

MEMORANDUM

September 12, 1996

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *aw*

RE: DOCKET NO. ~~960502~~-GU -- CITY GAS COMPANY OF FLORIDA
SUPPLEMENTAL RATE CASE AUDIT REPORT
FORECASTED TEST YEAR ENDED SEPTEMBER 30, 1997
AUDIT CONTROL NO. 96-235-4-1

The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on one diskette. The diskette may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are no confidential working papers associated with this audit.

Please forward a complete copy of this report to:

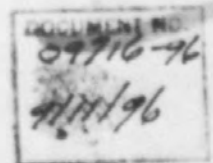
City Gas Company of Florida
Richard F. Wall
955 East 25th Street
Hialeah, FL 33013-3498

DNV/sp

Attachment

cc: Chairman Clark
Commissioner Deason
Commissioner Johnson
Commissioner Kiesling
Commissioner Garcia
Mary Andrews Bane, Deputy Executive Director/Technical
Legal Services
Division of Auditing and Financial Analysis (Devlin/Causseaux/
Merta/File Folder)
Miami District Office (Welch)

Research and Regulatory Review (Harvey)
Office of Public Counsel



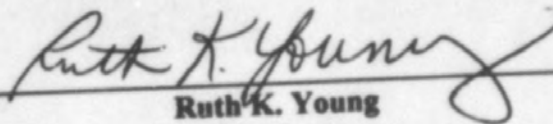
FLORIDA PUBLIC SERVICE COMMISSION
SUPPLEMENTAL AUDIT REPORT TO RATE CASE

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

Field Work Completed
September 9, 1996

CITY GAS COMPANY OF FLORIDA
Miami, Florida
Dade County

Rate Case Audit
Docket Number 960502-GU
Audit Control No. 96-235-4-1



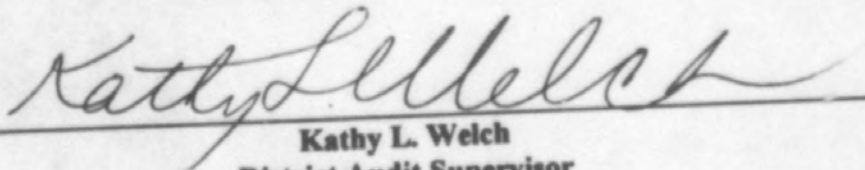
Ruth K. Young
Audit Manager

Audit Staff:

Gabriella Leon
Iliana Piedra

Minority Opinion:

Yes No
Yes No



Kathy L. Welch
District Audit Supervisor
Miami

DOCUMENT NUMBER-DATE

09716 SEP 12 1996

FPSC-RECORDS/REPORTING

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I. Executive Summary

Audit Purpose: We have applied the procedures described in Section II of this report to further audit specific items discussed in the original report dated August 9, 1996 in support of City Gas Company's filing for rate relief for Projected year ended September 30, 1997, FPSC Docket 960502-GU. The items are detailed in the Scope section of this report.

Scope Limitation: The audit exit conference was held September 9, 1996.

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.

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.

ADVERTISING: Reviewed documentation for Company summary of Projected 1997 advertising expense detailed in Disclosure 11 of original audit. Also reviewed the expense in City Gas Co. Account 920.1, Institutional Advertising.

SALARIES: Compared salaries allocated from NUI for 1995 and 1996 to determine the percent increase. Determined if NUI positions mentioned in Disclosure 15 of the original report were filled. Compared the list of Board of Directors at NUI with NUI salary list. Requested the company provide information as to the likelihood of bonuses for Company Executives being paid in 1996 and 1997.

REVISED THREE FACTOR ALLOCATION METHOD: Traced plant balances at 6/30/96 to company to plant ledger. Agreed Projected 1997 salaries used to G-2 schedules in the MFR's. Recalculated all exceptions and disclosures in the original report that were effected by the Three Factor Method based on original Disclosures 22 and 30.

MISCELLANEOUS: Followed up on original Exception 6 to determine if the amounts were in fact nonrecurring. Performed an analytical review for the past five years of revenues to accounts receivable. Followed up on original Disclosure 7 to determine types and amounts of ESOP expenses. Reviewed the relocation charges allocated from NUI to determine if they were included in Projected 1997. Reviewed documentation for benefits allocated from Southern Division as discussed in Disclosure No. 23.

LEGAL: Obtained a description of the work performed by Robin LLoyd as discussed in Disclosure 18.

PROPANE: Compiled revenues and other costs associated with propane discussed in Disclosure 27.

SAMPLE INVOICES FROM NUI: Tested the material invoices that were part of the original sample for which we did not have time for in the original audit.

AUDIT DISCLOSURE 1 – SUPPLEMENTAL REPORT

SUBJECT: RECALCULATION OF AUDIT EXCEPTIONS AND DISCLOSURES IN ORIGINAL REPORT FOR CHANGE IN THREE FACTOR METHOD ALLOCATION PERCENTS

STATEMENT OF FACTS:

Audit Disclosure 22 in the original report stated that staff asked the Company to recalculate their three factor method of allocation using a point in time when the employees were downsized at City Gas and at other companies. The Company recalculated the method using Preliminary 9/30/97 budget amounts for Payroll and Customers, and actual plant balances at 6/30/96.

The new calculation changed the percents to be used to allocate expenses from NUI, expenses from Southern Division and City Gas non regulated expenses.

It was determined by the company that the revised calculation included incorrect projected 1997 payroll data and submitted a second revision of the three factor method. Staff agreed the projected payroll used in the second revision to the MFR's.

EXPENSES FROM NUI

Audit Disclosure 22 showed that the amount Projected on the G-2 Schedules for 9/30/97 from NUI is \$3,070,813. The revised amount for the second revised three factor method is \$3,034,238; a difference of \$36,575.

Staff recalculated all exceptions and disclosures from the original report regarding NUI allocations using the second revised three factor method which is included in Exhibit 1 to this disclosure. The results are included in Exhibit 2 to this disclosure.

EXPENSES FROM SOUTHERN DIVISION

The second revised three factor method also affected the Southern Division allocations. The Company provided us with the revised percents. This is attached as Exhibit 3 to this Disclosure.

Staff recalculated all Exceptions and Disclosures from the original report regarding Southern Division allocations. The results are included in Exhibit 2 and Exhibit 4 to this Disclosure.

NONREGULATED ALLOCATIONS TO CITY GAS EXPENSES

The revised three factor method also affected the nonregulated allocations. Audit Disclosure 30 states that the factor is changed from 15.58% to 17.49% for nonregulated amounts. The second revised three factor method changes the factor to 16.14%.

Staff recalculated all exceptions and disclosures from the original report where adjustments were made for nonregulated items. The results are included in Exhibit 2 to this Disclosure.

OPINION:

ALLOCATIONS FROM NUI

Decrease expenses from NUI on the G-2 schedule in the amount of \$36,575 because of the revised three factor method. Also, change the amounts in certain exceptions and disclosures in the original report to account for the change in the allocations percent. The amounts, detailed by exception and disclosure, are on Exhibit 2.

ALLOCATIONS FROM SOUTHERN DIVISION

Staff recalculated the amounts to be allocated to Regulated and nonregulated from Southern Division based on the Company's revised percents on Exhibit 3. The recalculation is on Exhibit 4.

The original total allocation to City Gas Regulated expenses from the Southern Division for Projected 97 was \$1,083,336. The recalculated amount is \$1,033,296.19, a difference of \$50,039.81. Southern Division expense on the G-2 schedules should be reduced in the amount of \$50,039.81 because of the revised three factor method.

Also, change the amounts in certain exceptions and disclosures in the original report to account for the change in the allocation percent. The amounts are detailed by exception and disclosure on Exhibit 2.

NONREGULATED ALLOCATIONS

If Disclosure 30 is accepted, then certain exceptions and disclosures in the original report need to be changed to account for the change in the allocation percent. See Exhibit 2 for the amounts for each Exception and Disclosure.

NUI Corporation
Factor Method for Fiscal Method for Fiscal 1997 Allocations

Gross Payroll*

Gross Payroll
 % of Total for CS1
 % of Total for CS2

June 30, 1996 Gross Plant

(Investment Portfolio for Easels)
 % of Total for CS1
 % of Total for CS2

Number of Customers*

Number of Customers
 % of Total for CS1
 % of Total for CS2

Allocation % for:

CS1 - Common Services 1

CS2 - Common Services 2

PR - Payroll

SG - Natural Gas Operations

SU - Regulated Operations

* 1997 Budget Information

ETG	Southern Division						NGB	Energy Brokers	UBS	Easels	Total	
	City Gas of Florida		Pennsylvania & Southern Gas Company									
	Reg.	Unreg.	Elkton	N. C.	Valley Cities	Waverly						
Gross Payroll	25,374	6,626	324	400	1,552	691	130	515	381	500	0	36,793
% of Total for CS1	68.96%	18.01%	0.88%	1.09%	4.22%	1.89%	0.35%	1.40%	1.04%	2.17%	0.00%	100.00%
% of Total for CS2	68.96%	18.01%	0.88%	1.09%	4.22%	1.89%	0.35%	1.40%	1.04%	2.17%	0.00%	100.00%
June 30, 1996 Gross Plant	425,896	125,809	24,085	5,009	18,063	11,484	1,908	77	0	237	3,136	615,683
% of Total for CS1	69.18%	20.43%	3.51%	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	241,291	100,002	38,301	3,462	14,083	4,903	1,332	4,988	40	15	0	388,208
% of Total for CS1	62.35%	19.59%	7.50%	0.94%	3.61%	1.32%	0.36%	1.11%	0.01%	0.00%	0.00%	100.00%
% of Total for CS2	62.35%	19.59%	7.50%	0.94%	3.61%	1.32%	0.36%	1.11%	0.01%	0.00%	0.00%	100.00%
CS1 - Common Services 1	67.63%	19.34%	4.19%	0.98%	3.69%	1.69%	0.34%	0.94%	0.36%	0.74%	0.17%	100.00%
CS2 - Common Services 2	67.98%	19.39%	4.19%	0.98%	3.69%	1.69%	0.34%	0.94%	0.36%	0.74%	0.00%	100.00%
PR - Payroll	70.63%	26.11%	4.26%	0.98%	0.90%	1.76%	0.36%	0.87%	0.36%	0.77%	0.00%	100.00%
SG - Natural Gas Operations	68.64%	22.36%	0.90%	0.97%	3.74%	1.74%	0.36%	0.89%	0.36%	0.99%	0.00%	100.00%
SU - Regulated Operations	78.69%	22.61%	0.90%	0.90%	3.89%	1.76%	0.36%	0.89%	0.00%	0.99%	0.00%	100.00%

CSF Direct		Total
Regulated	Unregulated	
6,626	324	6,950
95.34%	4.66%	100.00%
95.34%	4.66%	100.00%
125,809	24,085	149,894
83.95%	16.05%	100.00%
83.95%	16.05%	100.00%
100,002	38,301	138,303
72.31%	27.69%	100.00%
72.31%	27.69%	100.00%
67.63%	16.13%	100.00%
67.98%	16.13%	100.00%
67.63%	16.13%	100.00%
100.00%	0.00%	100.00%
100.00%	0.00%	100.00%

EXHIBIT 1 TO DISCUSSION I of Supplemental Report

Exhibit 2 to Disclosure 1 of Supp Report

EXHIBIT TO DISCLOSURE 1 OF SUPPLEMENTAL REPORT

EXCEPTION NO/ DISCLOSURE NO.	AMOUNT OF ADJUSTMENT PER REPORT	Second Revision NEW AMOUNT OF ADJUSTMENT IF DISCLOSURE 22 ADJ IS MADE	DIFFERENCE
ALLOCATIONS FROM NUI			
EXCEPTION 12	2,976.07	2,929.10	(46.97)
EXCEPTION 12	4,356.79	4,287.89	(68.90)
EXCEPTION 12	6,120.04	6,144.49	24.45
EXCEPTION 16	822.54	809.19	(13.35)
DISCLOSURE 13	6,853.94	6,745.94	(108.00)
DISCLOSURE 14	70,422.00	69,744.68	(677.32)
DISCLOSURE 15	11,820.00	11,628.00	(192.00)
DISCLOSURE 19	3,141.21	3,032.48	(108.73)
DISCLOSURE 20	26,733.83	26,312.07	(421.76)
DISCLOSURE 21	49,616.25	48,833.50	(782.75)
			(2,395.33)
ALLOCATIONS FROM SOUTHERN DIVISION			
EXEPTION 8	36,843.00	35,158.00	(1,685.00)

EXCEPTION NO/ DISCLOSURE NO.	AMOUNT OF ADJUSTMENT PER REPORT	Second Revision NEW AMOUNT OF ADJUSTMENT IF DISCLOSURE 30 ADJ IS MADE	DIFFERENCE
EXCEPTION 4	44,731.00	46,339.45	1,608.45
DISCLOSURE 1	50,514.00	57,201.00	6,687.00
DISCLOSURE 5	151,493.00	171,549.00	20,056.00
DISCLOSURE 5	399,381.00	413,736.00	14,355.00
DISCLOSURE 6	69,966.00	28,761.00	(41,205.00)
			1,501.45

COMPANY: CITY GAS CO
 DISCLOSURE 6 IN ORIGINAL REPORT
 PAYROLL TAXES AND BENEFITS.

ADJUSTMENT FOR PAYROLL TAXES NOT TAKEN INTO ACCOUNT FOR
 ACCOUNTS 920, 879, 901 AND 903. DISCLOSURE 6 IS ALSO REVISED FOR
 CHANGES IN PAYROLL AMOUNTS AS ON ATTACHED SCHEDULE.

	REVISED PAYROLL	NON REG PORTION 16.14%	TIMES 25.17% FACTOR
ACCOUNT 920	395,337	63,807	16,060
ACCOUNT 879	262,104	42,304	10,648
ACCOUNT 901	225,676	36,424	9,168
ACCOUNT 903	958,764	154,745	38,949
ECP	186,921		47,048
CAPITAL	239,040		60,166
DIRECT NON REG	323,817		81,505
TOTAL NONREG TAXES AND BENEFITS CHARGED IN THE MFR'S 926 ACCOUNT			263,544
CHARGED IN THE MFR'S A&G ALLOCATION			(99,706)
			(135,077)
DIFFERENCE BETWEEN MFR'S AND STAFF CALCLULATION.			28,761

	PER REPORT	REVISED	DIFF
DIFFERENCE	69,966	28,761	(41,205)

Direct Payroll Gross
Gross Payroll
% of Total

12 Month Average Gross Plant (800's)
Gross Plant
% of Total

Average Customer Ratio
Number of Customers (12 Month Average)
% of Total

Arithmetic Average (RC 806)

Arithmetic Average - Regulated (B) RC 806

Arithmetic Average - P&S only (4) RC 804

Arithmetic Average - CGF only (3) RC 802

OVERALL

Arithmetic Average - Regulated (B)

City Gas of Florida		NLI South Allocation %					Total
Regulated	Unregulated	Pennsylvania & Southern Gas Company					
		Elkton	North Carolina	Valley Cities	Waverly		
6,626	324	400	1,562	891	130	8,733	
68.15%	3.33%	4.11%	13.39%	7.11%	1.34%	100.00%	
125,899	24,065	5,008	18,063	11,484	1,908	186,337	
67.57%	12.91%	2.69%	9.50%	6.19%	1.02%	100.00%	
100,000	38,301	3,462	14,063	4,903	1,332	123,762	
89.42%	27.37%	2.80%	11.38%	3.99%	1.08%	100.00%	
84.79%	12.87%	3.39%	12.34%	6.74%	1.18%	100.00%	
76.61%	6.69%	3.39%	13.87%	8.72%	1.21%	100.00%	
6.00%	6.00%	14.32%	24.80%	26.64%	6.16%	100.00%	
83.89%	16.14%	6.00%	6.00%	6.00%	6.00%	100.00%	
86.84%	7.38%	6.39%	26.19%	6.32%	1.88%	100.00%	

CGF		
Regulated	Unregulated	Total
6,626	190	6,824
67.56%	3.50%	100.00%
125,899	24,065	149,964
83.95%	16.05%	100.00%
100,000	38,301	138,301
72.31%	27.69%	100.00%
84.42%	16.56%	100.00%
6.00%	6.00%	6.00%
6.00%	6.00%	6.00%
6.00%	6.00%	6.00%

Direct Payroll Gross
Gross Payroll
% of Total

12 Month Average Gross Plant (800's)
Gross Plant
% of Total

Average Customer Ratio
Number of Customers (12 Month Average)
% of Total

Arithmetic Average

Arithmetic Average - P&S

City Gas of Florida		NLI South Allocation %					NLI South Total
Regulated	Unregulated	Pennsylvania & Southern Gas Company					
		Elkton	North Carolina	Valley Cities	Waverly		
66,628	80	5,400	21,562	8991	2,130	86,399	
76.30%	0.30%	4.30%	18.31%	7.39%	1.38%	100.00%	
\$125,899	80	\$5,020	\$18,286	\$11,618	\$1,910	\$182,512	
77.42%	0.00%	3.02%	11.23%	7.39%	1.19%	100.00%	
100,000	0	3,462	14,063	4,903	1,332	122,872	
81.32%	0.00%	2.82%	11.43%	3.93%	1.08%	100.00%	
76.41%	0.00%	3.39%	13.87%	6.82%	1.21%	100.00%	

Direct Payroll Gross
Gross Payroll
% of Total

12 Month Average Gross Plant (800's)
Gross Plant
% of Total

Average Customer Ratio
Number of Customers (12 Month Average)
% of Total

Arithmetic Average

Arithmetic Average - CGF

City Gas of Florida		NLI South Allocation %					NLI South Total
Regulated	Unregulated	Pennsylvania & Southern Gas Company					
		Elkton	North Carolina	Valley Cities	Waverly		
		5,400	21,562	8,991	2,130	82,772	
		14.42%	58.97%	24.82%	4.38%	100.00%	
		55,899	216,286	211,618	21,910	806,703	
		13.59%	48.72%	31.38%	6.30%	100.00%	
		3,462	14,063	4,903	1,332	23,760	
		14.39%	59.32%	20.82%	5.80%	100.00%	
		14.32%	64.60%	26.64%	6.16%	100.00%	

Direct Payroll Gross
Gross Payroll
% of Total

12 Month Average Gross Plant (800's)
Gross Plant
% of Total

Average Customer Ratio
Number of Customers (12 Month Average)
% of Total

Arithmetic Average

City Gas of Florida		NLI South Allocation %					NLI South Total
Regulated	Unregulated	Pennsylvania & Southern Gas Company					
		Elkton	North Carolina	Valley Cities	Waverly		
6,626	324					86,890	
68.24%	4.89%					100.00%	
125,899	24,065					218,874	
62.94%	12.38%					100.00%	
100,000	38,301					138,301	
72.31%	27.69%					100.00%	
83.89%	16.14%					100.00%	

Exhibit 4 to Disclosure 1 of Supp Report

COMPANY:

CITY GAS CO

REVISED CALCULATION OF SOUTHERN DIVISION ALLOCATIONS TO CITY GAS

FISCAL 1997

RC CODE	DESCRIPTION	TOTAL AMT 1996	REVISED REG FACTOR	REVISED REG AMOUNT	REVISED NONREG FACTOR	REVISED NONREG AMOUNT
502	City Gas Administration	95,000	83.86%	79,667.00	16.14%	15,333.00
504	P&S Administration	127,359	0.00%		0.00%	
505	Regulatory Affairs	166,122	73.41%	121,950.16	0.00%	
506	Division Administration	1,285,439	64.70%	831,679.03	12.87%	165,436.00
		<u>1,673,920</u>		<u>1,033,296.19</u>		<u>180,769.00</u>
	ORIGINAL ALLOCATION FROM SOUTHERN DIVISION			<u>1,083,336.00</u>		
				(50,039.81)		

AUDIT DISCLOSURE 2 - SUPPLEMENTAL REPORT

SUBJECT: POSITION VACANCIES AT NUI

STATEMENT OF FACTS:

Audit disclosure No. 15 discusses salaries for two vacant positions that are included in Projected 96 and 97.

The position in responsibility code 520, Technical Services, has not been filled as of August 29, 1996. The salary that was projected was \$60,000 per year. The amount to City was 19.70% or \$11,820. The adjusted amount for the three factor method is in disclosure 1 of the supplemental report.

The second position was filled.

AUDIT DISCLOSURE 3 - SUPPLEMENTAL REPORT

SUBJECT: ADVERTISING

STATEMENT OF FACTS:

In Audit Disclosure No. 11, the Company provided us with a marketing plan for Projected 1997 which detailed \$260,497.40 for advertising expense. We asked the Company for documentation of the amounts included in Projected 1997. They provided us with a revised Marketing Plan for 1997. This is attached as Exhibit 1 to this Disclosure. They state that they plan to spend \$201,455 for Regulated Cost of Service advertising in 1997 and that the amount requested in the rate case was \$104,339. Exhibit 2 details the plan by types of advertising for regulated Projected 97 and the amounts included in the rate case of Projected 97.

The Company stated in Disclosure No. 11 that "... that 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 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."

PSC Order No. 6500, Docket No. 73586-GU details the Commission policy regarding the allowance and disallowance of advertising costs. Regarding the advertising of natural gas over other competing fuels, the Commission states that the amount of advertising designed to encourage persons to switch from other energy sources are not allowed as advertising expenses. The Commission has allowed information or consumer advertising designed to inform the customer of "...safety precautions and procedures, changes in rates ... methods to conserve energy and reduce usage...". The order also addresses the disallowance of many items that relate to Appliances.

ANALYSIS OF CITY GAS MARKETING PLAN FOR 1997

BILLBOARDS

As seen in Exhibit 2, the Company included \$28,020 for rent for two billboards. The Company believes these billboards relate to City Gas only and do not include any ECP messages. Therefore included the entire amount in the Projected 1997.

A copy of the billboard is attached as Exhibit 3. This billboard promotes Natural Gas, The Comfort Zone and also includes the name of a builder (Schull Builders). City's Comfort Zone Marketing theme is described on Exhibit 4.

In Order No. 6500, Docket No. 73568-GU the commission disallowed advertising ..., model and open-home subsidies, advertising promotions of all types, including brochures and materials relating to gas energy promotions."

BILL INSERTS

The Company included \$36,000 for bill inserts in the revised marketing plan.

The topics to be covered are:

1. Natural Gas Safety Rules
2. How and Why we estimate your bill
3. Always check our ID
4. Get Ready for Cold Weather (NOV)
5. We may be Changing your Meter
6. Call before Digging - A Good Law to Remember
7. There's Help to Pay your Bills
8. Call Early before you Move
9. Natural Gas is Available in Your Neighborhood - ECP
10. Natural Gas Air conditioning
11. Hurricane Preparedness
12. Why Does Natural Gas Smell?

The Company states that there will be one insert each month at a cost of \$3000, and that half of this will be for ECP; or \$18,000. Therefore, \$18,000 is included in the revised marketing plan for projected 1997. No documentation was provided for the 50% allocated to ECP. However, the company stated that they expected every bill insert will likely have some message about ECP or appliances.

Bill inserts from Elizabethtown Gas Company for the months of April, June, July and August 1996 were provided. These are included as Exhibit 5 to this Disclosure. The Company plans to design inserts for Florida along the topics used in New Jersey. These inserts are attached as Exhibit 5. The topics are (1) "Knowing your Rights as our Customer", (2) "Give us a call before you Move", (3) "Get ready for Cold Weather", and (4) "Estimating your Bill."

RADIO SPOTS

The revised marketing plan includes \$124,872 in expense for radio spots for FYE 9/30/97. This is for Brevard, Miami and St. Lucie. The same topics will be used as for the bill inserts above. No spots have been written for 1997 yet.

From these items the company will have six different spots, and change the spot every two months. Out of the \$124,872, the Company says that the spots will not run in the summer and have included in the marketing projections for 1997 eight months of spots in the amount of \$83,252.

In their projection for 1997 the Company has removed 17% for ECP. The amount included in radio spots in Projected 1997 is \$69,374.

PRINT ADS

The revised marketing plan included \$57,526 in expense for radio spots for FYE 9/30/97. This is for Brevard, Miami, St. Lucie, and Vero Beach. The topics are the same as for radio and bill inserts. No ads have been written for 1997 yet. The ads are to run once a month.

The Company stated that each month would cost \$4,627 for placement plus approximately \$158 for production; for a total of \$4,785 per month. The marketing plan calls for 12 months, but the company said they only plan to have the print campaign for ten months for a total of \$47,938. Of this amount, the Company estimates that 33% will apply to ECP or appliances; or \$15,820, leaving a total in regulated of \$31,960.

CABLE

The marketing plan included \$34,500 in expense for CABLE SPOTS for FYE 9/30/97. This is for Brevard and Miami. The Company states that the cable message will tie everything (radio, print, inserts) together in a visual manner. "The common denominator in each message will be natural gas' inherent benefits to the consumer." "Cleanest fuel, Efficient, Economical, Domestic Resource."

The company stated that they planned to have cable spots for 8 months of the year. This totals \$23,000. They state all will be for regulated business. No text is available at this time. However, City Gas said that the cable spots will echo the themes of the bill inserts and the 12 topics stated above.

POCKET FOLDERS AND INSERTS

The revised marketing plan included \$14,000 for Pocket Folders and Inserts. The Company states that this will be a folder for rates and tariffs to present to builders and commercial accounts. The entire amount is included in Projected 97. There is no copy or drafts of any of these items yet for Florida. The Company provided sample folders used in the New Jersey operations and said the Florida operations will resemble these. These are included as Exhibit 6. One of the folders describes natural gas for vehicles.

MAPS

The Company included \$2,100 for maps in their revised marketing plan. These maps have not been created yet. The old map used is a map of the

service areas with short messages about switching to natural gas from electricity or oil, about City Gas, and natural gas is the natural choice to protect the environment and support the national economy. There is one line for energy conservation.

OTHER

The Company included \$15,000 in the revised marketing plan for other items. The items are described on Exhibit 7 to this Disclosure. No further documentation is available.

1996 PLAN

Audit disclosure No. 11 of the original report states that the amount included in Projected 1996 is \$52,756. We asked the Company to provide us with the actual amounts spent in FYE 1996. As of August 9, 1996, the Company spent \$35,055.30. Of this, the Company stated that \$24,517 was for ECP advertising; that is 70 percent or 30% for regulated cost of service.

OPINION:

BILLBOARDS - Since the builder's name is on the billboard, part of the cost could be paid for by the builder.

BILL INSERTS - Three of the four topics on the New Jersey bill inserts appear to fit into the category of "informational or consumer advertising" as described in PSC Order No. 6500, Docket 73586-GU which is allowable. The insert regarding cold weather doesn't appear to fit in with Florida weather.

GENERAL: Regarding the 12 topics the Company has outlined, some of these topics appear to be non-ECP and appear to fulfill the requirement in concept of PSC Order No. 6500 where the order allows consumer information. Until we see the actual spots we do not know if any of the spots will relate to ECP, image building, appliances, etc. The attached schedules have not been adjusted for any of these opinions.

Exhibit 1 to Disclosure 3 of Supp Report

	Bill Inserts	Radio Spots	Print	Cable	Billboards	Other Spending	Total
Number of Months	12 <i>Run Every Month</i>	8 <i>Off in Summer</i>	10 <i>Three Seasons</i>	8 <i>Off in Summer</i>	12 <i>All Year</i>		
Appliance & ECP Message in Each	50%	0%	0%	0%	0%		
Portion Dedicated to ECP or Appliances	0%	17%	33%	0%	0%		
Estimated Total Cost for 12 Months	\$ 36,000	\$ 124,872	\$ 57,526	\$ 34,500	\$ 28,020		\$ 280,918
Estimated Cost for Number to be Run	\$ 36,000	\$ 83,252	\$ 47,938	\$ 23,000	\$ 28,020		\$ 218,210
Portion that is Regulated Cost of Service	\$ 18,000	\$ 69,374	\$ 31,960	\$ 23,000	\$ 28,020	\$ 14,000	\$ 170,355
Folders/Inserts						\$ 2,100	\$ 14,000
Maps						\$ 15,000	\$ 2,100
Other							\$ 15,000
Total							\$ 201,455
Amount of Recovery Requested at This Time - Assumes a Possible Delayed Start in Some Programs							\$ 104,339
Percentage of Request as Compared with Total Annual Cost of Marketing Plan							52%

COMPANY:
TITLE:
PERIOD:
DATE:

CITY GAS CO
PROJECTED ADV EXPENSE
PROJECTED 96 AND PROJECTED 97
AUGUST 27, 1996

Exhibit 2 to Disclosure 3 of Supp Report

TYPE OF ADVERTISEMENT	MARKETING PLAN 1997	AMOUNT IN PROJECTED 1997 FOR REGULATED COSTS	AMOUNT IN PROJECTED 1997 RATE CASE
BILLBOARDS	28,020	28,020	
RADIO SPOTS	124,872	69,374	
PRINT ADS	57,526	31,960	
CABLE	34,500	23,000	
POCKET FOLDER AND INSERTS	14,000	14,000	
MAPS	2,100	2,100	
OTHER	15,000	15,000	
BILL INSERTS	36,000	18,000	
	<hr/>	<hr/>	<hr/>
	312,018	201,454	104,339

This is based on Company numbers, no adjustments have been made for the opinions stated in this Disclosure 3.

Exhibit 3 to Disclosure 3 of Supp Report

WELCOME TO THE

Natural Gas  **Comfort Zone**

SCHULL BUILDERS



CITY GAS COMPANY



-20-

10 X 36 3/8" SCALE

Exhibit 4 to Disclosure 3 of Supp Report

Comfort Zone - Marketing Theme for City Gas Company of Florida:

City Gas will use the *Comfort Zone* as its marketing theme for several customer segments. City Gas developed this theme, as do other companies, to instill a consistent message to their current and future customer base. City Gas chose this theme based on the properties of natural gas, the relationship desired between City Gas and its' customers, and the needs and desires of its' customers.

City Gas chose the word *comfort* based on a variety of tangible reasons as to why customers should chose natural gas as their end-use of choice. To many customers *comfort* means;

- Dependability,
- Financially Secure,
- Safe,
- Feeling of making a difference in their community (support the cleaning up of our environment),
- Reliability.

Some of the ways customers will feel comfortable using natural gas is by knowing that; they can depend on natural gas during peak usage periods, it is safe as long as it is properly used, it provides them with a low operating cost as compared to other end-use fuels, they are doing their part in cleaning up the environment, and many other reasons that can provide *comfort* to a customer.

The word *Zone* is used to emphasize that customers who are within an area served with natural gas (the *Zone*) can take advantage of natural gas and that they do have a choice. *Zone* also connotes a surrounding of a territory, which City Gas wants to get across to their customers -- that we are a part of the community, not just a supplier of natural gas, but an active member of making our customers' neighborhoods better. It also provides an image that we are focused on what we know best, providing natural gas and dependable service.



We have plenty to tell you

If you're a member of a group looking for speakers for meetings, we'd like you to know about our

Speakers Bureau.

Our presentations, most of which include a video, focus on a wide range of energy-related issues that are sure to interest

your group. We may even be able to design a program addressing your group's individual needs.

These programs are available free of charge to groups of 20 or more people within Elizabethtown's service area. Please schedule at least six weeks in advance.

For more information, or to arrange for a speaker, call our Speakers Bureau at (908) 289-5000, extension 6107.

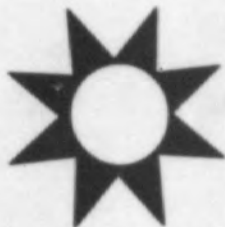
Our meter readers are working late this summer

Now that the days are longer, our meter readers can visit you later in the day. This way we can gain access to more homes and help our customers avoid estimated bills.

We can also read meters on Saturdays during the summer, often a more convenient day for our customers.

So please don't be concerned if one of our meter readers visits you later in the day or on a day not scheduled (your next reading date is printed on the upper right portion of your bill). We are just trying to provide you with better service by visiting you at what may be more convenient times.

Remember, our meter readers all wear identification on their uniforms, so you'll know it's us.



Customer Information Services:

Emergency service

24 hours

In Elizabethtown, NJ

Gas Energy News

Knowing your rights as our customer

June 1996



Utility customer's Bill of Rights

You have certain rights, as our customer, determined by the New Jersey Board of Public Utilities. We have listed those rights here. Please become familiar with them so you can be sure to receive the best possible service.

3. If you are an electricity customer, you have the right to budget billing or payment plans.
4. Your utility must handle your complaints promptly.
5. You are entitled to at least one deferred payment plan in one year.
6. You have the right to call upon the New Jersey Board of Public Utilities to investigate your utility complaints and inquiries. During a BPU investigation, your service may not be terminated for non-payment.

7. If you suspect your meter is not working properly, you should have the meter inspected by the utility once a year.

If we cannot satisfy your question or complaint, you can contact the New Jersey Board of Public Utilities at 1-800-624-0241.

We would be glad to answer any questions about your rights as our customer. Just call us at the appropriate telephone number listed on the back of this brochure. If you need to make bill payment arrangements, we can help you, too.

Let's have a good look at your meter

Keeping both your meter and meter valve in plain view will help you avoid an estimated bill. It will also help us to do our jobs, since we need ready access to most efficiently read or service your meter.

Also, indoor meters and meter valves should not be covered with paneling, cabinets or shelves. If they are already covered, please be sure that cabinets



and paneling are removable.

Please keep outdoor meters clear of bushes, shrubs, leaves and any other growth. Take special care when mowing, raking or planting around your meter.

If you are doing any building this summer, remember not to block access to your meter and gas valve. Patios and porches should not be built over gas pipes.

By following these few, simple tips, you can help us continue providing you with safe and reliable gas service.

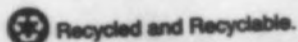
If you pay late ...

If your gas payment arrives late, after the next regular bill has already been printed and mailed, a remaining balance will appear on your bill. If this happens to you, just disregard the repeated amount. You don't have to call, because we have already received your payment and credited your account.

By paying your bills before the due date shown below your amount due, you can avoid the confusion of double bills.

If you have any questions, you can reach our Customer Information Services at the appropriate number listed on the back of this brochure.

Finally, have your account number handy when you call and write it on all checks.



Customer Information Services:

Emergency service
24 hours

In Eastern and Middlesex counties

Gas Energy News

Give us
a call
before
you move

July 1996

Moving? Call us first

Please call us as soon as possible if you are moving and need your gas turned off at your old address and/or turned on at your new home (if within our service area). We need at least five (5) business days' notice, so the sooner we know your plans, the better we are able to schedule the work for the day you need.

Without enough notice, we may not be able to turn your service on or off on



the day you prefer. If your request comes during our busiest periods, which are at the beginning and the end of the month, it can be further delayed.

Also, let us know if you'll be living at a temporary address. That way, we can forward your gas bills directly to you.

You can call our Customer Information Services Monday through Friday, 7 a.m. to 7 p.m., at the appropriate number on the back of this brochure to arrange to have your gas service turned on or off.

Maintaining your natural gas service line

Elizabethtown Gas is required under federal and state regulations to maintain natural gas service lines up to and including the gas meter.

Beyond the meter, the maintenance of any piping is the responsibility of the customer or property owner.

Sometimes, customers' piping may be underground. If customers do not maintain their underground gas lines, the piping may corrode and leak, causing a potential safety hazard. This gas piping should be periodically inspected for leaks and, if metallic, the pipes should also be inspected for corrosion. Any unsafe condition should be repaired promptly.

Most people do not have below ground gas

piping beyond their meters, but there are instances where this situation exists.

For example:

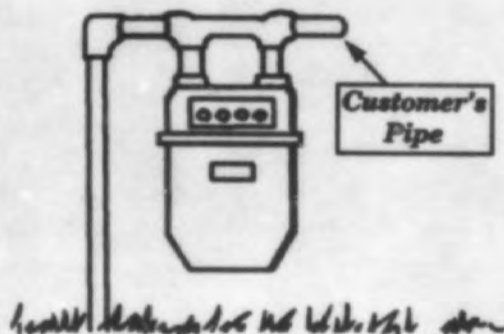
- Single metered commercial or multiple unit residential property
- Lines to industrial sites
- Outside gas lighting
- Gas heaters for a pool/hot tub
- Gas barbecue
- Detached structures with gas appliances

This is only a partial list of these situations.

Many plumbing and heating contractors can assist you in locating, inspecting and repairing buried gas service lines. If you have any questions concerning your responsibilities, please contact the Elizabethtown Gas engineering department at

(908) 289-5000.

Also, if you are doing any digging on your property, all underground gas lines must be marked first. To have our gas lines marked, call 1-800-272-1000 at least three days before digging (it's the law). An outside contractor can locate and mark your lines. Any digging done near underground gas lines should be done by hand.



Grab a Lifeline to help pay your gas bill



You may be eligible for help from a government program called Lifeline, if you are having trouble paying your monthly gas bill.

This program provides funding for utility bills for qualifying families and senior citizens. Recipients who receive both natural gas (not bottled or propane) and electric bills will be credited with \$112.50 on each account. Households with only one utility service, either natural gas or electric, will receive the full \$225 credit on that account.


In addition to being eligible for benefits, applicants must also qualify for one of the following: Pharmaceutical Assistance to the Aged and Disabled, Medicaid only, or Medical Assistance to the Aged. If not enrolled in one of these programs, applicants must be at least 65 years old or eligible for Social Security disabilities benefits, and a New Jersey resident with a single income less than \$16,624 or a joint income less than \$19,828.

To find out if you qualify or to receive more information about Lifeline, please call 1-800-792-9745.

Comfort Care eases repairs.

You can avoid costly repairs and most replacement parts for furnaces, boilers or water heaters with Comfort Care, our home heat maintenance plan. Comfort Care provides free labor and most parts for your heating unit and/or water heater for a minimal annual charge.

Payment is easy, because the cost for Comfort Care is charged directly on your gas bill. Please call us at the appropriate number listed below for more information about Comfort Care.

 Recycled and Recyclable.

Customer Information Services:

Emergency service
24 hours

In Union and Middlesex counties

Gas Energy News

Get ready for the cold weather

August 1996

Get ready for the big chill

The weather is blistering now, but before long, the cold weather will be coming our way. Take a few minutes now to make sure your heating system is in working order, by following these few directions.

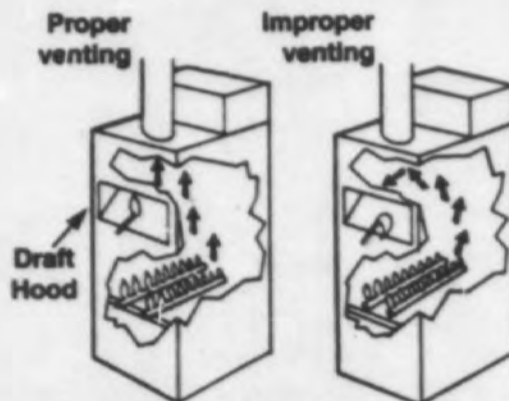
Make sure all switches are in the "on" position. If you shut off your gas valve last spring, make sure you turn it back on.

Turn your thermostat up briefly, setting it well above room temperature so that the burner goes on. If the burner does not start, turn the thermostat down and call us (there will be a normal service charge for non-Comfort Care customers), or a qualified contractor.

Filters should be checked at least once a month. **Shut off the electric switch before you remove the filter.** If it is dirty, clean it or buy a new one, but first check the size. Filters should be replaced twice a year. Also, please be sure to **replace the filter compartment cover correctly.** To avoid creating a draft that might vent carbon monoxide back into your home, turn the electric switch back on.

Keep all flammable liquids and materials away from your furnace.

Keep the surrounding area clean so air can flow freely to the burners.



Throughout the heating season, be sure to regularly check the flue on the venting system of your furnace or boiler to be sure they are working properly.

Please remember your chimney, too, when making a check of your home's heating and water heating systems. Clean it of debris and dirt, so the products of combustion can be vented and do not back up into your home.

Checking your flue is easy to do. First, operate the equipment for at least five minutes until the flue pipe is hot.

Second, hold a lighted match to the edge of the draft hood and slowly move it across the opening. The flue is clear if the flame is drawn upward. If the flame is blown downward or extinguished, try the test again. If you get the same result, turn the furnace off and call us immediately at the appropriate number on the back of this brochure.

Every year, be sure to check your chimneys and vents for blockages and clean them every three to five years, if necessary. If your chimney is metal, check to see if it's corroded or rusty. If so, call us (there will be a normal service charge) or a heating contractor for a more thorough inspection.

A qualified chimney sweep can inspect and clean your chimney. They can also install a chimney cap that would prevent small animals such as birds and squirrels from nesting there. Certified chimney sweeps are listed in your telephone yellow pages.



Watch out for your curb box

Now that spring is here, many homeowners will be out tidying up their yards after the difficult winter. When working around your house, please be on the look-out for your curb box. It is easy to find because it is a round metal cover in the ground, about four inches wide, clearly marked "GAS." It is locat-



ed on either side of your sidewalk.

In the cold winter months, your curb box sometimes rises a few inches. This can create a hazard when you mow your lawn in the spring. If this happens, just step on it firmly to get it back to ground level.

If this isn't successful, call us, and we'll correct the problem at no charge. Please give us a call, too, if you notice that the curb box has sunk or presents a hazard in any way.



We have plenty to tell you

If you're a member of a group looking for speakers for meetings, we'd like you to know about our Speakers Bureau.

Our presentations, most of which include a video, focus on a wide range of energy-related issues that are sure to interest

your group. We may even be able to design a program addressing your group's individual needs.

These programs are available free of charge to groups of 20 or more people within Elizabethtown's service area. Please schedule at least six weeks in advance.

For more information, or to arrange for a speaker, call our Speakers Bureau at (908) 289-5000, extension 6107.

Customer Information Services:

Emergency service

Gas Energy News

Estimating your bill

April 1996

Our meter reader visits you every other month, an arrangement that helps keep down our costs and your gas bill.

When we are not scheduled to visit, or cannot visit due to unavoidable circumstances, we estimate your bill.

Our estimate is based on your past consumption patterns and real weather conditions during the billing period. It is extremely accurate. Any overcharge or undercharge is

Automated Customer Meter Reading System Telephone Numbers

automatically corrected with the next actual reading.

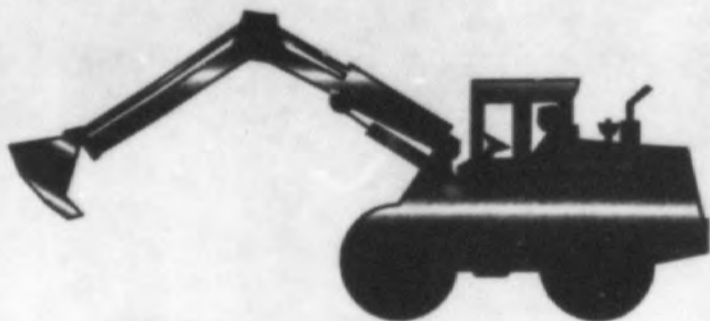
You know when we are scheduled to visit because your next reading date is found in the upper right corner of your bill. Arranging to have someone home when our meter reader calls helps you avoid consecutive estimated bills.

You may also call your reading into our automated customer meter reading system in the months we do not visit.

Call us before you dig

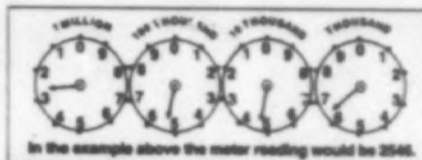
Please call us first if you're planning to do any digging on your property. Elizabethtown Gas, along with your other utilities, must clearly mark your underground service lines. You or your contractor are required by law to make this call. This action can help avoid damage to any gas, electric, phone or water lines. We need at least 72 hours notice before you dig, so please call 1-800-272-1000 as soon as possible.

By letting us know, you could prevent personal injury, property damage and even legal action. So give us a call before you start that home improvement project this spring.



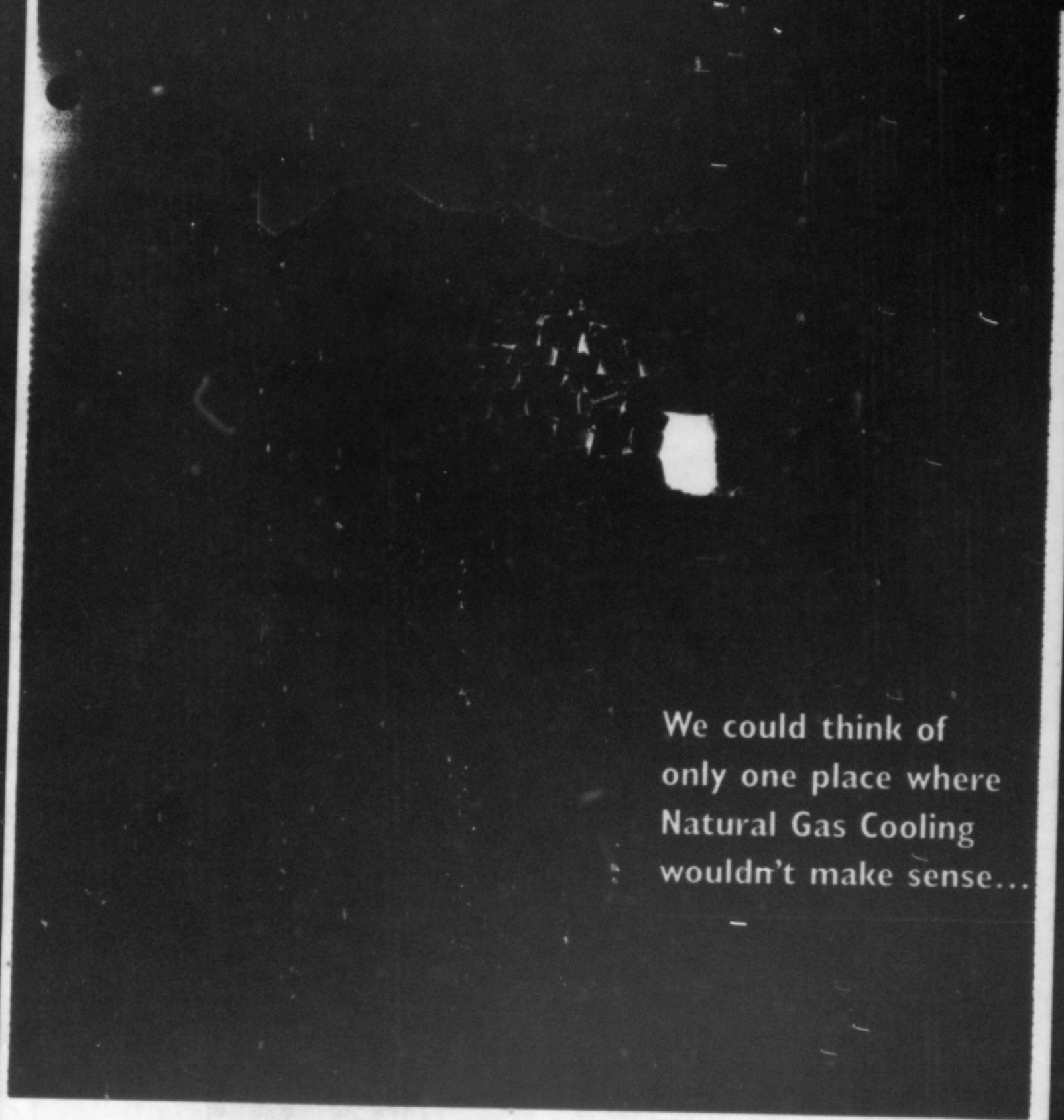
The 1, 2, 3s of meter reading

If you are not at home when our meter reader visits, you can still avoid an estimated bill by reading your own meter. Starting from the left, read the numbered dials. If the arrow falls between numbers, record the lesser one (the number nine is less than the zero). If you have a digital meter, just read the number displayed.



Please have your account number handy when you call us with the readings. You'll find it on a previous bill.

You can also call in your reading the months we are not scheduled to visit. Just call us for a calendar of the dates on which your meter readings are due. In Union and Middlesex counties, call 289-6400; elsewhere in our service area, call 1-800-242-5830.



We could think of
only one place where
Natural Gas Cooling
wouldn't make sense...

Exhibit 6 to Disclosure 3 of Supp Report - 20 pages

...and your building
ain't it!

ABSORPTION COOLING

Natural gas absorption cooling systems rely on a cycle of condensation and evaporation to produce cooling. The absorption process is driven by a heat source rather than a mechanical compressor such as that used in electric chillers, and is therefore CFC-free.

Gas absorption systems are available as chillers or as combined chiller/heaters, reducing the need for a separate boiler for heat. They may be direct-fired by a natural gas burner or powered indirectly by another heat source, such as waste heat from cogeneration, industrial process heat, hot water or steam.

Gas absorption systems greatly reduce electric consumption and peak demand charges. These systems are ideal for apartments, hospitals, libraries, churches, hotels and office buildings, and for process cooling operation.

ENGINE-DRIVEN COOLING

Natural gas engine-driven cooling systems employ a mechanical process similar to electric cooling systems, but at greatly reduced operating costs. The unit's compressor is fired by a high-efficiency natural gas engine. The engine's waste heat can be recovered to efficiently generate high-temperature domestic hot water or process steam.

Like absorption systems, gas engine-driven cooling and cooling/heating equipment reduce electricity consumption and electric demand charges.

Gas engine-driven cooling offers a significant variety of applications. Installations with several thousand tons of cooling capacity are ideal for hospitals, universities, office complexes and industrial plants. Compact units with capacities from 15 to 725 tons are available for smaller cooling needs.

DESICCANT COOLING

Natural gas desiccant systems are especially attractive to applications with very distinct environment control requirements. These systems control humidity levels directly, enabling users to separate latent from sensible load.

When cooling humid air with a conventional chiller, as much as half the energy input may go toward simply drying the air, known as latent cooling. Instead, desiccant systems directly remove moisture from the air as it flows across a desiccant material. A gas-fired heater or boiler then removes the moisture from the desiccant, regenerating it for further use.

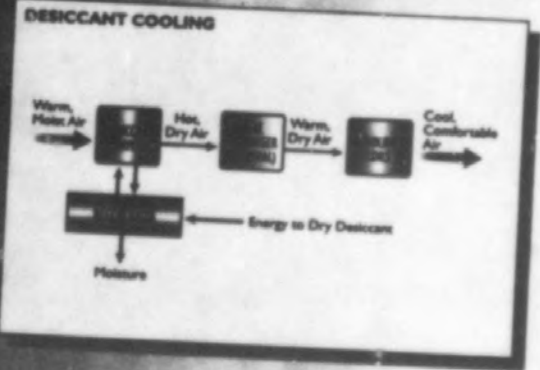
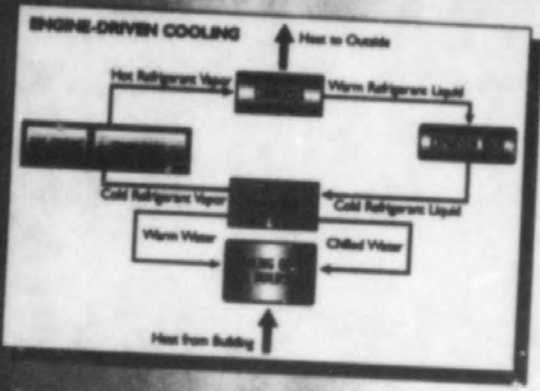
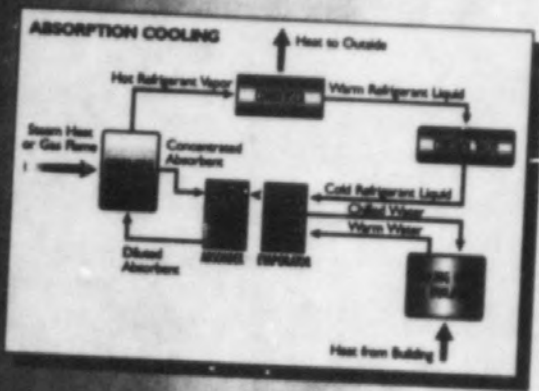
By reducing the energy used for drying moist air, desiccant systems reduce the size of a chiller needed to cool the air. This enables customers to stretch the capacity of an existing chiller or, in new construction, reduce the size needed.

In addition, desiccants are effective in pre-treating make-up air, which will prove more and more important with future air quality issues. These systems are well suited for supermarkets, hotels, offices and medical facilities, or any application where humidity control is a concern.

Flexible Technology

The variety of natural gas cooling equipment offers building owners great flexibility in addition to operating efficiencies and cost savings. With three types of gas cooling and any number of equipment sizes, natural gas air conditioning fits well with nearly any type of business.

Except, maybe igloos.



ABSORPTION COOLING

Natural gas absorption cooling systems rely on a cycle of condensation and evaporation to produce cooling. The absorption process is driven by a heat source rather than a mechanical compressor, such as that used in electric chillers, and is therefore CFC-free.

Gas absorption systems are available as chillers or as combined chiller/heaters, reducing the need for a separate boiler for heat. They may be direct-fired by a natural gas burner or powered indirectly by another heat source, such as waste heat from cogeneration, industrial process heat, hot water or steam.

Gas absorption systems greatly reduce electric consumption and peak demand charges. These systems are ideal for apartments, hospitals, libraries, churches, hotels and office buildings, and for process cooling operation.

ENGINE-DRIVEN COOLING

Natural gas engine-driven cooling systems employ a mechanical process similar to electric cooling systems, but at greatly reduced operating costs. The unit's compressor is fired by a high-efficiency natural gas engine. The engine's waste heat can be recovered to efficiently generate high-temperature domestic hot water or process steam.

Like absorption systems, gas engine-driven cooling and cooling/heating equipment reduce electricity consumption and electric demand charges.

Gas engine-driven cooling offers a significant variety of applications. Installations with several thousand tons of cooling capacity are ideal for hospitals, universities, office complexes and industrial plants. Compact units with capacities from 15 to 725 tons are available for smaller cooling needs.

DESICCANT COOLING

Natural gas desiccant systems are especially attractive to applications with very distinct environment control requirements. These systems control humidity levels directly, enabling users to separate latent from sensible load.

When cooling humid air with a conventional chiller, as much as half the energy input may go toward simply drying the air, known as latent cooling. Instead, desiccant systems directly remove moisture from the air as it flows across a desiccant material. A gas-fired heater or boiler then removes the moisture from the desiccant, regenerating it for further use.

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In addition, desiccants are effective in pre-treating make-up air, which will prove more and more important with future air quality issues. These systems are well suited for supermarkets, hotels, offices and medical facilities, or any application where humidity control is a concern.

Gas Cooling at Work

systems rely on a cycle of produce cooling. The absorption rather than a mechanical electrical systems, and is therefore

able as chillers or as combined or a separate boiler for heat. natural gas burner or powered such as waste heat from it, hot water or steam. reduce electric consumption systems are ideal for apartments, and office buildings, and for

g systems employ a mechanical systems, but at greatly reduced cost is fired by a high-efficiency gas heat can be recovered to the domestic hot water or

ine-driven cooling and electricity consumption and

a significant variety of all thousand tons of cooling capacities, office complexes and capacities from 15 to cooling needs.

re especially attractive to immediate control requirements. its design enabling users to

conventional chiller, as much as to avoid simply drying the air; efficient systems directly remove excess a desiccant material. moves the moisture from the use.

drying moist air; desiccant needed to cool the air. This capacity of an existing chiller or is needed.

re in pre-treating make-up air; important with future air quality for supermarkets, hotels, application where humidity



Merck & Co. installed York natural gas absorption chillers to cool 600,000 square feet of office space.

PARK VIEW TOWERS, WEST NEW YORK

Air conditioning 750 apartments in two 15-story buildings became too much for Park View Towers' old inefficient cooling equipment. Fuel and maintenance costs convinced the project's owners to convert the buildings to natural gas engine-driven cooling.

After installing two 600-ton engine-driven chillers, Park View Tower's monthly cooling costs of \$98,000 dropped by up to \$35,000. That translates into an annual cost savings of more than \$350,000. In addition, the building's operators are recovering waste heat from the units for domestic water heating.



The Newton ShopRite was able to expand, cut energy costs and improve product shelf life with natural gas desiccant cooling.

MERCK & CO., INC.

The Rahway-based giant operates a sprawling campus of 2.1 million square feet of office space. Cooling is achieved with the York Merck with not just cost savings control, as well.

Merck employs 6,000 employees. chillers to cool 600,000 square feet. ranges in size up to 1,200 tons.

The company has saved 50 percent through the



NEWTON SHOPRITE

The Newton ShopRite was able to expand one-third and significantly reduce natural gas desiccant cooling costs, realizing electric savings of 30 percent. installing the natural gas desiccant shopping environment, to meet

ShopRite added 150,000 square feet. chose to address the additional desiccant system. Not only no additional load, but it has allowed conditioning system to maintain the store's air, leading to significant

As a bonus, ShopRite found in less frost build-up in the presentation and extended

g at Work



MERCK & CO., INC.

The Rahway-based giant pharmaceutical company operates a sprawling complex of 2.1 million square feet of heated space. Cooling is achieved with natural gas. Merck with not just cost savings, but control, as well.

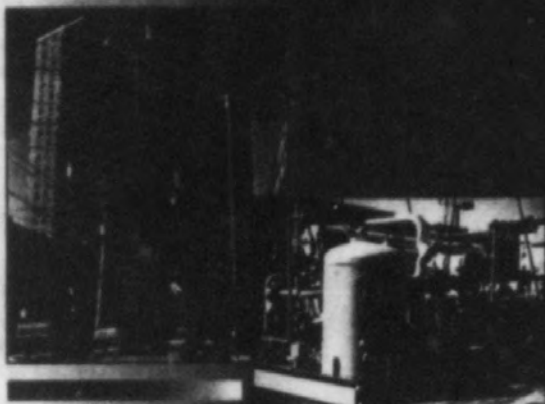
Merck employs 6,000 tons of chillers to cool 600,000 square feet of space. The chillers range in size up to 2,000 tons.

The company has saved 50 percent through the use of natural gas.

WEST NEW YORK

Two 15-story buildings in West New York. The old inefficient cooling towers and high electric costs convinced the project's owners to natural gas engine-driven chillers.

The project saved \$98,000 per year in annual cost savings of more than \$1 million. The building's operators are recovering the cost of domestic water heating.

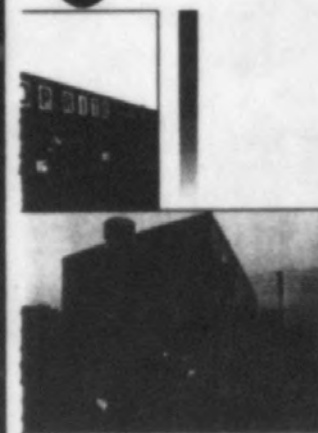


NEWTON SHOPRITE

The Newton Shoprite store is one-third and significantly smaller than the old store. The natural gas desiccant system is realizing electric savings by installing the natural gas engine-driven conditioning system to heat the shopping environment.

ShopRite added 2,000 sq ft of space to address the winter weather desiccant system. The system is an additional load, but it has a conditioning system to heat the store's air, leading to significant savings.

As a bonus, ShopRite has experienced less frost build-up in the store's presentation and exterior.



Elizabethtown Gas

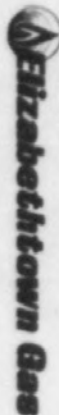
An **NJ** Company

One Elizabethtown Plaza
Elizabeth, NJ 07208-1000
(908) 538-8500

BUSINESS REPLY MAIL

FIRST CLASS MAIL PERMIT NO. 178 ELIZABETH, NJ

POSTAGE WILL BE PAID BY ADDRESSEE



ATTN: NEW MARKET DEVELOPMENT
ONE ELIZABETHTOWN PLAZA
UNION NJ 07083-9897

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

 **Elizabethtown Gas**
An **N.E.I.** Company



YES! Natural Gas Cooling makes sense for my building.
Please contact me with information about converting my cooling system.

NAME _____

COMPANY _____

STREET _____

TOWN _____

STATE _____

ZIP _____

PHONE NUMBER _____

BEST TIME TO CALL _____



Clean driving for today's fleets

Elizabethtown Gas

An **NU** Company

The Future is Now

With the world's largest
fleet, the Port Authority
promises more than
clean air. It promises
smog and thousands
millions of residents.

For clean air, the
Port Authority is
going to natural gas.

At its Elizabeth
shipping yard, the
Port Authority will convert several
hundred vehicles to natural gas.

ShopRite readers are kept moving
in and out of Waldo's
Elizabeth shipping yard with the
help of a yard sweeper powered
by natural gas. They Waldo's
vans and two refrigeration units
also run on natural gas.

By 1990, the Port
Authority will have
converted several
hundred vehicles to
natural gas.

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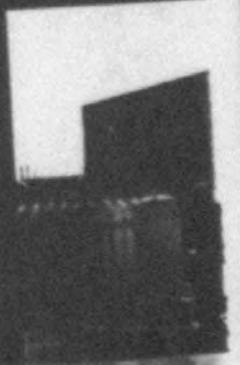
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The Port Authority of NY & NJ operates
11 vehicles using natural gas dispensed
at its Elizabeth refueling station.
Port Authority will convert several
hundred vehicles to natural gas.

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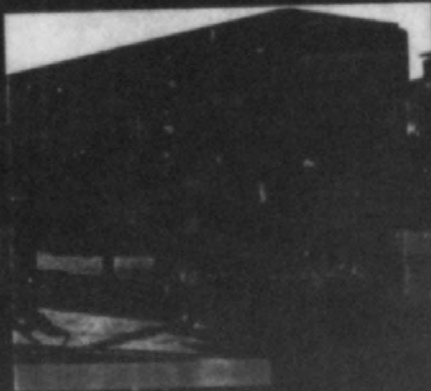


Circle 10 on Reader Service Card

mpressed Natural Gas
Fueling Station



A Union County Paratransit System van is refueled by its driver at the Union County maintenance and debarking station in Westfield. Currently four county vans run on natural gas.

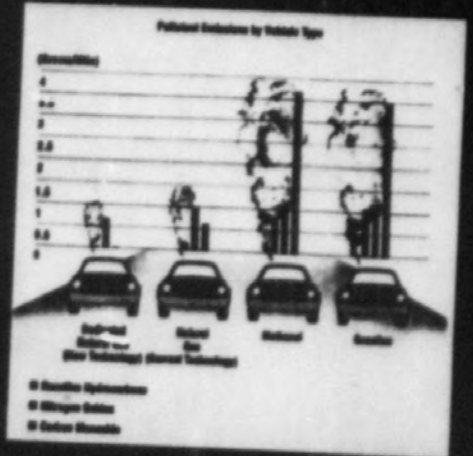


The Union County Paratransit System is a vital service for the community, providing transportation for individuals with disabilities. The system's commitment to safety and efficiency is evident in its use of natural gas fueling stations, which reduce emissions and lower operating costs. The maintenance and debarking station in Westfield is a key facility that ensures the fleet remains in optimal condition.

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The Future is Now

With the world's most advanced technology, natural gas promises more power, more economy, less pollution, a cleaner environment, and less dependence on oil. Millions of motorists are already enjoying the benefits of natural gas.

For companies with fleets of vehicles, natural gas offers a cost-effective solution to the rising costs of oil. The Port Authority of New York and New Jersey (NY&NJ) is now converting several hundred of its vehicles to natural gas.

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The Port Authority of NY&NJ operates 14 vehicles using natural gas dispensed at its Elizabeth refueling station. Port Authority will convert several hundred vehicles to natural gas.

YES! I'm interested in Natural Gas Vehicles to save on my fleet operation costs.

- Please have a representative call
- Please send me more information

COMPANY NAME _____

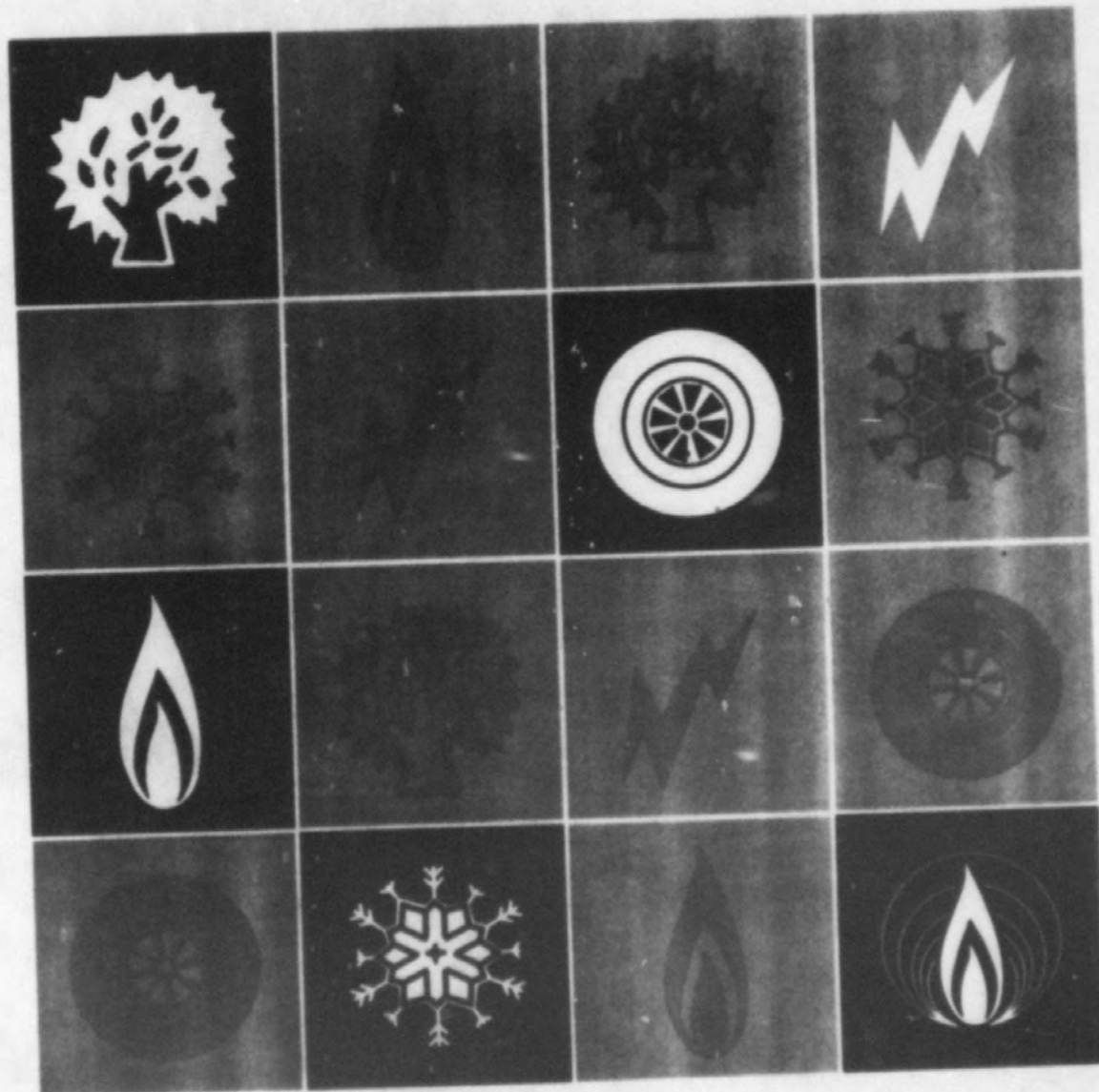
NAME _____ TITLE _____

ADDRESS _____

TOWN _____ ZIP _____

PHONE _____ FAX _____

**We've Got
the Energy to
Help Your Business.**





Elizabethtown Gas
An NUI Company

We've got the energy to help you.

The 77 communities which make up Elizabethtown Gas Company's service area offer business people everything imaginable in locating or expanding their businesses: Access to the nation's #1 marketplace in New York and northern New Jersey, a highly skilled workforce, an incomparable transportation network and a variety of site locations sure to fit anyone's needs.

Now add one more item to that list of benefits: Clean, efficient natural gas. Using natural gas can help lower a business' operating costs and keep it in compliance with environmental regulations. And since 99 percent of the gas we consume is produced right here in North America, supplies are reliable and abundant.

Service Area

Elizabethtown Gas has been serving the area for nearly 140 years, and we're deeply committed to its economic well-being. Our economic development rates provide discounts on natural gas service to new or expanding businesses. We also offer direct cash grants to businesses which locate or expand in specific communities.

We'd be happy to tell you more about these incentives, and the many ways in which natural gas can benefit you and your new business. The information in this folder will give you a brief overview of natural gas technologies and their benefits to you, but your Elizabethtown Gas representative can work with you to tailor them to your individual needs.

When it comes to economic development, Elizabethtown Gas has the energy to help your business.



Elizabethtown Gas

**We've Got
the Energy to
Help You**



Cogeneration is the use of a primary energy - like natural gas - to sequentially produce heat and electricity. The concept is based on the recovery and use of waste heat produced during the generation of electricity. In most electric utility power plants, this waste heat is lost, resulting in substantially lower operating efficiencies than with cogeneration.

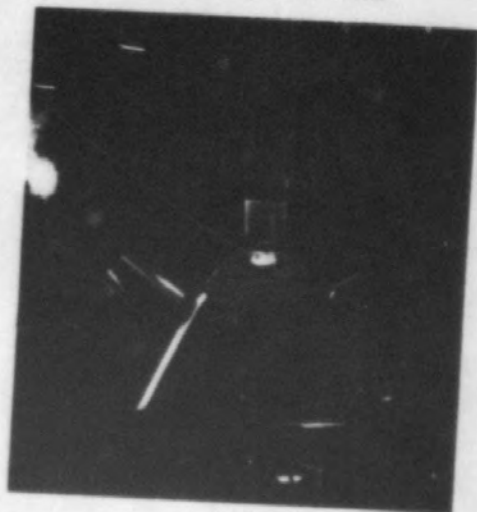
Natural gas is the predominant fuel used in cogeneration. Gas is economically preferable for use in most industrial and commercial cogeneration applications, primarily because of the lower capital and operating costs associated with gas systems. Moreover, natural gas is the preferred fossil fuel in

Cogeneration

these facilities from an environmental standpoint, because it is the cleanest burning fossil fuel.

A variety of natural gas cogeneration technologies are currently being used, including small prepackaged units that incorporate all the necessary components for a cogeneration system, as well as high-efficiency industrial gas turbines and steam turbine systems. These natural gas cogeneration systems are available in sizes ranging from as small as 2.2 kilowatts to as large as several hundred megawatts.

Many commercial and industrial facilities can take advantage of natural gas cogeneration because of their requirements for large quantities of heat and electricity. Natural gas-fueled cogeneration is being successfully applied in the pulp and paper, pharmaceutical, food processing, textile, oil refining, fertilizer and other petrochemical industries as well as in hospitals, universities, hotels, computer centers and commercial facilities.



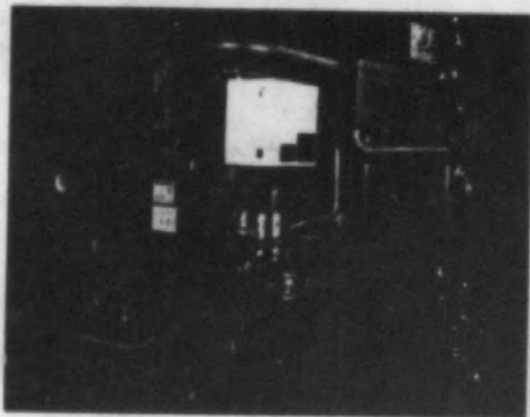
Gas Air Conditioning

Clean, quiet, efficient gas air conditioners make sense, economically and environmentally. Gas is the cost-effective, high-tech solution for today's climate control challenges.

Gas air conditioning costs far less to operate, so gas air conditioning can lower your total electric costs. Your overall electric rate is determined by the "demand" charges that are based on your highest usage for the month. Substituting gas for even one of your electric cooling units reduces your demand charges and cuts your electric costs all the way down the line.

Recent technological advances have increased the efficiency of gas air conditioners, at the same time reducing their size and space requirements. This new generation of gas air conditioners operates more simply, with fewer moving parts, which translates to simpler operating procedures and reduced maintenance. And gas cooling systems, unlike electric cooling equipment, do not rely on harmful chlorofluorocarbons (CFCs), major culprits in the depletion of the earth's ozone layer.

Gas cooling is right for all kinds of buildings. Leading New Jersey businesses and institutions, including Fortune 500 companies, have converted to gas air conditioning. Gas is the high-tech, cost-effective choice for a wide range of facilities, including office buildings, manufacturing and warehousing, public buildings and hospitals.



Natural gas is the most environmentally acceptable alternative fuel for America's cars, trucks, and buses. Today about 50,000 natural gas vehicles (NGVs) in the United States are already operating safely, cleanly, and economically.

Natural gas has a number of advantages over other transportation fuels: it is an abundant and secure energy source; it burns more cleanly; it costs less; and it has a proven safety record. The use of

Natural Gas Vehicles

natural gas is especially ideal for fleet operation where a central refueling point can be easily established.

Vehicles designed to run exclusively on natural gas have the potential to reduce carbon monoxide emissions by 90 percent and reduce reactive hydrocarbon emissions by 85 percent, when compared to today's gasoline vehicles. Because of the serious concern over air quality, the environmental advantages of increased natural gas use are a major consideration. Expanded use of natural gas in vehicles can also be an important step in helping reduce U.S. reliance on foreign oil, and the U.S. trade deficit.

All of the major American car, truck and bus manufacturers are currently building vehicles which run exclusively on natural gas. In addition, vehicles built to run on gasoline can be converted to run on natural gas.

Existing automobiles can be converted to run on natural gas for about \$2,000-\$3,000. Conversion costs for larger vehicles, such as heavy-duty trucks and city buses, are somewhat higher. However, the conversion costs can be paid back quickly in fleet applications through fuel cost savings and reduced maintenance requirements.





Heating

Natural gas is being used efficiently in commercial heating applications by more and more satisfied business owners and managers. Its superiority for space and water heating shows cost-benefits not only in fuel consumption, but also in equipment efficiency, maintenance, and versatility of application.

Natural gas fired boilers have been used successfully for many years by businesses and institutions as the preferred source of space and process heat. Boilers still provide the majority of cost-effective heating for a wide range of commercial applications and capacities from small businesses to large industrial manufacturing facilities. New boiler and burner designs, however, now offer even greater efficiency, operating economy, and convenience.

Infrared systems offer a comfortable and economical solution for many commercial applications where large spaces need to be heated. Manufacturing plants, garages, machine and body shops, warehouses, loading docks and truck terminals, kennels, indoor swimming pools and tennis courts, firehouses, churches and greenhouses are just some of the applications that can benefit from clean, comfortable, low-intensity infrared heat.

Water heating with natural gas offers energy savings to laundries, industrial processes, commercial kitchens, health-care facilities, schools, and multi-unit residences. In addition to the well-known tank-type heater for domestic hot water, there are models designed with circulating systems in storage tanks; models designed to provide instantaneous hot water without a storage tank; and models that can also provide industrial process and space heating. Natural gas water heating equipment delivers long lasting efficiency, convenience, and application versatility.



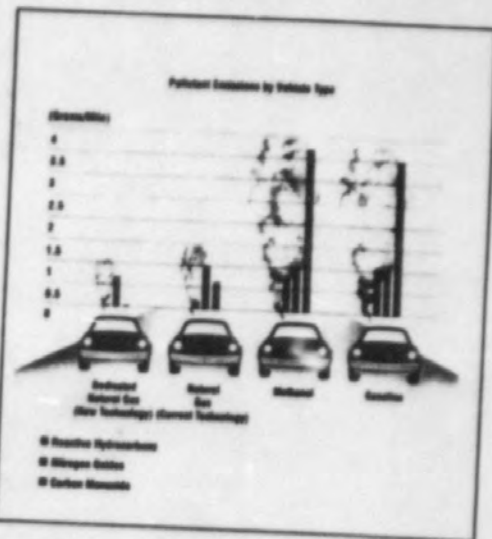


Gas & the Environment

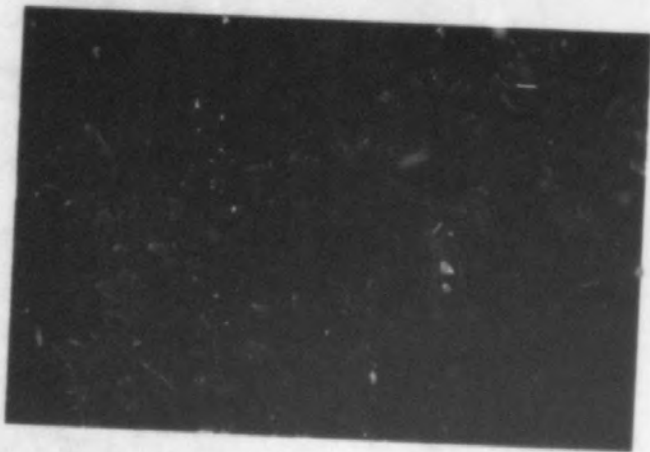
Because natural gas is the cleanest burning fossil fuel, it can help improve the quality of air and water, especially when used in place of other, more polluting energy sources. Natural gas combustion results in virtually no atmospheric emissions of sulfur dioxide (SO₂) or small particulate matter, and far lower emissions of carbon monoxide (CO), reactive hydrocarbons, nitrogen oxides (NO_x) and carbon dioxide than combustion of other fossil fuels.

Natural gas is more environmentally attractive than other fossil fuels because it is composed chiefly of methane – a molecule made up of one carbon atom and four hydrogen atoms. When methane is burned completely, the principal products of combustion are carbon dioxide and water vapor. In comparison, oil and coal compounds have much more complicated molecular structures. They include a higher ratio of carbon, as well as various sulfur and nitrogen compounds. They do not burn as cleanly. Coal and industrial fuel oil also contain ash particles, which do not burn at all; however, they can be carried into the atmosphere. Because natural gas burns cleanly, it can be used as an effective means of controlling pollution.

One area in which natural gas can make a significant contribution toward improved air quality is in the field of transportation.



Gasoline-powered vehicles contribute about three-fourths of the carbon monoxide pollution found in urban areas. They also produce most of the hydrocarbons and a significant amount of nitrogen oxides, as well. Advanced natural gas-fueled vehicles have the potential to reduce carbon monoxide 90 percent, and reduce reactive hydrocarbon emissions by 85 percent, compared with today's gasoline vehicles.



When Cal Ostlund outgrew Brooklyn,



Left to right:
Steve Ostlund, Vice President
Cal Ostlund, Sr., Founder and CEO
Cal Ostlund, Jr., President

Elizabethtown Gas rate incentives made New Jersey the perfect fit.

After 33 years of growth, Cal Ostlund Inc., one of the nation's most respected trade show exhibit companies, found themselves in a tight situation. Their cramped Brooklyn facilities were hampering production and efficiency. And their unreliable oil heating system just wasn't providing the comfort they needed. To continue to grow, Cal Ostlund Inc. had to relocate. Elizabethtown Gas helped make its New Jersey service area the easy choice.

Big Incentives for Cal's Business

Cal Ostlund Inc. found the ideal facility in Kentworth. Plenty of space. Clean, efficient natural gas heat. And the opportunity to take advantage of the Elizabethtown Gas Economic Development Program.

Yours May Qualify, Too

New and established companies alike may qualify for the program. If you start, expand, or move a business into the seven-county Elizabethtown Gas service area, you may be eligible for:

- A reduction of your monthly natural gas bill of approximately 15%.*
- A direct cash grant of up to \$5,000.**

*The rate reduction is for a period of three years, and is valid only with the initiation of a three-year service agreement with Elizabethtown Gas. Other restrictions may apply.

**Maximum amount of Elizabethtown Gas incentive grant may be eligible for direct cash grants ranging from \$1,000 to \$5,000, depending on the number of employees. Contact Elizabethtown Gas for details.

A Constant and Reliable Source of Comfort


Elizabethtown Gas commercial customers enjoy the convenience of having natural gas piped directly into their facility. That means no more mined fuel oil deliveries, and no production or personnel problems due to lack of heat.

And, there's no underground storage tank... a comforting thought when you consider that commercial oil tanks are subject to strict environmental controls, and a leaking oil tank could cost a business thousands of dollars in clean-up costs.

If you're starting a business, or expanding or relocating your company, find out how Elizabethtown Gas can make a move to its service area a "comfortable" experience.



Here's Your Incentive... To Act Now!
For a free information kit and a no-obligation consultation, call: **908-558-3600**

 **Elizabethtown Gas**

An **NEC** Company

Economic Development

Elizabethtown Gas has created an economic development program designed to spur economic growth and job creation within its seven county service area. The program offers reduced natural gas rates and direct grants to businesses which start up, relocate or expand.

The rate reductions offered under the program would trim approximately 18% off a typical customer's bill for a period of three years. This incentive is available to start-up businesses which occupy new or vacant buildings anywhere in Elizabethtown's service area; to businesses outside the service area which relocate into it; and to existing businesses which expand their space by more than 5,000 square feet. These businesses must also have 10 or more employees to qualify for the reduced rates, and must sign a minimum three-year service agreement with Elizabethtown Gas.

The direct grants would apply to businesses which start-up, relocate or expand in one of nine communities identified as "priority locations" for New

Jersey Economic Development Authority Urban Aid: Carteret, Elizabeth, Hillside, Linden, Perth Amboy, Phillipsburg, Rahway, Roselle, and Woodbridge. Businesses which employ 10 to 20 people would receive \$1,000; those with 21 to 35 employees would receive \$2,000; those with 36 to 50 employees would receive \$3,000. Elizabethtown Gas may negotiate larger grants for businesses employing more than 50 people. All grants are one-time cash payments.

To find out more about this program, call Elizabethtown's Commercial Services Department at (908) 558-3600.



Exhibit 7 to Disclosure 3 of Supp Report

(3) The other of \$15,000 projected for fiscal 1997 includes financial aid in support of community events such as the Vero Beach "Friday Fest;" the cost of periodic and recurring events such as industrial and commercial customer group meetings to convey information about gas availability, usage and standards; and promotional merchandise for use in conjunction with such meetings and with internal sales meetings, such as the "thermometer" used in 1996 to track sales performance. The amounts actually budgeted for such items in 1997 is as follows:

Promotional Merchandise	400
Single Family Builders Market	400
Scattered Residential	9,500
Commercial & Industrial Markets	
Promotional Events	3,366
Transportation Customers	8,400
Scattered Residential Market	5,167
Single Family Builders Market	10,167
Commercial & Industrial Market	

The amounts budgeted and expected to be spent on these efforts actually exceed the amounts requested for recovery at this time.

AUDIT DISCLOSURE NO. 4 – SUPPLEMENTAL REPORT

**SUBJECT: LEGAL EXPENSES - ROBIN LLOYD, SR. & ASSOCIATES,
P.A.**

STATEMENT OF FACTS:

Audit Disclosure No. 18 in staff's audit report dated August 9, 1996 indicated the company included an accrual of \$19,690.50 of legal fees for Robin Lloyd in the six months of October 1995 - March 1996. This was annualized to \$39,381 in 1996 and projected to \$40,562.43 for 1997. Audit Disclosure No. 18 indicated the fees related to the Vero Beach acquisition.

Staff was provided with the invoices paid to Robin Lloyd for the test year ending 9/96 (to date)

12/06/95	Indian River Gas matter, new franchise negotiations	\$ 10,729.87
10/10/95	Indian River Gas matter	\$ 8,743.35
6/17/96	Lease - St. Lucie Shopping Center	\$ 1,192.50
6/17/96	License Agreements	\$ 573.50
TOTAL		\$ 21,239.22

In answer to staff's request the company provided an explanation of the matters that Robin Lloyd has represented and/or advised. See the following page for explanations (items 1,5).

Question S1

(1) The Company employs various attorneys from time to time to represent and advise the company and to process routine filings by the company in connection with ongoing municipal relations and transaction matters. Robin Lloyd, during the past year, has represented and advised the company from time to time in a number of instances, including in connection with the company's negotiation of a new franchise in Indian River County and the establishment of a business license, the company's purchase of land for two gate stations, the obtaining of an operating lease for business office space in St. Lucie County, and the termination of a lease for other business office space in St. Lucie County. These types of activities are ongoing. Currently, for example, Robin Lloyd is assisting the company in connection with renewing its franchise with the city of Cape Canaveral in Brevard County. City Gas initiated service to many communities in Brevard County in the mid and late 1960s. Various 30 year franchise agreements are now coming up for renewal in that area. Furthermore, similar costs will be incurred in fiscal 1997 in connection with initiating service within the vicinity of the Homestead lateral which the company will purchase from FGT and in connection with franchise and licensing matters in the city of Homestead and in Florida City, and in connection with franchise and license renewals elsewhere within Florida. Such matters will involve legal assistance of Florida based attorneys.

The Company agrees that the direct cost of an acquisition should be capitalized as a cost of that acquisition, and does so capitalize appropriate legal costs. This attorney, however, was not directly involved in the acquisition activity for the acquisition of the Vero Beach lateral.

(2) Robin Lloyd is not under contract to the company. His services are engaged on an as needed basis.

(3) The Company has no retainer fee obligation for Robin Lloyd's services.

(4) Attached are copies of the invoices.

(5) Although ongoing legal services required in order to conduct business in Indian River County are influenced by the acquisition of an FGT line that brings gas to the business district of Vero Beach, Robin Lloyd's services were not directly related to the acquisition of that line. Legal services will continue to be required throughout our system as described in (1) above. Contract matters on that line were handled through the McWhirter, McGlothlin law firm in Tallahassee and NUI's in-house legal staff.

AUDIT DISCLOSURE NO. 5 – SUPPLEMENTAL REPORT

SUBJECT: HUNTINGTON PROPANE EXPENSES AND REVENUES

STATEMENT OF FACTS:

Audit Disclosure No. 27 in staff's audit report dated August 9, 1996 indicated the company included \$7,822 of propane expenses for October - March 1996 in Account 912.

The associated revenues for the six months total \$7,145.05 (includes \$1,067.54 of taxes). These are included above the line.

The investment amount at 9/95 and 5/96 is \$144,066.46 and \$164,985.64, respectively. The 5/96 amount was used for 1997 forecast.

AUDIT DISCLOSURE 6 -- SUPPLEMENTAL REPORT

SUBJECT: PROJECTED EXPENSES IN ACCOUNT 930.1

STATEMENT OF FACTS:

In MFR G-2 page 20 of 34, the Company included \$8,711 for Projected 96 in Account 930.1, General Advertising Expense. This was increased by 1.03% for Projected 97, or \$8,0972. The Company stated that the name of the account was incorrect, it should be Account 930, Miscellaneous General Expense. Staff requested a schedule of items in the account. Of the \$8,711, \$5,998 was for tickets to the Florida Marlins baseball games.

OPINION: Reduce Projected 96 expense and Projected 97 expense in the amounts of \$5,988 and \$6,178 respectively for Florida Marlins ticket expense.

DISCLOSURE 7 - SUPPLEMENTAL REPORT

SUBJECT: PROJECTED ACCOUNTS RECEIVABLE

STATEMENT OF FACTS:

PSC staff compiled a schedule of Accounts Receivable and Revenues from the company general ledger for September 30, 1991 through September 30, 1995. This is included as Exhibit 1 to this Disclosure.

OPINION:

The average ratio for the last five years of Accounts Receivable to Revenues is 8.13%. This applied to the Projected 1997 revenues of \$79,036,132 equals \$6,425,638. The amount included in Working Capital for Projected 1997 Accounts Receivable as noted in original audit disclosure was \$6,488,094. The difference between the amount in the rate case and staff's calculation is \$62,456.

COMPANY:
TITLE:

CITY GAS COMPANY
RATIO OF ACCOUNTS RECEIVABLE TO REVENUES
FOR SEPTEMBER 30, 1991 THROUGH SEPTEMBER 30,
1996
SEPTEMBER 9, 1996

DATE:

EXHIBIT 1 TO DISCLOSURE 7 OF SUPPLEMENTAL REPORT

YEAR	(1) ACCOUNTS RCEIVABLE	(2) REVENUES	(1)/(2) RATIO
9/30/91	3,820,476.11	44,518,590.35	8.13%
9/30/92	3,819,809.20	47,950,639.05	7.97%
9/30/93	3,588,569.21	54,660,739.73	6.57%
9/30/94	3,702,038.22	53,349,096.86	6.94%
9/30/95	5,405,007.00	48,864,199.16	11.06%
			40.66%
			8.13%

PROJECTED 1997 REVENUES
REVENUES
PGA REVENUE
CONSERVATION REVENUES
REVENUE RELATED TAXES

29,927,144.00
36,414,807.00
1,184,611.00
11,509,573.00

TIMES

79,036,135.00
0.0813

PER RATE CASE

6,425,637.78
6,488,094.00

(62,456.22)