

August 24, 1998

ORIGINAL

Ms. Blanca S. Bayo, Director
Division of Record and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0868

98 AUG 25 AM 10:49
MAIL ROOM

**Re: Docket No.98003-GU - City Gas Company of Florida
Audit Report - PGA - Six Months Ended March 31, 1998
Audit Control # 98-160-4-2**

Dear Ms. Bayo:

In accordance with your letter of August 14, 1998, please accept this letter as City Gas Company of Florida's response to the above referenced Audit Report. We understand that this response will be forwarded for consideration of the staff analyst in the preparation of a recommendation for this case.

The Company agrees with Audit Exceptions 1 and 2, and has amended its schedules to conform.

- ACK _____
- AFA Vandiner
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG 1
- LEG 1
- LIN 3
- OPC _____
- PCH _____
- SEC 1
- WAS _____
- OTH _____

The Company disagrees with Audit Disclosure 1. The Company arranges for, and purchases gas storage based upon estimates of the firm sales it expects in the coming winter. Likewise, allocations to the operating divisions are based on projections. By definition, a projection will not be exactly correct, since nobody knows what the weather or customer usage will be before it happens. But since these purchases are made in advance, the use of projections is the only option available. Over the years the Company's estimates of firm sales and allocations to the operating divisions have proven to be very reasonable. The Company continues to hone and adjust its estimation methodology in an ongoing effort to make the best possible projections.

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Audit disclosure 1 suggests that allocations for the cost of storage for the period October 1997 through March 1998 be recalculated based on actual usage data for fiscal 1997. This is not reasonable. Since these purchases are made in advance based on projections, it is not appropriate to base allocations on the prior year's actual data. The actual data for the prior fiscal year is simply not relevant to the period in question, which is October 1997 through March 1998. In fact, it would be unwise and irresponsible for the Company to purchase storage based on the actual data for a single fiscal year. A single year may be an anomaly. The Company's projections are based on a much greater body of data gathered over many years. It would be unreasonable to recalculate the cost of gas for the six months ending March 31, 1998, based on actual allocation data for an unrelated prior fiscal year.

Sincerely,



Michael A. Palecki
Attorney, Regulatory Relations
NUI Corporation

MAP/rt