Hopping Green & Sams

Attorneys and Counselors

Writer's Direct Dial Number
(850) 425-2359

February 1, 2005

BY HAND DELIVERY

Blanca Bayó
Director, Office of the Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

050082-GU

Re: Application of Florida City Gas, a Division of NUI Utilities, Inc., for Authority to Issue Debt Security Pursuant to Section 366.04, Florida Statutes, and Chapter 25-8,Florida Administrative Code, and Request for Expedited Consideration

Dear Ms. Bayó:

Enclosed for filing on behalf of Florida City Gas, a division of NUI Utilities, Inc., are the original and seven copies of its Application for Authority to Issue Securities, along with a diskette containing the pleading in WORD format.

Please stamp and return the enclosed extra copy of this filing. If you have any questions regarding this filing, please give me a call at 425-2359.

Very truly yours,

HOPPING GREEN & SAMS, P.A.

By: [signature]
Gary V. Perko

Attorneys for NUI Utilities, Inc.,
d/b/a Florida City Gas

GVP/mee
Enclosures
cc: Suzanne Thigpen

DOCUMENT NUMBER-DATE
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application by Florida City Gas, a division of NUI Utilities, Inc., for Authority to Issue Debt Security Pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code, and Request for Expedited Consideration.
_____________________________________/

Docket No. 050082-GU

Filed: February 1, 2004

APPLICATION BY FLORIDA CITY GAS, A DIVISION OF NUI UTILITIES, INC., FOR AUTHORITY TO ISSUE DEBT SECURITY AND REQUEST FOR EXPEDITED CONSIDERATION

Florida City Gas, a division of NUI Utilities, Inc., (the "Applicant"), by and through undersigned counsel, pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code, hereby files this application for authority to enter into certain loan agreements to refinance certain existing indebtedness, under which the payment of principal and interest is insured. Applicant respectfully requests expedited consideration of this application. In support, the Applicant states:

1. **Applicant Information:** The name and principal business address of the Applicant are NUI Utilities, Inc., One Elizabethtown Plaza, Union, New Jersey 07083. The Applicant is the indirect wholly owned subsidiary of AGL Resources Inc. ("AGLR") an energy services holding company headquartered in Atlanta, Georgia. The Applicant is engaged in the business of distributing natural gas in service territories located in portions of the states of New Jersey, Florida and Maryland. Through its Florida City Gas division, the Applicant supplies natural gas to customers in Miami-Dade, Broward, Palm Beach, St. Lucie, Indian River, Martin, and Brevard Counties, Florida. Accordingly, Applicant is regulated as a "public utility" by the Florida Public Service Commission ("Commission") under Chapter 366, Florida Statutes. In accordance with Rule 25-8.003(1)(a), Florida Administrative Code, Exhibit A provides the Applicant's most recent audited financial statements.

. **2.** **Incorporation and Domestication**: The Applicant was incorporated under the laws of the New Jersey in 1969. As noted above, the Applicant does business in the states of New Jersey, Florida and Maryland.

3. **Persons Authorized To Receive Notices and Communications:** The names and addresses of the persons authorized to receive notices and communications with respect to this application are as follows:

Gary V. Perko
Hopping Green & Sams, P.A.
123 South Calhoun Street
P.O. Box 6526
Tallahassee, FL 32314

Suzanne R. Thigpen
Sr. Corporate Counsel
AGL Resources Inc.
Ten Peachtree Place, NW, 15th Floor
Atlanta, GA 30309

4. **Capital Stock and Funded Debt:** The following additional information regarding the financial condition of the Applicant at December 31, 2004, is submitted for the Commission's consideration:

a. Total authorized common stock of the Applicant's ultimate corporate parent, AGLR, is 750,000,000 shares, of which 76,750,512 were issued and outstanding at December 31, 2004;

b. Neither AGLR nor the Applicant has any issued or outstanding preferred stock;

c. The amount of capital stock held as reacquired securities: none

d. The amount of capital stock pledged by the Applicant: none

e. The amount of Applicant's capital stock held by affiliated corporations: 100%, held by NUI Corporation

f. The amount of capital stock held in any fund: none

The table below summarizes the Applicant's outstanding loan agreements with various public financing entities, namely the New Jersey Economic Development Association (NJEDA) and Brevard County, Florida, pursuant to which the Applicant has borrowed the proceeds of the offerings of industrial development revenue bonds by each of these public financing entities. The terms and payments under the Applicant's loan agreements with the public financing entities mirrors those of the revenue bonds.

Description	Date	Principal amount	Interest
Loan Agreement between New Jersey Economic Development Authority and NUI Corporation (post reorganization, NUI Utilities)	15-Jul-94	$46.5 million	6.35%
Loan Agreement between Brevard County, Florida and NUI Corporation (post reorganization, NUI Utilities)	15-Jul-94	$20 million	6.40%
Loan Agreement between New Jersey Economic Development Authority and NUI Corporation (post reorganization, NUI Utilities)	1-Jun-96	$39 million	variable rate bonds
Loan Agreement between New Jersey Economic Development Authority and NUI Corporation (post reorganization, NUI Utilities)	1-Jun-97	$54.6 million	5.70%
Loan Agreement between New Jersey Economic Development Authority and NUI Corporation (post reorganization, NUI Utilities)	1-Dec-98	$40 million	5.25%

The indebtedness pursuant to these arrangements totals approximately $200.1 million and has recently been reviewed by the Applicant and AGLR.

5. **Proposed Transaction:**

(a) **Kind and Nature of Security:**

Currently, two series of the indebtedness described above are redeemable. Applicant seeks the Commission's authorization to redeem and refinance the following outstanding series of debt:

- $46.5 million 6.35% NJEDA Notes, due October 1, 2022, redeemable at 102% of the outstanding principal amount; and

- $20 million 6.40% Brevard County Notes, due October 1, 2024, redeemable at 102% of the outstanding principal amount (the "Existing Indebtedness").

Applicant will repay the principal amount of the Existing Indebtedness, with the proceeds received by Applicant from the issuance of two new series of exempt facility revenue bonds of equal principal amount as the series of Existing Indebtedness (the "New Indebtedness"). The Applicant intends to issue the New Indebtedness through the NJEDA and Brevard County, Florida. Applicant has provided a draft summary term sheet for these proposed refinance transactions as Exhibit B to this application. If necessary, Applicant will file additional information on the proposed terms of the loan agreements as that information becomes available.

(b) Maximum Principal Amount: The maximum aggregate amount of the New Indebtedness under the refinance transactions described above will be $66.5 million ($46.5 million with the NJEDA and $20 million with Brevard County). Applicant is borrowing only up to the amount that will be necessary to repay the outstanding principal under the Existing Indebtedness.

(c) Present Estimate of Interest Rate: Each series of the New Indebtedness will have a floating rate of interest (which reflects the interest rates on the notes issued by each of the NJEDA and Brevard County). The interest rate on each series will be re-set every fifth Tuesday (every 35 days). The floating interest rate will be determined by the rate of interest per annum that results from the implementation of the Auction Procedures described in detail on Exhibit B.

(d) Maturity Date(s): We anticipate that each series of the New Indebtedness will mature on the later of (1) the original maturity date for the Existing Indebtedness or (2) a maturity date that reflects the useful life of the assets financed by the Existing Indebtedness.

(e) **Additional Provisions:** The payment of principal and interest on the New Indebtedness will not be secured, but instead will be insured pursuant to an insurance policy between Applicant and a third party insurer; such insurance provides that the interest charged on the New Indebtedness is lower than would otherwise be available without such insurance.

6. **<u>Purpose For Which the Debt Will Be Incurred</u>:** The proceeds from borrowings under the new indebtedness will be used to repay amounts currently outstanding under the Existing Indebtedness with these same public financing entities. In accordance with Rule 25-8.002(6)(c), Florida Administrative Code, the obligations to be refunded are described in paragraph 5(a) above.

7. **<u>Lawful Object and Purpose</u>:** The Applicant is authorized to enter into the Loan Agreements by its Articles of Incorporation and applicable law. The Loan Agreements are consistent with the proper performance by the Applicant of service as a public utility and reasonably necessary and appropriate for such purposes. The refinances are in the public interest because it refinances the outstanding indebtedness on terms and expenses that are more favorable to Applicant.

8. **<u>Counsel Passing On Legality of the Issue</u>**: Counsel who will be passing legality of the debt is:

Hank Morgan
Holland & Knight LLP
92 Lake Wire Drive
Post Office Box 32092 (33802-2092)
Lakeland, Florida 33815
863-499-5360
Email: hank.morgan@hklaw.com

9. **<u>Filings With Other State or Federal Regulatory Bodies</u>**: Applicant must file an application with each of Brevard County and the NJEDA in order to obtain authorization for each of these proposed transactions. Additionally, approval is required from the New Jersey Board of Public Utilities, whose address is Two Gateway Center, Newark, New Jersey 07102. The refinance of the Existing Indebtedness has been authorized under the Public Utility Holding Company Act of 1935, as amended.

10. **<u>Control or Ownership</u>:** There is no measure of control or ownership exercised by or over the Applicant as to any other public utility. The Applicant is a wholly owned subsidiary of its parent holding company, NUI Corporation, which is a wholly owned subsidiary of AGL Resources Inc., a registered holding company under the Public Utility Holding Company Act of 1935, as amended.

11. **<u>Request for Expedited Disposition</u>**: The NJEDA and Brevard County require that each review and authorize this refinancing. Brevard County and the NJEDA meet only once per month and neither will act until such time as the Commission has authorized the transactions described herein. This requirement has the potential to cause significant delay in completion of the refinancing. Therefore, Petitioner respectfully requests that the Commission review this matter expeditiously.

WHEREFORE, Florida City Gas, a division of NUI Utilities, Inc., doing business in Florida respectfully requests that the Commission:

(a) consider this application on an expedited basis;

(b) publish notice of intent to grant the application pursuant to Section 366.04(1), Florida Statutes, as soon as possible;

(c) schedule this matter for agenda as early as possible;

(d) authorize NUI Utilities, Inc., to enter into the loan agreements on the terms and circumstances described in this application;

(e) grant such other relief as the Commission deems appropriate.

Respectfully submitted this 16 day of February, 2005.

HOPPING GREEN & SAMS, P.A.

By: ______________________
Gary V. Perko
P.O. Box 6526
Tallahassee, FL 32314
(850) 425-2359

Attorneys for NUI UTILITIES, INC., d/b/a
FLORIDA CITY GAS

EXHIBIT "A"

NUI UTILITIES, INC.
(A Subsidiary of NUI Corporation)

Financial Statements
As of and for the fiscal years ended
September 30, 2004 and 2003

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Two Commerce Square, Suite 1700
2001 Market Street
Philadelphia PA 19103-7042
Telephone (267) 330 3000
Facsimile (267) 330 3300

Report of Independent Auditors

To the Shareholders of NUI Utilities, Inc.:

In our opinion, the accompanying consolidated balance sheets and consolidated statements of capitalization and the related consolidated statements of income, of shareholder's equity and of cash flows present fairly, in all material respects, the financial position of NUI Utilities, Inc. (a wholly owned subsidiary of NUI Corporation) and its subsidiaries at September 30, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
January 28, 2005

NUI Utilities, Inc.
Consolidated Balance Sheets
(Dollars in thousands)

	September 30, 2004	September 30, 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 92,694	$ 8,592
Accounts receivable (less allowance for doubtful accounts of $2,282 in 2004 and $3,197 in 2003)	35,929	39,970
Due from NUI Corporation and affiliates	---	82,449
Fuel inventories, at average cost	49,572	45,382
Current portion of under-recovered purchased gas costs	---	25,398
Derivative assets	18,500	5,229
Prepayments and security deposits	56,185	12,632
	252,880	219,652
Property, Plant and Equipment		
Property, plant, and equipment, at original cost	870,984	836,666
Accumulated depreciation	(312,833)	(295,234)
Unamortized plant acquisition adjustments, net	15,636	16,705
	573,787	558,137
Other Assets		
Regulatory assets	56,220	57,040
Funds for construction held by trustee	---	2,058
Long-term derivative assets	934	---
Other assets	21,996	26,169
	79,150	85,267
	$905,817	$863,056
CAPITALIZATION AND LIABILITIES		
Current Liabilities		
Notes payable to banks	$225,000	$132,400
Current portion of capital lease obligations	1,738	2,092
Accounts payable and accrued liabilities	40,981	77,110
Customer deposits	13,697	12,748
Due to NUI Corporation and affiliates	7,709	---
Current portion of over-recovered purchased gas costs	5,148	---
State income and other taxes	3,801	3,329
Deferred income taxes	3,942	3,175
	302,016	230,854
Other Liabilities		
Capital lease obligations	8,103	8,982
Deferred income taxes	80,442	78,115
Unamortized investment tax credits	2,875	3,375
Environmental remediation liability	34,564	33,941
Other postretirement employee benefits	6,793	8,192
Regulatory liabilities	46,195	36,803
Other liabilities	7,777	4,752
	186,749	174,160
Commitments and Contingencies (See Note 11)		
Capitalization (See accompanying statement)		
Shareholder's equity	217,963	208,989
Long-term debt	199,089	249,053
	417,052	458,042
	$905,817	$863,056

See the notes to the consolidated financial statements

NUI Utilities, Inc.
Consolidated Statements of Capitalization
(Dollars in thousands)

	September 30, 2004	September 30, 2003
Long-Term Debt		
Gas Facilities Revenue Bonds		
6.35 percent due October 1, 2022	$ 46,500	$ 46,500
6.40 percent due October 1, 2024*	20,000	20,000
Variable rate due June 1, 2026	39,000	39,000
5.70 percent due June 1, 2032	54,600	54,600
5.25 percent due November 1, 2033	40,000	40,000
Medium-Term Notes		
8.35 percent due February 1, 2005	---	50,000
	200,100	250,100
Unamortized debt discount	(1,011)	(1,047)
	199,089	249,053
Shareholder's Equity		
Paid-in capital	112,131	112,131
Retained earnings	105,832	96,858
	217,963	208,989
Total Capitalization	$417,052	$458,042

* The total unexpended portion of the net proceeds from these bonds, amounting to $2.1 million as of September 30, 2003, is carried on the company's Consolidated Balance Sheet as Funds for Construction Held by Trustee, including interest earned thereon, until drawn upon for eligible construction expenditures. These amounts were drawn during fiscal year 2004.

See the notes to the consolidated financial statements.

NUI Utilities, Inc.
Consolidated Statements of Income
(Dollars in thousands)

	Years Ended September 30, 2004	2003
Operating Margins		
Operating revenues	$571,000	$615,563
Less- Purchased gas and fuel	355,553	407,866
Cost of sales and services, exclusive of depreciation	10,574	9,701
Energy taxes	13,964	12,914
	190,909	185,082
Other Operating Expenses		
Operations and maintenance	102,476	108,795
Regulatory settlement costs	---	28,000
Depreciation and amortization	32,916	31,119
Taxes, other than income taxes	7,381	5,230
	142,773	173,144
Operating Income	48,136	11,938
Other Income (Expense) and Interest Charges		
Other income, net	4,149	2,219
Interest expense	(23,045)	(17,804)
Loss on extinguishment of debt	(1,421)	---
Capitalized interest	252	465
	(20,065)	(15,120)
Income (Loss) from Continuing Operations before Income Taxes	28,071	(3,182)
Income tax expense (benefit)	11,041	(1,172)
Income (Loss) from Continuing Operations	17,030	(2,010)
Discontinued Operations		
Loss from discontinued operations	---	(755)
Income tax benefit	---	(302)
Loss from Discontinued Operations	---	(453)
Net Income (Loss)	$ 17,030	$ (2,463)

See the notes to the consolidated financial statements.

NUI Utilities, Inc.
Consolidated Statements of Shareholder's Equity
(Dollars in thousands)

	Paid-in Capital	Retained Earnings	Due from NUI Corp.	Total
Balance, September 30, 2002	$118,714	$151,414	$(61,386)	$208,742
Net loss	---	(2,463)	---	(2,463)
Return of investment to NUI Corporation	**(6,583)**	(6,013)	---	(12,596)
Dividends declared to NUI Corporation	---	(46,080)	---	(46,080)
Due from NUI Corporation	---	---	61,386	61,386
Balance, September 30, 2003	$112,131	$96,858	---	$208,989
Net income	---	17,030	---	17,030
Dividends declared to NUI Corporation	---	(8,056)	---	(8,056)
Balance, September 30, 2004	$112,131	$105,832	---	$217,963

See the notes to the consolidated financial statements.

NUI Utilities, Inc.
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Years Ended September 30, 2004	2003
Operating Activities		
Net income (loss)	$17,030	$ (2,463)
Less: Loss from discontinued operations, net of tax	---	(453)
Net income (loss) from continuing operations	17,030	(2,010)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	32,916	31,119
Regulatory settlement costs	---	28,000
Deferred income taxes	1,715	(15,438)
Amortization of deferred investment tax credits	(500)	(490)
Derivative assets	1,173	(5,412)
Effects of changes in:		
Accounts receivable, net	4,041	(2,284)
Fuel inventories	(4,190)	(22,858)
Accounts payable, customer deposits and accrued liabilities	(34,180)	5,656
Over/under-recovered purchased gas costs	16,230	1,125
Prepayments and security deposits	(43,554)	13,912
Regulatory assets and liabilities	9,757	20,549
State income and other taxes	1,851	(3,066)
Other	(31)	(2,823)
Net cash provided by continuing operations	2,258	45,980
Net cash provided by discontinued operations	---	528
Net cash provided by operating activities	2,258	46,508
Investing Activities		
Cash expenditures for property, plant and equipment	(40,190)	(36,157)
Proceeds from sales of subsidiaries	---	13,117
Other	(2,493)	(4,938)
Net cash used by continuing operations	(42,683)	(27,978)
Net cash provided by discontinued operations	---	13,138
Net cash used by investing activities	(42,683)	(14,840)
Financing Activities		
Net amount due to/from NUI Corporation and affiliates	90,158	(79,739)
Cash dividends paid to NUI Corporation	(8,056)	---
Payments of long-term debt	(50,000)	---
Funds for construction held by trustee, net	2,069	1,849
Principal payments under capital lease obligations	(2,244)	(2,291)
Net short-term debt borrowings	92,600	68,710
Net cash provided (used) by continuing operations	124,527	(11,471)
Net cash used by discontinued operations		(13,120)
Net cash provided (used) by financing activities	124,527	(24,591)
Net increase in cash and cash equivalents from continuing operations	84,102	6,531
Net increase in cash and cash equivalents from discontinued operations		546
Net increase in cash and cash equivalents	84,102	7,077
Cash and cash equivalents at beginning of fiscal year	8,592	1,515
Cash and cash equivalents at end of fiscal year	$92,694	$ 8,592
Supplemental Disclosures of Cash Flows		
State income taxes paid	$ 1,735	$ 1,942
Interest paid	$23,243	$17,683
New capital lease obligations incurred	$ 997	$ 587

See the notes to the consolidated financial statements.

NUI Utilities, Inc.
Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include all subsidiaries (i.e. operating divisions) of NUI Utilities, Inc. (collectively referred to as "NUI Utilities," the "company," "we," "our," or "us"). The company is a wholly owned subsidiary of NUI Corporation. Through its regulated gas utility operating divisions, the company is engaged in the sale and distribution of natural gas. During fiscal 2004, the company's utility operating divisions, comprised of Elizabethtown Gas Company (Elizabethtown Gas), City Gas Company of Florida, and Elkton Gas, served approximately 370,000 customers in three states along the eastern seaboard of the United States – New Jersey, Florida and Maryland, respectively. The company also operates businesses involved in the sale, installation and service of various gas appliances, serving residential and small commercial customers in New Jersey and Florida.

On November 30, 2004, AGL Resources Inc. (AGL) completed the acquisition of NUI Corporation for $13.70 per share of NUI Corporation common stock in cash and the assumption of NUI's debt at closing. As a result, AGL has acquired the operations of NUI Utilities, which will continue to be a wholly owned subsidiary of NUI Corporation, and NUI Corporation has become a wholly owned subsidiary of AGL. (See Note 13 for further information regarding the acquisition.) In addition, City Gas Company of Florida has been renamed Florida City Gas (City Gas).

The consolidated financial statements included herein for fiscal years 2004 and 2003 include the results of operations and financial position of NUI Service, Inc. (NUIS), a Florida plumbing business and wholly owned subsidiary of NUI Capital Corp. Although NUIS is not a subsidiary of the company, it is managed and operated together with the company's Florida appliance business; for this reason, the company has elected to consolidate NUIS' financial statements with those of the company.

As discussed in Note 3, the company sold its Valley Cities Gas and Waverly Gas utility operations in November 2002. The results of these operations have been included in Discontinued Operations in the Consolidated Statement of Income for the fiscal year ended September 30, 2003.

All intercompany accounts and transactions have been eliminated in consolidation.

Regulation. NUI Utilities, Inc. is subject to regulation as an operating utility by the public utility commissions of the states in which it operates.

Use of Estimates. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition.

<u>Natural Gas Distribution</u>: Utility gas customers are metered and billed monthly or bi-monthly on a cycle basis. Revenues include unbilled amounts related to the estimated gas usage that occurred from the most recent meter reading to the end of the relevant accounting period.

The cost of gas used is recovered when billed to firm sales customers through the operation of purchased gas adjustment clauses (PGA) included in utility tariffs. The PGA provision requires periodic reconciliation of recoverable gas costs and PGA revenues. Any difference is deferred pending recovery from or refund to firm customers. Further, revenues from tariff gas-balancing services, off-system sales and certain on-system interruptible sales are refunded, for the most part, to firm customers subject to certain sharing provisions.

Our New Jersey gas utility tariffs contain weather normalization adjustments that largely mitigate shortfalls or excesses of firm margin revenues during a heating season due to variations from normal weather. Revenues are adjusted each month the clause is in effect and amounts deferred are generally included in rates in the following fiscal year. The Florida and Maryland gas utility rate structures do not contain a weather normalization feature; therefore, their revenues are subject to weather related demand fluctuations.

<u>Appliance services</u>: Our appliance business revenues are recognized at the time repairs and installations are performed. Our New Jersey appliance business offers services contracts that cover the costs of repairs for covered

appliances. These contracts are deferred as unearned revenue at contract inception and are amortized into income ratably over the contract term of twelve months. Our appliance services subsidiary had unearned revenue recorded in Accounts Payable and Accrued Liabilities on the Consolidated Balance Sheet totaling $1.5 million as of September 30, 2004 and 2003 related to these contracts. In addition, our Florida appliance business provides leases of gas appliances. Lease revenues are recognized on a monthly basis as billed to customers according to the terms of the customer's contract.

Purchased Gas and Fuel Costs. Costs of purchased gas and fuel are recognized as expenses in accordance with the purchased gas adjustment clause applicable in each state. Such clauses provide for periodic reconciliations of actual recoverable gas costs and the estimated amounts that have been billed to customers. Under- or over-recoveries are deferred when they arise and are recovered from or refunded to customers in subsequent periods, subject to approval by the regulatory commission in each state.

Cash and Cash Equivalents. Cash equivalents consist of money market investments in securities with original maturities of three months or less.

The majority of the company's cash and cash equivalents are deposited in a bank account maintained by a major financial institution in the United States. These deposits generally may be withdrawn upon demand and, therefore, bear minimal credit risk.

Fuel Inventory. Our gas inventories are accounted for using the weighted average cost method.

Property, Plant and Equipment. Property, plant and equipment is comprised primarily of utility plant, and also includes non-regulated assets. Utility plant is stated at its original cost. Depreciation is provided on a straight-line basis over the remaining estimated lives of depreciable property by applying rates as approved by the state commissions. The composite average annual depreciation rate for the company's utility plant was 3.25 percent and 3.44 percent in fiscal years 2004 and 2003, respectively. At the time properties are retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation. Repairs of all utility plant and replacements and renewals of minor items of property are charged to maintenance expense as incurred.

Non-regulated property, plant and equipment is recorded at original cost and depreciated on a straight-line basis over a period ranging from five to 20 years. The net book value of non-regulated property, plant and equipment was $9.5 million and $10.3 million as of September 30, 2004 and 2003, respectively. The details of the September 30, 2004 balance are as follows (in thousands):

	Life	Cost	Accumulated Depreciation	Net Book Value
Water heaters, dryers and ranges	12 yrs.	$19,661	$10,780	$8,881
Leasehold improvements – structures	5-20 yrs.	290	99	191
Vehicles	5 yrs.	2,737	2,267	470
Total non-regulated property, plant and equipment		$22,688	$13,146	$9,542

Net unamortized plant acquisition adjustments relate primarily to City Gas and represent the remaining portion of the excess of the purchase price over the book value of utility net assets acquired when City Gas was purchased in 1988. The excess is being amortized on a straight-line basis over 30 years from the date of acquisition.

During August 2002, the company completed a sale/leaseback transaction for a capital lease that is collateralized by approximately $8.6 million of meters by its City Gas subsidiary.

Regulatory Assets and Liabilities. The company's utility operations follow the accounting for regulated enterprises prescribed by Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). In general, SFAS 71 requires deferral of certain costs and obligations, based upon orders received from regulators, to be recovered from or refunded to customers in future periods. The following represents the company's regulatory assets and liabilities deferred in the accompanying consolidated balance sheets as of September 30, 2004 and 2003 (in thousands):

	2004	2003
Regulatory Assets		
Environmental investigation and remediation costs	$34,736	$36,445
Other postretirement employee benefits	5,473	6,081
Under-recovered gas costs	---	6,117
Over-sharing of margins (non-firm customers)	5,204	---
Clean energy program costs	4,754	2,437
Costs associated with the retired Erie Street propane storage facility	1,559	2,051
Consumer education and customer assistance program costs	1,916	2,005
Electronic Data Interchange (EDI) costs	1,114	909
Deferred piping allowances	592	526
Other	872	469
	$56,220	$57,040

	2004	2003
Regulatory Liabilities		
Refunds to customers	$15,069	$21,000
Over-collection of income taxes	4,743	5,182
Utility hedging derivatives	20,760	5,382
Market development fund	2,232	2,152
Asset retirement obligations	1,435	1,366
Other	1,956	1,721
	$46,195	$36,803

These regulatory assets and liabilities are recoverable in rates by means of pass-through or cost-tracking mechanisms authorized by state regulators. In New Jersey, environmental costs associated with the investigation and remediation of the company's former manufactured gas plant (MGP) sites located in the state of New Jersey are recovered through a Remediation Adjustment Clause (see Note 11) and include the carrying costs on unrecovered amounts not currently in rates.

In the event that the provisions of SFAS 71 were no longer applicable, the company would recognize a write-off of net regulatory assets (regulatory assets less regulatory liabilities) that would result in a charge to net income, which would be classified as an extraordinary item. However, although the gas distribution industry is becoming increasingly competitive, the company's utility operations continue to recover their costs through cost-based rates established by the public utility commissions. As a result, the company believes that the accounting prescribed under SFAS 71 remains appropriate.

On March 20, 2003, the New Jersey Board of Public Utilities (NJBPU) announced the initiation of a focused audit of NUI Corporation, NUI Utilities and Elizabethtown Gas. The final audit report was issued on March 1, 2004 and was accepted and released by the NJBPU on March 17, 2004. As discussed in Note 11, the company entered into a settlement agreement with the NJBPU on April 14, 2004. In fiscal 2003, NUI Utilities recorded a pre-tax charge of $28.0 million as a regulatory liability to be refunded over a five-year period to customers in New Jersey and NUI Corporation recorded a pre-tax charge of $2.0 million as a penalty to be paid to the State of New Jersey to reflect the final settlement of the focused audit. In September 2004, NUI Utilities refunded the first installment of $7.0 million, plus accrued interest of approximately $0.9 million, as bill credits to customers. In addition, NUI Corporation made its first penalty payment of $0.4 million, plus interest of approximately $0.1 million, to the State of New Jersey in September 2004. In accordance with a settlement agreement with the NJBPU approving the acquisition of NUI by AGL, AGL has agreed to refund the outstanding $21.0 million to customers and submit the remaining $1.6 million of the penalty to the State of New Jersey within 60 days of the merger closing, which occurred on November 30, 2004. (See Note 13 for further information.)

The company has also established a pre-tax reserve of $2.9 million reflecting a refund settlement with the Florida Public Service Commission (FPSC) regarding certain transactions of NUI Energy Brokers, Inc. (NUI Energy Brokers), an affiliated company. (See Note 11 for further discussion.)

In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143). This statement establishes accounting standards for recognition and measurement of liabilities for asset retirement obligations and the associated asset retirement costs. On October 1, 2002, the company adopted the provisions of SFAS 143. On that date, the company had no quantifiable legal liabilities, as contemplated under SFAS 143, and therefore the effect of adoption did not result in an adjustment to the Consolidated Statements of Income. The company uses the composite depreciation method for its regulated utility operations, which is currently an acceptable method of accounting under generally accepted accounting principles and is widely used in the energy, transportation and telecommunications industries. Historically, under the composite depreciation method, the anticipated costs of removing assets upon retirement are provided for over the life of those assets as a component of depreciation expense. However, SFAS 143 precludes the recognition of expected future costs of removal as a component of depreciation expense unless they are legal obligations under SFAS 143. The company recovers certain asset retirement costs through rates charged to customers as an approved component of depreciation expense. As of October 1, 2002, the company identified $1.3 million of amounts of net cost of removal within accumulated depreciation and reclassified this amount to a regulatory liability. In accordance with SFAS 71, the company continues to accrue for the future cost of removal for its regulated utility operations. During fiscal 2004, the company accrued an additional $0.1 million of regulatory liabilities toward the cost of future removals.

Income Taxes. The company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the use of the liability method to account for deferred income taxes. Under this method, deferred income taxes related to tax and accounting basis differences are recognized at the statutory income tax rates in effect when the tax is expected to be paid.

Investment tax credits, which were generated principally in connection with additions to utility plant made prior to January 1, 1986, are being amortized over the estimated service lives of the properties that gave rise to the credits.

The company has deferred federal tax liabilities, which arise principally from the timing of depreciation and other utility plant differences, plant acquisition adjustments, over- and under-recovered gas costs, and pension and other employee benefits.

The company participates with NUI Corporation in the filing of a consolidated federal income tax return. Accordingly, amounts payable for federal income taxes are owed to NUI Corporation. The provisions for income taxes shown on the accompanying financial statements have been computed on a separate utility operating division basis.

Legal Costs Relating to Loss Contingencies. Legal costs relating to loss contingencies are expensed as they are incurred.

Environmental Remediation Liability. The company, with the aid of environmental consultants, regularly assesses the actions and associated costs that are and/or may be required to ensure compliance with environmental laws and regulations concerning the investigation and remediation of former MGP sites. The company records, on an undiscounted basis, a liability if it is probable that a liability will be incurred and the amount of the liability can be reasonably estimated. (See Note 11 for further discussion.)

New Accounting Standards. In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) and in December 2003, issued a revised FIN 46R. The objective of both FIN 46 and FIN 46R is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. Historically, entities generally were not consolidated unless the entity was controlled through voting interests. FIN 46 changes that, by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. A company that consolidates a variable interest entity is called the "primary beneficiary" of that entity. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements of FIN 46R apply to existing entities no later than the end of the first reporting period after March 15, 2004. Also, certain disclosure requirements apply to all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The company has not created or obtained any variable interest entities after January 31, 2003. Therefore, the adoption of the consolidation requirements of FIN 46R in March 2004 did not have an impact on the company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS 149). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). This statement is effective for contracts entered into or modified after June 30, 2003. The adoption of this statement had no impact on the company's net income or financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The standard requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of these instruments were previously classified as equity. The standard also revises the definition of liabilities to encompass certain obligations that an entity can or must settle by issuing its own shares, depending on the nature of the relationship established between the holder and the entity. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this statement had no impact on the company's net income or financial position.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosure about Pensions and Other Postretirement Benefits" (SFAS 132), which replaces the disclosure requirements in SFAS No. 87, "Employers' Accounting for Pensions;" SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits;" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pension." SFAS 132 (revised 2003) does not address measurement or recognition accounting for pension and postretirement benefits. SFAS 132 (revised 2003) retains the disclosures required in the original SFAS 132, but includes additional disclosures related to the description of plan assets, investment strategies, measurement date(s), plan obligations, cash flows and net periodic benefit cost recognized during interim periods of defined benefit pension and defined benefit postretirement plans. As required by SFAS 132 (revised 2003), the additional year-end disclosures are included in Note 9. The adoption of this statement had no impact on the company's net income or financial position.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act provides for prescription drug coverage under new Medicare Part D beginning in 2006, and includes a federal subsidy for sponsors of retiree health plans offering prescription drug coverage that is actuarially equivalent to the new Part D coverage. As permitted by FASB Staff Position 106-1 (FSP 106-1), NUI Corporation elected to defer adoption of the accounting effects of the Act until the FASB issued more authoritative guidance on the accounting for the federal subsidy. In May 2004, the FASB issued such guidance in FSP 106-2, which superseded FSP 106-1. NUI Corporation has concluded that enactment of the Act does not constitute a "significant event" and, as such, the effects of the Act have been incorporated in the September 30, 2004 measurement of postretirement healthcare plan assets and obligations and in the fourth quarter 2004 results of operations. As a result of the Act, NUI Corporation's accumulated postretirement benefit obligation as of September 30, 2004 was reduced by approximately $1.7 million and NUI Corporation's postretirement healthcare benefit cost will be reduced by approximately $230 thousand annually. A further discussion of the impact of this Act on net periodic retiree healthcare cost and the accumulated plan benefit obligation is provided in Note 9.

2. Due to/from NUI Corporation and Affiliated Companies

At September 30, 2004 and 2003, the company had a $7.7 million payable and a $82.4 million receivable, respectively, due to/from NUI Corporation and affiliated companies. In November 2003, NUI Corporation paid $85.5 million that was owed to NUI Utilities at that time utilizing the proceeds from NUI Corporation's credit facility. Since November 2003, intercompany balances between NUI Utilities and NUI Corporation and its affiliated companies have been repaid or settled on a monthly basis. These intercompany accounts are eliminated in the consolidated balance sheets of NUI Corporation.

During fiscal 2003, the company returned the remaining equity of its North Carolina Gas, Valley Cities Gas and Waverly Gas utility operating divisions to NUI Corporation, amounting to $12.6 million, which transactions represented a return of the undistributed earnings and invested capital in these operating divisions by NUI Corporation prior to the formation of NUI Utilities. These operating divisions were sold in late fiscal 2002 and early fiscal 2003 (see Note 3). As a result of these transactions, the equity of the company was reduced by $12.6 million in the Consolidated Balance Sheet as of September 30, 2003, with a corresponding reduction of the intercompany receivable from NUI Corporation.

3. Discontinued Operations

In 2002, the company adopted the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 requires that long-lived assets to be disposed of by sale be measured at the lower of their carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS 144 also expands the reporting of discontinued operations to include components of an entity that have been or will be disposed of rather than limiting such discontinuance to a segment of a business.

On October 5, 2000, the company agreed to sell the assets of its Valley Cities Gas and Waverly Gas utility operations to C&T Enterprises, Inc. of Pennsylvania for approximately $15 million. The transaction closed on November 7, 2002, after all regulatory approvals were obtained. In accordance with SFAS 144, the revenues, costs and expenses of Valley Cities Gas and Waverly Gas have been segregated and reported as discontinued operations in the Consolidated Statement of Income for fiscal 2003. Prior to its sale, Valley Cities Gas and Waverly Gas generated operating revenues of $0.6 million for the fiscal year ended September 30, 2003.

4. Capitalization

Long-Term Debt. At September 30, 2004 and 2003, the company's outstanding long-term debt was approximately $199.1 million and $249.1 million, respectively, which consisted of gas facilities revenue bonds and, in fiscal 2003, medium term notes.

On September 29, 2004, the company extinguished its $50 million 8.35 percent medium term notes due February 1, 2005 with the proceeds of its $50 million delayed draw term facility, which was available under its existing senior unsecured credit facility. As a result, the company recorded a loss on the early extinguishment of debt of approximately $1.4 million, which related primarily to the interest that the company would have paid to noteholders during the period of October 1, 2004 through February 1, 2005 on the medium term notes. The company deposited in trust with Wachovia Bank, N.A., the indenture trustee, an amount sufficient to pay when due all principal and interest on the medium term notes. The indenture trustee then cancelled the indenture governing the medium term notes at the company's request.

NUI Utilities is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued four series of gas facilities revenue bonds: (i) $46.5 million bonds at 6.35 percent due October 1, 2022, (ii) $39 million bonds at variable rates due June 1, 2026 (Variable Bonds), (iii) $54.6 million bonds at 5.70 percent due June 1, 2032 and (iv) $40 million bonds at 5.25 percent due November 1, 2033. NUI Utilities is also party to a loan agreement pursuant to which Brevard County, Florida (the County) has issued $20 million bonds at 6.40 percent due October 1, 2024. In accordance with the terms of these loan agreements, the funds received by the NJEDA or the County, as the case may be, upon the issuance of the applicable bonds have been loaned to NUI Utilities. The interest rates and maturity dates under the loan agreements parallel the interest rates and maturity dates under the bonds. Interest payments by NUI Utilities on the loans are used to pay the interest on the bonds. During fiscal 2004, the company paid $9.9 million in interest payments on these loans.

Approximately $2.1 million of interest earned on the original net proceeds from the $20 million 6.4 percent revenue bonds due 2024 was unexpended and accordingly had been classified as Funds for Construction Held by Trustee on the Consolidated Balance Sheet at September 30, 2003. These amounts were fully drawn upon during fiscal 2004.

The Variable Bonds contain a provision whereby the holder can "put" the bonds back to the issuer. In 1996, the company executed a long-term Standby Bond Purchase Agreement (SBPA) with a syndicate of banks, which was amended and restated on June 12, 2001. Under the terms of the SBPA, as further amended several times, The Bank of New York is obligated to purchase Variable Bonds that are tendered by the holders thereof and not remarketed by the remarketing agent, except in the circumstances specified in the SBPA, which are summarized as follows:

- the ratings assigned by Standard & Poor's (S&P) and Moody's Investors' Service (Moody's) to AMBAC Assurance Corporation (the Bond Insurer) are withdrawn, suspended or are reduced below BBB- and Baa3, respectively;
- the Bond Insurer becomes insolvent or an involuntary liquidation or reorganization case or other involuntary proceeding for relief under bankruptcy or similar law is commenced against the Bond Insurer;

- the Bond Insurer fails to make a required payment under the municipal bond insurance policy issued by the Bond Insurer with respect to the bonds (the Bond Insurance Policy);

- the Bond Insurer or any other person claims the Bond Insurance Policy is invalid or unenforceable and the Bond Insurer repudiates its obligations thereunder or fails to defend such validity or enforceability;

- a governmental authority or court rules that the Bond Insurance Policy is invalid or otherwise unenforceable; or

- the Bond Insurance Policy is surrendered, canceled or terminated, or amended or modified in any material respect without The Bank of New York's consent.

Such obligation of the Bank of New York would remain in effect until the expiration of the SBPA, unless extended or earlier terminated.

The terms of the SBPA also restrict the payment of dividends by NUI Utilities to NUI Corporation to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement recorded in September 2003. On May 19, 2004, NUI Utilities and The Bank of New York further amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities. In addition, pursuant to the terms of the amendment, and effective as of June 30, 2004, the expiration date of the SBPA was extended to June 29, 2005. On August 17, 2004, NUI Utilities and The Bank of New York further amended the SBPA to allow liens under the new NUI Utilities secured facility (discussed in Note 5).

If the SBPA is not further extended beyond June 29, 2005, in accordance with the terms of the Variable Bonds, all of the Variable Bonds would be subject to mandatory tender at a purchase price of 100 percent of the principal amount, plus accrued interest, to the date of tender. In such case, any Variable Bonds that are not remarketable by the remarketing agent will be purchased by The Bank of New York.

Beginning six months after the expiration or termination of the SBPA, any Variable Bonds still held by the bank must be redeemed or purchased by the company in ten equal, semi-annual installments. Since the company would not be required to begin redeeming bonds until, at the earliest, December 2005, the Variable Bonds are classified as long-term debt on the Consolidated Balance Sheets. In addition, while the SBPA is in effect, any tendered Variable Bonds that are purchased by the bank and not remarketed within one year must be redeemed or purchased by the company at such time, and every six months thereafter, in ten equal, semi-annual installments.

The delay in delivering certain officers' certificates, Securities and Exchange Commission (SEC) filings and quarterly financial information throughout fiscal year 2003, as well as audited fiscal 2003 financial statements and related documents (Required Documents), resulted in breaches under certain loan agreements, trust indentures, and related documents underlying NUI Utilities' gas revenue bond facilities, as well as under the 8.35 percent medium term notes.

Many of these breaches were cured on May 10, 2004 with the delivery of many of the Required Documents. The remaining breaches were cured by virtue of NUI Utilities' delivery of NUI Corporation's annual report dated September 30, 2003 on Form 10-K, related officers' certificates and other financial information.

In addition, defaults would have occurred under the company's 5.70 percent bonds if the company did not provide audited financial statements for NUI Utilities for the fiscal year ended September 30, 2003 (by no later than 120 days after the fiscal year end) and unaudited financial statements for NUI Utilities for the fiscal quarters ended December 31, 2003 and March 31, 2004 (by no later than 60 days after the fiscal quarter ends). However, the company obtained all necessary waivers and extended the respective deadlines for delivery of all information required pursuant to such bond facility to June 30, 2004. NUI Utilities was able to provide all of the required information by the extended deadline of June 30, 2004; therefore, no defaults ever occurred under the company's 5.70 percent bond facility.

The company has no long-term debt maturing in the next five fiscal years.

Dividend Restrictions under Long-Term Debt. The payment of cash dividends by NUI Utilities to NUI Corporation is restricted pursuant to the SBPA to an amount based, in part, on the earned surplus of NUI Utilities, which had been reduced by the NJBPU Settlement. On May 19, 2004, NUI Utilities and The Bank of New

York amended the SBPA. The amendment eliminates the effect of the NJBPU Settlement, as well as the estimated refunds to customers in Florida and certain other related costs, on the earned surplus of NUI Utilities. As of September 30, 2004, NUI Utilities was permitted to pay up to $33.6 million in dividends pursuant to the SBPA.

5. Notes Payable to Banks

Notes Payable to Banks. At September 30, 2004, the outstanding borrowings under the company's credit facilities were $225 million, at a weighted average interest rate of 6.9 percent. As of that date, the company had no unused borrowing capacity under its credit facilities. On November 30, 2004, AGL repaid all of the amounts outstanding under the company's credit facilities on behalf of NUI Utilities, and terminated those facilities. As a result, on November 30, 2004, NUI Utilities incurred $227.7 million in short-term indebtedness from AGL's Utility Money Pool, which was the amount of the outstanding principal, accrued and unpaid interest and expenses related to its credit facilities. (See Note 13 for further discussion.)

The weighted average daily amounts of borrowings outstanding under the company's previous and current credit facilities and the weighted average interest rates on those amounts were $103.3 million at 6.4 percent and $118.7 million at 2.7 percent for the fiscal years ended September 30, 2004 and 2003, respectively.

As of August 20, 2004, NUI Utilities entered into a $75 million senior secured credit facility, secured by the company's receivables and related proceeds, with a maturity date of May 15, 2005. The closing of the facility occurred on September 29, 2004. At September 30, 2004, NUI Utilities' accounts receivable amounted to $35.9 million. The company planned to use the proceeds from this new facility to meet its gas purchase prepayment requirements, to provide additional liquidity for working capital and general corporate purposes, and to facilitate a smooth closing and transition of operations to AGL upon consummation of the pending merger transaction. Borrowings under the $75 million credit facility accrued interest at a rate per annum, at the option of NUI Utilities, of either (i) the eurodollar rate (subject to a 2 percent floor) plus 4.75 percent or (ii) a base rate option (subject to a 3 percent floor) plus 3.75 percent. At September 30, 2004, the rate in effect was 6.75 percent, and the company had fully drawn the $75 million available under the credit facility.

On November 24, 2003, NUI Utilities entered into a 364-day credit agreement that provided for (i) a $50 million revolving credit facility, (ii) a $50 million term loan facility and (iii) a $50 million delayed draw term loan facility. As of August 20, 2004, NUI Utilities entered into an amendment to the credit agreement that extended the maturity until November 21, 2005. The proceeds from the revolving credit facility and the term loan facility combined with the proceeds from the repayment of an $85 million intercompany balance from NUI Corporation were used (1) to terminate and repay approximately $142 million of outstanding loans under NUI Utilities' previous credit agreement entered into on February 12, 2003, (2) to pay $0.5 million of accrued and unpaid fees under the company's interim credit agreement entered into on October 10, 2003 and (3) for general corporate purposes. The proceeds from the $50 million delayed draw term loan facility were used to extinguish the company's 8.35 percent medium term notes due February 2005, as further discussed in Note 4. NUI Utilities' credit agreement bore interest at a rate per annum, at the company's option, of either (i) the eurodollar rate (subject to a 2 percent floor) plus 5 percent, or (ii) the base rate (subject to a 3 percent floor) plus 4 percent. As of September 30, 2004, NUI Utilities was fully drawn under the $50 million revolver, the $50 million term loan facility, and the $50 million delayed draw term loan facility.

The company's 2003 and 2004 credit agreements contained various covenants that (i) restricted NUI Utilities from taking various actions and (ii) required NUI Utilities to achieve and maintain certain financial covenants, with compliance required by December 31, 2004. Under the terms of the 2003 credit agreement, amended as of August 20, 2004, the company was required to maintain a maximum ratio of consolidated indebtedness to total capitalization of no more than 0.70x and a minimum interest coverage ratio of at least 2.25x (for a rolling period of four consecutive fiscal quarters, commencing with the four consecutive quarters ended December 31, 2003). Additionally, the credit agreements contained limitations on capital expenditures, indebtedness, payment of dividends, guarantees, liens, mergers, acquisitions, dispositions of assets, transactions with affiliates, loans and investments, prepayment of indebtedness, sale-leaseback transactions, change in business activities and corporate activities.

The delay in delivering audited financial statements for fiscal 2003 resulted in events of default under the company's 2003 credit agreement. On January 26, 2004, NUI Utilities obtained waivers of such defaults from the lenders and received an extension of the delivery date for NUI Corporation's audited financial statements for fiscal 2003 and its 2004 first fiscal quarter unaudited financial statements through March 1, 2004, and amended the credit agreement to clarify certain technical provisions. Further delays in the delivery of these financial statements beyond the date to which the company had received waivers resulted in another event of default. On March 12, 2004, NUI Utilities received a further waiver of such defaults from the lenders and such lenders otherwise deferred their rights to exercise remedies in respect thereof. NUI Utilities subsequently entered into an amendment dated May 10, 2004 to their 2003 credit agreement which:

(i) extended the delivery date for the aforementioned financial statements (as well as for the financial statements for the fiscal quarter ended March 31, 2004) until June 15, 2004,

(ii) consented to the NJBPU Settlement (see Note 11 for further discussion of the Settlement Agreement with the NJBPU),

(iii) modified financial covenants contained in the credit agreements to take into account the NJBPU Settlement and the recent and expected future performance of the company,

(iv) permitted the acquisition by NUI Utilities of certain gas pipeline assets (see Note 11 for further information on the asset purchase),

(v) regarding the payment of dividends by NUI Utilities to NUI Corporation, provided for a $35 million limit on dividend payments and eliminated a provision limiting such dividend payments to the aggregate maximum of NUI Utilities' retained earnings,

(vi) increased the interest rate on NUI Utilities' delayed draw term loan (if drawn) by one percent until a purchase agreement is executed to sell NUI or NUI Utilities to an unaffiliated third party.

6. Leases

Property, plant and equipment held under capital leases amounted to $30.6 million at September 30, 2004 and $30.8 million at September 30, 2003, with related accumulated amortization of $20.8 million and $19.7 million, respectively. These properties consist principally of gas meters, vehicles and electronic data processing and telecommunications equipment.

A summary of future minimum payments for properties held under capital leases follows (in thousands):

2005	$2,173
2006	1,623
2007	1,403
2008	1,278
2009	1,089
Thereafter	4,245
Total future minimum payments	11,811
Amount representing interest	(1,970)
Current portion of capital lease obligations	(1,738)
Capital lease obligations	$8,103

The company has entered into non-cancelable operating leases for office space. The future minimum lease payments under these leases as of September 30, 2004 are as follows (in thousands):

2005	$3,630
2006	3,675
2007	3,539
2008	3,446
2009	3,443
Thereafter	48,454
Total	$66,187

Rents charged to operations expense were $5.9 million in fiscal 2004 and $5.2 million in fiscal 2003. In 2003 and 2004, the company leased office space from a related party (see Note 12 for further discussion). Certain of the company's office leases contain rent escalations. The company records rent expense on a straight-line basis over the life of these leases.

The company has entered into subleases for a portion of the office space noted above. Amounts received from subleases were $3.3 million in fiscal 2004 and $2.7 million in fiscal 2003. Total future non-cancelable sublease income from operating leases is $20.5 million.

In 2002, the company completed a sale/leaseback transaction related to gas meters at City Gas, which raised approximately $8.6 million. This transaction, which was recorded as a capital lease, bears interest at 4.98 percent and will be repaid over 11 years. Pursuant to the terms of the lease agreement, NUI Utilities (the lessee/seller) is required to insure the leased equipment during the lease term. In addition, at the expiration of the lease term, NUI Utilities has the option to purchase the leased meters from the lessor at their fair market value. The sale/leaseback transaction did not qualify for gain treatment.

7. Financial Instruments and Derivatives

The fair value of the company's cash equivalents, funds for construction held by trustee and notes payable to banks are approximately equivalent to their carrying value. The fair value of the company's long-term debt exceeded its carrying value by approximately $4.6 million as of September 30, 2004, whereas the fair value was less than the carrying value by approximately $9.7 million as of September 30, 2003. The fair value of long-term debt was estimated based on quoted market prices for the same or similar issues.

The company utilizes certain derivatives for non-trading purposes to hedge the impact of market fluctuations on assets, liabilities and other contractual commitments. NUI Utilities accounts for its hedging activities in accordance with the provisions of SFAS 133. SFAS 133 requires that all derivatives be recognized on the balance sheet at fair value with changes in the value of derivatives that are not hedges recorded in earnings.

Consistent with regulatory accounting treatment and pursuant to the provisions of SFAS 71, there is essentially no income statement impact or market risk related to NUI Utilities' gas procurement activities since all costs and related gain or loss amounts on hedging activities are passed through to customers under the company's purchased gas adjustment clauses. NUI Utilities marks the derivative instruments to market under SFAS 133, with a corresponding entry to a regulatory asset (loss) or regulatory liability (gain), as appropriate, on the consolidated balance sheet.

8. Income Taxes

The provision for Federal and state income taxes was comprised of the following (in thousands):

	2004	2003
Currently payable (receivable)-		
Federal	$ 5,747	$11,065
State	3,164	3,389
Deferred -		
Federal	2,129	(12,599)
State	501	(2,839)
Amortization of investment tax credits	(500)	(490)
Total provision (credit) for income taxes	$11,041	$(1,474)
Total income tax provision included in:		
Continuing operations	$11,041	$(1,172)
Discontinued operations	---	(302)
Total provision (credit) for income taxes	$11,041	$(1,474)

The components of the company's net deferred tax liability as of September 30, 2004 and 2003 are as follows (in thousands):

	2004	2003
Accelerated depreciation and other utility plant differences	$69,163	$67,500
Regulatory asset – environmental	11,740	12,799
Unrecovered gas costs	12,520	12,837
Pension and other employee benefits	5,138	6,825
Plant acquisition adjustments	5,442	6,966
Other	5,632	4,414
Total deferred tax liabilities	109,635	111,341
Environmental remediation liability	(10,755)	(10,755)
Regulatory settlement costs	(8,267)	(12,288)
Bad debts and insurance reserves	(2,377)	(2,175)
Other regulatory liabilities	(3,006)	(3,269)
Other	(846)	(1,564)
Total deferred tax assets	(25,251)	(30,051)
Net deferred tax liabilities	$84,384	$81,290

There are no Federal net operating loss carryforwards at September 30, 2004. The company has not recorded any tax valuation reserves associated with deferred tax assets because the company expects that it is more likely than not that these tax assets would be realized in future periods. With respect to continuing operations, the company has limited state net operating losses in certain jurisdictions.

The company's effective income tax rates differ from the statutory Federal income tax rates due to the following (in thousands):

	2004	2003
Pre-tax income (loss)	$28,071	$(3,937)
Federal income taxes computed at Federal statutory tax rate of 35 percent	9,825	(1,378)
Increase (reduction) resulting from:		
Excess of book over tax depreciation	---	146
Amortization of investment tax credits	(500)	(490)
Federal benefit of state tax provision	(1,280)	(192)
Other, net	(669)	(110)
Total provision (credit) for Federal income taxes	7,376	(2,024)
Provision for state income taxes	3,665	550
Total provision (credit) for income taxes	$11,041	$(1,474)

9. Retirement and Other Benefits

NUI Utilities participates in both qualified and supplemental (non-qualified) defined benefit retirement plans provided by NUI Corporation. A qualified plan meets the requirements of certain sections of the Internal Revenue Code and, generally, contributions to qualified plans are tax deductible. Qualified plans typically provide benefits to a broad group of employees and may not discriminate in favor of highly compensated employees in coverage, benefits or contributions.

NUI Retirement Plan. NUI Corporation has a qualified non-contributory defined benefit retirement plan that covers substantially all of NUI Utilities' employees, other than the City Gas union employees, who participate in a union-sponsored multi-employer plan. Pension benefits are based on the number of years of credited service and on final average compensation.

Following the merger with AGL on November 30, 2004, NUI employees continue to participate in the NUI Retirement Plan until January 1, 2006. At that time, the plan will be frozen for non-union employees of NUI who will then become participants in the AGL Retirement Plan.

Supplemental Retirement Plan (SERP). NUI Corporation has a non-qualified retirement plan for certain key employees. The SERP provides defined pension benefits outside the NUI Retirement Plan to eligible executives, based on number of years of service and final average compensation. Benefits payable under the SERP are reduced by amounts payable under the NUI retirement plans, discussed above. Prior to the November 30, 2004 merger with AGL (see Note 13), the SERP was an unfunded plan. However, as a result of change in control provisions within the SERP, NUI Corporation was required to fund the unfunded benefit obligation at 115 percent, or approximately $8.0 million, on the merger date.

Board of Directors Retirement Plan. NUI Corporation also had an unfunded non-qualified retirement plan for eligible members of its Board of Directors, including both active and retired members. To be eligible for retirement benefits under the plan, a director must have served as a director for at least ten years, with a minimum of five years of service as a non-employee of NUI Corporation or its subsidiaries. Eligible plan participants were required to be paid, upon retirement and the attainment of age 65, an annual retirement benefit for life equal to the value of the annual Board retainer in effect at the time of the director's retirement. In May 2002, the Board of Directors terminated the retirement plan for all non-employee directors who become Board members after that date.

The Board of Directors Retirement Plan also included change in control provisions. Pursuant to the plan, upon a change in control, eligible directors were entitled to receive a lump sum payment equal to the discounted present value of future annual retirement benefits. Upon completion of the merger on November 30, 2004, NUI Corporation paid approximately $2.0 million to eligible members of the Board of Directors.

Postretirement Benefits Other Than Pensions (Postretirement Healthcare Plans). Under an NUI Corporation plan, NUI Utilities provides certain medical and dental (healthcare) benefits to retirees, other than retirees of City Gas, depending on their age, years of service, and start date. The healthcare plans are contributory, and NUI Corporation accounts for these plans under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106), which, among other things, requires companies to accrue the expected cost of providing other postretirement benefits to employees and their eligible dependents during the years that eligible employees render the necessary service. NUI Corporation has funded a portion of these future benefits through a Voluntary Employees' Beneficiary Association. Effective July 1, 2000, NUI Corporation no longer offers postretirement benefits other than pensions for any new hires. In addition, NUI Corporation has capped its share of costs at $500 per participant, per month for retirees under age 65, and at $150 per participant, per month for retirees over age 65.

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was enacted, introducing a prescription drug benefit under Medicare as well as a subsidy to sponsors of retiree healthcare benefit plans. Due to the contribution cap for other postretirement benefits established by NUI Corporation, a significant portion of the plan population is unaffected by the Act; however, those retirees over age 65 on July 1, 2000 will be affected by the new prescription benefit. In coordinating benefits with Medicare, NUI Corporation has decided to be the secondary payer with regard to prescription drugs. As a result of the Act, NUI Corporation's accumulated postretirement benefit obligation as of September 30, 2004 was reduced by approximately $1.7 million, and NUI Corporation's postretirement benefit cost will be reduced by approximately $230 thousand annually. The impact on the fourth quarter of fiscal 2004 was a credit to NUI Corporation's income of $55 thousand.

The measurement of plan assets and obligations for all postretirement benefit plans is based on a measurement date of September 30.

Effective January 1, 2006, retirees of NUI who are eligible for postretirement medical benefits will become participants in the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc.

Net Periodic Benefit Cost. The components of annual expense of NUI Corporation's qualified pension and postretirement healthcare plans were as follows (in thousands):

	Qualified Pension Plan		Postretirement Healthcare Plans	
	2004	**2003**	**2004**	**2003**
Service cost	$4,851	$3,438	$332	$326
Interest cost	7,481	6,815	1,430	1,425
Expected return on plan assets	(8,339)	(8,270)	(183)	(463)
Prior service cost amortization	367	450	(154)	(102)
Actuarial loss recognized	2,392	1,643	357	157
Net periodic benefit expense	$6.752	$4.076	$1,782	$1,343
NUI Utilities' share of expense	$4,721	$2,367	$1,705	$1,310

NUI Corporation's expense for the SERP and the Board of Directors Retirement Plan (the non-qualified retirement plans) was approximately $0.7 million in fiscal 2004 and $0.9 million in fiscal 2003. NUI Utilities' share of this expense was $0.6 million and $0.8 million, respectively, for fiscal years 2004 and 2003.

The following table provides the weighted average actuarial assumptions used at September 30 to determine the projected benefit obligation and the net periodic benefit cost:

	2004	2003
Projected Benefit Obligation:		
Discount rate:		
Qualified and non-qualified pension plans	5.75%	6.0%
Postretirement healthcare plans	5.75%	6.0%
Rate of compensation increase:		
Qualified and non-qualified pension plans	4.0%	4.0%
Net Periodic Benefit Cost:		
Discount rate:		
Qualified and non-qualified pension plans	6.0%	6.75%
Postretirement healthcare plans	6.0%	6.75%
Expected return on plan assets:		
Qualified pension plan	8.5%	9.25%
Postretirement healthcare plans	2.0%	6.5%
Rate of compensation increase:		
Qualified and non-qualified pension plans	4.0%	4.0%

The actuarial assumptions used to determine net periodic benefit cost are established at the beginning of the fiscal year, and the assumptions used to determine benefit obligations are established at the end of the fiscal year.

The expected return on plan assets for the qualified pension plan is determined based on the market-related value of plan assets and the expected long-term rate of return on plan assets. The market-related value of assets is equal to the fair value of assets. The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plan investment portfolio. Projected rates of return were developed through an asset/liability study performed in 2003 by a consultant retained by the company. Assumed projected rates of return for each of the plan's projected asset classes were selected with the advice of the plan's actuary and asset consultant. The overall expected rate of return for the portfolio was developed based on the target asset allocation for each asset class.

The expected return on plan assets for the postretirement healthcare plans represents NUI Corporation's long-term assessment of return expectations and historical experience.

An average increase of 9.0 percent in the cost of postretirement healthcare benefits was assumed for 2004 and is projected to decrease over the next four years to 5.0 percent, and then remain at that level.

A one percentage-point increase in the healthcare trend rate assumption for postretirement benefits would increase NUI Corporation's accumulated postretirement benefit obligation by approximately $0.5 million and aggregate annual service and interest cost by approximately $31 thousand. A one percentage-point decrease in the healthcare trend rate would decrease the accumulated postretirement benefit obligation by approximately $0.5 million and the aggregate annual service and interest cost by approximately $29 thousand.

NUI Corporation continually evaluates alternative ways to manage these benefit plans and control their costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefit may have a significant effect on the amount of the reported obligation and expense.

Obligations and Funded Status. The following table presents an analysis of the changes in the 2004 and 2003 benefit obligation, the plan assets and the funded status for NUI Corporation's qualified pension plan and postretirement healthcare plans as of September 30, 2004 and 2003 (in thousands):

	Qualified Pension Plan		Postretirement Healthcare Plans	
	2004	2003	2004	2003
Benefit obligation at beginning of year	$123,313	$100,504	$24,925	$21,637
Service cost	4,851	3,438	331	326
Interest cost	7,481	6,815	1,457	1,425
Plan amendments	---	---	---	(563)
Actuarial loss (gain)	2,108	21,300	(625)	4,066
Benefits paid	(10,060)	(8,744)	(2,955)	(2,446)
Plan participants' contributions	---	---	261	480
Benefit obligation at end of year	$127,693	$123,313	$23,394	$24,925
Fair value of plan assets at beginning of year	$101,571	$92,366	$9,127	$7,123
Actual return on plan assets	10,867	14,649	93	112
Employer contributions	1,500	3,300	2,694	3,858
Plan participants' contributions	---	---	261	480
Benefits paid	(10,060)	(8,744)	(2,955)	(2,446)
Fair value of plan assets at end of year	$103,878	$101,571	$9,220	$9,127
NUI Utilities' share of employer contributions	$1,050	$2,310	$2,562	$2,164

For the qualified pension and postretirement healthcare plans, the amounts recognized and unrecognized in NUI Corporation's statements of financial position as of September 30, 2004 and 2003 were as follows (in thousands):

	Qualified Pension Plan		Postretirement Healthcare Plans	
	2004	2003	2004	2003
Funded status	$(23,815)	$(21,742)	$(14,174)	$(15,798)
Unrecognized net loss	45,108	47,920	8,441	9,307
Unrecognized prior service cost (credit)	1,309	1,676	(1,321)	(1,475)
Net asset/(liability) recorded on Consolidated Balance Sheets	$22,602	$27,854	$(7,054)	$(7,966)
NUI Utilities' share of net asset/(liability) recorded on Consolidated Balance Sheets	$15,919	$19,622	$(6,793)	$(8,192)

NUI Corporation's accumulated benefit obligation for the qualified pension plan was $101.9 million in 2004 and $98.5 million in 2003.

The SERP and Board of Directors Retirement plans were not funded by NUI Corporation as of September 30, 2004. Therefore, benefit payments related to these obligations were paid from ongoing operations.

The projected benefit obligation for NUI Corporation's non-qualified retirement plans was $7.9 million as of September 30, 2004 and $8.9 million as of September 30, 2003. There were unrecognized actuarial losses and prior service costs for these plans in the amount of $1.7 million in 2004 and $2.9 million in 2003. As a result, the net liability recognized in NUI Corporation's Consolidated Balance Sheets for these plans was $6.2 million at September 30, 2004 and $6.0 million at September 30, 2003.

The accumulated benefit obligation for NUI Corporation's non-qualified retirement plans was $7.7 million at September 30, 2004 and $8.4 million at September 30, 2003. A minimum pension liability adjustment is required when the accumulated benefit obligation exceeds the fair value of plan assets and accrued pension liabilities recognized in the balance sheet. For the SERP, NUI Corporation has recorded a minimum liability of $1.5 million and $2.4 million at September 30, 2004 and 2003, respectively, with an offset to Accumulated Other Comprehensive Income on the Consolidated Balance Sheets.

Plan Assets. The Board of Directors has appointed an NUI Corporation Investment Committee (the Committee), which has responsibility for managing the NUI Retirement Pension Trust in accordance with the Pension Plan Investment Policy (the Policy), the Trust and Plan documents, and applicable laws and regulations. The investment objectives of NUI Corporation include (a) ensuring that pension liabilities are met over time and (b) maximizing long-term investment return consistent with a reasonable level of risk. Trust assets are targeted to remain above the present value of benefits earned by plan participants as of the calculation date. To achieve these objectives, the plan assets are actively managed by investment managers, whose performance is measured by an independent investment consulting firm.

In developing strategic asset allocation guidelines for the trust, an emphasis is placed on the long-term characteristics of individual asset classes, and the benefits of diversification among multiple asset classes. Consideration is also given to the proper long-term level of risk for the plan, particularly with respect to the long-term nature of the plan's liability, the current actuarial status of the plan, and the impact of asset allocation on investment results and the corresponding impact on the volatility and magnitude of plan contributions and expense.

An asset/liability study is conducted periodically to determine an appropriate long-term asset allocation policy to achieve investment objectives. The Committee has approved the asset classes allowed for investment and adopted strategic mix targets. The NUI Retirement Plan's target asset allocation percentages, and the actual asset allocations at September 30, 2004 and 2003, are as follows:

	Target Allocation	Percentage of Plan Assets	
	2004	2004	2003
***Qualified Pension Plan*:**			
U.S. Equity	55%	51.7%	54.0%
Non U.S. Equity	15%	17.2%	15.6%
U.S Fixed Income	30%	29.1%	30.0%
Cash and Cash Equivalents	---	2.0%	0.4%
Total	100%	100.0%	100.0%

The plan assets of NUI Corporation's postretirement healthcare plans are invested in a temporary investment fund, which is invested in a variety of fixed income securities.

Cash Flows. NUI Corporation funds its qualified pension plan in accordance with the requirements of ERISA. At the present time, NUI Corporation has no plans to fund the qualified pension or postretirement healthcare plans in fiscal 2005. NUI Corporation makes contributions to the City Gas union-sponsored plan in accordance with its contractual obligations, which amount to approximately $100 thousand per year.

The following table presents expected benefit payments for NUI Corporation's qualified pension plan and postretirement healthcare plans (in thousands):

For the Year Ended September 30,	Qualified Pension Plan	Postretirement Healthcare Plans
2005	$7,204	$2,056
2006	$7,173	$2,057
2007	$7,398	$2,031
2008	$8,030	$1,870
2009	$8,493	$1,815
2010-2014	$58,895	$8,883

NUI Corporation's expected benefit payments for 2005 through 2009 for the non-qualified retirement plans are estimated to be $2.4 million, $0.5 million, $0.5 million, $0.5 million, and $0.5 million, respectively, and, for 2010 through 2014, are estimated to total $2.4 million.

NUI Corporation Employee Stock Purchase Plan (ESPP). Until July of 2004, eligible employees were allowed to purchase shares of NUI Corporation stock monthly at a price equal to 85 percent of the lower of fair market value on the first and last trading days of the month, up to a maximum of 10 percent of their annual compensation. This employee discount, which amounted to approximately $45 thousand and $117 thousand for NUI Utilities employees in fiscal 2004 and 2003, respectively, was charged to compensation expense. Effective July 2004, according to the terms of the Merger Agreement between NUI Corporation and AGL, employees are no longer permitted to buy NUI Corporation stock through the Employee Stock Purchase Plan.

NUI Corporation Savings and Investment Plans (401(k)). NUI Utilities' employees were eligible to participate in separate voluntary 401(k) savings plans maintained by NUI Corporation, which were designed to enhance existing retirement programs covering eligible employees. The plans allowed eligible employees who participated to make contributions up to specified limits, a portion of which were matched by the company at varying levels. Contributions were invested at the election of the employee in NUI Corporation common stock (NUI Stock Fund) or in various other investment funds. Company matching contributions charged to NUI Utilities' expense were approximately $1.0 million and $0.8 million for the fiscal years ended September 30, 2004 and 2003, respectively.

As a result of the merger between AGL and NUI Corporation, contributions to the NUI 401(k) plans have been suspended while AGL seeks approval from the Internal Revenue Service to terminate the NUI 401(k) plans. As of the merger date, all NUI employees who are either participating or are eligible to participate in the NUI 401(k) plans are eligible to participate in the AGL 401(k) plan.

10. Supplementary Income Statement Information

In the fiscal years ended September 30, 2004 and 2003, the company received and was billed for services and goods provided by affiliated companies that were wholly owned subsidiaries of NUI Corporation. Utility Business Services, Inc. (UBS) provided accounts receivable billing and customer payment processing services to the company. Operations and Applications Services (OAS) provided engineering services through April 1, 2004, at which time OAS subcontracted all of its existing services to a third party engineering firm. NUI Energy Brokers sold gas to NUI Utilities for its utility operations, procuring the gas purchased by Elizabethtown Gas through a competitive bid process as required by the NJBPU. However, in accordance with an NJBPU Order dated December 11, 2003, NUI Utilities terminated its gas procurement arrangement with NUI Energy Brokers. NUI Telecom, Inc. (NUI Telecom), which was sold by NUI Corporation in December 2003, provided land-line and mobile telephone services to the company. In fiscal 2003, NUI Corporation provided corporate and shared services to the company, including legal, treasury, accounting and payroll and accounts payable processing. As a result of a corporate reorganization in fiscal 2004, the majority of employees that provided these shared services were transferred to NUI Utilities. Amounts billed to the company are recorded in the appropriate expense account of the company, with an offset to intercompany payables. The cost of services, goods and allocated expenses from affiliated companies, was as follows (in thousands):

	2004	2003
Cost of services rendered by UBS	$ 3,433	$ 2,656
Cost of services rendered by OAS	440	1,158
Cost of services rendered by NUI Telecom	---	1,677
Cost of services rendered by NUI Corporation and allocated expenses	7,964	49,642
Sub-total	11,837	55,133
Cost of gas purchased from NUI Energy Brokers	5,097	26,235
Total	$16,934	$81,368
Amounts charged to operating income	$16,934	$79,099
Amounts charged to interest expense	$ ---	$ 2,269

11. Commitments and Contingencies

Settlement Agreement with the NJBPU. On March 20, 2003, the NJBPU announced the initiation of a focused audit of NUI Corporation, NUI Utilities, and Elizabethtown Gas. The NJBPU had expressed the belief that recent downgrades of the senior unsecured debt of NUI Corporation and NUI Utilities, as well as negative credit rating agency comments, and concerns raised during a recent competitive services audit, substantiated the need for an in-depth review of the financial practices of the company and its subsidiaries. On June 4, 2003, the NJBPU chose The Liberty Consulting Group to perform the audit. The focused audit covered the following areas: corporate governance; strategic planning; financial structure and interaction; accounting and property records; executive compensation and affiliate transactions. An interim audit report was released by the NJBPU on December 17, 2003, and the final audit report was issued on March 1, 2004 and was accepted and released by the NJBPU on March 17, 2004, at the NJBPU's public agenda meeting. Among other things, the report criticized NUI for: the energy management practices of its NUI Energy Brokers subsidiary on behalf of NUI Utilities, which became the subject of an independent investigation initiated by NUI Corporation's Board of Directors as well as a separate investigation by the New Jersey Attorney General's Office (for further information, see Investigations of NUI Energy Brokers below); its financing and cash pooling arrangements; the impact of unprofitable non-utility operations on NUI Utilities; the method used to allocate shared services costs among its business units; and the propriety of rates established in the 2002 Elizabethtown Gas base rate case. Responsive comments were filed on March 26, 2004 and a settlement was reached with the NJBPU on April 14, 2004. On April 26, 2004, the NJBPU issued a Final Order accepting and adopting the settlement agreement. In fiscal 2003, NUI Utilities recorded a pre-tax charge of $28.0 million as a regulatory liability to be refunded over a five-year period to customers in New Jersey and NUI Corporation recorded a pre-tax charge of $2.0 million as a penalty to be paid to the State of New Jersey to reflect the final settlement of the focused audit. In September 2004, NUI Utilities refunded the first installment of $7.0 million, plus accrued interest of approximately $0.9 million, as bill credits to customers. In addition, NUI Corporation made its first penalty payment of $0.4 million, plus interest of approximately $0.1 million, to the State of New Jersey in September 2004. In accordance with a settlement agreement with the NJBPU approving the acquisition of NUI by AGL, AGL has agreed to refund the outstanding $21.0 million to customers and submit the remaining $1.6 million of the penalty to the State of New Jersey within 60 days of the merger closing, which occurred on November 30, 2004. (See Note 13 for further information.)

As a result of a separate NJBPU Order dated December 11, 2003, NUI Utilities dissolved its relationship with NUI Energy Brokers. NUI Utilities has contracted with Cinergy Marketing and Trading, LP (Cinergy) to procure the gas supply requirements necessary to fulfill NUI Utilities' obligations for the period of April 1, 2004 through March 31, 2005. For further information, see Gas Procurement Contracts below.

NUI Energy Brokers Investigation in Florida. During the course of its PGA audit for 2003, City Gas advised the FPSC that an independent investigation of NUI Energy Brokers, an affiliated company that had procured gas for City Gas, had been performed, which concluded that City Gas had a liability to its ratepayers. The FPSC incorporated its own audit procedures on certain NUI Energy Brokers transactions as part of its annual PGA audit. As a result, the FPSC issued an order in December 2004 requiring the refund of $2.9 million, including interest, to City Gas' customers. The $2.9 million will be refunded as part of the PGA rate over the course of one year, beginning on January 1, 2005. In fiscal 2003, the company established a pre-tax reserve of $2.6 million; this reserve was increased by $0.3 million in fiscal 2004 to reflect the FPSC's final order.

Commitments. On July 22, 2004, NUI Utilities and Penn-Jersey Pipeline Company (Penn-Jersey) entered into an Asset Purchase Agreement (APA), pursuant to which NUI Utilities will purchase, among other things, the pipeline facilities of Penn-Jersey, subject to the satisfaction of certain conditions contained in the APA. The purchase price is $315,000 plus the depreciated cost of any necessary capital expenditures made by Penn-Jersey subsequent to January 31, 2003. Penn-Jersey is a small interstate natural gas pipeline that delivers natural gas from an interconnection with Columbia Gas Transmission Corp. in Pennsylvania to the company's distribution system in New Jersey.

Environmental Matters. The company owns, or previously owned, certain properties located in the states of New Jersey, North Carolina, South Carolina, Pennsylvania, New York and Maryland on which manufactured gas plants (MGP) were operated by the company or by other parties in the past. In New Jersey, the company is currently conducting remedial activities at such properties with oversight from the New Jersey Department of Environmental Protection and anticipates initiation of such activities in the state of North Carolina within the next five years. Although the actual total cost of future environmental investigation and remediation efforts cannot be reasonably estimated, the company has recorded on an undiscounted basis a total liability of approximately $34.6 million which the company believes represents the probable minimum amount the company may expend over the next 30 years. Of this liability, approximately $30.7 million relates to remediation of the New Jersey MGP properties and approximately $3.9 million relates to remediation of the MGP properties located outside the state of New Jersey.

The company's prudently incurred remediation costs for the New Jersey MGP properties have been authorized by the NJBPU to be recoverable in rates through its MGP Remediation Adjustment Clause. As a result, the company has recorded a regulatory asset of approximately $34.7 million, inclusive of interest, as of September 30, 2004, reflecting the future recovery of both incurred costs and future remediation liabilities in the state of New Jersey. The company has also been successful in recovering a portion of MGP remediation costs incurred in New Jersey from the company's insurance carriers and continues to pursue additional recovery. As further discussed in Note 3, the company sold the net assets of its Valley Cities Gas and Waverly Gas utility divisions in November 2002. Included in these asset sales were the environmental obligations for one of the company's MGP sites in Pennsylvania. With respect to costs associated with the MGP properties located outside New Jersey, the company is currently pursuing or intends to pursue recovery from ratepayers, former owners and operators, and/or insurance carriers. Although the company has been successful in recovering a portion of the remediation costs incurred outside of New Jersey from the company's insurance carriers, the company is not able to express a belief as to the success of additional recovery efforts. The company is working with the regulatory agencies to prudently manage its MGP costs so as to mitigate the impact of such costs on both ratepayers and shareholders.

Gas Procurement Contracts. Certain of the company's long-term contracts for the supply, storage and delivery of natural gas include fixed charges that amount to approximately $43.5 million for the next twelve-month period. The company currently recovers, and expects to continue to recover, the majority of such fixed charges through its purchased gas adjustment clauses. The company also is committed to purchase from a single supplier, at market-related prices, minimum quantities of gas that, in the aggregate, are approximately 2.1 billion cubic feet per year. In the event that the company does not purchase the minimum quantity in a given year, the company has until the next contract year to make up the difference or risk reduction in the contracted daily delivery quantity. The company expects that minimum demand on its systems for the duration of these contracts will continue to exceed these minimum purchase obligations.

As mentioned above, NUI Utilities has entered into an agreement with Cinergy to manage its interstate pipeline assets for the period of April 1, 2004 through March 31, 2005. Pursuant to this agreement, Cinergy serves as NUI Utilities' asset manager and provides the company with a full requirements gas supply service, enabling the company to meet its public utility obligations to supply gas to customers in New Jersey, Florida and Maryland. The gas supply is provided at market-based prices.

NUI Utilities has assigned to Cinergy or, in the case of non-assignable assets, granted Cinergy agency authority to control, the company's gas supply and deliverability assets, and Cinergy pays NUI Utilities a fixed amount for the right to act as the company's asset manager for the twelve months ended March 31, 2005. Prior to December 2004, the company's obligations under the Cinergy agreement, including all commodity and demand charges, were secured by a prepayment obligation due to the company's poor credit rating, which senior unsecured rating stood at B1 by Moody's since April 2004, and BB by S&P since November 2003. However, almost immediately following NUI's merger with AGL on November 30, 2004, Moody's and S&P upgraded NUI Utilities' senior unsecured credit rating to Baa1 and A-, respectively, with a negative rating outlook. As a result, pursuant to the agreement with Cinergy, the parties re-negotiated the agreement payment terms based on the improved credit rating of NUI Utilities, and AGL has provided a payment guarantee to Cinergy in lieu of NUI Utilities' prepayment obligation.

In addition, for the 2004 to 2005 heating season, NUI Utilities has entered into two contracts for winter peaking services, with Virginia Power Energy Marketing, Inc. and Conectiv Energy Supply, Inc. The agreements provide Elizabethtown Gas with incremental deliverability and supply to be used for 15 days during the period of November 1, 2004 through March 31, 2005.

Other.

Investigations of NUI Energy Brokers. On November 19, 2003, NUI Corporation announced that in connection with the focused audit of NUI Corporation, NUI Utilities and Elizabethtown Gas initiated by the NJBPU, certain questionable transactions within NUI Energy Brokers were identified. In connection with this matter, since November 2003, NUI Corporation, NUI Energy Brokers and Elizabethtown Gas have been the subjects of subpoenas issued by the New Jersey State Grand Jury. The Grand Jury was seeking diverse operational, structural, financial and personnel records relative to such entities together with documentation relating to the purchase and sale of gas on behalf of either NUI Energy Brokers or Elizabethtown Gas for the period of October 1, 1998 through the end of 2003. Documents in the latter category were also requested by the NJBPU.

On June 30, 2004, NUI Energy Brokers entered into a plea agreement (the Plea Agreement) with the New Jersey Attorney General's Office (NJAG) relating to these questionable transactions at NUI Energy Brokers. Pursuant to the Plea Agreement, NUI Energy Brokers paid a $500,000 fine, of which $200,000 was paid in fiscal 2004 and $300,000 was paid in December 2004. On June 30, 2004, NUI Corporation entered into a letter agreement with the NJAG, pursuant to which the company has agreed to develop, fund and operate certain community service programs. The Plea Agreement and letter agreement concluded the investigation by the NJAG of NUI Corporation and its subsidiaries with respect to these matters.

In November 2003, the SEC advised NUI Corporation that it was conducting an informal inquiry with respect to the investigation of NUI Energy Brokers by the NJAG. On March 1, 2004, the SEC requested that NUI Corporation voluntarily produce certain documents in furtherance of its informal inquiry. NUI Corporation is fully cooperating with the SEC. At this point, NUI Corporation cannot predict whether or not the SEC will initiate a formal investigation into this matter.

The company is involved in various claims and litigation incidental to its business. In the opinion of management, none of these claims and litigation will have a material adverse effect on the company's results of operations or its financial condition.

12. Related Party Transactions

The company is party to a lease agreement with Liberty Hall Joint Venture for the occupancy of a 200,000 square foot office building in Union, New Jersey. The Joint Venture participants are Cali Liberty Hall Associates (a New Jersey general partnership) and Enjay Realty, LLC (Enjay). John Kean, a retired member of the Board of Directors of NUI Corporation and NUI Utilities, is the majority owner of Enjay. All negotiations relative to the lease were conducted between the company and Cali Liberty Hall Associates. In accordance with the lease, the annual base rent was approximately $3.2 million for each of the fiscal years ended September 30, 2004 and 2003. The lease provides for annual base rents of approximately $3.2 million in 2005, $3.4 million from 2006 through 2010, $3.6 million from 2011 through 2015, $3.9 million from 2016 through 2020, and $4.2 million from 2021 through 2022.

13. Subsequent Events

On November 30, 2004, AGL merged with NUI Corporation, whereby NUI Corporation became a wholly owned subsidiary of AGL. Pursuant to the Merger Agreement, AGL acquired all the outstanding shares of NUI Corporation for $13.70 per share in cash, or approximately $218 million, and assumed the outstanding debt of NUI Corporation and its subsidiaries at closing. At closing, NUI Corporation and its subsidiaries had $700 million in debt and approximately $105 million of cash on their balance sheet, bringing the net value of the merger to approximately $813 million.

Upon the change of control of NUI Corporation, certain contractual and regulatory requirements were triggered.

With respect to NUI Utilities' short-term debt, upon completion of the merger and in accordance with the various credit agreements, the $225 million outstanding under these credit agreements was repaid on November 30, 2004 by AGL. These credit agreements consisted of the company's $50 million revolving credit facility, $50 million term loan facility, $50 million delayed draw term loan facility and $75 million senior secured facility. These short-term credit agreements were terminated concurrent with their repayment by AGL.

With respect to the SERP and the NUI Corporation Board of Directors Retirement Plan, upon completion of the merger, NUI Corporation made funding and benefit payments as required by these plans. (See Note 9 for details on these payments.)

In its order approving the merger, the NJBPU approved:

- An accelerated payment of the $21 million in customer refunds outstanding from the $28 million in refunds ordered by the NJBPU and the related $1.6 million in penalties to the State of New Jersey (see Note 11),
- A base rate freeze for Elizabethtown Gas for a five-year period, with customers participating in any over-earnings in the fourth and fifth years,
- A severance enhancement of approximately $9 million for New Jersey-based employees, and

- A three-year asset-management agreement between Elizabethtown Gas and Sequent Energy Management, a wholly owned subsidiary of AGL, commencing on April 1, 2005, after the current contract with Cinergy expires.

In anticipation of the company being sold, NUI Corporation created an incentive plan designed to retain key personnel through the acquisition date. No liability was recorded as of September 30, 2004 since the payment of retention costs was dependent upon the successful sale of the company. These retention amounts are payable to NUI employees at certain dates within sixty days following the closing date of the sale (pursuant to individual employment agreements). In addition, NUI Corporation established a discretionary severance plan for non-bargaining employees, and certain officers and directors have change in control agreements. The amount of severance that is payable upon the occurrence of certain events is defined within these agreements. Generally, severance and change in control payments are expensed when the employee is given notice of his/her termination date.

EXHIBIT “B”

AGL Resources

SUMMARY OF PROPOSED TERMS AND CONDITIONS FOR $20,000,000 BREVARD COUNTY (FL) INDUSTRIAL DEVELOPMENT AUTHORITY TAX-EXEMPT AUCTION RATE SECURITIES (ARS) FOR AGL RESOURCES/NUI UTILITIES

SunTrust Capital Markets ("STCM") and Morgan Stanley are pleased to offer you the following terms and conditions for discussion of a tax-exempt auction rate financing for AGL Resources/NUI Utilities (the "Borrower"). The proposed new money Series 2005 issuance will facilitate the refunding of the Series 1994 Brevard County (FL) Industrial Development Authority Bonds. These materials are a proposal and are not a commitment to provide financing. Our commitment is subject to our normal credit review process. We look forward to working with you on this project.

PAR AMOUNT:	$20,000,000
DENOMINATIONS:	$25,000
ISSUER:	Brevard County (FL) Industrial Development Authority
INTEREST RATE:	35-day Auction Rate set every fifth Tuesday commencing on the first Tuesday following the closing date. Auction Rate means, with respect to the interest rate on ARS, the rate of interest per annum that results from implementation of the Auction Procedures (see attached) and determined as described in the Auction Procedures; provided, however, that the Auction Rate will not exceed the Maximum Rate. Interest on ARS will be computed on the basis of a 360-day year for the actual number of days elapsed.
RATINGS:	Moody's – Aaa Insured Standard & Poor's – AAA Insured
INSURANCE:	TBD
LIQUIDITY:	None, there is no liquidity facility at the end of the auction period
DATED DATE:	Date of issuance
SETTLEMENT:	Date of delivery
CALL FEATURES:	Par call at option of borrower on any Interest Payment Date

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MATURITY:	The later of (1) the original maturity date for the existing indebtedness or (2) a maturity date that reflects the useful life of the assets financed by the existing indebtedness.
OPTIONAL SALE ON AUCTION:	Bondholders may resell bonds back for repurchase on any Auction Date provided there are sufficient bids to clear each auction.
AUCTION PERIOD:	A 35 day period, beginning on a day and ending on the same day of the 5th following week (unless such day is not a business day, in which case ending on and including the next succeeding business day).
AUCTION DATE:	The business day next preceding the first day of each Auction Period.
INTEREST PAYMENTS:	Each business day immediately following each Auction Period as set forth below (based on an Actual/360 day basis): Payments are due every fifth Wednesday commencing on the first Wednesday following the closing date.
BORROWER:	NUI Utilities
PROJECT:	The Series 2005 bond proceeds will be used to currently refund the Brevard County (FL) Industrial Development Authority's $20,000,000 Series 1994 issue.
BROKER-DEALER	SunTrust Capital Markets, Inc./Morgan Stanley
BROKER-DEALER FEE:	.25%
AUCTION AGENT:	The Bank of New York
AUCTION AGENT FEE:	.01%

DESCRIPTION OF AUCTION

Participants in each Auction will include: (i) "Existing Holders", which will mean any Person who is listed as the ARS Beneficial Owner in the Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction, and (ii) "Potential Holders", which will mean any Person, including any Existing Holder, who may be interested in acquiring ARS (or, in the case of an Existing Holder, an additional principal amount of ARS).

While the ownership of the ARS is maintained in book-entry form, an Existing Holder may sell, transfer or otherwise dispose of ARS only pursuant to a Bid or Sell Order placed in an Auction or through the Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, the Broker-Dealer or its Participant advises the Auction Agent of such transfer. Subject to the provisions of the Indenture, Auctions will be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner.

Prior to the Submission Deadline: (a) each Existing Holder of ARS may submit to the Broker-Dealer by telephone or otherwise an Order, consisting of information as to: (i) the principal amount of outstanding ARS, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding ARS Interest Period (a "Hold Order"); (ii) the principal amount of outstanding ARS, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding ARS Interest Period will be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of outstanding ARS, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding ARS Interest Period (a "Sell Order"); and (b) the Broker-Dealer may contact Potential Holders to determine the principal amount of ARS which each Potential Holder offers to purchase if the Auction Rate for the next succeeding ARS Interest Period will not be less than the rate per annum specified by such Potential Holder (also a "Bid").

Determination of Sufficient Clearing Bids and Winning Bid Rate

Not earlier than the submission deadline on each Auction Date, the Auction Agent will assemble all Submitted Orders and will determine:

(a) the excess of the total principal amount of outstanding ARS over the sum of the aggregate principal amount of outstanding ARS subject to Submitted Hold Orders (such excess being referred to as the "Available Series ARS"); and

(b) from the Submitted Orders whether the aggregate principal amount of outstanding ARS subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the ARS Maximum Rate exceeds or is equal to the sum of (i) the aggregate principal amount of outstanding ARS subject to Submitted Bids by Existing Holders specifying one or more rates higher than the ARS Maximum Rate and (ii) the aggregate principal amount of outstanding ARS subject to Submitted Sell Orders (in the event such excess or such equality exists, other than because all of the outstanding ARS are subject to Submitted Hold Orders, such Submitted Bids by

Potential Holders described above will be referred to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which will be the "Winning Bid Rate"), such that if:

(i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of ARS subject to such Submitted Bids); and

(ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying such lower rates were accepted, the result would be that such Existing Holders described in subparagraph (c)(i) above would continue to hold an aggregate principal amount of outstanding ARS, which, when added to the aggregate principal amount of outstanding ARS to be purchased by such Potential Holders described in subparagraph (c)(ii) above, would equal not less than the Available Series ARS.

Notice of Applicable ARS Rate

Promptly after the Auction Agent has made the determinations described above, the Auction Agent will advise the Broker-Dealer and the Trustee of the ARS Maximum Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding ARS Interest Period as follows: (a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding ARS Interest Period will equal the Winning Bid Rate; (b) if Sufficient Clearing Bids do not exist (other than because all of the outstanding ARS are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding ARS Interest Period will equal the ARS Maximum Rate; or (c) if all outstanding ARS are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding ARS Interest Period will equal the All-Hold Rate.

Insufficient Clearing Bids. If Sufficient Clearing Bids have not been made (other than because all of the outstanding ARS are subject to Submitted Hold Orders), subject to the denomination requirements described below, Submitted Orders will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the ARS Maximum Rate will be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of ARS subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the ARS Maximum Rate will be accepted, and specifying any rate that is higher than the ARS Maximum Rate will be rejected; and

each Existing Holder's Submitted Bid specifying any rate that is higher than the ARS Maximum Rate and the Submitted Sell Order of each Existing Holder will be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the ARS subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARS obtained by multiplying the aggregate principal amount of ARS subject to Submitted Bids described in subparagraph (b) above which are accepted by a fraction, the numerator of which will be the aggregate principal amount of outstanding ARS held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which will be the aggregate principal amount of outstanding ARS subject to all such Submitted Bids and Submitted Sell Orders.

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SUMMARY OF PROPOSED TERMS AND CONDITIONS FOR $46,500,000 NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY REVENUE BONDS TAX-EXEMPT AUCTION RATE SECURITIES (ARS) FOR AGL RESOURCES/NUI UTILITIES

SunTrust Capital Markets ("STCM") and Morgan Stanley are pleased to offer you the following terms and conditions for discussion of a tax-exempt auction rate financing for AGL Resources/NUI Utilities (the "Borrower"). The proposed new money Series 2005 issuance will facilitate the refunding of the Series 1994 New Jersey Economic Development Authority Bonds. These materials are a proposal and are not a commitment to provide financing. Our commitment is subject to our normal credit review process. We look forward to working with you on this project.

PAR AMOUNT:	$46,500,000
DENOMINATIONS:	$25,000
ISSUER:	New Jersey Economic Development Authority
INTEREST RATE:	35-day Auction Rate set every fifth Tuesday commencing on the first Tuesday following the closing date. Auction Rate means, with respect to the interest rate on ARS, the rate of interest per annum that results from implementation of the Auction Procedures (see attached) and determined as described in the Auction Procedures; provided, however, that the Auction Rate will not exceed the Maximum Rate. Interest on ARS will be computed on the basis of a 360-day year for the actual number of days elapsed.
RATINGS:	Moody's – Aaa Insured Standard & Poor's – AAA Insured
INSURANCE:	TBD
LIQUIDITY:	None, there is no liquidity facility at the end of the auction period
DATED DATE:	Date of issuance
SETTLEMENT:	Date of delivery
CALL FEATURES:	Par call at option of borrower on any Interest Payment Date

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MATURITY:	The later of (1) the original maturity date for the existing indebtedness or (2) a maturity date that reflects the useful life of the assets financed by the existing indebtedness.
OPTIONAL SALE IN AUCTION:	Bondholders may resell bonds back for repurchase on any Auction Date provided there are sufficient bids to clear each auction.
AUCTION PERIOD:	A 35 day period, beginning on a day and ending on the same day of the 5th following week (unless such day is not a business day, in which case ending on and including the next succeeding business day).
AUCTION DATE:	The business day next preceding the first day of each Auction Period.
INTEREST PAYMENTS:	Each business day immediately following each Auction Period as set forth below: Payments are due every fifth Wednesday commencing on the first Wednesday following the closing date.
BORROWER:	NUI Utilities
PROJECT:	The Series 2005 bond proceeds will be used to currently refund the New Jersey Economic Development Authority's $46,500,000 Series 1994 issue.
BROKER-DEALER	SunTrust Capital Markets, Inc./ Morgan Stanley
BROKER-DEALER FEE:	.25%
AUCTION AGENT:	The Bank of New York
AUCTION AGENT FEE:	.01%

DESCRIPTION OF AUCTION

Participants in each Auction will include: (i) "Existing Holders", which will mean any Person who is listed as the ARS Beneficial Owner in the Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction, and (ii) "Potential Holders", which will mean any Person, including any Existing Holder, who may be interested in acquiring ARS (or, in the case of an Existing Holder, an additional principal amount of ARS).

While the ownership of the ARS is maintained in book-entry form, an Existing Holder may sell, transfer or otherwise dispose of ARS only pursuant to a Bid or Sell Order placed in an Auction or through the Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, the Broker-Dealer or its Participant advises the Auction Agent of such transfer. Subject to the provisions of the Indenture, Auctions will be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner.

Prior to the Submission Deadline: (a) each Existing Holder of ARS may submit to the Broker-Dealer by telephone or otherwise an Order, consisting of information as to: (i) the principal amount of outstanding ARS, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding ARS Interest Period (a "Hold Order"); (ii) the principal amount of outstanding ARS, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding ARS Interest Period will be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of outstanding ARS, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding ARS Interest Period (a "Sell Order"); and (b) the Broker-Dealer may contact Potential Holders to determine the principal amount of ARS which each Potential Holder offers to purchase if the Auction Rate for the next succeeding ARS Interest Period will not be less than the rate per annum specified by such Potential Holder (also a "Bid").

Determination of Sufficient Clearing Bids and Winning Bid Rate

Not earlier than the submission deadline on each Auction Date, the Auction Agent will assemble all Submitted Orders and will determine:

(a) the excess of the total principal amount of outstanding ARS over the sum of the aggregate principal amount of outstanding ARS subject to Submitted Hold Orders (such excess being referred to as the "Available Series ARS"); and

(b) from the Submitted Orders whether the aggregate principal amount of outstanding ARS subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the ARS Maximum Rate exceeds or is equal to the sum of (i) the aggregate principal amount of outstanding ARS subject to Submitted Bids by Existing Holders specifying one or more rates higher than the ARS Maximum Rate and (ii) the aggregate principal amount of outstanding ARS subject to Submitted Sell Orders (in the event such excess or such equality exists, other than because all of the outstanding ARS are subject to Submitted Hold Orders, such Submitted Bids by Potential Holders described above will be referred to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (which will be the "Winning Bid Rate"), such that if:

(i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of ARS subject to such Submitted Bids); and

(ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying such lower rates were accepted, the result would be that such Existing Holders described in subparagraph (c)(i) above would continue to hold an aggregate principal amount of outstanding ARS, which, when added to the aggregate principal amount of outstanding ARS to be purchased by such Potential Holders described in subparagraph (c)(ii) above, would equal not less than the Available Series ARS.

Notice of Applicable ARS Rate

Promptly after the Auction Agent has made the determinations described above, the Auction Agent will advise the Broker-Dealer and the Trustee of the ARS Maximum Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding ARS Interest Period as follows: (a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding ARS Interest Period will equal the Winning Bid Rate; (b) if Sufficient Clearing Bids do not exist (other than because all of the outstanding ARS are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding ARS Interest Period will equal the ARS Maximum Rate; or (c) if all outstanding ARS are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding ARS Interest Period will equal the All-Hold Rate.

Insufficient Clearing Bids. If Sufficient Clearing Bids have not been made (other than because all of the outstanding ARS are subject to Submitted Hold Orders), subject to the denomination requirements described below, Submitted Orders will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the ARS Maximum Rate will be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of ARS subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the ARS Maximum Rate will be accepted, and specifying any rate that is higher than the ARS Maximum Rate will be rejected; and

(c) each Existing Holder's Submitted Bid specifying any rate that is higher than the ARS Maximum Rate and the Submitted Sell Order of each Existing Holder will be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the ARS subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of ARS obtained by multiplying the aggregate principal amount of ARS subject to Submitted Bids described in subparagraph (b) above which are accepted by a fraction, the numerator of which will be the aggregate principal amount of outstanding ARS held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which will be the aggregate principal amount of outstanding ARS subject to all such Submitted Bids and Submitted Sell Orders.