



SEBRING GAS SYSTEM, INC.

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March 29, 2019

The Honorable Art Graham, Chairman
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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COMMISSION
CLERK

RE: Sebring Gas System, Inc. – Test Year Notification pursuant to Rule 25-7.140, F.A.C.

Dear Chairman Graham:

Founded in 1991, Sebring Gas System, Inc. (“Company”) serves approximately 600 customers in Highlands, Hardee and Desoto counties. The Company provides safe, reliable natural gas service to residential, commercial and state agency customers and does so with a focus on both safety and customer care. Since the Company’s initial rates were set in 1992, the Company has sought rate relief only once, in 2004. In the 15 years since that proceeding, the Company has seen substantial changes in both its distribution system and workforce, as well as the industry overall.

In recent months, the Company has identified certain issues and challenges that, if left unaddressed, could impair the Company’s ability to provide safe and reliable service to its existing customers, as well as its ability to extend service to new customers. Based on considerable review and analysis, the Company now finds it necessary to request that the Florida Public Service Commission (“Commission”) allow the Company to adjust its rates and charges so the Company can better address these challenges and have the opportunity to earn a fair rate of return. Earning a fair rate of return will enable the Company to continue to provide high quality service, while maintaining its financial integrity. At this time, the Company estimates that an increase in annual revenues ranging from approximately \$250,000 to \$300,000 is necessary to produce sufficient revenues to allow the Company to continue to provide the safe and reliable natural gas service

our customers require. The Company, therefore, submits this Test Year Notification letter, along with the following required information.

A. Test Year Selection

For this proceeding, the Company proposes to use the twelve-month period ending December 31, 2020 as the projected test year, based on the historic base year ended December 31, 2018. The Company believes the proposed 2020 test year will most accurately reflect the economic conditions during the first 12 months the new rates and charges would be in effect.

B. Major Factors Necessitating Base Rate Increase

The major factors necessitating the Company's request for an increase in rates are:

- 1) Current rates do not include a provision for state or federal income taxes, which are now being incurred. Since the Company's rates were first set back in 1992, they have never included a provision for state or federal income taxes. The Company sustained consistent income losses in the early formative years of the Company, creating substantial tax loss carry-forwards to offset more recent taxable income of the Company. The loss carry-forwards have now been depleted, having provided significant benefits to the rate-payers since the inception of the Company and eliminating any income tax expense prior to 2018.
- 2) The Company has increased its service territory in recent years, including extending service to serve two state prisons. This increase in rate base is not reflected in the Company's current base rates, thus the Company is not earning an appropriate return on its investment.
- 3) As a result of our growth, the Company has also had to increase the number of employees to serve its expanded territory. Coinciding with the increase in the overall number of employees, the Company has increasingly found it more difficult to attract and retain quality, experienced personnel. The Company must implement proactive strategies to engage and train new employees, or the Company's ability to provide safe and efficient service will begin to suffer.
- 4) In addition, the Company has seen an overall increase in operating, maintenance and administrative costs as a result of the Company's growth, increases in the cost of materials, as well as almost fifteen years of inflation.

C. Efforts and Actions Taken to Avoid a Base Rate Increase

As has been stated, it has been 15 years since the last rate case was filed by the Company. During this time, the Company has taken the following actions to avoid a base rate increase:

- 1) Implemented changes in its Energy Conservation Cost Recovery (ECCR) program to encourage growth in the residential and commercial sectors. In the past five years, the Company has added approximately 80 new customers to the system.
- 2) Added two new state prison facilities to its customer base through Special Contracts approved by the Commission, which provides significant benefits to all rate-payers of the Company.
- 3) Deferred filing for a base rate increase until after the reduction in Federal Income Tax rates for Corporations. As stated herein, the Company's rates have never included any provision for income taxes.
- 4) Arranged for the use of debt, at a lower cost of capital than equity financing, to pay for the expansion of the distribution system to connect the two state prison facilities and begin expansion activities in Wauchula, Florida.

D. Interim Rates

The Company anticipates requesting interim rate relief, pursuant to Section 366.071, Florida Statutes, based on 2018 historical data. The Company will be seeking interim relief in order to allow it to earn within its authorized range while its request for permanent rate relief is processed.

Conclusion

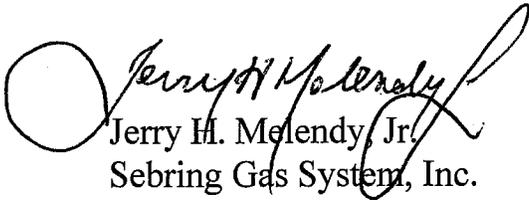
The Company anticipates filing its Petition as soon as practicable after the expiration of the notification period, but in any instance not before May 28, 2019. If the Company is unable to file on or before May 31, 2019, the Company will so notify the Commission in writing prior to that date, including an explanation as to the reasons for the delayed filing and an indication of the revised target date. The Company intends to request that the Commission process its request pursuant to Section 366.06(4), Florida Statutes, utilizing the Proposed Agency Action process.

The Company operates in a very competitive, customer-choice environment, and the decision to petition for rate relief is not taken without thoughtful deliberation. While the Company has taken steps to delay seeking rate relief as long as possible,

Honorable Art Graham

the Company finds it necessary to request an increase in its base rates and charges so that it can continue to maintain its high quality of service to its customers as well as its financial integrity. Ultimately, the Company believes this is in the best interests of our customers.

Sincerely,



Jerry H. Melendy, Jr.
Sebring Gas System, Inc.

cc: // Honorable Julie Imanuel Brown, Commissioner
 Honorable Donald J. Polmann, Commissioner
 Honorable Gary F. Clark, Commissioner
 Honorable Andrew G. Fay, Commissioner
 Braulio Baez, Executive Director
 Mark Futrell, Deputy Executive Director
 Keith Hetrick, General Counsel
 Andrew Maurey, Director/Accounting and Finance
 Judy Harlow, Director/Economics
 Commission Clerk (Teitzman)
 Office of Public Counsel (Kelly)
 Beth Keating (Gunster Law Firm)