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Certified Public Accountants

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Florida Institute of Certified
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September 13, 2018

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 June 30, 2018.

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

Sincerely,

BRIMMER, BUREK & KEELAN LLP
Cong Nguyen, CPA

RECEIVED
FLORIDA PUBLIC SERVICE
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ACCOUNTING & FINANCE

**SEBRING GAS SYSTEM, INC.
FLORIDA PUBLIC SERVICE COMMISSION
INVESTOR-OWNED NATURAL GAS UTILITY
EARNINGS SURVEILLANCE REPORT
JUNE 30, 2018**

FLORIDA PUBLIC SERVICE COMMISSION

INVESTOR-OWNED NATURAL GAS UTILITY
EARNINGS SURVEILLANCE REPORT

**SEBRING GAS SYSTEM, INC.
EARNINGS SURVEILLANCE REPORT SUMMARY
June 2018**

	(1) ACTUAL PER BOOKS	(2) FPSC ADJUSTMENTS	(3) FPSC ADJUSTED	(4) PRO FORMA ADJUSTMENTS	(5) PRO FORMA ADJUSTED
I. AVERAGE RATE OF RETURN (JURISDICTIONAL)					
NET OPERATING INCOME	\$ 263,025	\$ 616	\$ 263,641	\$	\$ 263,641
AVERAGE RATE BASE	\$ 3,878,155	\$ 0	\$ 3,878,155	\$	\$ 3,878,155
AVERAGE RATE OF RETURN	6.78%		6.80%		6.80%
II. YEAR END RATE BASE (JURISDICTIONAL)					
	\$ 3,879,086	\$ 0	\$ 3,879,086		

III. REQUIRED RATES OF RETURN AVERAGE CAPITAL STRUCTURE (FPSC ADJUSTED BASIS)	LOW	MIDPOINT	HIGH
	7.56%	8.05%	8.55%

IV. EARNED RETURN ON EQUITY (FPSC ADJUSTED BASIS)	A. INCLUDING	B. EXCLUDING
FLEX RATE REVENUES	8.97%	8.97%

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
(Name and Title of Chief Financial Officer)

Jerry H. Melendy, Jr.
(Signature)

09/05/2018
(Date)

SEBRING GAS SYSTEM, INC.
AVERAGE RATE OF RETURN
RATE BASE
June 2018

	(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	6,161,719	(2,496,724)	3,664,995	0	7,048	3,672,043	206,112	3,878,155
<u>FPSC ADJUSTMENTS:</u>								
TOTAL FPSC ADJUSTMENTS	0	0	0	0	0	0	0	0
FPSC ADJUSTED	6,161,719	(2,496,724)	3,664,995	0	7,048	3,672,043	206,112	3,878,155
<u>FLEX RATE REVENUES</u>								
ADJUSTED FOR FLEX RATE REVENUES	6,161,719	(2,496,724)	3,664,995	0	7,048	3,672,043	206,112	3,878,155
<u>PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:</u>								
TOTAL PRO FORMA ADJUSTME	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	6,161,719	(2,496,724)	3,664,995	0	7,048	3,672,043	206,112	3,878,155

SEBRING GAS SYSTEM, INC.
AVERAGE RATE OF RETURN
INCOME STATEMENT
June 2018

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
OPERATING REVENUES	O & M GAS EXPENSE	O & M OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	GAIN/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME
1,004,988	0	514,148	197,497	30,318	0	0	0	0	741,963	263,025

PER BOOKS, as adjusted
 July 2017 through June 2018

FPSC ADJUSTMENTS:

Disallowed lobbying expenses

(616)

(616)

616

TOTAL FPSC ADJUSTMENTS	0	(616)	0	0	0	0	0	0	(616)	616
FPSC ADJUSTED	1,004,988	513,532	197,497	30,318	0	0	0	0	741,347	263,641
FLEX RATE REVENUES ADJUSTED FOR	0	0	0	0	0	0	0	0	0	0
FLEX RATE REVENUES	1,004,988	513,532	197,497	30,318	0	0	0	0	741,347	263,641

PRO FORMA REVENUE INCREASE AND ANNUALIZATION ADJUSTMENTS:

TOTAL PRO FORMA ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0
PRO FORMA ADJUSTED	1,004,988	513,532	197,497	30,318	0	0	0	0	741,347	263,641

PER BOOKS
 CURRENT MONTH AMOUNT

83,498	0	42,230	16,616	2,243	0	0	0	0	61,089	22,409
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Sebring Gas System, Inc.
Schedule 2 Worksheet - Average Rate of Return
Jun-18

	(1) Plant in Service	(2) Accumulated Depreciation Amortization	(3) Net Plant in Service	(4) Property Held for Future Use	(5) Construction Work in Progress	(6) Net Utility Plant	(7) Working Capital	(8) Total Rate Base
<u>13 Month Average</u>								
Jun-17	6,063,701	(2,400,904)	3,662,797	0	947	3,663,744	182,597	3,846,341
Jul-17	6,083,072	(2,417,128)	3,665,944	0	947	3,666,891	209,996	3,876,888
Aug-17	6,102,270	(2,433,402)	3,668,868	0	947	3,669,815	197,537	3,867,352
Sep-17	6,114,190	(2,449,717)	3,664,473	0	947	3,665,420	194,204	3,859,624
Oct-17	6,124,199	(2,466,059)	3,658,140	0	1,147	3,659,287	212,898	3,872,185
Nov-17	6,136,773	(2,482,432)	3,654,341	0	1,147	3,655,488	225,587	3,881,075
Dec-17	6,156,285	(2,493,941)	3,662,344	0	6,632	3,668,976	198,335	3,867,311
Jan-18	6,182,818	(2,510,823)	3,671,995	0	7,882	3,679,877	219,136	3,899,013
Feb-18	6,196,333	(2,527,358)	3,668,975	0	7,882	3,676,857	207,576	3,884,433
Mar-18	6,210,675	(2,543,930)	3,666,745	0	9,232	3,675,977	202,691	3,878,668
Apr-18	6,224,343	(2,560,539)	3,663,804	0	15,172	3,678,976	224,512	3,903,488
May-18	6,242,642	(2,577,279)	3,665,363	0	19,372	3,684,735	215,825	3,900,560
Jun-18	6,265,041	(2,593,895)	3,671,146	0	19,372	3,690,518	188,568	3,879,086
Thirteen month totals	80,102,342	(32,457,407)	47,644,935	0	91,626	47,736,561	2,679,461	50,416,022
Thirteen month average	6,161,719	(2,496,724)	3,664,995	0	7,048	3,672,043	206,112	3,878,156

SEBRING GAS SYSTEM, INC.
YEAR END RATE BASE
June 2018

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	6,265,041	(2,593,895)	3,671,146	0	19,372	3,690,518	188,568	3,879,086

FPSC-ADJUSTMENTS:

TOTAL FPSC ADJUSTMENTS	0	0	0	0	0	0	0	0
FPSC ADJUSTED	6,265,041	(2,593,895)	3,671,146	0	19,372	3,690,518	188,568	3,879,086

SEBRING GAS SYSTEM, INC.
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
June 2018

AVERAGE	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
	PER BOOKS	SPECIFIC			PRO RATA	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)
LONG TERM DEBT	1,584,626	(7,383)	1,577,244	40.6700%	4.8020%	1.9530%	4.8020%	1.9530%	4.8020%	1.9530%
SHORT TERM DEBT	242,459	(1,130)	241,329	6.2228%	4.7890%	0.2980%	4.7890%	0.2980%	4.7890%	0.2980%
PREFERRED STOCK	0	0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
CUSTOMER DEPOSITS	137,880	(642)	137,238	3.5387%	2.9028%	0.1027%	2.9028%	0.1027%	2.9028%	0.1027%
COMMON EQUITY	1,931,343	0	1,922,345	49.5685%	10.5000%	5.2047%	11.5000%	5.7004%	12.5000%	6.1961%
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	<u>3,896,308</u>	<u>0</u>	<u>3,878,155</u>	<u>100.0000%</u>	<u>0.0000%</u>	<u>7.5584%</u>	<u>0.0000%</u>	<u>8.0541%</u>	<u>0.0000%</u>	<u>8.5498%</u>

YEAR END	ADJUSTMENTS		ADJUSTED	RATIO (%)	LOW POINT		MIDPOINT		HIGH POINT	
	PER BOOKS	SPECIFIC			PRO RATA	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)	WEIGHTED COST (%)	COST RATE (%)
LONG TERM DEBT	1,489,395	(9,354)	1,480,041	38.1544%	1.6590%	0.6330%	1.6590%	0.6330%	1.6590%	0.6330%
SHORT TERM DEBT	212,742	(1,336)	211,406	5.4499%	1.6590%	0.0904%	1.6590%	0.0904%	1.6590%	0.0904%
PREFERRED STOCK	0	0	0	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
CUSTOMER DEPOSITS	144,005	(904)	143,101	3.6890%	2.9028%	0.1071%	2.9028%	0.1071%	2.9028%	0.1071%
COMMON EQUITY	2,057,461	(12,922)	2,044,539	52.7067%	10.5000%	5.5342%	11.5000%	6.0613%	12.5000%	6.5883%
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	<u>3,903,603</u>	<u>0</u>	<u>3,879,086</u>	<u>100.0000%</u>	<u>0.0000%</u>	<u>6.3647%</u>	<u>0.0000%</u>	<u>6.8918%</u>	<u>0.0000%</u>	<u>7.4188%</u>

Sebring Gas System, Inc.
Schedule 4 Worksheet - Capital Structure
06/30/18

13 Month Average	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Average Per Books
Long-term Debt	1,649,458	1,647,511	1,633,179	1,638,535	1,634,190	1,619,837	1,625,142	1,561,340	1,546,967	1,532,586	1,518,199	1,503,804	1,489,395	1,584,626
Short-term Debt	264,252	263,668	262,957	241,757	231,836	231,917	212,255	261,770	261,850	242,238	232,319	232,401	212,742	242,459
Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Customer Deposits	115,730	132,980	132,980	132,805	133,755	139,905	140,405	141,655	143,605	144,455	144,905	145,255	144,005	137,880
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)	93,045	110,933	113,777	121,830	148,363	169,456	167,840	43,402	63,345	83,963	114,305	135,206	152,510	116,767
Retained Earnings (Deficit)	960,431	960,431	960,431	960,431	960,431	960,431	960,431	1,128,271	1,128,271	1,128,271	1,128,271	1,128,271	1,128,271	1,037,895
Common Equity	1,830,155	1,848,043	1,850,888	1,858,940	1,885,474	1,906,567	1,904,951	1,948,353	1,968,296	1,988,914	2,019,256	2,040,157	2,057,461	1,931,343
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
Total	3,859,595	3,892,204	3,880,004	3,872,037	3,885,255	3,898,226	3,882,753	3,913,118	3,920,718	3,908,193	3,914,679	3,921,617	3,903,603	3,896,308

Sebring Gas System, Inc.
Schedule 4 Worksheet - Average Interest Rates
06/30/18

13 Month Average	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Average Per Books
HNB Credit Line	89,693	89,693.00	89,693	89,693	89,693	89,693	89,693	89,693.00	89,693	70,000	60,000	60,000	40,259	79,807.00
Interest Rate			5%	5%	5%	5%	5%	5.00%	5%	5%	5%	5%	5.50%	
Book Interest	1134	-	1146	1146	1146	1146	1146	-		1121			802	4,215.16
Ford Credit 289 Balance	13,956	13,527	13,096	12,664	12,229	11,792	11,304	10,861	10,416	9,969	9,521	9,070	8,617	11,309
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%	5.18%
Book Interest	67	65	63	61	59	57	5	51	49	47	45	43	41	586
Hartland National Balance#224.13	1,761,000	1,761,000	1,748,500	1,736,000	1,723,500	1,711,000	1,698,500	1,686,000	1,673,500	1,661,000	1,648,500	1,636,000	1,623,500	1,697,538
Interest Rate	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%	4.79%
Book Interest	7,679	7,384	7,570	7,525	7,233	7,410	7,127	7,304	7,259	6,505	7,471	7,201	1,383	81,372
Ford Credit 969 Balance	3,161	2,376	1,586											548
Interest Rate	5.69%	5.69%	5.69%	5.69%										6.02%
Book Interest	19	15	11	7										33
Notes Payable Ally 65377	45,900	44,583	43,261	41,935	40,604	39,269	37,900	36,556	35,208	33,855	32,497	31,135	29,761	37,882
Interest Rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	3.96%
Book Interest	186	152	148	144	139	135	101	126	122	117	113	108	95	1,500
Total Debt	1,913,710	1,911,179	1,896,136	1,880,292	1,866,026	1,851,754	1,837,397	1,823,110	1,808,817	1,774,824	1,750,518	1,736,205	1,702,137	1,827,085
	5.78%	4.69%	4.84%	5.01%	5.41%	4.99%	5.37%	4.83%	5.35%	5.17%	5.30%	4.99%	1.66%	4.80%
	9,085	7,616	7,792	7,737	8,577	7,602	8,379	7,481	7,430	7,790	7,629	7,352	2,321	87,706
Long-term Portion	1,649,458	1,647,511	1,633,179	1,638,535	1,634,190	1,619,837	1,625,142	1,561,340	1,546,967	1,532,586	1,518,199	1,503,804	1,489,395	1,584,626
	5.78%	4.69%	4.84%	5.01%	5.41%	4.99%	5.37%	4.83%	5.35%	5.17%	5.30%	4.99%	1.66%	4.80%
	7,831	6,565	6,711	6,742	7,511	6,650	7,411	6,407	6,354	6,727	6,617	6,368	2,031	76,094
Short-term Portion	264,252	263,668	262,957	241,757	231,836	231,917	212,255	261,770	261,850	242,238	232,319	232,401	212,742	242,459
	5.78%	4.69%	4.84%	5.01%	5.41%	4.99%	5.37%	4.83%	5.35%	5.17%	5.30%	4.99%	1.66%	4.79%
	1,254	1,051	1,081	995	1,066	952	968	1,074	1,076	1,063	1,012	984	290	11,611
Customer Deposits	18,330	18,230	18,230	18,380	18,430	18,580	18,680	18,930	18,880	19,430	19,680	19,830	19,980	18,892
Residential	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%
	31	30	30	31	31	31	31	32	31	32	33	33	33	379
Commercial	97,400	114,750	114,750	114,425	115,325	121,325	121,725	122,725	124,725	125,025	125,225	125,425	124,025	118,988
	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%	3.05%
	244	287	286	286	288	303	304	307	312	313	313	314	310	3,624
Total	115,730	132,980	132,805	132,805	133,755	139,905	140,405	141,655	143,605	144,455	144,905	145,255	144,005	137,880
	2.84%	2.86%	2.86%	2.86%	2.86%	2.87%	2.87%	2.87%	2.87%	2.87%	2.86%	2.86%	2.86%	2.90%
	274	317	317	317	319	334	335	338	343	345	346	347	343	4,002

SEBRING GAS SYSTEM, INC.
EARNED RETURN ON COMMON EQUITY
FPSC ADJUSTED BASIS
June 2018

SCHEDULE 5

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

FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	<u>6.80%</u>	(Schedule 1)
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	1.95%	
SHORT TERM DEBT	0.30%	
PREFERRED STOCK	0.00%	
CUSTOMER DEPOSITS	0.10%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	<u>0.00%</u>	
SUBTOTAL	<u>2.35%</u>	
 TOTAL	 4.44%	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>49.57%</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>8.97%</u></u>	

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

NET OPERATING REVENUE EXCLUDING FLEX RATE REVENUES	\$ 263,641	(Schedule 2, p. 2 of 2)
 RATE BASE EXCLUDING FLEX RATE REVENUES	 <u>\$ 3,878,155</u>	 (Schedule 2, p. 1 of 2)
 FPSC ADJUSTED AVERAGE EARNED RATE OF RETURN	 <u>6.7981%</u>	
LESS: RECONCILED AVERAGE JURISDICTIONAL WEIGHTED COST RATES FOR:		
LONG TERM DEBT	1.95%	
SHORT TERM DEBT	0.30%	
PREFERRED STOCK	0.00%	
CUSTOMER DEPOSITS	0.10%	
TAX CREDITS-WEIGHTED COST(MIDPOINT)	<u>0.00%</u>	
SUBTOTAL	<u>2.35%</u>	
 TOTAL	 4.44%	
 DIVIDED BY RECONCILED COMMON EQUITY RATIO	 <u>49.57%</u>	
 JURISDICTIONAL RETURN ON COMMON EQUITY	 <u><u>8.97%</u></u>	