

Writer's E-Mail Address: bkeating@gunster.com

June 5, 2019

VIA E-PORTAL

Mr. Adam Teitzman
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 20190083-GU: Petition for Rate Increase by Sebring Gas System, Inc.

Dear Mr. Teitzman:

Attached, for electronic filing, please find Sebring Gas System, Inc.'s Petition for Approval of Rate Increase, which includes the following:

1. Sebring's Petition;
2. Direct Testimony and Exhibits of the following witnesses on behalf of the Company: Jerry Melendy, Russell Melendy, and Bruce Christmas; and
3. Minimum Filing Requirements ("MFRs") Schedules A through I.

Sebring is filing a total of four (4) documents comprising the above referenced filing. With this cover letter are the Company's Petition and the Testimony and Exhibits of Jerry Melendy and Russell Melendy.

Consistent with Rule 25-7.039, Florida Administrative Code, Sebring is also providing 20 hard copies of the Company's filing, along with a DVD containing the Petition in Word and the filed documents in PDF.

Mr. Adam Teitzman
June 5, 2019
Page 2

Thank you for your assistance with this filing. As always, please do not hesitate to contact me if you have any questions whatsoever.

Sincerely,



Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

MEK

ATTACHMENTS

cc:// PSC (20 Hard copies)

Office of Public Counsel (Kelly)

**DOCKET NO. 20190083-GU: Application for rate increase
in Highlands, Hardee, and Desoto Counties, by Sebring Gas
System, Inc.**

PETITION FOR APPROVAL OF A RATE INCREASE

BY

SEBRING GAS SYSTEM, INC.



SEBRING GAS SYSTEM, INC.

JUNE 5, 2019

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Application for rate increase in Highlands, Hardee, and Desoto Counties, by Sebring Gas System, Inc. | DOCKET NO. 20190083-GU
| DATED: June 5, 2019

**PETITION FOR APPROVAL OF RATE INCREASE
BY SEBRING GAS SYSTEM, INC.**

Sebring Gas System, Inc. (“Sebring” or “Company”), by and through its undersigned counsel, and pursuant to Chapter 366, Florida Statutes, hereby respectfully petitions the Florida Public Service Commission (“FPSC” or “Commission”) for approval to increase the Company’s rates and charges to the extent necessary to generate additional gross annual revenues in the amount of \$309,847, which will enable the Company to continue to provide safe, reliable natural gas service at a level the customers have come to expect. The requested increase will provide Sebring with a reasonable opportunity to earn a fair rate of return of 7.70% on the Company’s plant and property used to serve its customers and a 12.50% midpoint rate of return on Sebring’s common equity. In support of this request, the Company hereby states:

- 1) Sebring is a natural gas utility subject to the Commission's jurisdiction in accordance with Chapter 366, Florida Statutes. Its principal business address is:

Sebring Gas System
3515 U.S. Highway 27, South
Sebring, FL 33870-5452

- 2) The name and mailing address of the persons authorized to receive notices are:

Beth Keating, Esquire
bkeating@gunster.com
Lila Jaber, Esquire
ljaber@gunster.com
Gunster Law Firm
215 South Monroe St., Ste. 601
Tallahassee, FL 32301
(850) 521-1706

Jerry H. Melendy, Jr.
Sebring Gas System, Inc.
3515 U.S. Highway 27, South
Sebring, FL 33870-5452

3) Sebring Gas System, Inc. was first authorized to provide natural gas service by Commission Order No. 24761, issued in Docket No. 19910537-GU, on July 5, 1991, having previously functioned as a propane service provider in Sebring, Florida. Its initial rates for service were thereafter approved by Order No. 25456, issued December 9, 1991, in Docket No. 19910873-GU, with permanent rates established by Order No. PSC-92-0229-FOF-GU, issued April 20, 1992. Sebring's last rate case was conducted in Docket No. 20040270-GU, wherein the Commission established the Company's current rates by Order No. PSC-2004-1260-PAA-GU, issued December 20, 2004, as consummated by Order No. PSC-2005-0039-CO-GU. The Company serves the Sebring and the surrounding areas, as well as two (2) state prisons, one in rural Hardee County, off of State Road 62, and the other approximately seven (7) miles east of Arcadia, Florida on State Highway 70. It is also presently constructing facilities to serve Wauchula, Florida. As of the end of the Historic Base Year, the Company served 662 customers.

I. REQUEST FOR PERMANENT RATE RELIEF

4) As noted above, Sebring filed its last rate case in 2004. Its current rates were established by Order No. PSC-2004-1260-PAA-GU, issued December 20, 2004, using a test year ending December 31, 2005. The case was handled as a Proposed Agency Action proceeding under Section 366.06(4), Florida Statutes. The outcome of that case was that the Commission determined that Sebring's rate base for the projected test year was \$1,100,766. The Commission then granted the Company a revenue increase of \$163,264 with an approved midpoint return on common equity ("ROE") midpoint of 11.50%.

5) Since that time, Sebring has maintained its focus on the customer as reflected by its service quality, while also effectively managing its costs such that it has been able to avoid

seeking a base rate increase for over 15 years. As set forth in the testimony and exhibits of Sebring's witnesses, cost saving measures, such as arranging 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, as well as growth of its customer base, have helped the Company maintain its rates at the same level over this extended period. The Company has seen, however, an increase in its cost to serve customers, which has contributed to its declining rate of return. At present, the Company's current rates and charges no longer allow it to earn a fair and reasonable rate of return nor do they yield reasonable compensation for services provided, which Sebring is entitled to under Section 366.06(3), Florida Statutes. As of December 31, 2018, Sebring was earning an overall rate of return of 6.25% on a pro forma adjusted basis with an ROE of 7.33%. Without the requested revenue increase, Sebring projects that its overall rate of return will fall to 3.17%, well below its currently authorized rate of return of 8.64%. As such, Sebring's ability to continue to provide consistent reliable service at the level to which our customers expect and deserve will be jeopardized. Moreover, Sebring's ability to attract capital at reasonable rates will be impaired, resulting in potentially even higher rates. The requested rate relief will ensure that Sebring can continue to provide the level of service to its customers that it currently provides as well as continued reliable access to natural gas supplies.

6) The Company has used the projected period ending December 31, 2020, as the projected test year for this filing, with the historic period being the 12-month period ended December 31, 2018. The year-ending December 31, 2020 represents the most relevant period upon which the Company's operations should be analyzed for purposes of establishing rates for the period new rates will be in effect. This test period will reflect actual conditions and be indicative of the

actual revenues, expenses, and investment during the first 12-months that new rates will be in effect. The proposed test year will, therefore, best match projected costs and investment with projected revenues for the Company for the period following the date new rates go into effect. As part of this Petition, the Company requests that the Commission approve the projected test year January 1, 2020 through December 31, 2020 as the appropriate projected test year and more representative of actual conditions for the Company's future operations than other periods.

7) The Company's jurisdictional 13-month average rate base for the test year period is projected to be \$5,085,214. Without the requested rate increase, the jurisdictional net operating income for the Company in the same period is projected to be \$1,186,200. The resulting revenue deficiency is \$309,847. The projected rate of return is, consequently, projected to be 3.17% in the test year. As such, Sebring asks that the Commission allow the Company an overall rate of return of 7.70%, including a mid-point ROE of 12.50%, which as further explained in the testimony witness Russell Melendy, will enable the Company to recover a Deferred Income Tax liability of \$342,671 over approximately 20 years. The details regarding Sebring's rate base, O&M expense, and the key drivers, as noted below, are included in the testimony and exhibit of Sebring's witnesses and clearly demonstrate that the Company will be unable to recover the costs of providing safe and reliable natural gas service for its customers through current rates.

8) As further set forth in the testimony and exhibits of Sebring's witnesses, there are three key drivers for Sebring's request in this proceeding: (1) the Company's current rates currently do not recover income tax expense, which the Company is now incurring; (2) the Company has experienced increases to its rate base, not currently recovered in base rates, associated with extensions to serve new customers; Sebring requires additional personnel, consistent with its expansion, to ensure it is able to continue to provide safe and reliable service; and (3) the

Company has experienced increases in regulatory costs, particularly those associated with changes to the federal pipeline safety regulations, as well as overall operating costs, including almost 15 years' worth of inflation.

9) In order to continue to provide, in the face of these challenges, "reasonably sufficient, adequate, and efficient service," as required by Section 366.03, Florida Statutes, Sebring must be able to not only recover its cost to serve, but also attract capital at reasonable rates and offer a fair return for its owners. Without a rate increase, Sebring will be unable to provide the level of service required by statute nor will it be able to produce a fair return on investment, as also contemplated by statute. Thus, Sebring is asking that this Commission allow the Company to increase its rates and charges enough to provide a total increase in annual revenues of \$309,847.

II. ADDITIONAL RATE STRUCTURE AND TARIFF CHANGES

10) Sebring also is requesting a shift in its rate design to recover a more significant portion of its revenue requirement through its fixed Customer Charge component. This shift will provide the Company with a greater degree of revenue stability, while also encouraging the direct use of natural gas by customers, as further explained in the testimony appended hereto.

11) The Company is also proposing to update its tariff provisions addressing customer deposits to be consistent with the revisions made to Section 366.05(1), Florida Statutes, in 2015.

III. MINIMUM FILING REQUIREMENT SCHEDULES

12) Simultaneously with this Petition, the Company is submitting the information required by Rule 25-7.039, Florida Administrative Code ("MFRs"), which has been compiled consistent with the Commission's rules and policies, as well as specific direction from the Company's last rate case, including, but not limited to appropriate adjustments to the Company's test year and rate base. The testimony and exhibits of the Company's witnesses supporting this request have also

been filed at this time. All of the information submitted in conjunction with this request is incorporated herein by reference.

13) Among the MFRs submitted in accordance with the Commission's Rule are the updated tariff sheets designed to produce the additional revenue amount requested. These tariff sheets are included in MFR Schedule E-9, sponsored by Witness Bruce Christmas, and are also attached hereto as Attachment A. Sebring respectfully requests that the Commission approve the updated tariff sheets and allow them to be effective by January 1, 2020, so that the Company can commence earning a fair rate of return.

IV. REQUEST FOR USE OF PROPOSED AGENCY ACTION PROCEDURES

14) Pursuant to Section 366.06(4), Florida Statutes, the Company asks that the Commission proceed with this request using the Commission's proposed agency action ("PAA") procedures.

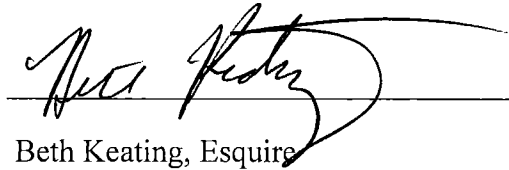
15) Concurrent with this Petition and MFRs, the Company is filing the supporting testimony and exhibits of three witnesses in support of its request. In providing this prefiled testimony with its petition, the Company respectfully emphasizes that it is not and does not intend to waive its right to submit additional testimony later in this proceeding addressing any issues raised in a protest of the Commission's PAA Order by any party to this proceeding, including the Company.

WHEREFORE, Sebring Gas System respectfully petitions the Florida Public Service Commission to:

- 1) Accept this filing as complete and sufficient;
- 2) Schedule this matter for a review and a decision utilizing the Commission's Proposed Agency Action process;
- 3) Make a determination that Sebring is not currently earning a fair rate of return and that its current rates and charges are insufficient to provide the Company with just compensation;

- 4) Authorize the Company to permanently increase its retail base rates and charges to generate additional gross revenues in the amount of \$309,847 on an annual basis so that the Company will have an opportunity to earn a fair overall rate of return of 7.70% with a return on common equity of 12.50% with an effective date of no later than January 1, 2020;
- 5) Approve the Company's allocation of the requested revenue increase across the rate classes as appropriate;
- 6) Allow the Company to amortize rate case expense over a 4-year period; and
- 7) Provide any other such relief as the Commission may deem appropriate.

Respectfully submitted this 5th day of June, 2019, by:



Beth Keating, Esquire
Florida Bar No. 0022756
Gunster Law Firm
215 South Monroe Street
Suite 601
Tallahassee, FL 32301

Lila A. Jaber
Florida Bar No. 0881661
Gunster Law Firm
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1703

Attorneys for Sebring Gas System, Inc.

AFFIDAVIT

STATE OF FLORIDA)

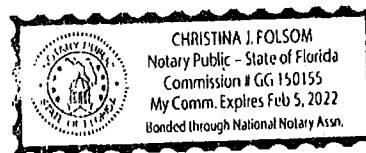
COUNTY OF HIGHLANDS)

I hereby certify that on this 5th day of June, 2019, before me, an officer duly authorized in the State and County aforesaid to take acknowledgments, personally appeared Jerry H. Melendy, Jr., who, being first duly sworn, states that he is President of Sebring Gas System, Inc. ("Sebring"), is fully qualified and acting in that capacity, and is authorized to make this oath that the matters and things stated in Sebring's Petition for Approval of Rate Increase, in Docket No. 20190083-GU are true and correct to the best of his knowledge and belief, and that to the extent that information and statements therein are derived from or dependent upon the knowledge of other, he believes such to be true and accurate.

In Witness Whereof, I have hereunto set my hand and seal in the State and County aforesaid as of this 5th day of June, 2019.

Christina J. Folsom
Notary Public
State of Florida, at Large

My Commission Expires:



CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Petition has been served by U.S. Mail this 5th day of June, 2019, upon the following:

Honorable James Brooks, Chair
Highlands County Board of County Commissioners
600 South Commerce Avenue
P.O. Box 1926
Sebring, FL 33872-1926

Honorable Mike Thompson, Chair
Hardee County Board of County Commissioners
412 W. Orange Street, Room 103
Wauchula, FL 33873

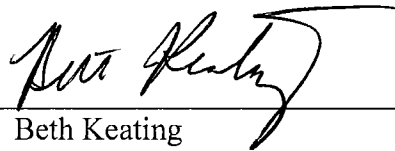
Honorable Judy Schaefer, Chair
DeSoto County Board of County Commissioners
201 E. Oak Street, Suite 201
Arcadia, FL 34266

Honorable Jaccarie Simons, Mayor
City of Arcadia
Margaret Way Building
23 N. Polk Avenue
Arcadia, FL 34266

Honorable John Shoop, Mayor
City of Sebring
368 S. Commerce Ave.
Sebring, FL 33870

Honorable R. Keith Nadaskay, Mayor
City of Wauchula
126 South 7th Avenue
Wauchula, FL 33873

By: _____



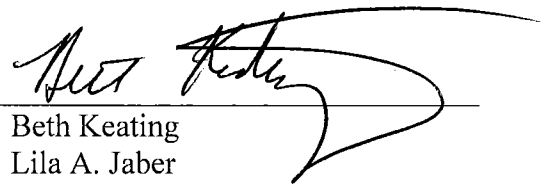
Beth Keating
Lila A. Jaber
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing filing has been served by Hand Delivery this 5th day of June, 2019, upon the following:

J.R. Kelly, Public Counsel
Office of the Public Counsel
c/o The Florida Legislature
111 West Madison St., Rm 812
Tallahassee, FL 32399-1400

By:



Beth Keating
Lila A. Jaber
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

ATTACHMENT A

PERMANENT INCREASE TARIFF SHEETS

(LEGISLATIVE AND ORIGINAL FORMAT)

INDEX

of

RATE SCHEDULES AND BILLING ADJUSTMENTS

<u>Symbol</u>	<u>Title</u>	<u>Sheet No.</u>
TS - 1	Transportation Service - 1	21
TS - 2	Transportation Service - 2	22 - 23
TS - 3	Transportation Service - 3	24 - 25
TS - 4	Transportation Service - 4	25.1 - 25.2
TS - 5	Transportation Service - 5	25.3 - 25.4
TPS	Third Party Supplier	25.5
Rider CTS	Contract Transportation Service Rider	26 - 28
BA	Billing Adjustments	29 - 32

Transportation Service -- 1
Rate Schedule TS-1

Availability:

Throughout the service area of the Company.

Applicability:

To all Customers receiving Aggregated Transportation Service whose metered gas consumption is 200 therms per year or less.

Monthly Rate:

Customer Charge	\$9.00 15.00
Transportation Charge	\$0.571402 7949
Minimum Bill:	The Customer Charge

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.
2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Transportation Service – 2
Rate Schedule TS-2

Availability:

Throughout the service area of the Company.

Applicability:

Customers whose metered gas consumption is greater than 200 therms per year up to 1,000 therms per year.

Monthly Rate:

Customer Charge	\$ 12.00 30.00
Transportation Charge	\$0.4932719660
Minimum Bill:	The Customer Charge

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Transportation Service – 2
Rate Schedule TS – 2
(Continued)

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.
2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Transportation Service – 3
Rate Schedule TS-3

Availability:

Throughout the service area of the Company.

Applicability:

Customers whose metered gas consumption is greater than 1,000 therms per year up to 10,000 therms per year.

Monthly Rate:

Customer Charge	\$35.00 <u>200.00</u>
Transportation Charge	\$0.46677 <u>1.6325</u>

Minimum Bill:

1. The minimum monthly bill shall be the Customer Charge plus the minimum daily contract quantity, if such minimum quantity is established in the Transportation Service Agreement, multiplied by the transportation charge and applicable adjustments, multiplied by the number of days in the billing cycle.
2. In the event the Company is unable to deliver the minimum daily quantity specified in the Transportation Service Agreement on any day or days within a billing cycle, the minimum monthly bill for such billing cycle shall be determined based upon the amount of gas actually delivered to the Customer on such day or days.

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Transportation Service – 3
Rate Schedule TS-3
(Continued)

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.
2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Transportation Service – 4
Rate Schedule TS-4

Availability:

Throughout the service area of the Company.

Applicability:

Customers whose metered gas consumption is greater than 10,000 therms per year up to 50,000 therms per year.

Monthly Rate:

Customer Charge	\$150.00 <u>650.00</u>
Transportation Charge	\$0.3386 <u>1.0317</u>

Minimum Bill:

1. The minimum monthly bill shall be the Customer Charge plus the minimum daily contract quantity, if such minimum quantity is established in the Transportation Service Agreement, multiplied by the transportation charge and applicable adjustments, multiplied by the number of days in the billing cycle.
2. In the event the Company is unable to deliver the minimum daily quantity specified in the Transportation Service Agreement on any day or days within a billing cycle, the minimum monthly bill for such billing cycle shall be determined based upon the amount of gas actually delivered to the Customer on such day or days.

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Transportation Service – 4
Rate Schedule TS-4
(Continued)

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.
2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Transportation Service – 5
Rate Schedule TS-5

Availability:

Throughout the service area of the Company.

Applicability:

Customers whose metered gas consumption is greater than 50,000 therms per year.

Monthly Rate:

Customer Charge ~~\$500.00~~3,875.00

Transportation Charge ~~\$0.381360~~5001

Minimum Bill:

1. The minimum monthly bill shall be the Customer Charge plus the minimum daily contract quantity, if such minimum quantity is established in the Transportation Service Agreement, multiplied by the transportation charge and applicable adjustments, multiplied by the number of days in the billing cycle.
2. In the event the Company is unable to deliver the minimum daily quantity specified in the Transportation Service Agreement on any day or days within a billing cycle, the minimum monthly bill for such billing cycle shall determined based upon the amount of gas actually delivered to the Customer on such day or days.

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Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Transportation Service – 5
Rate Schedule TS-5
(Continued)

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.

2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Third Party Supplier
Rate Schedule TPS

Availability:

Throughout the service area of the Company.

Applicability:

Service under this Rate Schedule is applicable to all Shipper's, Shipper's Designees or Pool Managers (such entities designated as Third Party Suppliers) delivering, or causing to be delivered, Gas to the Company's distribution system for transportation to Customer(s).

Monthly Rate:

Charge per Customer served by TPS ~~\$3.00~~3.50

Terms of Payment:

Bills are net and due upon receipt by the Third Party Supplier and become delinquent if unpaid after expiration of twenty days from date of mailing.

Billing Adjustments:

The rates set forth above shall be subject to Billing Adjustment No. 3, as applicable.

meets the requirements of Section III. E. REFUND OF DEPOSITS. Guarantor's providing security for payment of residential customers' bills shall only be liable for bills contracted at the service address of record.

- (6) for non-residential Customers, at the Company's sole option, possessing and maintaining a Standard & Poor's (S&P) Long Term Debt Rating of A- or better, or a Moody's rating of A3 or better may be deemed satisfactory establishment of Gredit. Comparable ratings from other nationally recognized rating organizations may be acceptable to the Company.

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- (6) for non-residential Customers, a parent company may serve as a guarantor for a subsidiary company to secure payment of bills for transportation service. A satisfactory guarantor shall meet the terms of established credit as stated in section (5) above.

Customers may request to be billed for the amount of the deposit. A bill for the Customer deposit is due upon receipt and shall be considered delinquent by the Company at the expiration of seven days from the date of mailing by the Company. Delinquent accounts are subject to the Company's DISCONTINUANCE OF SERVICE policies.

B. AMOUNT OF DEPOSIT. ~~The amount of a cash deposit, irrevocable letter of credit or surety bond shall be equal to two (2) times the estimated average monthly bill for service provided by Company, but shall in no case be for an amount less than thirty dollars (\$30.00). The deposit shall be calculated in conformity with the requirements of Section 366.05(1)(c), Florida Statutes as follows:~~

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(1) For an existing account or premise, the total deposit may not exceed two (2) months of average actual charges, calculated by adding the monthly charges from the 12-month period immediately before the date any change in the deposit is sought, dividing this total by 12, and multiplying the result by 2. If the account or premise has less than 12 months of actual charges, the deposit shall be calculated by adding the available monthly charges, dividing this total by the number of months available, and multiplying the result by 2.

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(2) For a new service or premise request, the total deposit may not exceed two (2) months of projected charges, calculated by adding the 12 months of projected charges, dividing this total by 12 and multiplying the result by 2. Once the new customer has had continuous service for a 12-month period, the amount of the deposit shall be recalculated using actual data. Any difference between the projected and actual amounts must be resolved by the customer paying any additional amount that may be billed by the utility or the utility returning any overcharge.

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B.

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C. RECORD OF DEPOSIT. With respect to a cash deposit, Company will keep records to show:

- (1) The name of Customer making the deposit;
- (2) The premises occupied by Customer;
- (3) The date and amount of the deposit; and
- (4) Each transaction concerning the deposit, such as, interest payments, interest credited, or similar transactions.

- (2) Company may offer an electronic direct bank debit payment option. If such a payment option is offered, Customers may choose to participate in the program by completing an agreement with the Company. Customers choosing this payment method agree that the Company may debit their bank account for the balance due on the Customer's Transportation Service account on the fifteenth (15th) day following the date of mailing by the Company.
- C. PARTIAL MONTH. Upon commencement of Transportation Service less than fifteen (15) days prior to a regular monthly billing date and when Transportation Service continues thereafter to the same Customer at the same address where Customers are receiving Transportation Service on monthly rate schedules, no bill shall be rendered for Transportation Service covering such period, but the charge for such period shall be included in the bill rendered for the next succeeding monthly period.
- D. CALCULATION OF CUSTOMER BILL. Customers receiving Transportation Service under a rate schedule with a variable rate component based on metered Gas volume, shall have such Gas volume measured by a meter or meters at each Point of Delivery, and the applicable rates set forth in the applicable rate schedule shall be applied to the quantity of Gas so measured to determine the variable component amount of the bill. Customers receiving Transportation Service under a rate schedule or Special Contract provision with a fixed rate component shall be billed that fixed rate. Customers receiving Transportation Service under a rate schedule with both variable and fixed rate components shall determine the amount of the bill by applying the Customer's metered Gas quantities to the applicable variable rate component and including the fixed rate component. Each bill regardless of type shall be subject to the applicable taxes and Billing Adjustments identified in this tariff. If the billing period is extended more than five (5) days, the Company will not apply the higher tiered rate if the Customer's higher usage is attributable to the extended billing period.
- E. MORE THAN ONE POINT OF DELIVERY. If a Customer purchases Transportation Service under a particular rate schedule but receives delivery thereof at more than a single Point of Delivery, the Company shall consider such deliveries as separate Transportation Service and shall calculate separate bills thereof, except where physical conditions make it necessary to use two or more meters to register consumption for one class of service to a single customer on the same premises, or where such multiple meters are used for the convenience of the Company. For the purpose of nomination, scheduling and imbalance resolution related to Transportation Service the Company may combine Points of Delivery for Customer's receiving service at multiple Points of Delivery.
- F. MORE THAN ONE RATE SCHEDULE. If a Customer purchases Transportation Service under more than one rate schedule, the Transportation Service rendered under each rate schedule shall be separately metered and

separate bills shall be calculated for each type of Transportation Service rendered.

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of

RATE SCHEDULES AND BILLING ADJUSTMENTS

<u>Symbol</u>	<u>Title</u>	<u>Sheet No.</u>
TS - 1	Transportation Service – 1	21
TS – 2	Transportation Service – 2	22 – 23
TS – 3	Transportation Service – 3	24 – 25
TS – 4	Transportation Service – 4	25.1 – 25.2
TS – 5	Transportation Service – 5	25.3 – 25.4
TPS	Third Party Supplier	25.5
Rider CTS	Contract Transportation Service Rider	26 – 28
BA	Billing Adjustments	29 - 32

Transportation Service – 1
Rate Schedule TS-1

Availability:

Throughout the service area of the Company.

Applicability:

To all Customers receiving Aggregated Transportation Service whose metered gas consumption is 200 therms per year or less.

Monthly Rate:

Customer Charge	\$15.00
Transportation Charge	\$0.27949
Minimum Bill:	The Customer Charge

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.
2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Transportation Service – 2
Rate Schedule TS-2

Availability:

Throughout the service area of the Company.

Applicability:

Customers whose metered gas consumption is greater than 200 therms per year up to 1,000 therms per year.

Monthly Rate:

Customer Charge	\$30.00
Transportation Charge	\$0.19660
Minimum Bill:	The Customer Charge

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Transportation Service – 2
Rate Schedule TS – 2
(Continued)

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.

2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Transportation Service – 3
Rate Schedule TS-3

Availability:

Throughout the service area of the Company.

Applicability:

Customers whose metered gas consumption is greater than 1,000 therms per year up to 10,000 therms per year.

Monthly Rate:

Customer Charge	\$200.00
Transportation Charge	\$0.16325

Minimum Bill:

1. The minimum monthly bill shall be the Customer Charge plus the minimum daily contract quantity, if such minimum quantity is established in the Transportation Service Agreement, multiplied by the transportation charge and applicable adjustments, multiplied by the number of days in the billing cycle.
2. In the event the Company is unable to deliver the minimum daily quantity specified in the Transportation Service Agreement on any day or days within a billing cycle, the minimum monthly bill for such billing cycle shall be determined based upon the amount of gas actually delivered to the Customer on such day or days.

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Transportation Service – 3
Rate Schedule TS-3
(Continued)

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.

2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Transportation Service – 4
Rate Schedule TS-4

Availability:

Throughout the service area of the Company.

Applicability:

Customers whose metered gas consumption is greater than 10,000 therms per year up to 50,000 therms per year.

Monthly Rate:

Customer Charge	\$650.00
Transportation Charge	\$0.10317

Minimum Bill:

1. The minimum monthly bill shall be the Customer Charge plus the minimum daily contract quantity, if such minimum quantity is established in the Transportation Service Agreement, multiplied by the transportation charge and applicable adjustments, multiplied by the number of days in the billing cycle.
2. In the event the Company is unable to deliver the minimum daily quantity specified in the Transportation Service Agreement on any day or days within a billing cycle, the minimum monthly bill for such billing cycle shall be determined based upon the amount of gas actually delivered to the Customer on such day or days.

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Transportation Service – 4
Rate Schedule TS-4
(Continued)

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.

2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

Transportation Service – 5
Rate Schedule TS-5

Availability:

Throughout the service area of the Company.

Applicability:

Customers whose metered gas consumption is greater than 50,000 therms per year.

Monthly Rate:

Customer Charge \$3,875.00

Transportation Charge \$0.05001

Minimum Bill:

1. The minimum monthly bill shall be the Customer Charge plus the minimum daily contract quantity, if such minimum quantity is established in the Transportation Service Agreement, multiplied by the transportation charge and applicable adjustments, multiplied by the number of days in the billing cycle.
2. In the event the Company is unable to deliver the minimum daily quantity specified in the Transportation Service Agreement on any day or days within a billing cycle, the minimum monthly bill for such billing cycle shall be determined based upon the amount of gas actually delivered to the Customer on such day or days.

Terms of Payment:

Bills are net and due upon receipt by the Customer and become delinquent if unpaid after expiration of twenty days from date of mailing.

Transportation Service – 5
Rate Schedule TS-5
(Continued)

Billing Adjustments:

1. The rates set forth above shall be subject to the applicable Billing Adjustments set forth on Sheet Nos. 29 - 32.

2. In the event the Company agrees to provide natural gas conversion equipment and installation, an agreement as to terms and conditions governing recovery of such conversion costs from the Customer may be entered into and the initial term of Transportation Service shall at a minimum be the same as the period of recovery stated in the agreement. Further, the rates established in the monthly rate section may be adjusted to provide for recovery by the Company of the costs incurred including carrying cost at the Company's overall cost of capital, in providing such natural gas conversion equipment and installation. At such time as the Company has recovered its cost of providing the natural gas conversion, bills rendered under this rate schedule shall return to the rates stated herein.

**Third Party Supplier
Rate Schedule TPS**

Availability:

Throughout the service area of the Company.

Applicability:

Service under this Rate Schedule is applicable to all Shipper's, Shipper's Designees or Pool Managers (such entities designated as Third Party Suppliers) delivering, or causing to be delivered, Gas to the Company's distribution system for transportation to Customer(s).

Monthly Rate:

Charge per Customer served by TPS \$3.50

Terms of Payment:

Bills are net and due upon receipt by the Third Party Supplier and become delinquent if unpaid after expiration of twenty days from date of mailing.

Billing Adjustments:

The rates set forth above shall be subject to Billing Adjustment No. 3, as applicable.

meets the requirements of Section III. E. REFUND OF DEPOSITS. Guarantor's providing security for payment of residential customers' bills shall only be liable for bills contracted at the service address of record.

- (6) for non-residential Customers, at the Company's sole option, possessing and maintaining a Standard & Poor's (S&P) Long Term Debt Rating of A- or better, or a Moody's rating of A3 or better may be deemed satisfactory establishment of Credit. Comparable ratings from other nationally recognized rating organizations may be acceptable to the Company.
- (6) for non-residential Customers, a parent company may serve as a guarantor for a subsidiary company to secure payment of bills for transportation service. A satisfactory guarantor shall meet the terms of established credit as stated in section (5) above.

Customers may request to be billed for the amount of the deposit. A bill for the Customer deposit is due upon receipt and shall be considered delinquent by the Company at the expiration of seven days from the date of mailing by the Company. Delinquent accounts are subject to the Company's DISCONTINUANCE OF SERVICE policies.

B. AMOUNT OF DEPOSIT. The amount of the deposit shall be calculated in conformity with the requirements of Section 366.05(1)(c), Florida Statutes as follows:

- (1) For an existing account or premise, the total deposit may not exceed two (2) months of average actual charges, calculated by adding the monthly charges from the 12-month period immediately before the date any change in the deposit is sought, dividing this total by 12, and multiplying the result by 2. If the account or premise has less than 12 months of actual charges, the deposit shall be calculated by adding the available monthly charges, dividing this total by the number of months available, and multiplying the result by 2.
- (2) For a new service or premise request, the total deposit may not exceed two (2) months of projected charges, calculated by adding the 12 months of projected charges, dividing this total by 12 and multiplying the result by 2. Once the new customer has had continuous service for a 12-month period, the amount of the deposit shall be recalculated using actual data. Any difference between the projected and actual amounts must be resolved by the customer paying any additional amount that may be billed by the utility or the utility returning any overcharge.

C. RECORD OF DEPOSIT. With respect to a cash deposit, Company will keep records to show:

- (1) The name of Customer making the deposit;
- (2) The premises occupied by Customer;
- (3) The date and amount of the deposit; and
- (4) Each transaction concerning the deposit, such as, interest payments, interest credited, or similar transactions.

- (2) Company may offer an electronic direct bank debit payment option. If such a payment option is offered, Customers may choose to participate in the program by completing an agreement with the Company. Customers choosing this payment method agree that the Company may debit their bank account for the balance due on the Customer's Transportation Service account on the fifteenth (15th) day following the date of mailing by the Company.
- C. PARTIAL MONTH. Upon commencement of Transportation Service less than fifteen (15) days prior to a regular monthly billing date and when Transportation Service continues thereafter to the same Customer at the same address where Customers are receiving Transportation Service on monthly rate schedules, no bill shall be rendered for Transportation Service covering such period, but the charge for such period shall be included in the bill rendered for the next succeeding monthly period.
- D. CALCULATION OF CUSTOMER BILL. Customers receiving Transportation Service under a rate schedule with a variable rate component based on metered Gas volume, shall have such Gas volume measured by a meter or meters at each Point of Delivery, and the applicable rates set forth in the applicable rate schedule shall be applied to the quantity of Gas so measured to determine the variable component amount of the bill. Customers receiving Transportation Service under a rate schedule or Special Contract provision with a fixed rate component shall be billed that fixed rate. Customers receiving Transportation Service under a rate schedule with both variable and fixed rate components shall determine the amount of the bill by applying the Customer's metered Gas quantities to the applicable variable rate component and including the fixed rate component. Each bill regardless of type shall be subject to the applicable taxes and Billing Adjustments identified in this tariff. If the billing period is extended more than five (5) days, the Company will not apply the higher tiered rate if the Customer's higher usage is attributable to the extended billing period.
- E. MORE THAN ONE POINT OF DELIVERY. If a Customer purchases Transportation Service under a particular rate schedule but receives delivery thereof at more than a single Point of Delivery, the Company shall consider such deliveries as separate Transportation Service and shall calculate separate bills thereof, except where physical conditions make it necessary to use two or more meters to register consumption for one class of service to a single customer on the same premises, or where such multiple meters are used for the convenience of the Company. For the purpose of nomination, scheduling and imbalance resolution related to Transportation Service the Company may combine Points of Delivery for Customer's receiving service at multiple Points of Delivery.
- F. MORE THAN ONE RATE SCHEDULE. If a Customer purchases Transportation Service under more than one rate schedule, the Transportation Service rendered under each rate schedule shall be separately metered and separate bills shall be calculated for each type of Transportation Service rendered.

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**DIRECT TESTIMONY OF
JERRY H. MELENDY, JR.
ON BEHALF OF SEBRING GAS SYSTEM, INC.
DOCKET NO. 20190083-GU
June 5, 2019**

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jerry H. Melendy, Jr. My business address is Sebring Gas System, Inc. US Highway 27 South, Sebring, FL 33870.

Q. WHAT IS YOUR POSITION AT SEBRING GAS SYSTEM, INC.?

A. I am the President of Sebring Gas System, Inc. (the "Company" or "SGS").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from Polk Community College in 1972 with an Associate of Arts degree and from the University of South Florida in 1974 with a Bachelor's Degree in Business Administration.

Q. WHAT ARE YOUR CURRENT DUTIES AS PRESIDENT OF SGS?

A. My duties as President include directing all activities of the Company's operations including, but not limited to: strategic planning, preparation of budgets, including financing plans, natural gas operations and administration, engineering, sales and marketing activities, accounting and regulatory functions.

Purpose of Testimony and Organization of Case

1
2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. My testimony will generally describe the Company's operations
4 and customer base. I will explain the need for permanent rate
5 relief, as it has been fifteen (15) years since the Company's last
6 rate relief filing. There are three (3) major drivers that necessitate
7 the need for rate relief at this time: 1) Sebring's current rates were
8 established without any provision for current or deferred federal
9 and state income taxes; 2) there has been a significant growth in
10 rate base and operating expenses directly attributable to the
11 Company expansion into new territories; and 3) the Company has
12 experienced an overall increase in operating, maintenance and
13 administrative costs as a result of the Company's growth, increases
14 in the costs of materials, as well as the effects of fifteen years of
15 inflation. My testimony will address each of these drivers. I will
16 also describe the steps taken by the Company to avoid the need for
17 rate relief for such an extended period. Finally, I will provide
18 support for the Company's requested rate relief by addressing the
19 Company's historical and projected rate base and net operating
20 income.

21 **Q. IN ADDITION TO YOUR TESTIMONY, WHAT**
22 **INFORMATION IS SGS FILING IN SUPPORT OF ITS**
23 **RATE REQUEST?**

24 A. The Company is filing the Minimum Filing Requirements
25 ("MFR") excel spreadsheets, as required by Commission rule. In
26 addition to the referenced MFRs and my testimony, the Company

1 is filing the Direct Testimony of Russell Melendy, Project
2 Manager of the Company and Bruce Christmas, the Company's
3 consultant in this rate filing.

4 **Q. ARE YOU SPONSORING ANY OF THE MFR**
5 **SCHEDULES?**

6 A. Yes. All of the Company's MFR excel spreadsheets were prepared
7 under my direction, supervision and control. However, for
8 purposes of my testimony, I am sponsoring the MFR schedules
9 identified in Exhibit No. ___(JHM-1).

10

11 **Company Background**

12 **Q. PLEASE PROVIDE A BRIEF HISTORY OF SEBRING GAS**
13 **SYSTEM, INC.**

14 A. On April 30, 1991, Sebring Gas System, which at the time was a
15 division of Coker Fuels, Inc. ("Sebring"), a retail propane company
16 operating in Highlands and surrounding counties, filed a Petition
17 for Issuance of Order Declaring Jurisdiction with the Commission.
18 Order No. 24761 - Declaring Jurisdiction over Sebring was issued
19 by the Commission on July 5, 1991. Subsequently, in August
20 1991, Sebring petitioned the Commission for approval of its
21 proposed tariff and initial rates. Interim rates were approved by
22 the Commission in Order No. 25456, issued on December 6, 1991.
23 Permanent rates were authorized in Order No. PSC-92-0229-FOF-
24 GU, dated April 20, 1992. In said Order, the Commission also
25 recognized the entity's re-organization and establishment of SGS,

1 an independent Florida corporation, as the regulated natural gas
2 utility.

3 **Q. WHAT AREAS OF THE STATE DOES SGS SERVE?**

4 A. The Company's traditional service territory has been the greater
5 environs of the City of Sebring. However, as I will more fully
6 describe later in my testimony, recently the Company determined
7 that it had to expand its service areas in order to remain a viable
8 natural gas utility; otherwise, the alternative would have been to
9 sell the system. As a result of the Company's implementation of
10 its expansion plans, the Company added two (2) state prisons to its
11 customer base in 2013, one in rural Hardee County, off of State
12 Road 62, and the other approximately seven (7) miles east of
13 Arcadia, Florida on State Highway 70. The Commission approved
14 the Company's petitions for approval of Special Contracts with
15 these two customers in Order Nos. PSC-2013-0366-FOF-GU and
16 PSC-2013-0367-FOF-GU. Subsequently, the Company has
17 executed an agreement with Peoples Gas System ("Peoples") for a
18 connection to their existing distribution system near the City of
19 Wauchula in Hardee County. The Company is currently
20 constructing a natural gas distribution network in and around
21 Wauchula. The Company has also executed an agreement with
22 Peninsula Pipeline Company, Inc. ("PPC") for a connection near
23 the City of Arcadia so that the Company can construct and operate
24 a natural gas distribution network in and around Arcadia.
25 Engineering plans are being developed at the time of filing. At this

1 time, the above-described areas comprise the current service
2 territories of the Company.

3 **Q. PLEASE DESCRIBE THE CUSTOMER BASE SERVED BY**
4 **THE COMPANY.**

5 A. In 2018, the Company, as reported in its Annual Report to the
6 Commission, served an average of 662 customers. The
7 Company's rate schedules are not designed to distinguish between
8 customer types, but instead are segregated by annual usage.
9 However, most of the customers served by the Company are
10 residential and small commercial accounts. The Company does
11 currently serve larger commercial accounts and small industrial
12 accounts (rate classes TS-4 and TS-5). MFR Schedule E-1, Page 1
13 of 3 shows the number of bills issued for Rate Classifications TS-
14 1, TS-2, TS-3, TS-4 and TS-5, plus the two State prisons served
15 under Special Contracts.

16 **Q. IN YOUR OPINION, ARE THERE OPPORTUNITIES FOR**
17 **THE COMPANY TO INCREASE THE NUMBER OF**
18 **CUSTOMERS THAT IT SERVES?**

19 A. Yes. All three cities served by the Company, Sebring, Wauchula
20 and Arcadia, are experiencing growth in the residential,
21 commercial and small industrial sectors. The Company, as is more
22 fully described in Mr. Bruce Christmas' Direct Testimony, has
23 identified significant commercial and small industrial customer
24 opportunities in its newest service areas, Wauchula and Arcadia,
25 because several businesses there are currently using propane as
26 their fuel source. Commercial growth opportunities are also

1 occurring in the Sebring service area. Residential opportunities,
2 through the end of the Projected Test Year, primarily exist in the
3 Sebring service area only. The Company has identified an
4 approximate 50-unit housing development that it believes it will be
5 able to serve in the Sebring area; these customers are included in
6 the Company's filing.

7 **Q. HOW IS GAS DELIVERED TO THE COMPANY'S**
8 **VARIOUS SERVICE AREAS?**

9 A. As described above, the Company now has three (3) primary
10 service areas, the Cities of Sebring, Wauchula and Arcadia. Each
11 service area's distribution system is independent of the other two.
12 In other words, the distribution systems serving these areas are not
13 interconnected. Likewise, these three service area distribution
14 systems are not directly connected to any interstate pipeline
15 system. Instead, the Company's facilities in the Sebring and
16 Wauchula service areas are connected into existing, nearby
17 Peoples' distribution systems. The Company's facilities in the
18 Arcadia service area are connected into a newly constructed lateral
19 from an existing PPC pipeline providing service in the vicinity of
20 Arcadia. Peoples Gas's and PPC's systems ultimately interconnect
21 SGS with the Florida Gas Transmission's ("FGT") interstate
22 pipeline network. In addition, the Company serves two State
23 prisons, one in rural Hardee County, off State Road 62, connected
24 through a short lateral to Gulfstream Natural Gas System's
25 ("GNGS") interstate pipeline system; and the other near the City of
26 Arcadia (approximately seven miles east on State Road 70), which

1 is directly connected to FGT's interstate pipeline system. Because
2 the Company has exited the merchant function, third-party
3 marketers deliver gas to the Peoples, PPC and Company's
4 connection points with FGT and GNGS. Peoples and PPC, in turn,
5 deliver the gas to the Company's distribution systems, for the three
6 service areas described above, for transportation to residential,
7 commercial and industrial customers. The Company receives the
8 marketer's gas directly from FGT and GNGS and transports it to
9 the two prison facilities.

10
11 **Requested Rate Relief**

12 **Q. WHAT IS THE AMOUNT OF THE PERMANENT RATE**
13 **INCREASE THE COMPANY SEEKS IN THIS CASE?**

14 A. To allow the Company an opportunity to earn a reasonable rate of
15 return on its investment, the Company is seeking a permanent
16 annual rate increase of \$309,847 representing an overall increase
17 of 26.12%, as shown on MFR Schedule H-3, Page 4. Lines 9 and
18 10. The calculation of SGS's permanent revenue requirement is
19 addressed later in my testimony.

20 **Q. WHAT IS THE PROJECTED TEST PERIOD USED BY THE**
21 **COMPANY TO DETERMINE ITS REQUEST FOR RATE**
22 **INCREASES?**

23 A. The projected test period consists of the twelve months ending
24 December 31, 2020. The MFR Schedules present financial and
25 other information for the Historic Base Year of 2018 ("HBY"), the

1 Historic Base Year + 1 of 2019 (“HBY+1) and the Projected Test
2 Year of 2020 (“PTY”).

3 **Q. IS THE PROJECTED TEST YEAR OF 2020 APPROPRIATE**
4 **FOR THE COMPANY IN SETTING RATES?**

5 A. Yes. A 2020 Projected Test Year best reflects the billing
6 determinates, revenue forecast and overall cost of service that the
7 Company expects to experience during the period in which the
8 anticipated rates would become effective, if Sebring’s request is
9 approved by the Commission (on or about January 1, 2020).

10 **Q. IS THE COMPANY REQUESTING AN INCREASE IN ITS**
11 **AUTHORIZED RETURN ON EQUITY?**

12 A. Yes. As is more fully explained in Mr. Russell Melendy’s Direct
13 Testimony, the Company is requesting an increase from the current
14 Commission-authorized mid-point of 11.50% Return on Equity
15 (“ROE”) to a mid-point of 12.50% ROE.

16

17 **Need for Rate Relief**

18 **Q. WHY IS THE COMPANY FILING FOR RATE RELIEF AT**
19 **THIS TIME?**

20 A. The Company is now filing for rate relief because: 1) its current
21 rates were established without any provision for current or deferred
22 federal and state income taxes; 2) it has experienced significant
23 growth in rate base and operating expenses directly attributable to
24 Company expansion into new territories; and 3) it has experienced
25 an overall increase in operating, maintenance and administrative
26 costs as a result of the Company’s growth, increases in the costs of

1 materials, as well as the effects of fifteen years of inflation.
2 Without rate relief, the Company will be challenged to continue to
3 provide safe and reliable service to its customers.

4 **Q. PLEASE EXPLAIN.**

5 A. The Company last filed for rate relief approximately fifteen (15)
6 years ago. For many years since then, the Company struggled to
7 make a profit, as the customer growth (or lack of), as projected in
8 the last case, became a reality. The Great Recession further
9 depressed the area's economy, resulting in the loss of customers on
10 SGS's system for several years.

11
12 As the economy recovered, the Company determined that it needed
13 to do several things in order to become and remain a safe, growing
14 and stable natural gas utility. The Company believes that it has
15 taken the appropriate steps to accomplish these goals. The
16 Company has upgraded its accounting system and processes in
17 accordance with Commission regulations. The Company also
18 continues to file complete and accurate information with the
19 Commission on a consistent basis, including the Annual Report
20 (FERC Form 2), Energy Conservation Cost Recovery filings, and
21 consistently maintains compliance with all safety, construction,
22 operations and maintenance regulations and standards.

23
24 SGS has developed a growth strategy that initially targeted two
25 existing State prisons that are located in close proximity to existing
26 interstate pipeline facilities, but remained unserved. The Company

1 ultimately secured agreements with the Hardee Correctional
2 Institution and the DeSoto Correctional Institution in 2012. A
3 petition was filed with the Commission for approval of two Special
4 Contracts for natural gas transportation service, which the
5 Commission approved.

6
7 Gaining these two facilities as customers allowed the Company to
8 restructure its debt, as more fully described in Mr. Russell
9 Melendy's Direct Testimony, and increase its net income, thus
10 providing the necessary capital to finance these two projects. The
11 increase in net income also had the effect of exhausting the Federal
12 and State Income Tax Loss Carryforwards that the Company had
13 accumulated consistently from the inception of the Company in
14 1992 until after the recovery from the recession. In 2018, for the
15 first time in the history of the Company, it incurred Current
16 Income Taxes payable to both the State of Florida and the Federal
17 Government.

18
19 The Company next determined that there are market opportunities
20 for natural gas service in the previously un-served Cities of
21 Wauchula and Arcadia. The Company has begun constructing the
22 natural gas distribution system in and around the City of
23 Wauchula, and at December 31, 2018, has incurred \$28,860 of
24 construction costs, as recorded in Construction-Work-In-Progress.
25 The Company expects that it will incur and additional \$343,750 in
26 capital costs to extend into and provide service to customers within

1 and around the City of Wauchula. In addition, the Company
2 projects that it will incur approximately \$1,100,000 in similar
3 capital costs for the City of Arcadia. The Company will also incur
4 capital costs to serve customers in these communities, as well as,
5 in the City of Sebring, including service lines, meters and meter
6 installations, regulators and regulator installations.

7
8 In order to provide the level of service that the Company's
9 customers have come to expect, it will need to add two operations
10 positions (one located in Wauchula; the other in Arcadia) and an
11 accounting position. The field employees will be fully trained and
12 qualified to perform tasks, including, but not limited to, inspection
13 of contractor's installing mains and services, line locates, leak
14 surveys, meter turn-on's and off's and the myriad other functions
15 required by applicable regulations. The accounting position is
16 needed, as the workload has increased to a level where the existing
17 employee needs additional help. The Company plans to hire an
18 employee who has earned an accounting degree, which the current
19 employee performing most of these tasks does not hold, to ensure
20 compliance with ever-increasing complexity of accounting
21 regulations.

22
23 Thus, as detailed above, the Company is now filing for rate relief
24 in order to ensure that it remains financially healthy and able to
25 continue to provide safe and reliable natural gas service for its
26 customers.

1 **Q. ARE THE COMPANY’S CURRENT RATES PRODUCING**
2 **REVENUES SUFFICIENT TO YIELD AN ADEQUATE**
3 **RETURN ON THE COMPANY’S INVESTMENT?**

4 A. No. As described above, now that the Company is incurring
5 current federal and state income taxes, expanding into new service
6 territories and the effect of attrition since the last rate filing, the
7 Company is not able to generate an adequate return on its
8 investment, nor does it see that occurring in the future, absent rate
9 relief.

10 **Q. HAS THE COMPANY TAKEN STEPS TO AVOID A RATE**
11 **INCREASE?**

12 A. Yes. As described above, the Company has taken reasonable steps
13 to avoid seeking a rate increase, including, but not limited to, the
14 following:

15 1) Modified and modernized its Energy Conservation Cost
16 Recovery (ECCR) program to encourage growth in the residential
17 and commercial sectors. In the past five years, the Company has
18 added approximately 80 new customers to the system.

19 2) Added two new state prison facilities to its customer base
20 through Special Contracts approved by the Commission, which
21 provides significant benefits to all rate-payers of the Company.

22 3) Deferred filing for a base rate increase until after the reduction
23 in Federal Income Tax rates for Corporations. As stated herein,
24 the Company’s rates have never included any provision for income
25 taxes.

1 4) Arranged for the use of debt, at a lower cost of capital than
2 equity financing, to pay for the expansion of the distribution
3 system to connect the two state prison facilities and begin
4 expansion activities in Wauchula, Florida.

5

6

MFR Historic Data

7

**Q. HOW DID YOU DERIVE THE HISTORIC BASE YEAR
8 DATA PRESENTED IN THE MFR'S?**

8

9

A. All data related to the Historic Base Year are recorded in the
10 official books and records of the Company, located in Sebring,
11 Florida, and transcribed therefrom into the MFR's. These records
12 are kept according to the recognized accounting practices and
13 provisions of the Uniform System of Accounts as adopted by the
14 Commission.

14

15

16

Historic Base Year Rate Base

17

**Q. PLEASE DESCRIBE HOW THE HISTORIC BASE YEAR
18 ("HBY") RATE BASE WAS CALCULATED.**

18

19

A. For the HBY, a 13-month Average Rate Base was calculated for
20 the period ended December 31, 2018, which is also the end date of
21 the Company's fiscal year. MFR Schedule B-2 shows the
22 calculation of HBY Rate Base. Net Utility Plant for the HBY was
23 \$3,692,870. An allowance for Working Capital, adjusted for any
24 dis-allowed items, is then combined with Net Utility Plant to arrive
25 at Total Rate Base. The SGS Working Capital, as adjusted, is

25

1 \$23,632. When added to Net Utility Plant, the result is a Total
2 Rate Base for the HBY of \$3,716,502.

3 **Q. HAS SGS IDENTIFIED AND EXCLUDED FROM RATE**
4 **BASE THOSE PORTIONS OF ITS NET UTILITY PLANT**
5 **THAT ARE PROPERLY ALLOCATED AS COMMON**
6 **PLANT TO NON-UTILITY OPERATIONS?**

7 A. The Company, consistent with what the Commission approved in
8 SGS's last rate filing, has no Common Plant to allocate to Non-
9 Utility Operations in the instant case. The Company does not
10 engage in any Non-Utility Operations, as was established in its last
11 rate filing.

12 **Q. HAS SGS MADE ANY ADJUSTMENTS TO NET UTILITY**
13 **PLANT FOR THE HBY?**

14 A. No. The Company has made no adjustments to its Net Utility
15 Plant in the HBY.

16 **Q. HAS SGS MADE ANY ADJUSTMENTS TO WORKING**
17 **CAPITAL FOR THE HBY? IF SO, PLEASE DESCRIBE.**

18 A. Yes. The Company made the following adjustments to Working
19 Capital, as shown on Schedule B-13:

20 1. Eliminated Accounts Receivable – Fuel of \$133,293.
21 Company exited the merchant function many years ago, but bills
22 the third-party supplier's fuel charges to the Company's customers,
23 collects the customer payments for the fuel charges and then remits
24 such collected amount to the third-party supplier.

1 2. Eliminated Payroll Clearing Account of \$289 – this
2 account should be, by definition as a clearing account, at a zero
3 balance every month.

4 3. Eliminated ECCR True-Up – Prior Year of \$8,691 – this
5 account is part of the ECCR program and has been eliminated.

6 4. Eliminated ECCR True-Up – Current Year of \$7,999 –
7 this account is part of the ECCR program and has been eliminated.

8 5. Eliminated NP Coker - Current of \$146,789 – the
9 Company had recorded this as a payable in 2017 when the
10 Company's Common Equity percentage was at approximately 60%
11 of its Capital Structure, the maximum percentage allowed by the
12 Commission. As such, the Company contemplated reimbursing
13 Coker Fuel a portion of the Additional-Paid-In-Capital that Coker
14 Fuel had provided in prior years. However, as the year progressed,
15 the Company determined that, due to its expansion plans, it would
16 be prudent to retain this equity rather than return it to Coker Fuel,
17 so the planned payment was never made. Thus, this amount has
18 been eliminated.

19 6. Eliminated Regulatory Assessment – ECCR of \$24 – this
20 amount is recovered through the ECCR program, thus has been
21 eliminated in the HBY.

22 The net effect of these adjustments is a reduction to Working
23 Capital of \$3,507 for the HBY, as shown on MFR Schedule B-13,
24 Page 2.

25 **Q. WHAT IS THE COMPANY'S TOTAL RATE BASE FOR**
26 **THE HBY?**

1 A. As shown on MFR Schedule B-2, the Company's 13-month
2 Average Rate Base for the HBY is \$3,716,502.

3

4 **Historic Base Year Net Operating Income**

5 **Q. WHAT ARE THE APPROPRIATE OPERATING**
6 **REVENUES FOR THE HISTORIC BASE YEAR?**

7 A. The appropriate amount of Operating Revenues for the HBY is
8 \$1,033,155, as shown on MFR Schedule C-1.

9 **Q. DID SGS MAKE ANY ADJUSTMENTS TO OPERATING**
10 **REVENUES IN THE HBY TO ARRIVE AT THE ABOVE**
11 **AMOUNT?**

12 A. Yes. The Company eliminated its ECCR Revenues (\$47,794)
13 from Operating Revenues, as detailed on MFR Schedule C-7.

14 **Q. WHAT ARE THE APPROPRIATE OPERATIONS AND**
15 **MAINTENANCE EXPENSES FOR THE HBY?**

16 A. The appropriate Operations and Maintenance Expenses for the
17 HBY are \$503,712, as shown on MFR Schedule C-1.

18 **Q. DID THE COMPANY MAKE ANY ADJUSTMENTS TO**
19 **THE OPERATIONS AND MAINTENANCE EXPENSES**
20 **FOR THE HBY IN ARRIVING AT THE DOLLAR**
21 **AMOUNT ABOVE?**

22 A. Yes. The Company eliminated the following items and amounts
23 from its Operations and Maintenance Expenses for the HBY:

24 1. Eliminate ECCR Expenses – (\$48,049) (as detailed on MFR
25 Schedule C-7);

- 1 2. Eliminate Lobbying Expenses – (\$149) (as detailed on MFR
2 Schedule C-12); and
3 3. Out of Period Adjustments – \$245 (as detailed on MFR
4 Schedule C-15).

5 **Q. MFR SCHEDULE C-37 DETAILS THE O&M COMPOUND**
6 **MULTIPLIER CALCULATION, CAN YOU DISCUSS THE**
7 **IMPORTANCE OF THIS CALCULATION?**

8 A. Yes. MFR Schedule C-37 looks at compounded customer growth
9 and inflation from the HBY in the prior rate case through the HBY
10 in the current case. When the compounded factors for each are
11 multiplied together, the result is the inflation x customer growth
12 compound multiplier. This multiplier is used to trend each HBY
13 O&M Expense category from the prior rate case, resulting in an
14 “expected” O&M Expense, and compared to the respective
15 category of HBY O&M Expense incurred in the current rate case.

16
17 The Company used the Consumer Price Index (“CPI”) annual
18 average data obtained from the Annual and Monthly Report from
19 the US Bureau of Labor Statistics. The CPI increased from
20 179.900 in 2002 to 251.107 in 2018, for a Inflation compound
21 multiplier of 1.3865.

22
23 The Company’s records for number of customers were not
24 accurate from the inception of the Company until 2011. In 2011,
25 the Company undertook a project to ensure that it was recognizing
26 a “customer” consistent with standard industry practices. The

1 Company performed a detailed study and determined that the
2 accurate number of customers at the end of 2010 was 491 (see
3 Company's filed 2011 Annual Report, Page 26). Although the
4 Company believes that the number of customers prior to 2010 was
5 most likely fluctuated up and down (effects of the Great
6 Recession), it has used the 2010 customer number as a proxy for
7 the customer count from 2002 through 2009. The customer
8 numbers used in MFR Schedule C-37 for number of customers was
9 sourced from the Company's filed Annual Reports to the
10 Commission (FERC Form 2). As such, the compound multiplier
11 for Customer Growth is 1.3483.

12
13 The Inflation x Customer Growth multiplier is 1.8694, as shown on
14 MFR Schedule C-37.

15 **Q. PLEASE DISCUSS THE BENCHMARK VARIANCES FOR**
16 **O&M EXPENSE AS SHOWN ON MFR SCHEDULE C-34.**

17 A. In total, as shown on MFR Schedule C-34, Page 1, Line 8, the
18 Company's HBY O&M Expenses are \$1,995 below the calculated
19 prior case's HBY Benchmark Expenses. However, two of the
20 O&M categories are above the benchmark (see Lines 1 and 6). As
21 described on MFR Schedule C-38, the Company is now recording
22 expenses to the proper FERC O&M Account in accordance with
23 Commission requirements. This was not always the case in 2002.

24 **Q. WHAT IS THE APPROPRIATE AMOUNT OF**
25 **DEPRECIATION AND AMORTIZATION EXPENSE FOR**
26 **THE HBY?**

1 A. As shown on MFR Schedule C-1, the appropriate Depreciation and
2 Amortization Expense for the HBY is \$202,354. The Company
3 utilized the Commission-approved Depreciation and Amortization
4 rates in Order No. PSC-16-0574-FOF-GU, as shown on MFR
5 Schedules C-17 and C-18.

6 **Q. WHAT IS THE APPROPRIATE AMOUNT OF TAXES
7 OTHER THAN INCOME TAXES FOR THE HBY?**

8 A. As shown on MFR Schedule C-1, the appropriate amount of Taxes
9 Other than Income Taxes for the HBY is \$19,188. The detail of
10 what taxes make up the total amount is found on MFR Schedule C-
11 30, Page 2.

12 **Q. WHAT ARE THE APPROPRIATE AMOUNTS FOR
13 CURRENT FEDERAL AND STATE INCOME TAX
14 EXPENSE AND DEFERRED FEDERAL AND STATE
15 INCOME TAX EXPENSE IN THE HBY?**

16 A. As shown on MFR Schedule C-1, the appropriate amounts are as
17 follows:

18 Current Federal Income Tax Expense - \$51,346

19 Current State Income Tax Expense - \$12,741

20 Deferred Federal Income Tax Expense – (\$5,375)

21 Deferred State Income Tax Expense – (\$877).

22 Detailed calculations are shown on MFR Schedules C-20, C-21, C-
23 22, C-23, C-24 and C-25, Pages 1 and 2.

24 **Q. WHAT IS THE APPROPRIATE AMOUNT OF NET
25 OPERATING INCOME FOR THE HBY?**

1 A. The appropriate amount of Net Operating Income for the HBY is
2 \$250,066, as shown on MFR Schedule C-1.

3

4

Projected Test Year Rate Base

5 **Q. WHAT IS THE APPROPRIATE PROJECTED TEST YEAR**
6 **NET UTILITY PLANT FOR SGS?**

7 A. The 13-Month Average Net Utility Plant for 2020, as shown on
8 MFR Schedule G-1, Page 1, is \$5,089,434. The calculation made
9 to derive the Net Utility Plant includes the projected capital
10 requirements for expansion into and around the Cities of Wauchula
11 and Arcadia, as well as, growth opportunities in and around the
12 City of Sebring. A detailed discussion of the Company's
13 expansion plans and capital purchases and the impact on the 13-
14 Month Average Net Utility Plant for the PTY can be found in Mr.
15 Bruce Christmas's Direct Testimony.

16 **Q. PLEASE EXPLAIN ANY ADJUSTMENTS TO THE PTY**
17 **NET UTILITY PLANT.**

18 A. Consistent with my testimony regarding the HBY, the Company
19 has made no adjustments to the PTY Net Utility Plant.

20 **Q. WHAT IS THE APPROPRIATE AMOUNT OF WORKING**
21 **CAPITAL FOR THE PTY?**

22 A. The appropriate amount of Working Capital for the PTY is
23 (\$4,221), as shown on MFR Schedule G-1, Page 1.

24 **Q. HAS THE COMPANY MADE ANY ADJUSTMENTS TO**
25 **WORKING CAPITAL FOR THE PTY?**

1 A. No. The Company did not project (i.e. projected each account at
2 zero) for any of the accounts that were eliminated/adjusted in the
3 HBY; therefore, there were no adjustments necessary in the PTY
4 for Working Capital.

5 **Q. WHAT IS THE PTY RATE BASE FOR THE COMPANY?**

6 A. As shown on MFR Schedule G-1, Page 1, the 13-Month Average
7 Rate Base for the PTY is \$5,085,214.

8

9 **Projected Test Year Net Operating Income**

10 **Q. WHAT IS THE AMOUNT OF TOTAL OPERATING**
11 **REVENUES FOR THE PROJECTED TEST YEAR (“PTY”)?**

12 A. As shown on MFR Schedule G-2, Page 1, the amount of Total
13 Operating Revenues, prior to any rate relief granted, for the PTY is
14 \$1,186,200. A detailed discussion of the Company’s customer
15 growth related to its expansion plans and other projects and the
16 impact on Total Operating Revenues for the PTY can be found in
17 Mr. Russell Melendy’s Direct Testimony.

18 **Q. DID THE COMPANY MAKE ANY ADJUSTMENTS TO**
19 **ARRIVE AT THE TOTAL OPERATING REVENUES FOR**
20 **THE PTY?**

21 A. No.

22 **Q. WHAT IS THE APPROPRIATE AMOUNT OF PTY O&M**
23 **EXPENSE?**

24 A. As shown on MFR Schedule G-2, Page 1, the appropriate amount
25 of O&M Expense for the PTY is \$739,587.

1 **Q. PLEASE DESCRIBE HOW YOU CALCULATED THE O&M**
2 **EXPENSES FOR THE PTY?**

3 A. The Company utilized the Commission-prescribed trending
4 methodology as detailed in MFR Schedule G-2, Pages 10-18. The
5 Company's projected O&M expenses have been developed in a
6 straight-forward manner. As shown on Schedule G-2, Page 10, the
7 Company has employed the standard trending factors: payroll only;
8 customer growth x inflation; inflation only; and customer growth
9 only, for the HBY+1 and PTY to the adjusted HBY expenses. The
10 Company has separated the payroll expenses from other expenses
11 within each O&M account, and trended each component
12 separately. This methodology and the specific trend factor for
13 each expense component are consistent with those approved in the
14 Company's last rate filing.

15 **Q. PLEASE EXPLAIN THE SOURCE OF DATA FOR THE**
16 **O&M TRENDING FACTORS SHOWN ON MFR**
17 **SCHEDULE G-2, PAGE 10.**

18 A. There are three (3) trending factors with source data; the fourth
19 is a calculated trend factor using inflation and customer growth.
20 The three with source data are:

21 1) Payroll –Consistent with the experience of much of the utility
22 industry across Florida, SGS has experienced difficulty in
23 attracting and retaining qualified personnel. In 2018 alone, SGS
24 experienced turn-over in three of its six field positions. It takes
25 significant time and expense to train new employees to perform the
26 required tasks in compliance with the Operator Qualification and

1 other applicable regulations. As such, the Company believes that it
2 is more prudent to pay a fair wage to its existing employees such
3 that they are sufficiently motivated to remain with the Company
4 for the long-term. Therefore, the Company has/plans on increasing
5 wages for employees an average of 5.00% for both 2019 and 2020.

6 2) Inflation – the Company assumed the same rate of inflation for
7 the HBY+1 and PTY as was actual for the HBY (see MFR
8 Schedule C-33); and

9 3) Customer Growth – For the HBY+1, the Company calculated
10 the difference in the number of customers billed in December 2019
11 and December 2018 divided by the number of customers billed in
12 December 2018. The Company used the same methodology to
13 determine the Customer Growth percentage for the PTY. The
14 Inflation x Customer Growth trend factor is simply the result of
15 multiplying the Inflation trend factor by the Customer Growth
16 trend factor for the HBY+1 and PTY, respectively.

17 **Q. CAN YOU DESCRIBE THE OPERATIONS AND**
18 **MAINTENANCE (“O&M”) EXPENSES SHOWN IN MFR**
19 **SCHEDULE G-2, PAGES 10-18 THAT ARE NOT**
20 **TRENDED?**

21 A. Yes. The only PTY O&M Expenses that are not trended are
22 directly related to the expansion into the new service areas
23 described above and amortization of projected rate case expenses.
24 The Company is projecting to add two (2) new field employees at
25 January 1, 2020 with an impact to the Company’s payroll expense
26 of \$97,230 for the PTY. Of the total payroll amount, the Company

1 projects that the amount charged to various O&M expense
2 accounts is \$77,589 and the remainder, \$20,241 charged to capital
3 projects. The Company also projects a vehicle for each employee,
4 at projected costs increases for Account 924 – Property Insurance
5 of \$5,596, Account 925 – Injuries and Damages of \$8,519, and
6 Account 933 – Transportation Expense of \$9,309. The proposed
7 Accounting position, which also begins employment on January 1,
8 2020, has a projected salary of \$50,000 for the PTY and is charged
9 to Account 920 – Administrative & General Expense. Finally, the
10 projected rate case expense shown on Schedule C-13 of \$132,500
11 is amortized, beginning January 1, 2020, over a four (4) year
12 period, resulting in a 2020 expense of \$33,125, recorded in
13 Account 928 – Regulatory Commission Expense.

14 **Q. WHAT IS THE APPROPRIATE AMOUNT OF**
15 **DEPRECIATION AND AMORTIZATION EXPENSE FOR**
16 **THE PTY?**

17 A. As shown on MFR Schedule G-2, Page 1, the appropriate
18 Depreciation and Amortization Expense for the PTY is \$266,440.
19 The detailed Depreciation and Amortization Expense calculations,
20 by Plant Account, are shown on MFR Schedules G-2, Pages 23
21 and 24.

22 **Q. WHAT IS THE APPROPRIATE AMOUNT OF TAXES**
23 **OTHER THAN INCOME TAXES FOR THE PTY?**

24 A. As shown on MFR Schedule G-2, Page 1, the appropriate amount
25 of Taxes Other than Income Taxes for the PTY is \$22,931.

1 **Q. WHAT ARE THE APPROPRIATE AMOUNTS FOR**
2 **CURRENT FEDERAL AND STATE INCOME TAX**
3 **EXPENSE AND DEFERRED FEDERAL AND STATE**
4 **INCOME TAX EXPENSE IN THE PTY?**

5 A. As shown on MFR Schedule G2, Page 1, the appropriate amounts
6 are as follows:

7 Current Federal Income Tax Expense – (\$3,255)

8 Current State Income Tax Expense – (\$903)

9 Deferred Federal Income Tax Expense – \$0

10 Deferred State Income Tax Expense - \$0.

11 Detailed calculations are shown on MFR Schedules G-2, Pages 26-
12 31.

13 **Q. WHAT IS THE APPROPRIATE AMOUNT OF NET**
14 **OPERATING INCOME FOR THE PTY?**

15 A. The appropriate amount of Net Operating Income for the PTY is
16 \$161,401, as shown on MFR Schedule G-2, Page 1.

17 **Q. ARE YOU PRESENTING TESTIMONY ON THE**
18 **COMPANY’S CAPITAL STRUCTURE FOR THE HBY AND**
19 **PTY?**

20 A. No. Mr. Russell Melendy will present testimony on the
21 Company’s Capital Structure for the HBY and PTY in his Direct
22 Testimony.

23 **Q. WHAT IS THE PTY REVENUE DEFICIENCY THAT THE**
24 **COMPANY IS SEEKING TO RECOVER THROUGH AN**
25 **INCREASE IN RATES?**

1 A. The Revenue Deficiency, as shown on Schedule G-5, in the PTY is
2 \$309,847, calculated in accordance with all of the data presented in
3 the MFR's and the Direct Testimony of all of the Company's
4 Witnesses. The Company is proposing to recover the Revenue
5 Deficiency through the rates developed by Mr. Bruce Christmas, as
6 presented in his testimony. The requested revenue increase is
7 required by the Company in order to give it the opportunity to earn
8 a fair rate of return based on conditions expected during the PTY.

9 **Q. ARE YOU SENSITIVE TO THE RATE IMPACT TO YOUR**
10 **CUSTOMERS CAUSED BY SGS' REQUEST IN THIS**
11 **CASE?**

12 A. Yes. The Company has carefully considered its request to increase
13 revenues at this time. The Company recognizes that the proposed
14 increase to customers' rates is significant. As already described,
15 the Company has taken substantial actions to position itself for
16 long-term stability and believes that this is the precise time for its
17 request. The Company's expansion plans necessitate an increase
18 in rates (although, I believe, if the Company were not expanding,
19 the impact to existing customer rates would, over time, be much
20 larger) coupled with the fact that attrition has taken its toll since
21 the last case fifteen years ago. In addition, the Company now finds
22 itself in a position where all of its Federal and State Loss
23 Carryforwards have been utilized and the Company must pay
24 Current Income Taxes, of which its current rates are not designed
25 to recover. In addition, the Company has a Deferred Federal and
26 State Income Tax liability of \$342,671 for which it has not

1 recovered any cash to pay for, through its existing rates, when the
2 taxes become due. Given all of these factors, the Company firmly
3 believes that this is the correct time for its request and also believes
4 that the level of increase to its customer's rates are just and
5 reasonable.

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 A. Yes.

**LIST OF MFR SCHEDULES SPONSORED BY JERRY H.
MELENDY, JR.**

<u>MFR</u> <u>Schedules</u>	<u>Pages</u>	<u>Title</u>
A	6	Executive Summary
B	28	Rate Base Schedules - HBY
C	46	Net Operating Income Schedules - HBY
G-1, 1	1	Calculation of PTY Rate Base
G-1, 2	1	Calculation of PTY Rate Base–Working Capital
G-1, 3	1	Calculation of PTY Rate Base–Working Capital
G-1, 4	1	Rate Base Adjustments
G-1, 5	1	Calculation of HBY+1 – Balance Sheet - Assets
G-1, 6	1	Calculation of HBY+1 – Balance Sheet – Liabilities
G-1, 7	1	Calculation of PTY – Balance Sheet – Assets
G-1, 8	1	Calculation of PTY – Balance Sheet – Liabilities
G-1, 9	1	Calculation of HBY+1 – Plant Balances
G-1, 10	1	Calculation of PTY – Plant Balances
G-1, 11	1	Depreciation Reserve Balances – HBY+1
G-1, 12	1	Depreciation Reserve Balances – PTY
G-1, 13	1	Amort/Recovery Reserve Balances – HBY+1
G-1, 14	1	Amort/Recovery Reserve Balances – PTY
G-1, 15	1	Allocation of Common Plant – HBY+1
G-1, 16	1	Detail of Common Plant – HBY+1
G-1, 17	1	Detail of Common Plant – HBY+1

MFR			
Schedules	Pages	Title	
G-1, 18	1	Allocation of Common Plant – PTY	
G-1, 19	1	Detail of Common Plant – PTY	
G-1, 20	1	Detail of Common Plant – PTY	
G-1, 21	1	Alloc. of Depr/Amort Reserve – Common Plant	
G-1, 22	1	Alloc. of Depr/Amort Reserve – Common Plant	
G-2, 1	1	Calculation of PTY – NOI – Summary	
G-2, 2	1	Net Operating Income Adjustments - PTY	
G-2, 3	1	Net Operating Income Adjustments – PTY	
G-2, 4	1	Calculation of HBY+1 – NOI	
G-2, 5	1	Calculation of PTY – NOI	
G-2, 10-19	10	Calculation of PTY – O&M Expenses	
G-2, 20	1	Calculation of HBY+1 – Depr & Amort Expense	
G-2, 21	1	Amortization/Recovery Schedule – HBY+1	
G-2, 22	1	Alloc. of Depr/Amort Expense – Common Plant	
G-2, 23	1	Calculation of PTY – Depr & Amort Expense	
G-2, 24	1	Amortization/Recovery Schedule – PTY	
G-2, 25	1	Alloc. of Depr/Amort Expense – Common Plant	
G-2, 26	1	Recon. of Total Income Tax Provision – HBY+1	
G-2, 27	1	Current Fed & State Income Tax Calc – HBY+1	
G-2, 28	1	Deferred Income Tax Expense – HBY+1	
G-2, 29	1	Recon. of Total Income Tax Provision – PTY	
G-2, 30	1	Current Fed & State Income Tax Calc – PTY	
G-2, 31	1	Deferred Income Tax Expense – PTY	
G-6	2	Calculation of the PTY – Major Assumptions	
I	6	Engineering Schedules	

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6

**DIRECT TESTIMONY OF
RUSSELL MELENDY
ON BEHALF OF SEBRING GAS SYSTEM, INC.**

DOCKET NO. 20190083-GU

June 5, 2019

7 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

8 A. My name is Russell Melendy. My business address is Sebring Gas
9 System, Inc., 3515 US Highway 27 South, Sebring, FL 33870.

10 **Q. WHAT IS YOUR POSITION AT SEBRING GAS SYSTEM,
11 INC.?**

12 A. I am the Project Manager of Sebring Gas System, Inc. (the
13 “Company” or “SGS”).

14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL
15 BACKGROUND.**

16 A. I graduated from Santa Fe Community College in 1993 and from the
17 University of Florida in 1996 with a Bachelor’s Degree in Business
18 Administration.

19 **Q. WHAT ARE YOUR CURRENT DUTIES AS PROJECT
20 MANAGER OF SGS?**

21 A. My duties as Project Manager include managing certain activities of
22 the Company’s operations including, but not limited to: strategic
23 planning, cost of capital, including financing plans, sales and
24 marketing activities and regulatory functions.

25
26 **Purpose of Testimony**

27 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

1 detailed study of existing and potential commercial and industrial
2 customers in these communities. I am very familiar with these
3 communities as the Company's sister company, Coker Fuel,
4 provided propane service in these areas. Many of the projected
5 commercial and industrial customers currently use propane,
6 provided by Coker Fuel or other competing propane companies.
7 Not only am I a local business-owner/operator, I am also a two-
8 term Hardee County Commissioner, which further enhances my
9 involvement and understanding of these communities. In addition,
10 I reviewed the potential customer growth in the Company's more
11 traditional service area in and around the City of Sebring. What I
12 found was the potential for the addition of approximately 50 low-
13 income housing units in the area, plus the customer additions
14 projected by the Company in its Energy Conservation Cost
15 Recovery filing for 2019 and 2020. The results of my efforts are
16 shown in MFR Schedules G-2, Pages 6 through 9. The projected
17 revenues for the HBY+1 and PTY were computed using net
18 customer and sales growth (loss) and the Company's existing rates.
19 As shown on MFR Schedule G-2, Page 8, the PTY revenues at
20 current rates are \$1,186,200, inclusive of Total Miscellaneous
21 Revenues. Total Miscellaneous Revenues are projected using
22 current rates and revenues as that achieved in the Historic Base
23 Year ("HBY") of \$14,335. The revenue deficiency requested by
24 the Company as an increase in rates was established on the above
25 revenue forecast.

1 **Q. IN PERFORMING YOUR STUDY, DID YOU FIND ANY**
2 **ISSUES WITH THE COMPANY’S HISTORICAL DATA?**

3 A. Yes, as part of my study, I reviewed the historical records of the
4 Company since its last rate case. Within the last decade, the
5 Company has undertaken a project to upgrade its accounting
6 records, including such things as recording expenses in the proper
7 account (in accordance with the Uniform System of Accounts),
8 tracking Lost and Unaccounted For (“LAUF”) correctly and
9 accuracy of customer counts, therms billed and other statistical
10 data. The Company found, at the conclusion of its project, that
11 most of its records were recorded accurately; however, in the past,
12 the Company’s actual customer count was not being captured
13 accurately. The Company reported the number of meters in the
14 field as customers, instead of how many bills were issued to
15 customers. Some meters in the field are inactive, because the
16 customer has moved out, is away for the summer, or myriad other
17 reasons. Inactive meters should not have been included in past
18 customer counts, but in some instances, they were. An accurate
19 count of the number of customer’s billed is important in accurately
20 determining one of the Company’s billing determinates (the other
21 being “therms billed”) needed to perform the cost of service study
22 in MFR Schedules H. The most recent year that the Company has
23 confidence in an accurate customer count is 2010, with 491 active
24 customers. From the prior rate case to 2010, the Company is
25 estimating that the customer count was constant.

1 **Q. IS THE COMPANY PROPOSING TO MAKE ANY**
2 **CHANGES TO ITS EXISTING RATE CLASSIFICATIONS**
3 **IN THIS PROCEEDING?**

4 A. No. The Company does not seek to make any changes to its Rate
5 Classifications in this case.

6 **Q. PLEASE DESCRIBE THE CUSTOMER AND SALES**
7 **FORECASTING PROCESS USED IN THIS FILING.**

8 A. The Company is well aware of construction and building activities
9 in the area. Mr. Jerry Melendy, in his capacity as President, is
10 active in the Sebring community, participating in numerous
11 community and civic events. I am also active in the Wauchula and
12 Arcadia communities. These activities, coupled with our
13 knowledge of the areas served through our ownership and
14 participation in Coker Fuels, Inc., SGS' sister company, allow us
15 the insight into the potential for customer growth in these areas.

16
17 The Company has used historical data as a basis for its projections
18 of "normal" customer growth, by month, for all Company Rate
19 Classifications. In addition to the normal growth, the Company is
20 aware of a low-income housing project in Sebring, Willie Downs
21 Villas, that is expected to be completed in late 2019/early 2020.
22 As described earlier in my testimony, the Company has also
23 performed a detailed study of potential commercial and industrial
24 customers located in the new, growth areas of the Company.
25 Based on all of this information, the Company developed its
26 projections of customers for the HBY+1 and PTY.

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The Company has also developed projections for the usage (quantity of gas transported) of the customer additions described in the above paragraph. The Company utilized its HBY data for the number of customers billed and the quantity of customer-owned gas transported by Company to compute an average use per customer, by Month, for each rate class. The Company believes that 2018 is a representative year, as weather is not a primary driver of usage for the Company’s customers, and there does not appear to be any unusual circumstances affecting customer usage, so year-over-year consumption patterns are consistent. Electric heat pumps, rather than gas furnaces, are the equipment of choice by residential and small commercial customers in the Company’s service territories.

Q. PLEASE DETAIL THE CALCULATIONS USED TO DEVELOP THE NUMBER OF CUSTOMERS BILLED, BY RATE CLASS, FOR THE HBY+1 AND PTY.

A. The first step in developing the number of customers billed, by rate class, for the HBY+1 and PTY is to determine the base period on which the change in the number of customers billed will be based. As described above, the Company believes that the HBY (2018) is an appropriate year to use as the base period. For each Rate Classification (TS-1, TS-2, etc.), the Company determined the net change in the number of customers billed each month in 2018. For TS-1, this is made more difficult due to the seasonal influx of northern residents that occurs each fall and the exodus that occurs

1 each spring. For all other classifications, it is simply the change in
2 the number of customers billed month-to-month.

3
4 Next, a projection was made for the HBY+1 (2019) by month of
5 the net number of customer additions by Rate Classification. The
6 following projections (net) were made:

- 7 TS-1 26 Customer additions, equally over the year
- 8 TS-2 3 Customer additions (June, Sept and Dec)
- 9 TS-3 6 Customer additions (one each, July-Dec)
- 10 TS-4 2 Customer additions (Nov, Dec)
- 11 TS-5 1 Customer addition (July)

12 These projected customers are located in Sebring and Wauchula, as
13 the Arcadia distribution system will not be in-service until very
14 late 2019 or early 2020.

15
16 The projections (net) for the PTY are as follows:

- 17 TS-1 30 Customer additions, consistently over the year
- 18 TS-2 5 Customer additions (March (2), June (1), Sept
19 (1) and Dec (1))
- 20 TS-3 23 Customer additions, evenly over the year
- 21 TS-4 12 Customer additions, evenly over the year
- 22 TS-5 1 Customer addition (January)

23 These projected customers are located in Sebring, Wauchula and
24 Arcadia.

25

1 Finally, for each month of the HBY+1, the following calculation
2 was made to project the number of customers billed by Rate
3 Classification.

4 For each Rate Classification: For each month in 2019, begin with
5 the number of customers billed in the corresponding month of
6 2018 and add the net change in the number of customers additions
7 for over the next 12 months to arrive at the projected number of
8 customers billed, by month, in the HBY+1. For example, to
9 calculate the projected number of customers billed in Rate
10 Classification TS-1 for January 2019, start with the number of
11 customers billed in January 2018 (490 customers), then add the net
12 number of customer additions to TS-1 for the period of February
13 2018 through January 2019 (30) to arrive at the number of
14 customers billed in TS-1 for January 2019 of 520 customers (490 +
15 30 = 520). This procedure was duplicated for each month in the
16 HBY+1 and PTY, to project the number of customers billed in
17 each Rate Classification.

18 **Q. PLEASE DESCRIBE HOW THE THERM USAGE**
19 **FORECASTS WERE DEVELOPED.**

20 A. The Company utilized the HBY (2018) actual data as a basis for
21 the therm usage forecasts for the HBY+1 and PTY. For the
22 reasons detailed herein, the Company believes that 2018 is an
23 appropriate year on which to base such projections. As such, for
24 each month and for each Rate Classification, I divided the total
25 number of therms billed by the number of customers billed. This

1 produces an average usage per customer by Rate Classification by
2 month.

3

4 For the HBY+1 and the PTY, using the methodology described
5 above, the Company has projected the number of customers billed
6 each month by Rate Classification. To determine the projected
7 usage, I simply took the projected number of customers billed each
8 month by Rate Classification and multiplied that number by the
9 average usage per customer, also for each month, by Rate
10 Classification. The monthly number of customer bills rendered
11 and term usage, by Rate Classification is shown on MFR
12 Schedules G-2, Pages 6 and 8.

13 **Q. HOW DID THE COMPANY PROJECT REVENUES FOR**
14 **THE HBY+1 AND PTY?**

15 A. The customers and usage billed forecasts detailed above provide
16 the necessary billing determinates (number of bills issued and
17 number of terms transported), by Rate Classification, to project
18 revenues for the HBY+1 and PTY. The Company then applied the
19 current rates to these projections to determine the revenues forecast
20 for the HBY+1 and PTY, as shown on MFR Schedule G-2, Pages
21 6 and 8, respectively.

22

23 **Historic Base Year Cost of Service**

24 **Q. WHAT MFR SCHEDULES HAVE YOU PREPARED TO**
25 **DEMONSTRATE THE COMPANY'S HBY CAPITAL**
26 **STRUCTURE AND COST OF CAPITAL?**

1 A. I have prepared all of the MFR Schedule D spreadsheets, which
2 provide the details that makes up the Company's 13-month
3 Average Long-Term Debt, Short-Term Debt, Customer Deposits
4 and Deferred State and Federal Income Taxes. The Company's
5 13-month Average Common Equity comes from the HBY Balance
6 Sheet, shown on MFR Schedule B-1, Page 2.

7 **Q. WHAT ARE THE COMPANY'S 13-MONTH AVERAGE**
8 **BALANCES FOR EACH CAPITAL COMPONENT OF THE**
9 **CAPITAL STRUCTURE FOR THE HBY?**

10 A. As shown on MFR Schedule D-1, the adjusted Capital Structure of
11 the Company is made up of the following components and 13-
12 month average balances at the end of the HBY:

13	Common Equity	\$1,818,210
14	Long-Term Debt	\$1,664,952
15	Short-Term Debt	\$ 62,971
16	Customer Deposits	\$ 144,035
17	Deferred Income Taxes	<u> \$ 26,334</u>
18	Total Capital Structure/Rate Base	\$3,716,502

19 **Q. IN YOUR PREVIOUS RESPONSE, YOU INDICATED**
20 **THAT YOUR RESPONSE WAS FOR THE ADJUSTED 13-**
21 **AVERAGE CAPTIAL STRUCTURE, WHAT**
22 **ADJUSTMENTS DID YOU MAKE?**

23 A. The only adjustments made to the Company's Capital Structure, as
24 shown on Schedule D-1, were pro-rata adjustments to reduce the
25 Capital Structure, as booked, to the Company's adjusted 13-month

1 Rate Base, as more fully described in Mr. Jerry Melendy's Direct
2 Testimony.

3 **Q. WHAT DEBT INSTRUMENTS COMPRISE THE BALANCE**
4 **FOR LONG-TERM DEBT SHOWN ABOVE?**

5 A. As shown on MFR Schedule D-2, the Company has four (4)
6 outstanding loans at the end of the HBY: Heartland National
7 Bank, which holds the most significant portion of the Company's
8 debt; and three (3) vehicle loans. The Company, as a result of its
9 Commission-approved Special Contracts with the two (2) State
10 prisons, needed to secure significant debt to construct the natural
11 gas distribution system necessary to serve the prisons' facilities,
12 which include two (2) taps on interstate pipelines, city gate
13 stations, mains, meters and regulators. The Company financial
14 institution at the time was contacted but was unable to handle the
15 financial requirements of these projects. The Company therefore
16 approached Heartland National Bank, which was willing to
17 provide sufficient financing, not only for the prison projects but for
18 future needs of the Company as well. The 13-month balance for
19 this debt instrument is \$1,621,577. The three other long-term debt
20 instruments are vehicle loans with 13-month outstanding balances
21 of \$44,946.

22 **Q. PLEASE DESCRIBE THE COMPANY'S SHORT-TERM**
23 **DEBT BALANCE SHOWN ON MFR SCHEDULE D-1?**

24 A. At the same time that the Company secured the long-term debt
25 from Heartland National Bank, it also secured an open line of
26 credit, with a maximum balance of \$250,000. The 13-month

1 average balance outstanding at the end of the HBY is \$63,030, as
2 reflected on MFR Schedule D-3.

3 **Q. HOW WAS THE CUSTOMER DEPOSIT BALANCE**
4 **CALCULATED FOR THE HBY?**

5 A As detailed on MFR Schedule D-6, the Company calculated the
6 13-month average balance for the combined residential and
7 commercial deposit balances for the HBY.

8 **Q. HOW WERE THE DEFERRED INCOME TAXES**
9 **CALCULATED FOR THE HBY?**

10 A. The Company, for the first time in its history, recorded Deferred
11 Income Taxes on its books in December 2018. As will be more
12 fully described later in my testimony, the balance recorded was for
13 more than just the HBY, it was for the entire regulated history of
14 SGS. The 13-month average Deferred Income Taxes for the HBY
15 is \$26,359.

16 **Q. WHAT IS THE COST FOR EACH COMPONENT OF THE**
17 **COMPANY'S HBY CAPITAL STRUCTURE?**

18 A. The Company, as shown on the MFR Schedule D-1 through D-12,
19 the Company has not only shown the cost of each capital
20 component, but how the calculations were performed. For
21 purposes of these calculations, the cost of equity utilized was the
22 mid-point of the range approved in the Company's last rate case.
23 The following shows the cost of each capital component:

24	Common Equity	11.50%
25	Long-Term Debt	5.45%
26	Short-Term Debt	3.33%

1	Customer Deposits	2.87%
2	Deferred Income Taxes	0.00%

3 **Q. WHAT IS THE COMPANY'S OVERALL WEIGHTED**
4 **COST OF CAPITAL FOR THE HBY?**

5 A. The overall HBY Weighted Cost of Capital is 8.24%, as calculated
6 on MFR Schedule D-1.

7

8 **Projected Test Year Capital Structure**

9 **Q. HAVE YOU PREPARED THE COMPANY'S CAPITAL**
10 **STRUCTURE CONSISTENT WITH THE MANNER IN**
11 **WHICH IT WAS APPROVED IN THE LAST RATE CASE?**

12 A. Yes.

13 **Q. WHAT ARE THE RATIOS AFTER ADJUSTMENT OF**
14 **EACH COMPONENT OF THE CAPITAL STRUCTURE**
15 **FOR THE PTY?**

16 A. The Adjusted Capital Structure for the PTY, as shown on MFR
17 Schedule G-3, Page 2, is as follows: Common Equity 34.25%;
18 Long-Term Debt 54.28%; Short-Term Debt 1.66%; Customer
19 Deposits 3.07%; and Deferred Income Taxes 6.74%.

20 **Q. HOW IS THE TOTAL AMOUNT OF COMMON EQUITY**
21 **IN THE PTY DETERMINED AND WHAT IS THE**
22 **COMPANY'S PROPOSED RETURN ON COMMON**
23 **EQUITY?**

24 A. The Company, in accordance with the Commission-prescribed
25 MFR Schedules, projects a Balance Sheet for the HBY+1 and
26 PTY, where Common Equity is increased/decreased by the

1 projected monthly net income throughout these periods. The
2 Company made no adjustments to Common Equity during either
3 the HBY+1 or the PTY. The Company is proposing a “return” or
4 “cost” of Common Equity of 12.50% for the PTY.

5 **Q. THE COMPANY’S PROPOSED RETURN ON COMMON**
6 **EQUITY IS MUCH HIGHER THAN WHAT THE**
7 **COMMISSION HAS AUTHORIZED IN RECENT**
8 **NATURAL GAS RATE CASES. PLEASE EXPLAIN WHY.**

9 A. The Company believes that the 12.50% Return on Common Equity
10 is warranted for two (2) primary reasons.

11
12 First, the Company is a small utility, albeit making great efforts to
13 grow, and a small change in either actual revenues or expenses
14 versus those projected in this case, and beyond, can change the
15 Company’s Achieved Return on Common Equity. The
16 Commission has consistently recognized this fact in previous cases
17 where the smaller investor-owned natural gas utilities have
18 received slightly higher (typically 0.50%) Return on Common
19 Equity than larger natural gas utilities.

20
21 Second, the Company’s current rates do not include a provision for
22 income taxes, either current or deferred. However, as alluded to
23 earlier in my testimony, the Company has, in fact, incurred
24 Deferred Federal and State Income Taxes since virtually the
25 inception of the Company in 1992. The Company’s accountants
26 always took advantage of accelerated tax depreciation regulations

1 applicable to the Company, and other tax deductions, to reduce the
2 taxable income of the Company. In the early years of the
3 Company, it lost money. These losses are allowed to be carried-
4 forward and offset against future Federal and State Income Taxes.
5 As the Company began to make money, primarily after the last rate
6 case, it began to offset its taxable income (again, as reduced by
7 greater tax versus book depreciation) with its accumulated Federal
8 and State Loss Carry-Forwards. However, the Company's
9 accountants never provided the Company with the necessary
10 information to record the Federal or State Deferred Income Taxes
11 liability, thus over-stating both net operating income and cost of
12 capital in prior years.

13
14 The Company did not realize that a Deferred Income Tax entry
15 was required. This omission had the following effect on the
16 Company's last rate case: the approved customer rates do not
17 include any provision for recovery of the accumulation of Deferred
18 Federal and State Income Taxes actually incurred. To be clear, the
19 Company has no one to fault except itself, as it has the sole
20 responsibility for the accuracy of its accounting records and the
21 accuracy of the data filed in its rate cases. However, the fact
22 remains that the Company has not been able to collect, through
23 rates, the necessary cash to pay for the future reversal of Deferred
24 Federal and State Income Taxes. It is the Company's
25 understanding that, under current tax law, the use of accelerated
26 tax depreciation for utilities is no longer allowed, thus the

1 Company believes that the recorded balance of Deferred Income
2 Taxes will be eliminated over the previously-used accelerated tax
3 depreciation average life of 20 years. With all of the efforts that
4 the Company has made to avoid filing the instant case, it believes
5 that it should be allowed to recover the cash needed to pay for the
6 Deferred Income Tax liability of \$342,671 through the increased
7 request of 12.50% return on Common Equity.

8
9 The rate impact of an increase of the Return on Common Equity
10 from the current Commission-approved 11.50% to 12.50%, a full
11 1.00% increase, is an increase in Net Operating Income of \$17,289
12 per year, or recovery of the Deferred Income Tax liability over
13 19.8 years, almost the exact time that the Company expects this
14 liability to reverse. As the Commission knows, Net Operating
15 Income, by definition, is the amount of income that the utility
16 needs to pay for the cost of each capital component. This includes
17 interest expense for both Long-Term and Short-Term Debt, interest
18 expense on Customer Deposits, an appropriate return on the
19 owners' Common Equity capital and the cash to pay for the future
20 reversal of Deferred Income Taxes. Failure to correct the past non-
21 recognition of Deferred Income Taxes in the current case will put
22 an undue burden on the Company to somehow come up with the
23 cash needed to pay for the reversal of the \$342,671 of Deferred
24 Federal and State Income Taxes. As the Commission is well
25 aware, the Company is only authorized to have an opportunity to
26 earn the approved Return on Common Equity; not guaranteed the

1 approved Return on Common Equity. Thus, the Company will be
2 at risk to actually earn the higher Return on Common Equity,
3 should the Commission approve this request, thus producing the
4 necessary cash for the Company to pay its deferred tax liability.

5 **Q. PLEASE DESCRIBE THE COMPANY'S FORECAST**
6 **LONG-TERM DEBT POSITION IN THE PTY?**

7 A. The Company, as a result of its aggressive growth and expansion
8 plans described herein, will require additional Long-Term Debt in
9 order to finance its construction efforts. The Company's existing
10 loan from Heartland National Bank will be re-negotiated to allow
11 for an increase of up to \$3,500,000 or more. The Company
12 anticipates that it will utilize its short-term debt instrument to
13 temporarily finance its needs. Once the short-term debt reaches its
14 maximum limits (\$250,000), the Company will draw down funds
15 from the Long-Term Debt instrument to pay off the short-term debt
16 and finance the next several months of construction needs.
17 Specifically, the Company projects additional Long-Term Debt in
18 the following months and amounts:

19 September 2019 - \$655,000;

20 February 2020 - \$600,000; and

21 September 2020 - \$500,000.

22 The Company also is projecting that it will purchase two Ford
23 pick-up trucks, at \$55,000 each, for its two, new field operations
24 positions in Wauchula and Arcadia. These vehicles will be
25 financed, at full value, with a vehicle loan.

1 **Q. WHAT IS THE INTEREST RATE THAT THE COMPANY**
2 **EXPECTS TO INCUR ON THESE LOANS?**

3 A. The Company currently is paying 6.00% on its loan from
4 Heartland National Bank. Given the economic conditions and the
5 expectation that the Federal Reserve will not adjust interest rates in
6 the near future, the Company does not expect this rate to change
7 throughout the Projected Test Year. The Company expects to also
8 pay 6.00% interest rate on the vehicle loans. As reflected on MFR
9 Schedule G-3, Page 3, the average cost of Long-Term Debt in the
10 PTY is 5.95%.

11 **Q. WHAT IS THE APPROPRIATE LEVEL AND COST RATE**
12 **OF SHORT-TERM DEBT IN THE SGS CAPITAL**
13 **STRUCTURE FOR THE PTY?**

14 A. The appropriate level of Short-Term Debt in the Company's
15 Capital Structure for the PTY is \$84,231 and the appropriate cost
16 rate is 6.00%.

17 **Q. WHAT IS THE APPROPRIATE LEVEL AND COST RATE**
18 **OF CUSTOMER DEPOSITS IN THE SGS CAPITAL**
19 **STRUCTURE FOR THE PTY?**

20 A. The appropriate level of Customer Deposits to be included in the
21 determination of the Company's Capital Structure is \$156,205 and
22 the cost rate is 2.86%.

23 **Q. WHAT IS THE APPROPRIATE LEVEL AND COST RATE**
24 **OF DEFERRED INCOME TAXES IN THE SGS CAPITAL**
25 **STRUCTURE FOR THE PTY?**

1 A. The appropriate level of Deferred Income Taxes to be included in
2 the determination of the Company's Capital Structure is \$342,671
3 and the cost rate is 0.00%. The Company does not anticipate a
4 change in the Deferred Income Tax balance throughout the
5 HBY+1 and PTY, as it believes that the lack of accelerated tax
6 depreciation allowed impacts the reduction of taxable income.

7 **Q. WHAT IS THE APPROPRIATE WEIGHTED AVERAGE**
8 **COST OF CAPITAL FOR SGS FOR THE PTY?**

9 A. The appropriate Weighted Average Cost of Capital for SGS in the
10 Projected Test Year is 7.70%.

11 **Q. WHAT IS THE APPROPRIATE REVENUE EXPANSION**
12 **FACTOR FOR THE PTY?**

13 A. The appropriate Revenue Expansion Factor, as calculated on MFR
14 Schedule G-4 utilizing a State Income Tax rate of 5.50% and a
15 Federal Income Tax rate of 21.00%, is 1.3462.

16 **Q. WHAT ARE THE NET OPERATING INCOME**
17 **DEFICIENCY AND REVENUE DEFICIENCY FOR THE**
18 **PROJECTED TEST YEAR?**

19 A. The Net Operating Income Deficiency, as calculated on MFR
20 Schedule G-5, for the PTY is \$230,160. The Revenue Deficiency,
21 calculated using the Revenue Expansion Factor shown above, is
22 \$309,847 for the PTY.

23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

24 A. Yes.

Exhibit No. _____ (RM-1)

Sebring Gas System, Inc.

Docket No. 20190083-GU

LIST OF MFR SCHEDULES SPONSORED BY RUSSELL MELENDY

<u>MFR Schedules</u>	<u>Pages</u>	<u>Title</u>
D	16	Rate of Return Schedules
E-1	3	Cost of Service – Therm Sales & Revenues
E-2	1	Cost of Service – Revenue Calculations
G-2, 6	2	Calculation HBY+1 – Revenues & Cost of Gas
G-2, 7	1	Calculation HBY+1 – Revenues & Cost of Gas
G-2, 8	2	Calculation PTY – Revenues & Cost of Gas
G-2, 9	1	Calculation PTY – Revenues & Cost of Gas
G-3	11	Calculation of PTY – Cost of Capital
G-4	1	Calculation of PTY–Revenue Expansion Factor
G-5	1	Calculation of PTY – Revenue Deficiency