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Sebring’s Response to Staff’s Second Interrogatories Nos. 5-11

INTERROGATORY NO. 5

INTERROGATORIES

Please refer to Schedule C-3 of Sebring's August 6, 2021 filing in Docket No. 20210004-GU to answer the following question.

5. Schedule C-3 reflects the Company's Actual and Estimated Conservation Program Costs for the period January through December, 2021. The $32,387 True Up under-recovery indicates that actual and estimated program costs in 2021 were considerably higher than forecasted program costs for that period.

   A. Please explain how the Company, in the normal course of business, monitors the variance between forecasted and actual program costs. Address in your response what cost controls are in place that serve to minimize under-recovered amounts in each program.

   B. Please identify how the Company evaluates variances of program costs from historical periods to develop a projected program costs into future periods.

COMPANY RESPONSE:

A. In the normal course of business, the Company reviews the costs associated with its conservation programs on a monthly basis and compares the overall costs with projected amounts from the prior year. Typically, there are fluctuations from month to month that may clearly coincide with specific economic indicators. At other times, such fluctuations are not as clearly linked to a particular event. As a smaller company, new, unanticipated development projects or economic changes can result in fairly drastic swings in costs as compared to projections, and those swings can be dramatic not just on a yearly basis, but also on a month-to-month basis. As such, a dramatic uptick in costs for one month does not necessarily correlate to an overall increase in costs for the year. In the current instance, the Company experienced cost increases in the late first quarter of the year that were unexpected. Costs for the subsequent two months were, however, significantly below prior projections, while the next month of actuals was only slightly over initial projections. As such, the Company did not anticipate that it would meet the 15% threshold generally applied to both electric and gas conservation programs in terms of mid-course notification, until it revised its projections for the remainder of the year. In terms of the current year, the Company's prior August 6, 2020 filing projected costs of $27,433 for 2021. The $4,954 difference between projected costs and the true-up is an 18% deviation, $840 above the 15% threshold. During this same period, the Company was also impacted significantly by personnel outages related to the ongoing Covid-19 pandemic. Given the timing of the filings and the impact on Company personnel, including the respondent, the fact that the threshold had been exceeded was overlooked. Even if it had been appropriately recognized, however, the Company anticipates that it would not have sought a mid-course correction given the overall timing.

B. As noted in response to A above, as a small company, changes in the economic environment and resulting costs can have a fairly dramatic impact. Historically, this has been true for Sebring, making estimation of costs associated with conservation programs a challenging endeavor. For instance, for the prior years' 2017, 2018, 2019, and 2020 projections and actuals were as follows:

Year	Prior Year Projection of Costs	Actual/Estimated Costs	Actual
2017	$33,300	$39,683	$42,239
2018	$44,676	$50,646	$47,126
2019	$46,648	$43,196	$46,184
2020	$57,293	$38,586	$52,162

An escalation of costs for one month can be followed by a dramatic decrease the following month, as can be seen in the actuals schedules for each of these years. Thus, analysis of historical fluctuations provides little guidance for future projections, as prior years' also reflect significant variations from month to month, and program to program. Nonetheless, the Company endeavors to utilize historical activity to the best of its ability and make adjustments as appropriate given the information available, and its knowledge of factors that may impact activity in its service area.

Respondent: Jerry Melendy

INTERROGATORY NO. 6

Please refer to Schedule C-2, of Sebring's August 10, 2020 filing in Docket No. 20200004-GU, (2021 Projection filing) and also to Schedule C-3 of Sebring's August 6, 2021 filing in Docket No. 20210004-GU (2022 Projection filing) to answer questions 6-11.

6. In Sebring's 2021 Projection filing, Schedule C-2 reflects that $4,102 in Program Costs were projected for the entire year (2021) in the Residential New Construction program. In that projection, Incentives were estimated to be $1,500 of that total. In Sebring's 2022 Projection filing, Schedule C-3 reflects that actual and estimated Program Costs of $6,476 were recorded for the Residential New Construction program in 2021, with Incentives representing $4,100 of that total. Comparing the 2021 and 2022 Projection filings, please explain the principle drivers for the variance of $2,600 in Incentives for this program in the January – December 2021 period.

COMPANY RESPONSE: The Company is not always aware of new construction projects proposed for the area, as the decision to install natural gas access may be made later in the design process given that it is often viewed as an "optional" power source for homeowners in Sebring's area. Accordingly, the key driver for the difference between 2021 projected costs and actual/estimated costs is tied to an unexpected increase in new residential construction in the Company's service area.

During the preparation of the projection schedules the current housing market was taken into consideration. The Sebring Gas System service area is much like the rest of the country concerning the housing market. We have seen a decrease of homes for sale, with available homes often being sold for a price over the asking price and even "bidding wars" between potential buyers. With this happening we are seeing more new construction and adjusted we projections over the previous filling period. For the month of August, we paid out $1,350 Residential New Home Incentives, which represents 32% of the total projected incentives for the category for the year.

For the actual period Jan-Aug 2021 as compared to Jan-Aug 2020, the utility has seen an increase of 72% in incentives paid for this category. In our projections for the year 2020 we estimated an increase of 57% over 2021. The Company anticipates it is on track to meet the projection number.

Respondent: Jerry Melendy

INTERROGATORY NO. 7

7. In Sebring's 2021 Projection filing, Schedule C-2 reflects that $10,127 in Program Costs were projected for the entire year (2021) in Residential Appliance Replacement program. In that projection, Incentives were estimated to be $7,525 of that total. In Sebring's 2022 Projection filing, Schedule C-3 reflects actual and estimated Program Costs of $13,276, with Incentives representing $10,900 of that total for the Residential Appliance Replacement program in 2021. Comparing the 2021 and 2022 Projection filings, please explain the principle drivers for the variance of $3,375 in Incentives for this program in the January – December 2021 period.

COMPANY RESPONSE: Somewhat similar to the response to Interrogatory 6 above, the company is not always aware of new construction projects or other activities in the area that may have an impact on customer construction and renovation activity and may therefore impact our costs. In the case of the Replacement Program, there is no clear construction or program in the Sebring service territory that impacted this program. However, based on the similar increases to New Construction in the same time period, the Company believes these increases may be tied to optimism and increases consumer confidence in the economy around the release of the Covid-19 vaccines.

When reviewing the actual incentives paid for the Residential Appliance Replacement program in the current year 2021, we find the utility has paid $5,975.00 through the month of August. This represents 79% of the projections for 2021, with the first eight months of 2021 being 66% of the year. We have paid out 79% of the incentives in 66% of the year. The Company believes it is on track to meet the projection number of $10,900.

Respondent: Jerry Melendy

INTERROGATORY NO. 8

8. In Sebring's 2022 Projection filing, Schedule C-3 reflects that actual and estimated Program Costs of $13,276 were recorded for the entire year (2021) in the Residential Appliance Replacement program. Please explain why the estimated Program Costs in this program for the January – December 2022 period are $6,564, a variance of $6,712 between the two periods.

COMPANY RESPONSE: The Company is aware of no planned activity in the coming year that would drive costs to a similar level as the current year. Moreover, it is not clear that the economy and consumer confidence will have a similar effect on activity, and thus costs, for the coming year. As such, the Company has made a conservative projection that is more in line with typical costs associated with this program.

Respondent: Jerry Melendy

INTERROGATORY NO. 9

9. In Sebring's 2021 Projection filing, Schedule C-2 reflects that no Incentives ($0) were projected for the Commercial New Construction program in 2021. In Sebring's 2022 Projection filing, Schedule C-3 reflects that actual and estimated Incentives of $6,000 were recorded for the Commercial New Construction program in 2021.

A. Comparing the 2021 and 2022 Projection filings, please explain the principle drivers for the variance of $6,000 in Incentives for this program in the January – December 2021 period.

B. Please explain why no Incentives ($0) are projected for the Commercial New Construction program in 2022, considering $4,000 in actual expenses for Incentives for this program were incurred between January and June 2021, and an additional $2,000 of expense for Incentives is estimated for the balance of 2021.

COMPANY RESPONSE:

A. Somewhat similar to the response to Interrogatories 6 and 7 above, the company is not always aware of new construction projects or other activities in the area that may have an impact on customer construction and renovation activity and may therefore impact our costs. Accordingly, the key driver for the difference between 2021 projected costs and actual/estimated costs is tied to an unexpected increase in new commercial construction in the Company's service area. The Company believes these increases may be tied to increases in consumer confidence in the economy around the release of the Covid-19 vaccines and federal incentive programs. Four thousand of the actual/estimates $6,000 incentives were actual incentives for a new small distillery. The remaining $2,000 were estimated.

B. The Company has made a conservative projection based on the fact that it is not aware of any definitive new commercial construction projects scheduled in 2022. The utility relies upon knowledge of projects available at the time it is making its estimates estimates. Any construction which begins after the filings were submitted would still be given incentives after the gas meter is turned on the appliances are connected and operating, which could impact the actuals. In this regard, the Company notes that very recently, it has learned of a possible restaurant construction project in the area that would likely utilize gas appliances.

INTERROGATORY NO. 9, CONT.

If this comes to fruition in 2022, this could have a notable impact on the actuals in terms of incentives paid under this program.

Respondent: Jerry Melendy

INTERROGATORY NO. 10

10. In Sebring's 2021 Projection filing, Schedule C-2, Page 2 of 2, reflects that $1,000 in Incentives were projected for the entire year (2021) in the Commercial Appliance Replacement program. In Sebring's 2022 Projection filing, Schedule C-3, Page 2 of 5, reflects that actual and estimated Incentives of $4,802 were recorded for the Commercial Appliance Replacement program in 2021.

A. Comparing the 2021 and 2022 Projection filings, please explain the principle drivers for the variance of $3,802 in Incentives for this program in the January – December 2021 period.

B. Please see Sebring's 2022 Projection filing, Schedule C-2, Page 2 of 2 and Schedule C-3, Page 2 of 5. Please explain why Sebring projects a relatively lower amount of expenses for Incentives for the Commercial Appliance Replacement program in 2022 ($1,000) compared to the actual expenses for Incentives for this program incurred between January and June 2021 ($2,802) combined with the projected expense for Incentives for the balance of 2021 ($2,000).

COMPANY RESPONSE:

A. Somewhat similar to the response to Interrogatories 6 and 7 above, the company is not always aware of commercial renovation projects or other activities in the area that may have an impact on customer construction and renovation activity and may therefore impact our costs. Accordingly, the key driver for the difference between 2021 projected costs and actual/estimated costs is tied to an unexpected increase in new commercial construction in the Company's service area. The Company believes these increases may be tied to increases in consumer confidence in the economy around the release of the Covid-19 vaccines and federal incentive programs.

At the time of this reply, the incentives paid through August 2021 were $2,802, which is a variance of $1,802. The utility believes we are on track to meet the projection number of $4,802.

B. The Company has made a conservative projection based on the fact that it is unaware of any new commercial renovation projects scheduled in 2022.

Respondent: Jerry Melendy

INTERROGATORY NO. 11

11. In Sebring's 2021 Projection filing, Schedule C-2, Page 2 of 2, reflects that $1,000 in Incentives were projected for the entire year (2021) in the Commercial Appliance Retention program. In Sebring's 2022 Projection filing, Schedule C-3, Page 2 of 5, reflects that actual and estimated Incentives of $4,000 were recorded for the Commercial Appliance Replacement Retention program in 2021.

A. Comparing the 2021 and 2022 Projection filings, please explain the principle drivers for the variance of $3,000 in Incentives for this program in the January – December 2021 period.

B. Please see Sebring's 2022 Projection filing, Schedule C-2, Page 2 of 2, and Schedule C-3, Page 2 of 5. Please explain why Sebring projects $1,000 of expense for Incentives in the Commercial Appliance Retention program for 2022, considering that $2,000 in actual expenses for Incentives for this program were incurred between January and June 2021, and an additional $2,000 of expense for Incentives is estimated for the balance of 2021.

COMPANY RESPONSE:

A. The Company believes these increases may be tied to increases in consumer confidence in the economy around the release of the Covid-19 vaccines and federal incentive programs.

B. The Company has made a conservative projection based on the fact that it is unaware of any new commercial renovation projects scheduled in 2022.

Respondent: Jerry Melendy