

State of Florida



Public Service Commission

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CLERK**

DATE: December 3, 2010
TO: John Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation
FROM: Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance **CP**
Analysis
RE: Docket No.: 100000
Company Name: Sebring Gas System, Inc.
Company Code: GU617
Audit Purpose: Over-Earnings Review
Audit Control No: 10-265-2-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were no confidential work papers associated with this audit.

CP/ip
Attachment: Audit Report

cc: (With Attachment)
✓ Office of Commission Clerk
Office of Auditing and Performance Analysis (Mailhot, Prestwood, File Folder)
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

09758 DEC-3

FPSC-COMMISSION CLERK

State of Florida



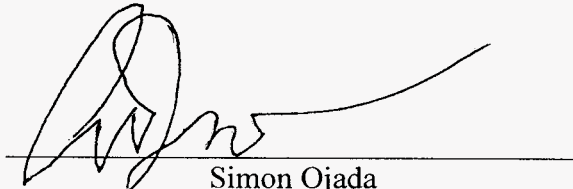
Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Sebring Gas System, Inc.
Over-Earnings Review

Twelve Months Ended December 31, 2008
Undocketed
Audit Control No. 10-265-2-1
November 26, 2010



Simon Ojada
Audit Manager



Linda Hill-Slaughter
Reviewer

DOCUMENT NUMBER-DATE

09758 DEC 30

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated September 22, 2010. We have applied these procedures to the attached schedules we prepared in support of the 2008 Earnings Surveillance Report prepared by Sebring Gas Systems, Inc.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed upon procedures and the report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

The term "Utility" used within this report refers to Sebring Gas System, Inc.

Rate Base

Utility's Earnings Surveillance Report

Objectives: Our objectives were to determine that the Utility's Earnings Surveillance Report filing represents its recorded results from continuing operations for the 12-month ended December 30, 2008 and to verify that all adjustments are consistent with the prior rate case and are calculated correctly.

Procedures: We reconciled rate base balances to the general ledger. We obtained supporting documentation for all adjustments, reviewed prior Florida Public Service Commission (FPSC) Orders, and traced all adjustments to the general ledger. Audit Finding 1 discusses our finding.

Utility Plant in Service (UPIS)

Objective: Our objective was to verify plant balances for additions, retirements, and adjustments for the historical year January 1, 2008 through December 31, 2008.

Procedures: We traced plant balances to the general ledger, and examined a judgmental sample of plant addition invoices and supporting documentation for the 12 month period ending December 31, 2008. We also reviewed for plant retirements and adjustments. No exceptions were noted.

Accumulated Depreciation and Depreciation Expense

Objective: Our objective was to determine that accruals to accumulated depreciation and depreciation expense are properly recorded in compliance with Order No. PSC-07-0482-PAA-GU in Docket No. 060504-GU, issued June 7, 2007.

Procedure: We reviewed the Utility's accumulated depreciation and depreciation expense and found that they were properly calculated using the FPSC approved rates. No exceptions were noted.

Working Capital

Objective: Our objective was to determine that the Utility's working capital is properly calculated using the balance sheet method in compliance with the Utility's last rate case.

Procedure: We traced the working capital accounts to the general ledger to determine if accounts were properly included in the working capital allowance. Audit Finding 1 discusses our finding.

Net Operating Income

Utility's Filing

Objectives: Our objectives were to determine that the Utility's filing represents its result from continuing operations and to determine that adjustments to the filing were properly calculated.

Procedure: We reconciled the individual components of the net operating income balances to the Utility's general ledger for the 12-month period ending December 31, 2008. Additional procedures for revenues and expenses are discussed below.

Revenues

Objective: Our objective was to determine that revenues are properly recorded in compliance with Commission rules and are based on the Utility's approved tariff rates for 2008.

Procedures: We traced revenues to the general ledger and utility billing registers. We selected a judgmental sample of customer bills and recalculated the bills using the Commission approved rates. No exceptions were noted.

Operation and Maintenance Expenses (O&M)

Objective: Our objective was to determine that Operation and Maintenance Expenses in 2008 are properly recorded in compliance with Commission rules and representative of ongoing utility operations.

Procedures: We traced O&M expense balances to the general ledger and examined a judgmental sample of invoices and supporting documentation for proper classification and amount. We reviewed adjustments to O&M expense. Audit Finding 2 discusses our finding.

Taxes Other Than Income

Objective: Our objective was to determine that Taxes Other Than Income tax expense for 2008 was properly recorded and in compliance with Commission rules and representative of ongoing utility operations.

Procedures: We recalculated the regulatory assessment fees and reconciled them to the general ledger. We obtained the property tax bills to determine if the amounts booked reflect the discount amount and were related to utility property. Audit Finding 3 discusses our finding.

Capital Structure

Objective: Our objective was to determine that the components of the Utility's capital structure and the respective costs rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that the components accurately represent the ongoing utility operations.

Procedures: We reconciled the individual components of the capital structure balances in the Utility's filing to the general ledger. We also reconciled the Utility's capital structure to the audited rate base amount. This requires an adjustment to decrease capital by \$32,855. We recalculated the overall weighted cost of capital for 2008 individual components of the capital structure as shown in exhibit 3. Audit Finding 4 discusses this finding.

Audit Findings

Audit Finding 1

Subject: Working Capital Allowance

Audit Analysis: The Utility reported the 13-month average working capital allowance of \$39,574 in its 2008 Earnings Surveillance Report. After analysis of the utility general ledger for all current assets and current liabilities accounts, we arrived at a 13-month average working capital of \$41,241 for a difference of \$1,667. The difference was a result of clerical error.

<u>Acct No.</u>	<u>Description</u>	<u>13 Month Average</u>
	Current Assets	
130.00	Petty Cash	\$ 50
130.01	Cash -Bank	15,917
142.00	Accounts Receivable	154,065
143.00	Other Accounts Receivable	893
154.00	Plant Materials & Supplies	39,245
		<u>\$ 210,170</u>
	Current Liabilities	
232.00	Accounts Payable - Trade	\$ 98,060
231.00	Notes Payable Current	56,503
236.04	Utility Tax Gross Receipts	2,097
236.05	Regulatory Assessment	3,029
236.08	Tangible Taxes	3,228
237.00	Accrued Interest Payable	2,815
237.01	Interest Payable Customer Deposit	3,125
241.00	Sales Tax Payable	72
		<u>\$ 168,929</u>
	Total Assets Less Liabilities per audit	\$ 41,241
	Total Assets Less Liabilities per Utility	39,574
	Difference	<u>\$ 1,667</u>

Effect on the General Ledger: N/A.

Effect on the Filing: Increased the 13-month average working capital allowance by \$1,667.

Audit Finding 2

Subject: Operation and Maintenance Expenses

Audit Analysis: The Utility reported Operation and Maintenance (O&M) expenses of \$307,326 in its 2008 Earnings Surveillance Report and incorrectly adjusted account 941 by (\$1,853). According to Docket No. 040270-GU dated November 18, 2004, it was determined that 15 percent of association dues related to lobbying activities should be eliminated from account 941. The total amount of association dues was \$3,847 and account 941 should be reduced only by \$577. The net adjustment to account 941 is an increase of \$1,276.

Also, the Utility included in its insurance expense prior period adjustments of \$2,355. Therefore, we reduced O&M expenses by \$2,355.

Effect on the General Ledger: N/A.

Effect on the Filing: Reduced O&M expenses by \$1,079 (\$2,355 - \$1,276).

Audit Finding 3

Subject: Taxes Other Than Income

Audit Analysis: The Utility used accrued amounts in its Earnings Surveillance Report. We compared the accrued taxes to the actual Regulatory Assessment Fee (RAF), Licenses, and Tangible Tax payments for 2008. Actual taxes paid were \$5,525 lower than the Utility's accrued taxes. Therefore, we reduced Taxes Other than Income by \$5,525.

Description	Per Company @12/31/2008	Audit Adjustment	Bal Per Audit @12/31/2008
Regulatory Assessment Fee	\$ 7,228	\$ (4,537)	\$ 2,691
Licenses	266	-	266
Tangible Tax	8,323	(988)	7,335
Total	<u>\$ 15,817</u>	<u>\$ (5,525)</u>	<u>\$ 10,292</u>

The Utility reported total revenues of \$535,184 and paid Regulatory Assessment Fees of \$2,676. Our review of the Utility's revenues revealed that the Utility did not pay RAF on miscellaneous revenues of \$2,950 for the first six months of 2008. The RAF for \$2,950 is \$15. We added the RAF due of \$15 to the \$2,676 paid to arrived at the per audit amount of \$2,691. This required an adjustment to decrease RAF by \$4,537. Also, the Utility accrued tangible taxes of \$8,323, however, the actual tangible taxes paid during 2008 were \$7,335 for a difference of \$988.

Effect on the General Ledger: N/A.

Effect on the Filing: Reduced Taxes Other Than Income by \$5,525.

Audit Finding 4

Subject: Capital Structure

Audit Analysis: The reconciliation of the Utility's capital structure to the audited rate base amount indicates a difference of \$32,855. See Exhibit III.

Effect on the General Ledger: N/A.

Effect on the Filing: Decreased capital structure by \$32,855.

Sebring Gas System, Inc.
Average Rate Base
As of December 31, 2008

Description	Per Utility @12/31/2008	Audit Adjustment	Per Audit @12/31/2008
Utility Plant In Service	\$ 2,505,447	\$ -	\$ 2,505,447
Land and Land Rights	15,625	-	15,625
Accumulated Depreciation	(1,288,711)	-	(1,288,711)
Property Held For Future Use	-	-	-
Construction Work In Progress	-	-	-
Working Capital	39,574	1,667	41,241
Net Average Rate Base	<u>\$ 1,271,935</u>	<u>\$ 1,667</u>	<u>\$ 1,273,602</u>

Net Operating Income**Exhibit II**

O & M Expense	\$	307,326	\$	(1,079)	\$	306,247
Depreciation Expense		71,475		-		71,475
Taxes Other Than Income		15,817		(5,525)		10,292
Income Taxes		-		-		-
Deferred Income Taxes		-		-		-
Investment Tax Credits		-		-		-
Gain/Loss on Disposition		-		-		-
Total Operating Expense	\$	394,618	\$	(6,604)	\$	388,014
Net Operating Income	\$	143,516	\$	6,604	\$	150,120

Average Capital Structure

Exhibit III

SEBRING GAS SYSTEM, INC.
CAPITAL STRUCTURE
FPSC ADJUSTED BASIS
December 2008

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	\$ 397,418	\$ -	\$ (10,668)	\$ 386,750	30.3666%	6.6405%	2.0165%	6.6405%	2.0165%	6.6405%	2.0165%
Short-term Debt	56,503		(1,517)	\$ 54,986	4.3174%	6.5188%	0.2814%	6.5188%	0.2814%	6.5188%	0.2814%
Preferred Stock	-		-	-	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
Customer Deposits	82,488		-	\$ 82,488	6.4767%	6.9378%	0.4493%	6.9378%	0.4493%	6.9378%	0.4493%
Common Equity	770,048		(20,670)	\$ 749,378	58.8393%	10.5000%	6.1781%	11.5000%	6.7665%	12.5000%	7.3549%
Deferred Income Taxes	-		-	-	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
Tax Credits-Zero Cost	-		-	-	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
Tax Credits-Weighted Cost	-		-	-	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%
TOTAL	\$ 1,306,457	\$ -	\$ (32,855)	\$ 1,273,602	100.0000%		8.9254%		9.5138%		10.1022%