCHEDULES, as applicable							
TOTAL PLANT	\$ 5,579,951	\$ 2,231,336		\$ 184,937		\$176,908	\$ (8,029)

THEORETICAL RESERVE

ACCOUNT	INVESTMENT AS OF 12/31/16	RESERVE AS OF 12/31/16	Average Service Life	Net Salvage	Whole Life Rate	Average Remaining Life	Theoretical Reserve Percentage	Theoretical Reserve Dollars	Reserve Imbalance
	(a)	(b)	(c)	(d)	(e) = (100-d)/c	(f)	(g) = (100-(e*f-d))	(h) = g * a	(i) = b-h
DISTRIBUTION PLANT									
Account number and description, as applicable:									
376.1 - Mains - Steel	\$ 186,533	\$ 161,159.00	45.0	-30%	2.2	13.0	70.7	131,924.57	29,234.43
376.2 - Mains - Plastic	2,260,250	734,500	45.0	-30%	2.2	30.0	32.8	742,115.42	(7,615.42)
378 - Measuring and Regulating Ept. Gen - Embedded	16,301	8,619	33.0	-2%	3.0	13.1	60.3	9,825.44	(1,206.44)
379 - Measuring and Regulating Ept. - City Gate	1,232,577	166,488	32.0	-2%	3.1	25.0	21.8	269,187.11	(102,699.11)
380.1 - Services - Steel	352,463	415,007	48.0	-30%	2.1	7.0	85.1	299,850.72	115,156.28
380.2 - Services - Plastic	673,915	208,821	40.0	-30%	2.5	30.0	24.5	164,940.70	43,880.30
381 - Meters	276,107	180,152	25.0	0%	4.0	12.1	51.6	142,471.21	37,680.79
382 - Meter Installations	113,841	50,598	34.0	-5%	2.9	18.0	47.0	53,485.18	(2,887.18)
383 - House Regulations	32,227	25,206	30.0	0%	3.3	10.5	65.0	20,947.73	4,258.27
384 - House Regulator Installations	63,066	37,319	34.0	-3%	2.9	13.7	59.7	37,627.57	(308.57)
386 - Property on Customers' Premises	35,806	30,032	25.0	0%	4.0	9.5	62.0	22,199.72	7,832.28
387 - Other Equipment	22,339	7,174	25.0	0%	4.0	15.5	38.0	8,488.87	(1,314.87)
TOTAL DISTRIBUTION PLANT	\$ 5,265,426	\$ 2,025,075						\$ 1,903,064	\$122,010.77
GENERAL PLANT									
Account number and description									
390.0 - Leasehold Improvements	13,278	2,636	40.0	0%	2.5	38.0	5.0	663.88	1,972.12
391.1 - Office Furniture	835	485	25.0	0%	4.0	8.8	64.8	540.81	(55.81)
391.2 - Office Equipment	31,292	26,029	15.0	0%	6.7	5.8	61.3	19,192.36	6,836.64
392.1 - Transportation - Trucks	183,039	146,463	8.0	15%	12.5	3.0	62.7	114,776.62	31,686.38
394 - Tools, Shop & Garage Equipment	15,982	7,120	15.0	0%	6.7	10.3	31.3	5,007.73	2,112.27
396 - Power Operated Equipment - New	39,512	19,358	15.0	0%	6.7	5.4	64.0	25,287.68	(5,929.68)
397 - Communication Equipment	30,588	4,170	18.0	0%	5.6	5.0	72.2	22,091.33	(17,921.33)
TOTAL GENERAL PLANT	\$ 314,525	\$ 206,261						\$ 187,560	\$18,700.59
TOTAL PROPERTY	\$ 5,579,951	\$ 2,231,336							
CAPITAL RECOVERY SCHEDULES									

COMMISSIONERS:
JULIE I. BROWN, CHAIRMAN
LISA POLAK EDGAR
ART GRAHAM
RONALD A. BRISÉ
JIMMY PATRONIS

STATE OF FLORIDA



DIVISION OF ECONOMICS
GREG SHAFER
DIRECTOR
(850) 413-6410

Public Service Commission

August 23, 2016

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

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

Mr. Melendy:

Staff has completed its initial review regarding Sebring Gas System's current depreciation study and have a few questions. Please provide your response to the attached data request by September 23, 2016.

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 blue ink, appearing to read "Devlin Higgins".

Devlin Higgins
Public Utilities Analyst

RECEIVED-PPSC
2016 OCT -5 PM 1:46
COMMISSION
CLERK

Attachment

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

DEPRECIATION STUDY REVIEW

Staff's First Data Request

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 understands this reserve amount was associated with an audit finding, and the specific finding amount was ultimately identified by Commission Order PSC-04-1260-PAA-GU. Does the company have any proposals for this reserve amount? If the company does not have any specific proposals, please comment as to the possibility of staff recommending the Commission approve allocating the reserve in a rational manner to its other plant accounts, beginning with accounts that have theoretically negative reserve positions.
2. Please refer to Sebring's Annual Status Report, year ending Dec. 31, 2011. Shown on the "Analysis of Entries in Accumulated Depreciation & Amortization" for Account 392 – Trans. Equipment – Other Vehicles is a reserve of \$180. This is the last time this entry appears in Sebring's Annual Status Reports covering the current period of study. The reserve for this account appears to have been added to Account 392 – Trans. Equipment – Light Trucks from 2011 to 2012. Has the Commission authorized transfer of this reserve? If the Commission has not authorized transfer of this reserve, is the company currently requesting that the Commission authorize such a transfer?
3. Please refer to Sebring's Annual Status Report, year ending Dec. 31, 2012. Please discuss why the plant retirement of \$4,250, in Account 381 – Meters, does not equal the corresponding retirement to Account 381's reserve (\$330). Please discuss whether the reserve for Account 381 – Meters needs to be reduced by \$3,920.
4. Please refer to Sebring's Annual Status Report, year ending Dec. 31, 2014. Please discuss why the plant retirements of \$8,642 and \$20,647, in Account 380 – Services Plastic, and Account 392 Transportation Equipment – Light Trucks, respectively, do not equal the corresponding retirement amounts to Accounts 380's and 392's reserve (\$8,622 and \$14,955, respectively). Please discuss whether the reserves for Account 380 – Services, Plastic, and Account 392 Transportation Equip. – Light Trucks, needs to be reduced by \$5,712 total.
5. Please refer to Sebring's Annual Status Report, year ending Dec. 31, 2014. Shown on the "Analysis of Entries in Accumulated Depreciation & Amortization" for Account 392 – Trans. Equipment – Light Trucks are accrual for the period of \$30,280. Staff calculates an approximate expense amount for this account of \$17,245, or a difference of

(\$13,035).¹ Please explain how Sebring derived the expense amount for Account 392 – Trans. Equipment – Light Trucks in 2014.

6. Please refer to Sebring's 2016 Depreciation Study, Schedules C and D. The projected reserve for Account 397 – Communication Equipment, as of 12/31/2016, is \$41,700. The ending reserve, as shown on Sebring's Annual Status Report, year ending Dec. 31, 2015, is \$2,904. Please review, and if need be, provide staff with an updated projected reserve figure for Account 397 – Communication Equipment, at Dec. 31, 2016.
7. Staff understands the high level of investment in 2013 (relative to other years over the study period of 2011-2016) was made for the purposes of initiating service to the Hardee and Desoto Correctional Institutes. Does the Company foresee a similar level of investment in any plant account over the next five years (in any given year or years)?
8. As a general matter, a minimum of \$500 is considered appropriate/threshold for capitalizing property.² Items costing less than \$500 are generally considered expense. Staff has noticed several instances of capital (and retirement) entries being made that are below the threshold of \$500. Please comment on why Sebring is capitalizing property costing less than \$500 and if the Company intends on doing so in the future.
9. Does Sebring maintain a gross salvage and cost of removal ledger for analyzing/determining the required net salvage level of its depreciation rates? If so, please provide a copy of the account-by-account analysis.

¹ Staff approximates annual depreciation expense using the following formula: ((yearly beginning investment balance + end of year investment balance) / 2) * Commission approved depreciation rate.

² Please see Florida Public Service Commission Rule 25-7.0461, "Capitalization Versus Expensing," and the Federal Energy Regulatory Commission Uniform System of Accounts prescribed by the Code of Federal Regulations, Title 18, Subchapter F, Part 201 (2013).