

June 8, 1998

Federal Express

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

980723-GU

Re: **Petition for Approval of Accounting Methodology for
Year 2000 Expenses by City Gas Company of Florida**

Dear Ms. Bayo:

Enclosed for filing please find the original and 15 copies of City Gas
Company of Florida's Petition to implement accounting methodology for year
2000 expenses.

Thank you for your assistance.

Sincerely,

Michael A. Palecki

Michael A. Palecki
Vice President of Regulatory Affairs

MAP/rt

Encl.

DOCUMENT RECEIVED
JUN 26 1998

NUI Companies and Affiliates:

City Gas Company of Florida
Elizabethtown Gas
Elkton Gas
North Carolina Gas

NUI Capital Corp
NUI Energy
NUI Energy Brokers
NUI Environmental Group

TIC Enterprises, LLC
Utility Business Services
Valley Cities Gas
Waverly Gas

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition for Approval of Accounting)
Methodology for Year 2000 Costs by)
City Gas Company of Florida.)
_____)

DOCKET NO.

Submitted for Filing
June 9, 1998

**PETITION OF CITY GAS COMPANY OF FLORIDA FOR APPROVAL OF
ACCOUNTING METHODOLOGY FOR YEAR 2000 COSTS**

City Gas Company of Florida, an operating division of NUI Corporation ("NUI/City Gas" or "the Company") petitions the Florida Public Service Commission for approval of deferred accounting, in accordance with FAS 71, for costs incurred in converting data processing systems to Year 2000 compatibility, and in support thereof states:

1. The name of the petitioner and the mailing address of its principal office is:

City Gas Company of Florida a Division of NUI Corporation
955 East 25th Street
Hialeah, Florida 33013-3498

2. The name and mailing address of the persons authorized to receive notices are:

Michael A. Palecki
NUI, Southern Division
955 East 25th Street
Hialeah, Florida 33013-3498

Raymond A. DeMoine
NUI Corporation
One Elizabethtown Plaza
Post Office Box 3175
Union, NJ 07083-1975

DOCUMENT NUMBER-DATE

06126 JUN-98

REGISTRATION REPORTING

3. NUI/City Gas seeks Commission approval to defer the cost of remediating its in-house data system for Year 2000 compatibility, and to amortize the cost over a five-year period from the date of implementation of the system.

4. This Commission has encouraged Florida utilities to take reasonable steps to address foreseeable Year 2000 computer issues. It is NUI's intent to mitigate Year 2000 risk through a comprehensive remediation, replacement and testing program which is currently ongoing.

5. NUI has polled vendors of major software products in use within the Company to determine if the software is Year 2000 compliant. Many programs exposed to Year 2000 failure have been identified, and specifications prepared on how to correct the situation. Where practical, exposed programs and applications have been replaced with modern "packaged" solutions. Hardware has been assessed in a similar manner, and non-compliant hardware has been scheduled for replacement. These replacements will be capitalized, consistent with generally accepted accounting principals.

6. Phase two of NUI's program entails the remediation of in-house developed systems that will not be replaced, including NUI's principal billing system. Most of this work has been outsourced to data systems specialists, who

have been given access to our mainframe test environment, where they are revising our programs. NUI's primary Year 2000 contractor has assigned up to 24 employees to this project. Two million lines of code behind the Company's mainframe computer systems have been counted. Half a million were excluded from the Year 2000 project because the related programs were no longer deemed necessary. Major systems requiring compliance coding have been identified, involving approximately 1.5 million lines of code. Compliance coding is ongoing, and the mainframe is being upgraded.

7. NUI's testing program is quite comprehensive. Each corrected program will be tested in two ways. First, parallel tests will be run, in which test results from the current programs will be compared to the test results of the corrected programs using current data. In the second phase of testing, the corrected programs will be tested against test data with dates changed to the Year 2000 and beyond. For in-house developed systems, NUI's Year 2000 contractor will conduct unit testing, integration testing, and system testing. Acceptance testing will take place as each remediated module is delivered during the remediation phase. Assuming all tests are successful, the corrected systems will be implemented.

8. NUI's cost to overhaul its in-house mainframe systems is \$909,888, of which \$91,560 was expended in fiscal 1997, and \$818,328 is planned be expended in fiscal 1998. A breakdown of these costs is attached to this petition

as Exhibit A. If these were ordinary operations and maintenance expenses, these costs would be expensed as incurred, which is consistent with generally accepted accounting principals for ordinary repairs and maintenance, and with EITF 96-14, regarding expensing of costs associated with modifying internal software for the year 2000. But EITF 96-14 was issued in 1996, when most businesses were only beginning the Year 2000 planning process, and before the magnitude of remediation necessitated by the Year 2000 was fully understood. It does not envision or address the extraordinary repairs and renewals being made by NUI, that have effectively resulted in a complete overhaul of NUI's mainframe data systems. Deferral of the \$909,888 is therefore appropriate, and consistent with FAS 71, for extraordinary repairs and major overhauls. The \$909,888 excludes costs that have been properly capitalized, relating to software and hardware purchased for NUI's financial systems (including payroll, HR, purchasing and inventory) and its network systems (including gas control and monitoring systems).

9. The Company requests Commission approval to defer the NUI/City Gas allocation of the \$909,888 expenditure for remediation of in-house systems, and to amortize the deferred asset over 5 years. Using the allocation methodology accepted by the Commission in the Company's 1996-97 rate proceeding, the allocation of these costs to NUI/City Gas is \$200,175 (regulated and unregulated). The regulated portion of the \$200,175, which the Company, upon Commission approval intends to defer is \$161,960.

10. In addressing Year 2000 issues, the Company has been faced with numerous options. Ten years ago, when the Company first built the system, it could have been designed to serve the Year 2000 and beyond. If the Company had chosen this option, the cost of Year 2000 capability would have been capitalized, but this option would have been extremely expensive given the price of storage and memory ten years ago. Alternatively, without making the extra investment in the hardware and technology available at that time, the demands placed on the system by Year 2000 capability would have adversely affected the system's overall performance. Today's options range from purchase of new hardware and software, to the recoding of existing software for Year 2000 compliance. In each case NUI/City Gas has attempted to choose the most cost-effective solution, based on the comparative cost of replacement vs. remediation, while considering the value and useful life of each existing system. In choosing to recode in-house mainframe systems, the Company avoids the cost of new software, and the Company's customers benefit from receiving quality service into the Year 2000, and beyond. This expenditure is appropriately deferred and amortized as an extraordinary overhaul, rather than treated as a simple O&M expense, like painting or maintenance of plant. This expenditure will effect a substantial betterment, aimed to make the property affected more useful (it would otherwise become useless in the year 2000) and to extend the useful life of the property. By prudently making this investment, the company significantly extends the life of a working asset, creating a Year 2000 compliant system from

one that would otherwise become obsolete. This asset will be used, useful, and of benefit to ratepayers. The Company should be entitled to earn a fair return on its investment in overhauling the asset, just as it would have been entitled to a fair return had the Company paid the significantly higher price for Year 2000 compliance when the system was first created.

11. This is a one time non-recurring large expenditure having significant impact on earnings, and is appropriately spread over a number of years. Considering the nature of the cost, amortization over a five-year period from the date of implementation of the system is appropriate. The Orders of this Commission indicate that amortization of non-recurring significant expenditures is appropriate since such an expenditure will produce a distorted picture of earnings if booked in a single year. See Peoples Gas System, Order No. PSC-92-0924-FOF-GU, Issued September 3, 1993; Gulf Power Company, Order No. 23573, Issued October 3, 1990; Rule 25-7.0461(8), Florida Administrative Code. The cost of adapting utility data systems for a millennium change is exactly the type of non-recurring expenditure that this Commission has determined should be spread over a number of years. Amortization of this investment over five years will result in a more appropriate picture of earnings in each year than would result if the entire cost was booked in 1998.

WHEREFORE, NUI/City Gas respectfully requests approval of the Florida Public Service Commission to defer the cost of remediating its in-house data

system for Year 2000 compliance, and to amortize the resulting deferred asset over a five-year period from the date of implementation of the system.

Respectfully submitted this 8TH day of June, 1998.



Michael A. Palecki
NUI CORPORATION - SOUTHERN DIVISION
Vice President of Regulatory Affairs
955 East 25th Street
Hialeah, FL 33013-3498

NUI Corporation		
Year 2000 Remediation Expense		
Contract With	Contract Service	Contract Fee
Software Ventures International Corp. (SVI)	Phase I Inventory Analysis (Scoping & Program Analysis)	91,560
	Phase II Conversion Specs/Conversion	236,530
	Phase III Parallel Testing	434,910
		763,000
Hitachi Data Services	Programming Services	8,000
		8,000
Arthur Anderson	Review of Year 2000 Project Status	12,000
		12,000
		\$783,000
In-House Programming and Testing expenditures:		
	Project Meetings	5,331
	Project Management	28,855
	Technical Writing	13,170
	Project Plan	1,091
	Define Alternatives	278
	Choose Approach	5,604
	General Design	19,701
	Coding and Testing	23,807
	Implementation Plan	2,639
	System Test	25,310
	Turnover Acceptance	893
	Startup-Move To Prod	209
		\$126,888
Total Year 2000 Remediation Expenses		\$909,888