

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

**FOR THE FORECASTED TEST YEAR ENDED
SEPTEMBER 30, 1997**

**Field Work Completed
August 9, 1996**

**CITY GAS COMPANY OF FLORIDA
Miami, Florida
Dade County**

**Rate Case Audit
Docket Number 960502-GU
Audit Control No. 96-180-4-1**

Gabriela Leon

**Gabriela Leon
Audit Manager**

Audit Staff:

**Ray Grant
Yen Ngo
Iliana Piedra
Ruth Young**

Minority Opinion:

Yes ___ No RG
Yes ___ No Y
Yes ___ No IA
Yes ___ No RY

Kathy L. Welch

**Kathy L. Welch
District Audit Supervisor
Miami**

DOCUMENT NUMBER-DATE

08624 AUG 16 86

FPSC-RECORDS/REPORTING

MEMORANDUM

August 15, 1996

TO: DIVISION OF RECORDS AND REPORTING (FLYNN)

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (PELT) *D. Peit*

RE: DOCKET NO. ~~980502~~ - GU -- CITY GAS COMPANY OF FLORIDA
RATE CASE - FORECASTED TEST YEAR ENDED SEPTEMBER 30, 1997
ISSUED UNDER DENISE VANDIVER'S AUGUST 15, 1996 TRANSMITTAL
AUDIT CONTROL NO. 96-180-4-1

Excerpts from the audit report, Audit Disclosure Numbers 4 and 12, and working papers, Volume 11 of 11, are forwarded, pursuant to Rule 25-22.006, F.A.C. Six (6) diskettes are also filed as confidential. Volumes 1-10, the unclassified portions of the audit report and the administrative section for the working papers have been filed as unclassified in DAFA files.

The audit exit conference was held August 12, 1996.

An attached one-page index list all confidential papers and ~~08596~~ 8/15/96 diskettes.

Attachments: Confidential Document Index, One Page - ~~08597~~ 8/15/96
Audit Report Excerpts, Disclosures 4 and 12
Six Diskettes
Working Papers, Volume 11 of 11

cc: Legal
Mary Bane
Bob Freeman

M. H. Sanden
Received by

Aug. 15, 1996
Date

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DOCUMENT NO.
08596-96
8/15/96

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FPSC-RECORDS/REPORTING

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V. EXHIBITS

I. Executive Summary

Audit Purpose: We have applied the procedures described in Section II of this report to determine if the schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period forecasted ending September 30, 1997 for City Gas Company of Florida for their Petition for rate relief, FPSC Docket 960502-GU were in compliance with Commission directives.

Scope Limitation: The audit exit conference was held August 12, 1996. This report is based on confidential information which is separately filed with the Commission Clerk.

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion: The schedules of Rate Base, Net Operating Income and Capital Structure for the twelve month period ending December 31, 1997, represent City Gas of Florida's forecast which is based on the October 1995 to March 1996 books and records maintained in substantial compliance with Commission Directives; The expressed opinions extend only to the scope of work described in section II of this report.

II. Audit Scope

The opinions contained in this report are based on the audit work described below. When used in this report, COMPILED and EXAMINED means that audit work includes:

COMPILED - Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity, or inconsistency; and, except as otherwise noted performed no other audit work.

EXAMINED - Means that the audit staff reconciled exhibit amounts with the general ledger; traced general ledger account balances to subsidiary ledgers; applied selective analytical review procedures; tested account balances to the extent further described; and disclosed any error, irregularity, or inconsistency observed.

RATE BASE: Examined Utility Plant for the period ended September 30, 1995. Selected a sample of additions for testing to source documentation and engineering review. Prices were traced to the contracts. The new contract was reviewed to determine if competitive bidding was followed. Forecasted plant is being reviewed by Roger Fletcher.

Compiled Land. Compiled Construction Work in Process (CWIP) for 1995. Verified adjustment to rate base related to CWIP. Coordinated with Roger Fletcher who is reviewing the forecast for CWIP and Common Plant.

Recalculated Accumulated Depreciation and determined that order rates are used.

Compiled Advances for Construction. Compiled the Acquisition Adjustment and related Accumulated Amortization. Reconciled balances to the general ledger and the prior rate case work for the test year.

the test year. Reviewed the company methodology for computing 1996 and 1997 and determined if the company rate base adjustments related to them were reasonable.

Compiled Working Capital. For historical, traced all components to the company balance sheet. Determined that the items included were appropriate. Read last audit report, Commission Order and Commission Digest of Regulatory Philosophy to determine if the appropriate adjustments were made. Recalculated selected adjustments.

For projected working capital, reconciled to the projected balance sheet. Compared the 1995 historical to the 1997 projected balances and reviewed the major assumptions for reasonableness. Compared 1995 and 1997 adjustments to determine basis. Analyzed accounts receivable and accrued utility revenues.

Cost of Capital: Compiled Cost of Capital. Traced components to the NUI schedules and City Gas books. Reconciled 1995 amounts to the audited financial statements. Verified new debt issuance. Determined accuracy of the pro-rata calculation. For 1996, obtained the reconciliation of rate base and cost of capital. For 1997, obtained supporting documentation for the forecasted numbers and the prorata calculation.

Net Operating Income:

Revenues: Verified numbers on E-1 for the forecasting group. Compiled Revenues. Recomputed selected accounts from each rate class to tariff rates.

Expenses: Compiled 1995 expenses. For the 1996 forecast, reviewed the actual six months October 1995 to March 1996 and reviewed all of the company adjustments made to arrive at the forecast. Tested a sample of actual expenses for October 1995 - March 1996 based on an analytical review. Determined the methodology for forecasting 1997 and tested accounts which were not trended. Reviewed 1997 adjustments to

forecasted Net Operating Income.

Reviewed supporting documentation for taxes other than income.

ALLOCATIONS FROM NUI NEW JERSEY (NUI NEW JERSEY CONSISTS OF NUI CORPORATE AND ELIZABETHTOWN GAS CO CORPORATE) AND NUI SOUTHERN DIVISION: Performed an analytical review of historical, Projected 96 and Projected 97 allocated expenses to determine increases to investigate.

Analyzed allocation methodologies for both NUI expenses and Southern Division Expenses. Recalculated both methodologies and traced Elizabethtown and City Gas Payroll, Plant and Number of Customers at certain points in time to appropriate source documentation.

Applied allocation percents to various expenses from NUI and Southern Division to determine if calculated correctly.

Forecast methods used for NUI and Southern Division for Projected 96 and Projected 97 were reviewed, and forecasts recalculated. Actual amounts used in forecasts were traced to appropriate general ledgers. Staff prepared a forecast of 96 for NUI expenses and compared staff forecast with company prepared forecasted 96. Differences were investigated. Company adjustments to come up with NUI Projected 97 were analyzed and traced to source documents where appropriate.

Company prepared forecasts for the Southern Division for 96 and 97 were traced to appropriate documentation and percent increases reviewed for reasonableness.

The actual expenses included in the company documentation for amounts included in the rate case were agreed to the NUI general ledger, Southern Division general ledger and Elizabethtown Gas general ledger.

A haphazard judgmental sample of invoices and journal entries was taken

of actual October 95 through March 96 from the NUI general ledger, Southern Division general ledger and Elizabethtown general ledger. The sample was tested for amount agreement, recurring items and to determine if they were for regulated expenses.

Employee names and position descriptions were obtained for NUI, Elizabethtown Gas Co., Southern Division and City Gas Company. All were compared to determine if there was any duplication.

Other: Reviewed Board of Directors Minutes, Internal and External audits, prior Commission orders and audit workpapers.

III. AUDIT EXCEPTIONS

AUDIT EXCEPTION NO. 1

SUBJECT: ACQUISITION ADJUSTMENT

STATEMENT OF FACT: When the company adjusted Accumulated Amortization of the acquisition adjustment on MFR G-1, they were trying to eliminate everything except the 1959/62 acquisition adjustment amortization and the amortization of Franchise and Consents and Miscellaneous Intangible Plant.

The forecasts for these items per the MFR's are:

1959/62 Acquisition Adjustment	\$351,622
Amortization of Franchise and Consents	75,175
Amortization of Misc. Intangible Plant	10,332
Balance at 9/97	\$437,129

The accumulated amortization 9/97 per G-1 p. 1 Rate Base	\$462,162
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Difference	\$ 25,033
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The company stated that they made errors in calculating the adjustment that caused this difference.

Opinion: Projected 1997 Rate Base on G-1 page 1 should be increased by \$25,033.

AUDIT EXCEPTION NO. 2

SUBJECT: OUT OF PERIOD CHARGES

STATEMENT OF FACT: During a review of the forecasted 1996 balances that were included in MFR G-2 page 1, and on G-2 pages 12 to 20, it was determined that a charge to account 903 (Company account 735442201164-entry 79320 for December 1995) was for an out of period correction. The charge was made by NUI for a September postage error in the Brevard Division for \$15,963.31. This charge was included in the six month costs that the company annualized to arrive at forecasted 1996. Therefore, \$31,926.62 was included in expenses for 1996 related to these out of period costs.

The company trended this account amount using an inflation and customer growth rate of 6.14% for forecasted 1997. Therefore, 1997 expenses contain \$33,886.91 related to this error.

OPINION: Forecasted Net Operating Income should be increased by \$31,926.62 for 1996 and by \$33,886.91 for 1997.

AUDIT EXCEPTION NO. 3

SUBJECT: NONRECURRING EXPENSES

STATEMENT OF FACT: The Company has included \$5,418.93 on Schedule G-2 p. 18 in account 921 for the 1997 forecasted test year expenses. A bill from BellSouth for phone service for the period of October 1, 1995 through October 31, 1995 contained one time charges related to service establishment of the Megalink service at the Miami office amounting to \$2,630.55. Since the company annualized the October through March 1996 costs, the 1996 expense includes \$5,261.10. The company trended this account for inflation of 3%. Therefore, for 1997 \$5,418.93 is included in expenses.

OPINION: Since these costs are one-time charges they are nonrecurring, therefore Operating and Maintenance expenses should be reduced by \$5,418.93.

AUDIT EXCEPTION NO. 4

SUBJECT: TRANSPORTATION EXPENSES

STATEMENT OF FACTS: During a review of transportation journal entries for 1996, it was determined that transportation expenses were not being allocated to non-regulated operations. Two divisions, Miami and Brevard have payroll charges directly recorded to non-regulated operations. The transportation expenses related to these divisions are:

		Miami <u>143</u>	Brevard <u>343</u>	Total
October	1995	\$19,035.55	\$13,256.60	\$32,292.15
November	1995	\$ 5,027.44	\$ 3,501.18	\$ 8,528.62
December	1995	\$13,154.15	\$ 9,160.72	\$22,314.87
January	1996	\$18,620.17	\$12,967.34	\$31,587.51
February	1996	\$12,421.99	\$ 8,650.84	\$21,072.83
March	1996	\$13,898.44	\$ 9,679.06	\$23,577.50
Total		\$82,157.74	\$57,215.74	\$139,373.48

OPINION: Transportation expense for the Miami and Brevard Customer Service Field division should be allocated to non-regulated operations because payroll for those divisions was allocated to non-regulated operations. Transportation for the other divisions are allocated through the common plant allocations in the MFR's.

Staff calculated transportation expenses related to non-regulated operations using the 15.58% three factor allocation method which takes into account payroll, plant and the number of customers.

Staff determined the amount as follows:

Total Transportation Expenses Charged To Miami and Brevard	\$139,373.48
Allocation Factor	15.58%
Non-Reg. Portion -6 Months	\$ 21,714.39
Times	2
Total Annualized 1996	\$ 43,428.78
Increase for Trending Factor	3.00%
Total Projected in Test Year 9-30-97	\$ 44,731.64

RECOMMENDATION: Account 879 - Customer Installations for the six month of October to March 1996 contained transportation expenses of \$21,714.39 related to Miami and Brevard non-regulated operations. This amount was annualized to be \$43,428.78. Projected test year expenses for 1997 include \$44,731.64 after the trending factors are applied. This amount should be removed from expenses on G-2 p and increase NOI on G-2 pl.

AUDIT EXCEPTION NO. 5

**SUBJECT: LACK OF SUPPORTING
DOCUMENTATION FOR PLANT**

STATEMENT OF FACT: Staff performed a sample testing on Plant. The following items could not be located by the company due to the relocation to another building:

VOUCHER NUMBER	DATE	VENDOR NAME	ACCOUNT	AMOUNT
9409570	9/94	MEDLEY	376	4,112.68
9410359	10/94	BREVARD COUNTY	376	9,668.00
9311652	11/93	MEDLEY	376	18,916.20
9312600	12/93	MEDLEY	376	27,322.87
9408738	8/94	MUELLER	376	13,169.66
9309775	9/94	MEDLEY	376	29,868.34
			TOTAL	103,057.75

OPINION: Amounts not supported should be removed.

AUDIT EXCEPTION NO. 6

SUBJECT: ACCOUNT 903 NON-RECURRING EXPENSE

STATEMENT OF FACT: In projecting 1996 expenses for account 903 in MFR G-2, the company removed some charges in the second half of the year that they said were one-time charges. They did, however, leave these charges in the first part of the year. These charges were then increased by inflation and customer growth (6.14%) for the 1997 forecast. The charges, per the company response to request 25(2) were for:

- \$45,470 Account 75103311.11-telephone charges that they did not expect to repeat in the second half of the year.
"This level of charge resulted from the combination of phone usage to satisfy seasonal level-of-business requirements and temporary operation of the new CIS system on a dial-up basis to connect with the NJ-based main frame computer."
- \$8,300 Account 75204220.190 write off of prepaid IBM upgrade costs that were previously subject to amortization that had no value due to replacement of the old system.

Staff asked the company to determine the amount of the \$45,470 that related to seasonality and the portion for the new CIS system. The company's response (58(2)) was that "The company is unable to identify the portion of phone charges incurred in this item that are one-time charges but believes that it is less than half as City Gas operated on a dial-up basis only intermittently, as system bugs arose, or as equipment upgrades were being installed."

Their response also confirmed that the IBM costs should not have been recorded in 1997.

OPINION: The IBM costs of \$8,300 for 1996, which amount to

\$8,809.62 for 1997 after inflation and growth, should be removed from forecasted 1997 expenses on G-2.

A portion of the \$45,470 in 1996, which amount to \$48,261.86 in 1997, should be removed because the CIS system changeover is non-recurring. Staff could not determine the amount because the company was not able to identify how they arrived at the number.

RECOMMENDATION: Remove \$8,809.62 from account 903 and a portion of the \$48,261.86.

AUDIT EXCEPTION NO. 7

SUBJECT: PLANT IN SERVICE - ARTWORK

STATEMENT OF FACTS: For Projected 9/30/96 and Projected 9/30/97, the Company added back to Plant in Service the amounts for the Southern Division that they believe should be allocated to City Gas.

The amount allocated to City Gas for Projected 9/30/96 and Projected 9/30/97 is \$1,226,473. This is included in MFR G-1, page 4 of 28.

Part of this amount is \$35,828 for Artwork in the Southern Division Office. There is no accumulated depreciation associated with the artwork.

In Order No. 24013, Docket 891175-GU in Attachment 1, an adjustment was made to remove Artwork from City Gas Rate Base in the amount of \$38,828.

OPINION: Artwork is not necessary to provide service to the ratepayers and should not be included in Rate Base.

RECOMMENDATION: Reduce Plant in Service in the amount of \$35,828 for test year plus one and Projected 9/30/97.

AUDIT EXCEPTION NO. 8

SUBJECT: ALLOCATIONS FROM SOUTHERN DIVISION SALARIES

STATEMENT OF FACTS: In MFR G-2, page 21 of 34 the Company Projected 9/30/96 and Projected 9/30/97 for allocations from the Southern Division General Office in the amounts of \$995,125 and \$1,083,336 respectively. Included in these amounts were Salaries for Regulatory Affairs and Salaries for Division Administration.

One person's salary was included twice. Once in Regulatory Affairs and a second time in the Division Administration in the amount of \$52,500 for Projected 9/30/96 and \$54,340 for Projected 9/30/97.

The allocation to City Gas is as follows:

	<u>Salary</u>	<u>Allocation Rate</u>	<u>Amt to City</u>
Projected 9/30/96			
Regulatory Affairs	52,500	78.19%	\$41,050
Division Adm	52,500	67.80%	\$35,595
Projected 9/30/97			
Regulatory Affairs	54,340	78.19%	\$42,488
Division Adm	54,340	67.80%	\$36,843

According to Company personnel, this person's salary belongs in the Regulatory Affairs area.

OPINION: Remove the amount allocated to City Gas for this persons salary from the Division of Administration in the amount of \$35,595 for Projected 9/30/96 and \$36,843 for Projected 9/30/97.

AUDIT EXCEPTION NO. 9

SUBJECT: ACCOUNT 925 - INJURIES AND DAMAGES

STATEMENT OF FACT: The company's 1996 estimates as shown on Schedule G-2 page 19 include a payment to Aegis Insurance Services for \$708,955 for excess liability coverage for 10/01/95 - 10/01/96. The amount actually paid totalled \$700,946.

AUDIT OPINION:

The account balance should be reduced by \$8,009 for 1996 and \$8,249 for 1997. The company inadvertently overstated the estimate.

AUDIT EXCEPTION NO. 10

SUBJECT: LEGAL SERVICES

STATEMENT OF FACT: The Company has included amortization of Morris and Reynolds legal fees in the amount of \$20,665 for the period of October 1995 through March 1996 to account 923 Legal fees, in the G-2 schedules. The period October -March 1996 was doubled to arrive at 1996 and increased by general inflation to arrive at 1997 forecast.

According to the adjustment to the prepaid assets in journal entry 805 in 12/31/95, the company found that the payment to Morris and Reynolds of \$37,900 for consulting fees was being amortized at an incorrect rate.

OPINION: The difference between the amount the company recorded \$20,665 and the amount that should have been amortized of \$18,949 is \$1,716. Because the company doubled these costs to arrive at 1996 this amount needs to be multiplied by 2. This amounts to \$3,432. Increasing this amount for inflation of 3% for 1997 totals \$3,534.96 that should be removed from expenses.

AUDIT EXCEPTION NO. 11

SUBJECT: TAXES OTHER THAN INCOME

STATEMENT OF FACT: The company's detail for per books Taxes other than income of \$2,334,390 contained \$296,010 of regulatory assessment fees. This \$296,010 of projected regulatory assessment fees included assessment fees on \$11,509,573 of revenue related taxes. The company in their adjustment to revenues on G-2 page 2 removed the revenue related taxes but not the assessment fee that they originally put in the estimate. The company removed \$140,998 in their adjustments to 1997 net operating income, leaving in \$155,012 of regulatory assessment fees on the G-2 schedule page 1.

OPINION: If adjusted revenues of \$29,927,144 are multiplied by the regulatory assessment fee rate of .375% regulatory assessment fees should be \$112,227. Therefore, forecasted regulatory assessment fees are overstated by \$42,785.

AUDIT EXCEPTION NO.12

SUBJECT: ALLOCATIONS FROM NUI

STATEMENT OF FACTS: Included in Projected 9/30/96 are charges to 921/923 on the G-2 Schedules for the following costs allocated to City Gas from NUI.

A. Charitable Contributions

Exhibit 1 following this Exception details the amounts and recipients of Charitable Contributions from NUI. The total amount for October 95 through March 96 allocated to City Gas is \$2,976.07.

The Projected test year 9/30/97 is the same as Projected 9/30/96 with some adjustments that do not affect these items.

Order No. PSC-94-1570-FOF-GU, Docket No. 940276-GU, 12/19/94 show that expenses for the test year were reduced for contributions that did not pertain to Natural Gas operations.

B. Miscellaneous Items

Exhibit 2 following this Exception details the amounts and payees for Miscellaneous Items paid from NUI.

The Miscellaneous items consist of Christmas Decorations, tickets to New Jersey Giants Football Team and New York Jets Football Team, Somerset Country Club Dues and a Medical Center for a Golf Tournament. The total amount for October 95 through March 96 allocated to City Gas is \$4,356.79.

The Projected test year 9/30/97 is the same as Projected 9/30/96 with some adjustments that do not affect these items.

Order No. PSC-94-1570-FOF-GU, Docket No. 940276-GU, 12/19/94 show that expenses for the test year were reduced for membership dues that did not pertain to Natural Gas operations.

Order No. PSC-92-0708-FOF-TL, 7/24/92 states that image building expenses do not benefit the ratepayer, and includes sporting events in the comments.

C. Start Up Costs for SCADA

In determining 1996 Projected for Account 877, Measuring and Regulating Station Expenses for City Gas, the Company removed SCADA costs related to start up as nonrecurring items from the G-2 schedules, Page 12 of 34. These were BellSouth Charges.

The allocations from NUI include an invoices from Teledyne Brown in the amount of \$27,716 for services performed for start up of the Scada System. The amount allocated to City Gas is 22.52% or \$6,120.04.

The Projected test year 9/30/97 is the same as Projected 9/30/96 with some adjustments that do not affect these items.

OPINIONS:

A. Contributions should not be included for ratemaking purposes and Company expenses for Projected 9/30/96 and Projected 9/30/97 should be reduced by \$2,976.07.

B. Miscellaneous expenses that are image building should not be included for ratemaking purposes and Company expenses for Projected 9/30/96 and Projected 9/30/97 should be reduced by \$4,356.79.

C. To be consistent with the City Gas expense forecast, SCADA start up costs should be removed from NUI allocations for Projected 9/30/96 and Projected 9/30/97 in the amount of \$6,120.04.

CITY GAS CO.
 EXHIBIT TO AUDIT EXCEPTION
 RE: ALLOCATIONS FROM NUI

1. CHARITABLE CONTRIBUTIONS

Source: Invoices AND Journal Entries

ITEM NO	AMOUNT	RC CODE	% TO CITY	CITY AMOUNT	VENDOR/ DESCRIPTION
66	1,000.00	430	19.65%	196.50	Contribution to Girl Scouts
67	500.00	430	19.65%	98.25	Contribution to Junior Achievement
68	250.00	430	19.65%	49.13	Contribution to Seton Hall Law School Journal
69	250.00	430	19.65%	49.13	Contribution to Franklin Rescue
70	250.00	430	19.65%	49.13	Contribution to McAfee Fire
71	250.00	430	19.65%	49.13	Contribution to Union EMS
73	500.00	430	19.65%	98.25	Contribution March of Dimes
72	25.00	430	19.65%	4.91	Contribution- Matching Gifts for Education
84	2,000.00	430	19.65%	393.00	Boy Scouts Contribution
109	145.00	301	19.70%	28.57	Chamber of Commerce Membership Direct Listing for Elizabethtown Gas. Advertising.
179, 180, 181, 182, 183, 184	1,250.00	430	19.65%	245.63	Matching Gifts Program Contributions (Univ of Virginia, U.S. Military Academy, Princeton Univ., Brown Univ, Rutgers Univ.)
185	5,000.00	430	19.65%	982.50	Gift to Kean College.
186	3,000.00	430	19.65%	589.50	Union County Fund Raising Appeal
188	125.00	430	19.65%	24.56	Matching Gifts Program Contribution-Antioch College
189	500.00	430	19.65%	98.25	United Way - Contribution
190	100.00	430	19.65%	19.65	Matching Gifts Program Contribution. Rochester Institute of Technology
AMOUNT ALLOCATED TO CITY GAS				2,976.07	

CITY GAS CO
 EXHIBIT TO EXCEPTION
 RE: ALLOCATIONS FROM NUI

2. MISCELLANEOUS ITEMS

Source: Invoices AND Journal Entries

ITEM NO	AMOUNT	RC CODE	% TO CITY	CITY AMOUNT	VENDOR/ DESCRIPTION
82	1,217.50	430	19.65%	239.24	John Mini Indoor Landscapes Christmans Decorations
136	15,200.00	401	19.65%	2,986.80	NJ Sports and Exposition Giant and Jets Season Tickets
120	4,000.00	401	19.65%	786.00	Somerset Country Club Dues for John Kean Jr.
169	1,750.00	331	19.70%	344.75	Hunterdon Medical Center Foundation Sponsor Golf Tournament
TOTAL MISC. ALLOCATED TO CITY GAS				4,356.79	

AUDIT EXCEPTION NO. 13

SUBJECT: OUT OF PERIOD CHARGES

STATEMENT OF FACT: The company has included \$5,994.50 in their six month period October 1995 through March 1996 for several bills which were outstanding as of 9/19/95 to McWhirter, Reeves, McGlothlin, Davidson, Rief and Bakass P.A.

Bill Number	Date	Total Amount
003	2/21/95	\$2,666.57
005	3/15/95	185.89
006	4/4/95	4.05
007	5/2/95	26.66
009	6/16/95	2,695.84
012	9/1/95	423.29
		\$6,002.30

Therefore, the forecasted 1997 expenses on G-2 related to this item are \$12,364.74 ($\$6,002.30 * 2 * .03$). 1996 is doubled to arrive at 1997 forecast and then multiplied by general inflation of 3%.

OPINION: \$12,364.74 should be removed from the expenses on the G-2 schedules, account 923.

AUDIT EXCEPTION NO. 14

SUBJECT: Payroll Expense On G-2 Does Not Trend

STATEMENT OF FACT: On schedule G-2 page 17, 1997 projected payroll expense of \$315,708 in account 912 Demonstrating & Selling included trended amounts of \$6,321 related to ECP salaries.

The company computed projected 1997 salaries of \$315,708 as follows:

Non ECP Salaries 9-30-96	
ECP Salaries	\$ 298,925
Total Salaries	<u>\$ 180,600</u>
Rate of Increase	\$ 479,525
Total	1.035
Removed ECP Salaries	<u>\$ 496,308</u>
Projected Non ECP Salaries 9-30-97	\$ 180,600
	<u>\$ 315,708</u>

OPINION: When the company removed the ECP salaries, they did not remove the inflation they had calculated related to the ECP Salaries.

Non ECP Payroll 9-30-96	
Rate of Increase	\$ 298,925
Projected Payroll per Staff	1.035
Projected Non ECP Salaries 9-30-97	\$ 309,387
Difference	<u>\$ 315,708</u>
	\$ 6,321

RECOMMENDATION: Remove \$6,321 from 1997 projected test year expenses.

AUDIT EXCEPTION NO. 15

SUBJECT: ERROR IN THERM SALES ON E-1

STATEMENT OF FACT: On the MFR Schedule E-1 page 1 of 3, the total therm sales of 96,893,244 includes February sales of 9,593,819. When staff traced the therm sales to the Journal Voucher, the actual therm sales were 9,578,671. The difference is (15,148). The error was due to the company including the residential therm sales of Treasure Coast twice.

<u>DIVISION</u>	<u>THERMS SALES</u>
MIAMI	6,067,247
BREVARD	3,462,051
TREAS COAST	47,587
CNG	1,786

TOTAL	9,578,671
SCHEDULE E-1	(9,593,819)

TREAS. COAST	(15,148)
	=====

AUDIT EXCEPTION NO. 16

**SUBJECT: ALLOCATIONS FROM NUI
COMPRESSED NATURAL GAS EXPENSES**

STATEMENT OF FACTS: The allocations to City Gas from NUI include charges for maintenance of filling and compressing equipment owned by Elizabethtown Gas used by Wakefern Foods, a customer of Elizabethtown Gas, for their Liquefied Natural Gas Vehicles. The vendor is Air and Gas Technologies.

DATE	AMOUNT	RC	%TO CITY	AMOUNT TO CITY
2/20/96	778.00	331	19.70%	153.27
2/21/96	1,459.56	331	19.70%	287.53
2/21/96	606.00	331	19.70	119.38
2/21/96	439.35	331	19.70	86.55
3/6/96	892.42	331	19.70	175.81
				----- 822.54

PSC Order No. PSC-94-1570-FOF-GU, Docket No. 940276-GU, Page 5 states that the cost to construct a compressed natural gas station at the Miami airport is considered non-utility and such costs are removed from Rate Base.

OPINION: The expense allocated to City Gas from NUI on MFR G-2 should be reduced in the amount of \$822.54 because this is considered a non-utility expense and it is also an Elizabethtown direct expense.

AUDIT EXCEPTION NO. 17

SUBJECT: RATE CASE EXPENSES - LEGAL

STATEMENT OF FACT: The company has included in account 923 Outside Services a bill for McWhirter, Reeves, McGothlin Davidson in the amount of \$2,617.00 in the six months period October 1995 through March 1996 related to rate case expenses. Since the company doubles this amount to calculate 1997 expenses and then increases the amount for inflation of 3% on the G-2 schedules, 1997 includes \$5,391.02 ($\$2,617 * 2 * 1.03\%$) of rate case expenses.

OPINION: Account 923 should be reduced by \$5,391.02, account 928 should be increased by \$1,797 ($\$5,391.02/3$) which represents one year's amortization expense, and account 186 should be increased by \$3,594 for the unamortized portion.

IV. AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: WORKING CAPITAL M & J ALLOCATION

STATEMENT OF FACTS: The company has used 11.35% to allocate certain working capital accounts to non-regulated operations. This percentage is based on a payroll allocation. The company has used 13.77% which is a three part allocation factor based on payroll, gross plant, and number of customers for other non-utility allocations. The company has updated this three part allocation factor to 1997 numbers since the amounts being allocated are for 1997 forecasts. The new percentage is 15.58%

AUDIT OPINION: Since various accounts are used in the allocation that may relate to other factors than payroll, the accounts allocated at 11.35 should be allocated at 13.77% to be consistent. The adjustment would be a reduction to working capital for 1997 of \$28,899 computed as follows:

	FORECAST 1997	USING NEW FACTOR
Cash	1,090,728	
Working Funds	2,918	
M & S	166,263	
Miscellaneous Receivables	257,729	
Uncollectible	(229,136)	
Prepayments	510,026	
Other Work In Process	26,414	
Accounts Payable	(181,835)	
Misc. Current Liabilities	<u>(448,931)</u>	
	1,194,176	
Allocation 3-part factor	<u>13.77%</u>	15.58%
Non Utility Allocation Staff	164,438	186,052.62
Per Company	<u>135,539</u>	<u>135,539.00</u>
Adjustment Needed	28,899	50,513.62

Recommendation: Reduce forecasted 1997 working capital by \$50,513.62.

AUDIT DISCLOSURE NO. 2

SUBJECT: CUSTOMER ACCOUNTS RECEIVABLE-GAS

STATEMENT OF FACT: Per schedule G-6, "Additions to the account balance each month reflects forecast customer billings for gas sales and transportation, PGA, Conservation and revenue related taxes, equal to the amounts reflected in revenues. Reductions of the account balance each month reflect collection of one half of the current month's forecast billings and the previously uncollected balance of the prior month's forecast billings. The write off and recovery amounts are based on the historic year experience."

1995 Average Accounts Receivable Gas (Adjusted)	\$4,870,654
1997 Average	<u>6,488,094</u>
Increase for Forecast	\$1,617,440

AUDIT OPINION: If the 1997 revenues per Schedule G-2 are adjusted by Tallahassee staff, the accounts receivable calculations would also need to be adjusted.

AUDIT DISCLOSURE NO. 3

SUBJECT: NEGATIVE ACQUISITION ADJUSTMENT

STATEMENT OF FACT: Order PSC-94-1570 required inclusion in Rate Base of a negative acquisition adjustment of \$221,067. Based on company computations, the 13 month average accumulated amortization at 9/97 would be \$36,365. The amortization expense for the projected 1997 year would be a \$7,368 reduction to depreciation expense. The company did not include these amounts in their forecast for 1997. The reasons are provided on page 15 of Rand Smith's testimony. According to the testimony, the company believes the commission should treat negative and positive adjustments consistently.

OPINION: Based on the prior order, rate base for 1997 on G1, page 1 should be reduced by 184,702 computed as follows:

Acquisition Adjustment	(\$221,067)
Accumulated Amortization	<u>36,365</u>
Net	(\$184,702)

Forecasted Net Operating Income should be increased by \$7,368.

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AUDIT DISCLOSURE NO. 5

SUBJECT: ALLOCATION TO NON-REGULATED EXPENSE

STATEMENT OF FACT: The utility adjusted forecasted 1997 expenses by \$406,487 for non-regulated costs computed as follows:

920	Administrative and General Salaries	\$395,337
921	Office Supplies and Expenses	580,887
924	Property Insurance	4,429
925	Injuries and Damages	1,176,144
926	Employee Benefits	1,190,110
930.1	General Advertizing Expense	8,972
930.2	Misc. General Expense	92,696
931	Rents	91,972
932	Maintenance of General Plant	77,558
	Remove proforma adjustments related	(35,976)
	Remove proforma adjustments related	(743)
		3,581,386
	Company allocation rate	11.35%
	Company allocation to non reg	406,487

The 11.35% allocation rate used by the company was computed as follows:

	PAYROLL	
M & J		138,024
Leasing		165,380
Sales		251,985
Accounting Based on allocation of 13.77%		68,339
Customer Accounts based on allocation 13.77%		19,377
Customer Records based on allocation 13.77%		123,888
Admin and General based on 13.77% allocation		101,997
Total Non Reg Payroll		\$868,990
Total CGF Payroll		\$7,655,605
Allocation Rate		11.35%

The factor only takes into consideration payroll. The three factor method used to compute the 13.77% rate that the company used for allocating common payroll takes into consideration payroll, plant and number of customers. The company has revised this rate to use 1997 numbers since we are using the factor to do forecasted 1997 and several changes have occurred at the company. The new factor is 15.58%.

All of the basis for the 13.77% were verified to source data.

The company allocated payroll for customer records and collection expense in the calculation of the 11.35% allocation but never allocated customer accounts and collection expense to non regulated in the books or the MFR's in the calculation of the \$406,487 adjustment above. The customer records and collection employees, (account 903), answer questions and collect money relating to bills. the bills include leased appliances. Account 903 also contains postage to send these bills.

Account 901 contains the salaries of supervisors for the employees in account 903.

Account 879 contains the salaries of supervisors for the employees whose salaries get charged to non-regulated based on time.

No allocation could be found for the costs charged to accounts 870, 901, or 903 to non-regulated operations.

OPINION: The 15.58% three factor allocation method is more reasonable than the 11.35% factor because it takes into account plant and number of customers. It is also consistent with other allocations made by NUI, NUI Southern, and Elizabethtown Gas.

The difference based on the company computation above would be:

920	Administrative and General Salaries	\$395,337
921	Office Supplies and Expenses	580,887
924	Property Insurance	4,429
925	Injuries and Damages	1,176,144
926	Employee Benefits	1,190,110
930.1	General Advertizing Expense	8,972
930.2	Misc. General Expense	92,696
931	Rents	91,972
932	Maintenance of General Plant	77,558
	Remove proforma adjustments related	(35,976)
	Remove proforma adjustments related	<u>(743)</u>
		3,581,386
	Staff allocation rate	15.58%
	Staff allocation to non-reg	557,980
	Company allocation to non reg	406,487
	Difference	151,492

In addition, the following accounts should be included in the allocation:

879	\$262,104	Supervision of Employees who's salaries are directly charged
901	244,118	Supervise Customer Service and Collection Reps
903	2,057,196	Customer Service Reps and Postage (Bills Contain reg and non-reg charges)
	\$2,563,418	
	15.58%	Staff Allocation factor
	\$ 399,380	Non regulated

Recommendation: Net Operating Income on G-2 for 1997 should be increased (expenses decreased) by \$550,872 (\$151,492 + \$399,380) for a change in the allocation factor and inclusion of accounts 870, 901, and 903.

AUDIT DISCLOSURE NO. 6

SUBJECT: PAYROLL TAXES AND BENEFITS

STATEMENT OF FACT: The company has made one allocation of payroll taxes to non-regulated operations and two allocations of employee benefits. The first allocation is on the G-2 schedules in the forecast for 926 accounts. They reduced forecasted 1997 expenses charged to account 926 by \$99,706 on G-2. This amount was supposed to be an allocation of employee benefits and taxes to capitalized labor, energy conservation, and non-regulated operations. A second allocation of employee benefits was made in the A & G adjustment to forecasted expenses on the forecasted net operating income schedules in G-2. The benefit amount decreased expenses by \$135,077. It was part of a total adjustment to net operating income made by the company of \$406,487.

It was determined that this calculation did not take into consideration payroll taxes on the 920, 879, 901, or 903 accounts.

The company determined projected benefits and payroll taxes from the filing to be \$1,856,300. Total projected payroll in the filing was \$7,375,788. Therefore, the taxes and benefits amount to 25.17% of total payroll.

OPINION: Staff believes the following amounts should be charged with the 25.17% factor because they contain non-regulated expenses.

ACCOUNT	PAYROLL	15.58% NON-REG. PORTION	TIMES 25.17% BENEFIT FACTOR
920	\$ 395,337	\$ 61,593.50	\$ 15,503
879	262,104	40,835.80	10,278
901	244,188	38,044.49	9,576
903	2,057,196	320,511.13	80,673
ECP	186,921		47,048
CAPITAL	239,040		60,166
DIRECT NON-REG	323,817		<u>81,505</u>

TOTAL NON-REG TAXES & BENEFITS	304,749
CHARGED IN THE MFR'S 926 ACCOUNT	(99,706)
CHARGED IN THE MFR'S A&G ALLOCATION	(135,077)
DIFFERENCE BETWEEN MFR'S AND STAFF CALCULATION	\$ 69,966

RECOMMENDATION: Net Operating Income should be increased (expenses decreased) on the G-2 schedules for 1997 by \$69,966.

AUDIT DISCLOSURE NO. 7

SUBJECT: CONTRACT SERVICES FOR ESOP

STATEMENT OF FACT: Account 923-Outside services for the 6 months of October to March 1996 contained \$20,000 paid to Earl Barber related to the ESOP trust. This amount was annualized to \$40,000 in the 1996 expenses. Projected test year expenses for 1997 contain \$41,200 after trending factors are applied.

The company's contract with Mr. Barber expires December 1, 1998. Because the trust is being held up by litigation, it may still exist through the forecast year 1997.

OPINION: Since the ESOP no longer exists, these costs are non-recurring and should be removed.

AUDIT DISCLOSURE NO. 8

SUBJECT: COMPRESSED NATURAL GAS EXPENSE (CNG)

STATEMENT OF FACTS: Schedule G-2 Net Operating Income Adjustments, contains adjustments to include the CNG Fill Station expense of \$5,000. (\$50,000 amortized over 10 years) Forecasted working capital contains the unamortized portion \$47,500 - 13 month average. This expense relates to the \$50,000 contribution made to the Miami International Airport by City Gas to promote and encourage the vehicular use of natural gas.

In the last rate case, the Commission disallowed \$300,000 requested by City Gas to construct the station.

OPINION: The Commission should determine if contributing to the station should be treated differently than building the station.

AUDIT DISCLOSURE NO. 9

SUBJECT: TRAINING

STATEMENT OF FACTS: Account 921 for the period October 95 to March 96 contains \$14,341.90 paid to ExecuTrain of Florida for Windows, Word processing and Excel Spreadsheet computer training classes to all employees who had access to the network. These charges occurred because the company changed their computer system. 1996 expenses included the annualization of this charge or \$28,683.80. 1997 forecasted expenses for this account were increased by 3% inflation to \$29,544.31.

OPINION: Normal operations in the future will probably not include training for all employees, only new employees. Therefore, this charge is probably non-recurring.

AUDIT DISCLOSURE NO. 10

SUBJECT: PROJECTED PAYROLL

STATEMENT OF FACT: Included in forecasted expenses for 1996 (MFR G-2) are added positions for an added interdepartmental aide, service person, telephone representative, two sales representatives and an added support person. The total added to 1996 costs was \$99,800. The company provided the names of four people who have been hired since the actual time period used. One is an NUI Southern employee who should be in the budget used to determine NUI Southern allocations.

They provided three employees for City Gas who are in the new positions of payroll/process, service clerk and interdepartmental aid. Although the positions are new, two of the three employees were transferred from other positions and their old positions have not been replaced. The work has been distributed to the other employees in the division. Therefore, only one of the positions, approximately \$14,560 would actually increase costs.

The remaining sales related positions have not been filled yet.

The company has also added additional staffing in the 1997 forecast expenses in addition to the \$99,800 in 1996 which are in the 1997 forecast with a 3.5% increase for raises. (\$103,293)

The 1997 forecast wages are:

870	\$28,000
874	55,000
879	55,000
880	29,500
902	30,000
903	66,500
912	70,000
916	<u>26,700</u>
	360,700

OPINION: It can not be determined if these costs will actually be incurred.

AUDIT DISCLOSURE NO. 11

SUBJECT: ADVERTISING

STATEMENT OF FACT: The company has included \$52,756 of advertising expenses in the 1996 forecast and \$104,339 in the 1997 forecast. Staff received an explanation of the company's plan for the marketing program. When asked for further detail, the company provided a list of projects for 1996 and 1997. Due to time constraints, staff was unable to request the print media for these ads to determine if they meet Commission criteria.

The company's response for information is attached.

RECOMMENDATION: These ads need to be reviewed before the projections are allowed.

25 (8):

The \$50,000 of increased sales expenses projected for the second half of the year represents the first step to providing an active sales program through generating awareness of the availability of natural gas and its benefits, as compared with the first half of the year in which our sales force had not yet developed the market tools it requires in order to promote continued account additions in the commercial and industrial sectors.

For scattered residential accounts, the Company has an FPSC-approved Energy Conservation Program that allows for recovery of costs incurred to promote program awareness and has the effect of promoting the addition of scattered residential electric conversions. Accordingly, the \$50,000 projected expenditure does not include the Company's projected increased expenditures recoverable through ECP.

City Gas has no program recoverable outside of base rates to attract potential commercial and industrial connections and to attract potential residential conversions from alternate fuels other than electric. So, to reach these potential customers, it is dependent upon programs that are recoverable through base rates. The \$50,000 projected expenditure does relate to expanding natural gas awareness among potential commercial and industrial customers and among potential residential customers currently using propane.

As described in the testimony of Mr. Carl Smith, City Gas is undertaking a "refocused" marketing effort, changing the Sales Department from an "order taker" environment to a professional operation dedicated to achieving pre-established goals with respect to the number of accounts added, the annual throughput from those accounts, and the annual margin from those accounts. In that connection, City Gas plans an extensive gas awareness campaign that will emphasize the benefits of natural gas over other competing fuels, address safety issues, and describe the benefits of various end-use appliances and equipment that use natural gas. To more effectively convey information about the advantages, benefits, safety and availability of natural gas, City Gas plans to make increased use of radio spots, brochures, fact sheets, and direct mailouts. In addition, we will conduct seminars designed to educate local real estate agents, builders, and appliance dealers on the availability, safety, and benefits of natural gas. We also intend to sponsor selected community fund raising activities, and we will use these occasions to increase awareness of the availability and benefits of natural gas. The purpose of these messages will be to inform the public concerning the favorable life cycle cost, environmental benefits, and other properties and advantages of natural gas.

The City Gas campaign is being rolled out in Vero Beach, where we are about to close on the acquisition of a 4" line that provides immediate access to the heart of the city's commercial center. Immediate promotion of the first-time retail availability of natural gas provides further assurance of the success of this venture. A similar campaign will promote the first-time retail availability of natural gas in Homestead upon closing the acquisition of that line. The materials in development will be used system-wide as warranted.

The \$50,000 of expenditure projected for the second half of fiscal 1996 is a necessary and prudent expenditure that will benefit all of City Gas' customers through increased awareness of natural gas availability and of the many benefits of that availability.

GAS PROJECTS 7/96-9/97

		Notes	FY '96 \$\$	FY '97 \$\$	Status
NEW CONSTRUCTION - BUILDERS INFORMATION					
Hang Tags & Displays	8 Sets				
Floormats	9 Mats		2,306.00		On - order
Billboard			900.00		On - order
I-95/Viera Property 1475/mo					
Invitations to Open House			8,850.00	17,700.00	Placed
Open House Flyer for NG A/C			261.43		Completed
Banners			580.00		Completed
			240.00	240.00	Completed
CONSUMER INFORMATION					
Scattered Services Campaign					
	Radio/Brevard		6,160.00		Completed
Direct Mail	Print/Miami		6,058.50		Completed
Radio	Production		4,886.80		Completed
Print Ad	Production		424.00		Completed
			498.20		Completed
Comfort Zone Logo					Completed
Board # 2			950.00		Pending
US1 .5 mi. n/w Viera Blvd	860 / month				
Pocket Folder + Inserts				10,320.00	Pending
Broad quote: Split between fiscal years: 7K fiscal '96 . . . 14K fiscal '97			7,000.00	14,000.00	Pending
Insert: commercial, residential, industrial, transportation					
Generic pocket folder.					
Generic Radio	On Air 7/25	Brevard			
"Comfort Zone" spot			12,208.00		Placed for 96
	26 wks: 2 on/2 off		424.00	Brevard	Completed
		Miami		39,676.00	Pending
			10,400.00	Miami	
				74,400.00	Pending
6 Radio Spots (Est.)		St. Lucie			Pending
				8,400.00	Pending
				2,400.00	Pending
Generic Print	1/Month	Brevard			
(1/4 pg. av.)	1/Month	Miami		12,582.00	Pending
	1/Month	Vero Beach		33,660.00	Pending
	1/Month	St. Lucie		5,108.40	Pending
				4,176.00	Pending

GAS PROJECTS 7/96-9/97

4 Print Ads	Production			
Generic Cable	1000/Month		2,000.00	Pending
	1500/Month	Brevard		
		Miami		
Cable Production (2-3 spots)			12,000.00	Pending
			18,000.00	Pending
			3,500.00	Pending
COMMUNITY ORIENTATION AND INFORMATION				
Vero Beach Intro.	4x9 Brochure			Completed
	750 Re-print		2,162.40	
	750 Re-print			
Vero Beach Ad	Production		675.00	Pending
	Placement		675.00	Pending
	Radio		400.00	
			1,731.43	Completed
Golf Shirts			900.00	Completed
				Completed
			434.60	Completed
Propane Campaign	Print Ad			
Placement	Vero Beach		500.00	
Placement	St. Lucie		1,035.09	50% complete
			935.55	Pending
Football Ad	Production			Pending
	Media		310.00	
Modified Cut 'n' Cap		TBD	1,250.00	Completed
60 Day Trial				Placed
Billing Inserts	Production	TBD	TBD	
		TBD	TBD	
City Gas Maps (Brevard)	Production			Pending
	Printing		800.00	
			1,300.00	Pending
				Pending
IN - HOUSE INFORMATION / PUBLIC RELATIONS				
Overheads NUI	Presentation		310.60	
Thermometers	10/95-9/96			Completed
	10/96-9/97		1,979.42	
	One more for all Divisions.		1,188.80	Completed
Business Card Holder	100 @ 9.85			On-Order
Grand Totals			985.00	Pending
			77,184.82	
			260,497.40	

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AUDIT DISCLOSURE NO. 13

**SUBJECT: ALLOCATIONS FROM NUI
AUTOMOBILE LEASES**

STATEMENT OF FACTS: Included in Projected 9/30/96 are allocations from NUI for automobile leases for seven vehicles. The average yearly amount per auto allocated to City Gas is \$2,154. The details are on Exhibits 1 and 2 following this Disclosure.

The Company based Projected test year end 9/30/97 on these amounts.

The average monthly amount per auto at NUI is \$10,848.87.
The details are on Exhibits 1 and 2 following this Disclosure.

In the last rate case order, PSC-94-1570-FOF-GU, expenses were reduced to remove lease payments made for luxury automobiles. This was part of the stipulation.

In the prior rate case order, 24103, Docket No. 891175-GU, a deduction was made for leased vehicles in the amount of \$12,816 in the exhibits to the order, but the details were not addressed in the text. There was also a stipulation in this order which could have included the detail.

The detail in the PSC audit workpapers showed that any amount over \$5,866 per year was disallowed for a total of \$12,276.

The \$5,866 was based on operating leases. The leases at NUI are Purchase Leases and the Company and/or the executive owns the vehicle at the end of the 60,000 miles or four years per Company policy.

OPINION: The difference of the NUI average auto amount and the Commission amount allowed is (\$10,848.87 less \$5,866) \$4,982.87. The approximate rate allocated to City Gas is 19.65%; or \$979.13 per car per

year. For the seven autos, the difference between what was allocated and the Commission allowance is \$6853.94. See Exhibit 2 following this Disclosure.

RECOMMENDATION: Remove \$6,853.94 from the expenses allocated to City Gas from NUI for automobile leases for Projected 9/30/96 and Projected 9/30/97 in the G-2 Schedules.

COMANY:

CITY

COMANY:

CITY

TITLE:

ACTUAL AND BUDGET CAR LEASES

PERIOD:

TEST YEAR PLUS ONE

EXHIBIT 2 TO DISCLOSURE RE CAR LEASES

The amount allowed in Docket No. 881178-GU, Order No. 24613, issued 1/23/91, was \$6,866 per year per vehicle.

	NUM	CITY GAS
Actual for six month Oct 96 thru Mar 96	33,942.12	6,825.94
Forecasted for six months Apr thru Sept 96	42,000.00	5,253.00
TOTAL TO BE ALLOCATED FOR PROJ 97 DIVIDED BY SEVEN CARS	75,942.12	15,078.94
	7.00	7.00
Average per Car yearly	10,848.87	2,154.13
Average per car per 1991 allowance yearly	5,866.00	979.13
Difference per car	4,982.87	1,175.00
Approximate amount to City	19.85%	
at seven cars	979.13	979.13
		7
Amount over PSC staff calculated allowance		6,853.91

AMOUNT ALLOCATED FOR PROJECTED 97	75,942.12	15,078.94
AMOUNT OVER PSC STAFF CALCULATED ALLOWANCE		6,853.91
DIFFERENCE ALLOWED		8,225.03

An average of \$6800 per year is \$566 per month. An informal survey of the Buick dealers of the Miami area showed an average of \$450 per month for a 1997 Buick LeSabre over 36 months. There are many variables in leasing an auto, including the number of miles, the type of equipment. These were not included in our informal survey.

COMPANY: CITY
 COMPANY: CITY
 TITLE: ACTUAL AND BUDGET CAR LEASES
 PERIOD: TEST YEAR PLUS ONE

EXHIBIT 1 TO DISCLOSURE RE CAR LEASES ALLOCATED FROM HUI

SOURCE:

COLUMN 1, AND 4, AND 8 = COMPANY SUPPLIED

COLUMN 2 AND 7 FROM COMPANY ACTUAL SIX MONTH GA. PLUS

BUDGET SIX MONTHS

IC	NAME	1 ACTUAL SEARCH Provided by Company	2 Actual Search per GA 08-02	3 diff	4 % allocated to City	5 Amount to City per month	6 AUTO	7 BUDGET PER MONTH per HUI	8	9 Total in allocations from HUI to City	10 % allocated to City	11 Amount to City per month
481	BAHNSUK	820.98	820.98	0.00	22.48%	206.94	96 JEEP CHEROKEE	0.00	XX		22.48%	0.00
402	BEHMAN	888.00	888.00	0.00	18.89%	174.48	93 CHRYSLER	1,000.00	HUI	1,000.00	18.89%	188.80
488	CHYMBY	388.25					95 DODGE INTREPID	0.00	XX			
701	CLANCY	418.13					94 DODGE INTREPID	418.13	X			
301	GRUBER	482.38					98 FORD EXPLORER	0.00				
401	KEAN, JR.	888.00	841.25	46.75	18.89%	168.31	95 ACURA LEGEND	1,000.00	HUI	1,000.00	18.89%	188.80
401	KEAN, SR.	828.80	828.80	0.00	18.89%	162.88	94 LINCOLN TOWN	1,000.00	HUI	1,000.00	18.89%	188.80
701	KEATING	388.27					95 DODGE INTREPID	388.27	X			
811	KEEPE	775.47					93 BUICK PARK AVE.	0.00	XX			
104	LASHOBS	487.32			18.89%		96 JEEP CHEROKEE	1,000.00	HUI	1,000.00	18.89%	188.80
102	LURE	782.18	782.18	0.00	18.89%	148.78	94 CHRYSLER CONCOR	1,000.00	HUI	1,000.00	18.89%	188.80
851	O'NEILL	718.47					94 CHRYSLER LHS	0.00	XX			
481	SMITH	798.77					94 CHRYSLER NY	0.00	XX			
108	VAN HORN	748.00	748.00	0.00	18.89%	147.18	95 CHRYSLER LHS	1,000.00	HUI	1,000.00	18.89%	188.80
102	VALLBONA	887.31	887.31	0.00	18.89%	131.13	95 PLYMOUTH VOYAG	1,000.00	HUI	1,000.00	18.89%	188.80
430	WARD K	812.73					94 PLYMOUTH VOYAG	816.00	X			
891	VINCENT	712.80					95 PONTIAC BONNE	0.00	XX			
		11,382.08	5,887.82			1,137.88				7,888.00		1,378.80
			6 mos			6 mos				6 mos		6
			33,842.12			8,825.94				42,000.00		8,388.00

X - ACTUALLY BEING CHARGED OUT TO HUI FROM E TOWN.
 COST OF LEASE AND EXPENSES AND INSURANCES.

XX - NOT IN RATE CASE - E TOWN ABSORBED.

AUDIT DISCLOSURE NO. 14

**SUBJECT: ALLOCATIONS FROM NUI
RENT**

STATEMENT OF FACTS: The Offices of NUI are in two locations. One entire location in Bedminster, New Jersey, and other offices are located in Elizabeth Town Gas Company offices and allocated based on square footage to NUI.

The rent at the Bedminster, New Jersey building for test year plus one is \$339,565. According to the lease it is \$25.75 per square foot plus utilities. The total is allocated to all NUI companies.

The amount to City Gas is as follows:

	Yearly Amount	%to City	Amount to City
RC 401 Executive	208,884	19.65%	41,045
RC 461 Exec Supply Operations	130,681	22.48%	29,377
			----- 70,422

The only offices at Elizabethtown Gas Company being allocated to NUI and then City Gas are Gas Supply and Planning. According to information provided the total Elizabethtown lease per year plus Maintenance, etc. is \$6,054,000 per year. The square foot rate is \$37.84 (\$6,054,000 divided by 160,000 square feet). Of this 160,000 square foot, 1,896 is allocated to NUI for the cost of \$5,980 per month or \$71,760 per year. The building is owned by a Kean Family Trust.

The amount allocated to City Gas is 22.52% or \$16,160 per year for Projected 9/30/96. The Company stated that Projected 9/30/97 is same as Projected 9/30/96.

OPINION: Staff questions the reasonableness of the amount per square foot for rent in this area of New Jersey. The Company is paying \$25.75 per square foot in one office and \$37.84 in another office. The difference in cost per square foot between the two buildings is a large variance and is questionable since the larger is an affiliate company.

AUDIT DISCLOSURE NO. 15

**SUBJECT: ALLOCATIONS FROM NUI
POSITION VACANCIES THAT ARE INCLUDED IN
PROJECTED 96 AND PROJECTED 97**

STATEMENT OF FACT: NUI Allocations in account 921 and 923 on the G-2 scheduled contained the following:

For Responsibility Code 520 Technical Services, the company included \$60,000 for a vacant position in Projected 1996 and Projected 97. Due to time constraints, we could not determine whether this position was filled or will be filled in 1997. The amount allocated to City Gas for RC 520 is 19.70%, or \$11,820.

For Responsibility Code 745, General Accounting, the Company included an amount for a vacant position in Projected 1996 and Projected 97. The Company, in answer to our request, did not specify the amount. Due to time constraints, we could not determine whether this position was filled or will be filled in 1997. The amount allocated to City Gas for RC 745 is 19.65%.

AUDIT DISCLOSURE NO. 16

SUBJECT: RATE CASE EXPENSE

STATEMENT OF FACT: In 1994, the Company incurred rate case expenses of \$601,208 for docket no. 940276-GU. Schedule G-2 of the MFR's included \$355,800 of rate case expense for the current case. This is the company's second rate case within two years.

The company has amortized projected rate case expenses of \$355,800 and the unamortized expense of the prior rate case of \$161,667 over 3 years.

Projected for current rate case unamortized expense of prior Rate Case	\$355,800
Total	<u>\$161,667</u> \$517,467

AUDIT DISCLOSURE NO. 17

SUBJECT: DEPRECIATION EXPENSE

STATEMENT OF FACT: It was determined that the depreciation expense reported on MFR C-17 and G-2 p. 26 was not computed using average monthly plant balances. The depreciation section is requesting that the company recompute the depreciation for the three years 1995-1997. Therefore, staff has not determined the amount of the error.

AUDIT DISCLOSURE NO. 18

SUBJECT: LEGAL EXPENSES

STATEMENT OF FACTS: Account 923 - Outside Services for the six months of October 1995 to March 1996 contained an accrual for legal expenses of \$19,690.50 paid to Robin Lloyd. Some of these costs were related to the Vero Beach acquisition. Staff could not determine the actual amount. This amount was annualized to be \$39,381 in 1996 expenses. Projected test year expenses for 1997 contain \$40,562.43 after trending factors are applied.

OPINION: If the company does not continue to make acquisitions, normal operations in the future will probably not include legal expenses of this amount.

RECOMMENDATIONS: Staff Analyst should determine if these expenses are non-recurring or if those expenses related to the Vero Beach acquisition should be capitalized.

AUDIT DISCLOSURE NO. 19

SUBJECT: ALLOCATIONS FROM NUI CHARGES FOR
ELIZABETHTOWN ENVELOPES CHARGES FOR
ELIZABETHTOWN BROCHURES TO CUSTOMERS

STATEMENTS OF FACTS: Included in allocations from NUI for
Projected 9/30/96 are charges for envelopes that directly relate to
Elizabethtown. They are:

VENDOR	AMOUNT	RC NO.	% TO CITY	AMOUNT TO CITY
WESTVACO	4,655.70	540	21.09%	981.89 1/24/96
WESTVACO	4,061.91	540	21.09%	856.66 JE 70822 1/31/96
				1,838.55

Also included in the allocations from NUI for Projected 9/30/96 were
charges for Safety Brochures sent to Elizabethtown Customers.

VENDOR	AMOUNT	RC NO.	% TO CITY	AMOUNT TO CITY
ARCADE,INC.	3,306.25	315	19.70%	651.33 1/10/96
ARCADE,INC.	3,306.25	315	19.70%	651.33 1/10/96
				1,302.66

Projected 9/30/97 is the same as 9/30/96 with some adjustments which do not affect these items.

Expense Account 903 in City Gas Projected 9/30/96 includes \$18,104.02 for Envelopes from Westvaco for City Gas. This amount was billed directly to City Gas from Elizabethtown through Journal Entry 551 in 10/95.

OPINION: Since City Gas is being billed directly from Elizabethtown for envelopes, it appears it would be more consistent if Elizabethtown would pay for their own envelopes rather than being allocated through to all companies.

The Safety Brochures are printed with Elizabethtown Gas on them and could be considered a direct cost to them rather than allocation.

The total of these two adjustments would be at \$3,141.21 reduction of expenses to account 921/923 on the G-2 schedules.

AUDIT DISCLOSURE NO. 20

**SUBJECT: ALLOCATIONS FROM NUI
BONUSES**

STATEMENT OF FACTS: Included in the allocations from NUI is a monthly accrual for bonuses for executives in Projected 9/30/96. The bonuses are detailed in Exhibit 1 to this Disclosure. The total amount allocated to City Gas for the Projected year 9/30/96 is \$26,744. The same amount is projected for 9/30/97.

The Company stated that the receipt of the bonuses is based upon the achievement of both Company and individual objectives for the year; and that for the year ended 9/30/95, no bonuses were paid because the overall earnings performance of NUI did not meet objectives.

We cannot determine at this time what the actual bonuses paid will be in Projected 9/30/96 or 9/30/97.

COMPANY: CITY GAS CO
 EXHIBIT TO DISCLOSURE 20

ITEM NO	AMOUNT	RC CODE	% TO CITY	CITY AMOUNT	VENDOR/ DESCRIPTION
125	2,087.50	102	19.65%	410.19	JE9017
126	1,875.00	103	19.65%	368.44	
127	1,875.00	104	19.65%	368.44	
128	3,375.00	401	19.65%	663.19	
129	1,500.00	402	19.65%	294.75	
130	625.00	105	19.65%	122.81	
PER MONTH				2,227.82	
				12	
YEARLY				26,733.83	

AUDIT DISCLOSURE NO. 21

**SUBJECT: ALLOCATIONS FROM NUI
BOARD OR DIRECTORS FEES**

STATEMENT OF FACTS: NUI Projected Total Board of Directors expense for Projected 96 and Projected 97 in the amount of \$256,463 and \$252,500 respectively. Actual Year to date for six months ending March 96 is \$130,462.

The amount incurred in fiscal year end 1995 was \$235,383. The Projections show an increase of 8.96% for 1996 and a decrease of 1.55% for 96 to 97. The Director fees are in responsibility code 401 and allocated to City at 19.65%.

A detail of the Directors Fees, Retainers, Expenses, and Mark to Market Adjustment was prepared by the Company and follows this Disclosure as Exhibit 1.

The G-2 schedules show payroll increases for City Gas employees for Projected 96 and Projected 97 at 3.5% and Southern Division employees projected at the same.

OPINION: The percent increase for Director fees appears to be much higher than City Gas and Southern Division employee increases.

NUI CORPORATION
 BOARD OF DIRECTORS
 FPSC AUDIT REQUEST #67 - 131

	1997					1996					1995				
	FEES	RETAINERS	EXPENSES	OTHER	TOTAL	FEES	RETAINERS	EXPENSES	OTHER	TOTAL	FEES	RETAINERS	EXPENSES	OTHER	TOTAL
ATHERTON	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CARVER	10,200	17,500	-	-	27,700	10,200	17,500	-	-	27,700	4,800	-	2,061	-	6,861
FORESE	8,400	17,500	3,000	-	28,900	8,400	17,500	2,879	-	28,779	7,800	14,500	-	-	22,300
KEAN R	-	-	-	-	-	6,400	15,000	-	-	21,400	10,818	14,500	3,708	-	28,827
KING	8,000	15,000	-	-	24,000	9,000	15,000	-	-	24,000	7,800	12,000	-	-	19,800
LEE	7,200	15,000	4,600	-	26,800	7,200	15,000	4,381	-	26,581	7,800	12,000	400	-	20,200
ROOSEVELT	-	8,000	-	-	8,000	-	8,000	-	-	8,000	9,000	12,000	3,848	-	24,848
SANFORD	-	8,000	-	-	8,000	-	8,000	-	-	8,000	-	8,000	-	-	8,000
WHISNAND	7,200	17,500	200	-	24,900	-	8,000	-	-	8,000	-	8,000	-	-	8,000
WINTHROP	10,200	15,000	8,800	-	34,000	7,200	17,500	154	-	24,854	8,400	14,500	1,774	-	24,674
DIRECTOR (replace Kean R)	7,200	15,000	3,000	-	25,200	10,200	15,000	8,488	-	33,688	10,981	12,000	4,340	-	27,321
MARK TO MARKET ADJMT.	-	-	-	45,000	45,000	-	-	-	-	-	-	-	-	-	-
TOTAL	58,400	128,500	18,600	45,000	252,500	58,600	128,500	15,880	53,483	256,463	87,199	107,500	16,133	44,552	235,383

NOTE : FEES AND EXPENSES ARE PAID BY CHECK OR CASH. SHARES OF STOCK ARE SET ASIDE FOR RETAINERS (SEE ATTACHED).

AUDIT DISCLOSURE NO. 22

**SUBJECT: ALLOCATION PERCENTS FOR EXPENSES
ALLOCATED TO CITY GAS FROM NUI AND THE
SOUTHERN DIVISION**

STATEMENT OF FACTS: The Company used a three factor method for determining allocations from NUI Corporate (includes Elizabethtown and NUI Corporate). The three factor method is comprised of Payroll, Gross Plant and Customers. These factors were applied to Projected 96 and Projected 97 NUI and Southern Division expenses to determine City's portion. The amounts used to calculate the factors were 13 month averages for March 1994 through March 1995.

Staff requested the Company to update the three factor method of allocation using a point in time when the employees were downsized at City Gas and at other companies. The Company was also requested to recalculate Projected test year 9/30/97 with the updated three factor method.

The Company recalculated the three factor method using Preliminary 9/30/97 budget amounts for Payroll and Customers, and actual plant balances at 6/30/96. In this recalculation the Company noted that the unregulated City Gas Plant used in the calculation for the rate case was net of depreciation. The recalculation includes gross unregulated City Gas Plant. This along with the downsizing changed the factors.

The percents used in the rate case are included as Exhibit 1 to this Disclosure. The updated percents are on Exhibit 2. The Company's recalculation of the Projected 9/30/97 allocations are on Exhibit 3 and 4 to this Disclosure.

The amount Projected on the G-2 Schedules for 9/30/97 from NUI is \$3,070,813. The revised amount for the updated three factor method is \$2,964,881. Time limits precluded staff from auditing this update.

Also affected by the update of the three factor method are the allocations from the Southern Division. Time limits precluded staff from asking for, obtaining and auditing a recalculation of Projected 9/30/97 expenses from Southern Division.

The exceptions and disclosures in this report that could be affected are Exception 8, 12 and 16; and Disclosure 12, 13, 14, 15, 19, 20, 21 and 23.

OPINION: Remove \$105,932 of expenses allocated from NUI Corporate on the G-2 schedules for Projected 9/30/97.

NUI Corporation
Factor Method for Fiscal Method for Fiscal 1996 Allocations

ETG	Southern Division							NGS	Trading	UBS	Essel	Total	
	City Gas of Florida		Pennsylvania & Southern Gas Company										
	Reg.	Unreg.	Elkton	N. C.	Valley Cities	Waverly	Total						
Direct Payroll Gross													
Gross Payroll	35,062	8,023	248	420	1,629	797	147	2,993	466	0	384	0	47,176
% of Total for CS1	74.32%	17.01%	0.53%	0.89%	3.45%	1.69%	0.31%	6.34%	0.99%	0.00%	0.81%	0.00%	100.00%
% of Total for CS2	74.32%	17.01%	0.53%	0.89%	3.45%	1.69%	0.31%	6.34%	0.99%	0.00%	0.81%	0.00%	100.00%
13 Month Average Gross Plant (Investment Portfolio for Essel)													
	384,248	126,874	15,017	4,249	15,748	9,873	1,848	31,718	3	0	227	3,464	561,551
% of Total for CS1	68.43%	22.59%	2.67%	0.76%	2.80%	1.76%	0.33%	5.65%	0.00%	0.00%	0.04%	0.62%	100.00%
% of Total for CS2	68.86%	22.73%	2.69%	0.76%	2.82%	1.77%	0.33%	5.68%	0.00%	0.00%	0.04%	0.00%	100.00%
Average Customer Ratio													
Number of Customers (13 Month Avg)	235,420	93,768	35,951	2,878	12,318	4,460	1,285	20,941	17	0	19	0	350,165
% of Total for CS1	67.23%	19.36%	7.42%	0.82%	3.52%	1.27%	0.37%	5.98%	0.00%	0.00%	0.01%	0.00%	100.00%
% of Total for CS2	67.23%	19.36%	7.42%	0.82%	3.52%	1.27%	0.37%	5.98%	0.00%	0.00%	0.01%	0.00%	100.00%
Allocation % for :													
CS1 - Common Services 1	69.99%	19.65%	3.54%	0.82%	3.26%	1.57%	0.34%	5.99%	0.33%	0.00%	0.29%	0.21%	100.00%
CS2 - Common Services 2	70.13%	19.70%	3.58%	0.82%	3.26%	1.58%	0.34%	6.00%	0.33%	0.00%	0.29%	0.00%	100.00%
PR - Payroll	72.81%	20.38%	3.67%	0.85%	0.00%	1.63%	0.35%	2.83%	0.34%	0.00%	0.30%	0.00%	100.00%
SG - Natural Gas Operations	71.13%	22.48%	0.00%	0.83%	3.31%	1.60%	0.34%	6.08%	0.33%	0.00%	0.00%	0.00%	100.00%
SU - Regulated Operations	71.37%	22.52%	0.00%	0.84%	3.32%	1.61%	0.34%	6.11%	0.00%	0.00%	0.00%	0.00%	100.00%

NJA Corporation
Factor Method for Fiscal Method for Fiscal 1997 Allocations

ETG	Southern Division						NOB	Energy Brokers	USG	Excel	Total	
	City Gas of Florida		Pennsylvania & Southern Gas Company									
	Reg.	Unreg.	Eldon	N. C.	Valley Cities	Waverly						
Gross Payroll*												
Gross Payroll	25,374	6,049	577	400	1,552	891	130	515	391	800	0	35,499
% of Total for CS1	69.57%	16.59%	1.59%	1.10%	4.29%	1.90%	0.36%	1.41%	1.04%	2.19%	0.00%	100.00%
% of Total for CS2	69.57%	16.59%	1.59%	1.10%	4.29%	1.90%	0.36%	1.41%	1.04%	2.19%	0.00%	100.00%
June 30, 1996 Gross Plant (Investment Portfolio for Excel)												
June 30, 1996 Gross Plant	425,895	125,809	24,065	5,005	18,063	11,454	1,908	77	0	237	3,135	615,663
% of Total for CS1	69.18%	20.43%	3.91%	0.81%	2.93%	1.87%	0.31%	0.01%	0.00%	0.04%	0.51%	100.00%
% of Total for CS2	69.53%	20.54%	3.93%	0.82%	2.95%	1.87%	0.31%	0.01%	0.00%	0.04%	0.00%	100.00%
Number of Customers*												
Number of Customers	241,281	100,002	38,301	3,462	14,083	4,903	1,332	4,088	40	15	0	399,205
% of Total for CS1	65.35%	19.56%	7.50%	0.94%	3.81%	1.33%	0.36%	1.11%	0.01%	0.00%	0.00%	100.00%
% of Total for CS2	65.35%	19.56%	7.50%	0.94%	3.81%	1.33%	0.36%	1.11%	0.01%	0.00%	0.00%	100.00%
Allocation % for :												
CS1 - Common Services 1	68.94%	14.87%	4.33%	0.98%	3.67%	1.78%	0.34%	0.84%	0.38%	0.74%	0.17%	100.00%
CS2 - Common Services 2	68.16%	14.91%	4.34%	0.98%	3.67%	1.70%	0.34%	0.84%	0.38%	0.74%	0.00%	100.00%
PR - Payroll	79.76%	19.91%	4.89%	0.98%	0.00%	1.76%	0.39%	0.88%	0.37%	0.78%	0.00%	100.00%
SG - Natural Gas Operations	79.91%	21.91%	0.00%	0.98%	3.77%	1.75%	0.38%	0.88%	0.37%	0.80%	0.00%	100.00%
SU - Regulated Operations	78.91%	22.16%	0.00%	0.98%	3.82%	1.77%	0.38%	0.89%	0.38%	0.80%	0.00%	100.00%

* 1997 Budget Information

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

	1987 Projection	
	Updated 3 Factor	Original
Executive Audit & Other		
Executive (401)	233,008	242,843
Internal Audit (482)	38,473	41,104
Corporate Communications (108)	30,739	32,008
Regulatory (402)	26,854	28,716
Treasurer's (102)	180,211	188,421
Other	104,410	108,638
Total	663,695	697,528
Legal Affairs & Risk Mgmt.		
Secretary (103)	211,288	220,003
Legal (408)	43,333	46,127
General Counsel (811)	12,240	12,744
Total Legal	266,861	277,874
Risk Management (430)	57,882	60,381
Total	324,743	338,255
MIS & Purchasing		
MIS / Purchasing Admn. (831)	33,884	35,337
Information Svcs Admn (501)	34,854	36,103
Technical Services (520)	183,388	201,480
Programming & Analysis (532)	58,382	58,738
Systems & Programming (538)	42,438	43,888
Computer Operations (540)	113,302	117,818
Telecommunications (541)	-	-
Purchasing (280)	38,074	38,888
Total	612,183	632,486
Accounting Services		
Controllers (104)	88,882	108,817
Accounting Svcs Admn. - (701)	30,888	31,887
Financial Reporting (738)	81,882	84,488
Plant Accounting (737)	13,382	13,888
Tax Services (738)	32,888	33,884
General Accounting (748)	63,474	35,884
Payroll (748)	28,391	27,324
Budget & Planning (747)	28,488	28,824
Accounting Systems (748)	34,875	38,108
Total	388,073	414,802
Gas Supply & Planning (461-487)	886,748	813,197
Human Resources & Benefits		
Employee Relations (421)	18,888	17,133
Comp. & Personnel Admn. (422)	182,877	200,482
Human Resources Admn. (423)	-	-
Staff & Administration Svcs (881)	38,888	38,838
Total	244,229	254,181
Contract Marketing		
Market Administration (301)	62,188	64,788
Public Relations (318)	21,882	22,488
Market Development (331)	30,883	32,188
Mkt. Planning & Research (335)	42,787	44,878
Total	157,481	164,021
Engineering, Transport, Compliance & Rates		
Engineering (170)	38,848	38,818
Transportation & Special Billing (288)	38,843	38,748
Environmental Compliance (482)	20,888	20,847
Rates & Regulatory (483)	58,378	58,317
Total	143,887	148,820
Total Allocations	2,884,881	3,078,813

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

Executive, Audit & Other

	1987 Projection	
	Updated 3 Factor	Original
Executive (401)	53,467	43,712
Internal Audit (482)	9,058	7,405
Corporate Communications (105)	7,054	5,769
Regulatory (402)	8,867	4,812
Treasurer's (102)	34,488	28,177
Other	22,830	18,872
Total	132,764	108,547

Legal Affairs & Risk Mgmt.

Secretary (103)	48,479	39,835
Legal (409)	8,943	8,128
General Counsel (811)	2,808	2,286
Total Legal	61,231	50,059
Risk Management (430)	13,307	10,879
Total	74,538	60,938

MIS & Purchasing

MIS / Purchasing Admin. (531)	7,787	6,367
Information Svcs Admin (501)	7,853	6,505
Technical Services (520)	44,367	36,307
Programming & Analysis (532)	12,940	10,583
Systems & Programming (536)	4,942	4,043
Computer Operations (540)	18,318	15,812
Telecommunications (541)	-	-
Purchasing (280)	6,738	7,148
Total	103,065	86,795

Accounting Services

Controllers (104)	22,878	18,703
Accounting Svcs Admin. - (701)	7,041	5,780
Financial Reporting (735)	13,763	11,283
Plant Accounting (737)	-	-
Tax Services (738)	7,730	10,022
General Accounting (745)	12,270	8,319
Payroll (746)	8,042	4,925
Budget & Planning (747)	5,847	4,780
Accounting Systems (749)	7,957	6,505
Total	83,526	68,277

Gas Supply & Planning (451-457)**Human Resources & Benefits**

Employee Relations (421)	3,779	3,089
Comp. & Personnel Admin. (422)	42,124	34,455
Human Resources Admin. (423)	-	-
Staff & Administration Svcs (851)	8,051	6,591
Total	53,954	44,125

Centralized Marketing

Market Administration (301)	14,286	11,671
Public Relations (318)	4,858	4,053
Market Development (331)	7,089	5,804
Mkt. Planning & Research (336)	9,820	8,032
Total	36,137	29,560

Engineering, Transport, Compliance & Rates

Engineering (170)	-	-
Transportation & Special Billing (208)	-	-
Environmental Compliance (452)	-	-
Rates & Regulatory (453)	-	-
Total	-	-

Total Allocations

Total Allocations	485,864	398,212
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AUDIT DISCLOSURE NO. 23

**SUBJECT: ALLOCATIONS FROM SOUTHERN DIVISION
BENEFITS**

STATEMENT OF FACTS: Projections for Life and Accidental Insurance are included in the Southern Division Projections in the amount of \$2,355 for 96 and \$15,016 for 97.

Included in allocations to City Gas from the Southern Division on the G-2 schedules for Projected 96 and Projected 97 are \$1,800 and \$10,180 respectively for Life and Accident Insurance.

The calculation of the Cost is based on a Potential Benefit Formula. The rate from the Insurance Company is .315% per \$1,000. However, the company does not have any documentation for how they determined the amounts to which to apply this rate of .315%.

OPINION: Without documentation, the Company could be using an incorrect formula for determining the amounts to which to apply the cost rate.

AUDIT DISCLOSURE NO. 24

SUBJECT: LEGAL FEES - MEDLEY CONTRACT

STATEMENT OF FACT: The Company has included the following invoices from McWhirter, Reeves, & McGlothlin for legal fees related to the Medley case in account 923.

Bill Number	Amount
C301-11593-012	\$ 7,717.26
C301-11593-010	6,704.45
C301-11593-011	2,262.41
C301-11593-015	16,290.88
C301-11593-013	2,204.92
	\$35,179.92

The \$35,179.92 was included in the period October 1995 through March 1996. This amount is doubled to arrive at the 1997 forecast is \$70,359.84.

Medley Construction is suing City Gas for breach of contract.

AUDIT DISCLOSURE NO. 25

SUBJECT: LEGAL FEES - CNG

STATEMENT OF FACT: The following were included in the 1997 forecast:

John B. Stark, Energy Consultants	\$4,710.06
	4,972.38
	4,477.34
	4,153.63
	3,991.91
	4,183.73
Actual 6 months	\$26,489.05
	2
Annualized	\$52,978.10
inflation rate	1.03
1997 projection	\$54,567.44

John Stark is paid a contract price of \$3,500 a month. A portion of his work related to the compressed natural gas (CNG) fueling facility at Miami International Airport. Staff was unable to determine how much of these costs were for CNG.

AUDIT DISCLOSURE NO. 26

SUBJECT: RENT EXPENSE

STATEMENT OF FACT: On schedule G-2 page 20, the Company has included rent expense of \$55,740 in account 931 Rents for 1997 forecasted test year. The rent expense is due to leasing the building at 1001 E 25 Street, Hialeah, for general accounting operations. As of August 1996, the general accounting operations will be transferred to NUI headquarters in New Jersey.

In answer to staff auditor's request, regarding what the company intends to do with the 1001 building after August, the company stated that "the facilities space provided by the 1001 building will continue to house company personnel after the transfer of all the accounting activities to New Jersey. The building currently provides space for MIS (3 positions), Payroll (1 position) and Accounting (6 positions) as well as the Audit Room, a Conference Room, File Storage and the Fitness Center. After August, only Accounting will have been moved to New Jersey. The space vacated will allow us to move an additional Payroll clerk to 1001 (from 955), to house two new positions that will provide analytical support for Customer Accounts and Operations (expected to be staffed from existing accounting personnel) and a CIS training facility. In addition, the space will be used for future audit requirements.(PSC, internal, external and tax)".

OPINION: If the company does not fill this space, the expense should not be included.

AUDIT DISCLOSURE NO. 27

SUBJECT: PROPANE EXPENSES

STATEMENT OF FACT: The company has included \$7,822 of propane expenses related to the Huntington Development for the period October 1995 through March 1996 in account 912. Since the company doubles this amount and multiplies by the general inflation rate of 3%, forecasted expenses for 1997 on schedule G-2 1997 include \$16,113.32 ($\$7,822 * 2 * 1.03$) of these expenses. The related revenues are based on gas rates in Rate Code 801.

OPINION: Due to time constraints staff was unable to investigate the revenues associated with these propane expenses.

AUDIT DISCLOSURE NO. 28

SUBJECT: TRANSPORTATION CUSTOMER BILLING

STATEMENT OF FACTS: Staff recalculated various bills for the month of February 1996. Staff determined that the rounding after term conversion is different for transportation accounts (Account 211 0754075 - rate code 885, Account 211 0753993 - rate code 886). The terms for these two accounts were rounded to a whole number, no decimals. The rounding for the other accounts in the sample are rounded to the tenth, one decimal.

AUDIT OPINION: Since this was found the last day of audit, audit staff was unable to investigate.

AUDIT DISCLOSURE NO. 29

SUBJECT: PROPERTY TAXES

STATEMENT OF FACT: The company has included in their MFR schedule G-2 \$1,435,008 of property taxes. This amount was based on the actual property taxes paid in 1995 adjusted for non-utility operations, \$1,205,477.07. This amount was trended using a plant growth of 5.038% for 1996 and 6.77% for 1997 and an inflation rate of 3%. Based on the change between 1994 and 1995 millage rates it was determined that there does not seem to be an increase from year to year.

OPINION: The property taxes seem to be more related to the growth in plant than inflation.

Staff's calculation is as follows:

1,205,477 total taxes paid in 1995
1.0538 times growth rate of 1996 plant
1,270,332 test year + 1 property taxes

1,270,332 test year + i property taxes
1.0677 times growth rate of 1997 plant
1,356,333 forecasted 1997 property taxes

If the company did not increase property taxes for inflation property taxes would be reduced by \$78,675 (\$1,435,008-\$1,356,333).

AUDIT DISCLOSURE NO. 30

SUBJECT: REVISED 3-FACTOR METHOD

STATEMENT OF FACT: The company revised their 3-factor method on the last day of audit. The new 3-factor method allocation rate to non-regulated is 17.49%. The change in rate effects Exception 4, Disclosure 1, Disclosure 5 and Disclosure 6. It changes the 15.58% to 17.49%. Due to time limits, we were unable to change these calculations.

V. COMPANY PREPARED EXHIBITS

FORECASTED RATE BASE

FORECASTED COST OF CAPITAL

FORECASTED NET OPERATING INCOME

SCHEDULE G-1

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: CITY GAS COMPANY OF FLORIDA
A DIVISION OF NUI CORPORATION
DOCKET NO. 960502-GU

CALCULATION OF THE PROJECTED TEST YEAR RATE BASE

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH AVERAGE RATE BASE FOR THE HISTORIC BASE YEAR, THE HISTORIC BASE YEAR PLUS ONE, AND THE PROJECTED TEST YEAR.

PAGE 1 OF 28

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 09/30/95
HISTORIC BASE YEAR + 1: 09/30/96
PROJECTED TEST YEAR: 09/30/97
WITNESS: R W SMITH

Line No.	Description	Historical Base Year (1995)			Historical Base Year + 1 (1996)	Projected Test Year (1997)		
		Average Unadjusted	Company Adjustments	Average Adjusted	Average Unadjusted	Average Unadjusted	Company Adjustments	Average Adjusted
UTILITY PLANT								
1	GAS PLANT IN SERVICE							
2	COMMON PLANT ALLOCATED	142,684,549	(23,676,792)	119,007,757	126,226,251	133,117,813	3,339,281	136,457,094
3	ACQUISITION ADJUSTMENT		(1,781,408)	(1,781,408)			(1,602,471)	(1,602,471)
4	PLANT HELD FOR FUTURE USE	29,484,723	(29,356,845)	127,878	29,500,785	29,500,785	(29,149,163)	351,622
2	CONSTRUCTION WORK IN PROGRESS	1,459,792	(1,458,792)		2,112,808	2,112,808	(2,112,808)	
3	TOTAL	3,263,842	(313,446)	2,950,396	2,045,490	2,259,833		2,259,833
		176,892,906	(56,588,284)	120,304,622	159,885,334	166,987,239	(29,525,161)	137,462,078
DEDUCTIONS								
4	ACCUMULATED DEPRECIATION - UTILITY PLANT							
5	ACCUM. DEPR - COMMON PLANT ALLOCATED	49,308,086	(7,721,139)	41,586,947	45,496,997	48,674,157	418,427	49,092,584
6	ACCUM. AMORTIZATION - ACQUISITION ADJ'TS		(434,462)	(434,462)			(453,385)	(453,385)
7	CUSTOMER ADVANCES FOR CONSTRUCTION	6,698,563	(6,275,907)	422,656	7,690,669	8,682,673	(8,220,511)	462,162
8	TOTAL DEDUCTIONS	56,006,649	(14,431,508)	41,575,141	53,187,666	57,356,830	(8,255,469)	49,101,361
9	UTILITY PLANT, NET	120,886,257	(42,156,776)	78,729,481	106,697,668	109,630,409	(21,269,692)	88,360,717
ALLOWANCE FOR WORKING CAPITAL								
10	BALANCE SHEET METHOD	(41,943,386)	48,903,177	6,960,090	(13,730,512)	(14,953,476)	21,025,506	6,072,030
11	TOTAL RATE BASE	78,942,871	6,746,701	85,689,571	92,967,156	94,676,933	(244,186)	94,432,747
12	NET OPERATING INCOME	4,341,908	362,245	4,704,154	3,607,532	3,999,001	516,833	4,515,834
13	RATE OF RETURN	5.50%		5.49%	3.88%	4.22%		4.78%

SUPPORTING SCHEDULES:

RECAP SCHEDULES

000160

CALCULATION OF THE PROJECTED TEST YEAR COST OF CAPITAL

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: CITY GAS COMPANY OF FLORIDA
 A DIVISION OF NUI CORPORATION
 DOCKET NO 960502-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13 MONTH AVERAGE COST OF CAPITAL FOR THE PROJECTED TEST YEAR

TYPE OF DATA SHOWN:
 PROJECTED TEST YEAR: 09/30/97
 WITNESS: R.W. SMITH

Line No	Description	Per Books	Adjustments		Adjusted	Ratio	Cost Rate	Weighted Cost	Consolidated Investor Sources
			To Conform with Ratio of Investor Sources	Specific					
1	COMMON EQUITY	48,035,027	(2,428,027)		33,617,373	35.60%	11.90%	4.24%	41.53%
2	LONG TERM DEBT	48,641,906	3,029,187		39,834,118	42.18%	7.55%	3.18% a	49.21%
3	SHORT TERM DEBT	10,324,272	1601,160		7,495,711	7.94%	6.00%	0.48% a	9.26%
4	CUSTOMER DEPOSITS	5,483,576			5,483,576	5.81%	6.00%	0.35% a	
5	DEFERRED TAXES	18,978,320		(12,326,425)	6,651,895	7.04%	0.00%	0.00%	
6	TAX CREDIT	1,355,336		(5,262)	1,350,074	1.43%	0.00%	0.00%	
7	TOTAL	130,818,437		(12,331,687)	94,432,747	100.00%		8.25%	

INTEREST SYNCHRONIZATION CALCULATION

RATE BASE		
x WEIGHTED AVERAGE COST OF DEBT	(SUM OF "a")	\$94,432,747
SYNCHRONIZED INTEREST		4.01%
INTEREST PER BOOKS		3,786,753
INTEREST PER BOOKS OVER SYNCHRONIZED INTEREST CALCULATED		4,842,949
STATE TAX @	5.50%	1,056,196
FEDERAL TAX @		58,091
TOTAL INCOME TAX ADJUSTMENT	34.00%	998,105
		339,356
		<u>\$397,446</u>

SCHEDULE G-2

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: CITY GAS COMPANY OF FLORIDA
A DIVISION OF NUI CORPORATION
DOCKET NO.: 960502-GU

CALCULATION OF THE PROJECTED TEST YEAR NOI SUMMARY

EXPLANATION: PROVIDE THE CALCULATION OF NET OPERATING INCOME PER BOOKS FOR THE HISTORIC BASE YEAR, THE PROJECTED NET OPERATING INCOME FOR THE HISTORIC BASE YEAR + 1, AND THE PROJECTED TEST YEAR.

PAGE 1 OF 34

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 09/30/95
HISTORIC BASE YEAR + 1: 09/30/96
PROJECTED TEST YEAR: 09/30/97
WITNESS: R.W. SMITH

Line No.	Description	Historical Base Year (1995)			Historical Base Year + 1 (1996)	Projected Test Year (1997)		
		Per Books	Company Adjustments	Adjusted	Per Books	Per Books	Company Adjustments	Adjusted
1	<u>OPERATING REVENUE</u>							
2	OPERATING REVENUES							
3	REVENUE RELIEF	51,498,805	(24,313,638)	27,185,167				
4	CHANGE IN UNBILLED REVENUES				72,504,920			
5	REVENUES DUE TO GROWTH	(28,032)		(28,032)		77,394,746	(49,108,991)	28,285,755
6	TOTAL REVENUES							
7	<u>OPERATING EXPENSES</u>	51,470,773	(24,313,638)	27,157,135	804,903			
8	COST OF GAS				73,309,823	1,641,389		1,641,389
9	OPERATION & MAINTENANCE	20,683,758	(20,683,758)			79,036,135	(49,108,991)	29,927,144
10	CONSERVATION COSTS	17,079,371	(1,051,135)	16,028,236	31,871,560			
11	DEPRECIATION & AMORTIZATION				18,322,133	36,278,251	(36,278,251)	
12	REVENUE RELATED TAXES	7,712,154	(3,428,984)	4,283,170	1,924,285	18,759,947	(432,384)	18,327,563
13	TAXES OTHER THAN INCOME				5,505,731	1,180,169	(1,180,169)	
14	INCOME TAXES FEDERAL	1,725,650	(128,137)	1,597,513	10,677,325	5,639,754	(1,033,513)	4,606,241
15	INCOME TAXES - STATE	(1,874,732)	216,714	(1,658,018)	2,256,111	11,509,573	(11,509,573)	
16	DEFERRED TAXES - FEDERAL	(66,498)	(215,157)	(281,655)	(343,256)	2,334,390	(140,998)	2,193,392
17	DEFERRED TAXES - STATE	1,510,324	614,574	2,124,898	(56,593)	(719,829)	810,349	690,520
18	INVESTMENT TAX CREDITS	371,005		371,005	(411,915)	(18,347)	138,715	120,368
19	TOTAL OPERATING EXPENSES	(12,168)		(12,168)	(30,922)	(473,195)		(473,195)
		47,128,864	(24,675,883)	22,452,981	(12,168)	(41,411)		(41,411)
					69,702,291	(12,168)		(12,168)
20	NET OPERATING INCOME	4,341,909	362,245	4,704,154	3,607,532	75,037,134	(49,625,824)	25,411,310
						3,999,001	516,833	4,515,834

SUPPORTING SCHEDULES: C-1, G-2 p2-5

000188

RECAP SCHEDULES:

Commissioners:
SUSAN F. CLARK, CHAIRMAN
J. TERRY DEASON
JULIA L. JOHNSON
DIANE K. KIESLING
JOE GARCIA

State of Florida



DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYO
DIRECTOR
(904) 413-6770

Public Service Commission

August 16, 1996

Richard F. Wall, Vice President of Operations
City Gas Company of Florida
955 East 25th Street
Hialeah, Florida 33013-3498

RE: Docket No. 960502-GU -- City Gas Company of Florida
Rate Case Audit Report - Forecasted Test Year Ending September 30, 1997
Audit Control #96-180-4-1

Dear Mr. Wall:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

The Division of Records and Reporting is holding the workpapers for which you requested confidential treatment. You have 21 days from the audit exit conference, or September 30, 1996 to file a formal request for Confidential Classification with the Division of Records and Reporting.

Thank you for your cooperation.

Sincerely,

Blanca S. Bayo
Blanca S. Bayo

BSE/mas
Enclosure
cc: Public Counsel
McWhirter Law Firm