FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

October 17, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF ELECTRIC & GAS (BULECZA-BANKS, DILLMORE, GILL, MAKIN, MILLS)
DIVISION OF AUDITING & FINANCIAL ANALYSIS (BOYER, JOHNSON, JONES, LESTER, MERTA, REVELL, C. ROMIG, MCNULTY, L. ROMIG)
DIVISION OF LEGAL SERVICES (JOHNSON)

RE: DOCKET NO. 960502-GU - CITY GAS COMPANY OF FLORIDA - APPLICATION FOR A RATE INCREASE BY CITY GAS COMPANY OF FLORIDA

AGENDA: 10/29/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 5-MONTH EFFECTIVE DATE: 11/17/96

SPECIAL INSTRUCTIONS: S:\PSC\EAG\WP\960502GU.RCM

CASE BACKGROUND

This proceeding commenced on June 18, 1996, with the filing of a petition for a permanent rate increase by City Gas Company of Florida, an operating division of NUI Corporation, (City Gas or the Company). City Gas requested an increase of $5,283,344 in additional annual revenues. The Company based its request on a 13-month average rate base of $94,432,747 for a projected test year ending September 30, 1997. The requested overall rate of return is 8.25% based on an 11.90% return on equity.

The Company also requested an interim increase of $2,312,853. It calculated the interim increase using a 13-month average rate base of $85,689,571, at a 7.35% rate of return using a 10.30% return on equity. The interim test year is the period ended September 30, 1995.

The Commission last granted City Gas a rate increase in Docket No. 940276-GU. In Order No. PSC-94-1570-FOF-GU, dated December 19, 1994, the Commission found the Company's jurisdictional rate base to be $82,638,219 for the projected test year ending September 30, 1995. The authorized rate of return was found to be 7.26% for the test year using an 11.30% return on equity.

Pursuant to Section 366.06(5), Florida Statutes, City Gas requested to proceed under the rules governing Proposed Agency Action (PAA). Under that section, if the Commission fails to issue an Order on PAA within 5 months of the filing, the utility is entitled to place the proposed rates in effect under bond or corporate undertaking.

Of the 76 issues identified by Staff, 66 are uncontested. Of the remaining ten issues, four relate to fall-out calculations. The Company wishes to address the Commission on six issues. The six contested issues and the four fall-out calculations include:

Issue 9 - Should an adjustment be made for the Medley contracts?

Issue 28 - What is the appropriate capital structure for the projected test year ending September 30, 1997.

Issue 31 - What is the appropriate cost rate of common equity?

Issue 32 - What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates?

Issue 38 - Should an adjustment be made to Account 913, Advertising?

Issue 48 - What is the appropriate amount of rate case expense, amortization amount and period?

Issue 55 - What is the appropriate amount of projected test year O&M Expense?

Issue 66 - What is the appropriate amount of projected test year Net Operating Income?

Issue 65 - What is the appropriate federal income tax rate and income tax expense, including interest reconciliation?

Issue 68 - What is the appropriate projected test year revenue deficiency?

Staff has placed the ten contested issues at the front of this recommendation. The remaining uncontested issues immediately follow under the heading "Issues Uncontested by City Gas."

DISCUSSION OF CONTESTED ISSUES

ISSUE 9: Should an adjustment be made for the Medley contracts?

RECOMMENDATION: This issue should remain open at this time. (REVELL, SALAK, MILLS)

STAFF ANALYSIS: Audit Disclosure Number 4 from Staff's audit, states that the review of Board of Director Minutes and the Internal Audit Workpapers of the Company led Staff to believe that transactions that occurred, mainly affecting plant, may have been less than arm's length. An investigation was performed at the direction of the NUI Audit Committee. The Company provided information describing the procedures followed by investigators. The Company also provided information that four parcels of property were held in common between a former City Gas officer and the owner of the construction company that constructed the majority of City Gas' physical assets in Brevard and St. Lucie Counties. City Gas no longer employs that construction company.

Staff requested the investigative report in the course of its audit, and again during formal discovery. The Company has claimed attorney/client privilege and work product privilege both times. Staff filed, and the Company responded to, a Motion to Compel. Staff believes the investigative report may lead to information that will alleviate or intensify its concerns. Staff has filed a Motion for In Camera Inspection. The report contents and the response to the In Camera Request will determine Staff's next steps in evaluating the concerns. No conclusive determinations have been made at this time. Staff recommends leaving this docket open, pending resolution of Staff's motion.

CAPITAL STRUCTURE

ISSUE 28: What is the appropriate capital structure for the projected test year ending September 30, 1997?

RECOMMENDATION: The appropriate capital structure for City Gas should be based on NUI's capital structure for investor sources. Amounts for customer deposits, deferred taxes, and investment tax credits should be specifically identified at the City Gas level. (LESTER, JONES)

STAFF ANALYSIS: In the last City Gas rate case, City Gas agreed with Staff to use NUI's capital structure for the ratios of investors' sources of capital. NUI Corporation is the source of investor capital for City Gas. The Company does not raise capital on its own. Therefore, the Company filed a division capital structure using the ratios of investor sources of capital adjusted to reflect NUI's capital structure. NUI's capital structure was projected for the projected test year by including debt and common stock issues subsequent to the base year and allowing for the amortization of existing debt.

NUI's non-utility investment, including leased appliances, was removed from NUI's common equity. The resulting NUI equity ratio was 41.53%. The Company adjusted its division capital structure to match this equity ratio. Staff further adjusted non-utility investment so that the net amount of leased appliances was removed from NUI's common equity. Non-utility working capital, non-utility common plant, and non-utility deferred taxes, which had been included by the Company, were excluded from this adjustment. With this adjustment, the equity ratio is 41.12% as a percent of investor sources.

Customer deposits, deferred taxes, and investment tax credits associated with the Company should be specifically identified in the capital structure. Typically, customer deposits are reconciled to rate base with a pro rata adjustment. However, in this case, since NUI's capital structure is being used and NUI does not have a separate amount for customer deposits, the Company has specifically identified customer deposits in Florida.

Therefore, since NUI is the source of funds for the Company, Staff recommends the Commission recognize NUI's capital structure to determine the relative ratios of investors sources of capital and use the City Gas-specific balances of customer deposits, deferred taxes, and investment tax credits in determining the appropriate balances of these sources of capital.

ISSUE 31: What is the appropriate cost rate of common equity?

RECOMMENDATION: The appropriate cost rate for common equity is 11.30% with a range of plus or minus 100 basis points. (LESTER)

STAFF ANALYSIS: In its MFRs, City proposed a return on equity (ROE) of 11.9%. Supporting this position is the testimony of Dr. Roger Morin, who arrives at his recommendation of 11.9% by analyzing the results of 13 cost of equity models and by assessing the risk position of City Gas. Morin's models use February 1996 stock prices, and he allows 5% for flotation costs, i.e., the cost to shareholders of issuing common stock.

Morin applies the annual discounted cash flow (DCF) model to NUI Corporation, the Moody's index of natural gas distribution companies, and a group of unregulated, comparable industrial companies. He uses historical growth rates and forecasted growth rates provided by the IBES and Zacks research firms. The results of his DCF models range from 8.60% to 13.42%.

To find the group of unregulated companies comparable to City Gas for his comparable earnings models, Morin used the Value Screen Database and three "filters" - a beta between .6 and .7, a safety rank of less than or equal to 2, and a financial strength rating greater than or equal to A. The result, after eliminating regulated utilities, is 10 companies, which experienced a mean ROE of 15.15% and 14.95% over the last 5 and 10 years, respectively.

Using DCF results for the Moody's index of natural gas distribution companies, Morin calculates a prospective risk premium over "A" rated bonds of 3.0%. Adding this premium to the March 1996 "A" rated bond yield of 7.80% provides a 10.80% ROE. Morin also calculates three historical risk premiums using the Moody's index of natural gas distribution companies; the Moody's Natural Gas Index of transmission, distribution, and integrated companies; and the Moody's transmission companies. The results are 13.13%, 12.38%, and 13.40%, respectively.

Finally, Morin presents the results of a Capital Asset Pricing Model (CAPM) and an empirical CAPM. For his CAPM, Morin used NUI's beta of .65, and market risk premiums of 6.5% and 7.4% derived from a historical risk premium model and a prospective DCF model. With flotation costs, the CAPM result is 11.42% and the empirical CAPM result, which allows for a supposed downward bias in the beta statistic, is 12.03%.

Morin states that the midpoint for the DCF and comparable earnings models is 11.30%. The midpoints for the risk premium models and the CAPMs are 12.10% and 11.70%, respectively. He states that the average of the midpoints is 11.80% (It is actually 11.70%.). He allows a slightly higher return for City Gas and, therefore, recommends 11.90%.

The required return depends on investor expectations and can be estimated using financial models that, in turn, use inputs from the stock and bond markets. The required return is the minimum return necessary to attract capital. Staff believes that investors' required return for an investment is the appropriate measure for deciding the appropriate cost rate for common equity because it meets the capital attraction and comparable risks standards of the <u>Hope</u> and <u>Bluefield</u> cases. Earned returns, which are calculated from a company's books, can differ considerably from required returns and are inappropriate for deciding a utility's cost of equity. Therefore, staff believes that Morin's comparable earnings models are inappropriate for deciding the cost of equity for City Gas.

Regarding Morin's DCF models, staff does not believe that the comparable unregulated companies are useful in deciding the cost of equity for a regulated utility like City Gas because non-regulated companies may earn returns significantly higher than their required returns. In addition, Morin uses historical earnings in calculating the growth rate for one of his DCF models. The cost of equity depends on investor expectations, therefore, forecasted growth rates are appropriate for a DCF model. Morin's DCF result based on forecasted growth is 10.21% for Moody's index of natural gas distribution companies.

Regarding the risk premium models, only the prospective risk premium result of 10.80% is useful. The remaining risk premium models are based on historical, earned returns. These historical models include several years when negative risk premiums occurred, i.e, bond yields exceeded earned returns on stocks. Prospectively, such a result is illogical since common stock is more risky than bonds and, therefore, investors require a higher return for common stock.

Morin's CAPM method is similar to the method used by staff, however, it uses, in part, a market risk premium based on historical, earned returns. Even so, its result of 11.42% would be approximately 11.30% if 3%, instead of 5%, flotation costs were used. Morin's empirical CAPM analysis produces a return of 12.03%. In his testimony, Morin states that the difference between the traditional CAPM analysis and his empirical CAPM analysis is intended to compensate for what he believes is a downward bias reflected in beta statistics that are less than 1.0.

Staff's uses an annual DCF model that uses forecasted growth rates and the Moody's index of natural gas distribution companies. Staff's risk premium model uses the DCF model result for each of the past 120 months less the concurrent 30 year Treasury Bond yield. The risk premium is added to a forecasted yield for the next year for 30 year Treasury Bonds. Staff's CAPM is also based on forecasted information. The market risk premium for Staff's CAPM is based on a prospective DCF for the market as a whole, with high growth firms eliminated. Staff's models use August 1996 stock prices. Since City Gas is smaller than the companies used in Staff's models, Staff has added 55 basis points to the model results, based on the average bond yield differential between Aa3 and Baa3 rated bonds over the past 10 years. The average bond rating for the Moody's index is A1 and the bond rating for NUI is Baa1, therefore, the spread of 55 basis points is somewhat wider than one implied by the bond ratings of the Moody's index and NUI. The 55 basis points should fully compensate for City's smaller size. The results of Staff's DCF model, risk premium model, and CAPM are 10.36%, 10.14, and 11.32, respectively.

Staff's DCF model, risk premium model, and CAPM produce results similar to the results of Morin's DCF model with forecasted growth rates, his prospective risk premium model, and his CAPM. Differences between Morin's models and Staff's models can be attributed to different periods analyzed, nuances such as earnings growth versus dividend growth, and differences between Value Line growth rates and growth rates provided by IBES and Zacks. Morin's use of 5% for flotation costs, compared to Staff's 3% allowance, also contributes to the differences.

Regarding the risk position of City Gas, Morin states that the business risk of local distribution companies (LDCs) has intensified due to uncertainties surrounding FERC Order 636, competition from fuel oil and propane, and greater bargaining power of customers and suppliers. He notes that City Gas has a favorable regulatory climate and has less than average exposure to fuel-switchable industrial customers. Finally, Morin notes that City Gas' financial risk is above average due to a lower than average common equity ratio and its small size. Morin concludes that City's total investment risk, i.e., business risk and financial risk, is slightly higher than the natural gas distribution industry.

The LDCs that Morin and Staff use in their models experience the effects of Order 636 and competition from fuel oil, which are business risk factors cited by Morin. Therefore, the stock prices of LDCs reflect investors' assessment of these business risk factors. Regarding City Gas' small size, Staff has allowed for this by adding 55 basis points to the results of their models, as explained above. However, City's equity ratio - 41.12% for the projected test year -is low compared to the industry average, which is nearly 50% according to Morin.

Staff notes that deciding the appropriate cost rate for common equity is, ultimately, a subjective process. The results of the financial models point in the direction of the appropriate cost rate. The range for Staff's models is from 10.14% to 11.32%. This range is similar to the range indicated by Morin's DCF with forecasted growth and his CAPM, from 10.21% to 11.42%. Staff believes that 11.30%, the top of the range for the Staff models, is the appropriate cost rate. Setting the cost rate for common equity at the top of the range for Staff's models allows for City Gas' financial risk due to its comparatively low equity ratio.

The Commission typically allows a range around the ROE of plus or minus 100 basis points for regulatory purposes such as measuring overearnings and setting interim rates. Therefore, Staff recommends that the appropriate cost rate for common equity is 11.30%, plus or minus 100 basis points. (LESTER, JONES)

ISSUE 32: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates?

RECOMMENDATION: The appropriate weighted average cost of capital is 7.85%. (Attachment 2) (LESTER, JONES, C. ROMIG)

STAFF ANALYSIS: Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year ending September 30, 1997, Staff concludes that the weighted average cost of capital is 7.85%. Attachment 2 details Staff's recommendation.

The 13-month average per book amounts are taken directly from the Company's MFR filing. (Schedule G-3, p. 2 of 11) Under Issue 28, the Company adjusted the City Gas Division capital structure to reflect the relative ratio of investor sources of capital at the NUI level. Specific adjustments are made to the balance of Customer Deposits, Investment Tax Credits (ITCs) and Accumulated Deferred Income Taxes. Staff agrees with the Company's adjustment to Customer Deposits and ITCs. Staff's adjustment to Accumulated Deferred Income Taxes is discussed in Issue 30. After these specific adjustments, a pro rata adjustment is made over the investor sources of capital to reconcile rate base and capital structure.

Staff agrees with and uses the respective cost rates provided by City Gas in their MFR filing with two exceptions. Under Issue 29, Staff adjusted the cost rate of debt to 7.50%. Under Issue 31, Staff recommended an ROE of 11.3%.

The net effect of these adjustments is a reduction in the overall cost of capital from the 8.25% return requested by the Company to a return of 7.85%.

Attachment 2 shows the components, amounts, cost rates, and weighted average cost of capital associated with the test year capital structure.

ISSUE 38: Should an adjustment be made to Account 913, Advertising?

RECOMMENDATION: Yes. $15,521 should be removed for costs associated with projected advertising expenses that should not be recovered through base rates. These costs are those that are recoverable through conservation programs, are related to community affairs activities, or are not for regulated activities. Attachment 9 shows Staff's calculation of this amount. (BOYER, BULECZA-BANKS)

STAFF ANALYSIS: City Gas included $104,339 in its MFRs for advertising expense for 1997. City Gas projects that the total cost of the campaigns will be $249,455. $47,855 of that amount is identified by the Company as either recoverable through the conservation clause or appliance in nature. Therefore, according to the Company, only $201,455 is regulated. Of this amount, the Company expects to incur only $104,339, or 51.79%, of the total for 1997 because the Company assumes a possible delay in the start of some of the programs. The Company's estimate includes expenditures for bill inserts, radio spots, print ads, cable spots, billboards, folder/inserts, maps, and other miscellaneous items. For 1995, the Company booked $25,600 to account 913-Advertising. In its MFRs, the Company projected 1996 advertising expense to be $52,756; however, as of August 9, 1996, the Company had only incurred $35,055 for such expenses. For 1997, however, City Gas plans to increase its use of communications medium such as radio, newspaper, and television, to increase awareness of the benefits of natural gas.

In its calculation of the $104,339, City Gas excluded 50% of the cost of the billing inserts, 16.67% of the cost of the radio spots, and 33.33% of the cost of the print ads totaling $47,855 as recoverable through conservation programs or related to appliance operations. Staff was unable to verify these percentages because precise copy and text are still in development. Therefore, Staff reviewed the Company plans for each of the proposed ads, inserts, billboards, etc. The following are Staff's findings as to the regulated versus non-regulated nature of these projected expenses.

(A) Comfort Zone Theme - City Gas recently began using a new marketing theme known as the *Comfort Zone*. In a response to the Staff audit, Company stated that:

> "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 choose 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), and reliability.

Some of the ways customers will feel comfortable using natural gas is 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 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."

Staff believes that the use of this theme will benefit the Company by promoting both the natural gas services of City Gas, as well as, the non-regulated operations of City Gas. In some of the existing ads and copy provided to us, City Gas has used "Natural Gas Comfort Zone" as a new logo, motto, or tag line. For example, the Company used the phrase on "hang tags" that are placed on natural gas appliances in new homes, which, in Staff's opinion, relates to its non-regulated business. Because of the way the theme has been used for non-regulated and conservation activities previously, Staff believes that a portion of the costs associated with the Comfort Zone theme should be removed for calculation of base rates.

Staff recommends that 15% of the Comfort Zone costs should be removed for ratemaking purposes. This amount is a purely subjective percentage based upon what Staff has learned through information provided by the Company, not through review of any advertisements. The estimated amount of Comfort Zone costs associated with each proposed medium is discussed in the following sections to this issue. In total, however, Staff estimates that $7,205 should be removed from the calculation of base rates because it is associated with the Comfort Zone theme.

Staff recognizes that the remaining 85% of the advertising dollars associated with the Comfort Zone theme can be classified as promotional in nature. While it has not been Commission policy to allow such advertising, we believe that such advertising is beneficial to the natural gas industry.

During the early 1970's the Commission opened an investigation to evaluate the promotional practices of electric and gas utilities. Even though the natural gas industry was facing far less competition than in today's environment, the Commission acknowledged the difficulties faced by the natural gas industry in Florida. As stated in Commission Order No. 6500, dated February 6, 1975:

> "We do recognize the competition which natural gas companies now face from other sources of energy. The record is quite clear that a number of accounts are lost each year to competing sources of energy and that some steps should be taken by the natural gas companies to offset these lost accounts as well as to obtain new accounts."

The difficulties faced by the natural gas utilities in the 1970's, remain today. The additional up-front costs to install natural gas in homes, whether new or existing, as well as the additional appliance costs, creates a deterrent to natural gas use. The Commission acknowledged this disadvantage and agreed that free or less than costs installation allowances and other facilities on the customer's side would be acceptable.

The disadvantages currently faced by the natural gas industry results in limited end-use in the state of Florida. The natural gas industry in Florida serves approximately 600,000 customers, compared to the 7.2 million electric customers. Natural gas is a fuel of choice, not a necessity.

To support the need for natural gas usage, the Governor of Florida signed into law Executive Order Number 91-253, dated October 8, 1991. This order was aimed at making the Florida economy more energy efficient, thereby saving money, conserving resources and maintaining the environment. Within this order (Section 4, (D)), the Department of General Services was instructed to develop a procedure for the cost-effective bulk purchase of natural gas and other energy-efficient fuels by state agencies.

While realizing that the Commission's policy is to remain fuel neutral in its decisions, we do not view the acceptance of these advertising dollars as a contradiction to that policy. In reviewing the advertisements previously run by City Gas, we find the ads to be both information and promotional in nature. The ads inform customers that natural gas is available, is safe, is environmentally friendly, and in certain instances, can be more efficient than other fuel sources. The ads do not project any positive overtones about City Gas. As such, we believe such advertising should be allowed by this Commission. Any future advertising expenditures will be subject to Commission review to ensure that the ads are not aimed at promoting or enhancing the Company's image.

(B) Bill Inserts - City Gas plans to have a different bill insert in each month's billing covering a variety of topics. The Company has identified 50% of the cost of these inserts as conservation or leased appliance in nature and has excluded that portion of its projected expenses from its MFRs. However, Staff believes that an additional amount should be removed because of the use of the Comfort Zone theme. The Company plans to include, in its first bill insert, a letter from the President of the Company, announcing that the Comfort Zone will soon be coming to customers' homes and/or businesses and to inform the customers of changes City Gas is making, and to pledge their commitment to both its customers and the local community.

Based upon the prevalence of the Comfort Zone theme in many of the samples of previously run ads and literature provided by the Company, it is Staff's opinion that the Comfort Zone theme will also be prominent in many, if not all, of the bill inserts and other ads in 1997. In addition, the Company plans to include a recipe section segment and an employee or customer of the month segment in each bill insert. Staff believes that a portion of the cost associated with the Comfort Zone theme should be removed because it benefits City Gas' non-regulated operations, as well as the costs associated with the recipe and employee or customer of the month segments which are not appropriate for recovery through base rates because they are community affairs, or goodwill in nature, and are not necessary for the provision of utility service.

Because of the vast amount of different topics that the Company proposes to include in its bill inserts, and because Staff anticipates that the topics will be mainly informational in nature, it is difficult to determine what portion of the inserts contain reference to the Comfort Zone. Absent review of actual billing inserts, Staff recommends that an additional 10% (5% for Comfort Zone and 5% for the recipe and employee or customer of the month segments) of the cost of these bill inserts should be removed as associated with these non-regulated costs. Again, these are subjective percentages because Staff was not able to review actual advertisements. Therefore, an additional $1,864 (($36,000 * 10%) * 51.79%) should be removed from operating expenses.

(C) Radio Spots - City Gas removed 16.67% of the costs of these ads for conservation purposes. It is Staff's opinion that the Company's ads will also include reference to the Comfort Zone theme. Because the Company has not been able to provide precise copy and text for these ads in order to determine content, Staff assumes that 50% of the ads will include reference to the Comfort Zone. Unlike bill inserts, Staff does not anticipate that these ads will be highly informational. Rather, they are expected to be more promotional in nature. Therefore, Staff anticipates that a higher percentage of the ads will include reference to the Comfort Zone theme. Staff recommends that, 7.5% (50% * 15%) of the total costs should be removed as non-regulated because they are related to the Comfort Zone theme. The 16.67% and 7.5% combine for a composite rate of 22.92%. Staff recommends that an additional 6.25% (22.92% - 16.67%), or $2,695 (($83,252 * 6.25%) * 51.79%), in advertising expense should be removed for ratemaking purposes because the costs are associated with the Comfort Zone theme.

(D) Print - City Gas removed 33.33% of the costs of these ads for conservation and appliance purposes. It is Staff's opinion that the Company's ads will also include reference to the Comfort Zone theme. Because the Company has not been able to provide precise copy and text for these ads in order to determine content, Staff assumes that 50% of the ads will include reference to the Comfort Zone. Unlike bill inserts, Staff does not anticipate that these ads will be highly informational, but rather promotional in nature. Therefore, Staff anticipates that a higher percentage of the ads will include reference to the Comfort Zone theme. Staff recommends that, 7.5% (50% * 15%) of the costs should be removed because they are related to the Comfort Zone theme. The 33.33% and 7.5% combine for a composite rate of 38.33%. Staff recommends that an additional 5.00% (38.33% - 33.33%), or $1,241 (($47,938 * 5.00%) * 51.79%), in advertising expense should be removed for ratemaking purposes because the costs are associated with the Comfort Zone theme.

(E) Cable - City Gas did not remove any portion of the advertising expenses associated with cable ads. Company states that the cable message will tie everything (radio, print, inserts) together in a visual manner. For that reason, Staff believes that a portion of the cable spots will include messages related to non-regulated activities. Staff recommends that the cable spots should be allocated to non-regulated operations based upon the same percentage as the print medium costs. Staff believes that the cable ads will most closely mirror the print ads because of the visual nature of the two mediums. Therefore, 38.33%, or $4,566 (($23,000 * 38.33%) * 51.79%), of the cable expenses should be removed for ratemaking purposes. $596 is associated with the Comfort Zone theme, and $3,970 is associated with conservation and non-regulated activities.

(F) Billboards - City Gas was able to provide a copy of the ad that is on the two billboards it is renting in its Vero Beach territory. This ad says "Welcome to the Natural Gas Comfort Zone" and has the Company's name and the name of a builder at the bottom. Staff estimates that approximately 10% of the ad is applicable to the builder, 10% is applicable to the City Gas name, and the remaining 80% is attributable to the message of the ad. It is Staff's opinion that, for ratemaking purposes, the portion of the cost associated with the name of the builder, as well as 15% of the cost of the message area, should not be included. It is inappropriate for City Gas to recover, from ratepayers, the costs associated with advertising for the builder. Also, as stated in (A) above, Staff believes that 15% of the Comfort Zone theme is non-regulated in nature and should not be recovered from ratepayers. Therefore, 22% ((80% * 15%) + 10%), or $3,192 (($28,020 * 22%) * 51.79%), of the total billboards costs should be removed from operating expenses. $1,741 is associated with the Comfort Zone theme and $1,452 is associated with the builder's costs.

(G) Maps - City Gas did not remove any portion of the $2,100 associated with the service area maps it developed. There is a small portion of the very back of the map that includes short messages about City Gas in general, about natural gas being the natural choice to protect the environment and support the national economy, and about switching to natural gas from electricity or oil. The later section explains that cash rebates can be earned on new appliances and it also explains how to get them. It is Staff's opinion that this portion of the map should not be recovered from ratepayers because it is more appropriately recovered through conservation programs. Staff has estimated that this portion equates to about 1.8% (20"/1,120") of the total surface area of the pamphlet. Therefore, 1.8%, or $20 (($2,100 * 1.8%) * 51.79%), of the cost of the map should be removed for ratemaking purposes.

(H) Other - City Gas estimated it would incur $15,000 in miscellaneous advertising expenditures. It did not remove any portion of the costs as non-regulated. Company stated that these costs were for:

> "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 community 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."

It is Staff's opinion that costs such as the financial aid in support of the community events like the Vero Beach "Friday Fest" are community affairs in nature and should not be recovered from ratepayers. Because the $15,000 is based upon an estimate, Staff cannot be sure what portion of the expenditures will be associated with community activities. Therefore, we recommend that 25%, or $1,942 (($15,000 * 25%) * 51.79%) of these "Other" expenses should be removed as non-regulated because they may be related to community activities.

Due to the tentative and unsupported nature of each of these expenditures, Staff recommends that the actual advertisements, etc. will need to be reviewed in the next Staff audit of the Company's records. These amounts are by no means final. They are simply Staff's attempt to ensure that a portion of the proposed advertising costs are not recovered through base rates because they are more appropriately recovered through the conservation clause, are non-regulated, or are community affairs or goodwill in nature.

ISSUE 48: What is the appropriate amount of rate case expense, amortization amount and period?

RECOMMENDATION: The appropriate amount of rate case expense for this case is $209,983; and the total amount of rate case expense to be amortized is $377,041, which includes $161,667 from the prior case and $5,391 of expense from Account 923 which should have been classified as rate case expense. This should be amortized over three years at $125,680 per year. Therefore, rate case expense should be reduced by $46,809. Additionally, Account 923 should be reduced $5,391 to reflect the correction of an error. (REVELL)

STAFF ANALYSIS: The Company had projected that it would incur total rate case expenses of $355,800, with $66,000 of this amount projected to be incurred if this case goes to hearing. At this time, a hearing is not definite; therefore Staff is recommending the reduction in rate case expense for the hearing of $66,000. In addition, it appears that the remaining expenses will not be incurred at the projected level. The Company now projects a total rate case expense of $209,983, assuming that a hearing is not requested.

The Company is requesting that $161,667 in expenses from the last rate case be included in current rate case expenses and amortized over the same three year period as the current rate case expenses. Adding the present case's amount to the prior figure totals $371,650.

In addition, $5,391 of rate case expense was improperly included in Account 923, Outside Services. Account 923 should be reduced $5,391 to reflect a correction of an error. Overall, the total amount to be expensed through Account 928 for the last case, this case, and the amount from Account 923, totals $377,041. This amount, amortized over three years, results in $125,680 in rate case expense per year.

The Company projected an annual amortization expense of $172,489 over three years in Account 928. Staff recommends that Account 928 be reduced $46,809 ($172,489-$125,680) for the projected test year to reflect the reduced level of rate case expense amortization. Since the Company properly removed the unamortized portion from working capital, no further adjustments are required.

ISSUE 55: What is the appropriate amount of projected test year O&M Expense? This is a calculation based upon the decisions in preceding issues.

RECOMMENDATION: The appropriate amount of projected test year O&M Expense is $17,744,700. (Attachment 3A) (MERTA)

STAFF ANALYSIS: This is a calculation based upon the decisions in preceding issues.

ISSUE 65: What is the appropriate federal income tax rate and income tax expense, including interest reconciliation?

RECOMMENDATION: The appropriate federal income tax rate is 34 percent. The appropriate income tax expense is $618,377, including interest reconciliation. (C. ROMIG)

STAFF ANALYSIS: The Company Adjusted Income Tax Expense of $284,114 should be increased by $334,263 to $618,377. This adjustment increases income tax expense by $277,946 for Staff's other adjustments to revenues and expenses and by $56,317, the interest reconciliation adjustment.

ISSUE 66: What is the appropriate amount of projected test year Net Operating Income? This is a calculation based upon the decisions in preceding issues.

RECOMMENDATION: The appropriate amount of projected test year Net Operating Income is $4,920,199. (Attachment 3) (MERTA)

STAFF ANALYSIS: This is a calculation based upon the decisions in preceding issues. Company and Staff positions are reflected below.

NET OPERATING INCOME For the Projected Test Year Ending 9/30/97		
	COMPANY	STAFF
Operating Revenues	$29,927,144	$29,961,230
Operating Expenses:		
O&M	18,327,563	17,744,700
Deprec. & Amort.	4,606,241	4,630,668
Taxes - Other	2,193,392	2,047,286
Income Taxes	284,114	618,377
Total Oper. Exp.	25,411,310	25,041,031
Total NOI	$4,515,834	$4,920,199

ISSUE 68: What is the appropriate projected test year revenue deficiency? This is a calculation based upon the decisions in preceding issues.

RECOMMENDATION: The appropriate projected test year revenue deficiency is $3,724,323. (Attachment 5) (MERTA)

STAFF ANALYSIS: This is a calculation based upon the decisions in preceding issues. Company and Staff positions are reflected in the following schedule.

CALCULATION OF REVENUE REQUIREMENTS
For the Projected Test Year Ending 9/30/97

	COMPANY	STAFF
Rate Base	$94,432,747	$92,085,495
Rate of Return	8.25%	7.85%
Required NOI	$ 7,790,702	$ 7,228,711
Achieved NOI	$ 4,595,834	$ 4,920,199
NOI Deficiency	$ 3,274,868	$ 2,308,512
Revenue Expansion Factor	1.6133	1.6133
Revenue Increase	$ 5,283,344	$ 3,724,323

ISSUES UNCONTESTED BY CITY GAS

QUALITY OF SERVICE

ISSUE 1: Is City Gas Company's quality of service adequate?

RECOMMENDATION: Yes. City Gas Company's quality of service is satisfactory. (MILLS)

STAFF ANALYSIS: Quality of service was reviewed by analyzing a sample of complaints taken by the Commission's Division of Consumer Affairs (CAF). There were 44 inquiries regarding City Gas Company. The majority were requests for information. Sixteen required follow-up by Staff. These sixteen were reviewed in detail; eight concerned billing problems and eight were related to service issues. One of the service complaints was significant enough that it was followed-up by CAF with a letter to the Company. All complaints have been resolved.

Since the last rate case, the Company has converted its billing system, and made changes to its unregulated leased appliance operations. Considering these events, Staff believes the Company has maintained its quality of service level satisfactorily.

ISSUE 2: Does City Gas have proper controls in place to ensure that leak surveys and valve maintenance inspections are conducted in accordance with Commission Rules 25-12.022 and 25-12.040, F.A.C.?

RECOMMENDATION: No. Staff recommends that, within 90 days of the final order in this case, the Company develop, implement, and file with this Commission, the following:

> An annual workload and staffing plan with the dedicated appropriate resources to accomplish the responsibilities of its Distribution Department.
>
> Develop a system of internal controls which includes workload objectives, progress reports, spot checks, on-site monitoring and internal audits to insure that leak surveys and valve maintenance are completed as required. (MILLS, BULECZA-BANKS)

STAFF ANALYSIS: During the September 10 and 12, 1996, service hearings in Miami Springs and Cocoa Beach, several witnesses appeared and made allegations regarding the falsification of company records for leak surveys and valve inspections, and the subsequent disciplinary actions taken by City Gas. Commissioner Deason requested that the Bureau of Regulatory Review conduct an operational audit to examine the issues surrounding management planning, decision-making and supervision. The report was published on October 15, 1996. (A copy of the report is attached. See Attachment 16.)

Because of control problems delineated in the report, Staff is recommending that the two recommendations in the report be implemented by the Company within 90 days of the date of the final order in this case. City Gas should be required to develop an annual workload and staffing plan, and develop a system of internal controls and checks.

Commission Staff has confirmed that City Gas has begun to take action to correct the current problems and prevent any recurrences. The Company has: brought in outside contractors to perform the deficient safety work; now requires monthly reports to managers; has begun developing a data base for distribution activities; has begun having engineering operations reviews; and has begun providing diversity training for every employee.

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In the opinion of Commission Staff, the Company's investigation was conducted in a professional manner and provided comprehensive information regarding the improper conduct. Commission Staff's analysis and investigation verified that only three City Gas employees had been involved in the falsification of records and that their employment had been terminated by the Company. No evidence was found that any current City Gas managers were involved or had knowledge of these improper acts.

TEST PERIOD

ISSUE 3: Is City Gas' request for permanent rate relief based on a historical test period ending September 30, 1995 and a projected test period ending September 30, 1997 appropriate?

RECOMMENDATION: Yes. With the adjustments recommended by Staff in the following issues, the 1995 and 1997 test years are appropriate. (MERTA, MCNULTY)

STAFF ANALYSIS: The Company used actual data for the 1995 test year rate base, net operating income and capital structure. The projected test year was prepared using the components of City Gas' budgeting process for 1996, updated for cost increases and planned staffing levels, then trended. The 1995 and, in the case of expenses, the actual first six months' 1996 data has been audited by the Commission Auditors and analyzed by the Staff.

The purpose of the test year is to represent the financial operations of a company during the period in which the new rates will be in effect. New rates for City Gas will go into effect 30 days after the October 29 agenda, or about November 28, 1996. City Gas' 1997 fiscal year begins October 1, 1996 and ends September 30, 1997. Therefore, fiscal 1997 is an appropriate test year.

In the following issues, Staff is recommending that certain adjustments be made to City's projected test year. With the inclusion of these adjustments, Staff believes that 1995 and the projections of City's financial operations for 1997 are accurate enough to use as a basis for setting rates.

ISSUE 4: Are the Company's test year forecasts for customers and therm sales by revenue class appropriate?

RECOMMENDATION: No. The recommended test year bill and therm forecasts appear in Attachment 11. As a result of these recommended forecast changes, net revenues should be increased $18,071. (MCNULTY, MAKIN, GING, DILLMORE)

STAFF ANALYSIS:

(A) As-Filed versus Updated City Gas Customer and Therm Forecasts

The August 1995 actual bills and therms by revenue class are the starting points from which the City Gas' as-filed forecasts of bills (customers) and therms for the Historic Base Year + 1 and the Test Year were developed. However, actual bill data through June 1996 is currently available. The Company submitted an update to its as-filed test year forecast which contains adjustments for the deviations between forecasted and actual customers and therms through June 30, 1996 (Attachments 12 and 13). These adjustments change the as-filed monthly customers and therms forecasts from July 1996 through September 1997 by the amount of deviation in the June 1996 forecasts.

In addition, the as-filed forecast of therms inadvertently includes the impact of normal weather calculated over a 17-year period for the Brevard and Indian River Divisions, when in fact the Company intended to use 10-year normal weather to forecast sales for all divisions (Witness Chymiy's Testimony, Page 12). This is corrected in the updated therm forecast (Attachment 13). Finally, the updated customer forecasts reflect the latest market data available to the Company and include expectations regarding inter-class migration (Attachment 12).

(B) Analysis of Projected Test Year Bill Forecasts

As shown in Attachment 12, the Company's updated test year commercial bill forecast (59,378 bills) is significantly lower than the as-filed commercial bill forecast (61,375 bills). This change is due primarily to the occurrence of a lower-than-expected number of actual commercial bills to date. In contrast, the updated residential bill forecast (1,151,280 bills) has increased 1,976 bills compared to the as-filed residential bill forecast (1,149,304 bills). The Company indicates that this is due in a large part to an expectation of greater growth in residential customers in the Brevard Division than was originally forecasted. In total, the Company's updated bill forecasts include 670 fewer bills (or 56 fewer customers) than the as-filed forecasts.

Despite the Company's downward adjustment in the updated commercial bill forecast, Staff notes that the updated forecast reflects an expectation of strong growth during the test year (6.2 percent above the Historic Base Year + 1, per the ratio: 59,378 test year bills / 55,913 Historic Base Year + 1 bills). The Company asserts that this level of forecasted growth is realistic due to the marketing opportunities associated with additional sales support and facility expansions. Despite the Company's optimistic commercial bills growth rate reflected in the commercial customer forecast, Staff believes the Company's forecast of commercial customers is not unreasonable assuming the Company's marketing opportunities are realized.

Staff estimates that the Company included in its updated residential bills forecast 1392 bills associated with the anticipated conversion of the Huntington Development from LP to natural gas. The Company has recently indicated that this conversion will not take place until after the projected 1997 test year (see Issue 10). Thus, Staff excluded these units in its adjusted estimate of bills (Attachment 12).

Upon review, Staff believes the bill forecasts for all revenue classes as updated and adjusted are appropriate.

(C) Analysis of Therm Forecasts

During Staff's audit, it was determined that the total therm sales of 96,893,244 for the base year included February, 1995 sales of 9,593,819 (MFR schedule E-1 page 1 of 3). 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.

City Gas' as-filed therm forecasts were based on the Company's calculations of normal (average) weather over a 10-year weather period, in the case of the Miami and St. Lucie Divisions, and a 17-year weather period, in the case of Brevard and Indian River Divisions. However, for the purposes of forecasting gas usage, Staff believes that the Company should have calculated normal weather by using 30 years of weather data instead of either 10-year or 17-year weather data.

Normal weather estimates based on 30 years of data are more stable than those based on fewer years of information. When as few as 10 years of data is used, the resulting estimates can vary significantly from one year to the next as new data replaces old data. For example, from 1975 to 1995 the Daytona weather station's 10 year average for Heating Degree Days varied from a low of 722.4 to a high of 906.8. For the Miami station, the 10 year average ranged from 110.2 to 191.1 over the same period. Staff estimates that this variability in normal weather represents a variation in revenues of $470,000 or approximately 113 basis points on equity. Since the number of Heating Degree Days varies randomly from year to year, and since this variation significantly impacts the 10 year definition of normal weather, Staff believes that the Company's definition of normal weather is inappropriate for estimating test year revenues.

The use of 30-year weather data has been approved by the Commission in other gas utility dockets for adjusting base rates. On September 23, 1996, the Commission issued Order No. PSC-96-1192-FOF-GU which approved the use of 30-year weather in normalizing rates for West Florida Natural Gas Company (Docket No. 960831-GU).

The Company determined the difference in total therm consumption based on 30 year weather norms compared to 10 year weather norms (Attachment 13). As indicated, the test year therm forecast based on 30 years of weather data is 630,500 therms greater than the updated test year therm forecast based on 10 years of weather data. Staff believes the Company's therm forecast based on 30 years of weather data is more appropriate for estimating test year revenues.

Staff further adjusted the Company's updated therm forecast to exclude 6,520 residential therms associated with the Huntington Development (see Issue 10).

The net energy and customer charge revenue as-filed is $29,349,183. However, the revenue based on Staff's recommended test year customers and therms is $29,367,254, or $18,071 more than the as-filed revenue.

ISSUE 5: Are the Company's test year forecasts of initial connections and reconnections appropriate?

RECOMMENDATION: No. The appropriate test year forecast of initial connections and reconnections is 24,153, which is 692 more connections and reconnections than appears in the as-filed test year forecast. This increase in the test year connections and reconnections forecast results in a revenue increase of $16,015. (MCNULTY, MAKIN, GING, DILLMORE)

STAFF ANALYSIS: The Company's as-filed forecast of connections and reconnections is 23,461, but the changes associated with the updated bill forecast identified in Issue 4 result in an additional 692 connections and reconnections, so that the appropriate test year forecast of initial connections and reconnections is 24,153. The revenue increase associated with this increase in the test year connections and reconnections forecast is $16,015. The as-filed and updated test year connections and reconnections and associated revenue impacts appear in Attachment 15.

RATE BASE

ISSUE 6: Should artwork be removed from rate base?

RECOMMENDATION: Yes. Rate base should be reduced $35,828. (REVELL)

STAFF ANALYSIS: The Company has various pieces of artwork at the Hialeah offices which were removed in the last rate case because they provided no benefit to the ratepayers. This artwork was placed in rate base for this case also and should be removed. Normally rate base items would also have associated depreciation expense and reserve accounts. In this instance, however, the Company is not depreciating the artwork. Therefore there is no depreciation expense or reserve adjustment.

Since this artwork provides no benefit to the ratepayers and was removed from rate base in the last case for this reason, Staff recommends that rate base be reduced $35,828.

ISSUE 7: Should the Treasure Coast (St. Lucie) Plant Held for Future Use, excluded in the last rate case be included in rate base?

RECOMMENDATION: Yes, the Treasure Coast (St. Lucie) Plant Held for Future Use, excluded in the last rate case should be included in Plant-In-Service. (MILLS, L. ROMIG)

STAFF ANALYSIS: The Commission excluded a portion of the Treasure Coast purchase from rate base in the last rate case because it was not justified. In the current case, the Company made an adjustment to reinstate the original cost of this purchase in Plant-In-Service. Staff Engineers applied the tariffed feasibility criteria and the Treasure Coast purchase now passes this test. Therefore, Staff believes it is appropriate to allow the original cost in Plant-In-Service.

ISSUE 8: Should an adjustment be made to Plant, Accumulated Depreciation, and Depreciation Expense for cancelled and delayed projects?

RECOMMENDATION: Yes. Plant and Accumulated Depreciation should be reduced $848,852 and $1,897, respectively, and depreciation expense should be increased $2,651 for cancelled and delayed projects. (L. ROMIG, MERTA, JOHNSON, MILLS)

STAFF ANALYSIS: The Engineering Staff reviewed the Company's projected plant additions for 1996 and the 1997 projected test year. Staff agrees with the Engineering Staff Audit. Based on their audit, it was determined that a number of projects were either cancelled or delayed. This impacts the Company's 1997 projected test year and results in Staff's recommended adjustments to reduce Plant and Accumulated Depreciation of $856,978 total company, $848,852 regulated and $1,915 total company, $1,897 regulated, respectively. Additionally, there is an increase in depreciation expense of $2,676 total company, $2,651 regulated.

ISSUE 9: This issue is contested and has been moved to the front of the recommendation.

ISSUE 10: Should an adjustment be made to exclude the Huntington Development from rate base, revenues, and expenses?

RECOMMENDATION: Yes. Rate base and expenses should be reduced $164,986, and $16,113, respectively, to exclude the Huntington Development from rate base. (MILLS, L. ROMIG, JOHNSON)

STAFF ANALYSIS: City Gas included its investment in the Huntington Development in rate base. This development is an LP Block distribution system which is awaiting conversion to natural gas. The Company does not expect to convert Huntington before the end of the projected 1997 test year.

In Staff's opinion, since this system will not provide natural gas service before the end of the 1997 test year, it would be appropriate to reduce CWIP $164,986 and expenses $16,113, respectively. The revenues associated with this development have been adjusted in Issue 4, test year forecasts.

ISSUE 11: Has the Company properly recorded the Ft. Pierce, Western Energy and the Consolidated purchases based on engineering valuation studies?

RECOMMENDATION: No. For the 1997 projected test year, Plant-In-Service should be increased $699,991, Accumulated Depreciation $1,057,223, Acquisition Adjustments $415,033, Accumulated Amortization $73,422, and Depreciation and Amortization Expense $36,562. (L. ROMIG, MERTA, JOHNSON, MILLS)

STAFF ANALYSIS: In its last rate case, the Company included in rate base its purchase of assets from the Ft. Pierce Utility Authority (FPUA), and LP systems from Western Energy and Consolidated Gas. The LP systems were subsequently converted to natural gas.

Since the assets of FPUA, Western Energy and Consolidated Gas were purchased from non-regulated companies, City Gas did not have access to the original cost records of the purchased assets which prevented the Company from recording the purchases at original cost. Therefore, the Company was ordered to perform an engineering valuation study to determine the original cost and accumulated depreciation of the purchased assets, as well as to determine the appropriate primary plant accounts in which to record those assets. The studies would enable the Company to comply with the Uniform System of Accounts' requirement that the original cost of plant should be estimated if not known. In accordance with the Commission's order, the Company performed the required valuation study, which was reviewed and accepted by the Engineering Staff.

In the Company's last rate case, the Commission excluded a portion of the Western Energy purchase from rate base because it was not justified. In the current case, the Company made an adjustment to reinstate the purchase price of this purchase in Plant-In-Service. Staff Engineers applied the tariffed feasibility criteria and the Western Energy purchase now passes this test. Therefore, Staff believes it is appropriate to allow the original cost in Plant-In-Service.

With regard to Consolidated Gas, this was an affiliated company of Miller Gas Company and was purchased in February 1991. The original mains were constructed between 1967 and 1982 and supplied propane to approximately 1,670 services at the time of acquisition by City Gas. The service area of this system was surrounded by that of City Gas. In order for these propane customers to be supplied natural gas, a lower cost energy source, it would only be natural for City Gas to acquire this system. Staff engineers applied the tariffed feasibility criteria and the

Consolidated Gas purchase passes this test. Staff believes it is appropriate to allow the original cost in Plant-In-Service.

Regarding the purchase of the three systems, the Company recorded on its books, as the original cost of the purchased assets, the purchase price of the assets. The Company then determined the amount of accumulated depreciation by subtracting the original cost from the purchase price. In Staff's opinion, the Company should have calculated the accumulated depreciation by applying the applicable depreciation rates to the original costs by vintage year of installation. After reviewing the study, Staff calculated the appropriate accumulated depreciation, depreciation expense and resulting acquisition adjustments for each system, resulting in the following adjustments to the Company's books at the date of acquisition.

	Fort Pierce **September 1994** **in dollars**		
	Per Company	**Per Staff**	**Difference (1 - 2)**
Original Cost	115,000	167,811	(52,811)
Accum. Depreciation	0	(4,989)	4,989
Net Book Value	115,000	162,822	(47,822)
Purchase Price	149,800	115,000	34,800
Acquisition Adj.	34,800	(47,822)	82,622

	Western Energy January 1993 in dollars		
	Per Company	Per Staff	Difference (1 - 2)
Original Cost	700,000	699,284	716
Accum. Depreciation	0	(9,229)	9,229
Net Book Value	700,000	690,055	9,445
Purchase Price	700,000	700,000	0
Acquisition Adj.	-0-	9,945	(9,945)

	Consolidated Gas February 1991 in dollars		
	Per Company	Per Staff	Difference (1 - 2)
Original Cost	710,000	1,357,896	(647,896)
Accum. Depreciation	0	(1,100,806)	1,100,806
Net Book Value	710,000	257,090	452,910
Purchase Price	710,000	710,000	0
Acquisition Adj.	-0-	452,910	(452,910)

The Staff adjustments in the following table result in the Company recording the assets and the applicable accumulated depreciation at estimated original cost by primary account. This enables the Company to satisfy the requirements of future depreciation studies and the requirements of the Uniform System of Accounts.

In Staff's opinion, the resulting acquisition adjustments are fall out numbers and differ from true acquisition adjustments where the original cost and accumulated depreciation are actual amounts determined from the books of a selling regulated company, as was the case in the acquisition of the assets from Miller Gas Company, a regulated natural gas company. (See Issue No. 13).

The total rate base amount should remain in rate base because of the benefits of the acquisition to the former propane customers and the entire natural gas customer base of City Gas overall. The acquisition of these systems resulted in a lowering of rates to the former propane customers while providing them with a safer, more reliable product and access to City Gas' regulated protections for safety, consumer affairs and pricing. The entire City Gas customer base benefited from the improved throughput from serving the propane customers, who bear a fair share of City Gas' necessary fixed costs including capacity costs for the delivery of gas to the city gate. City Gas did not require additional capacity to serve these customers.

Based on the above recommendation, the following adjustments should be made for the projected 1997 test year:

	Fort Pierce September 30, 1997 in dollars		
	MFR Per Company	**Per Staff**	**Adjustment (2 - 1)**
13-Month Average Rate Base			
Original Cost	115,000	167,811	52,811
Accumulated Depreciation	(8,339)	(17,545)	(9,206)
Net Plant	106,661	150,266	43,605
Acquisition Adjustment	0	(47,822)	(47,822)
Accumulated Amortization	0	(3,067)	(3,067)
Net Acquisition Adjustment	-0-	(44,755)	(44,755)
Expense			
Depreciation Expense	3,336	5,022	1,686
Amortization Expense	0	(1,227)	(1,227)
Total Deprec. & Amort.	3,336	3,795	459

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	Western Energy September 30, 1997 in dollars		
	MFR Per Company	Per Staff	Adjustment (2 - 1)
13-Month Average Rate Base			
Original Cost	700,000	699,284	(716)
Accumulated Depreciation	(77,115)	(135,951)	(58,836)
Net Plant	622,885	563,333	(59,552)
Acquisition Adjustment	0	9,945	9,945
Accumulated Amortization	0	(1,088)	(1,088)
Net Acquisition Adjustment	-0-	8,857	8,857
Expense			
Depreciation Expense	20,467	21,080	613
Amortization Expense	0	256	256
Total Deprec. & Amort.	20,467	21,336	869

	Consolidated Gas September 30, 1997 in dollars		
	MFR Per Company	**Per Staff**	**Adjustment (2 - 1)**
13-Month Average Rate Base			
Original Cost	710,000	1,357,896	647,896
Accumulated Depreciation	(139,564)	(1,128,745)	(989,181)
Net Plant	570,436	229,151	(341,285)
Acquisition Adjustment	0	452,910	452,910
Accumulated Amortization	0	(75,401)	(75,401)
Net Acquisition Adjustment	-0-	377,509	377,509
Expense			
Depreciation Expense	23,612	46,619	23,007
Amortization Expense	0	12,227	12,227
Total Deprec. & Amort.	23,612	58,846	35,234

In summary, Plant-In-Service should be increased $699,991, Accumulated Depreciation $1,057,223, Acquisition Adjustments $415,033, Accumulated Amortization of Acquisition Adjustments $73,422, and Depreciation and Amortization Expense $36,562.

ISSUE 12: Should an adjustment be made to reduce Plant, Accumulated Depreciation, or Depreciation Expense for amounts associated with non-utility operations?

RECOMMENDATION: Yes. Adjustments should be made to reduce Plant by an additional $423,801, Accumulated Depreciation Reserve by an additional $146,414, Accumulated Amortization Reserve by $2,619, Depreciation Expense by an additional $20,928, and Amortization Expense by an additional $256 for amounts associated with non-utility operations. (BOYER, MILLS)

STAFF ANALYSIS: In its MFRs, the Company removed $1,602,471 in Plant, $453,385 in Accumulated Depreciation Reserve, and $59,629 in Depreciation Expense associated with non-utility operations. Staff has reviewed Company's non-utility plant allocation factors as well as Company's use of various plant equipment and the activities performed out of various buildings. We are recommending changes in the allocation factors used as well as recommending that additional portions of certain plant be allocated to non-utility operations. We will address each change individually in the following analysis. Attachment 8 summarizes the recommended changes.

(A) City Gas Regulated/Non-Regulated Allocation - In its calculation of common plant, reserve, and expense, City Gas allocated several accounts based upon an 11.35% Payroll Distribution factor which was developed in conjunction with its Common Plant Allocation Study. The Payroll Distribution factor was calculated based upon several directly allocated non-regulated amounts as well as several amounts that were allocated based upon methods developed by Company. For allocation of NUI Corporate, NUI-Southern Division, Elizabethtown Gas, and various costs incurred by City Gas, a 3-Factor allocation method was used which developed a regulated and non-regulated split based upon payroll, plant, and number of employees. Staff believes that the 3-Factor method is a more appropriate method for allocating common costs between regulated and non-regulated operations because it considers other elements beyond just payroll. It is a composite of direct activity, existing investment, and existing customer base and is a better indication of the level of non-utility operations of City Gas. Therefore, Staff recommends that the 16.14% City Gas non-regulated percentage should be used instead of the 11.35% Payroll Distribution to allocate the plant, reserve, and expense amounts between regulated and non-regulated for Accounts 392-Transportation Equipment, 393-Stores Equipment, 394-Tool, Shop & Garage Equipment, and 397-Communication Equipment. First, the plant balances for Accounts 394 and 397 should be increased by $25,833 and $18,462, respectively. Company incorrectly recorded amounts to account 398-Miscellaneous Equipment that should more appropriately be recorded in these two accounts. The following schedule shows the additional amounts for each account to remove as non-utility based upon the revised account balances and the 16.14% factor.

Account	Plant	Reserve	Expense
Account 392-Transportation Equipment	$32,340	$22,642	$1,458
Account 393-Stores Equipment	2,169	849	102
Account 394-Tool, Shop & Garage Equipment	47,999	24,953	3,027
Account 397-Communication Equipment	20,527	9,385	1,210
TOTAL	$103,035	$57,829	$5,797

(B) Hialeah Building #955 Allocations - For MFR purposes, this allocation is calculated by the Company in its Common Plant Allocations Study. The 17.84% non-regulated factor the Company used in its estimation of common plant, reserve, and expense was calculated based upon square footage of the building. The computation considers each area individually and applies an allocation factor depending upon whether the space is used for City Gas regulated, non-regulated, other NUI-Southern activities, or some combination thereof.

There are several areas that City Gas is allocating only to regulated and non-regulated operations which Staff believes should be allocated to all NUI-Southern activities. For example, Staff believes the NUI-South factor should be applied to common areas used by NUI-South executives. In addition, there are areas which the Company is allocating to regulated and non-regulated City Gas activities based upon payroll, which Staff believes should more appropriately be allocated based upon the 3-Factor method Company uses to allocate various other costs. Therefore, Staff recalculated the Hialeah Building #955 allocation factors, applying the updated NUI-Southern allocation factor and the City Gas regulated/non-regulated allocation factor to the areas in question. The NUI-Southern 3-Factor allocation was developed based upon the relative percentage of payroll, plant, and number of customers for City Gas regulated, City Gas non-regulated, and all other NUI-Southern Division activities. The City Gas regulated/non-regulated 3-Factor allocation was developed based upon only the relative percentages for City Gas regulated and non-regulated operations as discussed in (A) above. Staff believes that the new 28.89% Hialeah

Building #955 factor more appropriately allocates the common plant between utility and non-utility activities. Therefore, an additional $22,067 in plant, $6,961 in reserve, and $419 in expense should be removed for ratemaking purposes.

(C) **Hialeah Building #933 Allocations** - For MFR purposes, this allocation is calculated by the Company in its Common Plant Allocations Study. The 21.8% non-regulated factor the Company used in its estimation of common plant, reserve, and expense was calculated based upon square footage of the building. The computation considers each area individually and applies an allocation factor depending upon whether the space is used for City Gas regulated or non-regulated. Other NUI-Southern activities are not performed in this building. As with Building #955, there are several areas that City Gas is allocating to regulated and non-regulated activities based upon the Payroll Distribution factor, which Staff believes should more appropriately be allocated based upon the 16.14% 3-Factor percentage for allocating between regulated and non-regulated. Staff believes that the new factor more appropriately allocates the common plant between utility and non-utility activities. Staff recalculated the #933 factor to be 23.62%. At the new rate, an additional $12,299 in plant, $4,075 in reserves, and $257 in expense should be removed for ratemaking purposes.

(D) **Hialeah Building #1001 Allocations** - For MFR purposes, this allocation is calculated by the Company in its Common Plant Allocations Study. The 13.35% non-regulated factor the Company used in its estimation of common plant, reserve, and expense was calculated based upon square footage of the building. The computation considers each area individually and applies an allocation factor depending upon whether the space is used for City Gas regulated, non-regulated, other NUI-Southern activities, or some combination thereof. As with Building #955, there are several areas that City Gas is allocating only to regulated and non-regulated operations which Staff believes should be allocated to all NUI-Southern activities. Again, these areas are ones that are used by employees who perform functions for NUI-South. In addition, there are several areas that City Gas is allocating to regulated and non-regulated activities based upon the Payroll Distribution factor, which Staff believes should more appropriately be allocated based upon the 16.14% 3-Factor percentage for allocating between regulated and non-regulated. Therefore, Staff recalculated the Hialeah Building #1001 allocation factors, applying the updated NUI-Southern allocation factor and the 3-Factor percentage to the areas in question. Staff believes that the new 28.83% Hialeah Building #1001 factor more appropriately allocates the common plant among utility and non-utility activities. Therefore, an additional $29,610 in plant, $844 in reserves, and $562 in expense should be removed for ratemaking purposes.

(E) **Hialeah General Office** - This is another factor which was calculated by the Company in its Common Plant Allocations Study. As a result of the above Building #955 and #933 changes, the factors associated with allocation of this land should be modified. This non-regulated percentage is based upon the weighted average of the square footage used for Buildings #933 and #955. After recomputing based upon the new factors, Staff determined that the non-regulated factor should be 25.35%. Therefore, an additional $1,919 in plant should be removed for ratemaking purposes.

(F) **Account 374 - Titusville Gate (Land)** - This land is the site of the Titusville Gate Station located near the intersection of Capon Road and Knox McRea Drive in Titusville, Florida. According to City Gas, only 19.2% of this property was to be assigned to non-utility. This site houses a natural gas gate station (14.0%), a propane storage tank and related facilities (19.1%), and storage for an 8-inch steel gas pipe (14.5%), with the remaining property being left vacant with no apparent use (52.4%). Staff recommends that the portion of the property used by the propane tank and related facilities (19.1%) and the portion that is vacant (52.4%) be removed from ratemaking as non-utility (19.1 + 52.4% = 71.5%). Therefore, an additional $12,139 in plant should be removed from rate base.

(G) **Account 374 - Propane Sales (Land)** - This land is the site of the old propane sales facility located on 10th Avenue in Hialeah, Florida. The propane pumps and piping stored there are not operational and there appears to be no apparent use for the property. Company indicated that they plan to use the area to park company vehicles. If company vehicles were to be parked at that location, it appears that security would be a prohibitive problem. The property is located approximately three blocks from the Company's other offices and there is only a 4-foot fence at the rear of the property adjacent to the public rail station. It is Staff's belief that there is no apparent use of the property and that it is doubtful that it will provide a utility function in the future; therefore, we recommend that the $12,195 cost associated with the land be removed from rate base.

(H) **Account 375 - Propane Sales (Structure)** - This structure is a small block building located on 10th Avenue. In the past, propane sales were conducted out of this building. Today, the building is vacant and shows no apparent use. City Gas officials indicated that the structure could possibly be used to store records in the future. It is Staff's opinion that the building would not be secure enough to house records, as this building is located three blocks from the other Hialeah offices of City Gas and is adjacent to a public rail station. In its MFRs, Company removed 80% of the costs as non-utility; however, Staff recommends that all of the cost associated with the structure be removed as non-utility for the structure is not used and useful, and it appears it will remain vacant. Therefore, plant should be reduced by an additional $11,028; reserve should be reduced by an additional $4,920; and depreciation expense should be reduced by an additional $232.

(I) **Account 375 - Rockledge - Office (Structure)** - In City Gas' allocation of this structure between utility and non-utility, the appliance storage area was apportioned using the customer billing ratio and payroll distributions. In total, 18.23% of the costs associated with the structure were allocated to non-utility. It is Staff's opinion that 100% of the cost of this area, or 28.2% of the total cost of the structure, should be removed because it is non-utility in nature. Therefore, an additional $1,218 in plant, $674 in reserve, and $26 in depreciation expense should be removed for ratemaking purposes.

(J) **Account 375 - Titusville Gate (Improvements)** - The dollars shown in this account represent fencing and street improvements for both the natural gas gate station (42.3%) and the propane storage facility (57.7%). In its MFRs, the Company allocated none of the costs associated with these improvements to non-utility operations. Staff recommends that the expense be allocated between utility and non-utility based upon square footage usage basis. Therefore, 57.7% of the associated costs, or $6,338 in plant, $1,483 in reserve, and $133 in depreciation expense, should be removed as non-utility for ratemaking purposes.

(K) **Account 375 - New Additions - 1996** - This amount includes an amount for roof repairs at the #933 Building, hurricane shutters at the #933, #955, and #1001 buildings, and for fencing at the Vero Beach and Ocean Spray Gate Stations. In its MFRs, City Gas did not allocate any of the costs of these new additions to non-utility operations. It is Staff's belief that a portion of the roof repair and hurricane shutters costs should be allocated to non-utility operations based upon the square footage usage of each building. The roof repair costs should be allocated based upon the 23.62% Building #933 factor described in (C) above.

Staff believes that a portion of the costs for the hurricane shutters should be allocated to non-utility based upon a composite factor for Buildings #955, #933, and #1001. As described in (B), (C), and (D) above, the three buildings' allocations differ from those included by City Gas in its Common Plant Allocation Study.

Staff calculated the composite Hialeah buildings non-regulated factor to be 25.78%. The following shows Staff's calculation of the affect of the two above recommended changes.

Additions	Cost	Non-Utility %	Non-Utility $
Roof Repair	$20,000	23.62%	$4,724
Hurricane Shutters	38,000	25.78%	9,796
Vero Beach Gate Fence	1,000	0%	0
Ocean Spray Gate Fence	1,000	0%	0
TOTAL	$60,000	24.20%	$14,520

24.20% of the total cost of the 1996 new additions should be allocated to non-regulated operations. Therefore, $14,520 in plant, $216 in reserve, and $336 in expense should be removed for ratemaking purposes.

(L) Account 389 - Rockledge Office (Land) - This amount is for the land that houses the Rockledge Office. Staff believes that a portion of the cost of the land should be removed in the same percentage ratio as the office floor space which is described in detail in (I) above. Therefore, 28.2%, or an additional $8,045, of the total cost of the land should be removed as non-utility.

(M) Account 390 - Rockledge Office (Improvements) - The Company was unable to identify any specific portion of the Rockledge Office improvements. Therefore, Staff believes that the improvements should be considered as general improvements to the entire structure as a whole. In its MFRs, the Company allocated 18.23% of the cost of the improvements to non-utility. Staff believes that because the improvements are general in nature, they should be allocated to non-utility based upon the 28.2% factor described in (I) above. Therefore an additional $27,339 in plant, $9,868 in reserve, and $519 of the total cost of the improvements should be removed as non-utility.

(N) Account 390 - Titusville Gate (Improvements) - The dollars shown in this account represent fencing and street improvements for both the natural gas gate station and the propane storage facility. In its MFRs, the Company allocated none of the costs associated with these improvements to non-utility operations. Staff recommends that the expense be allocated between utility and non-utility based upon square footage usage basis. Therefore, as discussed in (J) above, 57.7% of the associated costs, or $4,374 in plant, $1,834 in reserve, and $83 in depreciation expense should be removed as non-utility for ratemaking purposes.

(O) **Account 390 - New Additions - 1996** - This item includes an amount for roof repairs at the Rockledge Office, hurricane shutters at the #933, #955, and #1001 buildings, a Stand-by Power System for the #933, #955, and #1001 buildings, and for exterior painting, renovation and a company sign for the #933, #955, and #1001 buildings. In its MFRs, City Gas did not allocate any portion of the costs of these new additions to non-utility operations. It is Staff's belief that a portion of each of the expenditures should be allocated to non-utility operations. The Rockledge Office roof repair costs should be allocated based upon the 28.2% factor developed in (I) above. For the hurricane shutters and the stand-by power system, the costs should be allocated based upon the 25.78% combined percentage developed in (K) above. For the exterior painting, renovation, and company sign, the costs should be allocated based upon the 25.35% Hialeah General Office allocation factor shown in (E) above. Finally, the Company incorrectly included $10,000 in account 398-Miscellaneous Equipment which should have been included in this account. The amount was for improvements to the new Vero Beach office and should not be allocated to non-regulated operations.

Expenditure	Amount	Non-Regulated %	Non-Regulated
Hurricane Shutters for 933, 955 & 1001 Buildings	$32,000	25.78%	$8,250
Stand-by Power System for 933, 955 & 1001 Buildings	35,000	25.78%	9,023
Brevard Office roof repair	15,000	28.20%	4,230
Exterior Painting, renovation & co. sign for Buildings #933 & 955	30,000	25.27%	7,605
Vero Beach Improvements	10,000	0.00%	0
TOTAL New Additions - 1996	$122,000	23.86%	$29,108

Based upon the above recommended changes, 23.86% of the total cost of the 1996 new additions should be allocated to non-regulated operations. Therefore, $29,109 in plant, $489 in reserve, and $673 in expense should be removed for ratemaking purposes.

(P) Account 390 - New Additions - 1997 - This amount includes an amount for the upgrade/renovation of the office and sales department at the Rockledge Office, and leasehold improvements at the Port St. Lucie office. In its MFRs, City Gas did not allocate any portion of the costs of these new additions to non-utility operations. It is Staff's belief that a portion of each of the expenditures should be allocated to non-utility operations. It is Staff's recommendation that these costs be allocated based upon the 28.2% Rockledge Office factor developed in (I) above. Therefore, $5,117 in plant, $283 in reserve, and $73 in expense should be removed for ratemaking purposes.

(Q) Account 391 - Office Furniture & Equipment - This amount includes office furniture and equipment located at the #955, 933, and 1001 buildings in Hialeah, the Rockledge Office, and the Medley Meter Shop. However, the plant amount should be increased by $115,104 for an amount that was incorrectly recorded in account 398-Miscellaneous Equipment. The non-utility factor for this account is obtained from a weighted average factor for each of the five buildings. Based upon the recommended factor changes described in (B), (C), (D) and (I) above, this factor needs to be modified. Staff calculated the new factor to be 23.11%. As a result of applying the new factor, $121,791 in additional plant, $53,736 in additional reserve, and $13,297 in additional depreciation expense needs to be removed for ratemaking purposes.

(R) Account 303 - Miscellaneous Intangible Plant - This account includes common use assets that were not allocated to non-regulated operations. Specifically, this amortization account includes the cost of the left-turn lane the Company recently had the City of Hialeah install in front of its Hialeah Buildings #933 and #955. Staff believes that the plant, amortization reserve, and amortization expense associated with the left-turn lane should be allocated to non-regulated operations based upon the operations performed in Buildings #933 and #955. Activities performed in both buildings include City Gas utility, non-utility, and other NUI-Southern activities. Because the left-turn lane serves both buildings, the non-regulated allocation factor for the account should be the same as the 25.35% factor used for the Hialeah General Office land allocation as described in (E) above. Therefore, $6,407 in plant, $2,619 in amortization reserve, and $256 in amortization expense associated with the non-utility portion of the turn lane should be removed for ratemaking purposes.

(S) Account 398 - Miscellaneous Equipment - The amount shown for this account for 1997 in the MFRs is $297,538. The amount inappropriately includes $256,403 for assets that should properly be classified in other accounts. This account should include common use assets that were only partially allocated to non-regulated operations. Specifically, the amounts correctly recorded in this account are for breathalyzer machines, ice machines, microwaves, lounge equipment, refrigerators, and other miscellaneous equipment used at all City Gas and NUI-Southern offices. In its MFRs, the Company allocated 10.13%, or $1,850, of the depreciation expense only to non-regulated operations. Because of the shared nature of many of these assets, it is Staff's recommendation that the plant, reserve and expense costs associated with the assets in the account, excluding the breathalyzer machines and the incorrectly recorded amounts, should be allocated to non-regulated operations based upon the 23.11% Office Furniture & Equipment factor described in (Q) above. Therefore, $4,665 in plant and $3,202 in reserve should be removed, and an additional $1,479 in depreciation expense should be added for ratemaking purposes.

(T) Account 395 - Laboratory Equipment - The Company incorrectly allocated $9,414 of the account to non-utility in its MFRs. These assets are utility in nature and their costs should not be allocated to non-utility operations. Rate base should be increased by $9,414 to correct for this error.

ISSUE 13: Should the Miller Gas negative acquisition adjustment be included in rate base?

RECOMMENDATION: Yes. Plant should be decreased by $221,067, Accumulated Amortization by $36,365 and expenses should be decreased by $7,368. (MERTA)

STAFF ANALYSIS: City Gas purchased the assets of Miller Gas in 1991. In Order No. PSC-94-1570, the Commission included the negative acquisition adjustment in rate base. In the current case, the Company made an adjustment to remove the acquisition adjustment from rate base and expenses. City Gas stated in testimony that it believes that negative and positive adjustments should be treated consistently and excluded its positive acquisition adjustments from rate base as ordered by the Commission in prior rate cases.

The Commission's policy on acquisition adjustments, as outlined in Order No. 23024, issued on June 4, 1990, is that absent extraordinary circumstances, a subsequent purchase of a utility facility at a premium or discount does not affect the rate base calculation. In Staff's opinion, the Company has not shown extraordinary circumstances or why it should earn on a higher rate base than the amount it invested in this acquisition. To allow City Gas to earn on the higher rate base would allow investors to earn an overall rate of return on assets which are not supported by its actual investment, while ratepayers would be required to pay both a return and amortization expense on an investment that City Gas did not fund. Therefore, Staff recommends that the negative acquisition adjustment be included in rate base. Plant should be reduced by $221,067, Accumulated Amortization should be reduced by $36,365, and Amortization Expense should be decreased by $7,368 to reverse the Company's adjustment.

ISSUE 14: What is the appropriate amount of Construction Work in Progress (CWIP) for the projected test year?

RECOMMENDATION: CWIP should be increased by $86,018 as addressed in the Engineering Report, and additional information supplied by the Company. The appropriate amount of CWIP for the projected test year is $2,176,865. (REVELL, MILLS)

STAFF ANALYSIS: The Company has projected total CWIP for the test year of $2,255,833. An examination of the Staff engineering report on the Company's projects for 1996 show that several projects have been cancelled, several projects were started later in 1996 than anticipated, and several projects were postponed until 1997. Additional information obtained from the engineers after receipt of the report changed the construction date of three projects from the dates originally contained in the report. The revised dates for these projects are incorporated in Staff's recommended adjustment. There are no modifications anticipated in the schedule for projects originally scheduled for the projected test year, other than the 1996 projects shifted from 1996 to 1997. These adjustments increase CWIP by $86,018. Issue 10 addresses a reduction to CWIP of $164,986, for a net reduction in CWIP of $78,968.

Therefore, Staff recommends that the appropriate amount of CWIP is $2,176,865. ($2,255,833-$78,968)

MFR	$2,255,833
Issue 10	(164,986)
Issue 14	86,018
Total Adjustments	(78,968)
Total Adjusted CWIP	$2,176,865

ISSUE 15: What is the appropriate projected test year Plant-In-Service? This is a calculation based upon the decisions in preceding issues.

RECOMMENDATION: The appropriate projected test year Plant-In-Service is $136,968,586. (MERTA)

STAFF ANALYSIS: This is a calculation based upon the decisions in preceding issues.

ISSUE 16: Should an adjustment be made to the Accumulated Amortization Accounts to correct for an error made in calculating an adjustment for amortization of the 1959/62 acquisition adjustment, Franchise and Consents, and Miscellaneous Intangible Plant?

RECOMMENDATION: Yes. The Accumulated Amortization Accounts should be reduced $25,033 to correct for errors. (L. ROMIG)

STAFF ANALYSIS: During the Staff's audit, it was determined that the Company made an error in calculating its adjustment to remove the accumulated amortization for various LP acquisition adjustments, Franchise and Consents, and Miscellaneous Intangible Plant. Therefore, it would be appropriate to reduce the Accumulated Amortization Accounts $25,033 which increases rate base to correct this error.

ISSUE 17: What is the appropriate amount of Customer Advances for Construction for the projected test year?

RECOMMENDATION: The appropriate amount of Customer Advances is $14,000. (L. ROMIG)

STAFF ANALYSIS: When the MFR's were prepared, the Company did not project any Customer Advances for construction. The Company has since determined that it will receive $14,000 in advances for a construction project. Therefore, it would be appropriate to reduce 13-month average rate base $14,000.

ISSUE 18: What is the appropriate projected test year Depreciation Reserve?

RECOMMENDATION: The appropriate projected test year Depreciation Reserve is $50,075,063. (JOHNSON)

STAFF ANALYSIS: This is a calculation based upon the resolution of preceding issues.

ISSUE 19: Should an adjustment be made to Accounts Receivable Gas?

RECOMMENDATION: Yes. Accounts Receivable Gas should be reduced by $62,456. (L. ROMIG)

STAFF ANALYSIS: The Staff Auditors in their Supplemental Audit Report, Disclosure 7, determined that the average ratio of the last five years of Accounts Receivable to Revenues is 8.13%.

This percent applied to 1997 revenues equals $6,425,638 compared to the $6,488,094 included by the Company in working capital for Accounts Receivable, or $62,456 less than projected by the Company for 1997. In Staff's opinion, the use of a five year average is appropriate in testing the reasonableness of Accounts Receivable. Therefore, Staff recommends that Accounts Receivable be reduced by $62,456.

ISSUE 20: What is the appropriate amount of non-utility Working Capital to remove for City Gas for 1997?

RECOMMENDATION: An additional $49,237 should be removed associated with non-utility Working Capital. (BOYER, MILLS)

STAFF ANALYSIS: The Company used a 11.35% Payroll Distribution factor to allocate certain working capital accounts to non-regulated operations. In total, $135,539 was allocated. $18,871 was for Materials and Supplies (M&S) and the remaining $116,668 was for the other working capital accounts that were allocated to non-regulated. For M&S, Staff is not making an adjustment to the amount the Company has already allocated to non-regulated because the M&S for 1997 will be much larger than has been estimated in the MFRs. Therefore, making a further adjustment would further reduce the already low M&S amount. However, Staff believes that a payroll factor allocation may not be appropriate. We believe that the Company needs to review the actual M&S on hand annually to determine the appropriate non-regulated M&S.

As discussed in issue 12(A), Staff believes that the allocation of the remaining working capital accounts should be made using the 16.14% non-utility 3-Factor method which is based upon payroll, plant, and number of customers. The Company, however, believes that the payroll factor alone is more appropriate for several reasons. City Gas believes the 3-Factor method is inappropriate because the level of investment does not affect the level of working capital, and because the 3-Factor method counts non-regulated customers twice, once as a natural gas customer and again as a non-regulated customer. The Company believes that the working capital required to support a natural gas customer does not double if that customer is a non-regulated customer, just as it does not multiply if that customer is a subscriber to two non-regulated services. Also, City Gas believes that the level of payroll, as a measure of the level of activity, is indicative of the exposures that generate the need for insurance prepayments, of the accounts payable incurred to replenish inventories, and of the accruals required for payroll obligations.

Staff believes that the 3-Factor method is the most appropriate because it considers payroll, plant, and the number of customers so that a ratio can be developed comparing the size of each type of operation, both regulated and non-regulated, to the whole, in order to more accurately determine the magnitude of the regulated activity to the total City Gas operations. In addition, Staff believes that it is appropriate to "count some customers twice" in order to obtain an accurate ratio of customers to show the relative magnitude of the non-regulated customers to the regulated customers, which in turn is a good measure of the amount of non-utility operations of City Gas. For the same reason, it is also good to include the non-regulated investments in the overall estimate of non-regulated operations activity. Staff believes that the investment level is especially significant in determining the appropriate allocation of insurance prepayments. Finally, while payroll may be a good measure of the level of activity, Staff believes that the 3-Factor method is an even better estimate. Staff's calculation of non-regulated working capital, using the 16.14%, shows that a total of $165,905 should be removed for ratemaking purposes. Therefore, an additional $49,237 ($165,905 - $116,668) in working capital should be allocated to non-utility operations. The following table summarizes these recommended changes.

Working Capital Component	Forecast 1997
Cash	$1,090,728
Working Funds	2,918
Miscellaneous Receivables	257,729
Uncollectible	(229,136)
Prepayments	510,026
Other Work In Progress	26,414
Accounts Payable	(181,835)
Miscellaneous Current Liabilities	(448,931)
Total Working Capital to Allocate	$1,027,913
3-Part Allocation Factor	16.14%
Non-Utility Allocation Per Staff	$165,905
Non-Utility Allocation Per Company	116,668
Total Non-Utility Working Capital Adjustment	$49,237

ISSUE 21: Should an adjustment be made to include the conservation overrecovery in Working Capital?

RECOMMENDATION: Yes. Reduce Working Capital $7,929 of conservation overrecoveries. (REVELL)

STAFF ANALYSIS: The Company removed from Working Capital $7,929 for conservation-related overrecoveries for the projected test year. Overrecoveries from ratepayers are liabilities and must be returned to the ratepayers with interest. As a liability, overrecoveries will reduce rate base if included in working capital.

Since the Company earns a return on rate base, the exclusion of an overrecovery means rate base is higher by the excluded amount which rightfully belongs to the ratepayers. This means the ratepayers pay to the Company in the form of higher rates, money which is then returned to them as interest, which is the penalty the Company incurs for the overrecovery. Staff, therefore, recommends that $7,929 in conservation-related overrecoveries be included in working capital as a liability. This inclusion reduces working capital, and rate base, by $7,929.

ISSUE 22: Should an adjustment be made to Interest Receivable or Interest Accrued?

RECOMMENDATION: No adjustment should be made to Interest Receivable. The adjusted balance of Interest Receivable in the working capital allowance should be zero, as reflected in the Company's filing. Interest Accrued should be increased (and working capital decreased) by $802,528, based on the Company's filing. (C. ROMIG, MERTA, LESTER)

STAFF ANALYSIS: In its MFR adjustments to the working capital allowance, the Company removed Interest Receivable and Interest Accrued, with the exception of the accrued interest related to customer deposits, because, "these amounts are stand-alone balances on City Gas books and, for regulatory purposes, capital structure is presented on a consolidated basis."

Subsequent to its filing, the Company presented Staff with information that suggested Staff consider including 20 percent of NUI's consolidated Interest Receivable, $633,454 (.2 * $3,167,270) and 20 percent of NUI's consolidated Interest Accrued, $802,528 (.2 * $4,012,641) in working capital allowance. The ratio used to perform the allocation was developed by comparing City Gas' debt, in its capital structure which has been reconciled to rate base ($47,329,829), with the NUI consolidated debt ($232,040,211). However, during the course of a meeting with Staff and OPC, the Company reaffirmed its position to be the MFR presentation, which excludes both Interest Receivable and Accrued Interest.

Staff believes that the Company's MFR adjustment to remove the Interest Accrued from its working capital allowance should be accepted because Staff agrees that the amount of Interest Accrued on City Gas' books bears no relationship to its allocated capital structure. Further, Staff believes that the suggested allocated portion of NUI's consolidated Interest Receivable should not be included. Staff believes that the Company's adjustment to its MFRs has been done correctly, because the Interest Receivable on City Gas' books is related to the industrial revenue bonds and is interest-bearing. Because the interest receivable is interest-bearing, it should be excluded. It is current Commission practice to exclude from a utility's working capital allowance the cash, temporary investments, and other current assets which are interest-bearing unless the related interest income is recorded above-the-line. The related interest income is not included above-the-line. Consequently, the related working capital allowance account should be excluded.

However, Staff believes that working capital should include some amount of Interest Accrued, an amount that does bear a relationship to capital structure. The Company suggested a method that recognizes a proportionate amount of the actual Interest Accrued balance on NUI's consolidated balance sheet, based on the ratio of City Gas' debt to the NUI consolidated debt. This approach yields an imputed Interest Accrued of $802,528, as calculated above. Staff believes that the method suggested by the Company is a fair representation of the amount of Interest Accrued attributable to City Gas' debt. For this reason, Staff recommends that Interest Accrued be increased by $802,528 ($4,012,641*.2).

ISSUE 23: Should an adjustment be made to Other Work in Progress?

RECOMMENDATION: Yes. Reduce Other Work In Progress (OWIP) by $22,151. (REVELL, MILLS)

STAFF ANALYSIS: The Other Work in Progress account contains $26,414 in costs related to the Computerized Information System conversion completed in the first quarter of the 1996 fiscal year. Staff believes that these costs should have been expensed. Therefore, Staff recommends that these expenses be removed from the OWIP account. This adjustment reduces working capital by $26,414. The non-regulated portion of $4,263 has been removed in another issue. Therefore, Staff recommends a further reduction of $22,151.

ISSUE 24: Should an adjustment be made to Other Receivables to add back travel advances removed by the Company?

RECOMMENDATION: Yes. Working Capital should be increased by $9,287 to add back travel advances removed by the Company. (MERTA)

STAFF ANALYSIS: The Company removed all employee receivables from working capital. Included in this adjustment were advances for employee travel which were classified as employee receivables, and therefore, adjusted out of working capital. Staff recommends that working capital be increased to add back this legitimate Company expense. Therefore, working capital should be increased by $11,074 total company of which $9,287 is regulated.

ISSUE 25: Should an adjustment be made to Taxes Accrued for adjustments to Taxes Other related to plant and NOI adjustments in other issues?

RECOMMENDATION: Yes. Taxes accrued should be decreased (and working capital increased) by $73,053, which represents the simple average of Staff's adjustments to Taxes Other, that are addressed in issues that follow. (C. ROMIG)

STAFF ANALYSIS: In the net operating income issue discussing Taxes Other which follows, Staff recommends adjustments that decrease Taxes Other by $146,106. In general, the Taxes Other that have been adjusted are accrued monthly and paid annually. For this reason, Staff believes that the corresponding adjustment to accrued taxes, if calculated by using the simple average of its adjustment to Taxes Other, is fairly representative of the amount by which Taxes Accrued should be decreased. The simple average of the $146,106 is $73,053. Staff recommends that Taxes Accrued be decreased (and working capital be increased) by $73,053 ($146,106/2).

ISSUE 26: What is the appropriate projected test year Working Capital Allowance? This is a calculation based upon the decisions in preceding issues.

RECOMMENDATION: The appropriate projected test year Working Capital Allowance is $5,205,972. (Attachment 1A) (MERTA)

STAFF ANALYSIS: This is a calculation based upon the decisions in preceding issues.

ISSUE 27: What is the appropriate projected test year Rate Base? This is a calculation based upon the decisions in preceding issues.

RECOMMENDATION: The appropriate projected test year Rate Base is $92,085,495. (Attachment 1) (MERTA)

STAFF ANALYSIS: This is a calculation based upon the decisions in preceding issues. Company and Staff positions are reflected in the following table and are discussed in the appropriate issues.

COMPARATIVE RATE BASE Projected Test Year Ending 9/30/97		
	COMPANY	**STAFF**
Utility Plant-in-Service	$134,854,623	$134,246,133
Acquisition Adjustment	351,622	545,588
CWIP	2,255,833	2,176,865
Accumulated Depreciation & Amortization	(49,101,361)	(50,075,063)
Customer Advances	0	(14,000)
Net Utility Plant	88,360,717	86,879.523
Working Capital Allowance	6,072,030	5,205,972
Total Rate Base	$ 94,432,747	$ 92,085,495

ISSUE 28: This issue is contested and has been moved to the front of the recommendation.

ISSUE 29: What is the appropriate cost rate for long-term debt?

RECOMMENDATION: The appropriate cost rate for debt is 7.50%. (LESTER, JONES)

STAFF ANALYSIS: Among NUI's debt issues are two issues of industrial development revenue bonds - a Brevard County issue of $20,000,000 and a New Jersey Economic Development Authority issue of $39,000,000. The proceeds from these issues are held by a bank acting as trustee, which releases funds to NUI for qualifying construction projects. In calculating the cost rate for long-term debt, the Company reduced the principal outstanding for total debt by the amount of funds held by the trustee. Also, since the funds held by the trustee are invested in short-term secure investments, the Company reduced interest expense by the amount of interest earned on the unreleased funds.

For the Brevard County issue, the trustee has locked in a 5.97% annual return through the end of August 1997. For the New Jersey issue, the trustee invests the funds to earn the daily money market rate. At the time of this recommendation, various short-term rates were around 5%. For the projected test year, the Company used 5% as the rate the funds for both issues would earn.

For the Brevard County issue, Staff has used 5.97% as the rate the funds held by the trustee will earn. This rate is reasonable since it is locked in through most of the projected test year. With this change, the cost rate for long-term debt reduces to 7.50% from 7.55%.

ISSUE 30: Should an adjustment be made to accumulated deferred taxes?

RECOMMENDATION: Yes, accumulated deferred taxes should be increased by $1,238,284, which are the SFAS 109 deferred tax adjustments recorded in the account, regulatory liabilities. (C. ROMIG)

STAFF ANALYSIS: In its Capital Structure, consistent with the Commission's last rate case order, the Company made two adjustments to Accumulated Deferred Taxes to remove the deferred taxes attached to leased appliances ($4,393,721) and the deferred taxes attached to the NUI acquisition adjustment ($7,932,704), a total adjustment reducing deferred taxes by $12,326,425. Staff's adjustment, that is addressed below, increases the Capital Structure deferred taxes by $1,238,284. The net of the Company's adjustment of $12,326,425 and Staff's adjustment of $1,238,284, or $11,088,141 is reflected on Attachment 2.

In its MFRs, City Gas accounts for its Debit Deferred Income Taxes in Miscellaneous Deferred Debits and its Regulatory Tax Liability as a Regulatory Liability in Other Deferred Credits. Both the Miscellaneous Deferred Debits and the Other Deferred Credits are accounted for in Average Per Books Working Capital. To the Average Per Books Working Capital, the Company makes adjustments for Non-Utility, Capital Structure and Other. The Company correctly classified the adjustment for Debit Deferred Income Taxes as a Capital Structure Adjustment and netted it against the Credit Deferred Income Taxes in Capital Structure. In addition, the Company made the correct adjustment to the Average Per Books Working Capital to remove the Regulatory Tax Liability. However, in error, the Company neglected to carry that Regulatory Tax Liability to its Capital Structure.

Per the Company's response to Staff's Question No. 22(1), Regulatory Liabilities includes $1,238,284 of SFAS 109 Deferred Tax Liabilities. That amount was originally placed in its working capital allowance and then adjusted out. It was not included in deferred income taxes or the capital structure. Therefore, the Company's presentation of SFAS 109 in its MFRs is not revenue neutral.

Per Rule 25-14.013, Florida Administrative Code (FAC), Accounting for Deferred Income Taxes Under SFAS 109, SFAS 109

> ... shall be implemented by each utility in a manner such that the balances of excess and deficient deferred income

> taxes are properly stated and that the application of SFAS 109 is revenue neutral in the ratemaking process.
>
> Further,
>
> All regulatory assets and liabilities and debit and credit deferred taxes resulting purely from implementation of SFAS 109 shall be treated in a manner similar to accumulated deferred income taxes at zero cost and shall be included in the capital structure ...

To reflect the revenue neutral requirements of Rule 25-14.013, FAC, Staff recommends that the capital structure accumulated deferred income taxes be increased by $1,238,284, which is the 1997 average amount of SFAS 109 deferred tax liabilities.

<u>ISSUE 31</u>: This issue is contested and has been moved to the front of the recommendation.

<u>ISSUE 32</u>: This issue is contested and has been moved to the front of the recommendation.

NET OPERATING INCOME

ISSUE 33: What is the appropriate level of projected test year total Operating Revenues?

RECOMMENDATION: The appropriate level of projected test year total Operating Revenues is $29,961,230. (MAKIN, GING, DILLMORE, MCNULTY)

STAFF ANALYSIS: Per MFR Schedule G-2, Page 11 of 34, City Gas's projected test year net operating revenue is $29,927,144. However, Staff has several recommended adjustments to this level of revenues. These adjustments are discussed in detail in the staff analysis of Issues 4 and 5 of this recommendation. The adjustment to as-filed test year net operating revenues associated with recommended changes in the projected test year customers and therms is
$18,071 (see Issue 4). The adjustment to as-filed revenues associated with recommended changes in projected test year connections and reconnections is $16,015 (see Issue 5).

The net energy and customer charge revenue as-filed is $29,349,183. However, the revenue based on Staff's recommended test year customers and therms is $29,367,254 or $18,071 more than the as-filed revenue. (See Issue 4.)

To determine net operating revenue, miscellaneous revenue (connect, reconnect, collections, and bad check charges) must be added. As filed miscellaneous revenue is $577,961, and Staff's recommended miscellaneous revenue is $593,976, or $16,015 more than as-filed. (See Issue 5.) Thus, total net operating revenue as filed is $29,927,144. Staff's recommended total net operating revenue is $29,961,230, which is $34,086 more than as-filed.

ISSUE 34: Should an adjustment be made for out of period and nonrecurring expenses?

RECOMMENDATION: Yes, an adjustment should be made reducing regulated expenses $56,995 for out of period and non-recurring expenses. (L. ROMIG)

STAFF ANALYSIS: During the Staff's audit, it was determined that certain expenses were either out of period or non-recurring and included in projected test year expenses. Discussed below are the adjustments which should be made reducing regulated expenses $56,995.

1. Out of Period Postage: It was determined that a charge was made to Account 903, Customer Records and Collection Expenses, in December 1995 to correct for a September 1995 postage error of $15,963. This amount was included in the six month cost that the Company annualized to arrive at the forecasted September 1996 year and trended to the 1997 test year using an inflation and customer growth rate. Therefore, total expenses should be reduced $33,887, or regulated expenses $33,399 after applying the appropriate non-regulated allocation factor. This adjustment was agreed to by the Company in its response to Staff's Audit Report.

2. Telephone Costs: The Company included $5,419 in Account 921, Office Supplies and Expenses, for the 1997 forecasted test year. This represents a bill received from Bell South for phone service related to the service establishment of the Megalink Service at the Miami office amounting to $2,631. This amount was then annualized to $5,261 and then trended for inflation of 3% to equal $5,419. After applying the non-regulated allocation factor, expenses should be reduced $4,544. The Company has agreed to this non-recurring expense.

3. Out of Period Legal Fees: The Company included $6,082 in 1996 for legal fees incurred in the previous year in Account 923, Outside Professional Services. These expenses were doubled and then multiplied by the general inflation factor of 3% for inclusion in the 1997 projected test year of $12,365. Total expenses should be reduced $12,365, or $10,369 after applying the appropriate non-regulated allocation factor. This was agreed to by the Company in its response to Staff's Audit Report.

4. Computer Costs: The Company wrote off to expense in 1996, $8,300 in prepaid IBM upgrade costs that were previously being amortized since the system had no value. This amount was then doubled to determine the 1996 expense. The Company determined that these were one time expenses and removed $8,300 from 1996 expenses,

but failed to remove the additional amount of $8,300. This amount was trended to $8,810 in 1997 for inflation and growth. Since this is a non-recurring expense, it would be appropriate to reduce Account 903, Customer Records and Collections, total expense $8,810, or $8,683 in regulated expense. This was agreed to by the Company in its response to Staff's Audit Report.

ISSUE 35: Should an adjustment be made to Account 874, Mains and Services, and to working capital for odorizing costs?

RECOMMENDATION: Yes, Account 874 should be reduced by $5,003 and working capital by $4,097 for odorizing costs. (MERTA, MILLS)

STAFF ANALYSIS: The Company purchases odorant approximately every two years and records the purchase in the Prepayment Account in working capital. In February 1995, 1,100 gallons was purchased for $15,939. The Company estimates another purchase of 1,100 gallons will be required during 1997, therefore $19,545 was included in working capital for that purchase. City Gas expensed $14,776 in 1997. Staff believes that the expense and the working capital should be adjusted to reflect the 2 year period over which the odorant is being used. Therefore Staff recommends that working capital be reduced by $4,886 total company, $4,097 regulated, and Account 874 be reduced by $5,003 ($14,776 - ($19,545/2) = $5,003). Account 874 was not allocated to non-regulated, therefore no further adjustment is required to the expense.

ISSUE 36: Should an adjustment be made to correct errors in Accounts 902, Meter Reading, and 903, Customer Records and Collections, in the trend schedule?

RECOMMENDATION: Yes. Account 902 should be reduced by $10,350 and Account 903 should be reduced by $15,301, for a total of $25,651, to correct an error in the trend schedule. (MERTA)

STAFF ANALYSIS: In order to project 1997 expenses, the Company prepared a worksheet that used 6 months' 1996 actual expense, adjusted it for known changes and multiplied it by two. This number was inserted in the trend schedule as 1996 expense and trended to yield the 1997 expense. The Company made an error in carrying the 1996 amounts for Accounts 902 and 903 from the worksheet to the trend schedule. On the worksheet for 1996, Account 902 and 903 were $617,440 and $847,091 respectively, while on the trend schedule for 1996, Account 902 was $627,440 and Account 903 was $862,091. When these amounts were trended to 1997, they were overstated by $10,350 and $15,525 respectively. Therefore, Staff recommends that expenses be reduced by $25,875 total company, or $25,651 regulated.

ISSUE 37: Should an adjustment be made to Account 912, Demonstrating and Selling Expenses, to correct an error in trending?

RECOMMENDATION: Yes, Account 912 should be reduced by $6,321 to correct an error in trending. (MERTA)

STAFF ANALYSIS: The Company included $180,600 in conservation salaries in the 1996 expense, and then trended to 1997 using the payroll wage rate trend factor. The amount trended to 1997 was $186,921 (180,600 x 1.035 = 186,921). When the Company removed the conservation salaries, they did not remove the amount associated with the trending. Therefore, Staff recommends that Account 912 be reduced by $6,321 to remove the trended amount (186,921 - 180,600 = 6,321).

ISSUE 38: This issue is contested and has been moved to the front of the recommendation.

ISSUE 39: Should an adjustment be made to Account 921, Office Supplies, to remove amounts related to reorganization?

RECOMMENDATION: Yes. $16,110 in expenses should be removed from Account 921. (REVELL)

STAFF ANALYSIS: The Company reorganized in 1995, and as a result, a number of employees were either transferred to New Jersey or terminated. The Company prepared a budget sheet for Account 921 which indicated that because of the transfers and terminations, the Company would reduce expenses in this account in the 1997 budget. The Company determined the adjustment by taking six months actual expenses in 1996 of $9,325 and doubling it to $18,650 and then trending into 1997. This amounts to $19,210. A review of the trend schedule in the MFR's for this account shows that the Company did not make this adjustment in its filing. Staff is recommending that this account be reduced by $19,210 as a result. However, the removal of the nonregulated portion of $3,100 has been made in another issue. Staff recommends the additional removal of the regulated portion, or $16,110.

ISSUE 40: Should an adjustment be made to reduce the amount of expenses allocated from NUI and Elizabethtown in Account 921/923, Corporate Services, for 1997?

RECOMMENDATION: Yes. $61,679 should be removed for costs associated with allocations from NUI Corporation, City Gas' parent company, and Elizabethtown Gas, a sister company to City Gas. (BOYER)

STAFF ANALYSIS: There were eight items that were allocated from NUI Corporate or Elizabethtown that Staff believes should not be borne by the ratepayers of Florida.

(A) - NUI Corporate Charges - NUI Corporate uses a 3-Factor method for determining allocations from Elizabethtown and NUI Corporate to its subsidiaries, including City Gas. The 3-Factor method is comprised of payroll, gross plant and customers. These factors were applied to projected 1996 and projected 1997 NUI and Southern Division expenses to determine the City Gas portion. The amounts used to calculate the factors were 13 month averages for March 1994 through March 1995. Therefore, Staff auditors requested the Company to update the 3-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 September 30, 1997 with the updated 3-Factor method.

The Company recalculated the 3-Factor method using preliminary 1997 budget amounts for payroll and customers, and actual plant balances at June 30, 1996. 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 projected NUI-Corporate expenses to be allocated to City Gas for 1997 were $3,070,813, per Schedule G-2 of the MFRs. The revised amount using the updated factors is $3,034,238. Therefore, operating expenses should be reduced by $36,575 to reflect the factor change.

(B) Charitable Contributions Allocated From NUI - NUI Corporate allocated $2,929 in charitable contributions to City Gas in 1996 with the projected amount for 1997 being the same. Recovery for charitable contributions has historically been disallowed by the Commission. Staff believes that these types of costs should not be borne by the City Gas ratepayers, especially since the costs are for donations to organizations outside City Gas' service area.

Therefore, Staff recommends that all of the allocated amount should be removed for ratemaking purposes.

(C) **Miscellaneous Items Allocated From NUI** - In 1996, NUI Corporate allocated charges for Christmas decorations, tickets to New Jersey Giants Football games and New York Jets Football games, dues to the Somerset Country Club, and for payment to a medical center for sponsorship of a golf tournament totaling $4,288. The same amount is projected for 1997. Staff believes that these types of expenses are social in nature or are image building in nature and should not be recovered from the ratepayers of Florida. Therefore, Staff recommends that all of the allocated amount should be removed from operating expenses for ratemaking purposes.

(D) **Start-Up Costs for SCADA Allocated From NUI** - In determining 1996 projected costs for Account 877, Measuring and Regulating Station Expenses for City Gas, the Company removed SCADA costs related to start-up as non-recurring. The SCADA charges were from BellSouth for service performed related to the start-up of the system. In allocations from NUI in 1996, $6,267 was allocated to City Gas for an invoice from Teledyne Brown for services performed for start-up of the SCADA System. The same amount is projected for 1997. Staff believes that if Company removes the charges from BellSouth as non-recurring, all invoices associated with the SCADA system start-up should be removed for ratemaking purposes also. Therefore, $6,267 should be removed from operating expense associated with the SCADA start-up costs.

(E) **Compressed Natural Gas Expenses Allocated From NUI** - The allocations to City Gas from NUI Corporate included charges for maintenance of filling and compression equipment owned by Elizabethtown Gas and used by its customer Wakefern Foods for their Liquified Natural Gas vehicles. Staff believes that since these charges were directly incurred by Elizabethtown for its customer's use, the costs should not be borne by the ratepayers of Florida. Therefore, the entire amount allocated to City Gas, $809, should be removed from operating expenses.

(F) **Automobile Leases Allocated From NUI** - For the first six months of 1996, NUI incurred $33,942 in automobile lease expenses for six of its executives. A seventh vehicle, a van, was allocated from NUI. This van is used for office deliveries and services by the Office Clerk, therefore, it should not be included in this analysis of executive automobile lease allocations. The monthly lease payments and types of automobiles for the six executives range from a 1995 Dodge Intrepid costing $359.27 per month, to a 1993 Acura Legend costing $888 per month. For the second six months of 1996, the Company projects the expense to be $42,000, for a total projected 1996 expense of $75,942. In addition, the $42,000 for the second six months, reflects the Company's increase in the monthly payment projection to $1,000 per vehicle. The same $75,942 amount is projected to be incurred in 1997. It is projected that $12,919 of this amount will subsequently be allocated to City Gas for 1997. Overall, the average yearly price per executive car allocated to City Gas is projected to be $2,126 for 1996 and 1997.

City Gas asserts that the high lease payments are not related to leasing "luxury automobiles," but rather because the prices are calculated based upon an accelerated lease schedule. NUI provides for the accelerated amortization of the cost of the vehicles and the option for each officer to purchase his or her vehicle at the book value at the end of the lease. The difference between book value and market value, at the end of the lease, is considered executive compensation and is included in the employee's taxable income. The Company's vehicle policy makes distinctions, with officer personnel being provided either a $20,000 vehicle, a $25,000 vehicle or a $30,000 vehicle depending upon their capacities and responsibilities as an officer, as distinguished by title. Only the CEO of NUI Corporation, the Board Chairman and Division Presidents, or the upper tier, are authorized to be provided a $30,000 vehicle at company cost. Vice Presidents, or the middle tier, are authorized to be provided a $25,000 vehicle at company cost. Finally, members of the lower tier, including other officers, key employees and Assistant Vice Presidents, are authorized to be provided a $20,000 vehicle at company cost.

Staff does not contend that the payments are high. Rather, Staff believes that the ratepayers of Florida should not have to pay for the higher grade of cars. It is reasonable to give each member of a tier of executives the same type of car or cars with equal costs to the Company. Therefore, the Company should be allowed to recover only the lowest price paid for any executive's car within each tier. For the upper tier, that car would be the 1994 Lincoln Town Car which costs NUI Corporate $9,946 ($828.80 * 12) per year. For the middle tier, that car would be the 1996 Ford Explorer which costs NUI Corporate $5,429 ($452.38 * 12) per year. There were no costs allocated for lower tier executives' cars. It is projected that $12,919 in lease expenses would be allocated to City Gas in 1997, however, only $8,047 should be allowed. Therefore, $4,872 should be removed from operating expense for these excess automobile lease expenses. The following table shows the calculation of the recommended adjustment.

Automobile Leases from NUI	**Amount**
2 Upper Tier Executives:	
Yearly Cost of Lincoln Town Car	$9,946
Times Two Cars	2
Total Yearly Cost to Allocate	$19,891
4 Middle Tier Executives:	
Yearly Cost of Ford Explorer	$5,429
Times Four Cars	4
Total Yearly Cost to Allocate	$21,716
TOTAL Yearly Cost to Allocate	$41,607
Allocation Factor for City Gas-Reg.	19.34%
Amount to Allocate to City Gas	$8,047
Amount Allocated to City Gas	12,919
Amount to be Removed	$4,872

(G) - Elizabethtown Charges Allocated From NUI - Charges for envelopes and safety brochures that directly relate to Elizabethtown operations were allocated to City Gas in 1996. These amounts were not removed for projection purposes; therefore, the charges are included in the Company estimate of 1997 expenses. These amounts should not be recovered from the ratepayers of Florida because they are directly related to the operations of Elizabethtown Gas. Therefore, operating expenses should be reduced by $3,032.

(H) - Position Vacancies Allocated From NUI - For 1997, NUI allocated $11,628 ($60,000 * 19.38%) of the estimated cost of a Data Base Administrator position that NUI expected to fill for 1996 and 1997. The position has yet to be filled; however, the Company expects it to be filled by January 1, 1997. It is Staff's recommendation that three months of the cost be removed for ratemaking purposes because the Company will, at most, incur only nine months of expense for 1997. Therefore, $2,907 ($11,628 * 3/12) of the expense allocated to City Gas should be removed.

The following table summarizes the above recommended changes.

Adjustment	Amount
(A) NUI Corporate Charges to Account 912/913	$36,575
(B) Charitable Contributions Expense Allocated From NUI	2,929
(C) Miscellaneous Items Expense Allocated From NUI	4,288
(D) Start-Up Costs for SCADA Allocated From NUI	6,267
(E) Compressed Natural Gas Expenses Allocated From NUI	809
(F) Automobile Lease Expenses Allocated From NUI	4,872
(G) Elizabethtown Charges Allocated From NUI	3,032
(H) Position Vacancies Allocated From NUI	2,907
TOTAL NUI and Elizabethtown Expenses to be Removed	$61,679

ISSUE 41: Should an adjustment be made to reduce the amount of expense allocated from the NUI-Southern Division General Office?

RECOMMENDATION: Yes. $80,447 should be removed for Southern Division General Office expenses allocated to City Gas for 1997. (BOYER)

STAFF ANALYSIS: There are two adjustments that should be made for Southern Division expenses. The first is for an employee's salary which was recorded twice, once in the Regulatory Affairs area and once in the Division of Administration area. The employee's salary correctly belongs in Regulatory Affairs. Therefore, operating expense should be reduced by $35,158.

The second is for the general Southern Division expenses that are allocated to City Gas. The amount allocated in the Company's MFRs was $1,083,336. That amount is based upon the old 3-Factor allocations. Staff recalculated the amount to be allocated based upon the new 3-Factor allocations and determined that the new amount should be $1,038,047. Therefore, an additional $45,289 in Southern Division General Office expenses should be removed for ratemaking purposes.

ISSUE 42: Should an adjustment be made to Account 923, Outside Professional Services, to correct the amortization of Morris' and Reynolds' legal fees?

RECOMMENDATION: Yes. Reduce expenses in Account 923, Outside Services, by $3,535. (REVELL)

STAFF ANALYSIS: The law firm of Morris and Reynolds monitors and handles claims for the Company's self-insurance program. The Company uses a monthly amortization rate for the yearly fees this firm charges. The Company used the wrong amortization rate for expenses for the period October 1995-March 1996. This period was doubled and then trended by the general inflation rate to arrive at 1997 expenses. The difference between what the Company amortized and the proper amount was $1,716 too high. Doubling these fees to arrive at the yearly figure is $3,432, and with trending for inflation at 3% equals $3,535.

Staff recommends that expenses in Account 923, Legal Fees, be reduced by $3,535.

ISSUE 43: Should an adjustment be made to Account 923, Outside Professional Services, to remove charges related to the ESOP trust consultant?

RECOMMENDATION: Yes. Account 923, Outside Services, should be reduced by $1,200. (REVELL, C. ROMIG)

STAFF ANALYSIS: Account 923, Outside Services, contains $20,000 in expenses for the six-month period of October 1995-March 1996 for actuarial services relating to the Company's ESOP. This amount was annualized to $40,000 and trended at 3% for 1997. The projected 1997 expense is $41,200. The ESOP was terminated prior to the beginning of the projected test year, but the final dissolution of the trust has been held up by litigation relating to the proper amount of payouts. The disclosure indicates that this litigation may continue through the projected test year. The Company has indicated that, until the matter is resolved by the courts, certain pension expenses will continue. Staff recommends that these expenses related to the ESOP be continued. However the consultant is under contract; therefore the expenses should not be trended. Account 923 should be reduced $1,200 to remove the effects of trending into the projected test year.

ISSUE 44: Should an adjustment be made for legal fees in Account 923?

RECOMMENDATION: Yes, reduce Account 923, Outside Services, by $72,419 for legal fees. (REVELL, MILLS)

STAFF ANALYSIS: The Company legal fees in Account 923 have increased from $93,313 in fiscal year 1993 to $207,537 in fiscal 1996. The legal expenses in this account for 1996 do not relate to the present rate case. Since 1993, the Company has grown larger, with a resulting larger legal need. Staff also believes that legal fees are an expense that are not necessarily "trendable" from one year to the next. The proper approach is to calculate a reasonable level of legal expenses for the projected test year. A multi-year average is the approach Staff used to calculate a reasonable level for this expense. The expenses for 1993 are far lower than 1996. In that year the Company was smaller and under different ownership. Staff believes that the period of 1994-1996 is representative of legal expenses for the projected test year. The average for these years is $153,758, without reducing the yearly expenses for any nonrecurring items.

We believe that there will probably be items which could be considered nonrecurring every year. To exclude such nonrecurring items would tend to understate expenses. For that reason, our calculation of the multi-year average includes all non-rate case legal fees that the Company incurred. Staff therefore recommends that the Company be allowed the 1994-1996 average of $153,758 for legal fees in Account 923. Since the Company requested $226,177, Account 923, Outside Services, should be reduced $72,419.

ISSUE 45: Should an adjustment be made to Account 925, Injuries and Damages, to correct an overestimate of insurance premiums?

RECOMMENDATION: Yes. Account 925, Inquiries and Damages should be reduced $6,918 to correct an overestimate of insurance premiums. (L. ROMIG)

STAFF ANALYSIS: The Company's 1996 estimate of insurance expense includes a payment to Aegis Insurance Services for $708,955 for excess liability coverage. The amount actually paid was $700,946, a difference of $8,009 or $8,249 for 1997 after trending for inflation. Therefore, it would be appropriate to reduce 1997 total expenses $8,249, or regulated expenses $6,918. This was agreed to by the Company in its response to Staff's Audit Report.

ISSUE 46: What adjustments should be made to Account 926, Employee Pensions and Benefits?

RECOMMENDATION: The net amount of Account 926, Employee Pensions and Benefits, should be decreased by $128,630. (C. ROMIG)

STAFF ANALYSIS: As discussed in Audit Exception No. 6, the Company's presentation of Account 926 in its MFRs is:

Projected Employee Benefits	$1,289,816
Contra-expense	(99,706)
Amount remaining in O & M	$1,190,110

Further, in its A&G allocation, the Company applied its calculated .1135 nonutility factor to the remaining $1,190,110 and deducted another $135,077 (.1135 * $1,190,110). Therefore, in total, the Company has deducted $234,783 in payroll taxes and employee pensions and benefits from the operating costs reflected in its MFRs ($99,706 plus $135,077).

First, based on the Company's MFRs and its method of calculating the benefits factor, the Company's contra-expense should have been $188,700 instead of the $99,706. Further, the A&G allocation of $135,077 should not have been made. Staff's correction of the A&G allocation is being addressed in a subsequent issue that adjusts operating expenses for non-utility operations. Staff's calculation of the MFR correction for Account 926, Employee Pensions and Benefits, follows.

Payroll Benefits	
Projected benefits in Acct. 926	$1,289,816
Projected P/R tax in Acct. 408	566,484
Total Payroll Benefits	$1,856,300 (a)
Projected Payroll	
Projected O & M payroll	$6,626,010
Projected ECP payroll	186,921 (c)
Projected Capitalized payroll	239,040 (c)
Projected Non-regulated payroll	323,817 (c)
Total projected payroll	$7,375,788 (b)
Payroll Tax & Benefit Factor (a/b)	25.17%
Proj. non-O&M payroll-sum of (c)s	$ 749,778
Correct Proj. non-O&M benefits	$ 188,700
Amount non-O&M benefits per MFRs	$ 99,706
Correction to MFRs	$ 88,994

The $188,700 should have been the amount of the contra-expense instead of the $99,706. Therefore, to correct the MFR error, Staff recommends increasing the contra-expense adjustment, or reducing the net Account 926, by $88,994.

Staff does not agree with the method City uses to remove the non-O&M payroll taxes related to capitalized payroll, nonregulated payroll, and other non-O&M payroll from its expense accounts. As discussed in a subsequent issue regarding payroll taxes, the Company's method results in the current operating period overstatement of Taxes-Other and understatement of Employee Pensions & Benefits. However, for simplicity, Staff used the same methodology for its adjustment.

Second, in addition to the adjustments above and as also discussed in Audit Disclosure No. 6, the Company neglected to remove through application of the payroll tax/benefits factor, the non-regulated payroll taxes related to the non-regulated payroll in certain accounts. The Company did make the non-regulated payroll adjustments; it did not make the related payroll/benefit adjustments. Staff's recommended payroll/benefit adjustment that follows is based on the MFR payroll dollars in each account and Staff's recommended revised allocation factors, discussed elsewhere in this recommendation. The result is an additional increase to the contra-expense adjustment, or a reduction to the net Account 926, of $26,943. The calculation follows.

Account	Payroll	Percent Non-Reg.	Dollars Non-Reg.
879	262,104	9.99	$ 26,179
901	225,678	1.44	3,250
903	958,764	1.44	13,806
920	395,337	16.14	63,807
Total non-reg. dollars in accounts			$107,042
Payroll Tax/Benefits Factor			.2517
Additional amount non-O&M			$ 26,943

Third, in other issues, Staff recommends several adjustments that in total decrease payroll by $70,037. A specific payroll tax/benefit adjustment of $3,914 and application of the payroll tax/benefit factor of 25.17% to the balance of the payroll dollars results in a further increase to the contra-expense account, or a reduction to the net Account 926, of $12,693.

In summary, Staff recommends that Account 926 be reduced by $128,630, which is the sum of the adjustments described above.

ISSUE 47: Should an adjustment be made to Account 926, Employee Benefits, for training programs?

RECOMMENDATION: Yes. Reduce expenses in Account 926 by $2,665. (REVELL, MILLS)

STAFF ANALYSIS: The Company has a number of training programs for employees. These training programs include such programs as diversity in the work place, sexual harassment classes, management training, and computer software training. In 1996, the Company incurred expenses for Windows, word processing and Excel spreadsheet training because the Company changed their computer system. Staff has reviewed the projected training programs and finds them to be reasonable in cost and appropriate in nature.

Prior to 1996, there was very little emphasis on training. NUI has determined that a highly trained workforce is desirable; and, since it's acquisition of the company, has greatly increased the training budget. For 1996, the Company spent $64,989 on training, almost $50,000 more than in 1995. For 1997, the Company has budgeted $67,654. Rather than focus on individual training programs, determining an overall level of expenses for training is more appropriate for setting rates.

Since the Company has placed a higher degree of importance on training than in the past, and these expenses are expected to continue for the indefinite future, Staff recommends that the allowable expenses for 1997 be set at the 1996 actual expenditure level of $64,989. Using a multi-year average, in this instance, will not properly reflect the projected training expenses, since the Company's new emphasis on training would not be properly reflected in the average.

Staff therefore, believes that allowable expenses for training should be set at $64,989. Since the Company has budgeted $67,654 for training during the 1997 projected year, Staff recommends that expenses in Account 926 be reduced $2,665.

ISSUE 48: This issue is contested and has been moved to the front of the recommendation.

ISSUE 49: Should an adjustment be made to Miscellaneous General Expense, Account 930?

RECOMMENDATION: Yes. Reduce Account 930 by $5,181. (REVELL)

STAFF ANALYSIS: Audit Disclosure 6 of the Supplemental Audit states that Account 930 contains $5,998 in expenses for tickets to Florida Marlins baseball games. This amount was trended at 3% and is in the 1997 projected test year in the amount of $6,178. Since this expense does not benefit ratepayers, Staff recommends that expenses in Account 930 be reduced by $6,178. However, $997 has been removed in another issue. Staff recommends a further reduction of $5,181. This additional amount represents the regulated portion of the adjustment.

ISSUE 50: Should an adjustment be made to Account 930.2, Miscellaneous General Expenses, for American Gas Association (AGA) dues?

RECOMMENDATION: Yes, increase expenses in Account 930.2 by $28,568. (REVELL)

STAFF ANALYSIS: The Company projected AGA expenses of $22,893 for 1997. The Company later revised the projection upwards to $62,927. Staff believes that a portion of these dues will be used for lobbying and promotional advertising which is normally removed for rate making purposes. As a result, Staff is recommending that 90% of AGA dues be allowed. This percentage is a judgmental call. In prior cases Staff has recommended that a far larger percentage be disallowed.

The AGA has recently lost a number of its largest contributors, mainly large pipeline operators, which represented at least 20% of the total budget. As a result, the AGA no longer has the personnel nor the budget to lobby or produce the type of advertising that the Commission has traditionally disallowed. It is expected that the main focus in the future will be the local distribution companies, such as City Gas.

Additionally, the latest NARUC audit of the AGA does not reflect these operating changes which are expected to occur in the future, but Staff does expect that certain lobbying activities will still be a part of the mission for the AGA. Staff is recommending 90% recovery of expenses to recognize that changes in AGA practices have occurred, but still recognizing the fact that it is a trade organization and promotion of the industry will still occur.

If this percentage is applied to the Company's revised yearly dues of $62,927, the allowed amount for AGA dues is $56,959. Since the Company budgeted $22,893, Staff recommends that expenses in Account 930.2 for AGA dues be increased $34,066. ($56,959-$22,893) However, $5,498 has been added in another issue. Staff recommends a further increase in expenses in Account 930.2 of $28,568.

ISSUE 51: Is the City Gas Company Employee Stock Ownership Plan (ESOP) being terminated appropriately?

RECOMMENDATION: Yes. (C. ROMIG)

STAFF ANALYSIS: City Gas initially established its ESOP in 1985. The ESOP was intended as a stock bonus plan and typically enhanced its employee compensation package by about 15 percent. In 1987, the ESOP borrowed funds to purchase City Gas common stock from City Gas. The loan was secured by a guarantee from Essel Corporation, a subsidiary of City Gas. In 1988, when City Gas merged into Elizabethtown Gas Company, the shares of City Gas common stock were exchanged for shares of National Utility Investors (NUI), including those shares held by the ESOP.

In 1993, Elizabethtown merged into NUI. According to the Company, as a result of the reorganization following the merger of Elizabethtown into NUI, NUI began considering how best to bring the benefit plans of City Gas into conformity with the rest of the organization. On March 30, 1995, the Company announced that it would no longer be adding contributions to the ESOP, constituting the "termination" of the plan. Because no contributions to the ESOP were added after March, 1995, no ESOP costs are included in either the 1996 fiscal year or the projected 1997 test year.

Nonetheless, on July 22, 1996, the Commission received a copy of a letter from a concerned ESOP Participant to the ESOP Plan Administrator. As a result of that letter, Staff examined the ESOP and its termination.

Staff's examination was limited to numerous inquiries of the Company, review of the Company's responses to Staff's interrogatories and review of copies of correspondence that document the history of the plan and its termination. Staff's examination disclosed the following information.

1. During the ESOP fiscal year ending March 31, 1995, City Gas made contributions to the plan of $556,000, the final contribution being made on February 27, 1995.

2. By letter dated March 30, 1995, NUI notified the ESOP Plan Participants that NUI had decided to terminate the ESOP effective March 30, 1995. Further, that in its place, NUI would make a 401 (k) plan available to all ESOP Participants and would conduct a study of employees' compensation.

3. As of March 30, 1995, the $556,000 had been used to purchase retiring Participants' shares, who opted for cash on

retirement, and to purchase shares from the open market. Also, as of the March 30, 1995 termination date, the outstanding balance on the ESOP loan exceeded the market value of the unallocated shares held in the plan that were pledged as collateral for the loan. Therefore, when the plan was terminated, City Gas concluded it would seek guidance from the IRS as to whether shares purchased with this $556,000 could be used to repay the exempt loan, or whether the shares were required to be allocated to Participants' accounts.

In the meantime, the principle and interest payments on the loan were made from the cash dividends on both allocated and unallocated common stock held by the plan. As principle was repaid, the shares that were released were allocated to the Participants' accounts such that the participants received an allocation of employer securities, the fair market value of which was equal to the amount of the dividend. Pending receipt of an Internal Revenue Service (IRS) private letter ruling (PLR) as to City Gas' ability to use $556,000 to repay the exempt loan, this amount was credited to a hypothetical "Excess Account."

4. On June 30, 1995, Pitney, Hardin, Kipp and Szuch, Attorneys, (Pitney) submitted to the IRS a request for a "determination letter with respect to the ESOP's qualification under the Internal Revenue Code as of its termination." According to a subsequent letter dated March 1, 1996, from Pitney to the IRS, "the ESOP cannot make distributions on account of termination until it receives the favorable determination letter from the IRS."

5. On April 30, 1996, the IRS issued its favorable determination letter.

6. On July 12, 1996, City Gas wrote to the ESOP Participants, stating that the ESOP Committee had instructed the Trustee of the plan to make a partial distribution of vested account balances to those Participants who had submitted their distribution election forms. Further, the partial distribution would be based upon the share balances in each Participant's account as of March 31, 1994.

7. On April 16, 1996, on behalf of NUI, Pitney requested an expedited IRS private letter ruling to determine (1) its ability to use the $556,000 contribution to repay the securities acquisition loan; (2) the deductibility of such contribution; and (3) whether Participants are entitled to allocations of employer securities from the suspense account as a result of the loan repayments that were made from dividends on allocated securities following termination of the plan. Letters from NUI's attorneys to the IRS, dated August 21, 1996 and September 12, 1996, referenced meetings

and telephone conversations with the IRS and supplemented the original private letter ruling request.

8. On October 7, 1996, the IRS issued its private letter ruling that allows the trustee (without penalty) to sell the stock in the "excess account" on the open market and to use the funds from the sale of that stock to repay the trust debt. Repayment of the debt will unencumber a corresponding number of shares from the suspense account and allow them to be allocated to the Participants' accounts. The trustee will then sell all remaining unallocated shares in the suspense account and use the proceeds to repay the exempt loan. All remaining proceeds in the suspense account will be allocated to the Participants' accounts.

The Company anticipates that the loan will be repaid and the allocations of shares to the Participants' accounts will be completed within four weeks, or mid-November, 1996. However, the actual final distributions from the Participants' accounts to the Participants may be held up pending resolution of a lawsuit by two former employees. Although the Company believes the lawsuit to be without merit, it believes that the Plan must defend this action and establish appropriate reserves in the event that the two former employees prevail in the lawsuit, in which case there could be less than full value to be distributed to the other ESOP Participants.

Correspondence reviewed substantiates that the Company has participated in a continuous discourse with the ESOP Participants, keeping them abreast of the Company's progress through the IRS determination process, the status of the private letter ruling request, and the status of the former employees' litigation. Further, during the period May 30, 1995 to date, correspondence substantiates that City Gas held numerous employee meetings, brought in investment advisors to meet with its employees, and in general, kept the ESOP Participants informed of the status of the termination and distribution process.

The projected test year has been prepared on the basis that the loan has been paid off and removed from the Company's books along with any unearned employee compensation, as if the allocations were complete. Accordingly, with respect to the ESOP, the projected test year is prepared in accordance with GAAP.

Based on the above, Staff believes that the Company has been working diligently toward dissolving the ESOP and believes that the ESOP is being terminated appropriately.

DOCKET NO. 960502-GU
DATE: October 17, 1996

ISSUE 52: Should an adjustment be made to reduce operating expenses for amounts associated with non-utility operations?

RECOMMENDATION: Yes. Operating expenses should be decreased by $59,399 for amounts that are associated with non-utility operations. (BOYER)

STAFF ANALYSIS: There were two amounts identified by Staff auditors in their rate case audit report for the forecasted test year ended September 30, 1997 which Staff believes should be removed for ratemaking purposes. The first, described in Audit Disclosure No. 5, was to allocate an additional amount of operating expenses to non-utility. The second, described in Audit Exception No. 4, was for transportation expenses that were not being allocated to non-utility operations. Attachment 8 summarizes the recommended changes.

(A) Non-Utility Operating Expenses -

(1) Non-Utility A&G Expenses - In its MFRs, City Gas allocated $406,487, or 11.35%, of its $3,581,386 forecasted 1997 expenses to non-utility operations. The 11.35% is a payroll distribution factor which is calculated based on the payroll directly allocated for non-utility operations. Staff believes that the Company should be allocating these expenses based upon the 3-Factor method which is calculated based upon payroll, plant and the number of customers that are non-utility in nature. The revised 3-Factor percentage for 1997 is 16.14%.

In addition, the Company allocated a portion of Account 926, Employee Benefits, to non-regulated in its calculation of the appropriate Account 926 amount for ratemaking purposes, as well as in its calculation of the $406,487 adjustment for non-utility A&G expenses. Staff will address the Account 926 amount in Issue 49. For non-utility A&G expense purposes, Staff believes it is more appropriate to exclude the $1,190,110 amount, for Account 926, from the calculation because non-utility expense associated with Account 926 is being determined elsewhere. Therefore, the amount of expense to allocate to non-utility, based upon the 16.14%, is $2,391,276 ($3,581,386 - $1,190,110). Using the corrected expense amount, it appears that the Company allocated too much expense to non-utility. For ratemaking purposes, operating expenses should be increased by $20,535.

(2) Other Non-Utility Expenses - In its calculation of the 11.35% relative percentage of payroll, the Company included customer records and collection activities payroll. However, in its allocation of costs to non-regulated operations, the Company did not allocate any portion of the customer accounts and collection expenses to non-regulated. The customer records and collection employees, whose expenses are shown in Account 903, answer questions and collect money relating to bills which include charges for leased appliances. Staff believes that a portion of the costs associated with these types of activities should be allocated to non-regulated. Account 903, which contains payroll for customer service employees and other customer service expenses, Account 901, which contains the salaries of supervisors for the customer service employees in Account 903, and Account 879, which contains the salaries of supervisors for the employees whose salaries get directly charged to non-regulated, should be allocated.

For Account 879, the costs should be allocated based upon the relative percentage of non-regulated payroll. For the first nine months of 1996, the Company recorded $146,400, or 9.99% ($146,400/$1,465,769), below-the-line. The factor represents the non-regulated percentage of payroll directly charged below-the-line for field service personnel. Operating expenses should be decreased by an additional $26,179 ($262,104 * 9.99%) associated with this account. In total, operating expenses should be decreased by $43,235 for other non-regulated expenses.

For Accounts 901 and 903, Staff was unable to determine the most appropriate allocation factor. Account 901 contains salaries for supervisors who oversee personnel who directly charge a portion of their time below-the-line, personnel who perform activities that are 100% regulated, and personnel who perform activities that are both regulated and non-regulated, such as bill processing. Account 903 contains charges for customer service activities that are regulated and non-regulated and it also contains payroll for personnel who perform regulated and non-regulated activities. The amounts in either account that should be allocated between regulated and non-regulated are not readily identifiable. Staff was unable to determine the most appropriate allocation factor to apply to these two accounts.

However, Staff believes that an adjustment should be made for ratemaking purposes to remove a portion of these accounts because there are costs in each account that should be allocated to non-regulated. Staff calculated an amount to remove as non-regulated which is based upon the percentage of non-regulated labor and overtime charged directly below-the-line for Customer Service personnel. Per the Company, for the first nine months of 1996, 1.44% ($25,918/$1,801,604) of the total Customer Service payroll costs were recorded directly below-the-line. Therefore, $17,056 ($1,184,440 * 1.44%) should be removed from operating expenses associated with these two accounts. Staff believes that City Gas should develop an allocation methodology which will identify and allocate the appropriate costs in these two accounts among regulated and non-regulated. Staff will review this methodology in the future.

(B) **Transportation Expenses** - During a review of transportation journal entries, Staff auditors determined that transportation expenses were not being allocated to non-regulated operations for the Miami and Brevard Customer Service Field divisions. City Gas has projected the 1997 expense to be $316,938. The Company is currently allocating a portion of the payroll expenses to non-regulated operations associated with these divisions. Staff believes that transportation costs should also be allocated to non-regulated and Company agrees.

City Gas believes that the allocation should be based upon the 8.9% non-regulated payroll percentage factor it developed. Staff agrees that the most appropriate allocation factor for these transportation expenses is one based upon payroll; however, the Company's factor does not include payroll for supervisors of those personnel whose payroll is directly recorded below-the-line as non-regulated. Staff has recalculated the factor to include the $43,235 ($26,179 + $17,056) in supervisory payroll as discussed in (A)(2) above. The revised factor is 9.99%. Staff believes that 9.99%, or $26,179 ($316,938 * 9.99%), in transportation expenses should be removed as non-regulated.

ISSUE 53: What are the appropriate trend factors to be used in deriving projected operating expenses and how should they be applied?

RECOMMENDATION: The appropriate trend factors to be used in deriving projected expenses in the projected test year include Payroll Wage Rate Increase (3.50 percent), General Inflation Rate (3.00 percent), Customer Growth Rate (3.44 percent), and Customer Growth plus Inflation Rate (6.54 percent). Staff agrees with the Company's application of the trend rates to the accounts. (MCNULTY, MERTA)

STAFF ANALYSIS: City Gas utilized several different trend factors to trend expenses from the Historic Base Year + 1 to the test year. These factors include the Payroll Wage Rate Increase (3.50 percent), General Inflation Rate (3.00 percent), and Customer Growth plus Inflation Rate (6.14 percent). These trend factors appear in Schedule G-2, Page 22 of 24. Each of these trend factors are multiplied by the appropriate Historic Base Year + 1 account-specific expenses to determine the growth in expenses expected during the test year.

The Company's payroll wage rate trend factor is 3.50 percent for the test year. City Gas employees appear to receive salary compensation which is well in the range of other gas utilities. Staff believes that the payroll wage rate trend factor proposed for the test year is appropriate.

City Gas applies a 3.00 percent general inflation factor to certain base year expense accounts to determine test year expenses, as shown in Schedule G-2, Pages 12 - 21. This inflation factor is consistent with the CPI-U consensus forecast for 1996 and 1997 (Blue Chip Economic Indicators, September, 1996). Staff believes the inflation factor proposed by City Gas is a reasonable projection of the test year's general inflation.

The Customer Growth plus Inflation Rate is the product of the customer growth rate and general inflation rate. The customer growth rate is calculated by dividing the total bills in the test year by the total bills in the previous year (Historic Base Year + 1). The Company has submitted updated data to correct the actual and forecasted number of bills in the Historic Base Year +1 (1,172,992) and the test year (1,213,297). The growth rate associated with the test year forecast is the ratio of these forecasts, or 3.44 percent. This corrected customer growth rate is larger than the as-filed customer growth rate (3.05 percent). The corrected customer growth rate multiplied times the Company's inflation factor (3.0%) results in a Customer plus Inflation Rate of 6.54 percent. Thus, Staff believes the appropriate Customer Plus Inflation Rate is 6.54 percent, rather than the as-filed rate of 6.14 percent.

Staff agrees with the Company's application of the trend rates to the O&M accounts.

ISSUE 54: Should the projected test year expense be adjusted for the effect of changing the trend factors?

RECOMMENDATION: Yes, projected test year expense should be increased by $4,556 for the effect of changing the trend factors. (MERTA)

STAFF ANALYSIS: In its MFRs, the Company applied trend rates that were different than Staff. As discussed in Issue 53, the Company used a 3.05 percent customer growth rate, while Staff used 3.44 percent; the Company used a 6.14 percent customer growth times inflation rate, while Staff used 6.54 percent. Therefore, an adjustment is necessary as a result of a calculation of the differences in trend rates. Staff recommends that expenses be increased by $4,556 for the effect of changing the trend factors.

ISSUE 55: This issue is contested and has been moved to the front of the recommendation.

ISSUE 56: Should an adjustment be made to depreciation expense based on using average monthly plant balances to compute the expense?

RECOMMENDATION: Yes. The projected test year depreciation expense should be increased by $13,766 and accumulated depreciation should be increased by $55,385. (JOHNSON)

STAFF ANALYSIS: In its original MFR filing, City Gas determined depreciation expense by using previous month balance. However, it has been the Commission's long-standing policy to calculate depreciation expense using average monthly plant balances (i.e. average month plant balance = beginning monthly balance + ending monthly balance divided by 2).

In response to Staff's Interrogatory No. 36, City Gas refiled its MFR schedules reflecting an average monthly balance calculation for depreciation expense. Based on this revised filing, the Staff determined the adjustment for the projected test year.

Total Amortization & Depreciation Expense per MFRS	$5,639,754
Total Amort. & Deprec. Expense per revised filing	$5,653,520
Difference	$ 13,766

Based on this calculation, the overall impact on the accumulated depreciation will be an increase of $55,385.

ISSUE 57: Should the Company be allowed to amortize its $50,000 contribution for the Compressed Natural Gas (CNG) airport project?

RECOMMENDATION: Yes. The Company should be allowed to recover its contribution at $5,000 per year for 10 years. (REVELL, MAKIN)

STAFF ANALYSIS: At the request of Miami International Airport, the Company contributed $50,000 for construction of a CNG fill station at the airport. With the high levels of traffic in the parking garages and under the several levels of arrival and departure drive-thrus, the pollution has reached levels that require masks or short worker shifts for personnel who work in these areas.

In the 1994 rate case, the Commission disallowed $300,000 in expenses for a fill station at the airport that the Company planned to build. When this amount was disallowed, the Company negotiated with the airport to find an alternate means to build the fill station. After a series of negotiations with the Miami Airport Authority, the Company agreed to contribute $50,000 for construction for which the airport authority would be responsible.

The Company sells natural gas to the airport authority under the NGVSS tariff rate set by the Commission. The sales price to end users, such as taxi operators and rental car shuttle operators, is whatever the airport authority deems appropriate. However, for the project to succeed, and the airport to justify its investment, the selling price must be no higher than the equivalent for gasoline.

The Company has made a business decision which, if successful, will reduce the unhealthy levels of pollution at the airport. Additionally, there are federal and state incentives encouraging the use of natural gas vehicles.

Staff recommends that the Company be allowed to recover its $50,000 contribution at the rate of $5,000 per year for 10 years.

ISSUE 58: What is the appropriate amount of projected test year Depreciation and Amortization Expense? Thic is a calculation based upon the decisions in preceding issues.

RECOMMENDATION: The appropriate amount of projected test year Depreciation and Amortization Expense is $4,630,668. (JOHNSON, MERTA)

STAFF ANALYSIS: This is a calculation based upon the decisions in preceding issues.

ISSUE 59: What adjustments should be made to payroll taxes based on payroll adjustments?

RECOMMENDATION: No adjustments to payroll taxes are appropriate because of the manner in which the Company records the allocation of its payroll taxes attached to capitalized payroll dollars, related to non-regulated activities, or otherwise excluded from O&M Expenses for ratemaking purposes. (C. ROMIG)

STAFF ANALYSIS: The Company currently reports gross payroll taxes in its Taxes-Other account. The payroll taxes "attached" to capitalized labor, ECP payroll and non-regulated payroll are combined with the other employee fringe benefits in Account 926, Employee Pensions and Benefits, (i.e., pension cost, group health and life insurance, training, etc.) and a combined benefit factor is developed. The combined benefit factor is then applied to the non-O&M payroll and Account No. 926 is credited through a contra-expense entry. The result is that if the allocation is done correctly, there is no bottom-line NOI effect. However, there is a misclassification between the payroll taxes included in Taxes-Other and Account 926, Employee Pensions and Benefits. The payroll taxes in Taxes-Other are overstated by the same amount that Account 926, Employee Pensions and Benefits, is understated.

Although Staff is recommending several payroll tax adjustments, Staff's adjustments are identified with the allocation of the gross payroll taxes, rather than the gross payroll taxes reported. Therefore, because of the manner in which the Company accomplishes its allocation, Staff's payroll tax adjustment is accounted for in the preceding issue addressing Account 926 adjustments, consistent with the method used by the Company.

On a prospective basis, Staff recommends that the Company be required to account for its Taxes-Other such that this account appropriately reflects the amount being expensed and that Account 926 not be credited with payroll taxes.

Although the Uniform System of Accounts does not appear to explicitly prohibit this manner of presentation, Staff believes that the Taxes-Other should reflect the gross amount and the net amount that is applicable to the operations of the current accounting cycle for its jurisdictional ratepayers. The same should be true of its accounting presentation of Account 926, Employee Pensions and Benefits.

ISSUE 60: What adjustments should be made to tangible tax based on other adjustments?

RECOMMENDATION: Tangible tax should be decreased by $403, which is the amount related to the artwork that Staff recommends be excluded from rate base in Issue 6. (C. ROMIG)

STAFF ANALYSIS: The Company included $35,828 in artwork in rate base in its MFRs. In Issue 6, Staff recommends that the artwork be removed. In its response to Staff Interrogatory No. 72, the Company identifies the amount of tangible tax associated with the artwork as $403, in the 1997 test year. Based on the recommended exclusion of the artwork, Staff recommends exclusion of the related tangible tax of $403.

ISSUE 61: What adjustments should be made to intangible tax based on other adjustments?

RECOMMENDATION: Intangible tax should be decreased by $120, based on Staff's recommended reduction to Accounts Receivable in Issue 19. (C. ROMIG)

STAFF ANALYSIS: On MFR C-30, the effective intangible tax rate is .00192, with which Staff agrees. In Issue 19, Staff recommends that accounts receivable be reduced by $62,456. Because intangible taxes are calculated and paid on accounts receivables, Staff believes it is appropriate to reflect the effect of the recommended reduction to City's accounts receivable on its intangible taxes. Accordingly, Staff recommends that intangible tax be decreased by $120 (.00192 * $62,456).

ISSUE 62: Should an adjustment be made to property taxes?

RECOMMENDATION: Yes. Property taxes should be reduced by $102,926. (C. ROMIG)

STAFF ANALYSIS: Audit Disclosure No. 29 states that the amount of 1997 property taxes included in its MFRs is calculated based on actual 1995 property taxes trended for plant growth and inflation. Staff examined actual bills during its audit and the 1996 proposed tax notices that were provided in response to a formal document request. Based on its examination of these documents, Staff believes that property tax increases are a function of plant growth only, rather than plant growth and inflation. For this reason, Staff recalculated the forecasted 1997 property taxes, excluding the inflation factor. This results in 1997 projected property taxes of $1,356,333, as compared to the $1,435,008 included in the Company's MFRs for 1997. In its response to the Audit Report, the Company supports this reasoning and the $78,675 resulting reduction to property taxes. For this reason, Staff recommends property taxes be reduced by $78,675.

Second, in response to Staff Request No. 20 and Staff Interrogatory No. 76, City acknowledged that it had neglected to remove property taxes of $10,761 related to the $1,569,059 of NUI South Plant, that was removed from the Company's projected test year. Staff recommends that property taxes be reduced by the $10,761.

Third, on MFR C-30, the 1994 effective real property tax rate is .022007, based on $929,909 of property taxes and a tax basis of $42,254,622. On the same MFR schedule, the 1995 effective real property tax rate is .017983, based on $995,660 of property taxes and a tax basis of $55,367,000. In response to Staff's Interrogatory No. 28, the Company states that it believes the appropriate factor to use for property taxes to be .0106. The calculation provided in the interrogatory response shows that .0106 is calculated by dividing projected 1997 property taxes of $1,435,008 by projected 1997 plant in service of $135,230,621. In its review of the property tax bills, Staff notes that the tax basis is substantially different from the gross plant basis in rate base. For this reason, Staff believes that it is appropriate to use the latter factor of .0106 when making property tax adjustments that correspond to gross plant adjustments. In previous issues, Staff recommends that plant be reduced by $848,852 for delayed projects, and by $423,801 for common plant allocations. Applying the .0106 factor to the Staff's recommended plant reductions of $1,272,653 ($848,852 plus $423,801) results in a corresponding reduction of $13,490 to property taxes.

In summary, Staff recommends that property taxes be reduced by $102,926, as detailed above.

ISSUE 63: Should an adjustment be made to regulatory assessment fees?

RECOMMENDATION: Yes. Regulatory assessment fees (RAFs) should be reduced by $42,657. RAFs should be reduced by $42,785 to correct a mistake in the Company's MFRs. This account should also be increased by $128 for other staff adjustments to revenues. (C. ROMIG)

STAFF ANALYSIS: As explained in Audit Exception No. 11, the Company's adjusted 1997 regulatory fees for 1997 are $155,012. Recalculation of the regulatory assessment fees based on the rate of .00375 and the Company's adjusted revenues of $29,927,144, yields adjusted regulatory assessment fees of $112,227. Therefore, the Staff Auditors recommend that regulatory assessment fees be reduced by $42,785 ($155,012 minus $112,227). In its response to the Audit Report, the Company expressed agreement with this adjustment. For this reason, Staff recommends that regulatory assessment fees be reduced by $42,785.

Further, in previous issues, Staff recommends that forecasted revenues be increased by $34,096. The related regulatory assessment fees are $128 ($34,096 * .00375). Therefore, regulatory assessment fees have been increased by $128.

In total, regulatory assessment fees should be reduced by $42,657 ($42,785 less 128).

ISSUE 64: What is the appropriate amount of Taxes-Other?

RECOMMENDATION: This is a calculation based upon the decisions in preceding issues. The appropriate amount of Taxes-Other is $2,047,286, based on the method used by the Company to account for non-utility, capitalized and other nonregulated/nonjurisdictional Taxes-Other. (C. ROMIG)

STAFF ANALYSIS: Company Adjusted Taxes-Other for 1997 of $2,193,392 should be decreased by $146,106 to $2,047,286. Staff's adjustments have been discussed in previous issues. A summary of the adjustment follows.

Type	Amount
Property taxes	$(102,926)
Intangible taxes	(120)
Regulatory assessment fees	(42,657)
Tangible personal property	(403)
	$(146,106)

ISSUE 65: This issue is contested and has been moved to the front of the recommendation.

ISSUE 66: This issue is contested and has been moved to the front of the recommendation.

REVENUE REQUIREMENTS

ISSUE 67: What is the appropriate test year revenue expansion factor to be used in calculating the revenue deficiency?

RECOMMENDATION: The appropriate revenue expansion factor is 1.6133. (Attachment 4) (L. ROMIG, C. ROMIG)

STAFF ANALYSIS: Calculation of the revenue expansion factor/net operating income multiplier as filed and as recommended by Staff is shown on Attachment 4.

ISSUE 68: This issue is contested and has been moved to the front of the recommendation.

OTHER ISSUES

ISSUE 69: Should any portion of the $2,151,503 interim increase granted by Order No. PSC-96-1113-FOF-GU, issued on September 3, 1996, be refunded to the customers?

RECOMMENDATION: No portion of the $2,151,503 interim revenue should be refunded. (REVELL)

STAFF ANALYSIS: In this docket, the requested interim test year was the 12 months ended September 30, 1995. The Commission granted the interim increase noted above to City Gas Company on August 13, 1996.

Commission Standard Operating Procedure (SOP) 1648 requires that any interim increase granted be reviewed when final rates are derived to determine if any portion should be returned to the ratepayers. The SOP states that if the test period for permanent rates significantly overlaps the interim period, the rate case review requirements can be used for affirmation of the interim increase.

In this case, interim rates went into effect September 12, 1996, approximately 2 1/2 weeks before the beginning of the projected 1997 fiscal test year, and will continue for approximately two months into the projected test year. Therefore the test period for permanent rates significantly overlaps the period interim rates are in effect. As the SOP states, the use of information used to determine rate case requirements has been subject to investigation by Staff to determine appropriateness for rate setting.

Staff believes that no refund of interim is required since the increase recommended for the projected test year exceeds the interim increase awarded and a portion of the projected test year will have expired before permanent rates take effect.

ISSUE 70: Should City Gas be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements and books and records that will be required as a result of the Commission's findings in this rate case?

RECOMMENDATION: Yes. The utility should be required to fully describe the entries and adjustments that will be either recorded or used in preparing reports submitted to the Commission. (L. ROMIG)

STAFF ANALYSIS: Various adjustments will be made to the records of City Gas as a result of findings in this rate case. City Gas should be required to fully describe the entries and adjustments that will be either recorded or used in preparing reports submitted to the Commission.

RATE DESIGN AND COST OF SERVICE

ISSUE 71: What are the appropriate billing determinants to be used in the projected test year? (MAKIN, GING, DILLMORE, MCNULTY)

RECOMMENDATION: The appropriate billing determinants to be used in the projected test year are indicated on Attachment No. 6.

STAFF ANALYSIS: MFR Schedule G-2, Pages 9 through 11 of 34, identify the projected test year billing determinants. However, based on the Company's customer and therm forecast updates provided to Staff, as well as Staff adjustments to properly account for the impact of normal weather, Staff has prepared schedules indicating the appropriate level of customers and therms by revenue class (Attachments 12 and 13). These adjustments are discussed in detail in the staff analysis of Issue 4.

ISSUE 72: What is the appropriate cost of service methodology to be used in allocating costs to the various rate classes?

RECOMMENDATION: Staff's cost of service methodology adjusted for adjustments made to rate base, operations and maintenance expense, and net operating income. (MAKIN, GING, DILLMORE)

STAFF ANALYSIS: The appropriate cost of service methodology to be used in allocating costs to the various rate classes is reflected in Staff's cost of service study included in Attachment 6. The study reflects the adjustments made to rate base, operations and maintenance expense, net operating income and projected test year base rate revenues.

ISSUE 73: If any revenue increase is granted, what should be the rates and charges for City Gas Company of Florida resulting from the allocation of the increase among customer classes?

RECOMMENDATION: The rates and charges are detailed on Attachment No. 7. (MAKIN, GING, DILLMORE)

STAFF ANALYSIS: These numbers are subject to change based upon the resolution of other issues.

ISSUE 74: Should the proposed reproduction charge of $25.00 for a copy the complete tariff book be approved?

RECOMMENDATION: Yes. (MAKIN, GING, DILLMORE)

STAFF ANALYSIS: Based on FERC's Order 636, there has been an increase in the number of third party suppliers of natural gas to end-use customers behind the city gate. Because of this increase, the Company has had numerous requests for copies of their complete tariff book. The proposed charge of $25.00 covers the cost of reproduction.

ISSUE 75: Should the Natural Gas Sales Vehicle Service and Natural Gas Vehicle Transportation Service rate schedules be modified from experimental to permanent?

RECOMMENDATION: Yes. (MAKIN, GING, DILLMORE)

STAFF ANALYSIS: In it's prior rate cases, Staff recommended approval of an experimental Natural Gas Vehicle Sales Service (NGVSS) rate schedule. City Gas has increased its NGVSS to five customers with gas usage over 90,000 therms and total revenue over $70,000 annually. The Company forecasts further growth in the NGVSS rate class, particularly with the Miami International Airport. State and Federal policies also support the use of natural gas as an alternative fuel source for motor vehicle fuel.

ISSUE 76: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open pending resolution of Issue 9. With respect to Issues 1 through 8 and Issues 10 through 75, a Notice Of Proposed Agency Action Order will be issued. This docket should also remain open if a substantially affected person timely files a protest to the proposed agency action. If a person other than the utility timely files a request for hearing, the requested rates should remain in effect subject to refund pending resolution of the hearing. (JOHNSON)

STAFF ANALYSIS: City Gas has asserted that an investigative audit requested by Staff pertaining to Issue 9 is privileged and protected from discovery. Staff has filed a Motion for In Camera Inspection. This docket should remain open until Issue 9 is resolved. The ruling on staff's Motion and review of the contents of the report will determine Staff's next steps in evaluating this issue. Upon completion of Staff's review of the investigative report and/or other analyses or actions deemed necessary, Staff will file a recommendation to address Issue 9.

With respect to Issues 1 through 8 and Issues 10 through 75, a person whose substantial interests are affected may request a Section 120.57, Florida Statues, hearing within 21 days from the issuance of the proposed agency action. Pursuant to Section 366.06(4), if a person other than the utility files a timely request for hearing, the requested rates should remain in effect subject to refund pending resolution of the hearing.

CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU
COMPARATIVE AVERAGE RATE BASES
PTY 09/30/97

ATTACHMENT 1
15-Oct-96

ISSUE NO.		COMPANY			STAFF	
		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
	PLANT IN SERVICE					
	UTILITY PLANT	133,117,813				
7 & 11	Reinstate original cost of Plant in Service		2,112,808		0	
	Allocable General Office Plant		1,226,473		0	
6	Artwork (399)				(35,828)	
8	Cancelled/delayed projects				(848,852)	
11	Ft. Pierce				52,811	
11	Western Energy				(716)	
11	Consolidated Gas				647,896	
	Total Plant-In-Service	133,117,813	3,339,281	136,457,094	(184,689)	136,272,405
12	COMMON PLANT ALLOCATED	0	(1,602,471)	(1,602,471)	(423,801)	(2,026,272)
	ACQUISITION ADJUSTMENT	29,500,785				
	NUI acquisition adjustment		(29,335,430)		0	
13	Miller acquisition adjustment		221,067		(221,067)	
11	Ft. Pierce acquisition adjustment		(34,800)		(47,822)	
11	Western Energy acquisition adjustment				9,945	
11	Consolidated Gas acquisition adjustment				452,910	
	Total Acquisition Adjustment	29,500,785	(29,149,163)	351,622	193,966	545,588
	PLANT HELD FOR FUTURE USE	2,112,808				
7 & 11	Reinstate original cost of plant		(2,112,808)			
	Total Plant Held For Future Use	2,112,808	(2,112,808)	0	0	0
	CONSTRUCTION WORK IN PROGRESS	2,255,833				
10	Huntington Development				(164,986)	
14	Cancelled/delayed projects				86,018	
	Total Construction Work In Progress	2,255,833	0	2,255,833	(78,968)	2,176,865
	TOTAL PLANT	166,987,239	(29,525,161)	137,462,078	(493,492)	136,968,586
	DEDUCTIONS					
	ACCUM. DEPR.- PLANT IN SERVICE	48,674,157				
	Allocable General Office Plant		418,427		0	
8	Cancelled/delayed projects				(1,897)	
11	Ft. Pierce				9,206	
11	Western Energy				58,836	
11	Consolidated Gas				989,181	
56	Calculation using average monthly balance				55,385	
	Total Accum. Depr.- Plant In Service	48,674,157	418,427	49,092,584	1,110,711	50,203,295
12	ACCUM DEPR. - COMMON PLANT	0	(453,385)	(453,385)	(149,033)	(602,418)
	ACCUM. DEPR. - ACQUISITION ADJ.	8,682,673				
	NUI acquisition adjustment		(8,254,620)		0	
13	Miller acquisition adjustment		36,365		(36,365)	
11	Ft. Pierce acquisition adjustment		(2,256)		(3,067)	
11	Western Energy acquisition adjustment				1,088	
11	Consolidated Gas acquisition adjustment				75,401	
16	Various LP acquisition adjustment				(25,033)	
	Total Accum. Depr. - Acquisition Adj.	8,682,673	(8,220,511)	462,162	12,024	474,186
17	CUSTOMER ADVANCES FOR CONSTR.	0	0	0	14,000	14,000
	TOTAL DEDUCTIONS	57,356,830	(8,255,469)	49,101,361	987,702	50,089,063
	NET UTILITY PLANT	109,630,409	(21,269,692)	88,360,717	(1,481,194)	86,879,523
	WORKING CAPITAL ALLOWANCE	(14,953,476)	21,025,506	6,072,030	(866,058)	5,205,972
	TOTAL RATE BASE	94,676,933	(244,186)	94,432,747	(2,347,252)	92,085,495

CITY GAS COMPANY
DOCKET NO. 960502-GU
COMPARATIVE WORKING CAPITAL COMPONENTS
PTY 09/30/97

ATTACHMENT 1A
15-Oct-96

ISSUE NO.		COMPANY AS FILED			STAFF	
		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
	WORKING CAPITAL	(14,953,476)				
	Nonutility property		(23,922,746)		0	
	Accum. Deprec. - nonutility property		11,222,165		0	
	Other Special Funds		(12,124)		0	
19	Customer Accts. Receivable - gas		(85,586)		(62,456)	
24	Other Receivables		(104,447)		9,287	
	Accum. Prov. Uncollectible Accts.		17,571		0	
	Receivables - Assoc. Companies		(1,135,966)		0	
	Merchandise		(142,027)		0	
	Interest Receivable		(1,918,630)		0	
	Unamortized debt expense		(1,185,910)		0	
	Unamortized rate case expense		(477,054)		0	
	Misc. Deferred Debits		(3,382,855)		0	
	Notes Payable		10,324,272		0	
	Accts. Payable to Assoc. Cos.		172,987		0	
	Customer Deposits		5,483,576		0	
22	Interest Accrued		1,281,253		0	
20	Allocation to nonregulated		(135,539)		(802,528)	
	Capital Leases - Current		16,342		(49,237)	
	Deferred Credits		25,010,224		0	
21	Conservation overrecovery				0	
23	Other Work in Progress				(7,929)	
25	Taxes Accrued				(22,151)	
35	Prepaid odorizing costs				73,053	
					(4,097)	
	TOTALS	(14,953,476)	21,025,506	6,072,030	(866,058)	5,205,972

CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU
PROJECTED TEST YEAR ENDING SEPTEMBER 30, 1997

ATTACHMENT 2
15-Oct-96

	PER BOOKS	CONSOLIDATED CAPITAL STRUCTURE	STAFF ADJUSTMENTS SPECIFIC	STAFF ADJUSTMENTS PRO RATA	ADJUSTED	WEIGHT	COST RATE	WEIGHTED COST
COMMON EQUITY	46,035,027	(2,857,820)	0	(11,365,566)	31,811,642	34.55%	11.30%	3.90%
PREFERRED STOCK	0		0	0	0	0.00%	0.00%	0.00%
LONG TERM DEBT	48,641,906	3,393,951	0	(13,697,434)	38,338,423	41.63%	7.50%	3.12%
SHORT TERM DEBT	10,324,272	(536,131)	0	(2,576,539)	7,211,602	7.83%	6.00%	0.47%
CUSTOMER DEPOSITS	5,483,576		0		5,483,576	5.95%	6.00%	0.36%
TAX CREDITS-ZERO COST	1,355,336		(5,262)		1,350,074	1.47%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	0		0		0	0.00%	0.00%	0.00%
ACC DEF INC TAXES-ZERO COST	18,978,320		(11,088,141)		7,890,179	8.57%	0.00%	0.00%
	$130,818,437	$0	($11,093,403)	(27,639,539)	$92,085,495	100.00%		7.85%

CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU
COMPARATIVE NOIs
PTY 09/30/97

15-Oct-96

			COMPANY		STAFF	
ISSUE NO.		TOTAL PER BOCKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
	OPERATING REVENUES	77,394,746				
	Remove cost of gas		(36,414,807)		0	
	Remove conservation costs		(1,184,611)		0	
	Remove revenue related taxes		(11,509,573)		0	
	Revenues due to growth	1,641,389				
4	Forecast of sales				18,071	
5	Connections and reconnections				16,015	
	TOTAL REVENUES	79,036,135	(49,108,991)	29,927,144	34,086	29,961,230
	OPERATING EXPENSES:					
	OPERATION & MAINTENANCE EXPENSE	56,218,367				
	Remove cost of gas		(36,278,251)		0	
	Remove conservation costs		(1,180,169)		0	
	Employee activities		(35,976)		0	
	Economic development activities		(743)		0	
	Prior rate case expense (928)		(161,667)		0	
48	Current rate case expense (928)		172,489		(46,809)	
52	A&G allocated to nonutility		(406,487)		(59,399)	
10	Huntington Development (912)		0		(16,113)	
34	Out of period/nonrecurring expenses		0		(56,995)	
35	Odorizing costs (874)		0		(5,003)	
36	Trending errors Accounts 902, 903		0		(25,651)	
37	Trending error Account 912		0		(6,321)	
38	Advertising expense (913)		0		(15,521)	
39	Reorganization expenses (921)		0		(16,110)	
40	Allocations from NUI and Elizabethtown (923)		0		(61,679)	
41	Allocations from NUI Southern Division (923)		0		(80,447)	
42	Legal fees amortization error (923)		0		(3,535)	
43	ESOP trust consultant (923)		0		(1,200)	
44	Level of legal expense (923)		0		(72,419)	
48	Correction of error (923)		0		(5,391)	
45	Overestimated insurance premiums (925)		0		(6,918)	
46	Employee Benefits, Account 926		0		(128,630)	
47	Training programs (926)		0		(2,665)	
49	Miscellaneous General Expense (930)		0		(5,181)	
50	AGA dues (930.2)		0		28,568	
54	Trend effect		0		4,556	
	TOTAL O & M EXPENSE	56,218,367	(37,890,804)	18,327,563	(582,863)	17,744,700

CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU
COMPARATIVE NOIs
PTY 09/30/97

15-Oct-96

ISSUE NO.		TOTAL PER BOOKS	COMPANY ADJS.	COMPANY ADJUSTED	STAFF ADJS.	STAFF ADJUSTED
	DEPRECIATION & AMORTIZATION	5,639,754				
	Remove NUI acquisition adjustment		(985,092)		0	
	Remove Ft. Pierce acquisition adjustment		(1,160)		0	
13	Remove Miller acquisition adjustment		7,368		(7,368)	
57	CNG fill station		5,000		0	
12	Common plant		(59,629)		(21,184)	
8	Cancelled/delayed projects		0		2,651	
11	Ft. Pierce				459	
11	Western Energy				869	
11	Consolidated Gas				35,234	
56	Calculation using average monthly balance				13,766	
	TOTAL DEPRECIATION & AMORT.	5,639,754	(1,033,513)	4,606,241	24,427	4,630,668
	TAXES OTHER THAN INCOME	2,334,390				
63	Regulatory assessment tax		(140,998)		(42,657)	
59	Payroll taxes		0		0	
	Revenue taxes	11,509,573	(11,509,573)		0	
60	Tangible taxes		0		(403)	
61	Intangible taxes		0		(120)	
62	Property taxes		0		(102,926)	
	TOTAL TAXES OTHER THAN INCOME	13,843,963	(11,650,571)	2,193,392	(146,106)	2,047,286
	INCOME TAX EXPENSE					
65	Income taxes - current & deferred	(652,782)	551,617		277,946	
	ITC Amortization	(12,168)				
65	Interest Synch/Rec. Adj.		397,447		56,317	
	TOTAL INCOME TAXES	(664,950)	949,064	284,114	334,263	618,377
	TOTAL OPERATING EXPENSES	75,037,134	(49,625,824)	25,411,310	(370,279)	25,041,031
	NET OPERATING INCOME	3,999,001	516,833	4,515,834	404,365	4,920,199

CITY GAS COMPANY OF FLORIDA
O&M FORECAST WORKSHEET - PROJECTED TEST YEAR CALCULATION

	TREND RATES:	BASE YEAR + 1 09/30/96	PROJECTED TEST YEAR 09/30/97
# 1	Payroll Wage Rate Increases	3.50%	3.50%
# 2	Wage Rate Increases & Staffing Change		
# 3	Inflation Only (CPI-U)	0.00%	3.00%
# 4	Customer Growth	2.55%	3.44%
#5	Inflation x Customer Growth	0.00%	6.54%

ACCOUNT	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
DISTRIBUTION EXPENSE				
870 Operation Supervision & Engineering				
Payroll trended	58,002	335,189	346,921	1
Payroll not trended	0	0	28,000	
Other trended	0	36,350	37,441	3
Other not trended				
Total	58,002	371,539	412,361	
871 Distribution Load Dispatching				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	0	0	
872 Compressor Station Labor & Expense				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	0	0	
873 Compressor Station Fuel & Power				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	0	0	
874 Main & Service Expense				
Payroll trended	294,864	763,062	789,769	1
Payroll not trended	0	0	55,000	
Other trended	408,574	74,635	76,874	3
			(5,003)	
Total	703,438	837,697	916,640	
875 Measuring & Regulating Station General				
Payroll trended	0	2,737	2,833	1
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	2,737	2,833	

CITY GAS COMPANY OF FLORIDA
O&M FORECAST WORKSHEET - PROJECTED TEST YEAR CALCULATION

Schedule 3A
15-Oct-96

	TREND RATES:	BASE YEAR + 1 09/30/96	PROJECTED TEST YEAR 09/30/97
# 1	Payroll Wage Rate Increases	3.50%	3.50%
# 2	Wage Rate Increases & Staffing Change		
# 3	Inflation Only (CPI-U)	0.00%	3.00%
# 4	Customer Growth	2.55%	3.44%
#5	Inflation x Customer Growth	0.00%	6.54%

ACCOUNT	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
876 Measure & Regulating Station Industrial				
Payroll trended	29,673	22,879	23,680	1
Other trended	8,857	2,567	2,644	3
Other not trended	0	0	0	
Total	38,530	25,446	26,324	
877 Measure & Regulating Station City Gate				
Payroll trended	359	5,670	5,868	1
Other trended	3,802	34,243	35,270	3
Other not trended	0	25,600	0	
Total	4,161	65,513	41,139	
878 Meter & House Regulator Expense				
Payroll trended	461,390	466,706	483,041	1
Other trended	367,236	313,992	323,412	3
Other not trended	0	0	0	
Total	828,626	780,698	806,452	
879 Customer Service Expense				
Payroll trended	1,322,130	1,111,119	1,123,829	1
Payroll not trended	0	0	55,000	
Other trended	910,142	414,449	390,183	3
Total	2,232,272	1,525,568	1,569,013	
880 Other Expense Maps & Records				
Payroll trended	531,999	454,693	470,607	1
Payroll not trended	0	0	29,500	
Other trended	548,672	588,244	605,891	3
Total	1,080,671	1,042,937	1,105,999	
881 Rents				
Payroll trended	0	0	0	
Other trended	3,453	0	0	
Other not trended	0	0	0	
Other not trended			0	
Total	3,453	0	0	
Total Distribution Expense	4,949,153	4,652,135	4,880,760	

CITY GAS COMPANY OF FLORIDA
O&M FORECAST WORKSHEET - PROJECTED TEST YEAR CALCULATION

Schedule 3A
15-Oct-96

	TREND RATES:	BASE YEAR + 1 09/30/96	PROJECTED TEST YEAR 09/30/97
# 1	Payroll Wage Rate Increases	3.50%	3.50%
# 2	Wage Rate Increases & Staffing Change		
# 3	Inflation Only (CPI-U)	0.00%	3.00%
# 4	Customer Growth	2.55%	3.44%
#5	Inflation x Customer Growth	0.00%	6.54%

ACCOUNT MAINTENANCE EXPENSE	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
885 Maintenance Supervision & Engineering				
Payroll trended	5,382	1,398	1,447	1
Other trended	0	13,052	13,444	3
Other not trended	0	0	0	
Total	5,382	14,450	14,890	
886 Maintenance of Structures & Improvements				
Payroll trended	0	1,951	2,019	1
Other trended	7,046	12,225	12,592	3
Other not trended	0	0	0	
Total	7,046	14,176	14,611	
887 Maintenance of Mains				
Payroll trended	19,803	112,668	116,611	1
Other trended	231,155	247,533	254,959	4
Other not trended	0	0	0	
Total	250,958	360,201	371,570	
888 Maintenance of Compressor Station Equip.				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	0	0	
889 Maintenance of Meas. & Reg. Station General				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	0	0	
890 Maintenance of Meas. & Reg. Station Industrial				
Payroll trended	3,241	12,086	12,509	1
Other trended	11,572	39,105	40,278	3
Other not trended	0	0	0	
Total	14,813	51,191	52,787	

CITY GAS COMPANY OF FLORIDA
O&M FORECAST WORKSHEET - PROJECTED TEST YEAR CALCULATION

Schedule 3A
15-Oct-96

	TREND RATES:	BASE YEAR + 1 09/30/96	PROJECTED TEST YEAR 09/30/97
# 1	Payroll Wage Rate Increases	3.50%	3.50%
# 2	Wage Rate Increases & Staffing Change		
# 3	Inflation Only (CPI-U)	0.00%	3.00%
# 4	Customer Growth	2.55%	3.44%
#5	Inflation x Customer Growth	0.00%	6.54%

ACCOUNT	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
891 Maintenance of Meas. & Reg. Station City Gate				
Payroll trended	22,006	31,762	32,874	1
Other trended	34,991	25,181	25,936	3
Other not trended	0	0	0	
Total	56,997	56,943	58,810	
892 Maintenance of Services				
Payroll trended	38,558	41,131	42,571	1
Other trended	43,740	125,087	128,840	3
Other not trended	0	0	0	
Total	82,298	166,218	171,410	
893 Maintenance of Meters & House Regulators				
Payroll trended	291,736	135,487	140,229	1
Other trended	241,929	104,202	107,328	3
Other not trended	0	0	0	
Total	533,665	239,689	247,557	
894 Maintenance of Other Equipment				
Payroll trended	5,778	0	0	1
Other trended	12,636	1,628	1,677	3
Other not trended	3	0	0	
Total	18,417	1,628	1,677	
Total Maintenance Expense	969,576	904,496	933,313	
CUSTOMER ACCOUNT EXPENSE				
901 Supervision				
Payroll trended	140,722	218,044	225,676	1
Other trended	0	17,376	18,513	5
Other not trended	0	0	(3,250)	
Total	140,722	235,420	240,938	
902 Meter Reading Expense				
Payroll trended	517,236	627,440	639,050	1
Payroll not trended	0	0	30,000	
Other trended	131,652	79,920	85,149	5
Total	648,888	707,360	754,200	

CITY GAS COMPANY OF FLORIDA
O&M FORECAST WORKSHEET - PROJECTED TEST YEAR CALCULATION

Schedule 3A
15-Oct-96

	TREND RATES:	BASE YEAR + 1 09/30/96	PROJECTED TEST YEAR 09/30/97
# 1	Payroll Wage Rate Increases	3.50%	3.50%
# 2	Wage Rate Increases & Staffing Change		
# 3	Inflation Only (CPI-U)	0.00%	3.00%
# 4	Customer Growth	2.55%	3.44%
#5	Inflation x Customer Growth	0.00%	6.54%

ACCOUNT	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
903 Customer Records & Collections				
Payroll trended	899,698	862,091	876,963	1
Payroll not trended	0	0	66,500	
Other trended	996,733	1,035,606	1,103,356	5
Other not trended	(135,329)			
Other not trended	(26,391)			
Other not trended			(55,888)	
Total	1,734,711	1,897,697	1,990,931	
904 Uncollectible Accounts				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	160,863	175,710	189,445	
Total	160,863	175,710	189,445	
905 Miscellaneous Customer Accounts				
Payroll trended	0	0	0	
Other trended	107,487	1,198	1,276	5
Other not trended	0	0	0	
Total	107,487	1,198	1,276	
Total Customer Account Expense	2,792,671	3,017,385	3,176,791	
SALES EXPENSE				
911 Supervision				
Payroll trended	131,427	116,563	120,643	1
Other trended	0	0	0	
Other not trended	0	0	0	
Total	131,427	116,563	120,643	
912 Selling & Demonstrating Expense				
Payroll trended	438,017	298,925	309,387	1
Payroll not trended	0	0	70,000	
Other trended	66,664	125,720	129,492	3
Other not trended	511,264	491,148	458,355	
Total	1,015,945	915,793	967,234	

	TREND RATES:	BASE YEAR + 1 09/30/96	PROJECTED TEST YEAR 09/30/97
# 1	Payroll Wage Rate Increases	3.50%	3.50%
# 2	Wage Rate Increases & Staffing Change		
# 3	Inflation Only (CPI-U)	0.00%	3.00%
# 4	Customer Growth	2.55%	3.44%
#5	Inflation x Customer Growth	0.00%	6.54%

ACCOUNT	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
913 Advertising Expense				
Payroll trended	0	0	0	
Other not trended	19,823	52,756	104,339	
Other not trended	0	0	(15,521)	
Other not trended			0	
Total	19,823	52,756	88,818	
916 Miscellaneous Sales Expense				
Payroll trended	150,511	43,764	45,296	1
Payroll not trended	0	0	26,700	
Other trended	25,597	5,930	6,108	3
Total	176,108	49,694	78,104	
Total Sales Expense	1,343,303	1,134,806	1,254,798	

ADMINISTRATIVE & GENERAL EXPENSES

ACCOUNT	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
920 Administrative & General Salaries				
Payroll trended	904,014	323,997	290,466	1
Payroll not trended	0	201,444	0	
Payroll not trended	0	0	60,000	
Other not trended			3,395	
Total	904,014	525,441	353,861	
921 Office Supplies & Expenses				
Payroll trended	0	0	0	
Other trended	452,709	563,968	514,956	3
Other not trended	0	0	(20,654)	
Other not trended			4,988	
Total	452,709	563,968	499,290	
922 Administrative Exp. Transferred-Credit				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	0	0	

CITY GAS COMPANY OF FLORIDA
O&M FORECAST WORKSHEET - PROJECTED TEST YEAR CALCULATION

Schedule 3A
15-Oct-96

	TREND RATES:	BASE YEAR + 1 09/30/96	PROJECTED TEST YEAR 09/30/97
# 1	Payroll Wage Rate Increases	3.50%	3.50%
# 2	Wage Rate Increases & Staffing Change		
# 3	Inflation Only (CPI-U)	0.00%	3.00%
# 4	Customer Growth	2.55%	3.44%
#5	Inflation x Customer Growth	0.00%	6.54%

ACCOUNT	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
923 Outside Services Employed				
Other not trended	1,968,998	3,132,849	3,009,134	
Other not trended	0	995,135	1,002,869	
Other trended	386,657	382,812	301,382	3
Other not trended	4,014	39,486	0	
Total	2,359,669	4,550,282	4,313,405	
924 Property Insurance				
Payroll trended	0	0	0	
Other trended	3,117	4,300	3,926	3
Other not trended	0	0	38	
Total	3,117	4,300	3,964	
925 Injuries & Damages				
Payroll trended	0	0	0	
Other trended	1,084,580	1,141,887	1,042,652	3
Other not trended	0	0	3,182	
Other not trended				
Total	1,084,580	1,141,887	1,045,834	
926 Employee Pensions/Benefits				
Payroll trended	15,087	50,418	52,183	1
Other trended	4,538	76,343	78,633	3
Other trended	1,024,057	1,120,149	989,365	
Other not trended	(254,516)	49,706	(228,336)	
Total	789,166	1,296,616	891,845	
927 Franchise Requirements				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	0	0	
928 Regulatory Commission Expense				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	150,235	247,581	172,489	
Other not trended			(46,809)	
Total	150,235	247,581	125,680	

CITY GAS COMPANY OF FLORIDA
O&M FORECAST WORKSHEET - PROJECTED TEST YEAR CALCULATION

Schedule 3A
15-Oct-96

	TREND RATES:	BASE YEAR + 1 09/30/96	PROJECTED TEST YEAR 09/30/97
# 1	Payroll Wage Rate Increases	3.50%	3.50%
# 2	Wage Rate Increases & Staffing Change		
# 3	Inflation Only (CPI-U)	0.00%	3.00%
# 4	Customer Growth	2.55%	3.44%
#5	Inflation x Customer Growth	0.00%	6.54%

ACCOUNT	BASE YEAR 1995	BASE YEAR + 1 1996	PROJECTED TEST YEAR 1997	TREND BASIS APPLIED
929 Duplicate Charges				
Payroll trended	0	0	0	
Other trended	0	0	0	
Other not trended	0	0	0	
Total	0	0	0	
930.1 General Advertising Expenses				
Payroll trended	0	0	0	
Other trended	16,320	8,711	7,954	3
Other not trended	0	0	(5,104)	
Total	16,320	8,711	2,850	
930.2 Miscellaneous General Expenses				
Payroll trended	0	0	0	
Other trended	97,523	89,996	81,516	3
Other not trended	0	0	29,364	
Total	97,523	89,996	110,880	
931 Rents				
Payroll trended	0	0	0	
Other not trended	48,329	91,972	81,533	
Other not trended	0	0	790	
Total	48,329	91,972	82,323	
935 Maintenance of General Plant				
Payroll trended	1,046	0	0	1
Other not trended	66,825	92,558	68,755	
Other not trended	0	0	351	
Total	67,871	92,558	69,106	
Total Administrative & General Expenses	5,973,533	8,613,312	7,499,038	
TOTAL OPERATION & MAINTENANCE EXPENSES	$16,028,236	$18,322,134	$17,744,700	

CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU
NET OPERATING INCOME MULTIPLIER
PTY 09/30/97

ATTACHMENT 4
15-Oct-96

DESCRIPTION	COMPANY PER FILING	STAFF
REVENUE REQUIREMENT	100.0000%	100.0000%
GROSS RECEIPTS TAX RATE	0.0000%	0.0000%
REGULATORY ASSESSMENT RATE	0.3750%	0.3750%
BAD DEBT RATE	0.2400%	0.2400%
NET BEFORE INCOME TAXES	99.3850%	99.3850%
STATE INCOME TAX RATE	5.5000%	5.5000%
STATE INCOME TAX	5.4662%	5.4662%
NET BEFORE FEDERAL INCOME TAXES	93.9188%	93.9188%
FEDERAL INCOME TAX RATE	34.0000%	34.0000%
FEDERAL INCOME TAX	31.9324%	31.9324%
REVENUE EXPANSION FACTOR	61.9864%	61.9864%
NET OPERATING INCOME MULTIPLIER	1.6133	1.6133

CITY GAS COMPANY OF FLORIDA
DOCKET 960502-GU
COMPARATIVE DEFICIENCY CALCULATIONS
PTY 09/30/97

ATTACHMENT 5
15-Oct-96

	COMPANY ADJUSTED	STAFF ADJUSTED
RATE BASE (AVERAGE)	$94,432,747	$92,085,495
RATE OF RETURN	X 8.25%	X 7.85%
REQUIRED NOI	$7,790,702	$7,228,711
Operating Revenues	29,927,144	29,961,230
Operating Expenses:		
Operation & Maintenance	18,327,563	17,744,700
Depreciation & Amortization	4,606,241	4,630,668
Amortization of Environ. Costs	0	0
Taxes Other than Income Taxes	2,193,392	2,047,286
Income Taxes	284,114	618,377
Total Operating Expenses	25,411,310	25,041,031
ACHIEVED NOI	4,515,834	4,920,199
NET REVENUE DEFICIENCY	3,274,868	2,308,512
REVENUE TAX FACTOR	1.6133	1.6133
REVENUE DEFICIENCY	$5,283,344	$3,724,323

COMPANY: CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU

ATTACHMENT 6

SCHEDULE – A (COST OF SERVICE)
CLASSIFICATION OF RATE BASE
(Page 1 of 2:PLANT)

	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
LOCAL STORAGE PLANT	0		0		100% capacity
INTANGIBLE PLANT:	678,353		678,353		•
PRODUCTION PLANT	0		0		•
DISTRIBUTION PLANT:					
374 Land and Land Rights	197,201		197,201		•
375 Structures and Improvements	1,152,473		1,152,473		•
376 Mains	80,709,559		80,709,559		•
377 Comp.Sta.Eq.	0		0		•
378 Meas.& Reg.Sta.Eq.-Gen	0		0		•
379 Meas.& Reg.Sta.Eq.-CG	2,674,730		2,674,730		•
380 Services	29,927,832	29,927,832			100% customer
381-382 Meters	9,028,902	9,028,902			•
383-384 House Regulators	3,204,314	3,204,314			•
385 Industrial Meas.& Reg.Eq.	1,810,386		1,810,386		100% capacity
386 Property on Customer Premises	0	0	0	0	ac 374-385
387 Other Equipment	158,310	51,859	106,451	0	ac 374-386
Total Distribution Plant	128,863,707	42,212,907	86,650,800	0	128863707
GENERAL PLANT:	5,249,661	2,624,831	2,624,831		50% customer,50%, capacity
PLANT ACQUISITIONS:	0		0		100% capacity
GAS PLANT FOR FUTURE USE:	0		0		•
CWIP:	2,176,865	713,093	1,463,772	0	dist.plant
TOTAL PLANT	136,968,586	45,550,830	91,417,756	0	136968586 checksum

COMPANY: CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU

ATTACHMENT 6

SCHEDULE - A (COST OF SERVICE)
CLASSIFICATION OF RATE BASE
(Page 2 of 2:ACCUMULATED DEPRECIATION)

	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
LOCAL STORAGE PLANT:	0	0	0	0	related plant
INTANGIBLE PLANT:	471,567	0	471,567	0	rel.plant account
PRODUCTION PLANT	0		0		•
DISTRIBUTION PLANT:					
375 Structures and Improvements	367,014	0	367,014	0	•
376 Mains	28,242,515	0	28,242,515	0	•
377 Compressor Sta. Eq.	0	0	0	0	•
378 Meas.& Reg.Sta. Eq.-Gen	0	0	0	0	•
379 Meas.& Reg.Sta. Eq.-CG	534,165	0	534,165	0	•
380 Services	12,388,140	12,388,140	0	0	•
381-382 Meters	3,830,643	3,830,643	0	0	•
383-384 House Regulators	1,290,158	1,290,158	0	0	•
385 Indust.Meas.& Reg.Sta.Eq.	458,357	0	458,357	0	•
386 Property on Customer Premises	0	0	0	0	•
387 Other Equipment	134,890	44,187	90,703	0	•
Total A.D. on Dist. Plant	47,245,882	17,553,128	29,692,754	0	47245882 checksum
GENERAL PLANT:	2,427,868	1,213,934	1,213,934	0	general plant
PLANT ACQUISITIONS:	0	0	0	0	plant acquisitions
RETIREMENT WORK IN PROGRESS:	(70,254)	(23,014)	(47,240)	0	distribution plant
TOTAL ACCUMULATED DEPRECIATION	50,075,063	18,744,048	31,331,015	0	50075063 checksum
NET PLANT (Plant less Accum.Dep.)	86,893,523	28,806,782	60,086,741	0	86893523 checksum
less:CUSTOMER ADVANCES	(14,000)	(7,000)	(7,000)		50% cust 50% cap
plus:WORKING CAPITAL	5,205,972	3,766,271	1,339,662	100,039	oper. and maint. exp.
equals:TOTAL RATE BASE	92,085,495	30,566,053	61,419,403	100,039	92085495 checksum

COMPANY: CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU

SCHEDULE – B (COST OF SERVICE)
CLASSIFICATION OF EXPENSES
(Page 1 of 2)

ATTACHMENT 6

OPERATIONS AND MAINTENANCE EXPENSES	TOTAL	CUSTOMER	CAPACITY	COMMODITY	CLASSIFIER
LOCAL STORAGE PLANT:	0	0	0	0	ac 301–320
PRODUCTION PLANT	0		0		100% capacity
DISTRIBUTION:					
870 Operation Supervision & Eng.	412,361	242,444	169,917	0	ac 871–879
871 Dist.Load Dispatch	0		0		100% capacity
872 Compr.Sta.Lab. & Ex.	0	0	0	0	ac 377
873 Compr.Sta.Fuel & Power	0			0	100% commodity
874 Mains and Services	916,639	247,954	668,685	0	ac376+ac380
875 Meas.& Reg. Sta.Eq.–Gen	0	0	0	0	ac 378
876 Meas.& Reg. Sta.Eq.–Ind.	29,157	0	29,157	0	ac 385
877 Meas.& Reg. Sta.Eq.–CG	41,139	0	41,139	0	ac 379
878 Meter and House Reg.	806,452	806,452	0	0	ac381+ac383
879 Customer Instal.	0	0	0	0	ac 386
880 Other Expenses	2,675,012	1,468,620	1,206,392	0	ac 387
881 Rents	0		0		100% capacity
885 Maintenance Supervision	14,890	6,805	8,085	0	ac886–894
886 Maint. of Struct. and Improv.	14,611	0	14,611	0	ac375
887 Maintenance of Mains	371,570	0	371,570	0	ac376
888 Maint. of Comp.Sta.Eq.	0	0	0	0	ac 377
889 Maint. of Meas.& Reg. Sta.Eq.–Gen	0	0	0	0	ac 378
890 Maint. of Meas.& Reg. Sta.Eq.–Ind.	52,767	0	52,767	0	ac 385
891 Maint. of Meas.& Reg.Sta.Eq.–CG	58,810	0	58,810	0	ac 379
892 Maintenance of Services	171,410	171,410	0	0	ac 380
893 Maint. of Meters and House Reg.	247,557	247,557	0	0	ac381–383
894 Maint. of Other Equipment	1,677	766	911	0	ac387
Total Distribution Expenses	5,814,072	3,192,009	2,622,063	0	5814072
CUSTOMER ACCOUNTS:					
901 Supervision	240,938	240,938			100% customer
902 Meter–Reading Expense	754,200	754,200			"
903 Records and Collection Exp.	1,990,931	1,990,931			"
904 Uncollectible Accounts	198,383			198,383	100% commodity
905 Misc. Expenses	1,276	1,276			100% customer
Total Customer Accounts	3,185,728	2,987,345	0	198,383	
(907–910) CUSTOMER SERV.& INFO. EXP.	0	0			"
(911–916) SALES EXPENSE	1,254,798	1,254,798			"
(932) MAINT. OF GEN. PLANT	69,107	34,554	34,554	0	general plant
(920–931) ADMINISTRATION AND GENERAL	7,429,933	5,375,200	1,911,958	142,776	O&M excl. A&G
TOTAL O&M EXPENSE	17,753,638	12,843,905	4,568,575	341,159	17753638

COMPANY: CITY GAS COMPANY OF FLORIDA
DOCKET NO. 960502-GU

SCHEDULE - B (COST OF SERVICE)
CLASSIFICATION OF EXPENSES
(Page 2 of 2)

ATTACHMENT 6

DEPRECIATION AND AMORTIZATION EXPENSE:	TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE	CLASSIFIER
Depreciation Expense	4,506,924	1,390,393	3,116,531	0		net plant
Amort. of Other Gas Plant	0		0			100% capacity
Amort. of Property Loss	0		0			100% capacity
Amort. of Limited-term Inv.	0	0	0	0		intangible plant
Amort. of Acquisition Adj.	63,816	21,228	42,588	0		intan/dist/gen plan
Amort. of Conversion Costs	59,928			59,928		100% commodity
Total Deprec. and Amort. Expense	4,630,668	1,411,621	3,159,119	59,928		4630668
TAXES OTHER THAN INCOME TAXES:						
Revenue Related	126,613				126613	100% revenue
Other	1,934,639	596,839	1,337,800	0		net plant
Total Taxes other than Income Taxes	2,061,252	596,839	1,337,800	0	126613	
REV.CRDT TO COS(NEG.OF OTHR OPR.REV)	(593,976)	(593,976)				100% customer
RETURN (REQUIRED NOI)	7,228,711	2,399,435	4,821,423	7,853		rate base
INCOME TAXES	2,011,221	667,587	1,341,449	2,185		return(noi)
TOTAL OVERALL COST OF SERVICE	33,091,514	17,325,411	15,228,366	411,125	126613	33091514

ATTACHMENT 6

SCHEDULE – C (COST OF SERVICE)

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 960502–GU

	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT PREFERRED	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
CUSTOMER COSTS								
No. of Customers	101267	95940	268	4964	40	4	4	47
Weighting	NA	1	1	3	31	31	5	31
Weighted No. of Customers	112464	95940	268	13452	1223	122	22	1437
Allocation Factors	1	0.853071542	0.00238298	0.119615319	0.01087279	0.001087	0.000195	0.012776
	1	0.855109251		0.119901041	0.01089677	0.00109	0.000195	0.012806
CAPACITY COSTS								
Peak & Avg. Month Sales Vol.(therms)	18885868	4694747	11824	6622702	3327254	2169176	48530	2011635
Allocation Factors	1	0.248585185	0.00062608	0.350669718	0.17617692	0.114857	0.00257	0.106515
COMMODITY COSTS								
Annual Sales Vol.(therms)	105617346	23252216	70848	38805881	19772690	12786940	293418	10635353
Allocation Factors	1	0.220155276	0.0006708	0.367419581	0.18721063	0.121069	0.002778	0.100697
REVENUE–RELATED COSTS								
Tax on Cust,Cap,& Commod.	123618	71245	165	28901	11422	3745	184	7957
Allocation Factors	1	0.576328914	0.00133503	0.233789292	0.09239652	0.030298	0.001488	0.064364

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 960502-GU

SCHEDULE - D (COST OF SERVICE)
ALLOCATION OF RATE BASE TO CUSTOMER CLASSES

ATTACHMENT 6

RATE BASE BY CUSTOMER CLASS	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
DIRECT AND SPECIAL ASSIGNMENTS:								
Customer								
Meters	5198259	4445079	0	623277	56655	5665	1014	66569
House Regulators	1914156	1914156	0	0	0	0	0	0
Services	17539692	14962612	41797	2098016	190705	19071	3412	224079
All Other	5913946	5045019	14093	707399	64301	6430	1151	75554
Total	30566053	26366866	55890	3428691	311661	31166	5577	366202
Capacity								
Industrial Meas.& Reg. Sta. Eq.	1352029	0	0	630382	305357	207016	4631	204643
Meas.&Reg.Sta.Eq.-Gen.	0	0	0	0	0	0	0	0
Mains	52467044	13821861	35184	19621877	9504841	2943131	153181	6386969
All Other	7600330	1889329	4758	2665206	1339003	872952	19530	809552
Total	61419403	15711190	39942	22917465	11149201	4023099	177342	7401164
Commodity								
Account #	0	0	0	0	0	0	0	0
Account #	0	0	0	0	0	0	0	0
Account #	0	0	0	0	0	0	0	0
All Other	100039	22024	67	36756	18728	12112	278	10074
Total	100039	22024	67	36756	18728	12112	278	10074
TOTAL	92085495	42100081	95899	26382912	11479590	4066377	183196	7777439

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 960502– GU

SCHEDULE – E (COST OF SERVICE)
ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSES
(Page 1 of 2)

ATTACHMENT 6

	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
Customer	0	0	0	0	0	0	0	0
Capacity	0	0	0	0	0	0	0	0
Commodity	0	0	0	0	0	0	0	0
Revenue	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0
OPERATIONS AND MAINTENANCE EXPENSE:								
DIRECT AND SPECIAL ASSIGNMENTS:								
Customer								
878 Meters and House Regulators	806452	689605	0	96694	8789	879	157	10327
893 Maint. of Meters & House Reg.	247557	211688	0	29682	2698	270	48	3170
874 Mains & Services	247954	211523	591	29659	2696	270	48	3168
892 Maint. of Services	171410	146225	406	20503	1864	186	33	2190
All Other	11370532	9699877	27098	1360090	123629	12363	2212	145265
Total	12843905	10958918	28095	1536629	139677	13968	2499	164120
Capacity								
876 Measuring & Reg. Sta. Eq. – I	29157	0	0	13618	6842	4460	100	4137
890 Maint. of Meas.& Reg.Sta.Eq.–I	52787	0	0	0	23243	15153	339	14052
874 Mains and Services	668685	176158	448	250078	121138	37510	1952	81401
887 Maint. of Mains	371570	97886	249	138962	67313	20843	1085	45232
All Other	3446376	907910	2311	1288892	624340	193324	10062	419538
Total	4568575	1181953	3009	1691550	842875	271290	13538	564360
Commodity								
Account #	0	0	0	0	0	0	0	0
Account #	0	0	0	0	0	0	0	0
Account #	0	0	0	0	0	0	0	0
All Other	341159	75108	229	125348	63869	41304	948	34354
Total	341159	75108	229	125348	63869	41304	948	34354
TOTAL O&M	17753638	12215978	31333	3353527	1046420	326561	16985	762833
DEPRECIATION EXPENSE:								
Customer	1390393	1188938	0	166710	15154	1515	271	17805
Capacity	3116531	821016	2090	1165535	564586	174821	9099	379385
Total	4506924	2009953	2090	1332245	579739	176337	9370	397190
AMORT. OF GAS PLANT:								
Capacity	0	0	0	0	0	0	0	0
AMORT. OF PROPERTY LOSS:								
Capacity	0	0	0	0	0	0	0	0
AMORT OF LIMITED TERM INVEST.								
Capacity	0	0	0	0	0	0	0	0
AMORT. OF ACQUISITION ADJ.:								
Customer	21228	18152	0	2545	231	23	4	272
Capacity	42588	10587	27	14934	7503	4892	109	4536
Total	63816	28739	27	17480	7734	4915	114	4808
AMORT. OF CONVERSION COSTS:								
Commodity	59928	13193	40	22019	11219	7255	166	6035

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 960502-GU

SCHEDULE – E (COST OF SERVICE)

ATTACHMENT 6

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSES

	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
TAXES OTHER THAN INCOME TAXES:								
Customer	596839	510363	0	71562	6505	650	116	7643
Capacity	1337800	352429	897	500317	242354	75044	3906	162854
Subtotal	1934639	862791	897	571878	248858	75694	4022	170498
Revenue	126613	72971	169	29601	11699	3836	188	8149
Total	2061252	935762	1066	601479	260557	79530	4211	178647
RETURN (NOI)								
Customer	2399435	2069799	4387	269152	24465	2447	438	28747
Capacity	4821423	1233328	3135	1799021	875212	315813	13921	580991
Commodity	7853	1729	5	2885	1470	951	22	791
Total	7228711	3304856	7528	2071058	901148	319211	14381	610529
INCOME TAXES								
Customer	667587	575873	1221	74885	6807	681	122	7998
Capacity	1341449	343145	872	500536	243507	87868	3873	161647
Commodity	2185	481	1	803	409	265	6	220
Total	2011221	919500	2095	576224	250723	88813	4001	169866
REVENUE CREDITED TO COS:								
Customer	–593976	–356386	0	–237590	0	0	0	0
TOTAL COST OF SERVICE:								
Customer	17325411	14965657	33703	1883893	192839	19284	3451	226585
Capacity	15228366	3942457	10030	5671893	2776037	929728	44447	1853774
Commodity	411125	90511	276	151055	76967	49774	1142	41399
Subtotal	32964901	18998626	44009	7706841	3045842	998786	49039	2121758
Revenue	126613	72971	169	29601	11699	3836	188	8149
Total	33091514	19071596	44178	7736442	3057541	1002622	49228	2129907

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 960502-GU

SCHEDULE – F (COST OF SERVICE)
DERIVATION OF REVENUE DEFICIENCY

ATTACHMENT 6

COST OF SERVICE BY CUSTOMER CLASS	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT PREFERRED	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
CUSTOMER COSTS	17,325,411	14,965,657	33,703	1,863,893	192,839	19,264	3,451	226,585
CAPACITY COSTS	15,228,366	3,942,457	10,030	5,671,893	2,776,037	929,726	44,447	1,853,774
COMMODITY COSTS	411,125	90,511	276	151,055	76,967	49,774	1,142	41,399
REVENUE COSTS	126,613	72,971	169	29,601	11,699	3,836	186	8,149
TOTAL	33,091,514	19,071,596	44,178	7,736,442	3,057,541	1,002,622	49,226	2,129,907
less: REVENUE AT PRESENT RATES (in the projected test year)	29,367,254	15,948,459	21,024	7,861,051	2,168,256	1,432,249	40,289	1,895,926
equals: GAS SALES REVENUE DEFICIENCY	3,724,260	3,123,137	23,154	(124,609)	889,285	(429,627)	8,939	233,981
plus: DEFICIENCY IN OTHER OPERATING REV.	0	0	0	(0)	0	0	0	0
equals: TOTAL BASE–REVENUE DEFICIENCY	3,724,260	3,123,137	23,154	(124,609)	889,285	(429,627)	8,939	233,981
UNIT COSTS:								
Customer	14.26	13.00	10.48	31.63	401.75	401.75	71.89	401.75
Capacity	0.80634	0.83976	0.84830	0.85643	0.83433	0.42861	0.91586	0.92153
Commodity	0.00389	0.00389	0.00389	0.00389	0.00389	0.00389	0.00389	0.00389

ATTACHMENT 6

SCHEDULE – G (COST OF SERVICE)
RATE OF RETURN BY CUSTOMER CLASS
(Page 1 of 2: PRESENT RATES)

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 960502-GU

	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT PREFERRED	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
REVENUES: (projected test year)								
Gas Sales (due to growth)	29,367,254	15,948,459	21,024	7,861,051	2,168,256	1,432,249	40,289	1,895,926
Other Operating Revenue	593,976	356,386	0	237,590	0	0	0	0
Total	29,961,230	16,304,845	21,024	8,098,641	2,168,256	1,432,249	40,289	1,895,926
EXPENSES:								
Purchased Gas Cost	0	0	0	0	0	0	0	0
O&M Expenses	17,753,638	12,215,978	31,333	3,353,527	1,046,420	326,561	16,985	762,833
Depreciation Expenses	4,506,924	2,009,953	2,090	1,332,245	579,739	176,337	9,370	397,190
Amortization Expenses	123,744	41,932	67	39,498	18,954	12,170	280	10,843
Taxes Other Than Income-- Fixed	1,934,639	862,791	897	571,878	246,858	75,694	4,022	170,498
Taxes Other Than Income-- Revenue	110,127	59,807	79	29,479	8,131	5,371	151	7,110
Total Expses excl. Income Taxes	24,429,072	15,190,462	34,465	5,326,628	1,902,102	596,133	30,808	1,348,473
INCOME TAXES:	632,337	289,095	659	181,167	78,829	27,923	1,258	53,406
NET OPERATING INCOME:	4,899,821	825,288	(14,100)	2,590,846	187,325	808,192	8,223	494,046
RATE BASE:	92,085,495	42,100,081	95,899	26,382,912	11,479,590	4,066,377	183,196	7,777,439
RATE OF RETURN	0.053209	0.019603	-0.147029	0.098202	0.016318	0.198750	0.044885	0.063523

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 960502-GU

SCHEDULE - G (COST OF SERVICE)
RATE OF RETURN BY CUSTOMER CLASS
(Page 2 of 2:PROPOSED RATES)

ATTACHMENT 6

	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT PREFERRED	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
REVENUES:								
Gas Sales	33,091,514	18,741,958	32,550	8,846,191	2,579,190	1,093,165	41,940	1,756,520
Other Operating Revenue	593,976	356,386	0	237,590	0	0	0	0
Total	33,685,490	19,098,344	32,550	9,083,781	2,579,190	1,093,165	41,940	1,756,520
EXPENSES:								
Purchased Gas Cost	0	0	0	0	0	0	0	0
O&M Expenses	17,753,638	12,215,978	31,333	3,353,527	1,046,420	326,561	16,965	762,833
Depreciation Expenses	4,506,924	2,009,953	2,090	1,332,245	579,739	176,337	9,370	397,190
Amortization Expenses	123,744	41,932	67	39,498	18,954	12,170	280	10,843
Taxes Other Than Income--Fixed	1,934,639	862,791	897	571,878	248,858	75,694	4,022	170,498
Taxes Other Than Income--Revenue	126,613	70,282	122	33,173	9,672	4,099	157	6,587
Total Expese excl. Income Taxes	24,445,558	15,200,938	34,509	5,330,322	1,903,643	594,862	30,814	1,347,951
PRE TAX NOI:	9,239,932	3,897,406	(1,958)	3,753,459	675,547	498,303	11,125	408,570
INCOME TAXES:	2,011,221	848,334	(426)	817,001	147,044	108,464	2,422	88,932
NET OPERATING INCOME:	7,228,711	3,049,072	(1,532)	2,936,458	528,503	389,839	8,704	319,638
RATE BASE:	92,085,495	42,100,081	95,899	26,382,912	11,479,590	4,066,377	183,196	7,777,439
RATE OF RETURN	0.078500	0.072424	-0.015977	0.111302	0.046039	0.095869	0.047510	0.041098

ATTACHMENT 6

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 940276-GU

COST OF SERVICE SUMMARY
PROPOSED RATE DESIGN

	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT PREFERRED	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
PRESENT RATES (projected test year)								
GAS SALES (due to growth)	29,367,254	15,948,459	21,024	7,861,051	2,168,256	1,432,249	40,289	1,895,926
OTHER OPERATING REVENUE	593,976	356,386	0	237,590	0	0	0	0
TOTAL	29,961,230	16,304,845	21,024	8,098,641	2,168,256	1,432,249	40,289	1,895,926
RATE OF RETURN	5.32%	1.96%	-14.70%	9.82%	1.63%	19.88%	4.49%	6.35%
INDEX	1.00	0.00	-0.03	0.02	0.00	0.04	0.01	0.01
PROPOSED RATES								
GAS SALES	33,091,514	18,741,958	32,550	8,846,191	2,579,190	1,093,165	41,940	1,756,520
OTHER OPERATING REVENUE	593,976	356,386	0	237,590	0	0	0	0
TOTAL	33,685,490	19,098,344	32,550	9,083,781	2,579,190	1,093,165	41,940	1,756,520
TOTAL REVENUE INCREASE	3,724,260	2,793,499	11,526	985,140	410,934	(339,084)	1,651	(139,406)
PERCENT INCREASE	12.43%	17.13%	54.82%	12.16%	18.95%	-23.67%	4.10%	-7.35%
		18.65	18.65	18.65	18.65	18.65	18.65	18.65
RATE OF RETURN	7.85%	7.24%	-1.60%	11.13%	4.60%	9.59%	4.75%	4.11%
INDEX	1.00	0.92	-0.20	1.42	0.59	1.22	0.61	0.52

COMPANY NAME: CITY GAS COMPANY
DOCKET NO. 960502-GU

ATTACHMENT 6

COST OF SERVICE SUMMARY
CALCULATION OF PROPOSED RATES

	TOTAL	RESIDENTIAL	GAS LIGHTING	COMMERCIAL	INTERRUPT PREFERRED	INTERRUPT LARGE VOL.	NGV	LARGE COMMERCIAL
PROPOSED TOTAL TARGET REVENUES	33,685,490	19,098,344	32,550	9,083,781	2,579,190	1,093,165	41,940	1,756,520
LESS:OTHER OPERATING REVENUE	593,976	356,386	0	237,590	0	0	0	0
LESS:CUSTOMER CHARGE REVENUES								
PROPOSED CUSTOMER CHARGES		$7.00	$0.00	$17.00	$50.00	$250.00	$12.00	$35.00
TIMES:NUMBER OF BILLS	1,215,204	1,151,280	3,216	59,568	156	48	48	420
EQUALS:CUSTOMER CHARGE REVENUES	9,106,692	8,058,960	0	1,012,656	7,800	12,000	576	14,700
LESS:OTHER NON-THERM-RATE REVENUES					$175.00	$400.00		$50.00
					324	72		144
	92,700				56,700	28,800		7,200
EQUALS:PER-THERM TARGET REVENUES	23,892,122	10,682,996	32,550	7,833,535	2,514,690	1,052,365	41,364	1,734,620
DIVIDED BY:NUMBER OF THERMS	105,617,346	23,252,216	70,848	38,805,881	19,772,690	12,786,940	293,418	10,635,353
EQUALS:PER-THERM RATES(UNRNDED)		0.459440	0.459437	0.201865	0.127180	0.082300	0.140972	0.163099
PER-THERM RATES(RNDED)		0.45944	0.45944	0.20186	0.12718	0.08230	0.14097	0.16310
PER-THERM-RATE REVENUES(RNDED RATES)	23,891,949	10,682,998	32,550	7,833,355	2,514,691	1,052,365	41,363	1,734,626
SUMMARY:PROPOSED TARIFF RATES								
CUSTOMER CHARGES		$7.00	$0.00	$17.00	$50.00	$250.00	$12.00	$35.00
ENERGY CHARGES								
NON-GAS (CENTS PER THERM)		45.944	45.944	20.186	12.718	8.230	14.097	16.310
PURCHASED GAS ADJUSTMENT		42.000	42.000	42.000	42.000	42.000	42.000	42.000
TOTAL (INCLUDING PGA)		87.944	87.944	62.186	54.718	50.230	56.097	58.310
SUMMARY:PRESENT TARIFF RATES								
CUSTOMER CHARGES		$6.00	$0.00	$12.00	$36.00	$150.00	$12.00	$0.00
ENERGY CHARGES								
NON-GAS (CENTS PER THERM)		39.640	29.611	17.763	11.828	11.046	13.484	0.000
PURCHASED GAS ADJUSTMENT		42.000	42.000	42.000	42.000	42.000	42.000	42.000
TOTAL (INCLUDING PGA)		81.640	71.611	59.763	53.828	53.046	55.484	42.000

SUMMARY:OTHER OPERATING REVENUE

	PRESENT		PROPOSED	
	CHARGE	REVENUE	CHARGE	REVENUE
CONNECTION/RECONNECTION RESIDENTIAL	$20.00	$477,695	$20.00	$485,702
CONNECTION/RECONNECTION COMMERCIAL	$45.00	$72,921	$45.00	$80,929
CHANGE OF ACCOUNT	$15.00	$0	$15.00	$0
BILL COLLECTION IN LIEU OF DISCONNECTION	$15.00	$0	$15.00	$0
RETURNED CHECK CHARGE	$15.00	$27,345	$15.00	$27,345

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE	PRESENT RATE	RATE INCREASE	PROPOSED RATE
RESIDENTIAL (RS)			
Customer Charge	$6.00	$1.00	$7.00
Energy Charge (cents per therm)	39.640	6.304	45.944
GAS LIGHTING (GL)			
Customer Charge	$0.00	$0.00	$0.00
Energy Charge (cents per therm)	29.611	16.333	45.944
COMMERCIAL (CS)			
Customer Charge	$12.00	$5.00	$17.00
Energy Charge (cents per therm)	17.763	2.423	20.186
NATURAL GAS VEHICLE (NGV)			
Customer Charge	$12.00	$0.00	$12.00
Energy Charge (cents per therm)	13.484	0.613	14.097
INTERRUPTIBLE PREFERRED (IP)			
Customer Charge	$36.00	$14.00	$50.00
Energy Charge (cents per therm)	11.828	0.890	12.718
CONTRACT INTERRUPTIBLE PREFERRED (IP)			
Customer Charge	$36.00	$14.00	$50.00
Energy Charge (cents per therm)	11.828	0.890	12.718
INTERRUPTIBLE LARGE VOLUME (IL)			
Customer Charge	$150.00	$100.00	$250.00
Energy Charge (cents per therm)	11.046	-2.816	8.230
CONTRACT INTERRUPTIBLE LARGE VOLUME (CI-LV)			
Customer Charge	$150.00	$100.00	$250.00
Energy Charge (cents per therm)	11.046	-2.816	8.230
LARGE COMMERCIAL SERVICE			
Customer Charge	$0.00	$35.00	$35.00
Energy Charge (cents per therm)	0.000	16.310	16.310
COMMERCIAL TRANSPORTATION (CTS)			
Customer Charge	$12.00	$38.00	$50.00
Energy Charge (cents per therm)	17.763	-1.453	16.310
INTERRUPTIBLE TRANSPORTATION (ITS)			
Customer Charge	$150.00	$25.00	$175.00
Energy Charge (cents per therm)	11.828	0.890	12.718
CONTRACT INTERRUPTIBLE TRANSPORTATION (CI-TS)			
Customer Charge	$150.00	$25.00	$175.00
Energy Charge (cents per therm)	11.828	0.890	12.718
INTERRUPTIBLE LARGE VOLUME TRANSPORTATION (ILT)			
Customer Charge	$300.00	$100.00	$400.00
Energy Charge (cents per therm)	11.046	-2.816	8.230
CONTRACT INTERRUPTIBLE LARGE VOLUME TRANSPORTATION (CI-LVT)			
Customer Charge	$300.00	$100.00	$400.00
Energy Charge (cents per therm)	11.046	-2.816	8.230

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE: RESIDENTIAL (RS)

PRESENT RATES

Customer Charge
6.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	39.640

PROPOSED RATES

Customer Charge
7.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	45.944

GAS COST CENTS/THERM
42.00

THERM USAGE INCREMENT
10

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	6.00	6.00	7.00	7.00	16.67	16.67	1.00
10	9.96	14.16	11.59	15.79	16.36	11.51	1.63
20	13.93	22.33	16.19	24.59	16.23	10.13	2.26
30	17.89	30.49	20.78	33.38	16.16	9.48	2.89
40	21.86	38.66	25.38	42.18	16.11	9.11	3.52
50	25.82	46.82	29.97	50.97	16.08	8.87	4.15
60	29.78	54.98	34.57	59.77	16.06	8.70	4.78
70	33.75	63.15	39.16	68.56	16.04	8.57	5.41
80	37.71	71.31	43.76	77.36	16.02	8.47	6.04
90	41.68	79.48	48.35	86.15	16.01	8.40	6.67
100	45.64	87.64	52.94	94.94	16.00	8.33	7.30
110	49.60	95.80	57.54	103.74	16.00	8.28	7.93
120	53.57	103.97	62.13	112.53	15.99	8.24	8.56
130	57.53	112.13	66.73	121.33	15.98	8.20	9.20
140	61.50	120.30	71.32	130.12	15.98	8.17	9.83
150	65.46	128.46	75.92	138.92	15.97	8.14	10.46
160	69.42	136.62	80.51	147.71	15.97	8.11	11.09
170	73.39	144.79	85.10	156.50	15.97	8.09	11.72
180	77.35	152.95	89.70	165.30	15.96	8.07	12.35
190	81.32	161.12	94.29	174.09	15.96	8.05	12.98

COST OF SERVICE SUMMARY
RATE COMPARISON

RATE SCHEDULE: GAS LIGHTING (GL)

PRESENT RATES

Customer Charge
0.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	29.611

PROPOSED RATES

Customer Charge
0.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	45.944

GAS COST CENTS/THERM
42.00

THERM USAGE INCREMENT
10

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	0.00	0.00	0.00	0.00	ERR	ERR	0.00
10	2.96	7.16	4.59	8.79	55.16	22.81	1.63
20	5.92	14.32	9.19	17.59	55.16	22.81	3.27
30	8.88	21.48	13.78	26.38	55.16	22.81	4.90
40	11.84	28.64	18.38	35.18	55.16	22.81	6.53
50	14.81	35.81	22.97	43.97	55.16	22.81	8.17
60	17.77	42.97	27.57	52.77	55.16	22.81	9.80
70	20.73	50.13	32.16	61.56	55.16	22.81	11.43
80	23.69	57.29	36.76	70.36	55.16	22.81	13.07
90	26.65	64.45	41.35	79.15	55.16	22.81	14.70
100	29.61	71.61	45.94	87.94	55.16	22.81	16.33
110	32.57	78.77	50.54	96.74	55.16	22.81	17.97
120	35.53	85.93	55.13	105.53	55.16	22.81	19.60
130	38.49	93.09	59.73	114.33	55.16	22.81	21.23
140	41.46	100.26	64.32	123.12	55.16	22.81	22.87
150	44.42	107.42	68.92	131.92	55.16	22.81	24.50
160	47.38	114.58	73.51	140.71	55.16	22.81	26.13
170	50.34	121.74	78.10	149.50	55.16	22.81	27.77
180	53.30	128.90	82.70	158.30	55.16	22.81	29.40
190	56.26	136.06	87.29	167.09	55.16	22.81	31.03

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE: COMMERCIAL (CS)

PRESENT RATES

Customer Charge
12.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	17.763

PROPOSED RATES

Customer Charge
17.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	20.186

GAS COST CENTS/THERM
42.00

THERM USAGE INCREMENT
50

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	12.00	12.00	17.00	17.00	41.67	41.67	5.00
50	20.88	41.88	27.09	48.09	29.75	14.83	6.21
100	29.76	71.76	37.19	79.19	24.94	10.34	7.42
150	38.64	101.64	47.28	110.28	22.34	8.49	8.63
200	47.53	131.53	57.37	141.37	20.72	7.49	9.85
250	56.41	161.41	67.47	172.47	19.60	6.85	11.06
300	65.29	191.29	77.56	203.56	18.79	6.41	12.27
350	74.17	221.17	87.65	234.65	18.18	6.10	13.48
400	83.05	251.05	97.74	265.74	17.69	5.85	14.69
450	91.93	280.93	107.84	296.84	17.30	5.66	15.90
500	100.82	310.82	117.93	327.93	16.98	5.51	17.11
550	109.70	340.70	128.02	359.02	16.71	5.38	18.33
600	118.58	370.58	138.12	390.12	16.48	5.27	19.54
650	127.46	400.46	148.21	421.21	16.28	5.18	20.75
700	136.34	430.34	158.30	452.30	16.11	5.10	21.96
750	145.22	460.22	168.40	483.40	15.96	5.04	23.17
800	154.10	490.10	178.49	514.49	15.82	4.98	24.38
850	162.99	519.99	188.58	545.58	15.70	4.92	25.60
900	171.87	549.87	198.67	576.67	15.60	4.88	26.81
950	180.75	579.75	208.77	607.77	15.50	4.83	28.02

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE: NATURAL GAS VEHICLE (NGV)

PRESENT RATES

Customer Charge
12.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	13.484

PROPOSED RATES

Customer Charge
12.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	14.097

GAS COST CENTS/THERM
42.00

THERM USAGE INCREMENT
50

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	12.00	12.00	12.00	12.00	0.00	0.00	0.00
50	18.74	39.74	19.05	40.05	1.64	0.77	0.31
100	25.48	67.48	26.10	68.10	2.41	0.91	0.61
150	32.23	95.23	33.15	96.15	2.85	0.97	0.92
200	38.97	122.97	40.19	124.19	3.15	1.00	1.23
250	45.71	150.71	47.24	152.24	3.35	1.02	1.53
300	52.45	178.45	54.29	180.29	3.51	1.03	1.84
350	59.19	206.19	61.34	208.34	3.62	1.04	2.15
400	65.94	233.94	68.39	236.39	3.72	1.05	2.45
450	72.68	261.68	75.44	264.44	3.80	1.05	2.76
500	79.42	289.42	82.49	292.49	3.86	1.06	3.07
550	86.16	317.16	89.53	320.53	3.91	1.06	3.37
600	92.90	344.90	96.58	348.58	3.96	1.07	3.68
650	99.65	372.65	103.63	376.63	4.00	1.07	3.98
700	106.39	400.39	110.68	404.68	4.03	1.07	4.29
750	113.13	428.13	117.73	432.73	4.06	1.07	4.60
800	119.87	455.87	124.78	460.78	4.09	1.08	4.90
850	126.61	483.61	131.82	488.82	4.12	1.08	5.21
900	133.36	511.36	138.87	516.87	4.14	1.08	5.52
950	140.10	539.10	145.92	544.92	4.16	1.08	5.82

COST OF SERVICE SUMMARY
RATE COMPARISON

RATE SCHEDULE: **INTERRUPTIBLE PREFERRED (IP)**

PRESENT RATES

Customer Charge
36.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	11.828

GAS COST CENTS/THERM
42.00

PROPOSED RATES

Customer Charge
50.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	12.718

THERM USAGE INCREMENT
50

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	36.00	36.00	50.00	50.00	38.89	38.89	14.00
50	41.91	62.91	56.36	77.36	34.46	22.96	14.45
100	47.83	89.83	62.72	104.72	31.13	16.58	14.89
150	53.74	116.74	69.08	132.08	28.53	13.14	15.34
200	59.66	143.66	75.44	159.44	26.45	10.98	15.78
250	65.57	170.57	81.80	186.80	24.74	9.51	16.23
300	71.48	197.48	88.15	214.15	23.32	8.44	16.67
350	77.40	224.40	94.51	241.51	22.11	7.63	17.11
400	83.31	251.31	100.87	268.87	21.08	6.99	17.56
450	89.23	278.23	107.23	296.23	20.18	6.47	18.00
500	95.14	305.14	113.59	323.59	19.39	6.05	18.45
550	101.05	332.05	119.95	350.95	18.70	5.69	18.89
600	106.97	358.97	126.31	378.31	18.08	5.39	19.34
650	112.88	385.88	132.67	405.67	17.53	5.13	19.79
700	118.80	412.80	139.03	433.03	17.03	4.90	20.23
750	124.71	439.71	145.39	460.39	16.58	4.70	20.68
800	130.62	466.62	151.74	487.74	16.17	4.53	21.12
850	136.54	493.54	158.10	515.10	15.79	4.37	21.57
900	142.45	520.45	164.46	542.46	15.45	4.23	22.01
950	148.37	547.37	170.82	569.82	15.13	4.10	22.46

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE: **CONTRACT INTERRUPTIBLE PREFERRED (CI)**

PRESENT RATES

Customer Charge
36.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	11.828

PROPOSED RATES

Customer Charge
50.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	12.718

GAS COST CENTS/THERM
42.00

THERM USAGE INCREMENT
5000

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	36.00	36.00	50.00	50.00	38.89	38.89	14.00
5000	627.40	2,727.40	685.90	2,785.90	9.32	2.14	58.50
10000	1,218.80	5,418.80	1,321.80	5,521.80	8.45	1.90	103.00
15000	1,810.20	8,110.20	1,957.70	8,257.70	8.15	1.82	147.50
20000	2,401.60	10,801.60	2,593.60	10,993.60	7.99	1.78	192.00
25000	2,993.00	13,493.00	3,229.50	13,729.50	7.90	1.75	236.50
30000	3,584.40	16,184.40	3,865.40	16,465.40	7.84	1.74	281.00
35000	4,175.80	18,875.80	4,501.30	19,201.30	7.79	1.72	325.50
40000	4,767.20	21,567.20	5,137.20	21,937.20	7.76	1.72	370.00
45000	5,358.60	24,258.60	5,773.10	24,673.10	7.74	1.71	414.50
50000	5,950.00	26,950.00	6,409.00	27,409.00	7.71	1.70	459.00
55000	6,541.40	29,641.40	7,044.90	30,144.90	7.70	1.70	503.50
60000	7,132.80	32,332.80	7,680.80	32,880.80	7.68	1.69	548.00
65000	7,724.20	35,024.20	8,316.70	35,616.70	7.67	1.69	592.50
70000	8,315.60	37,715.60	8,952.60	38,352.60	7.66	1.69	637.00
75000	8,907.00	40,407.00	9,588.50	41,088.50	7.65	1.69	681.50
80000	9,498.40	43,098.40	10,224.40	43,824.40	7.64	1.68	726.00
85000	10,089.80	45,789.80	10,860.30	46,560.30	7.64	1.68	770.50
90000	10,681.20	48,481.20	11,496.20	49,296.20	7.63	1.68	815.00
95000	11,272.60	51,172.60	12,132.10	52,032.10	7.62	1.68	859.50

COST OF SERVICE SUMMARY
RATE COMPARISON

RATE SCHEDULE: **INTERRUPTIBLE LARGE VOLUME (IL)**

PRESENT RATES

Customer Charge
150.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	11.046

PROPOSED RATES

Customer Charge
250.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	8.230

GAS COST CENTS/THERM
42.00

THERM USAGE INCREMENT
5000

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	150.00	150.00	250.00	250.00	66.67	66.67	100.00
5000	702.30	2,802.30	661.50	2,761.50	(5.81)	(1.46)	-40.80
10000	1,254.60	5,454.60	1,073.00	5,273.00	(14.47)	(3.33)	-181.60
15000	1,806.90	8,106.90	1,484.50	7,784.50	(17.84)	(3.98)	-322.40
20000	2,359.20	10,759.20	1,896.00	10,296.00	(19.63)	(4.31)	-463.20
25000	2,911.50	13,411.50	2,307.50	12,807.50	(20.75)	(4.50)	-604.00
30000	3,463.80	16,063.80	2,719.00	15,319.00	(21.50)	(4.64)	-744.80
35000	4,016.10	18,716.10	3,130.50	17,830.50	(22.05)	(4.73)	-885.60
40000	4,568.40	21,368.40	3,542.00	20,342.00	(22.47)	(4.80)	-1026.40
45000	5,120.70	24,020.70	3,953.50	22,853.50	(22.79)	(4.86)	-1167.20
50000	5,673.00	26,673.00	4,365.00	25,365.00	(23.06)	(4.90)	-1308.00
55000	6,225.30	29,325.30	4,776.50	27,876.50	(23.27)	(4.94)	-1448.80
60000	6,777.60	31,977.60	5,188.00	30,388.00	(23.45)	(4.97)	-1589.60
65000	7,329.90	34,629.90	5,599.50	32,899.50	(23.61)	(5.00)	-1730.40
70000	7,882.20	37,282.20	6,011.00	35,411.00	(23.74)	(5.02)	-1871.20
75000	8,434.50	39,934.50	6,422.50	37,922.50	(23.85)	(5.04)	-2012.00
80000	8,986.80	42,586.80	6,834.00	40,434.00	(23.96)	(5.06)	-2152.80
85000	9,539.10	45,239.10	7,245.50	42,945.50	(24.04)	(5.07)	-2293.60
90000	10,091.40	47,891.40	7,657.00	45,457.00	(24.12)	(5.08)	-2434.40
95000	10,643.70	50,543.70	8,068.50	47,968.50	(24.19)	(5.09)	-2575.20

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE: **CONTRACT INTERRUPTIBLE LARGE VOLUME (CI-LV)**

PRESENT RATES

Customer Charge
150.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	11.046

PROPOSED RATES

Customer Charge
250.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	8.230

GAS COST CENTS/THERM
42.00

THERM USAGE INCREMENT
5000

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar increase
0	150.00	150.00	250.00	250.00	66.67	66.67	100.00
5000	702.30	2,802.30	661.50	2,761.50	(5.81)	(1.46)	-40.80
10000	1,254.60	5,454.60	1,073.00	5,273.00	(14.47)	(3.33)	-181.60
15000	1,806.90	8,106.90	1,484.50	7,784.50	(17.84)	(3.98)	-322.40
20000	2,359.20	10,759.20	1,896.00	10,296.00	(19.63)	(4.31)	-463.20
25000	2,911.50	13,411.50	2,307.50	12,807.50	(20.75)	(4.50)	-604.00
30000	3,463.80	16,063.80	2,719.00	15,319.00	(21.50)	(4.64)	-744.80
35000	4,016.10	18,716.10	3,130.50	17,830.50	(22.05)	(4.73)	-885.60
40000	4,568.40	21,368.40	3,542.00	20,342.00	(22.47)	(4.80)	-1026.40
45000	5,120.70	24,020.70	3,953.50	22,853.50	(22.79)	(4.86)	-1167.20
50000	5,673.00	26,673.00	4,365.00	25,365.00	(23.06)	(4.90)	-1308.00
55000	6,225.30	29,325.30	4,776.50	27,876.50	(23.27)	(4.94)	-1448.80
60000	6,777.60	31,977.60	5,188.00	30,388.00	(23.45)	(4.97)	-1589.60
65000	7,329.90	34,629.90	5,599.50	32,899.50	(23.61)	(5.00)	-1730.40
70000	7,882.20	37,282.20	6,011.00	35,411.00	(23.74)	(5.02)	-1871.20
75000	8,434.50	39,934.50	6,422.50	37,922.50	(23.85)	(5.04)	-2012.00
80000	8,986.80	42,586.80	6,834.00	40,434.00	(23.96)	(5.06)	-2152.80
85000	9,539.10	45,239.10	7,245.50	42,945.50	(24.04)	(5.07)	-2293.60
90000	10,091.40	47,891.40	7,657.00	45,457.00	(24.12)	(5.08)	-2434.40
95000	10,643.70	50,543.70	8,068.50	47,968.50	(24.19)	(5.09)	-2575.20

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE: **COMMERCIAL TRANSPORTATION (CTS)**

PRESENT RATES

Customer Charge
12.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	17.763

PROPOSED RATES

Customer Charge
50.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	16.310

GAS COST CENTS/THERM
0

THERM USAGE INCREMENT
10000

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	12.00	12.00	50.00	50.00	316.67	316.67	38.00
10000	1,788.30	1,788.30	1,681.00	1,681.00	(6.00)	(6.00)	−107.30
20000	3,564.60	3,564.60	3,312.00	3,312.00	(7.09)	(7.09)	−252.60
30000	5,340.90	5,340.90	4,943.00	4,943.00	(7.45)	(7.45)	−397.90
40000	7,117.20	7,117.20	6,574.00	6,574.00	(7.63)	(7.63)	−543.20
50000	8,893.50	8,893.50	8,205.00	8,205.00	(7.74)	(7.74)	−688.50
60000	10,669.80	10,669.80	9,836.00	9,836.00	(7.81)	(7.81)	−833.80
70000	12,446.10	12,446.10	11,467.00	11,467.00	(7.87)	(7.87)	−979.10
80000	14,222.40	14,222.40	13,098.00	13,098.00	(7.91)	(7.91)	−1124.40
90000	15,998.70	15,998.70	14,729.00	14,729.00	(7.94)	(7.94)	−1269.70
100000	17,775.00	17,775.00	16,360.00	16,360.00	(7.96)	(7.96)	−1415.00
110000	19,551.30	19,551.30	17,991.00	17,991.00	(7.98)	(7.98)	−1560.30
120000	21,327.60	21,327.60	19,622.00	19,622.00	(8.00)	(8.00)	−1705.60
130000	23,103.90	23,103.90	21,253.00	21,253.00	(8.01)	(8.01)	−1850.90
140000	24,880.20	24,880.20	22,884.00	22,884.00	(8.02)	(8.02)	−1996.20
150000	26,656.50	26,656.50	24,515.00	24,515.00	(8.03)	(8.03)	−2141.50
160000	28,432.80	28,432.80	26,146.00	26,146.00	(8.04)	(8.04)	−2286.80
170000	30,209.10	30,209.10	27,777.00	27,777.00	(8.05)	(8.05)	−2432.10
180000	31,985.40	31,985.40	29,408.00	29,408.00	(8.06)	(8.06)	−2577.40
190000	33,761.70	33,761.70	31,039.00	31,039.00	(8.06)	(8.06)	−2722.70

COST OF SERVICE SUMMARY
RATE COMPARISON

RATE SCHEDULE: **LARGE COMMERCIAL SERVICE (LCS)**

PRESENT RATES

Customer Charge
0.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	0.000

PROPOSED RATES

Customer Charge
35.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	16.310

GAS COST CENTS/THERM
42.00

THERM USAGE INCREMENT
10000

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	0.00	0.00	35.00	35.00	ERR	ERR	35.00
10000	0.00	4,200.00	1,666.00	5,866.00	ERR	39.67	1666.00
20000	0.00	8,400.00	3,297.00	11,697.00	ERR	39.25	3297.00
30000	0.00	12,600.00	4,928.00	17,528.00	ERR	39.11	4928.00
40000	0.00	16,800.00	6,559.00	23,359.00	ERR	39.04	6559.00
50000	0.00	21,000.00	8,190.00	29,190.00	ERR	39.00	8190.00
60000	0.00	25,200.00	9,821.00	35,021.00	ERR	38.97	9821.00
70000	0.00	29,400.00	11,452.00	40,852.00	ERR	38.95	11452.00
80000	0.00	33,600.00	13,083.00	46,683.00	ERR	38.94	13083.00
90000	0.00	37,800.00	14,714.00	52,514.00	ERR	38.93	14714.00
100000	0.00	42,000.00	16,345.00	58,345.00	ERR	38.92	16345.00
110000	0.00	46,200.00	17,976.00	64,176.00	ERR	38.91	17976.00
120000	0.00	50,400.00	19,607.00	70,007.00	ERR	38.90	19607.00
130000	0.00	54,600.00	21,238.00	75,838.00	ERR	38.90	21238.00
140000	0.00	58,800.00	22,869.00	81,669.00	ERR	38.89	22869.00
150000	0.00	63,000.00	24,500.00	87,500.00	ERR	38.89	24500.00
160000	0.00	67,200.00	26,131.00	93,331.00	ERR	38.89	26131.00
170000	0.00	71,400.00	27,762.00	99,162.00	ERR	38.88	27762.00
180000	0.00	75,600.00	29,393.00	104,993.00	ERR	38.88	29393.00
190000	0.00	79,800.00	31,024.00	110,824.00	ERR	38.88	31024.00

ATTACHMENT 7

COST OF SERVICE SUMMARY
RATE COMPARISON

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

RATE SCHEDULE: INTERRUPTIBLE TRANSPORTATION (ITS)

PRESENT RATES

Customer Charge
150.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	11.828

PROPOSED RATES

Customer Charge
175.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	12.718

GAS COST CENTS/THERM
0

THERM USAGE INCREMENT
10000

therm usage	PRESENT monthly bill w/o fuel	monthly bill with fuel	PROPOSED monthly bill w/o fuel	monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	150.00	150.00	175.00	175.00	16.67	16.67	25.00
10000	1,332.80	1,332.80	1,446.80	1,446.80	8.55	8.55	114.00
20000	2,515.60	2,515.60	2,718.60	2,718.60	8.07	8.07	203.00
30000	3,698.40	3,698.40	3,990.40	3,990.40	7.90	7.90	292.00
40000	4,881.20	4,881.20	5,262.20	5,262.20	7.81	7.81	381.00
50000	6,064.00	6,064.00	6,534.00	6,534.00	7.75	7.75	470.00
60000	7,246.80	7,246.80	7,805.80	7,805.80	7.71	7.71	559.00
70000	8,429.60	8,429.60	9,077.60	9,077.60	7.69	7.69	648.00
80000	9,612.40	9,612.40	10,349.40	10,349.40	7.67	7.67	737.00
90000	10,795.20	10,795.20	11,621.20	11,621.20	7.65	7.65	826.00
100000	11,978.00	11,978.00	12,893.00	12,893.00	7.64	7.64	915.00
110000	13,160.80	13,160.80	14,164.80	14,164.80	7.63	7.63	1004.00
120000	14,343.60	14,343.60	15,436.60	15,436.60	7.62	7.62	1093.00
130000	15,526.40	15,526.40	16,708.40	16,708.40	7.61	7.61	1182.00
140000	16,709.20	16,709.20	17,980.20	17,980.20	7.61	7.61	1271.00
150000	17,892.00	17,892.00	19,252.00	19,252.00	7.60	7.60	1360.00
160000	19,074.80	19,074.80	20,523.80	20,523.80	7.60	7.60	1449.00
170000	20,257.60	20,257.60	21,795.60	21,795.60	7.59	7.59	1538.00
180000	21,440.40	21,440.40	23,067.40	23,067.40	7.59	7.59	1627.00
190000	22,623.20	22,623.20	24,339.20	24,339.20	7.59	7.59	1716.00

ATTACHMENT 7

COST OF SERVICE SUMMARY
RATE COMPARISON

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

RATE SCHEDULE: **CONTRACT INTERRUPTIBLE TRANSPORTATION (CI-TS)**

PRESENT RATES

Customer Charge
150.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	11.828

PROPOSED RATES

Customer Charge
175.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	12.718

GAS COST CENTS/THERM
0

THERM USAGE INCREMENT
10000

therm usage	PRESENT monthly bill w/o fuel	monthly bill with fuel	PROPOSED monthly bill w/o fuel	monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	150.00	150.00	175.00	175.00	16.67	16.67	25.00
10000	1,332.80	1,332.80	1,446.80	1,446.80	8.55	8.55	114.00
20000	2,515.60	2,515.60	2,718.60	2,718.60	8.07	8.07	203.00
30000	3,698.40	3,698.40	3,990.40	3,990.40	7.90	7.90	292.00
40000	4,881.20	4,881.20	5,262.20	5,262.20	7.81	7.81	381.00
50000	6,064.00	6,064.00	6,534.00	6,534.00	7.75	7.75	470.00
60000	7,246.80	7,246.80	7,805.80	7,805.80	7.71	7.71	559.00
70000	8,429.60	8,429.60	9,077.60	9,077.60	7.69	7.69	648.00
80000	9,612.40	9,612.40	10,349.40	10,349.40	7.67	7.67	737.00
90000	10,795.20	10,795.20	11,621.20	11,621.20	7.65	7.65	826.00
100000	11,978.00	11,978.00	12,893.00	12,893.00	7.64	7.64	915.00
110000	13,160.80	13,160.80	14,164.80	14,164.80	7.63	7.63	1004.00
120000	14,343.60	14,343.60	15,436.60	15,436.60	7.62	7.62	1093.00
130000	15,526.40	15,526.40	16,708.40	16,708.40	7.61	7.61	1182.00
140000	16,709.20	16,709.20	17,980.20	17,980.20	7.61	7.61	1271.00
150000	17,892.00	17,892.00	19,252.00	19,252.00	7.60	7.60	1360.00
160000	19,074.80	19,074.80	20,523.80	20,523.80	7.60	7.60	1449.00
170000	20,257.60	20,257.60	21,795.60	21,795.60	7.59	7.59	1538.00
180000	21,440.40	21,440.40	23,067.40	23,067.40	7.59	7.59	1627.00
190000	22,623.20	22,623.20	24,339.20	24,339.20	7.59	7.59	1716.00

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE: INTERRUPTIBEL LARGE VOLUME TRANSPORTATION (ILT)

PRESENT RATES

Customer Charge
300.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	11.046

PROPOSED RATES

Customer Charge
400.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	8.230

GAS COST CENTS/THERM
0

THERM USAGE INCREMENT
10000

therm usage	PRESENT monthly bill w/o fuel	PRESENT monthly bill with fuel	PROPOSED monthly bill w/o fuel	PROPOSED monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	300.00	300.00	400.00	400.00	33.33	33.33	100.00
10000	1,404.60	1,404.60	1,223.00	1,223.00	(12.93)	(12.93)	-181.60
20000	2,509.20	2,509.20	2,046.00	2,046.00	(18.46)	(18.46)	-463.20
30000	3,613.80	3,613.80	2,869.00	2,869.00	(20.61)	(20.61)	-744.80
40000	4,718.40	4,718.40	3,692.00	3,692.00	(21.75)	(21.75)	-1026.40
50000	5,823.00	5,823.00	4,515.00	4,515.00	(22.46)	(22.46)	-1308.00
60000	6,927.60	6,927.60	5,338.00	5,338.00	(22.95)	(22.95)	-1589.60
70000	8,032.20	8,032.20	6,161.00	6,161.00	(23.30)	(23.30)	-1871.20
80000	9,136.80	9,136.80	6,984.00	6,984.00	(23.56)	(23.56)	-2152.80
90000	10,241.40	10,241.40	7,807.00	7,807.00	(23.77)	(23.77)	-2434.40
100000	11,346.00	11,346.00	8,630.00	8,630.00	(23.94)	(23.94)	-2716.00
110000	12,450.60	12,450.60	9,453.00	9,453.00	(24.08)	(24.08)	-2997.60
120000	13,555.20	13,555.20	10,276.00	10,276.00	(24.19)	(24.19)	-3279.20
130000	14,659.80	14,659.80	11,099.00	11,099.00	(24.29)	(24.29)	-3560.80
140000	15,764.40	15,764.40	11,922.00	11,922.00	(24.37)	(24.37)	-3842.40
150000	16,869.00	16,869.00	12,745.00	12,745.00	(24.45)	(24.45)	-4124.00
160000	17,973.60	17,973.60	13,568.00	13,568.00	(24.51)	(24.51)	-4405.60
170000	19,078.20	19,078.20	14,391.00	14,391.00	(24.57)	(24.57)	-4687.20
180000	20,182.80	20,182.80	15,214.00	15,214.00	(24.62)	(24.62)	-4968.80
190000	21,287.40	21,287.40	16,037.00	16,037.00	(24.66)	(24.66)	-5250.40

COMPANY: CITY GAS COMPANY
DOCKET NO. 960502-GU

COST OF SERVICE SUMMARY
RATE COMPARISON

ATTACHMENT 7

RATE SCHEDULE: CONTRACT INTERRUPTIBEL LARGE VOLUME TRANSPORTATION (CI-LVT)

PRESENT RATES

Customer Charge
300.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	11.046

PROPOSED RATES

Customer Charge
400.00

Energy Charge

Beginning therms	Ending therms	cents per therm
0	0	0
0	N/A	8.230

GAS COST CENTS/THERM
0

THERM USAGE INCREMENT
10000

therm usage	PRESENT monthly bill w/o fuel	monthly bill with fuel	PROPOSED monthly bill w/o fuel	monthly bill with fuel	percent increase w/o fuel	percent increase with fuel	Dollar Increase
0	300.00	300.00	400.00	400.00	33.33	33.33	100.00
10000	1,404.60	1,404.60	1,223.00	1,223.00	(12.93)	(12.93)	−181.60
20000	2,509.20	2,509.20	2,046.00	2,046.00	(18.46)	(18.46)	−463.20
30000	3,613.80	3,613.80	2,869.00	2,869.00	(20.61)	(20.61)	−744.80
40000	4,718.40	4,718.40	3,692.00	3,692.00	(21.75)	(21.75)	−1026.40
50000	5,823.00	5,823.00	4,515.00	4,515.00	(22.46)	(22.46)	−1308.00
60000	6,927.60	6,927.60	5,338.00	5,338.00	(22.95)	(22.95)	−1589.60
70000	8,032.20	8,032.20	6,161.00	6,161.00	(23.30)	(23.30)	−1871.20
80000	9,136.80	9,136.80	6,984.00	6,984.00	(23.56)	(23.56)	−2152.80
90000	10,241.40	10,241.40	7,807.00	7,807.00	(23.77)	(23.77)	−2434.40
100000	11,346.00	11,346.00	8,630.00	8,630.00	(23.94)	(23.94)	−2716.00
110000	12,450.60	12,450.60	9,453.00	9,453.00	(24.08)	(24.08)	−2997.60
120000	13,555.20	13,555.20	10,276.00	10,276.00	(24.19)	(24.19)	−3279.20
130000	14,659.80	14,659.80	11,099.00	11,099.00	(24.29)	(24.29)	−3560.80
140000	15,764.40	15,764.40	11,922.00	11,922.00	(24.37)	(24.37)	−3842.40
150000	16,869.00	16,869.00	12,745.00	12,745.00	(24.45)	(24.45)	−4124.00
160000	17,973.60	17,973.60	13,568.00	13,568.00	(24.51)	(24.51)	−4405.60
170000	19,078.20	19,078.20	14,391.00	14,391.00	(24.57)	(24.57)	−4687.20
180000	20,182.80	20,182.80	15,214.00	15,214.00	(24.62)	(24.62)	−4968.80
190000	21,287.40	21,287.40	16,037.00	16,037.00	(24.66)	(24.66)	−5250.40

DOCKET NO. 960502-GU
DATE: October 17, 1996

ATTACHMENT 8

Issue 12 - Non-Utility Plant, Depreciation Reserve, and Depreciation Expense

Adjustment	Plant	Reserve	Expense
(A) City Gas Reg./Non-Reg.	$103,035	$57,829	$5,797
(B) Hialeah Building #955	22067	6961	419
(C) Hialeah Building #933	12299	4075	257
(D) Hialeah Building #1001	29610	844	562
(E) Hialeah General Office	1919	0.00	0.00
(F) 374-Titusville Gate (Land)	12139	0.00	0.00
(G) 374-Propane Sales (Land)	12195	0.00	0.00
(H) 375-Propane Sales (Structure)	11028	4920	232
(I) 375-Rockledge Ofc. (Structure)	1218	674	26
(J) 375-Titusville Gate (Improvements)	6338	1483	133
(K) 375-New Additions-1996	14520	216	336
(L) 389-Rockledge Office (Land)	8045	0.00	0.00
(M) 390-Rockledge Office (Improvements)	27339	9868	519
(N) 390-Titusville Gate (Improvements)	4374	1834	83
(O) 390-New Additions-1996	29109	489	673
(P) 390-New Additions-1997	5117	283	73
(Q) 391-Ofc. Furn. and Equip.	121791	53736	13297
(R) 303-Misc. Intangible Plant	6407	2619	256
(S) 398-Miscellaneous Equipment	4665	3202	-1479
(T) 395-Laboratory Equipment	-9414	0.00	0.00
TOTAL	$423,801	$149,033	$21,184

ATTACHMENT 9

City Gas Company of Florida

Projected 1997 Advertising Expenses

	Total Cost	Company			Staff			
		% Non-Regulated	Non-Reg. Amount	Regulated Amount	% Non-Regulated	Non-Reg. Amount	Regulated Amount	Difference
Bill Inserts	$36,000	50.00%	$18,000	$18,000	60.00%	$21,600	$14,400	$3,600
Radio Spots	83,252	16.67%	13,878	69,374	22.92%	19,081	64,171	5,203
Print	47,938	33.33%	15,978	31,960	38.33%	18,375	29,563	2,397
Cable	23,000	0.00%	0	23,000	38.33%	8,816	14,184	8,816
Billboards	28,020	0.00%	0	28,020	22.00%	6,164	21,856	6,164
Folders/Inserts	14,000	0.00%	0	14,000	0.00%	0	14,000	0
Maps	2,100	0.00%	0	2,100	1.79%	38	2,062	38
Other	15,000	0.00%	0	15,000	25.00%	3,750	11,250	3,750
TOTAL	$249,310	19.20%	$47,856	$201,454	38.63%	$77,824	$171,486	$29,968
Percentage Company Requested for Recovery				51.79%			51.79%	51.79%
Non-Utility Amounts				$104,338			$88,817	$15,521

DOCKET NO. 960502-GU
DATE: October 17, 1996

ATTACHMENT 10

<u>Issue 53 - Non-Utility Expenses</u>

Adjustment		**Amount**
(A) Non-Utility Operating Expenses:		
(1) Non-Utility A&G Expenses:		
Total Co. Identified Allocable Expenses	$2,391,276	
Revised 1997 Factor	16.14%	
Amount to Allocate to City Gas Non-Reg.	$385,952	
Company Adjustment	406487	
Staff Adjustment	($20,535)	
(2) Other Non-Utility Expenses:		
Acct. 879-Customer Installations Exp. (Supervision)	$262,104	
Supervision Factor	9.99%	
Non-Regulated Amount	$26,179	
Acct. 901-Supervision for Customer Service & Collection Representatives	$225,676	
Acct. 903-Cust. Records & Collect. Exp.	958764	
Total Allocable Amount	$1,184,440	
Non-Utility % of Customer Svc. Payroll	1.44%	
Non-Regulated Amount	$17,056	
Total Additional Non-Utility Operating Expense to Remove		$22,700
(B) Transportation Expenses		36699
TOTAL Non-Utility Expense to Remove		$59,399

DOCKET NO. 960502-GU
DATE: OCTOBER 17, 1996

ATTACHMENT 11

Issue 4 - Bill and Therm Forecast

RECOMMENDED TEST YEAR BILL AND THERM FORECASTS		
REVENUE CLASS	BILLS	THERMS
Residential (RS)	1,149,888	23,105,080
Gas Lighting (GL)	3,216	70,848
Commercial Firm (CS)	59,378	46,544,190
Natural Gas Vehicle (NGVSS)	48	293,418
Interruptible Preferred (IP)	156	6,320,740
Interruptible Large Volume (IL)	36	7,402,450
Commercial Transportation (CTS)	192	2,753,600
Interruptible Transportation (ITS)	323	12,791,950
Interruptible Large Volume Transportation (ILT)	36	5,384,490
Contract Interruptible Large Volume Trans. (CI-LVT)	12	N/A
Contract Interruptible Transportation (CI-TS)	12	660,000
Total	1,213,297	105,326,766

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ATTACHMENT 12

Issue 4 - Bill Forecast

DEVELOPMENT OF RECOMMENDED BILL FORECASTS					
REVENUE CLASS	BILLS AS FILED	CO. UPDATE (ADJ. TO "AS FILED")	STAFF ADJUST. TO CO. UPDATE	STAFF RECOMM. BILLS FORECAST	STAFF RECOMM. LESS AS FILED
Residential (RS)	1,149,304	1,976	(1,392)	1,149,888	584
Gas Lighting (GL)	3,948	(732)	0	3,216	(732)
Commercial Firm (CS)	61,375	(1,997)	0	59,378	(1,997)
Natural Gas Vehicle (NGVSS)	60	(12)	0	48	(12)
Interruptible Preferred (IP)	180	(24)	0	156	(24)
Interruptible Large Volume (IL)	36	0	0	36	0
Commercial Transportation (CTS)	144	48	0	192	48
Interruptible Transportation (ITS)	252	71	0	323	71
Interruptible Large Volume Transportation (ILT)	36	0	0	36	0
Contract Interruptible Large Volume Trans. (CI-LVT)	12	0	0	12	0
Contract Interruptible Transportation (CI-TS)	12	0	0	12	0
Total	1,215,359	(670)	(1,392)	1,213,297	(2,062)

ATTACHMENT 13

Issue 4 - Therms Forecast

REVENUE CLASS	DEVELOPMENT OF RECOMMENDED THERMS FORECASTS					
	THERMS AS FILED	UPDATED THERMS (10 YEAR WEATHER	STAFF ADJ. (30 YR WEATHER)	STAFF ADJ. (HUNT-INGTON)	STAFF RECOMMENDED THERM FORECAS	STAFF THERMS LESS AS FILED THERMS
Residential (RS)	22,791,500	22,641,400	470,200	(6,520)	23,105,080	313,580
Gas Lighting (GL)	71,064	70,848	0	0	70,848	(216)
Commercial Firm (CS)	48,937,230	46,383,890	160,300	0	46,544,190	(2,393,040)
Natural Gas Vehicle (NGVSS)	293,418	293,418	0	0	293,418	0
Interruptible Preferred (IP)	7,206,260	6,320,740	0	0	6,320,740	(885,520)
Interruptible Large Volume (IL)	7,402,450	7,402,450	0	0	7,402,450	0
Commercial Transportation (CTS)	1,835,454	2,753,600	0	0	2,753,600	918,146
Interruptible Transportation (ITS)	10,502,480	12,791,950	0	0	12,791,950	2,289,470
Interruptible Large Volume Transportation (ILT)	5,384,490	5,384,490	0	0	5,384,490	0
Contract Interruptible Large Volume Trans. (CI-LVT)	0	0	0	0	0	0
Contract Interruptible Transportation (CI-TS)	660,000	660,000	0	0	660,000	0
Total	105,084,346	104,702,786	630,500	(6,520)	105,326,766	242,420

DOCKET NO. 960502-GU
DATE: OCTOBER 17, 1996

ATTACHMENT 14
ISSUE 4 - NET REVENUE IMPACT

STAFF ANALYSIS OF NET REVENUE IMPACT OF ISSUE 4 (CUSTOMER AND THERM FORECASTS)

REVENUE CLASS	TYPE OF CHARGE	RATE	AS FILED CUST/THERM	AS FILED REVENUE	STAFF REC. CUST/THERM	STAFF REC. REVENUE	STAFF REVENUE LESS AS-FILED REVENUE
Residential	Customer	$6.00	1,149,304	$6,895,824	1,149,888	$6,899,328	$3,504
Residential	Energy	$0.39640	22,791,500	$9,034,564	23,105,080	$9,158,867	$124,303
Gas Lighting	Customer	$0.00	3,948	$0	3,216	$0	$0
Gas Lighting	Energy	$0.29591	71,064	$21,029	70,848	$20,965	($64)
Commercial	Customer	$12.00	61,375	$736,500	59,378	$712,536	($23,964)
Commercial	Energy	$0.17763	48,937,230	$8,692,720	46,544,190	$8,267,644	($425,076)
Natural Gas Vehicle	Customer	$12.00	60	$720	48	$576	($144)
Natural Gas Vehicle	Energy	$0.13484	293,418	$39,564	293,418	$39,564	$0
Interruptible Preferred	Customer	$36.00	180	$6,480	156	$5,616	($864)
Interruptible Preferred	Energy	$0.11828	7,206,260	$852,356	6,320,740	$747,617	($104,739)
Interruptible Large Volume	Customer	$150.00	36	$5,400	36	$5,400	$0
Interruptible Large Volume	Energy	$0.11046	7,402,450	$817,675	7,402,450	$817,675	$0
Commercial Transportation	Customer	$12.00	144	$1,728	192	$2,304	$576
Commercial Transportation	Energy	$0.17763	1,835,454	$326,032	2,753,600	$489,122	$163,090
Interruptible Transportation	Customer	$150.00	252	$37,800	323	$48,450	$10,650
Interruptible Transportation	Energy	$0.11828	10,502,480	$1,242,233	12,791,950	$1,513,032	$270,799
Interruptible L.V. Transport.	Customer	$300.00	36	$10,800	36	$10,800	$0
Interruptible L.V. Transport.	Energy	$0.11046	5,384,490	$594,770	5,384,490	$594,770	$0
Contract Interruptible L.V.	Customer	$300.00	12	$3,600	12	$3,600	$0
Contract Interruptible L.V.	Energy	$0.11046	0	$0	0	$0	$0
Contract Interruptible Transport.	Customer	$150.00	12	$1,800	12	$1,800	$0
Contract Interruptible Transport.	Energy	-	660,000	$27,588	660,000	$27,588	$0
TOTAL CUST./THERM REVENUE*				$29,349,183		$29,367,254	$18,071

* Does not include revenue associated with PGA Billings, ECCR Billings, Revenue Related Taxes, or Miscellaneous Services

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ATTACHMENT 15
ISSUE 5
STAFF ANALYSIS OF CONNECTIONS AND RECONNECTIONS

Projected Number of Connects/Reconnects, Test Year

	Returning Locked RS Customers	Returning Locked CS Customers	New RS Customers	New CS Customers	Moves and Changes of Customers	Total
AS FILED	2,187	29	2,815	310	18,120	23,461
UPDATED	2,268	37	3,296	389	18,163	24,153
UPDATED LESS AS FILED	81	8	481	79	43	692

Projected Revenue from Connects/Reconnects, Test Year

	Returning Locked RS Customers	Returning Locked CS Customers	New RS Customers	New CS Customers	Moves and Changes of Customers	Total
AS FILED	43,740	1,305	56,300	13,950	362,400	477,695
UPDATED	$45,360	$1,665	$65,920	$17,505	$363,260	$493,710
UPDATED LESS AS FILED	$1,620	$360	$9,620	$3,555	$860	$16,015
CONN./DISCONN. RATE	$20	$45	$20	$45	$20	

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ATTACHMENT 16

State of Florida

Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: October 15, 1996

TO: Joe Jenkins, Director, Division of Electric and Gas

FROM: Jerry Hallenstein, Senior Management Analyst II, Bureau of Regulatory Review
Carl Vinson, Senior Management Analyst II, Bureau of Regulatory Review

RE: City Gas Leak Survey and Valve Maintenance Investigation

Background

On June 24, 1996, City Gas of Florida notified the FPSC Division of Electric and Gas that some of its leak survey and valve maintenance inspection records had been falsified. At that time, FPSC's Bureau of Gas Regulation was beginning its annual Pipeline Safety Evaluation of City Gas' Miami Division.

The accuracy of safety inspection records was questioned as a result of information provided by employees through the company's Code of Conduct disclosure form. City Gas discovered that three employees had intentionally falsified leak survey and valve maintenance inspection records. The three employees included one supervisor and two inspectors. The supervisor oversaw the Miami Division's Distribution Department field operations, and the inspectors performed leak surveys and valve maintenance inspections. Both leak surveys and valve maintenance inspections are required by state law (FPSC Rules 25-12.040 and 25-12.022) and federal law (CFR 49, Section 192.747).

An internal investigation was conducted jointly by City Gas-Florida and N.U.I. Corporation, between June 20 and July 3, 1996. According to the investigation, the supervisor directed the two inspectors to falsify leak survey and valve maintenance records in preparation for the FPSC Pipeline Safety Evaluation. The three employees admitted these actions and were subsequently terminated on July 5, 1996.

During the September 10 and 12, 1996 City Gas Company service hearings (Docket 960502-GU) in Miami Springs and Cocoa Beach, several witnesses appeared and made allegations regarding falsification of company records and the resulting disciplinary actions taken by City Gas. The allegations were made by a terminated City Gas employee, members of her family, and representatives of a civil rights advocacy organization (People United to Lead the Struggle for Equality or PULSE). They alleged that reports were being falsified at the direction of company management, required safety inspections were not being performed, and training and staffing were inadequate. It was also alleged that City Gas had improperly disciplined its employees for the falsification, and that City Gas was engaging in discriminatory practices.

Commissioner Deason requested that the Bureau of Regulatory Review conduct an operational audit to examine the issues surrounding management planning, decision-making, and supervision raised by these allegations. To establish the adequacy of management's response to the discovery of possible falsification of records, FPSC staff reviewed the investigation report produced by City Gas/N.U.I., conducted interviews, reviewed Distribution Department records, and obtained responses to 26 document request items from the company. The interviews included current Distribution Department employees, the Vice-President of Operations, the employees who conducted the City Gas/N.U.I. investigation, and two of the terminated employees. The third terminated employee declined to be interviewed upon advice of counsel. The interviewees also included the employees who originally reported the falsification of records to City Gas.

Audit Objectives

To address these allegations Commission staff identified the following objectives which encompass the specific concerns raised at the service hearing:

1) Determine whether City Gas had adequate staffing to conduct leak surveys and critical valve maintenance inspections as required by state and federal law.

2) Determine whether City Gas had adequate management controls in place to ensure that leak surveys and critical valve inspections were conducted as required by state and federal law.

3) Determine whether City Gas management has taken appropriate actions regarding the alleged falsification.

Audit Results

Audit Objective 1: Adequacy of Staffing

According to two of the terminated employees, records were falsified in an attempt to hide the fact that City Gas was behind in accomplishing its leak survey and valve maintenance inspections. Through interviews and document request responses, the Bureau of Regulatory Review staff attempted to determine why the company had fallen behind in this work.

As of mid-1996, six inspectors were qualified to perform leak surveys and valve inspections. Of these six, two inspectors were actually assigned to perform leak surveys, and one was assigned to perform valve inspections. The remaining inspectors were dedicated to construction and maintenance activities, such as line location and construction site observation. The inspector terminated for falsifying leak survey records maintains that she was the sole employee conducting leak surveys, and that her efforts were insufficient to single-handedly complete this task for the entire Miami Division. During the period July 1995 through June

1996, she logged 38% of her hours to leak surveys. However, staff was able to confirm that another employee, who was not involved in the falsification, was also assigned primarily to leak surveys and logged approximately 46% of his hours to this activity during the same period. The balance of these employees' hours were logged to either distribution activities such as leak investigations and line locations, or administrative activities. During the period October 1995 through June 1996, over 80% of the hours both employees logged to leak survey activities were billed to surveying lines in commercial districts, as opposed to residential areas.

Staff determined that over the period 1992 to 1996, the size of the workforce whose responsibilities included performing leak surveys and valve inspections was stable. However, during this same time, the Distribution Department's workload increased substantially. The majority of the workload increase resulted from legislation requiring Florida utilities to participate in a centralized "One Call" system that assists contractors in locating utility lines prior to performing excavations.

The "One Call" system generates inquiries to all utilities potentially affected by the dig. In the case of City Gas, this generated considerable additional work in the form of line locations and construction site observations. The total number of "One Call" requests for pipeline locations increased as follows:

Year	One-Calls
1992	6,864
1993	32,712
1994	43,063
1995	39,156
1996	32,573 through September 27

Although not a direct indicator, the number of "One Calls" provides an approximation of the increased demand for line locations or other in-field activity by the Distribution Department over this period. Authorized staffing for all inspector positions in the Distribution Department totalled 13 in 1992, and 15 for each of the years 1993 through 1996. However, the increase in workload caused by responding to "One Calls" could imply a need for an increase in staffing.

Based upon the company's failure to accomplish the required safety inspections with its current workforce and the noted increases in line locations, staff concludes that a detailed analysis of staffing requirements is needed. FPSC staff's interviews with City Gas' Vice President of Operations confirm that management was aware of an increase in line location activity during the 1992 through 1996 period. Staff was also able to conduct interviews with two of the three terminated employees, who cited the increase in line location workload as competing with the completion of safety inspection duties.

Since City Gas has contracted for and is currently overseeing leak surveys and valve maintenance inspections by Southern Cross Corporation and Heath Consultants, Inc. for its Miami Division, the company will soon obtain valuable information regarding the manpower requirements for proper performance of these functions. In addition, leak survey work performed in 1992 by outside consultants following Hurricane Andrew could also be used in analyzing these manpower requirements.

Recommendation:

City Gas should develop an annual workload and staffing plan and dedicate the appropriate resources to accomplish the responsibilities of the Distribution Department.

Audit Objective 2: Adequacy of Management Controls

State and federal laws require leak surveys of business districts and all valve inspections to be performed at intervals not exceeding 15 months, but at least once each calendar year. Leak surveys of residential areas are required to be conducted at intervals not exceeding five years. Given this, staff assessed whether City Gas had adequate management controls in place at the time of the falsification to ensure that these inspections were conducted as required by law. As a basis for comparison to City Gas' management controls, staff referred to the *Internal Control-Integrated Framework* by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The COSO report notes that the adequacy of controls depends in part upon the "extent to which personnel, in carrying out their regular activities, obtain evidence as to whether the system of internal controls continues to function." In the case of leak surveys, the evidence of completing work merely consisted of having the inspector initial and date the system quadrant map used in conducting the survey, and updating a master map which tracked quadrants completed. In the case of valve maintenance, this evidence was contained in the notations inspectors made on valve maintenance cards. While requirements did exist for the supervisor to perform spot checking, to monitor work in the field, and to review the inspectors' documentation of work completed, the supervisor did not properly fulfill these duties. Since the the supervisor directed the falsification, a review of the inspectors' documentation would have had no value. In addition, the Vice President of Operations did not request or obtain adequate evidence as to whether the safety inspections were being performed within the time period required.

According to the COSO report, a basic management control is "obtaining external and internal information, and providing management with necessary reports on the entity's performance relative to established objectives." However, despite being cited last year by the FPSC for valve inspection violations, the Vice President of Operations did not require written progress reports to verify timely completion of this year's safety inspections. Instead, the Vice President relied upon verbal indications provided during regular monthly staff meetings that work was progressing.

Since controls providing information such as total expenses for leak surveys or valve inspections, manhours expended in these activities, compiled leak detection results, or other indirect indicators were not yet in place, the company was unable to ensure that the required safety inspections were being performed on time as required. Further, the Vice President of Operations did not require the supervisor to provide regular reporting of operating statistics. In short, the Vice President of Operations relied primarily upon the supervisor's verbal reports provided at staff meetings that these functions were being properly carried out. Due at least in part to the supervisor's involvement in the falsification, these verbal reports were inadequate to place management on notice of the problem regarding safety inspections. Even without the existence of falsification, Commission staff concludes that management controls in the Distribution Department were inadequate.

The falsification was brought to management's attention through the distribution of the City Gas Code of Ethical Business Conduct disclosure form. This disclosure form provided an opportunity for employees to report knowledge of activities that may not comply with the code. As noted in the COSO report, the "existence and implementation of codes of conduct" and the "establishment of channels of communication for people to report suspected improprieties" are necessary elements of an effective control environment. Staff found that these controls were administered properly and served the company well in this case. The company designed the code of conduct questionnaire specifically to enable its employees to communicate with senior management in confidence and without fear of retaliation.

Recommendation:

City Gas should develop a system of internal controls which includes workload objectives, progress reports, spot-checks, on-site monitoring, and internal audits to ensure leak surveys and valve maintenance inspections are completed as required.

Audit Objective 3: Adequacy of Management's Response to Allegations

To determine whether City Gas/N.U.I. management responded appropriately to the alleged falsification, FPSC staff assessed the actions taken by City Gas and N.U.I. since the initial allegations were made. These actions included performing an internal investigation, engaging outside consultants to perform safety inspections, taking disciplinary action against employees involved, and implementing additional management controls.

The internal investigation was initiated on June 20, 1996 by the Assistant Vice-President of Administration for City Gas, and was completed on July 3, 1996 by the Senior Vice-President and Assistant General Counsel for N.U.I. A written report was provided to the N.U.I. General Counsel and Corporate Compliance Officer on July 19, 1996.

Through the investigation, City Gas determined that three employees in the Distribution

Department had been involved in falsifying records of safety inspections and did not come forward voluntarily to make their actions known to management. The company's investigations revealed that the falsification only came to light as a result of information voluntarily provided by other employees in response to the Code of Conduct disclosure forms provided to all City Gas employees during early June.

When confronted, the three employees identified in the investigation admitted to falsifying records. On July 5, 1996, they were subsequently terminated. In the opinion of Commission staff, the disciplinary actions taken by City Gas against the three employees were appropriate and complied with company procedures regarding employee discipline.

Commission staff's interviews corroborated these findings and all key facts contained in the City Gas/N.U.I. report. In the opinion of Commission staff, the company's investigation was conducted in a timely, thorough, and professional manner, and provided complete information regarding the improper activities. Commission staff's analysis of Distribution Department records also provided independent verification of the conclusion that only the three terminated employees had been involved in the falsification. Staff made every possible effort to determine whether City Gas managers had known about, or participated in the falsification. Staff found no evidence that any current City Gas managers knew of, or were involved in these acts.

N.U.I.'s investigation report presented recommendations to City Gas intended to ensure that safety inspections are properly conducted in the future. Commission staff confirmed that City Gas has begun taking corrective actions. These actions include:

- Engaging independent contractors to perform safety inspections
- Develop monthly activity reports to managers
- Developing a database for use in monitoring Distribution Department activities
- Participating in N.U.I. central engineering operations reviews
- Providing diversity training for all employees

In addition, the company has recently provided additional managerial oversight within the Distribution Department by filling the Miami Division Manager position created in early 1996.

Conclusion:

Based upon the control problems described in this report, the following actions be should be strongly considered:

City Gas should develop an annual workload and staffing plan and dedicate the appropriate resources to accomplish the responsibilities of the Distribution Department.

City Gas should develop a system of internal controls which includes workload objectives, progress reports, spot-checks, on-site monitoring, and internal audits to ensure leak surveys and valve maintenance inspections are completed as required.

The Bureau of Regulatory Review will monitor the implementation of these recommendations if desired. This can be accomplished through quarterly progress reports, which will serve to update the Bureau on the progress and status of the recommended action. After completing the action plan, the company will be required to present documentation to verify implementation.

In addition, the Bureau of Regulatory Review recommends that a management audit of City Gas operations be performed, if requested by the Division of Electric and Gas. The last management audit of City Gas was conducted in 1990.

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