ORIGINAL
FILE COPY

LAW OFFICES
McWHIRTER, REEVES, McGLOTHLIN, DAVIDSON, RIEF & BAKAS, P.A.

LYNWOOD F. ARNOLD, JR.
JOHN W. BAKAS, JR.
HARRY LEE COE, IV
LINDA DARSEY HARTLEY
C. THOMAS DAVIDSON
STEPHEN O. DECKER
LINDA E. JORGE
VICKI GORDON KAUFMAN
JOSEPH A. McGLOTHLIN
JOHN W. McWHIRTER, JR.
RICHARD W. REEVES
FRANK J. RIEF, III
DAVID W. STEEN
PAUL A. STRASKE

100 NORTH TAMPA STREET, SUITE 2800
TAMPA, FLORIDA 33602-5126

MAILING ADDRESS: TAMPA
P.O. BOX 3350, TAMPA, FLORIDA 33601-3350

TELEPHONE (813) 224-0866
FAX (813) 221-1854
CABLE GRANDLAW

PLEASE REPLY TO:
TALLAHASSEE

TALLAHASSEE OFFICE
117 S. GADSDEN
TALLAHASSEE, FLORIDA 32301

TELEPHONE (904) 222-2525
FAX (904) 222-5606

September 6, 1996

HAND-DELIVERED

Blanca S. Bayo, Director
Division of Records and Reporting
Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

Re: Application for rate increase by City Gas Company of Florida
Docket No.: 960502-GU

Dear Ms. Bayo:

I am enclosing for filing in the above docket an original and 15 copies of the response of City Gas Company of Florida to the Staff's rate case audit report.

Please acknowledge receipt of the above on the extra copy enclosed herein and return it to me. Thank you for your assistance.

Yours truly,

Joseph A. McGlothlin

Joseph A. McGlothlin

ACK ✓
AFA 2
APP
CAF
CMU
CTR
EAG Bulecza-Banks
LEG 1
LIN 5
OPC
RCH
SEC 1
WAS
OTH 1

JAM/pw
Enclosure

cc: Vicki Johnson (w/encls.)
Lee Romig (w/encls.)
Sam Merta (w/encls.)
Christine Romig (w/encls.)
Cheryl Bulecza-Banks (w/encls.)
Office of Public Counsel (w/encls.)

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE
09482 SEP-6 96
FPSC-RECORDS/REPORTING

Docket No. 960502-GU
City Gas Company of Florida

Company Response to Rate Case Audit Report

Audit Exceptions

(1) We agree.

(2) We agree that the charge for $15,963 is an out-of period expense related to fiscal 1995 and that, if an adjustment were to be made, it would decrease FERC Account 903, "Customer Accounts and Collection;" however, we note that NOI would be impacted on an after tax basis rather than by the amounts indicated in the Opinion.

(3) We agree that the charges indicated were one-time charges; however, we do not agree that all one-time charges should be removed from the projected test year as (a) the specific charge described was prudent and necessary and (b) the company is likely to incur equivalent one-time charges for other technology changes and improvements in the projected test year and in all future years.

(4) We agree that a portion of transportation charges should be incurred below the line; however, we disagree with the auditors' calculation. The appropriate calculation would follow the usage of the underlying transportation service by being based on the number of hours directly charged for activities that are recorded below the line. We are currently developing the methodology to capture this information automatically within our accounting system so that, in fiscal 1997, each month's actual transportation charges are appropriately posted below the line on the books of account. For purposes of calculating the appropriate adjustment for the projected test year, for which actual hours information cannot be currently forecast, we believe that an allocation based on payroll dollars is a reasonable substitute. Accordingly, the appropriate calculation would be as follows:

Below the Line Payroll dollars (1997)
divided by
Total Payroll dollars (1997)
equals
Calculated Percentage Factor

Total Transportation Dollars (1997)
multiplied by
Percentage Factor
equals

Transportation Dollars Below the Line (1997)

The below the line transportation dollars that should be removed from determining NOI are $28,207, before applicable taxes. See the attached calculation of transportation factor and the allocation to non-utility operations at Exhibit A of this document.

(5) We disagree. These charges were prudent and necessary and are proper additions to rate base. We are seeking to obtain duplicate copies of the originals from the vendors.

(6) We agree with respect to the $8,810 write-off as this write-off relates to prior period charges, and we disagree with respect to making any further adjustment with respect to telephone charges.

The charges included in account 75103311.110 are principally the normal recurring BellSouth charges for the PBX ($1,434.63 per month), the directory listing ($398.25 per month), rollover service ($302.18 per month), etc., aggregating approximately $3,000 to $4,000 per month. These are not seasonal and will recur. AT&T long-distance and 800# charges ("CUSTOMNET") are charged to FERC Account 903 through internal RC account 75103311.164 and FERC Account 921 through internal RC account 75103310.164 on an 85/15 split. These charges do vary with the seasons and may have varied with the start up of the new CIS system. Charges for this service were $63,588 to FERC 903 and $10,804 to FERC 921 through March 1996. From April through June 1996, these charges were $18,995 to FERC 903 and $3,344 to FERC 921. Clearly, the Company's adjustment to remove $45,470 for seasonality and non-recurring charges was adequate and no further adjustment is required to have properly projected fiscal 1997.

(7) We agree.

(8) We agree.

(9) We agree.

(10) We agree.

(11) We agree.

(12) We agree, except with respect to the Contributions included within Item (A).

We note that PSC Order No. 6500 under Docket No. 73586-GU states that "certain [civic] expenditures... may be in the public interest and treated as operating expense. The gas companies shall obtain prior approval for such expenditures, as listed hereinafter, in order for them to be included as operating expenses for ratemaking purposes:

(1) Financial aid given to groups, organizations, educational institutions , and the like;

(2) Advertising, promoting, and providing financial aid in the sponsorship of community events;

(3) Community support materials and education support materials, such as films, slides, and the like."

We note that the proposed exclusion under Item (A) includes $1,326.38 in direct and matching financial aid for educational institutions; $196.50 of financial aid for the United Way and the March of Dimes; and $1,424.62 of financial aid for local civic organizations such as the Girl Scouts, the Boy Scouts, local fire departments and a County fund raising appeal. We believe that such contributions are in the public interest and treatable as operating expense. Accordingly, we request that such expenditures for 1997 be included in operating expenses for ratemaking purposes.

(13) We agree, as these are out-of-period expenses.

(14) We agree.

(15) We agree.

(16) We agree that these charges should be removed as they are a direct expense of Elizabethtown Gas Company; however, we disagree that these would be considered a non-utility expense had they related to a City Gas customer.

(17) We disagree. At the time these expenditures were incurred, City Gas was still evaluating whether to pursue a rate case. City Gas regularly reviews the need for rate adjustments and the potential effects of a rate case on customers and on the Company. In connection therewith, City Gas would regularly consult with its regulatory counsel for updates and information with respect to ratemaking trends and issues. These particular legal services referred to in the audit exception did not specifically pertain to the preparation of this rate case, and accordingly, such legal charges are of a recurring nature and should be left in our projections.

<u>Audit Disclosures</u>

(1) We disagree that the use of the three-factor method is appropriate for the allocation of working capital below the line. Working capital elements such as lease receivables that vary specifically with the level of below the line activity have been

removed specifically from rate base. Elements of working capital that are common to both regulated and below the line activity should be removed similarly on the basis of factors that influence the level of working capital invested. The payroll allocation method produces a more reliable indicator of the working capital invested in our below the line activities than does the three factor method and, thus, produces a more appropriate calculation of the required adjustment.

Our below the line investments include the historical investment in leased appliances. We are not currently promoting the leased appliance business and, therefore, gross plant for the appliances is no longer growing rapidly. Indeed, our real overall investment in appliances tends to be reducing as appliances depreciate more rapidly than does rate base and, as appliances are removed from the field, they are retired without being replaced. The level of continuing investment in leased appliances does not impact the level of working capital that is common to the regulated activities and the below the line activities. Accordingly, the investment in leased appliances should not influence the calculation of the amount of common working capital that is removed.

Substantially all leased appliance customers are natural gas customers. The three factor method counts such customers twice, once as a natural gas customer and once as an appliance customer. The working capital required to support a natural gas customer does not double if that customer is also a leased appliance customer, just as it does not multiply if that customer leases more than one appliance. There is not a relationship between the number of customers and the level of working capital that is common to the regulated activities and the below the line activities. Accordingly, the number of customers should not influence the calculation of the amount of common working capital that is removed.

We do continue to have a service obligation with respect to the appliances, and the related payroll dollars to satisfy that obligation as compared with total payroll dollars are a good indicator of the level of activity that is required to satisfy that obligation. For example, the comparative level of payroll dollars is indicative of the level of draws from M&S inventory and therefore the level of inventory maintained. Similarly, the relative level of activity is indicative of the exposures that generate the need for insurance prepayments. Similarly, the relative level of activity is indicative of the accounts payable incurred to replenish inventories and the accruals required for payroll obligations.

Accordingly, a payroll allocation is good indicator of the level of common working capital that should be removed. The three factor method, which blends payroll with factors that are not good indicators (investment in gross plant and the number of customers) should not be used for the allocation of working capital that is common to regulated and not-regulated activities.

(2) Tallahassee staff should note that the company forecast of Customer Accounts Receivable did not include any increase in Accounts Receivable that would be expected as a result of either an interim rate increase or a permanent rate increase. Thus, the company forecast of Customer Accounts Receivable is lower than the balance the company will have to carry if any increase is granted. Hence, an adjustment of Accounts Receivable to reflect revenue adjustments by Staff would not be appropriate.

(3) We disagree with the auditors' Opinion. The commission should treat negative and positive adjustments consistently. As City Gas has conceded and Commission Staff has insisted, an acquisition adjustment is proper only under the most extraordinary circumstances. The standard for a negative acquisition adjustment is the same. Here, there are no extraordinary circumstances surrounding either the positive acquisition adjustment previously sought by the Company or the negative acquisition adjustment at issue. The negative acquisition adjustment should be removed.

(4) Confidential

(5) We disagree with the auditor's conclusions in several respects:

The level of Customer Service Supervision applicable to below the line activities is a direct function of the labor hours required to provide service as compared with the total payroll hours supervised. We are currently developing the methodology to capture this information automatically within our accounting system so that, in fiscal 1997, each month's Customer Service Supervision costs are appropriately posted below the line on the books of account. For purposes of calculating the appropriate adjustment for the projected test year, for which actual hours information cannot be currently forecast, we believe that an allocation based on payroll dollars is a reasonable substitute. Accordingly, the appropriate calculation would be as follows:

> Forecast Customer Service Supervision payroll dollars
>   divided by
> Forecast Customer Service Payroll dollars (excluding supervision and including below the line dollars)
>   equals
> Calculated Supervision Factor
>   multiplied by
> Below the Line Customer Service payroll dollars
>   equals
> Calculated below the line Customer Service Supervision

The below the line customer service supervision dollars that should be removed from determining NOI are $23,585, before applicable taxes. See the attached calculation of the supervision factor and the allocation to non-utility operations at Exhibit B of this document.

Finally, the level of Customer Accounts expense (FERC Account 901 and FERC Account 903) is not a function of our below the line activities. The Customer Call Center serves principally to allow the company to (a) receive and answer customer inquiries and concerns regarding natural gas and to respond promptly and accurately to customer and system safety matters, (b) answer promptly customer inquiries and concerns regarding turn ons and turn offs and direct appropriate customer actions with respect to such, and (c) receive and promptly and accurately respond to customer inquiries and concerns regarding complex billing matters such as (i) the varying amounts of gas consumed from month to month based on actual meter readings, (ii) the variability in meter reading dates from month to month, (iii) the calculation of and effect of estimated billings for months in which a meter cannot be read, (iv) the effect of month to month variances in billing rates for gas and other elements of charges that may vary due to tariff and other changes (ECCR, for example), (v) the effects of pro-rations in monthly demand charges, (vi) the effects of various obligatory taxes, etc.

We are not currently promoting our below the line leased appliance business. Accordingly, we do not ordinarily receive customer inquiries regarding leased appliances. Month to month billing on leased appliances does not vary. Accordingly, we seldom receive inquiries from established customers regarding the lease component of their bills. Generally, we do not need an elaborate customer call center to handle leased appliance billing matters. Accordingly, it would be inappropriate to allocate costs for the center to below the line activities. In connection with customer inquiries with regard to changes in natural gas service as a result of moving from or into a home, we do handle matters affecting any leased appliance in that home. These matters, however, are handled by designated Leased Appliance Clerks and their time is charged directly below the line in FERC account 416.1 through the following internal RC accounts:

70000010.163
70000010.164
70000020.163
70000020.164.

No further cost allocation is required to capture the cost of processing that activity.

We do, as a convenience to customers, include billings for leased equipment on their monthly natural gas bill. This is purely as a convenience to customers as it allows them to make payment for two separate services with a single check (avoiding an unnecessary charge from their personal bank for check charges) and with a single postage stamp on a single envelope (avoiding a second personal stamp and envelope charge). Were we to segregate these billing activities completely, we would consider establishing a coupon book system in which we would hand out a booklet at the time of installing an appliance and the customer would clip coupons each month and mail them back with their separate check for payment. All receivable amounts would be computed upfront without an elaborate billing system and cash application and arrears could be established with little cost to the company. But, again, the personal cost to the customer would be doubled. Inappropriate levels of allocation of Customer Accounts expenses (FERC Accounts 901 and 903) could lead the company to undertake such separation in order to avoid inappropriate allocations, with no positive benefit to the ratepayer.

In all, we recommend making the Customer Service Supervision adjustment described above and no additional allocation of Customer Accounts charges.

(6) We disagree. Overall the Company believes that it removed too much benefit expenses from the projected test year and that the auditors are in error in recommending that additional benefit expense be removed. Specifically, we disagree in the following respects:

(a) As described above (Company Response to Audit Disclosure No. 5), the Customer Service Supervision payroll allocation to below the line activities should be $23,585. Accordingly, the correct amount of benefit allocation related to supervision is as follows: $23,585*25.17% = $5,936.

(b) As described above (Company Response to Audit Disclosure No. 5), no additional allocation of FERC Accounts 901 and 903 should be made. Accordingly, no additional benefit allocation should be made with respect to payroll incurred in these accounts.

(c) Notwithstanding our reasoning as described in the Company Response to Audit Disclosure No. 5, the correct amount of payroll forecast in FERC Account 901 is $225,676 not $244,188 as indicated. Accordingly, if an allocation were to be made in the manner described by the auditors, the calculation would be as follows: $225,676*16.14%*25.17% = $9,168. See the Company's response to Audit Disclosure No. 22 for the calculation of the 16.14% rate.

(d) Notwithstanding our reasoning as described in the Company Response to Audit Disclosure No. 5, the correct amount of payroll forecast in FERC Account 903 is $958,764 not $2,057,960 as indicated. Accordingly, if an allocation were to be made in the manner described by the auditors, the calculation would be as follows: $958,764*16.14%*25.17% = $38,949. See the Company's response to Audit

Disclosure No. 22 for the calculation of the 16.14% rate.

In summary, the Company believes that it removed too much benefit expense from the projected test year and that the auditors are in error in recommending that additional benefit expense should be removed.

(7) We disagree. The Company is unable to liquidate the ESOP Trust until all pending matters are resolved. The Company has requested the IRS to provide guidance on an account allocation matter that prevents a full liquidation of the balances in the Trust. Although the Company is seeking to expedite the IRS' ruling, it is unable to control the timing of that ruling. Two former officers of the Company have brought a frivolous legal suit with respect to Trust matters. Although the Company is seeking to expedite the resolution of this suit, the Company is unable to control the timing of that resolution. The Trust must be managed until it is liquidated. Accordingly, Trustee Fees will be incurred each quarter until the Trust can be liquidated. It is inappropriate to remove Trustee Fees until the Trust is liquidated, which is likely to be some time after the projected test year, which begins in one month's time.

(8) We disagree. In the last rate case, the disallowance of CNG fill station costs was the result of a stipulation, entered into for the purpose of expediting the case and minimizing litigation. This stipulation should not result in precedent here. The Commission regulates compressed natural gas for vehicular use and has required, and approved tariffs for vehicular use of compressed natural gas. The Staff's position that this is a non-regulated usage is contrary to PSC precedent. The proposed disallowance will discourage future utility investment in CNG and place the PSC squarely at odds with State and Federal agencies that are actively encouraging vehicular use of CNG.

(9) We disagree. This is an educational expense. The Company is committed to training and the expense will be ongoing. The pace of technological change is accelerating. The Company will continue to have to provide user-focused technological training to all users of the system as hardware changes, as software is upgraded, as Microsoft introduces its new operating system next year, as it becomes necessary to provide users with increased access to the Internet, etc. The Company cannot bind itself to training only new employees or to clinging to the technological dark ages. Rate payers will not benefit from such a retreat. The company is committed to ongoing technological and efficiency improvement and providing appropriate training to all employees to remain competitive. This benefits all ratepayers. There should be no adjustment to remove ongoing technological training.

(10) The following represents the status of the positions included in the rate case projections:

A/C 920: The Division Manager position has been filled as of 8/14/96.

A/C 912: The additional Sales Personnel have been approved. Recruitment Ads were run in the major markets the weekend of August 24. Offers will be extended to qualified personnel, if located, before the end of fiscal 1996.

A/C 916: The additional Sales Personnel have been approved. Recruitment Ads were run in the major markets the weekend of August 24. Offers will be extended to qualified personnel, if located, before the end of fiscal 1996.

A/C 902: The Lead Meter Reader position is currently being recruited. This position will be filled before the end of fiscal 1996.

A/C 903: The Customer Service Analyst position has been filled, by the current Accounting Manager. Formal transition will occur upon completing the current stage of Rate Case discovery. Rep positions have been filled since April. Additional positions will be filled in October/November as the cooler weather approaches and as the added Sales Personnel and the advertising campaign begin to increase activity.

A/C 880: The Administrating Analyst position has been filled, by the previous Senior Accountant. Formal transition will occur upon completing the current stage of Rate Case discovery.

The Interdepartmental Aide position was filled in April and an additional Distribution Clerk and Dispatcher will be added in October/November as the cooler weather approaches and as the added Sales Personnel and the advertising campaign begin to increase activity.

A/C 874 and 879: Field Service reps will be added in October/November as the cooler weather approaches and as the added Sales Personnel and as the advertising campaign begin to increase activity.

A/C 870: The Engineer will be added in December as the project load increases with the increased activity.

(11) The precise copy and text are still in development. An outline of topics that will be covered in our various bill inserts and advertisements has been provided to the auditors. Sample copy and text of bill inserts currently being used in our New Jersey operations and of commercial and industrial information folders currently being used in our New Jersey operations have been provided to the auditors separately. Materials that will be used by City Gas will resemble those currently used by the New Jersey operations, with appropriate changes to reflect local standards and issues.

City Gas is familiar with the requirements of Commission Order No 6500, issued February 6, 1975, regarding natural gas promotional practices, as well as the Commission's recent Order No PSC-95-0518-FOF-GU, approving FPUC's marketing campaign. City Gas will comply with the letter, spirit and intent of these Commission Orders in implementing its advertising campaign. Attached as Exhibit C is a numeric breakdown of the campaign which will include bill inserts, radio spots, print, cable, and billboards. This breakdown delineates recoverable promotional expenses and specifically distinguishes other advertising expenses such as ECP and appliance promotions that are not recoverable under Commission guidelines, and are not included for recovery in this rate proceeding.

The advertising campaign will focus on informational or consumer advertising designed to inform the customer of proper emergency and safety precautions and procedures of changes in rates and charges and conditions of service, of general methods to conserve energy and reduce energy usage and similar matters. Part of the campaign will be designed to educate and encourage customers and equipment specifiers, such as develcpers, mechanical engineers, architects, fleet managers and other decision makers to consider the cost-effectiveness and environmental benefits of natural gas.

Under a second informational component, the advertising campaign will educate existing residential customers regarding replacement of less source energy-efficient heating, water heating, cooking and clothes drying appliances with more efficient natural gas appliances. The advertising campaign is designed to educate customers to enable them to choose more sources energy-efficient appliances when making replacement decisions.

The growing competitive environment requires flexibility and not the rigidity associated with traditional "one size fits all" advertising campaigns.

By reducing or eliminating the number of existing customers replacing gas with electricity, the advertising campaign will benefit all ratepayers by eliminating stranded investment and keeping embedded costs productive. It will also allow the Company to spread its fixed costs across a greater number of customers and, thus, drive down the per unit cost for all customers. In addition, customers will benefit from awareness of increased efficiency through natural gas usage, improvement in overall energy efficiency and reduction in the negative environmental impact of obsolete or malfunctioning equipment. The advertising campaign will assist residential customers in making their homes more energy efficient by informing them of the benefits of installing energy efficient appliances, energy-saving measures and/or adopting conservation practices that will reduce their total energy bills. While educational in nature, the advertising campaign will identify opportunities and demonstrate ways residential customers can decrease their energy bills. It will also educate and inform new home buyers as well as builders and developers of the societal benefits of energy efficiency when they are choosing and purchasing or building a new home.

Effective implementation of the advertising campaign requires adequate flexibility to adjust the campaign as customer needs and technologies change. The Company should have the flexibility to target specific markets and make timely adjustments when needed.

The projected expenses for the Company's marketing campaign are reasonable and necessary to achieve effective results for the Company and its customers.

(12) Confidential

(13) We disagree with the opinion and recommendation.

The corporate policy under which these vehicles were leased provides for the accelerated amortization of the cost of the vehicles and the option for the officer to purchase the vehicle at the book value at the end of the lease. This book value is substantially less than market value. The difference, which is normally between 40% and 50% of the original cost of the vehicle, is considered executive compensation and is included in the employee's taxable income.

The purported "excess" lease amount is not related to the Company leasing "luxury automobiles", but rather to the accelerated lease schedule which is a part of the executive compensation package. Staff's recommended disallowance of 45% of the total allocated cost is inappropriate since it represents value the Company grants its officers as compensation, and is not related to leasing luxury vehicles.

(14) We disagree.

The Elizabethtown Gas Company office building is leased from Liberty Hall Joint Venture, the owner of the building, not a Kean family trust. A Kean family trust is the non-managing partner in the joint venture. However, all negotiations relative to the lease were conducted with Cali Liberty Hall Associates, the managing partner who is in no way related to NUI or Elizabethtown Gas. No one associated with the Kean family trust participated in the lease discussions.

The rates per square foot noted in the Statement of Facts are not comparable because of non-rental costs included in the Elizabethtown rate and special requirements of the Elizabethtown facility. The $37.84 for the Elizabethtown office includes heating, air conditioning, utilities and security, which are not included in the Bedminster lease rate. The Elizabethtown building has security and utilities every day of the year for 24 hours a day. Also, the Gas Control room, which is the only part of the building allocated to

City Gas, has special needs. It requires additional air conditioning for the computer equipment, fire protection equipment and electrical installations, which are accommodated with raised deck flooring, and an uninterrupted power supply. Under these circumstances, we believe that an all-inclusive cost of $37.84 per square foot is at or below the market rental rate for such a facility.

(15) The position in Technical Services is that of Data Base Administrator. Although it has not yet been filled, it has been included in the 1997 operating budget and is expected to be filled.

The General Accounting position is actually a Tax Manager. That position was filled in January 1996. Specific supporting information has been provided to staff auditors.

(16) We concur with the Statement of Fact.

(17) We note that the re-computation has the effect of increasing Depreciation Expense by $10,514. See the Company's response to Interrogatory No. 37.

(18) We disagree with the auditors' Opinion as the expenses incurred were for the ongoing growth of natural gas service within the state of Florida. The costs at question relate to negotiating a new franchise in Indian River County and establishing a business license, negotiating the purchase of land for two gate stations, negotiating an operating lease for business office space in St. Lucie County, and negotiating the termination of a lease for other business office space in St. Lucie County. These types of activities are ongoing. For example, similar costs will be incurred in fiscal 1997 in connection with developing the service area within the vicinity of the Homestead lateral which the company will purchase from FGT and in connection with negotiating a franchise in the city of Homestead and in Florida City. The Company agrees that the direct cost of an acquisition should be capitalized as a cost of that acquisition, and does so capitalize appropriate legal costs. This attorney, however, was not directly involved in the acquisition activity for the acquisition of the Vero Beach lateral.

(19) We agree. These costs are direct charges of Elizabethtown Gas and should not have been charged to City Gas.

(20) We agree with the basic statement of facts, but we believe that the current earnings performance, which reflects substantial cost reductions, indicates a high probability that bonuses will be paid in 1996 and 1997.

Bonuses are considered a key element of executive compensation and have been paid consistently when earnings objectives have been achieved. NUI officers were paid bonuses of $173,000, $136,400, $284,200 and $247,000 for fiscal years 1990 through

1993, respectively. NUI consolidated earnings per share fell to $1.25 in fiscal 1994 and $1.21 before non-recurring charges ($.60 per share overall) in fiscal 1995 from $1.70 per share in 1993. Since executive bonuses are based on both individual performances and the achievement of corporate earnings objectives, bonuses were not paid by NUI for fiscal 1994 and only a small amount (approximately $37,300) was paid for fiscal 1995.

The Company has set an objective of 15% growth in earnings per share for 1996 and 1997. Using a base of $1.21 per share in 1995, that equates to $1.40 per share in 1996 and $1.61 per share in 1997. Earnings for the twelve months ended June 30, 1996, the most recent reported period, were $1.61 per share. This indicates a very high probability that the earnings objective will be achieved in 1996, and the further likelihood of achieving the 1997 objective.

In view of these facts, we believe that these bonuses are appropriately includable in projected operating expenses.

(21) We agree with the statement of facts, but disagree with comparison of the change in Directors' fees and expenses to the change in employee salaries. The increase in these costs in 1996 of $21,080 is due to two elements: retainers and the mark-to-market adjustment. The retainers for 1996 were increased $3,000 for each outside Director, but had been cut by the same amount in 1995 as compared with 1994, reflecting the sharp drop in 1995 consolidated earnings as compared with 1994. The 1996 restoration to the prior retainer level reflects the projected improvement in consolidated earnings. Hence, there was no change in retainers from 1994 to 1996 and projected 1997.

The mark-to-market adjustment increased in 1996 due to the change in the market price of NUI common stock. For 1997, we have projected an adjustment comparable to 1995. Other than these two items, there are actually small decreases reflected in 1996 and 1997.

(22) The Company's recalculation of the three factor method referenced in Audit Disclosure No. 22 was not correct. There was an error in the calculation of payroll. The change in payroll caused the regulated and non-regulated three factor percentages to be 83.86% and 16.14%, respectively. The recalculation of the projected 9/30/97 allocations are attached as Exhibits D and E of this document. The updated percentages are computed at Exhibit F.

The amount projected on the G-2 Schedules for 9/30/97 from NUI is $3,070,813. The revised amount for the updated three factor method is $3,034,238. As a result the amount of expense allocated from NUI Corporate that should be removed from the G-2 Schedules for projected 9/30/97 is $36,575.

(23) The Company provided the necessary documentation to audit staff during the

supplemental audit.

(24) The Company concurs with the Statement of Fact. The issue contested is the Company's right to properly bid out construction work in accordance with a Commission order and good business practices. The Company should be permitted to recover such costs.

(25) The question of whether a portion of John Stark's work related to a compressed natural gas fueling facility should be of no consequence for two reasons; (1) as stated previously in response to Audit Disclosure No. 8, this is a regulated usage of natural gas that is regulated by the Public Service Commission; (2) the time spent by Mr. Stark on this activity has been primarily focused on governmental relations aspects and acting as a liaison with the State of Florida in completion of this project. These types of governmental relations expenditures are recurring and recoverable.

(26) The Company is filling the space. The cost incurred is prudent and necessary.

(27) The billings associated with propane for the six month period ended March 31, 1996 were $7,145.05. Of this amount, $1,067.54 represents franchise, utility and gross receipts taxes. Billings net of taxes for the period are $6,077.51. The report was provided to audit staff in conjunction with the supplemental audit.

(28) We agree with the Statement of Facts. However, based upon the fact that there are approximately forty transportation customers and each one could be off by no more than 1/2 a therm per month, any effect of the rounding to whole numbers would be immaterial.

(29) We agree with the auditor's calculation.

(30) See response to Audit Disclosure No. 22 for the recalculation of the allocation factors. The new rate for non-regulated operations is 16.14%. However, the change in rate should not impact Audit Exception No. 4 nor Disclosures No. 1, and 5, as the Company has proposed specific adjustments for charges attributable to non-regulated operations for each of these issues. See the Company's responses to Audit Exception No. 4 and Disclosures No. 1 and 5 herein. For Disclosure No. 6, the new rate was used in the calculation therein. See the Company's response to Audit Disclosure No. 6 items (c) and (d).

EXHIBIT A
TRANSPORTATION FACTOR

CGF - Transportation Charges
Period: Oct 95 to June 30 1996

	Miami RC 141	Brevard RC 341	Miami RC 143	Brevard RC 343	Total
Oct-95	-	-	19,036	13,257	32,292
Nov-95	-	-	5,027	3,501	8,529
Dec-95	-	-	13,154	9,161	22,315
Jan-96	-	-	18,620	12,967	31,588
Feb-96	-	-	12,422	8,651	21,073
Mar-96	-	-	13,898	9,679	23,576
Apr-96	-	-	14,024	9,767	23,791
May-96	-	-	20,508	14,282	34,789
Jun-96	-	-	19,350	13,476	32,826
Totals:	-	-	136,040	94,740	230,780

LABOR: Period: Oct 1, 1995 to June 30 1996

FERC	RC	Amount	RC	Amount	RC	Amount	RC	Amount	Total	REGULATED RC 141/43-34	NON-REGULA RC 141/43-341	TOTAL
1070	143	45,826	141	-	341	-	343	28,843	74,669	74,669		74,669
1080	143	10,229	141	-	341	-	343	2,623	12,852	12,852		12,852
1215	143	1,985	141	-	341	-	343	89	2,075	2,075		2,075
1216	143	1,386	141	-	341	-	343	1,187	2,574	2,574		2,574
1217	143	287	141	-	341	-	-	-	287	287		287
1220	143	1,346	141	-	341	-	343	1,080	2,427	2,427		2,427
1227	143	182	141	-	341	-	-	-	182	182		182
1860	143	3,013	141	-	341	-	343	730	3,743	3,743		3,743
4160	143	3,796	141	-	341	-	-	-	3,796	-	3,796	3,796
4161	143	1,993	141	-	341	-	343	35	2,028	-	2,028	2,028
4163	143	9,207	141	-	341	-	343	2,554	11,761	-	11,761	11,761
4168	143	5,423	141	-	341	-	343	16,617	22,040	-	22,040	22,040
4171	143	82,131	141	-	341	-	343	24,643	106,774	-	106,774	106,774
8780	143	132,882	141	-	341	-	343	75,748	208,631	208,631		208,631
8790	143	568,835	141	-	341	-	343	250,625	819,460	819,460		819,460
8800	143	-	141	38,561	341	24,230	343	18,207	80,997	80,997		80,997
8860	143	1,258	141	-	341	-	-	-	1,258	1,258		1,258
8870	143	4,244	141	-	341	-	343	107	4,351	4,351		4,351
8920	143	9,474	141	-	341	-	343	2,339	11,813	11,813		11,813
9010	143	-	141	20,941	341	19,154	343	-	40,095	40,095		40,095
9020	143	917	141		341	-	343	2,613	3,530	3,530		3,530
9030	143	15	141	47,308	341	62,444	343	14,010	123,775	123,775		123,775
9990	143	51,793	141	8,269	341	8,461	343	30,069	98,592	98,592		98,592
Totals		936,224		115,077		114,289		472,121	1,637,710	1,491,310	146,400	1,637,710
										91.1%	8.9% *	100%

TRANSPORTATION ALLOCATION TO NONUTILITY

9 Months 1996 Transp	230,780
	x12/9
Annualized 1996 Transport	307,707
Inflation factor	1.03
Projected 1997 Transports	316,938
Transportation Factor	8.9 % *
Allocation to Non-Utility	28,207

9/4/96
TRN-FCTR.XLS

EXHIBIT B
SUPERVISION FACTOR

Supervision	Account	67200010	RC 143	RC 343	Total
Oct-95			12,560	6,314	18,874
Nov-95			12,824	6,314	19,138
Dec-95			12,824	6,314	19,138
Jan-96			12,836	6,320	19,156
Feb-96			12,812	6,308	19,120
Mar-96			12,812	6,308	19,120
Apr-96			12,824	6,314	19,138
May-96			12,836	6,320	19,156
Jun-96			12,800	6,302	19,102
Total 9 Months			115,126	56,816	171,941

LABOR: Period: Oct 1 , 1995 to June 30 1996

FERC	RC	Amount	RC	Amount	RC	Amount	RC	Amount	Total	REGULATED RC 141/43-34	NON-REGULA RC 141/43-341/	TOTAL
1070	143	45,826	141	-	341	-	343	28,843	74,669	74,669		74,669
1080	143	10,229	141	-	341	-	343	2,623	12,852	12,852		12,852
1215	143	1,985	141	-	341	-	343	89	2,075	2,075		2,075
1216	143	1,386	141	-	341	-	343	1,187	2,574	2,574		2,574
1217	143	287	141	-	341	-	-	-	287	287		287
1220	143	1,346	141	-	341	-	343	1,080	2,427	2,427		2,427
1227	143	182	141	-	341	-	-	-	182	182		182
1860	143	3,013	141	-	341	-	343	730	3,743	3,743		3,743
4160	143	3,796	141	-	341	-	-	-	3,796	-	3,796	3,796
4161	143	1,993	141	-	341	-	343	35	2,028	-	2,028	2,028
4163	143	9,207	141	-	341	-	343	2,554	11,761	-	11,761	11,761
4168	143	5,423	141	-	341	-	343	16,617	22,040	-	22,040	22,040
4171	143	82,131	141	-	341	-	343	24,643	106,774	-	106,774	106,774
8780	143	132,882	141	-	341	-	343	75,748	208,631	208,631		208,631
8790	143	568,835	141	-	341	-	343	250,625	819,460	819,460		819,460
8800	143	-	141	38,561	341	24,230	343	18,207	80,997	80,997		80,997
8860	143	1,258	141	-	341	-	-	-	1,258	1,258		1,258
8870	143	4,244	141	-	341	-	343	107	4,351	4,351		4,351
8920	143	9,474	141	-	341	-	343	2,339	11,813	11,813		11,813
9010	143	-	141	20,941	341	19,154	343	-	40,095	40,095		40,095
9020	143	917	141		341	-	343	2,613	3,530	3,530		3,530
9030	143	15	141	47,306	341	62,444	343	14,010	123,775	123,775		123,775
9990	143	51,793	141	8,269	341	8,461	343	30,069	98,592	98,592		98,592
Totals		936,224		115,077		114,289		472,121	1,637,710	1,491,310	146,400	1,637,710

SUPERVISION FACTOR

Unregulated	146,400
All Other's	1,319,369
Non-Supervisory Su	1,465,769
Supervision	171,941
Total:	1,637,710

11.730% Supervision Factor

SUPERVISION ALLOCATION TO NONUTILITY

9 Months Unregulated	146,400
	x 12/9
Annualized Unregulated La	195,200
Inflation Factor	1.03
Projected 1997 Unregulated	201,056
Supervision Factor	11.730%
Allocation to Nonutility	23,58[illegible]

9/4/96
SUP-FCTR.XLS

EXHIBIT C ADVERTISING

	Bill Inserts	Radio Spots	Print	Cable	Billboards	Other Spending	Total
Number of Months	12	8	10	8	12		
	Run Every Month	*Off in Summer*	*Three Seasons*	*Off in Summer*	*All Year*		
Appliance & ECP Message in Each	50%	0%	0%	0%	0%		
Portion Dedicated to ECP or Appliances	0%	17%	33%	0%	0%		
Estimated Total Cost for 12 Months	$ 36,000	$ 124,872	$ 57,520	$ 34,500	$ 28,020		$ 280,918
Estimated Cost for Number to be Run	$ 36,000	$ 83,252	$ 47,938	$ 23,000	$ 28,020		$ 218,210
Portion that is Regulated Cost of Service	$ 18,000	$ 69,374	$ 31,960	$ 23,000	$ 28,020		$ 170,355
Folders/Inserts						$ 14,000	$ 14,000
Maps						$ 2,100	$ 2,100
Other						$ 15,000	$ 15,000
Total							$ 201,455
Amount of Recovery Requested at This Time - Assumes a Possible Delayed Start in Some Programs							$ 104,339
Percentage of Request as Compared with Total Annual Cost of Marketing Plan							52%

NUI Corporation
New Jersey Allocation Summary by Class
City Gas of Florida - Regulated

EXHIBIT D

	1997 Projection	
	Updated 3 Factor	Original
Executive, Audit & Other		
Executive (401)	238,812	242,643
Internal Audit (482)	40,456	41,104
Corporate Communications (105)	31,505	32,008
Regulatory (402)	26,293	26,715
Treasurer's (102)	153,952	156,421
Other	106,984	108,635
Total	598,002	607,526
Legal Affairs & Risk Mgmt.		
Secretary (103)	216,531	220,003
Legal (409)	44,412	45,127
General Counsel (811)	12,545	12,744
Total Legal	273,488	277,874
Risk Management (430)	59,437	60,391
Total	332,925	338,265
MIS & Purchasing		
MIS / Purchasing Admin. (831)	34,779	35,337
Information Svcs Admin (501)	35,516	36,103
Technical Services (520)	198,206	201,480
Programming & Analysis (532)	57,784	58,736
Systems & Programming (536)	43,398	43,656
Computer Operations (540)	115,986	117,519
Telecommunications (541)	-	-
Purchasing (260)	39,020	39,665
Total	524,689	532,496
Accounting Services		
Controllers (104)	102,176	103,817
Accounting Svcs Admin. - (701)	31,449	31,967
Financial Reporting (735)	83,586	84,485
Plant Accounting (737)	13,507	13,609
Tax Services (738)	34,528	55,684
General Accounting (745)	54,806	35,084
Payroll (746)	27,003	27,324
Budget & Planning (747)	26,118	26,524
Accounting Systems (749)	35,539	36,108
Total	408,712	414,602
Gas Supply & Planning (461-467)	611,847	613,197
Human Resources & Benefits		
Employee Relations (421)	16,876	17,153
Comp. & Personnel Admin. (422)	197,425	200,492
Human Resources Admin. (423)	-	-
Staff & Administration Svcs (851)	35,959	36,536
Total	250,260	254,181
Centralized Marketing		
Market Administration (301)	63,704	64,755
Public Relations (315)	22,139	22,495
Market Development (331)	31,671	32,196
Mkt. Planning & Research (336)	43,850	44,575
Total	161,364	164,021
Engineering, Transptn. Compliance & Rates		
Engineering (170)	29,294	29,516
Transportation & Special Billing (266)	36,562	36,745
Environmental Compliance (462)	21,028	20,947
Rates & Regulatory (463)	59,555	59,317
Total	146,439	146,525
Total Allocations	3,034,238	3,070,813

EXHIBIT E

NUI Corporation
New Jersey Allocation Summary by Class
City Gas of Florida - Unregulated

	1997 Projection	
	Updated 3 Factor	Original
Executive, Audit & Other		
Executive (401)	50,627	43,712
Internal Audit (482)	8,577	7,405
Corporate Communications (105)	6,679	5,769
Regulatory (402)	5,574	4,812
Treasurer's (102)	32,637	28,177
Other	21,581	18,672
Total	125,675	108,547
Legal Affairs & Risk Mgmt.		
Secretary (103)	45,904	39,635
Legal (409)	9,415	8,128
General Counsel (811)	2,660	2,296
Total Legal	57,979	50,059
Risk Management (430)	12,600	10,879
Total	70,579	60,938
MIS & Purchasing		
MIS / Purchasing Admin. (831)	7,373	6,367
Information Svcs Admin (501)	7,514	6,505
Technical Services (520)	41,932	36,307
Programming & Analysis (532)	12,225	10,583
Systems & Programming (536)	4,669	4,043
Computer Operations (540)	18,250	15,812
Telecommunications (541)	-	-
Purchasing (260)	8,255	7,148
Total	100,218	86,765
Accounting Services		
Controllers (104)	21,661	18,703
Accounting Svcs Admin. - (701)	6,667	5,760
Financial Reporting (735)	13,032	11,253
Plant Accounting (737)	-	-
Tax Services (738)	7,320	10,032
General Accounting (745)	11,619	6,319
Payroll (746)	5,720	4,925
Budget & Planning (747)	5,537	4,780
Accounting Systems (749)	7,534	6,505
Total	79,090	68,277
Gas Supply & Planning (461-467)	-	-
Human Resources & Benefits		
Employee Relations (421)	3,570	3,089
Comp. & Personnel Admin. (422)	39,795	34,455
Human Resources Admin. (423)	-	-
Staff & Administration Svcs (851)	7,623	6,581
Total	50,988	44,125
Centralized Marketing		
Market Administration (301)	13,477	11,671
Public Relations (315)	4,684	4,053
Market Development (331)	6,700	5,804
Mkt. Planning & Research (336)	9,277	8,032
Total	34,138	29,560
Engineering, Transptn. Compliance & Rates		
Engineering (170)	-	-
Transportation & Special Billing (266)	-	-
Environmental Compliance (462)	-	-
Rates & Regulatory (463)	-	-
Total	-	-
Total Allocations	460,688	398,212

EXHIBIT F
NUI South
Revised Three Factor Method for Fiscal 1997 Allocations

	NUI South Allocation %						
	City Gas of Florida		Pennsylvania & Southern Gas Company				
	Regulated	Unregulated	Elkton	North Carolina	Valley Cities	Waverly	Total
Direct Payroll Gross							
Gross Payroll	6,626	324	400	1,552	691	130	9,723
% of Total	68.15%	3.33%	4.11%	15.96%	7.11%	1.34%	100.00%
13 Month Average Gross Plant (000's)							
Gross Plant	125,809	24,065	5,008	18,063	11,484	1,908	186,337
% of Total	67.52%	12.91%	2.69%	9.69%	6.16%	1.02%	100.00%
Average Customer Ratio							
Number of Customers (13 Month Average)	100,002	38,301	3,462	14,083	4,903	1,332	123,782
% of Total	58.42%	22.37%	2.80%	11.38%	3.96%	1.08%	100.00%
Arithmetic Average (RC 506)	**64.70%**	**12.87%**	**3.20%**	**12.34%**	**5.74%**	**1.15%**	**100.00%**
Arithmetic Average - Regulated (5) RC 505	**76.41%**	**0.00%**	**3.39%**	**13.07%**	**5.92%**	**1.21%**	**100.00%**
Arithmetic Average - P&S only (4) RC 504	**0.00%**	**0.00%**	**14.22%**	**54.98%**	**25.64%**	**5.16%**	**100.00%**
Arithmetic Average - CGF only (2) RC 502	**83.86%**	**16.14%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**100.00%**
OVERALL	**56.24%**	**7.25%**	**5.20%**	**20.10%**	**9.33%**	**1.88%**	**100.00%**

9/4/96