

REQUEST TO ESTABLISH DOCKET
(PLEASE TYPE)

Date June 26, 2000

Docket No. 000768-GU

- 1. Division Name/Staff Name ECONOMIC REGULATION/MERTA
- 2. OPR ECR
- 3. OCR LEG, RGO, SER, CMP
- 4. Suggested Docket Title REQUEST FOR RATE INCREASE BY CITY GAS COMPANY OF FLORIDA

5. Suggested Docket Mailing List (attach separate sheet if necessary)

- A. Provide NAMES ONLY for regulated companies or ACRONYMS ONLY regulated industries, as shown in Rule 25-22.104, F.A.C.
- B. Provide COMPLETE name and address for all others. (Match representatives to clients.)

1. Parties and their representatives (if any)

2. Interested Persons and their representatives (if any)

OFFICE OF PUBLIC COUNSEL	

6. Check one:
- Documentation is attached.
 - Documentation will be provided with the recommendation.

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PSC/RAR 10 (Revised 01/96)

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

June 26, 2000

NUI Corporation (NYSE: NUI)

RECEIVED
JUN 26 2000
Florida Public Service Comm.
Commissioner Deason

The Honorable Joe A. Garcia, Chairman
The Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Test Year Notification Pursuant to Rule 25-7.140, F.A.C.

Dear Chairman Garcia:

The purpose of this letter is to comply with the notice requirement set forth in Rule 25-7.140, Florida Administrative Code.

City Gas Company of Florida ("NUI City Gas"), a division of NUI Corporation, intends to file a petition for a rate increase with The Florida Public Service Commission on August 25, 2000.

As part of its notification, NUI City Gas submits the following information:

A. Test Year

NUI City Gas intends to use the projected twelve-month period ending September 30, 2001 as the appropriate test year in its forthcoming revenue requirements proceeding. The October 1 through September 30 period corresponds to the Company's fiscal year for purposes of financial reporting and budgeting. The Company has drawn on its budgeting process to project revenues and expenses for the test period. We believe that utilizing the Company's normal budget cycle is appropriate, since it helps to ensure that the conditions that are expected to exist during the projected test year are reflected in the rate case. NUI City Gas intends to use the historical twelve-month period ending September 30, 1999 as the test year for its interim rate request.

B. Major Factors Necessitating an Increase in Rates

The following factors have significantly contributed to the need for a rate increase proceeding with the Commission:

1. Despite the Company's best efforts to control its costs, the rates established in Docket No. 960502-GU, NUI City Gas' last rate case have failed to produce revenues sufficient to provide an adequate return on the Company's investment. The current established range for allowed rate of return for its last Surveillance Reporting period of April 2000 is between 7.03% and 7.69%. NUI City Gas'

actual earned rate of return for the same period is only 5.58%. NUI City Gas projects that absent rate relief, the earned rate of return will continue to fall below the range established as reasonable by the Commission. An inadequate return denies the Company the financial strength and integrity necessary to undertake capital additions designed to improve the Company's quality of service and extend that service to more customers. Rectifying this situation is one of the primary objectives of the forthcoming rate case.

2. Expenses have increased for NUI City Gas. The Florida Public Service Commission recently completed its depreciation study of NUI City Gas in Docket No. 990229-GU. In Order No. PSC-99-2505-PAA-GU, issued December 21, 1999, the Company's depreciation expense was increased \$469,735 annually. Also in 1999, the entire natural gas industry in Florida saw an increase in its Regulatory Assessment Fees paid to the Commission, which is not reflected in the Company's current rates. The Company's O&M expenses have also increased. The Company's O&M expenses are still in line with its industry peers, Florida's investor-owned natural gas local distribution companies. The increase takes on significance when it is combined with other increased expenses and the Company's inability to meet the level of revenue growth projected in the last rate proceeding (see below).
3. Despite aggressive marketing efforts, natural gas throughput from residential and commercial ratepayers has not materialized at the rate projected in the last case. The Company's throughput from these rate classes was substantially less in our proposed historic base year (fiscal 1999) than the throughput level on which our current rates are based. Overall throughput was higher considering all rate classes; however, overall revenues produced by the Company's current rates fell short of the revenues projected in the last case. Our projections for the proposed test year indicate that this will again be true at current rates.
4. NUI City Gas has increased its investment in rate base from \$92 million in 1997 to \$97 million today. Expansion to Clewiston and Belle Glade, Florida, along with normal growth in areas currently served, will increase rate base to \$106 million during the projected test year of 2001. The Company's investment in this expansion will satisfy the Commission-approved criteria of economic feasibility. Rate relief will help allow NUI City Gas to pursue this opportunity that will ultimately benefit all ratepayers.
5. By the close of fiscal 2001, NUI will restructure itself as a holding company and NUI City Gas will emerge as a division of NUI Utilities, Inc., a wholly owned subsidiary. NUI Utilities, Inc. will maintain a capital structure in line with utility industry standards. The Company will ask the Commission to recognize the capital structure of NUI Utilities, Inc. as the appropriate capital structure for determining rates for NUI City Gas.

6. Another objective of this case is to restructure rates to better reflect the true cost of service to our various customer classes. A cost of service study performed consistent with the Commission's methodology will demonstrate that residential customers currently pay less than the cost to serve them. Such distortion causes load in other rate classes to be lost to competitive energy sources to the detriment of all ratepayers. Meaningful progress needs to be achieved in aligning the rates customers pay with the costs the Company incurs to serve them.

7. NUI City Gas has the opportunity to mitigate the potential impact of the requested rate increase on the bills of its sales customers. NUI City Gas will turn back pipeline capacity to Florida Gas Transmission Company this year. The turn-back of this capacity will have a favorable impact on the PGA rate, thus helping reduce the overall effect of rate increases on our sales customers.

The major cost items and a preliminary estimate of their impacts on revenue requirements is as follows. These preliminary estimates are subject to modification as NUI City Gas refines its projections.

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|----|---|-----------------|
| 1. | Expense, including O&M, Depreciation, Amortization and Taxes: | \$4.4 million |
| 2. | Increase in Rate Base (approximately \$14 million): | \$1.3 million |
| 3. | Capital structure changes: | \$0.6 million |
| 4. | Offsetting increase in revenues: | \$(0.6 million) |

C. Steps Taken to Avoid an Increase

1. Since NUI City Gas' previous rate case, NUI Corporation has undergone a corporate reorganization designed to increase efficiency and reduce costs. As a result, certain utility functions (billing for example) have been centralized. These functions are now done better and more efficiently than before when each NUI division may have had duplicative staffs performing the same function. The call centers for NUI's two largest utility divisions have been centralized at a single modern call center in Hialeah. Part of the reorganization effort resulted in the "flattening" of corporate management with the elimination of some senior and upper management positions. Layoffs were required and early retirements were offered to some employees to further reduce costs.

2. The Company has made concerted efforts to increase revenues by increasing natural gas throughput. Through aggressive marketing we have succeeded in connecting new customers and gas load in an economic fashion throughout our franchised territory. Large additions have been made in Port St. Lucie (the GDU System), Homestead (the Homestead Lateral) and Brevard County. Substantial

commercial and industrial customer additions have helped mitigate the overall per customer throughput drop against the levels on which per customer forecasts in the last case were developed.

3. NUI City Gas led the way among Florida natural gas distribution companies in opening its system for transportation in an efficient and economic manner. The Company believes that this will improve customer retention in the long term and promote growth in throughput.
4. NUI City Gas has implemented a variety of cost savings measures at both the local level and the corporate headquarters level. These include items such as improved bidding procedures, increased automation, budgeting and forecasting improvements and the increased use of shared corporate services. At the same time, NUI City Gas has made numerous service level improvements designed to enhance service reliability and customer satisfaction. These include completion of the Brevard system improvements and enhancement of system mapping.

Despite these and other measures, the need to maintain the Company's financial integrity requires NUI City Gas to file a request for a rate increase at this time.

D. Procedure

NUI City Gas requests the Commission to utilize the procedure governing Proposed Agency Action for the processing of its revenue requirements case, as authorized in Section 366.05, Florida Statutes.

NUI City Gas respectfully requests the Commission to approve the period ending September 30, 2001 as the projected test period for the permanent rate increase, and the period ending September 30, 1999 as the historical test period for the interim rate increase.

Sincerely,

**City Gas Company of Florida
A Division of NUI Corporation**

By: Victor A. Fortkiewicz
Victor A. Fortkiewicz
Vice President, Distribution Services