

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for approval of 2011 Depreciation Study by Sebring Gas Systems, Inc. | DOCKET NO. 110233-GU
ORDER NO. PSC-12-0043-PAA-GU
ISSUED: January 26, 2012

The following Commissioners participated in the disposition of this matter:

RONALD A. BRISÉ, Chairman
LISA POLAK EDGAR
ART GRAHAM
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING 2011 DEPRECIATION STUDY BY SEBRING GAS SYSTEMS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code, F.A.C.

DECISION

Rule 25-7.045, F.A.C., requires natural gas companies to file a comprehensive depreciation study once every five years. On July 22, 2011, Sebring Gas Systems, Inc. (Sebring or Company) filed its 2011 depreciation study in compliance with this rule. The Company's last depreciation review was filed July 21, 2006, with an effective date of January 1, 2007. Sebring had 2010 operating revenues of \$559,707, and fewer than 600 customers. We reviewed Sebring's depreciation study and make the findings herein.

We have jurisdiction pursuant to Sections 350.115 and 366.05, Florida Statutes.

Sebring's last comprehensive depreciation study was filed on July 21, 2006. By Order No. PSC-07-0482-PAA-GU,¹ we approved revised depreciation rates and components, effective January 1, 2007. The Company has filed this current study in accordance with Rule 25-7.045,

¹ Issued June 7, 2007, in Docket No. 060504-GU, In re: Request for approval of depreciation study for five-year period 2001 through 2005 by Sebring Gas System, Inc.

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F.A.C., which requires natural gas companies to file a comprehensive depreciation study at least once every five years from the submission date of the previously filed study. A review of the Company's activity data indicates the need for revising depreciation rates.

Rule 25-7.045, F.A.C., requires that the data submitted in a depreciation study, including plant and reserve balances or company estimates, "should be brought to the effective date of the proposed rates." The supporting data and calculations provided by Sebring match an implementation date of January 1, 2011.

We conducted a comprehensive review of Sebring's depreciation study. Attachment A to this Order shows a comparison of the currently approved depreciation rate parameters and those we find appropriate. The Company agrees with our rate parameters. Attachment B to this Order shows a comparison of resultant expenses based on December 31, 2010, investments.

This filing was essentially a staff-assisted study. The Company provided raw data with regard to additions and retirements for the 2006 - 2010 period. Staff determined the average age and worked with the Company in developing life and salvage values. Staff calculated property ages for all of Sebring's accounts, and computed the average remaining lives of these accounts. Sebring agrees on lives, net salvages, and resultant depreciation rates for all accounts.

Account 380.1 – Services Steel

Sebring proposed retaining the current 40-year average service life for this account. Between 2006 and 2010 there were no retirements and minimal additions to this account, resulting in an increase in age from 39.2 years in 2006 to 43.0 years in this study. We find and Sebring agrees that the average service life shall be increased to 48 years; the age of the investment is greater than the average service life and there is no program to replace steel services.

Account 391.1 – Office Furniture

We calculated the average age of property in this account to be 19.6 years. The Company proposed an average service life (ASL) of 18 years. We find and Sebring agrees that a 25-year ASL for this account better reflects its actual mortality experience.

Account 391.2 – Office Equipment

We calculated the average age of property in this account to be 9.8 years. The Company proposed an ASL of 12 years. We find that and Sebring agrees that a 15-year ASL for this account better reflects its actual mortality experience.

Account 396 – Power Operating Equipment (New)

We calculated an average age of 9.7 years for the property in this account. Given a zero net salvage percentage and a 15-year ASL, we calculated the average remaining life (ARL) to be

5.4 years. The Company proposed a 13.5-year ARL. We find and Sebring agrees that the ARL for this account is 5.4 years.

Account 397 – Communication Equipment

We calculated the average age of property in this account to be 13.5 years. The Company proposed an ASL of 12 years. We find and Sebring agrees that a 18-year ASL for this account better reflects its actual mortality experience.

Reserve Transfers

As part of its review of Sebring's depreciation study, we reviewed the book reserve position for each account. Based on our life and salvage inputs for this study, we determined Sebring's theoretical or calculated reserve. The difference between an account's book and theoretical reserve may be described as a positive or negative imbalance, or as a surplus or deficiency. When negative or positive imbalances occur, corrective transfers among accounts should be made as quickly as possible, unless this action prevents the Company from earning a fair and reasonable return on its investments.

Overall, Sebring's book reserve is greater than its theoretical reserve. We find that the reserve reallocation results in all but three accounts should be reset to their theoretical reserves. The accounts which have book reserves greater than theoretical reserves after the reallocation are:

- Account 376.2 – Mains Plastic: Prior to the reallocation, this account's book reserve was 104.3 percent of its theoretical reserve. After the reallocation, the book reserve is 103.3 percent of the theoretical reserve.
- Account 380.1 – Services Steel: Prior to the reallocation, this account's book reserve was 117.6 percent of its theoretical reserve. After the reallocation, the book reserve is 116.1 percent of the theoretical reserve.
- Account 380.2 – Services Plastic: Prior to the reallocation, this account's book reserve was 144.5 percent of its theoretical reserve. After the reallocation, the book reserve is 119.7 percent of the theoretical reserve.

Reserve Allocation					
Account		12/31/10 Reserve	Theoretical Reserve	Transfers	Restated Reserve
376.1	Mains – Steel	\$135,837	\$134,262	(\$1,575)	\$134,262
376.2	Mains – Plastic	\$443,149	\$425,069	(\$4,048)	\$439,101
378	M & R Eq. General Embedded	\$4,002	\$6,396	\$2,394	\$6,396
379	M & R Eq. City Gate	\$27,912	\$32,089	\$4,177	\$32,089
380.1	Services – Steel	\$383,968	\$326,394	(\$5,000)	\$378,968
380.2	Services – Plastic	\$145,745	\$100,847	(\$25,000)	\$120,745
381	Meters	\$105,700	\$117,114	\$11,414	\$117,114
382	Meter Installations	\$34,186	\$34,332	\$146	\$34,332
383	House Regulators	\$17,020	\$19,078	\$2,058	\$19,078
384	House Regulator Installations	\$28,015	\$27,916	(\$99)	\$27,916
386	Property on Customers' Premises	\$25,422	\$21,483	(\$3,939)	\$21,483
387	Other Equipment	\$4,984	\$3,710	(\$1,274)	\$3,710
390	Leasehold Improvements	\$1,505	\$664	(\$841)	\$664
391.1	Office Furniture	\$407	\$312	(\$95)	\$312
391.2	Office Equipment	\$19,662	\$15,186	(\$4,476)	\$15,186
392.1	Transportation Trucks	\$37,128	\$57,066	\$19,938	\$57,066
394	Tools, Shop & Garage Equipment	\$3,610	\$3,045	(\$565)	\$3,045
396	Power Operated Equipment – New	\$1,992	\$9,053	\$7,061	\$9,053
397	Communication Equipment	\$1,053	\$777	(\$276)	\$777
Total		\$1,421,297	\$1,334,793	\$0	\$1,421,297

Previously in this Order, we approved revised depreciation rates for the Company, to be effective January 1, 2011, which generally reflect changes to accounts' remaining lives to be effective January 1, 2011. Revising a utility's book depreciation lives generally results in a change in its rate of investment tax credit (ITC) amortization and flowback of excess deferred income taxes (EDIT) in order to comply with the normalization requirements of the Internal Revenue Code (IRC or Code) set forth in sections 168(f)(2) and (i)(9), former IRC sections 167(l) and 46(f),² Federal Tax Regulations under the Code sections,³ and section 203(e) of the Tax Reform Act of 1986 (the Act).⁴

This Commission, the Internal Revenue Service (IRS), and independent outside auditors look at a company's books and records, and the orders and rules of the jurisdictional regulatory authorities, to determine if the books and records are maintained in the appropriate manner. The books are also reviewed to determine if they are in compliance with the regulatory guidelines in regard to normalization. Therefore, we find that the current amortization of ITCs and the

² 26 USC §§168(f)(2) and (i)(9); 26 USC §167(l); 26 USC §46(f).

³ Treas. Reg. §1.168; Treas. Reg. §1.167; Treas. Reg. §1.46.

⁴ Tax Reform Act of 1986, 1986-3 (Vol.1) C.B. 63, P.L. 99-514 (100 Stat. 2146) October 22, 1986.

flowback of EDITs shall be revised to reflect the remaining useful lives that underlie the depreciation rates.

Former section 46(f)(6) of the Code states that “the amortization of ITC should be determined by the period of time actually used in computing depreciation expense for ratemaking purposes and on the regulated books of the utility.”⁵ Since we have approved changes to the Company’s remaining lives, it is also important to change the amortization of ITCs to avoid violation of the provisions of the former IRC section 46 and its underlying Treasury Regulations. The consequence of an ITC normalization violation is a repayment of unamortized ITC balances to the IRS.

Section 203(e) of the 1986 Act prohibits rapid flow back of depreciation-related (protected) EDITs to the utility’s customers. Further, Rule 25-14.013, F.A.C., Accounting for Deferred Income Taxes Under SFAS 109, generally prohibits EDITs from being written off any faster than allowed under the Act. The Act, ASC 740,⁶ and Rule 25-14.013, F.A.C, regulate the flowback of EDITs. Therefore, we find that the flowback of EDITs shall be adjusted to comply with the Act, ASC 740, and Rule 25-14.013, F.A.C.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the 2011 depreciation study by Sebring Gas Systems is hereby approved per the findings in this Order. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, a consummating order shall be issued. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the “Notice of Further Proceedings” attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

⁵ 26 USC §46(f)(6).

⁶ FASB ASC 740 (Topic 740 of the Financial Accounting Standards Board Accounting Standards Codification). Cross Reference: Accounting for Income Taxes, Statement of Financial Accounting Standards No. 109 (Financial Accounting Standards Board, 1992).

By ORDER of the Florida Public Service Commission this 26th day of January, 2012.



ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 16, 2012.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

SEBRING GAS SYSTEM, INC.
 DOCKET NO. 110233-GU
 2011 DEPRECIATION STUDY

ATTACHMENT A

COMPARISON OF RATES AND COMPONENTS

ACCOUNT	CURRENT					COMMISSION APPROVED				
	AVERAGE	AVERAGE			REMAINING	AVERAGE	AVERAGE			REMAINING
	SERVICE	REMAINING	NET	01/01/2007	LIFE	SERVICE	REMAINING	NET	12/31/2010	LIFE
	LIFE	LIFE	SALVAGE	RESERVE	RATE	LIFE	LIFE	SALVAGE	RESERVE	RATE
	(YRS.)	(%)	(%)	(%)		(YRS.)	(%)	(%)	(%)	(%)
DISTRIBUTION PLANT										
376.1 - Mains - Steel	45.0	14.9	(30)	86.79	2.9	45.0	12.7	(30)	93.17 *	2.9
376.2 - Mains - Plastic	45.0	34.0	(30)	31.40	2.9	45.0	34.2	(30)	31.84 *	2.9
378 - Measuring and Regulating Ept. - Gen. - Embedded	33.0	16.2	(2)	51.78	3.1	33.0	13.1	(2)	61.39 *	3.1
378.1 - Measuring and Regulating Ept. - Gen. - New	33.0	33.0	(2)	N/A	3.1	33.0	33.0	(2)	N/A	3.1
379 - Measuring and Regulating Ept. - City Gate	32.0	17.0	(2)	47.60	3.2	32.0	16.5	(2)	49.20 *	3.2
380.1 - Services - Steel	40.0	10.5	(30)	95.35	3.3	48.0	14.3	(30)	106.11 *	1.7
380.2 - Services - Plastic	40.0	33.4	(30)	28.32	3.0	40.0	32.0	(30)	29.21 *	3.1
381 - Meters	25.0	9.3	0	62.80	4.0	25.0	12.1	0	51.60 *	4.0
382 - Meter Installations	34.0	16.7	(5)	53.23	3.1	34.0	17.1	(5)	51.99 *	3.1
383 - House Regulators	30.0	13.1	0	56.77	3.3	30.0	10.5	0	65.35 *	3.3
384 - House Regulator Installations	34.0	14.8	(3)	58.60	3.0	34.0	13.7	(3)	61.90 *	3.0
386 - Property on Customers' Premises	20.0	7.8	0	61.00	5.0	25.0	9.5	0	62.00 *	4.0
387 - Other Equipment	25.0	15.0	0	40.00	4.0	25.0	15.5	0	38.00 *	4.0
GENERAL PLANT										
390.0 Leasehold Improvements	40	24.5	0	46.75	2.2	40.0	38.0	0	5.00 *	2.5
391.1 - Office Furniture	18	5.6	0	68.61	5.6	25.0	8.8	0	64.73 *	4.0
391.2 - Office Equipment	12	4.6	0	84.95	3.3	15.0	5.8	0	61.14 *	6.7
392.1 - Transportation Trucks	8	3.2	15	65.53	6.1	8.0	2.7	15	56.38 *	10.6
394 - Tools, Shop & Garage Equipment	15	12.7	0	19.54	6.3	15.0	10.3	0	30.99 *	6.7
396 - Power Operated Equipment - New	15	13.5	0	10.05	6.7	15.0	5.4	0	63.82 *	6.7
397 - Communication Equipment	12	3.0	0	76.85	7.7	18.0	5.0	0	72.01 *	5.6

*Denotes restated reserves after transfers

SEBRING GAS SYSTEM, INC.
 DOCKET NO. 110233-GU
 2011 DEPRECIATION STUDY

ATTACHMENT B

COMPARISON OF EXPENSES

ACCOUNT	CURRENT				COMMISSION APPROVED		
	12/31/2010	12/31/2010			ESTIMATED	CHANGE	
	INVESTMENT	RESERVE	RATE	EXPENSES	EXPENSES	IN	
	(\$)	(\$)	(%)	(\$)	(%)	EXPENSES	EXPENSES
DISTRIBUTION PLANT							
376.1 - Mains - Steel	144,104	134,262 *	2.9	4,179	2.9	4,179	0
376.2 - Mains - Plastic	1,379,199	439,101 *	2.9	39,997	2.9	39,997	0
378 - Measuring and Regulating Ept. - Gen. - Embedded	10,419	6,396 *	3.1	323	3.1	323	0
378.1 - Measuring and Regulating Ept. - Gen. - New	0	0	3.1	0	3.1	0	0
379 - Measuring and Regulating Ept. - City Gate	65,221	32,089 *	3.2	2,087	3.2	2,087	0
380.1 - Services - Steel	357,144	378,968 *	3.3	11,786	1.7	6,071	(5715)
380.2 - Services - Plastic	413,307	120,745 *	3.0	12,399	3.1	12,813	414
381 - Meters	226,965	117,114 *	4.0	9,079	4.0	9,079	0
382 - Meter Installations	66,036	34,332 *	3.1	2,047	3.1	2,047	0
383 - House Regulators	29,194	19,078 *	3.3	963	3.3	963	0
384 - House Regulator Installations	45,098	27,916 *	3.0	1,353	3.0	1,353	0
386 - Property on Customers' Premises	34,650	21,483 *	5.0	1,733	4.0	1,386	(347)
387 - Other Equipment	9,762	3,710 *	4.0	390	4.0	390	0
TOTAL DISTRIBUTION PLANT	2,781,099	1,335,194		86,336		80,688	(5648)
GENERAL PLANT							
390.0 Leasehold Improvements	13,278	664 *	2.2	292	2.5	332	40
391.1 - Office Furniture	482	312 *	5.6	27	4.0	19	(8)
391.2 - Office Equipment	24,838	15,186 *	3.3	820	6.7	1,664	844
392.1 - Transportation Trucks	101,216	57,066 *	6.1	6,174	10.6	10,729	4555
394 - Tools, Shop & Garage Equipment	9,826	3,045 *	6.3	619	6.7	658	39
396 - Power Operated Equipment - New	14,185	9,053 *	6.7	950	6.7	950	0
397 - Communication Equipment	1,079	777 *	7.7	83	5.6	60	(23)
TOTAL GENERAL PROPERTY	164,904	86,103		8,965		14,412	5447
TOTAL PLANT	2,946,003	1,421,297		95,301		95,100	(201)

*Denotes restated reserves after transfers