ORIGINAL

060657-GU

Akerman Senterfitt
ATTORNEYS AT LAW

Fort Lauderdale
Jacksonville
Los Angeles
Madison
Miami
New York
Orlando
Tallahassee
Tampa
Tysons Corner
Washington, DC
West Palm Beach

Suite 1200
106 East College Avenue
Tallahassee, FL 32301

www.akerman.com

850 224 9634 *tel* 850 222 0103 *fax*

October 3, 2006

RECEIVED-FPSC
06 OCT -3 PM 2:57
COMMISSION CLERK

VIA HAND DELIVERY

Blanca S. Bayó, Director
Division of Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: **Petition of Florida City Gas for Approval of an Acquisition Adjustment and Recognition of a Regulatory Asset**

Dear Ms. Bayó:

Enclosed for filing, please find an original and 15 copies of the Petition of Florida City Gas for Approval of an Acquisition Adjustment and Recognition of a Regulatory Asset.

Your assistance in this matter is greatly appreciated.

Sincerely,

Beth Keating

Beth Keating
AKERMAN SENTERFITT
106 East College Avenue, Suite 1200
Tallahassee, FL 32302-1877
Phone: (850) 224-9634
Fax: (850) 222-0103

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

{TL106656;1}Enclosures

DOCUMENT NUMBER-DATE
09134 OCT-3 8
FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida City Gas) for Approval of an Acquisition) Adjustment and Recognition of a) Regulatory Asset)	**Docket No.** 060657-GU **Date Filed: October 3, 2006**

PETITION FOR APPROVAL OF ACQUISITION ADJUSTMENT AND RECOGNITION OF REGULATORY ASSET

Florida City Gas ("Petitioner," "FCG," or "the Company"), by and through its undersigned counsel requests that the Florida Public Service Commission approve the accounting recognition of a positive acquisition adjustment to reflect the purchase of FCG by AGL Resources Inc., pursuant to Section 366.076, Florida Statutes. Florida City Gas is a division of Pivotal Utility Holdings, Inc., which became a wholly-owned subsidiary of AGL Resources Inc. (AGLR) when AGLR merged with NUI Corporation on November 30, 2004. In addition, FCG is requesting regulatory asset treatment for the outstanding amount of the former NUI pension plan allocated to FCG. By this Petition, FCG is not, however, requesting any rate adjustment at this time.

As the basis for this request, the Petitioner would show:

1. The exact name and address of the principal business office of the Petitioner is as follows:

Florida City Gas
955 East 25th Street
Hialeah, Florida 33013-3498

2. Notices and communications with respect to this petition and docket should be

addressed to:

Beth Keating
Akerman Senterfitt
106 East College Avenue,
Suite 1200
P.O. Box 1877
(32302-1877)
Tallahassee, Florida
32301

CharlesRawson
Florida City Gas
4180 U.S. Highway 1
Rockledge, Florida 32955

Elizabeth Wade
AGL Resources Inc.
Ten Peachtree Place
Atlanta, Georgia 30309

3. The Petitioner is a regulated natural gas utility company providing natural gas distribution and transportation services as defined in Section 366.02, Florida Statutes. Petitioner sells and transports natural gas in Dade, Broward, Brevard, Indian River, Palm Beach, and St. Lucie Counties. FCG (formerly known as City Gas Company of Florida) was incorporated on April 2, 1949, as a propane dealer with headquarters in Hialeah, Florida. In the late 1950's, City Gas began acquiring LP gas companies in South Florida, and in 1960, converted its existing underground pipeline systems to natural gas upon gaining access to the Florida Gas Transmission Company's interstate pipeline. Upon doing so, City Gas became regulated by the Florida Public Service Commission. City Gas stock has been publicly traded on the American Stock Exchange since 1964, and in 1988, NUI Corporation acquired all outstanding shares of City Gas common stock. Thereafter, City Gas was merged into Elizabethtown Gas Company, the principal operating subsidiary of NUI Utilities, operating as a separate division of that subsidiary corporation. In November 2004, AGL Resources Inc. acquired all of the outstanding common stock of NUI Corporation.

4. AGLR was formed in 1996 as a Georgia holding company for the purpose of holding Atlanta Gas Light Company, Chattanooga Gas Company, and various other energy-related subsidiary and affiliate companies. In 2000, AGLR became a registered Pubic Utility

Holding Company under the Federal Public Utility Holding Company Act of 1935 ({PUHCA)[1]. The company is regulated by the Federal Energy Regulatory Commission, the U.S. Department of Transportation, and the state utility commissions of Florida, Georgia, Maryland, New Jersey, Tennessee, and Virginia. AGLR has an equity market capitalization of approximately $2.8 billion as of September 12, 2006, is traded on the New York Stock Exchange, and has an investment grade bond rating.

5. By this Petition, FCG requests that the Commission approve a positive acquisition adjustment of $25,287,876, to be amortized over a period of 30 years. In the past, this Commission has generally considered five (5) factors when determining whether recognition of such an adjustment is appropriate for a natural gas utility: (1) The potential or actual benefits to the existing customers of the acquired company in the areas of increased quality of service; (2) lower operating costs; (3) increased ability to attract capital for improvements; (4) lower overall cost of capital; and (5) more professional and experienced managerial, financial, technical and operational resources.[2] As more fully set forth in the attached testimonies and exhibits of Mr. Charles Rawson and Mr. Ronald Hanson, FCG can demonstrate qualitative and quantitative benefits that have accrued to FCG and its customers as a result of the acquisition by AGLR, and fully support this request for recognition of the acquisition adjustment.

6. FCG also requests that $2.2 million in accelerated pension costs ($1.3 million net of accumulated deferred income taxes), which has been allocated to FCG, be afforded regulatory asset treatment and amortized over a period of approximately 13 years. These are costs that have not, and will not, be recovered from FCG's customers through the normal accounting treatment

---

[1] 15 U.S.C. §79 et seq.

[2] *See* Docket No. 040216-GU – Application for a Rate Increase by Florida Public Utilities Company – Order No. PSC-04-1110-PAA-GU; and Docket No. 891353-GU – Application of Peoples Gas Systems, Inc. for a Rate Increase – Order No. 23858.

because recognition was accelerated due to the acquisition. In addition, the pension liability for FCG increased, resulting in a rate base decrease for pension costs that FCG had not yet recovered through inclusion of pension expense in FCG's base rates. Thus, treating this as a regulatory asset will allow the company to recover this cost, while continuing to amortize the asset consistent with the amortization period used prior to the change in control. Ultimately, as explained by witnesses Rawson and Hanson, this will ensure that the total ratepayer obligation for the pension period cost is the same both pre- and post-merger.

7. As previously stated herein, FCG is not requesting a rate increase at this time.

8. The Commission has jurisdiction in this matter pursuant to Sections 366.06 and 366.076, Florida Statutes. Although FCG is not seeking a rate adjustment, FCG has prefiled testimony in conjunction with this Petition to provide additional information and support for this request substantially conforming to the requirements of Rule 25-7.039, Florida Administrative Code, to the extent that rule is applicable to this request. In addition, FCG respectfully requests that the Commission proceed to address this matter using procedures appropriate for a Proposed Agency Action, as allowed by Section 366.06(4), Florida Statutes. FCG reserves the right to supplement or file additional testimony should the Commission's Proposed Agency Action Order be protested.

Based on the foregoing, FCG respectfully requests that the Commission:

A. authorize the Company to reflect an acquisition adjustment of $25,287,876 to be amortized over a 30-year period, as more fully described in the attached testimony of Ronald Hanson;

B. approve treatment of the $1.3 million (net of deferred taxes) in accelerated pension fund costs that have been allocated to FCG as a regulatory asset to be amortized over a period of approximately 13 years; and

C. conduct its review of this request pursuant to the Proposed Agency Action process.

Respectfully submitted this 3rd day of October, 2006.

FLORIDA CITY GAS

By: Beth Keating
Beth Keating

Florida Bar No. 0022756
AKERMAN SENTERFITT
106 East College Avenue,
Suite 1200
P.O. Box 1877 (32302)
Tallahassee, FL 32301
(850) 224-9634

Attorneys for Florida City Gas

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of this Petition, as well as the Testimony and Exhibits of Charles Rawson and Ronald Hanson, has been served upon the following by Hand Delivery (*) and/or U.S. Mail this 3rd day of October, 2006.

Cheryl Bulecza-Banks, Bureau Chief *
Division of Economic Regulation
Room 160, Gunter Building
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Ralph Jaeger, Staff Counsel *
Office of the General Counsel
Room 370, Gunter Building
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Harold McLean, Public Counsel *
Office of the Public Counsel
111 Madison Street, Room 812
Tallahassee, FL 32399-1400

Beth Keating
Beth Keating
Florida Bar No. 0022756
AKERMAN SENTERFITT
106 East College Avenue, Suite 1200
P.O. Box 1877 (32302)
Tallahassee, FL 32301
(850) 224-9634

Attorneys for Florida City Gas

{TL105430;1}

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY
OF
CHARLES RAWSON

IN RE:
PETITION OF FLORIDA CITY GAS FOR APPROVAL
OF AN ACQUISITION ADJUSTMENT AND
RECOGNITION OF A REGULATORY ASSET

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, BY WHOM YOU ARE EMPLOYED, AND IN WHAT CAPACITY.

A. My name is Charles Rawson and my business address is 4180 U.S. Highway 1, Rockledge, Florida 32955. I am currently employed as Vice President and General Manager of Florida City Gas.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor Degree in Mechanical Engineering from The Georgia Institute of Technology. I continued my education and obtained a Master Degree in Business Administration from Georgia State University.

I joined AGL Resources in 1985 as an Engineer. In 1989 I became Director of Cogeneration. In this position, I acted as the corporate energy consultant to large commercial and industrial customers on cogeneration, power generation, and energy management. In 1997, I took the position of Manager, Commercial and Industrial Markets, where I was responsible for sales and marketing to over

110,000 commercial and industrial customers in Georgia and Tennessee. In 2002, I was promoted to Managing Director, Research and Analysis. In this position, I directed new business development including researching business opportunities and developing business cases. In 2004, I became Florida City Gas' Vice President and General Manager. In this capacity, I have led the integration of 104,000 customer utility acquisition, and implemented numerous system automations during the first year of operation.

I am a member of the Georgia Society of Professional Engineers. I have served on the GRI Power Systems Project Advisor Group and the AGA Commercial/Industrial Committee. I am a board member of the Florida Natural Gas Association, the Associated Gas Distributors of Florida, the Florida City Gas Endowment Fund, and the Economic Development Council of Florida's Space Coast.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION OR ANY OTHER REGULATORY BODY?

A. Yes. In 2004, I testified before the Georgia Public Service Commission in Docket Numbers 8516 and 18437.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to provide support and justification for the request for recognition of the acquisition adjustment related to the purchase of Florida City Gas by AGL Resources Inc. I will also provide support and justification for regulatory asset treatment of the outstanding amount of the former NUI pension plan allocated to FCG. Through my testimony and that of Ronald Hanson, Manager, Regulatory Analysis, for AGL Services Company, we will describe the qualitative and quantitative benefits to our customers as a direct result of AGL's acquisition, and demonstrate that these benefits exceed the resulting annual revenue requirement associated with the acquisition adjustment.

Q. PLEASE DESCRIBE FLORIDA CITY GAS (FCG).

A. FCG sells and transports natural gas in Dade, Broward, Brevard, Indian River, Palm Beach and St. Lucie Counties. It is the second largest natural gas utility in Florida, serving approximately 104,000 customers. FCG (known then as City Gas Company of Florida) was incorporated on April 2, 1949 as a propane distributor headquartered in Hialeah, Florida, using underground pipelines. Starting in the late 1950's, City Gas acquired a number of LP gas companies in Dade, Broward and Brevard Counties. In 1960, upon gaining access to natural gas through Florida Gas Transmission Company's interstate pipeline system, City Gas' existing underground pipeline systems were converted from LP to natural gas and the company became regulated by the Florida Public Service Commission. In 1964, City Gas listed its common stock on the American Stock Exchange. In July 1988, NUI Corporation acquired all of the outstanding shares of City Gas common stock. City Gas was merged into NUI's principal operating subsidiary, Elizabethtown Gas Company, and operated as a separate division of that subsidiary corporation. Subsequently, in 2004, AGL Resources Inc. acquired all of the outstanding common stock of NUI Corporation.

Q. PLEASE DESCRIBE AGL RESOURCES INC. (AGLR).

A. AGLR was formed in 1996 as a Georgia holding company for the purpose of holding Atlanta Gas Light Company, Chattanooga Gas Company and various other energy-related subsidiary and affiliate companies. Subsequently, in 2000, simultaneous with its purchase of Virginia Natural Gas Inc., AGLR became a registered public utility holding company pursuant to the Public Utility Holding Company Act of 1935 (PUHCA). The company is also subject to regulation by federal agencies such as the Federal Energy Regulatory Commission and the U.S. Department of Transportation, in addition to being comprehensively regulated by state public utility commissions in Florida, Georgia, Maryland, New Jersey, Tennessee and Virginia.

AGLR has an equity market capitalization of approximately $2.8 billion as of September 12, 2006. AGLR is traded on the New York Stock Exchange and the company is solidly positioned to maintain its investment-grade credit ratings.

Q. WHY WAS NUI AN ATTRACTIVE ACQUISITION CANDIDATE FOR AGLR?

A. AGLR had prior interactions and discussions with NUI on asset management and other business opportunities beginning in 2003. As a result, AGLR had been familiar with, and had a good understanding of, NUI's regulated business. When NUI's Board announced its intention to sell NUI, AGLR saw an opportunity to purchase good utility assets. AGLR's operational due diligence on NUI's utilities confirmed that NUI's utility operations were essentially sound, although its financial performance was less than stellar. Further, the relatively small scale of

NUI's operations had prevented it from investing in some of the technology platforms that could improve customer delivery and efficiency.

AGLR management saw that its business model would produce efficiencies and allow for sufficient capital to deliver superior service to NUI's customers. This strategy allows us to deploy our technology platforms in the areas of automated dispatch and work management to improve operations. Because of the geographic proximity of the NUI systems, AGLR was able to absorb NUI's utility operations into our system without disruption, while providing a smooth transition for customers. As shown throughout our testimony, since the acquisition by AGLR, FCG has been able to realize improvements in customer service and operational efficiencies, as well as reductions in operating costs.

As a result of the NUI acquisition, AGLR became the largest local distribution company along the entire East Coast of the United States in terms of number of customers, which allowed us to continue our strategy of investment in modernizing technologies that produce superior customer service and other benefits for customers.

Q. PLEASE DESCRIBE THE FORM OF THE ACQUISITION OF FCG BY AGLR.

A. On November 30, 2004, AGLR merged with NUI Corporation, whereby NUI Corporation became a wholly owned subsidiary of AGLR. Pursuant to the Merger Agreement, AGLR acquired all of the outstanding shares of NUI Corporation for \$13.70 per share in cash, or approximately \$218 million. In addition, AGLR incurred \$9 million of transaction costs and repaid \$500 million of NUI's outstanding short-term debt. At closing, NUI Corporation and its subsidiaries had $709 million in debt and approximately $109 million of cash on their balance sheet, bringing the net value of the merger to approximately $827 million.

Upon completion of the merger and in accordance with the various credit agreements, the $225 million outstanding under NUI Utilities' credit agreements was repaid on November 30, 2004 by AGLR. These credit agreements consisted of NUI Utilities' $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 AGLR.

Q. DID THIS ACQUISITION BY AGLR RESULT IN A SALES PRICE GREATER THAN THE BOOK VALUE OF THE ACQUIRED ASSETS?

A. Yes, the amount paid over the book value of the assets is $230,962,152 for the entire purchase, of which $25,287,876 was allocated to Florida City Gas. The methodologies used to allocate the acquisition adjustment to FCG and the other former NUI subsidiaries will be explained in the testimony provided by Ronald Hanson.

Q. WHAT REGULATORY TREATMENT OF THIS ACQUISITION ADJUSTMENT IS BEING REQUESTED BY FCG?

A. FCG is requesting that a positive acquisition adjustment of $25,287,876 be approved by this Commission and amortized over 30 years.

Q. IS FCG SEEKING ANY OTHER ACTION BY THIS COMMISSION ASSOCIATED WITH THE ACQUISITION OF NUI BY AGLR?

A. FCG is seeking regulatory asset treatment for the outstanding amount of the former NUI pension plan allocated to FCG. These costs have not been recovered from FCG's customers and will not be recovered in the future through the normal accounting treatment for pension expense. As Witness Hanson discusses more fully in his testimony, treating this pension cost as a regulatory asset would be essentially a "make-whole" provision for the utility. Under this request, the company would continue to amortize the asset consistent with the amortization period used prior to the change in control. This will ensure that the total ratepayer obligation for the pension period cost is the same pre- and post-merger for the outstanding pension asset amount.

Q. IS FCG REQUESTING A RATE ADJUSTMENT ASSOCIATED WITH THE ACQUISITION ADJUSTMENT?

A. No, not at this time. AGLR prides itself on being able to provide a high level of customer service and safe and reliable distribution service to its customers at stable rates. In this proceeding, FCG is merely asking that the regulatory asset and acquisition adjustment and the associated annual amortizations be included in rate base and cost of service, respectively. We believe this regulatory treatment is appropriate and timely in order to more accurately portray the company's actual investment and earnings level. To be clear, there will be no rate increase at this time as a result of this proceeding.

Q. WHAT IS YOUR UNDERSTANDING OF THE CURRENT COMMISSION POLICY REGARDING ACQUISITION ADJUSTMENTS?

A. It is my understanding that the Commission considers whether to approve a positive acquisition adjustment in rate base and cost of service on an individual case by case basis based on the circumstances of the acquisition. It has been Commission policy to allow a positive acquisition adjustment where extraordinary circumstances can be demonstrated. In consideration of a request for acquisition adjustment, the Commission has examined the potential or actual benefits to the existing customers of the acquired company in the areas of increased quality of service, lower operating costs, increased ability to attract capital for improvements, lower overall cost of capital, and more professional and experienced managerial, financial, technical and operational resources.

Q. DO YOU BELIEVE THAT FCG HAS MET THE STANDARD TO JUSTIFY A POSITIVE ACQUISITION ADJUSTMENT IN THIS CASE?

A. Yes, I do. Through my testimony and that of Ronald Hanson, we will demonstrate the qualitative and quantitative benefits that have accrued to FCG's customers in all of the areas mentioned above as a result of the acquisition by AGLR. I will discuss the benefits derived from the managerial, financial, and technical resources of AGLR, the improved customer service and the lower operating costs. Witness Hanson will provide a quantification of the net savings per year in lower operating costs and will discuss the benefits derived from the increased ability to attract capital and the lower overall cost of capital as a result of the acquisition by AGLR.

PROFESSIONAL, MANAGERIAL, FINANCIAL, TECHNICAL AND OPERATIONAL RESOURCES

Q. PLEASE DESCRIBE AGLR'S CORPORATE BUSINESS STRATEGY AND PRINCIPLES.

A. AGLR's business philosophy is predicated on the fact that it is principally a regulated business. The vast majority of AGLR's income and earnings is produced by AGLR's regulated gas utility businesses. We own and operate local gas distribution businesses and seek continued growth through operating these assets more efficiently. We respect regulation and the role it plays in a capital-intensive business such as gas distribution. This philosophy is manifested in our commitment to providing regulators with information that is accurate, timely and as transparent as possible. To that end, we strive to achieve and maintain collaborative and constructive regulatory relationships in all jurisdictions in which we operate. In 2004, The Atlanta Chapter of the Society of Financial Service Professionals awarded AGLR the Georgia Business Ethics Award.

Q. PLEASE DESCRIBE AGLR'S EXPERIENCE IN RUNNING NATURAL GAS UTILITY COMPANIES.

A. AGLR owns and operates natural gas utility operations in Florida, Georgia, Maryland, New Jersey, Tennessee and Virginia. In these states AGLR serves nearly 2.2 million natural gas customers. AGLR maintains utility offices and field operations in each state plus offices for our related energy and infrastructure businesses in Texas and Louisiana. The company owns more than 35,000 miles of natural gas pipeline, five liquefied natural gas (LNG) facilities and four propane facilities. AGLR is experienced in both mild and cold climates and has experience serving both urban and rural areas. AGLR's website is www.aglresources.com; the corporate site contains links to websites for the company's distribution utilities. We are among the largest gas distributors in the country, the single largest operator of LNG peaking facilities, and consistently one of the top quartile operators according to industry metrics. AGLR was named the 2003 Gas Company of the Year by Platt's Global Energy Awards, and was a finalist for that award in 2004. In 2006, AGLR was ranked as the 10th Best Managed Utility Company in the United States by Forbes.

Q. HOW DOES THIS EXPERIENCE IN RUNNING NATURAL GAS UTILITIES INURE TO THE BENEFIT OF FCG'S CUSTOMERS?

A. The vast experience gained in operating natural gas utilities has allowed AGLR to develop a number of best practices and metric measurements with regard to operations, inventory management, productivity improvements, safety and reliability. Management at FCG has been able to tap into that expertise and employ these techniques and processes to enhance the operation of the FCG system. Additionally, FCG has been able to take advantage of the synergies resulting from the combination of all of the AGLR utilities to reduce costs and to deploy advanced technologies which allow additional efficiency gains for work processes in the field. Later in my testimony, I will provide examples of the improvements we have been able to make to the FCG operation as a result of the deployment of AGLR best practices and technological advancements.

Q. IS AGLR ACTIVE IN THE COMMUNITIES IN WHICH IT OPERATES?

A. Yes, we know that, as employees of a financially healthy public utility, we have an obligation to community service. AGLR is a community leader in every major city in which it operates. Our executives lead by example. Virtually every member of the company's leadership team serves on the board of a major community agency. A number of our employees serve on commissions that support state and city governments. We are active in working on economic development in every state. The company and its charitable foundation donate approximately one percent of net income to non-profit organizations each year.

INCREASED QUALITY OF SERVICE

Q. PLEASE DESCRIBE AGLR'S COMMITMENT TO CUSTOMER SERVICE.

A. AGLR is a company that is committed to providing outstanding customer service to all of its utility customers. We maintain a comprehensive utility metric program to continuously monitor important aspects of customer service, safety and reliability. These metrics include customer service and satisfaction (as measured by call response times and customer feedback) as well as safety-related metrics such as leak response times, and operational measures such as capital costs per new meter (essentially, the total cost to hook up a new gas customer).

Q. HOW HAS THE QUALITY OF SERVICE TO YOUR CUSTOMERS IMPROVED SINCE THE ACQUISITION BY AGLR?

A. Since the acquisition of FCG, we have integrated AGLR's state-of-the-art technology and field-tested best practices into FCG's operations in order to provide superior customer service. Specifically, we have improved customer service by centralizing the call center function in Atlanta, offering third party payment locations for customers to pay their bills in person, instituting monthly meter reading using automated meter reading devices, and implementing other technological improvements that enhance the ability of our field technicians to provide safe, reliable and efficient service.

Q. PLEASE EXPLAIN HOW THE CENTRALIZATION OF THE CUSTOMER CALL CENTER BENEFITS THE CUSTOMERS OF FCG.

A. The customer call center was centralized in Atlanta in March 2005, and the existing call center in Hialeah was subsequently closed. Centralizing allowed us to leverage best practices, including recording 100% of all calls and providing feedback to our call center representatives to improve the quality of the calls. Through this centralization, customers have benefited from improved response time and fewer abandoned calls, increased access to the call center by offering weekend hours, and continued availability even during storm events. The centralized call center is staffed with multi-lingual representatives in order to serve the needs of a diverse population, including the Hispanic customer base in South Florida. We have also worked to improve training of our employees and brought the call center management and best practices to FCG. By continued training of call center employees on FCG-specific issues and processes and by providing constant feedback to the call center on customer-related concerns, the customer complaint resolution process has improved and has resulted in better overall service to our customers.

Q. WHAT CHALLENGES DID YOU FACE DURING THE TRANSITION OF THE CALL CENTER FROM SOUTH FLORIDA TO ATLANTA AND HOW DID YOU RESOLVE THESE ISSUES?

A. As often is the case during the transition to any major change in operations, we experienced some challenges during the initial transition period. There were customer complaints regarding the consistency of information that was provided by customer service representatives. However, during the transition we addressed this problem through additional training on rates, territory and procedures unique to FCG for the customer service representatives that are dedicated to FCG. Company representatives worked with FPSC Staff to address any escalated customer calls during the transition period. Additionally, since all calls in the call center are recorded, we continually monitor the responses and provide feedback and further training, where needed, to improve the quality of the responses. We believe we offer superior service through our centralized customer call center, which has resulted in better overall service to our customers.

Q. WHAT METRICS DO YOU HAVE TO DEMONSTRATE THE IMPROVEMENT IN CALL CENTER ACTIVITIES SINCE THE ACQUISITION BY AGLR?

A. I have prepared two exhibits which demonstrate the improvement in call center activities. Exhibit ____(CR-1) illustrates the reduction in call volume from customers each month from January 2004 to August 2006. Exhibit ___(CR-2) illustrates the reduction in both the volume and percentage of calls abandoned during 2004 through May 2006.

Q. YOU REFER TO THE AVAILABILITY OF THE CENTRALIZED CALL CENTER EVEN DURING STORMS. CAN YOU PROVIDE AN EXAMPLE OF THIS?

A. Certainly. When Hurricanes Katrina and Wilma hit South Florida, telecommunication service to our office was interrupted for days like so many other businesses in the area. However, in spite of the interrupted telephone service, our customers were able to communicate with the company through the call center in Atlanta, which remained operational throughout the storms and during the recovery periods. In fact, our investment in field force automation, which is described later in my testimony, allowed the call center to communicate with our personnel in the field during this time.

Q. PLEASE EXPLAIN HOW THE INTRODUCTION OF THIRD PARTY PAYMENT LOCATIONS HAS IMPROVED CUSTOMER SERVICE?

A. Prior to the acquisition by AGL, FCG accepted payment of customer bills at two FCG offices in Miami/Hialeah and Port St. Lucie as well as two third party locations in Brevard County. These locations received approximately 1,500 customer payments per month. We have discontinued this practice, and now have an arrangement with a payment agent, Western Union, that offers four free locations in Hialeah, Hialeah Gardens, Rockledge and Port St. Lucie where customers can pay their bills in person. There are also an additional 109 Western Union locations that accept FCG customer payments for a nominal convenience fee of $1.00. Twenty-one of these locations in various South Florida cities are listed on our website. We also provide a toll free number through the call center and on the FCG website that will assist customers in locating the nearest agent location. These agent locations also accept payments of other utility bills, thus providing a convenience for the customers that did not exist when we were accepting payments in our offices. In July, 2006, there were 1,435 customer payments made at 49 different Western Union agent locations. In addition, I would note that customers can now make free payments on line using their bank checking or savings account, and we offer a monthly auto draft payment option at no charge. By increasing the number of payment locations as well as offering methods for making payments on line free of charge, we have made it more convenient for customers to pay their monthly bills.

Q. HOW DO THE CHANGES THE COMPANY HAS MADE IN METER READING BENEFIT THE CUSTOMERS OF FCG?

A. After our acquisition, it became apparent that meter reading was adversely affecting customer satisfaction. Although allowed to read meters bi-monthly, it became clear that a number of meters were not being read on a regular basis for a variety of reasons, including accessibility, location and staffing issues. FCG committed to read meters monthly, deploy new technology, and add meter reading staff to eliminate consecutive estimates and estimates in general. These changes have improved the accuracy of the monthly bill and reduced customer inquiries to our call center as demonstrated in Exhibit ___(CR-1). Encoder recorder transmitters (ERTs) were installed in the Port St. Lucie division in 2005. Approximately 30,000 units will be installed in the Miami division by the end of 2006. The remaining meters in the Miami division and all meters in the Brevard division are expected to have ERTs by the end of 2007. Placing ERTs on meters allows us to read the meters remotely by driving by in a van equipped with a mobile data collector. The installation of ERTs will allow all meters (including those that are not easily accessible and thus difficult to read) to be read monthly and will result in fewer meter reading errors and more accurate customer bills. In addition, we increased the number of fulltime meter readers to ensure timely and accurate meter reads as we deploy the ERT technology.

LOWER OPERATING COSTS

Q. HOW HAS FCG ACHIEVED OPERATING COST REDUCTIONS SINCE THE ACQUISITION BY AGL RESOURCES?

A. FCG has realized reductions in operating costs through a number of process improvements, centralized facilities, field force automation, reduced leak response time, increased work force productivity, and lower cost construction contracts.

Q. PLEASE EXPLAIN HOW AGLR HAS BEEN ABLE TO ACHIEVE SAVINGS IN CAPACITY COSTS PAID TO FLORIDA GAS TRANSMISSION (FGT) ?

A. As part of a more rigorous capacity planning process we have re-evaluated our interstate pipeline capacity needs. As a result, we determined that we were able to reduce our reserved capacity in the FGT pipeline and achieve capacity savings of approximately $500,000 annually, which translates to lower costs to customers.

Q. WHAT HAS THE COMPANY DONE TO CENTRALIZE FACILITIES AND HOW HAS THIS RESULTED IN LOWER OPERATING COSTS?

A. We have implemented more efficient inventory management tools with the help of AGLR. By increasing controls over material purchasing and ordering, we have been able to reduce the stock inventory while continuing to provide needed materials and supplies to the field technicians. This added control has enabled us to close one warehouse that we were leasing and consolidate the warehousing operations, thus reducing related operations and maintenance expenses.

Q. WHAT IMPROVEMENTS IN THE AREA OF FIELD FORCE AUTOMATION HAVE BEEN MADE SINCE THE ACQUISITION BY AGL?

A. The Automated Dispatch (AD) system, known as Field Force Automation (FFA), was implemented in all Florida locations in 2005. FFA maximizes electronic orders and minimizes paper orders to increase efficiency and performance. Orders are routed to employees in the field based on assigned grids. This database system allows us to more efficiently assign work orders to employees. FFA allows employees to be home-based through the use of an employee tracking data base, thus saving driving time to the office and increasing productivity. Further, the database is continuously updated, so that if an emergency order comes in, it will be given top priority for the employee in the specific grid closest to the emergency. Scheduled appointments will then be adjusted to that employee's next available time slot. In the past, orders were scheduled for the next day in a geographical area. Emergency orders were routed to the person who had the most time available, not to the person in the closest proximity to the emergency. This automated dispatch system has increased the efficiency and flexibility of our personnel, and has resulted in an increase in the number of work orders completed per field technician from 12 to 16 per day. These work process improvements have allowed us to reduce the field distribution work force by eighteen employees.

Q. HOW HAS THE COMPANY REDUCED LEAK RESPONSE TIME?

A. FCG has put a greater emphasis on reducing our response time to leak calls. We have employed Geographic Information System (GIS) mapping and mobility tracking, which is a technology that allows dispatchers to locate the leak and assign the work order to the closest available field technician. Mobility tracking allows dispatchers to electronically assign the work order directly to the selected field technician.

We have worked with our Distribution Technicians to set standards for leak response time and have assigned responsibility to all technicians for locates and for leak response time. We have also assigned a contact person in the Dispatch area that is always available to the technicians for assistance as needed. The chart on Exhibit _(CR-3) depicts the decrease in average leak response time from May 2005 to April 2006.

Q. DOES THE COMPANY HAVE ANY PLANS TO IMPROVE THE CAPABILITIES OF THE GIS SYSTEM IN THE FUTURE?

A. Yes. AGLR plans to implement one GIS common to all utility divisions. By consolidating all company data into one GIS, AGLR will gain efficiencies through the use of a single application and support structure and common, repeatable processes across companies. In the common GIS, information for both facilities (such as mains, valves, regulatory stations, service taps, etc.) and land base (such as streets, railroads, lakes, etc.) are captured. Currently, FCG relies on paper maps that are updated twice each year. When the new system is deployed, the field will have access to data that is updated at least weekly, if not daily. Further, the improved GIS will allow field and distribution users to view facilities in the field and to correct existing data in the system. In addition, the improved GIS will provide a foundation for AGLR's Work Management system, which will afford additional efficiency gains for work processes in the field.

Q. HOW HAS FCG ACHIEVED LOWER COST CONSTRUCTION CONTRACTS SINCE THE ACQUISITION BY AGLR?

A. The relationship of AGLR with multiple contractors opened the contracted services for FCG to more competition. Most of our new growth is in Brevard, Indian River, and St. Lucie counties. The contract services for this area was bid out in early 2005 and resulted in a 20% reduction in pricing. Included in the reduced prices is the electronic as-built drawing which had been done by NUI with an Engineering Technician. In addition, material standardization has led to a reduction in material pricing. Simplification of the blanket contract pricing structure has reduced engineering labor for design and estimating. Conversion to AGLR's work management system has reduced engineering administration labor. These cost reductions have resulted in our ability to provide new service to more customers in this area by eliminating or significantly reducing the need for customer contributions.

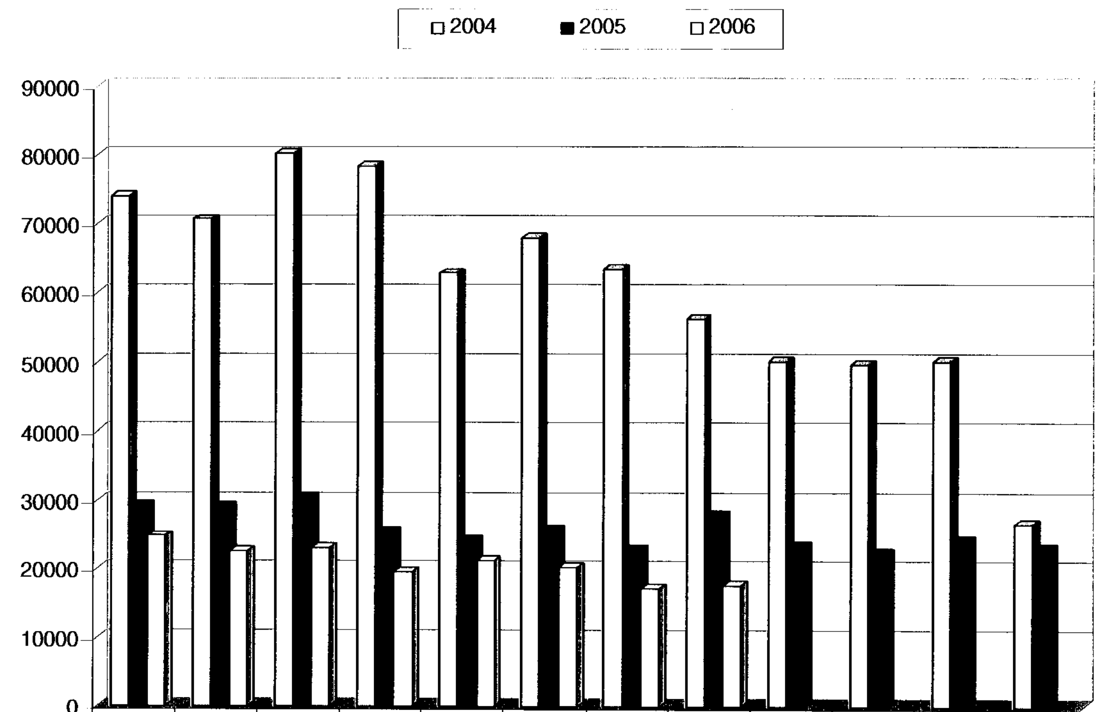
Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Exhibit __ (CR-1)

Improved Customer Service

Calls Offered

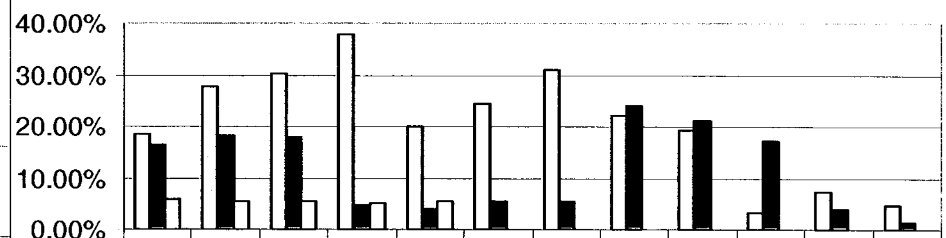


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
□ 2004	74010	70670	80189	78357	62820	67850	63320	56316	50196	49695	50016	26518
■ 2005	29267	28902	30397	25331	24142	25654	22753	27903	23382	22232	24146	22932
□ 2006	24806	22516	22993	19419	21210	20145	17126	17526				

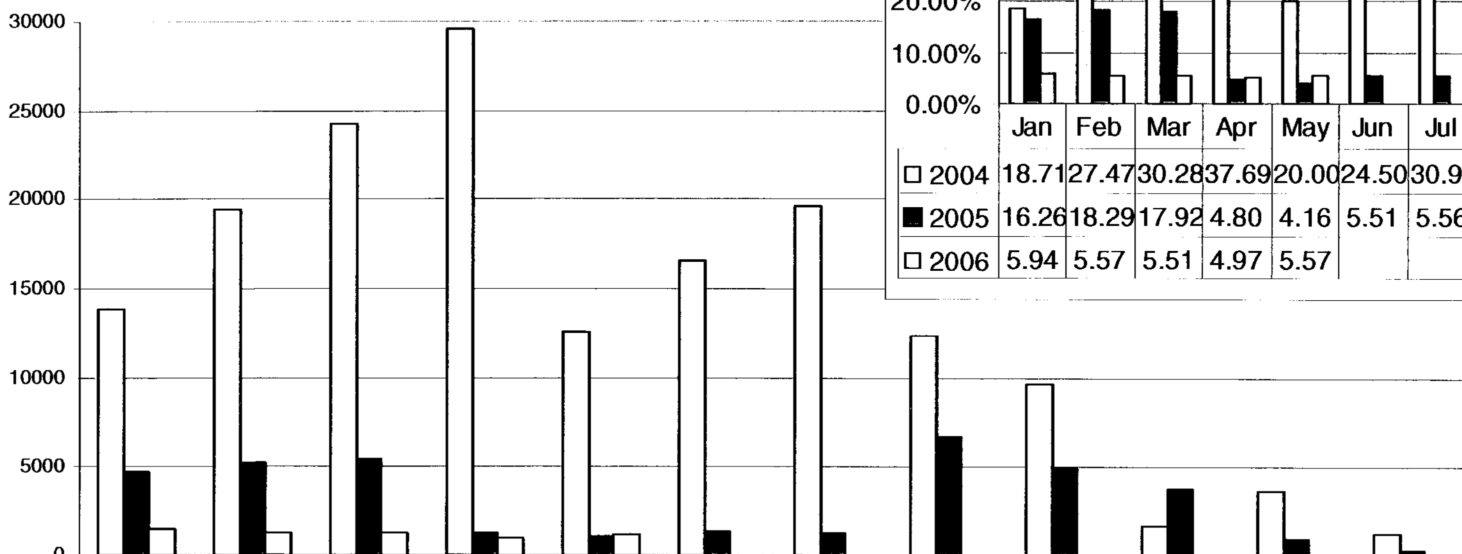
Florida City Gas

Exhibit __ (CR-2)

Improved Customer Service



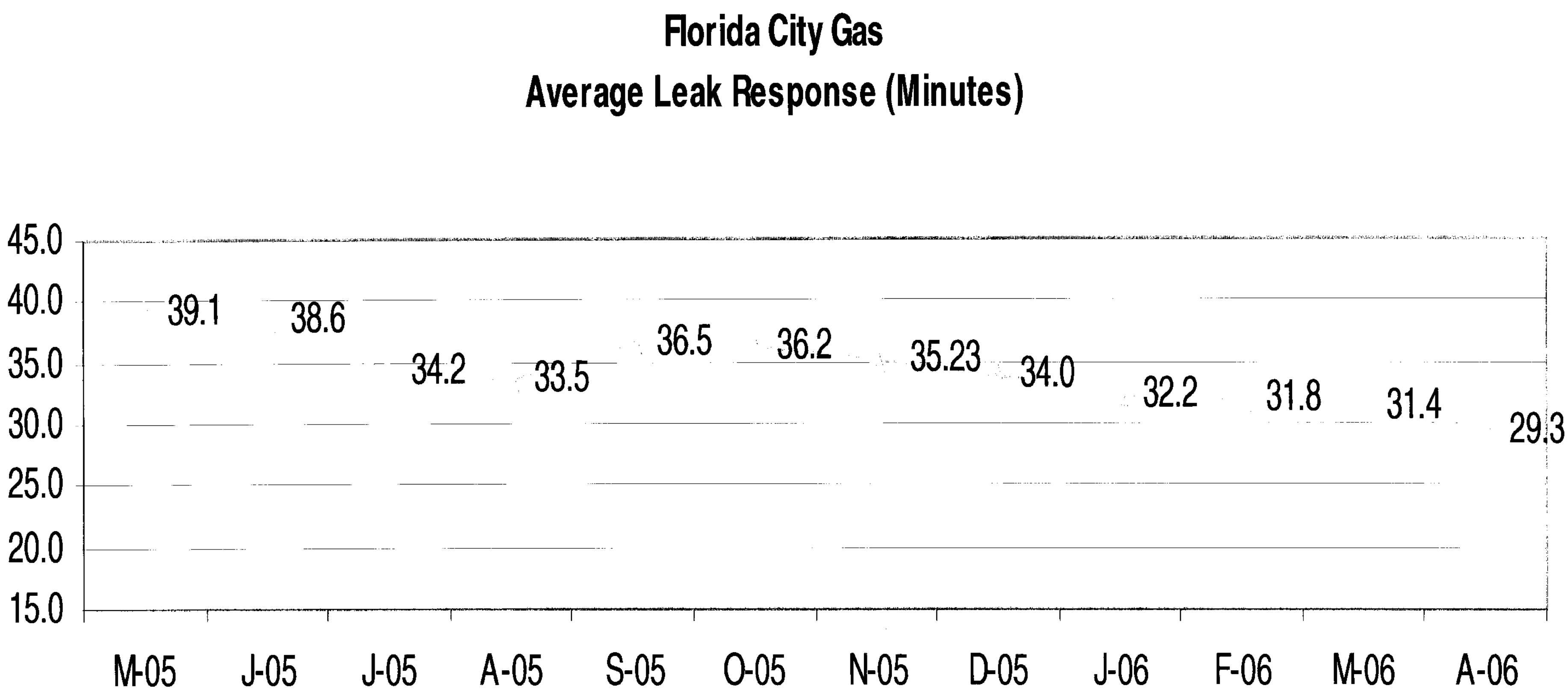
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	18.71	27.47	30.28	37.69	20.00	24.50	30.97	22.07	19.15	3.45	7.25	4.71
2005	16.26	18.29	17.92	4.80	4.16	5.51	5.56	24.05	21.20	17.03	4.12	1.43
2006	5.94	5.57	5.51	4.97	5.57							



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	13848	19410	24278	29534	12565	16621	19610	12430	9614	1712	3627	1248
2005	4760	5287	5448	1216	1005	1414	1266	6712	4957	3786	995	328
2006	1474	1255	1266	966	1182							

Exhibit __ (CR-3)

Lower Operating Cost



Florida City Gas

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY
OF
RONALD D. HANSON

IN RE:
PETITION OF FLORIDA CITY GAS FOR APPROVAL OF AN ACQUISITION ADJUSTMENT AND RECOGNITION OF A REGULATORY ASSET

Q. PLEASE STATE YOUR NAME, POSITION AND ADDRESS.

A. Ronald D. Hanson Manager, Regulatory Analysis, AGL Services Company. My business address is 10 Peachtree Place, Location 1686, Atlanta, Georgia 30309.

Q. PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Business Administration Degree (Cum Laude) in Accounting from the University of Georgia in 1985 and a Master of Business Administration Degree in Finance from Georgia State University in 1995. I am a Certified Public Accountant in the State of Georgia.

Upon graduation from the University of Georgia in 1985, I was employed by an AGL Resources Inc. (AGLR) affiliate as a Staff Accountant. In that position my responsibilities included: (1) the preparation of detailed statistical data in formats used for quarterly and annual external reporting, (2) the preparation of financial reports to support rate case filings, (3) designing and implementing the Company's first set of consolidated financial statements and the model used to present a consolidated statement of cash flows, and (4) the preparation of net present value analyses to support lease versus purchase decisions.

In 1991 I was promoted to Senior Accountant with responsibility for financial reporting. In 1995, I became a Senior Accountant with responsibility for budgets and financial forecasting. In 1998 I was promoted to Interim Manager/Project Leader for Financial Accounting. In 1999 I was promoted to Manager of Regulatory Analysis.

In my present position, I am responsible for the preparation of regulatory filings and financial analyses for all of AGLR's regulated affiliates, including Florida City Gas (FCG). My responsibilities include the preparation of cost of service data reports for regulatory filings, the preparation of such data for management and the maintenance of relationships with regulatory staffs in various jurisdictions.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION OR ANY OTHER REGULATORY COMMISSION?

A. Yes. I submitted testimony before the New Jersey Board of Public Utilities in Docket No. GR05060494 in the matter of the petition of Pivotal Utility Holdings Inc. d/b/a Elizabethtown Gas Company to (1) reconcile its basic gas supply service rate, and (2) revise its commodity rates for commercial and industrial air conditioning and distributed generation uses and seasonal delivery service.

Q. WHAT IS THE SUBJECT OF YOUR TESTIMONY?

A. I will present various financial and accounting data in support of the Company's filing in this proceeding, including (A) the cost savings and benefits resulting from AGL Resources Inc.'s acquisition of FCG, (B) the quantification of (1) the proposed acquisition adjustment to be included for regulatory reporting purposes and the resulting revenue requirement of the acquisition adjustment and (2) the regulatory asset created by purchase accounting for pensions and (C) the effect of the acquisition on FCG's ability to attract capital and on its overall cost of capital. The quantification of the acquisition adjustment includes the determination of the total acquisition adjustment for NUI and the allocation of the adjustment to FCG.

Q. ARE YOU SPONSORING EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A. Yes. I am sponsoring the following exhibits in support of the inclusion of the acquisition adjustment for regulatory reporting purposes.

- Exhibit__(RDH-1) – Net Savings to Florida City Gas as a Result of the AGL Resources Inc. Acquisition
- Exhibit__(RDH-2) – Detail of Operating Expense Savings as a Result of the Acquisition
- Exhibit__(RDH-3) - Comparison of Revenue Requirement Before and After Acquisition
- Exhibit__(RDH-4) – Summary of Elements of the Acquisition Adjustment.

- Exhibit__(RDH-5) – Cost of Capital Savings Resulting from the Acquisition.

Q. WERE THESE EXHIBITS AND RELATED SCHEDULES PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

QUANTIFICATION OF SAVINGS RELATED TO FLORIDA CITY GAS ACQUISITION

Q. WOULD YOU SUMMARIZE THE INFORMATION CONTAINED IN EXHIBIT RDH-1?

A. Exhibit__(RDH-1) compares the savings forecast to be recognized by FCG as a result of AGLR's acquisition of NUI to the revenue requirement on FCG's portion of the acquisition adjustment resulting from the investment of AGLR in NUI. The result of this comparison is net forecast annual cost savings of approximately $1.9 million. Lines 1 through 4 provide the major components of the cost savings, including operation and maintenance (O&M) expense savings of $4.8 million, decrease in the cost of gas financing by $.4 million and a decrease in the cost of gas supply capacity of $.5 million. The total of these forecast cost savings is approximately $5.7 million. Lines 5 through 11 provide the calculation of the revenue requirement associated with the acquisition adjustment FCG is proposing to include in its rate base and cost of service for regulatory reporting purposes. The acquisition adjustment proposed in this case is $25.3 million, and the resulting revenue requirement is $3.8 million - $2.9 million of which is the return on rate base and $.9 million of which is the annual amortization of the acquisition adjustment assuming a 30 year amortization period.

Q. WOULD YOU SUMMARIZE THE INFORMATION CONTAINED IN EXHIBIT RDH-2, SUPPORTING THE SAVINGS TO FCG RESULTING FROM AGLR'S ACQUISITION OF NUI?

A. Exhibit__(RDH-2), Schedule 1 provides a comparison of FCG's O&M expense under AGLR ownership to the O&M expense under NUI ownership. In total, the O&M expense savings achieved under AGLR ownership is forecast to be $4.8 million for 2006. Column 1 provides the details of the forecast base level of O&M expense for the 12 months ended December 31, 2006. The base level of O&M expense excludes certain expenses incurred in the integration of FCG into AGLR. I will discuss these costs in more detail later in my testimony. The forecast is based on actual results for the 7 months ended July 2006 plus a forecast for the 5 months ending December 31, 2006. Column 2 provides the actual O&M expense for the 12 months ended September 30, 2004, which was the final period for which income was reported to the Florida Public Service Commission (FPSC) under NUI ownership. Lines 1 through 6 show the details of the operating expenses comparison.

Q. WHAT ARE THE MAJOR REASONS FOR THE FAVORABLE VARIANCE IN TOTAL O&M EXPENSE (BEFORE INFLATION ADJUSTMENT) ON LINE 7 OF $3.2 MILLION?

A The major components are decreases in payroll and benefits expense of $1.9 million. There are additional decreases in shared services allocation expense of $.3 million and other operations expenses of $.6 million.

Q. WOULD YOU DESCRIBE THE DECREASES IN LABOR AND BENEFITS EXPENSE?

A. AGLR operates under a business model in which industry best practices are utilized to drive increased efficiencies at lower costs. The implementation of these best practices results in improved employee productivity, which results in the need for a lower number of employees to perform the same amount of work while maintaining a high level of service. The measures implemented to improve employee productivity are discussed in further detail in the testimony of Charles Rawson. The decrease in payroll is driven primarily by this improved productivity. The number of FCG employees has been reduced by 34 since the acquisition of AGLR. The reduction includes 18 distribution employees, 10 sales employees and 6 support staff employees. This decrease in the number of employees results in an approximate payroll reduction of $1.3 million and a decrease in employee benefits of $.4 million based on average payroll and benefits costs for the 12 months ended September 2004.

Q. WOULD YOU DESCRIBE THE ADJUSTMENTS TO THE $3.2 MILLION FAVORABLE VARIANCE ON LINES 9 AND 10 OF EXHIBIT__(RDH-2), SCHEDULE 1 TO ARRIVE AT THE TOTAL BASE LEVEL FAVORABLE VARIANCE?

A. Line 9 reflects an adjustment of $1.9 million to reflect forecast increases to the 2004 cost levels under NUI ownership due to normal inflation and operating in a rising cost environment. This amount represents forecast cost increases of 3.5% annually based upon the consumer price index for the period September 2004 through December 2006. Line 10 reflects the removal from the comparison of the favorable variance due to differences in AGLR versus NUI in capitalizing overhead costs. Under AGLR ownership, FCG capitalizes administrative expense related to capital projects, previously FCG had not. The variance is removed for comparison purposes because FCG's reduction in O&M expense simply results in an increase in capitalized costs.

Q. WOULD YOU SUMMARIZE THE INFORMATION CONTAINED IN SCHEDULE 2 OF EXHIBIT__(RDH-2)?

A. Columns 1 through 3 of Exhibit__(RDH-2), Schedule 2 provide the calculation of the base level of costs that FCG has achieved under AGLR ownership. Column 1 provides the forecast of total O&M expense based on actual results for the 7 months ended July 2006 plus a forecast for the 5 months ending December 31, 2006. Column 2 shows the removal of $1.1 million of non-recurring costs included in the 2006 forecast. These items are removed from the 2006 forecast to calculate the base level of costs that FCG is forecast to achieve.

Q. WOULD YOU DESCRIBE THE NON-BASE EXPENSES THAT ARE REMOVED TO ARRIVE AT THE BASE LEVEL O&M EXPENSE?

A. Costs related to the installation of Encoder Recorder Transmitters (ERTs) on customers' meters of $350,000 were removed from outside services. Cost related to the implementation of the Geographical Information System of $710,000 was removed from outside services. Both of these costs were removed because the programs represent one time investments to improve processes and will not recur regularly. There will, however, be ongoing benefits to FCG as a result of these one time investments.

Q. CAN YOU PLEASE CONTINUE WITH YOUR SUMMARY OF EXHIBIT__(RDH-2), SCHEDULE 2?

A. Column 4 provides operations and maintenance expense as recorded on the books and records of FCG for the 12 months ended September 30, 2004. Column 5 shows the reclassification of customer service expense from direct costs to the allocated costs line item. Column 6 provides the adjusted O&M expense for FCG for the 12 months ended September 30, 2004.

Q. WHY WAS THE RECLASSIFICATION OF COSTS FOR CUSTOMER SERVICE NECESSARY?

A. Under NUI ownership customer service and credit and collections costs were performed by employees whose costs were charged to FCG and then allocated to other NUI utility companies. The amount not allocated was retained by FCG and represented its customer service and credit and collections costs. For the 12 months ended September 30, 2004 $3.8 million of costs were incurred by FCG employees and recorded as a direct cost to labor, benefits, outside services and other operations expense. The amounts allocated to other NUI utility companies were included as a credit to allocated costs. For comparison purposes, the direct costs incurred for customer service and credit and collections costs has been reclassified from the individual cost categories to the "allocations." The effect is to present the net allocated cost for customer service and credit and collections for FCG in the allocated cost line item for the 12 months ended September 2004 consistent with the presentation of costs for the estimated calendar 2006 period.

Q. WOULD YOU EXPLAIN THE SAVINGS DUE TO GAS COST FINANCING SHOWN ON EXHIBIT__(RDH–1), LINE 2?

A. Due to NUI's poor financial condition, it was required to prepay for its gas supply including the gas supply for FCG. Under AGLR ownership, FCG was able to resume the practice of post paying for its gas supply. Post paying allowed FCG to decrease its average working capital investment by $7.7 million based on gas costs for the 12 months ended June 30, 2006. $7.5 million of the decrease is due to a decrease in working capital for the commodity component. Post paying allowed FCG to pay the commodity component of its gas costs 60 days later than required by the prepayment arrangement. $.2 million of the decrease in working capital is due to the demand component. Post paying allowed FCG to pay the demand component 11 days later than required under the prepayment arrangement. The total working capital investment reduction of $7.7 million results in a reduction in financing costs of $375,000 based on AGLR's average short-term debt rate of 4.85% for the 12 months ended June 2006.

Q. WOULD YOU EXPLAIN THE SAVINGS DUE TO THE REDUCTION IN GAS COST DUE TO RELEASING CAPACITY?

A. The annual savings of approximately $0.5 million represents a reduction to the gas reservation charge payments made by FCG to FGT. The reservation charge reduction was due to the turning back of a portion of FCG's FTS-1 Firm Transportation ("FT") capacity and was based on an AGLR analysis of existing and future firm sales demand requirements. AGLR personnel, using their forecasting and modeling tools, were able to identify a portion of the FTS-1 capacity that could be released without affecting firm customer deliverability or reliability. The FT capacity turned back represents approximately 10.9% of the originally contracted FTS-1 seasonal daily volumes and was released effective August 1, 2005. The annual savings was calculated by multiplying the appropriate FGT tariff rate in effect during the calendar 2006 period by the FT capacity reduction within each FTS-1 seasonal period.

Q. HAVE YOU CALCULATED FCG'S REVENUE REQUIREMENT UNDER AGLR OWNERSHIP VERSUS THE REVENUE REQUIREMENT IF FCG WERE STILL OWNED BY NUI?

A. Yes. Exhibit__(RDH-3) provides a comparison of the forecast revenue requirement under AGLR ownership including the investment in the acquisition adjustment versus NUI ownership for the 12 months ending December 31, 2006. The forecast revenue requirement at FCG's authorized return on equity of 11.25% under AGLR ownership for calendar year 2006 is $2.0 million excluding non-base expenses of $1.1 million. The forecast revenue requirement under NUI ownership for the same period is $3.9 million. This comparison shows that the revenue requirement under AGLR ownership when including both the investment in the acquisition adjustment and the resulting savings generated by AGLR investment is $1.9 million less under AGLR ownership.

Q. HOW DID YOU FORECAST FCG'S REVENUE REQUIREMENT UNDER AGLR OWNERSHIP FOR CALENDAR YEAR 2006?

A. Column 5 of Exhibit__(RDH-3) provides the forecast of revenue requirement under AGLR ownership based on actual results for the 7 months ended July 2006 plus a forecast for the 5 months ending December 31, 2006. The cost of capital is based on AGLR's actual cost of capital as of June 30, 2006. This forecast includes both the rate base impact and the amortization of the acquisition adjustment.

Q. HOW DID YOU FORECAST FCG'S REVENUE REQUIREMENT ASSUMING FCG WAS STILL UNDER NUI OWNERSHIP?

A. The forecast under NUI ownership is based on the actual results for FCG for the 12 months ended September 30, 2004, which was the final period for which income was reported to the FPSC under NUI ownership adjusted for estimated changes. Column 1 of Exhibit__(RDH-3) provides the reported actual results for the 12 months ended September 2004. Column 2 provides the estimated changes. Operating margin, depreciation and amortization and taxes other than income were adjusted to levels equal to the forecast under AGLR ownership under the assumption that these items would not materially differ due to the acquisition. Operations and maintenance expenses were forecast to increase by an amount equal to the increase in CPI since the September 2004 as described earlier in my testimony.

The estimated rate base increase of $1.2 million in column 2 represents an expected change equal to that under AGLR ownership. This adjustment is based on the assumption that rate base equals the balance estimated under AGLR ownership with the exception of the level of working capital which is affected by the gas prepayment balance required under NUI ownership. Column 3 contains an adjustment to reflect the investment in working capital required under NUI ownership to finance the prepayment for gas as described earlier in my testimony.

Column 4 provides the result of the revenue requirement forecast if FCG were still under NUI ownership.

Q. WHAT COST OF CAPITAL IS REFLECTED IN THE REVENUE REQUIREMENT CALCULATION ASSUMING FCG WERE STILL UNDER NUI OWNERSHIP?

A. The cost of capital is the weighted average cost of capital of 8.69% which is the rate used by FCG in its final reporting period under NUI ownership updated for current rates for short-term debt and long-term debt. The calculation of the cost of capital is provided in Exhibit__(RDH-5), Schedule 1 and described in detail later in my testimony.

CALCULATION OF ACQUISITION ADJUSTMENT AND THE RESULTING REVENUE REQUIREMENT

Q. WOULD YOU SUMMARIZE THE INFORMATION CONTAINED IN EXHIBIT__(RDH-4), SCHEDULE 1?

Exhibit__(RDH-4), Schedule 1 provides the components of the acquisition adjustment allocated to FCG. The acquisition adjustment consists of three components – the purchase price over book value, or initial acquisition adjustment; transaction costs; and transition costs. The total of these three components is $26.6 million. FCG is proposing to include $25.3 million of the acquisition adjustment in its rate base and cost of service in its surveillance reporting. For the remaining $1.3 million, FCG is requesting regulatory asset treatment for accelerated recognition of pension liabilities as required by generally accepted accounting principles (GAAP) due to the acquisition. I will explain in detail each of the components of the acquisition adjustment later in my testimony.

Q. WOULD YOU SUMMARIZE THE INFORMATION CONTAINED IN EXHIBIT__(RDH-4), SCHEDULE 2?

Exhibit__(RDH-4), Schedule 2 provides the total acquisition adjustment recorded by AGLR (Column 1) and the amount allocable to FCG (Column 2). The components of the acquisition adjustment attributable to FCG were either allocated based on a factor related to the component or directly assigned to FCG. AGLR invested $231.0 million above book value to acquire and integrate NUI into AGLR, of which $26.6 million, or 12%, has been allocated to FCG.

Q. PLEASE EXPLAIN THE COMPONENTS OF THE ACQUISITION ADJUSTMENT?

The initial acquisition adjustment is detailed on lines 1 through 5 Exhibit__(RDH-4), Schedule 2. The initial acquisition adjustment is equal to the amount of the stock purchase price over book value at the time of purchase, November 30, 2004.

The total initial acquisition adjustment was $117.1 million, of which $21.7 million is attributable to FCG.

Q. HOW DID YOU DETERMINE THE AMOUNT OF THE INITIAL ACQUISITION ADJUSTMENT ATTRIBUTABLE TO FCG?

A factor of 18.53% was used to allocate the initial acquisition adjustment to FCG. This factor represents the percentage of FCG's long-term assets plus inventories to total NUI long term assets plus inventories as of the acquisition date. The percentage of net long-term assets plus inventories is used to allocate the initial acquisition adjustment and many of the other elements of the acquisition adjustment. This method is deemed appropriate under the premise that during an acquisition, the long-term assets are the primary driver of the difference between the purchase price and net book value of the company being acquired.

Q. WHAT ARE THE TRANSACTION COST COMPONENTS OF THE ACQUISITION ADJUSTMENT?

The transaction costs, which are provided on line 6 of Exhibit__(RDH-4), Schedule 2, are primarily investment banking fees, legal fees and accounting fees required to consummate the acquisition/transaction. Transaction costs incurred by AGLR totaled $8.7 million of which $1.6 million were allocated to the FCG acquisition adjustment based on the percentage of net long-term assets and inventories.

Q. WHAT IS THE NATURE OF THE TRANSITION COSTS?

A. Transition costs are investments made to integrate an acquired company into the family of the acquiring company. In the case of FCG and AGLR, these investments were made to implement the AGLR best practices business model, which includes increasing efficiencies and lowering overall costs in the future of the acquired companies.

Q. HOW WERE THE TRANSITION COSTS ALLOCATED TO FCG?

A. Depending on the nature of the costs, transition costs were specifically assigned or allocated to FCG using various allocation factors. The allocations factors include the aforementioned long-term assets plus inventories factor and factors based upon the percentage of expenses charged to FCG relative to other former NUI companies.

Q. WOULD YOU PLEASE DESCRIBE EACH OF THE ELEMENTS OF TRANSITION COSTS?

A. Employee severance payments are payments made to employees as a result of changes made to employee number levels due to the implementation of the AGLR business model. As discussed previously, this business model requires an initial investment amount with the realization of improved efficiencies and lower costs in a future period. The lower costs are substantiated by the cost savings provided in Exhibit__(RDH–1). Severance payments include those for FCG employees and an allocated amount of payments made to NUI Utilities employees since those employees provided services to FCG. The derivation of the amounts of severance payments attributable to FCG is shown on Exhibit__(RDH-4), Schedule 3.

Q. WHY WERE INFORMATION SYSTEM ASSETS WRITTEN OFF?

Part of the AGLR business model is to consolidate its subsidiaries into one technology platform as much as possible. This includes, but is not limited to, financial systems, general networks and programs and customer management systems. This consolidation renders the existing technology systems obsolete. The specific systems written off include NUI's financial systems and NUI's general information system infrastructure. The amount attributable to FCG was based on the net long-term assets and inventories factor described previously.

Q. WHAT ARE CHANGE OF CONTROL PAYMENTS?

A. Change of control payments are requirements in an acquisition. These payments were made as a result of agreements between NUI and certain NUI executives. Under the agreements, which existed prior to the acquisition, the executives would be compensated certain amounts if terminated within a three year period of a change in control, in this case, an acquisition. Payment of these amounts was a necessary part in the transition of ownership. The amount attributable to FCG was also based the net long-term assets and inventories factor.

Q. PLEASE EXPLAIN THE RETENTION COMPENSATION.

Retention compensation was paid to certain former NUI employees to encourage those employees to remain with NUI prior to the completion of the acquisition and during the transition period after AGLR's acquisition of NUI. Maintaining these employees for a period of time after the acquisition was necessary to mitigate the financial and operational impacts of the acquisition and subsequent transition. Only the amounts related to the periods prior to the acquisition date were included in the acquisition adjustment. Retention compensation includes payments made to FCG employees and an allocated amount of payments made to NUI Utilities employees, since those employees provided services to FCG. The derivation of the amounts of retention compensation attributable to FCG is shown on Exhibit__(RDH-4), Schedule 3.

Q. PLEASE EXPLAIN THE DIRECTORS AND OFFICERS INSURANCE.

A. As a result of the acquisition, AGLR agreed to provide liability insurance for the former Directors and Officers of NUI. The types and period of coverage was specified in the terms of the acquisition. This coverage was necessary part of the transition of ownership. The amount attributable to FCG was also based on the net long-term assets and inventories factor.

Q. PLEASE EXPLAIN THE TYPES OF TRANSITION COSTS NOT ALLOCATED TO FCG.

A. Transition costs of $75.2 million were not allocated to FCG. These costs were directly related to other companies acquired from NUI, non-jurisdictional operations or the impairments of non- FCG assets.

Q. PLEASE EXPLAIN LINE 15 OF EXHIBIT__(RDH-4), SCHEDULE 2, "PENSIONS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS."

A. This item contains two elements. The first component is accelerated pension cost recognition as a result of the acquisition as required by GAAP. Statement of Financial Accounting Standards No. 87 Employers Accounting for Pensions (SFAS 87) requires that the acquiring company recognize the full projected benefit obligation in excess of plan assets at the time of an acquisition. Included in the projected benefit obligation are deferred investment plan asset gains and losses, and prior service costs that are typically amortized over a period equal to the average remaining service period of active employees expected to receive benefits. The effect of the requirement of SFAS 87 is to accelerate the recognition of gains or losses on plan assets and prior service costs at the time of the acquisition. An amount of $2.2 million in accelerated pension cost recognition was assigned to FCG based on an actuarial study. FCG is seeking regulatory asset treatment of these costs as discussed in more detail later in my testimony.

The second component of line 15 includes a reduction to the acquisition adjustment of $1.9 million to reflect the appropriate level of pension asset for FCG as of the acquisition date. As of the acquisition date a liability was on the books of FCG, but FCG's records should have reflected an asset, and therefore an adjustment was made.

Postretirement amounts were not assigned to FCG because employees were not eligible for these benefits at the time of acquisition.

Q. PLEASE EXPLAIN DEFERRED TAX ADJUSTMENTS INCLUDED IN TRANSITION COSTS.

A Each component of the transition costs has an effect on accumulated deferred income taxes (ADIT). Some items result in an increase in liabilities (or decrease in assets) which results in the creation of a deferred tax asset (ADIT). These increases in deferred tax assets were offset with a credit to the acquisition adjustment. Other items decreased liabilities (or increased assets) and had the opposite effect on ADIT and the acquisition adjustment. The amount of deferred taxes for each transition cost item attributable to FCG was calculated by applying the statutory tax rate of 38.575% to the amount of the transition cost item.

Q. PLEASE EXPLAIN THE REGULATORY ASSET YOU ARE SEEKING TO RECORD IN ADDITION TO THE PROPOSED ACQUISITION ADJUSTMENT.

A. We propose that FCG be allowed to record a regulatory asset (net of tax effects) for the amount of the accelerated pension expense recognized as a result of the acquisition and amortize the asset over a period of approximately 13 years. Specifically, FCG is seeking regulatory asset treatment for the deferred gains and losses on pension plan assets and prior service costs included in FCG's SFAS 87 pension liability as a result of the acquisition. Prior to the acquisition, FCG had recovered these amounts through the inclusion of pension expense in its base rates. Due to the acquisition the recognition of these amounts was accelerated and was recorded as an increase to the acquisition adjustment and an increase to the pension liability. The increase to the pension liability results in a rate base reduction.

Q. WHAT WILL BE THE EFFECTS OF RECORDING A REGULATORY ASSET?

A. Establishing a regulatory asset for the amount of FCG's net benefit obligation of $1.3 million ($2.2 million less deferred income tax effects of $.9 million) will offset the rate base impacts of the accelerated liability recognition. Amortization of the pre-tax regulatory asset of $2.2 million over 13.3 years which is the approximate remaining service period of FCG employees expected to receive benefits from the pension plan will result in recognition of the accelerated items over a period which approximates that of normal pension expense recognition under SFAS 87.

ABILITY TO ATTRACT CAPITAL AND OVERALL COST OF CAPITAL

Q. HAVE YOU ASSESSED FCG'S ABILITY TO ATTRACT CAPITAL AND ITS COSTS OF CAPITAL UNDER AGLR OWNERSHIP VERSUS UNDER NUI OWNERSHIP?

A. Yes. FCG's ability to attract capital has increased significantly under AGLR ownership versus NUI ownership. Under NUI ownership the source of capital for FCG was NUI Utilities. NUI's and NUI Utilities' ability to attract capital had degenerated prior to the acquisition. Prior to the acquisition, NUI's and NUI Utilities' credit ratings according to Moody's Investor Service (Moody's) were Caa1 and B1, respectively. These ratings are speculative grade. By comparison AGLR's Moody's credit rating is Baa1 which is investment grade. Speculative grade ratings require a much higher cost to attract capital than investment grade ratings. These poor ratings also affected NUI Utilities' ability to attract capital for investment.

Q. WHAT SPECIFIC IMPACT DID NUI UTILITIES' CREDIT RATINGS HAVE ON ITS ABILITY TO ATTRACT CAPITAL AND ON ITS COST OF CAPITAL?

A. NUI Utilities had engaged in high cost, short-term credit arrangements because its poor credit ratings had prohibited it from entering into long-term financing arrangements. At the time of acquisition NUI Utilities had a principal amount outstanding of $225 million under these agreements. This reliance on short-term debt had caused NUI Utilities' short-term debt to total capitalization ratio to increase to 15.51% for the 13 months average for ended August 31, 2004, which was the period used by FCG for its September 2004 regulatory reporting immediately prior to the acquisition. As of September 2004 NUI Utilities' short-term debt ratio had escalated to 34.78% of total capitalization. This short-term debt was issued at rates of London Inter-bank Offering Rate ("LIBOR") plus an average of 483 basis points, or 4.83%. By comparison AGLR is able to issue short-term debt at LIBOR plus 5 basis points, of .05%. The high percentage to capitalization coupled with the high cost of short-term debt was resulting in an increasing cost of capital for FCG.

Q. DID NUI HAVE THE ABILITY TO ATTRACT EQUITY CAPITAL TO SUPPORT EQUITY FINANCING FOR NUI UTILITIES AND FCG?

A. NUI's ability to attract equity capital had decreased substantially due to its declining stock price. From July 1, 2002 to July 15, 2004(the date of the announcement of the acquisition) NUI's stock price had dropped from $26.78 to $13.30.

Q. WHAT IMPACT DID AGLR'S ACQUISITION OF NUI HAVE ON FCG'S ABILITY TO ATTRACT CAPITAL?

A. FCG's source of financing is now AGLR. AGLR's superior credit rating relative to NUI Utilities' rating prior to the acquisition allows AGLR to provide FCG access to a stable capital structure by issuing long-term and short-term capital sources to match the needs of FCG and other AGLR affiliates. AGLR's short-term debt to total capitalization is 9.25% which is a significant decrease relative to NUI Utilities prior to the acquisition. AGLR's financial performance also gives it access to attract common equity capital.

Q. DO YOU HAVE EXAMPLES OF AGLR'S RELATIVE SUPERIOR ABILITY TO ATTRACT CAPITAL?

A. Yes. Upon acquisition AGLR terminated the high cost short-term debt held by NUI Utilities, which had average rates of LIBOR plus 483 basis points. This debt would cost 10.15% based on recent LIBOR. AGLR refinanced this short-term debt with long-term debt, which had a cost of approximately 5.5%. Additionally, AGLR refinanced two series of long-term debt held by NUI Utilities which had fixed rates of 6.35% and 6.4% with variable rate debt that as of June 30, 2006 had rates of 3.63% and 3.82%, respectively.

Q. HAVE YOU ASSESSED FCG'S OVERALL COST OF CAPITAL UNDER AGLR OWNERSHIP VERSUS UNDER NUI OWNERSHIP?

A. Yes. I used three methods to compare the cost of capital under NUI ownership versus that of AGLR. Each of the methods shows a decrease in the cost of capital under AGLR ownership versus that of NUI. Two of the methods show a decrease in revenue requirement under AGLR ownership versus that of NUI of approximately $.5 million. One method shows an increase in revenue requirement of $.2 million.

Q. WHY DID YOU USE MULTIPLE METHODS TO ASSESS THE COST OF CAPITAL?

A. The methods reflect different assumptions regarding the capital structures appropriate for comparing the cost of capital before and after the acquisition. The first method compares the cost of capital by applying the costs of capital for AGLR and NUI Utilities to the actual capital structure for AGLR and the capital structure for FCG based on the capital structure used for regulatory reporting purposes prior to the acquisition for FCG. The second method applies the costs of capital to the capital structure authorized in FCG's most recent rate case. The third method applies the costs of capital to the actual capital structure for AGLR. We used a range of capital structures because NUI Utilities reported capital structure (used in the first method) changed substantially in periods leading up to the acquisition due to the issuance of short-term debt described earlier in my testimony. While this capital structure did reflect actual cost, the structure may not have been sustainable due to degree of reliance on short-term debt. FCG's authorized and AGLR's actual capital structures shown in the second and third methods reflect sustainable capital structures.

Q. WOULD YOU DESCRIBE THE EFFECT ON OVERALL COST OF CAPITAL DUE TO THE ACQUISITION THAT YOU HAVE QUANTIFIED UNDER EACH OF THE METHODS?

A. Exhibit__(RDH-5), Schedule 1 provides a comparison of the cost of capital and resulting revenue requirement impact under AGLR ownership versus NUI ownership using the capital structure and costs of capital used by FCG for regulatory reporting immediately prior to the acquisition. The weighted average cost of capital under AGLR ownership decreased to 8.40% versus 8.69% under NUI ownership. The revenue requirement, however, increased under AGLR ownership by $.2 million. Lines 1 through 4 provide the estimated cost of capital for FCG assuming FCG was still under NUI ownership. The reported capital structure for FCG as of September 30, 2004 included 39.39% common equity, 44.95% long-term debt and 15.51% short-term debt. This capital structure was based on the average capital structure for NUI Utilities for the 13 months ended August, 31, 2004. The cost of common equity of 11.25% is based on FCG's most recent base rate case in Docket No. 030569-GU. The cost of long-term debt of 6.16% is that of NUI Utilities for the average 13 months ended August 31, 2004, updated to reflect a variable rate on one of the issuances of debt. The cost of short-term debt is AGLR's average cost of short-term debt for the 12 months ended June 30, 2006 of 4.85% plus a premium of 4.78% for the cost premium NUI Utilities was required to pay over AGLR's short-term debt rate. This premium equals the cost that NUI Utilities was required to pay over LIBOR of 483 basis points less the AGLR premium over LIBOR of 5 basis points.

Q. WOULD YOU DESCRIBE THE COST OF CAPITAL FOR AGLR OF 8.40% AS PROVIDED ON LINE 8?

A. The capital structure for AGLR as of June 30, 2006 included 45.63% common equity, 45.11% long-term debt and 9.25% short-term debt. The common equity and long-term debt components are based on balances as of June 30, 2006. The short-term debt component is based on a 12 month average for the period ended June 30, 2006. The cost of common equity is based on the rate authorized for FCG. The cost of long-term debt of 6.25% includes the weighted average cost of all components of long-term debt for consolidated AGLR as of June 30, 2006.

The cost of short-term debt is based on the average cost for the 12 months ended June 30, 2006.

Q. WOULD YOU DESCRIBE THE AFTER-TAX COST OF CAPITAL IN COLUMN 4?

A. The after-tax cost of capital reflects the weighted average cost of capital in column 3 net of income tax benefits for tax deductible components of the capital structure. Long-term and short-term debt interest are deductible for income tax purposes and therefore the after tax cost is equal to the weighted average cost multiplied by 61.425% (1 minus the statutory tax rate of 38.575%).

Q. WOULD YOU DESCRIBE THE AFTER-TAX WEIGHTED AVERAGE COST OF CAPITAL INCREASE OF .09% RESULTING FROM THE ACQUISITION AS PROVIDED ON LINE 9?

A. The after-tax weighted average cost of capital increase reflects the increase in after-tax cost of capital from 7.05% assuming continued NUI ownership to 7.14% under current AGLR ownership. This increase is primarily due to an increase in the weighted average cost of equity from 4.43% to 5.13%, which is driven by the higher balance of common equity. The increase is mostly offset by a decrease in the cost of short-term debt due both to the decreased percentage of short-term debt capitalization and decrease cost of short-term debt under AGLR ownership.

Q. WHY DID THE AFTER-TAX COST OF CAPITAL INCREASE UNDER AGLR OWNERSHIP WHILE THE PRE-TAX COST OF CAPITAL DECREASED?

A. Under AGLR ownership FCG has a relatively higher percentage of common equity in its capital structure and lower percentage of short-term debt versus under NUI ownership. Common equity return is not deductible for income tax purposes. Interest on short-term debt is deductible for income tax purposes. This tax advantage for short-term debt resulted in a slightly lower after-tax cost of capital under NUI ownership than AGLR.

Q. WOULD YOU EXPLAIN THE CALCULATION OF THE REVENUE REQUIREMENT INCREASE PROVIDED ON LINE 13?

A. The revenue requirement increase of $.2 million is calculated as the increase in after-tax cost of capital of .09% multiplied by the average rate base for FCG as of June 30, 2006. The result is a higher revenue requirement of $.2 million.

Q. YOU STATED EARLIER IN YOUR TESTIMONY THAT THE CAPITAL STRUCTURE MAINTAINED BY NUI UTILITIES PRIOR TO THE ACQUISITION THAT RESULTS IN A LOWER REVENUE REQUIREMENT AS COMPARED TO AGLR OWNERSHIP MAY NOT HAVE BEEN SUSTAINABLE. PLEASE EXPLAIN.

A. Generally, the maturity date of financing should match the expected cash flows of assets being financed. NUI Utilities had relied on short-term financing because of its inability to finance long-term. The financing of long-term assets with short-term financial instruments creates uncertainty in the ability to repay the financial instruments because the cash flow from long-term assets may not be available to repay the short-term debt.[1] NUI Utilities' capital structure prior to the acquisition may not have been sustainable due to this mismatch.

Q. WOULD YOU DESCRIBE YOUR COMPARISON OF THE COST OF CAPITAL THAT YOU PREPARED BY APPLYING THE COSTS OF CAPITAL TO THE CAPITAL STRUCTURE AUTHORIZED FOR FCG IN ITS MOST RECENT RATE CASE?

A. Exhibit__(RDH-5), Schedule 2 provides a comparison of the cost of capital under AGLR versus NUI ownership by applying the costs of capital to the capital structure authorized in FCG's most recent base rate case. The capital structure authorized for FCG included 43.40% common equity, 47.50% long-term debt and 9.10% short-term debt. I applied the same cost of capital described above in reference to Exhibit__(RDH 5), Schedule 1. The weighted average cost of capital under AGLR ownership decreased to 8.29% versus 8.68% under NUI ownership. The after-tax cost of capital decreased from 7.22% to 6.98%. This method shows that the revenue requirement decreased $.5 million under AGLR ownership.

Q. WOULD YOU DESCRIBE YOUR COMPARISON OF THE COST OF CAPITAL THAT YOU PREPARED BY APPLYING THE COSTS OF CAPITAL TO AGLR'S CAPITAL STRUCTURE?

A. Exhibit__(RDH-5), Schedule 3 provides a comparison of the cost of capital under AGLR versus NUI ownership by applying the costs of capital to AGLR's actual capital structure as of June 30, 2006. I applied the same cost of capital described above in reference to Exhibit__(RDH-5), Schedule 1. The weighted average cost

[1] E. F. Brigham and L. C. Gapenski, Financial Management Theory and Practice, p. 633 (6th ed., Dryden Press, Ft. Worth, TX, 1991).

of capital under AGLR ownership decreased to 8.40% versus 8.80% under NUI ownership. The after-tax cost of capital decreased from 7.39% to 7.14%. This method shows that the revenue requirement decreased $.5 million under AGLR ownership.

Q. WHY DID YOU NOT INCLUDE THE REVENUE REQUIREMENT RESULTS OF THE COST OF CAPITAL ANALYSIS IN THE ANALYSIS OF SAVINGS DUE TO THE ACQUISITION AS SUMMARIZED IN EXHIBIT__(RDH-1)?

A. One method of analyzing the cost of capital resulted in an increase to the revenue requirements due to the acquisition while two of the methods resulted in a revenue requirement decrease in the revenue requirement. Even though two of the three analyses show a decrease in the revenue requirement and support the fact that FCG has a lower cost of capital under AGLR ownership, I excluded the results due to the conflicting results and in order to present a conservative overall calculation of the savings resulting from the acquisition.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Exhibit__(RDH-1)

Florida City Gas
Net Savings to Florida City Gas as a Result of the AGL Resources Inc. Acquisition
(Thousands)

Line No.		1	2	
1	Operation and Maintenance Expense Savings		$4,797	(1)
2	Reduction in Gas Cost Financing		375	
3	Reduction in Gas Cost Due to Release of Excess Pipeline Capacity		495	
4	Total Savings Due to Acquisition		$5,667	
5	Acquisition Adjustment Allocated to Florida City Gas	25,288		(2)
6	Multiplied by Weighted Average Cost of Capital (After-tax)	7.14%		
7	Return on Rate Base - Operating Income Requirement	1,806		
8	Gross-Up Factor	1.6329		
9	Revenue Requirement	2,948		
10	Amortization of Acquisition Adjustment	843		
11	Total Revenue Requirement	3,791	3,791	
12	Annualized Savings as a Result of the Acquisition		$1,876	

(1) Exhibit RDH-2.
(2) Exhibit RDH-4.

FLORIDA CITY GAS
Operating Expenses Comparison

Exhibit__(RDH-2)
Schedule 1

Line No.		1 Base Level 7 Months Actual Plus 5 Months Forecast December 2006	2 Actual 12 Months Ended September 2004	3 Variance 2006 Base Level versus 2004 Favorable (Unfavorable)	
1	Labor	4,229,704	5,714,149	1,484,445	
2	Benefits	1,340,104	1,802,311	462,207	
3	Outside Services	1,861,336	1,934,544	73,208	
4	Allocations	9,902,803	10,159,791	256,988	
5	Capitalized Cost	(384,434)	(49,586)	334,848	
6	All Other Operation Expense	3,523,223	4,124,555	601,332	
7	**Total Operations and Maintenance Expenses (Non-Inflation Adjusted)**	**20,472,736**	**23,685,764**	**3,213,028**	
8	**Base Level Favorable Variance Non-inflation adjusted (Line 7 above)**			**3,213,028**	
9	**Plus: Inflation for Operating Expenses Under Pre-AGLR (Based on CPI)**			**1,918,547**	
10	**Less: Capitalized Cost Variance**			**334,848**	(1)
11	**Total Base Level Favorable Variance**			**4,796,727**	

(1) Eliminate favorable variance due to AGLR policy of capitalizing administrative costs versus NUI policy of not capitalizing the same costs.

FLORIDA CITY GAS
Operating Expenses Comparison

Exhibit__(RDH-2)
Schedule 2

Line No.		1	2	3	4	5	6	7	8
		7 Months Actual Plus 5 Months Forecast December 2006	**Non-Base Expenses**	**Base Level 7 Months Actual Plus 5 Months Forecast December 2006**	**Actual 12 Months Ended September 2004**	**Adjustment to Reclassify Customer Service Expenses to Allocations (2)**	**Actual 12 Months Ended September 2004**	**Variance 2006 Base Level versus 2004 Favorable (Unfavorable)**	**Percentage Change**
1	Labor	4,229,704		4,229,704	7,688,023	(1,973,874)	5,714,149	1,484,445	26%
2	Benefits	1,340,104		1,340,104	2,273,725	(471,414)	1,802,311	462,207	26%
3	Outside Services	2,921,614	(1,060,278) (1)	1,861,336	2,160,045	(225,501)	1,934,544	73,208	4%
4	Allocations	9,902,803		9,902,803	6,347,641	3,812,150	10,159,791	256,988	3%
5	Capitalized Cost	(384,434)		(384,434)	(49,586)		(49,586)	334,848	-675%
6	All Other Operation Expense	3,523,223		3,523,223	5,265,916	(1,141,361)	4,124,555	601,332	15%
7	**Total Operations and Maintenance Expenses**	**21,533,014**	**(1,060,278)**	**20,472,736**	**23,685,764**	**0**	**23,685,764**	**3,213,028**	

(1) Includes ERTs installation expense of $350,000 and Geographical Information System of $710,278.
(2) Under NUI ownership customer service and collection costs were charged to direct expense and allocated to other NUI utility companies. This adjustment reclassifies the directly incurred costs to allocated costs for consistent presentation with costs under AGLR ownership.

Florida City Gas
(Thousands)

Line No.		1	2		3	4	5	
		Revenue Requirement if Still Under NUI Ownership						
		As Reported For 12 Months Ended 9/30/2004 - FPSC Adjusted	Estimated Changes		Working Capital Requirement of Gas Prepayment Under NUI Ownership	Revenue Requirement Under NUI Ownership Estimated For Calendar 12 Months Ended December 2006	Revenue Requirement Under AGLR Ownership Estimated For Calendar 12 Months Ended December 2006	
1	Operating Margin	42,748	2,261	(1)		45,009	45,009	
2	Operations and Maintenance Expense	23,700	1,919	(2)		25,619	20,473	
3	Depreciation and Amortization	7,910	(221)	(1)		7,689	8,530	(3)
4	Taxes Other Than Income	2,782	(168)	(1)		2,614	2,614	
5	Income Taxes	1,427	(79)			1,348	3,170	
6	Total Operating Expenses	35,819	1,451			37,270	34,787	
7	Operating Income	6,929	810			7,739	10,222	
8	Rate Base	119,636	1,246	(1)	7,735	128,617	146,168	(4)
9	Return on Rate Base	5.79%				6.02%	6.99%	
10	Return on Equity	6.61%				5.78%	9.22%	
11	Revenue Requirement/(Deficiency) @ 11.25%	3,067				3,948	1,981	
12	Revenue Requirement/(Deficiency) @ 12.25%	3,731				4,662	2,960	

(1) Adjustment to equal amounts included in the estimated 7 months actual through July 2006 plus 5 months forecast August through December 2006.
(2) Cost increases based on CPI.
(3) Includes 30 year amortization of acquisition adjustment.
(4) Includes acquisition adjustment.

Florida City Gas
Summary of Elements of Acquisition Adjustment

Exhibit__(RDH-4)
Schedule 1

Line No.		
1	Purchase Price Premium	21,703,686
2	Transaction Costs	1,618,644
3	Transition Costs	3,310,748
4	Total Acquisition Adjustment	26,633,077
5	Less: Pension Regulatory Asset - Net of Deferred Tax	1,345,201
6	Acquisition Adjustment	25,287,876

Line No.		1 Total Acquisition Adjustment Recorded by AGL Resources Inc.	2 Amount Allocated to Florida City Gas Acquisition Adjustment	3 %Allocated to Florida City Gas	4 Allocation Basis
	Purchase Premium				
1	Price per Share	$ 13.70			
2	Number of shares	15,938,124.00			
3	Purchase Price of Stock of NUI	$ 218,352,298.80			
4	Less Book Value	101,225,013.33			
5	**Purchase Premium**	117,127,285.47	21,703,686	18.53%	
6	**Transaction Costs - Banking, Accounting, Legal and Other**	8,735,259.20	1,618,644	18.53%	
7	**TransitionCosts**				
	Description	**Amount**	**Amount Allocable to FCG**	**%Allocable FCG**	**Basis**
8	Employee Severance Payments	17,960,410.22	2,181,490.68		See Exhibit RDH 4, Schedule 3
9	Write-Off's of Information Systems Assets of Former Service Providers	5,011,735.80	928,674.64	18.53%	Net Long-term assets plus inventories for NUI total
10	Change of Control Payments	4,714,583.12	873,612.25	18.53%	Net Long-term assets plus inventories for NUI total
11	Retention Compensation	2,775,615.13	435,252.68		See Exhibit RDH 4, Schedule 3
12	Directors & Officers Insurance	3,501,994.52	648,919.58	18.53%	Net Long-term assets plus inventories for NUI total
13	Costs not allocated to Florida City Gas	75,230,523.54			
14	Total Transition Costs Excluding Pension and Postretirement Costs	109,194,862.32	5,067,949.84		
15	Pension and Postretirement Benefits Other than Pensions	56,205,110.21	321,953.00		Directly Assigned to FCG Based on Actuarial Study
16	Total Transition Cost Before Deferred Tax	165,399,972.53	5,389,902.84		
17	Def Tax Adjustment	(60,300,364.89)	(2,079,155.02)		Calculated at Statutory Tax Rate of 38.575%
18	**Transition Costs Including Deferred Tax**	105,099,607.64	3,310,747.82		
19	**Total Acquisition Adjustment**	230,962,152.31	26,633,077.35		
20	Less: Regulatory Asset for Pensions Due to Purchase Accounting		2,189,990		Directly Assigned to FCG Based on Actuarial Study
21	Plus: ADIT on Regulatory Asset		844,789		Calculated at Statutory Tax Rate of 38.575%
22	**Acquisition Adjustment Excluding Regulatory Pension Asset**		25,287,876		

Florida City Gas
Summary of Elements of Acquisition Adjustment

Exhibit__(RDH-4)
Schedule 3

		1	2	3	4
Line No.		Total Acquisition Adjustment Recorded by AGL Resources Inc.	%Allocated to Florida City Gas	Amount Allocated to Florida City Gas Acquisition Adjustment	Allocation Basis
	Severance Payments				
1	Florida City Gas Employees (Except Cust. Service and Collection)	1,431,942.85	100%	1,431,942.85	
2	Customer Service	787,326.58	24.50%	192,895.01	NUI % of Customer Service Allocated to FCG
3	Collection	64,829.21	9.10%	5,899.46	NUI % of Collection Costs Allocated to FCG
4	Allocated from NUI Utilities	2,802,816.08	19.65%	550,753.36	Net Long-term assets plus inventories for NUI Utilities
5	Other companies not Allocated to FCG	12,873,495.49	0%	-	
6	Total	17,960,410.22		2,181,490.68	
	Retention Compensation				
7	Florida City Gas Employees	219,262.72	100%	219,262.72	
8	Allocated from NUI Utilities	1,099,185.52	19.65%	215,989.96	Net Long-term assets plus inventories for NUI Utilities
9	Other companies not Allocated to FCG	1,457,166.88	0%	-	
10	Total	2,775,615.13		435,252.68	

Florida City Gas
Analysis of Cost of Capital For FCG Before and After Acquisition
(Dollars in Thousands)

Exhibit__(RDH-5)
Schedule 1

FCG Cost of Capital Prior to Acquisition

Estimated Cost of Capital if Still Under NUI Ownership
(Updated Cost of Short-term Debt based on NUI Credit Rating Prior to Acquisition)

		1		2		3	4
Line No.		Capitalization %		Cost %		Weighted Average Cost %	After-tax Cost of Capital
1	Common Equity	39.39%	(1)	11.25%	(2)	4.43%	4.43%
2	Long-term Debt	44.95%	(1)	6.16%	(3)	2.77%	1.70%
3	Short-term Debt	15.51%	(1)	9.63%	(4)	1.49%	0.92%
4	Total					8.69%	7.05%

AGL Resources Inc.'s Cost of Capital

		Capitalization %		Cost %		Weighted Average Cost %	After-tax Cost of Capital
5	Common Equity	45.63%	(5)	11.25%	(2)	5.13%	5.13%
6	Long-term Debt	45.11%	(5)	6.25%	(5)	2.82%	1.73%
7	Short-term Debt	9.25%	(5)	4.85%	(6)	0.45%	0.28%
8	Total					8.40%	7.14%

9	After-tax Cost of Capital Decrease/(Increase) Resulting from Acquisition	-0.09%
10	Average Rate Base for Year Ended June 30, 2006	$119,945
11	Operating Income Decrease/(Increase)	($108)
12	Gross up factor	1.6329
13	Revenue Requirement Decrease/(Increase)	($176)

(1) Capital structure for NUI Utilities for 13 months ended August 31, 2004.
(2) Authorized in Docket No. 030569-GU.
(3) As of August 31, 2004 for NUI Utilities with variable debt updated.
(4) AGL Resources Inc. cost of short-term debt for 12 months ended June 2006 plus 478 basis points.
(5) AGL Resources Inc. capital structure and consolidated cost of long-term debt as of June 30, 2006.
(6) AGL Resources Inc. cost of short-term debt for 12 months ended June 2006.

Florida City Gas
Analysis of Cost of Capital For FCG Before and After Acquisition
(Dollars in Thousands)

Exhibit__(RDH-5)
Schedule 2

FCG Authorized Capital Structure - NUI Utilities' Cost of Capital

		1		2		3	4
		Capitalization %		**Cost %**		**Weighted Average Cost %**	**After-tax Cost of Capital %**
1	Common Equity	43.40%	(1)	11.25%	(1)	4.88%	4.88%
2	Long-term Debt	47.50%	(1)	6.16%	(2)	2.93%	1.80%
3	Short-term Debt	9.10%	(1)	9.63%	(3)	0.88%	0.54%
4	Total					8.68%	7.22%

FCG Authorized Capital Structure - AGL Resources Inc.'s Cost of Capital

		Capitalization %		**Cost %**		**Weighted Average Cost %**	**After-tax Cost of Capital %**
5	Common Equity	43.40%	(1)	11.25%	(1)	4.88%	4.88%
6	Long-term Debt	47.50%	(1)	6.25%	(4)	2.97%	1.82%
7	Short-term Debt	9.10%	(1)	4.85%	(5)	0.44%	0.27%
8	Total					8.29%	6.98%

9	After-tax Cost of Capital Decrease/(Increase) Resulting from Acquisition	0.24%
10	Average Rate Base for Year Ended June 30, 2006	$119,945
11	Operating Income Decrease/(Increase)	$288
12	Gross up factor	1.6329
13	Revenue Requirement Decrease/(Increase)	$470

(1) Authorized in Docket No. 030569-GU.
(2) As September 30, 2004 for NUI Utilities with variable debt updated.
(3) AGL Resources Inc. cost of short-term debt for 12 months ended June 2006 plus 478 basis points.
(4) AGL Resources Inc. consolidated cost of long-term debt as of June 30, 2006.
(5) AGL Resources Inc. cost of short-term debt for 12 months ended June 2006.

Exhibit__(RDH-5)
Schedule 3

Florida City Gas
Analysis of Cost of Capital For FCG Before and After Acquisition
(Dollars in Thousands)

AGL Resources Inc.'s Capital Structure - NUI Utilities' Cost of Capital

		1		2		3	4
		Capitalization %		**Cost %**		**Weighted Average Cost %**	**After-tax Cost of Capital %**
1	Common Equity	45.63%	(1)	11.25%	(2)	5.13%	5.13%
2	Long-term Debt	45.11%	(1)	6.16%	(3)	2.78%	1.71%
3	Short-term Debt	9.25%	(1)	9.63%	(4)	0.89%	0.55%
4	Total					8.80%	7.39%

AGL Resources Inc.'s Cost of Capital

		Capitalization %		**Cost %**		**Weighted Average Cost %**	**After-tax Cost of Capital %**
5	Common Equity	45.63%	(1)	11.25%	(2)	5.13%	5.13%
6	Long-term Debt	45.11%	(1)	6.25%	(5)	2.82%	1.73%
7	Short-term Debt	9.25%	(1)	4.85%	(6)	0.45%	0.28%
8	Total					8.40%	7.14%

9	After-tax Cost of Capital Decrease/(Increase) Resulting from Acquisition	0.25%
10	Average Rate Base for Year Ended June 30, 2006	$119,945
11	Operating Income Decrease/(Increase)	$300
12	Gross up factor	1.6329
13	Revenue Requirement Decrease/(Increase)	$490

(1) AGL Resources Inc.'s capital structure as of June 30, 2006.
(2) Authorized in Docket No. 030569-GU.
(3) As September 30, 2004 for NUI Utilities with variable debt updated.
(4) AGL Resources Inc. cost of short-term debt for 12 months ended June 2006 plus 478 basis points.
(5) AGL Resources Inc. consolidated cost of long-term debt as of June 30, 2006.
(6) AGL Resources Inc. cost of short-term debt for 12 months ended June 2006.