

REQUEST TO ESTABLISH DOCKET  
(Please Type)

Date | 6-23-03 | Docket No. | 030569-GU

1. Division Name/Staff Name: | ECR - SLEMKEWICZ JS

2. OPR: | ECR

3. OCR: | GCL, AUS, CMP

4. Suggested Docket Title: | PETITION FOR RATE INCREASE BY CITY GAS  
COMPANY OF FLORIDA

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

A. Provide NAMES OR ACRONYMS ONLY if a regulated company.

B. Provide COMPLETE NAME AND ADDRESS for all others. (Match representatives to companies.)

1. Parties and their representatives (if any):


2. Interested persons and their representatives (if any):

PUBLIC COUNSEL	

6. Check one:

Documentation is attached.

Documentation will be provided with recommendation.



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June 11, 2003

NUI Corporation (NYSE: NUI)

RECEIVED

JUN 13 2003

Florida Public Service Commission  
CHAIRMAN JABER

Lila A. Jaber, Chairman  
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 Jaber:

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 Utilities, Inc., intends to file a petition for a rate increase with the Florida Public Service Commission on August 12, 2003.

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, 2004 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, although not exclusively, 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, 2002 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. 000768-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

**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

Reporting period of March 2003 is between 7.57% and 8.49%. NUI City Gas' actual earned rate of return for the same period is only 4.00%. 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. O&M Expenses have increased for NUI City Gas. Pension, medical benefits, bad debt and insurance expenses have all increased significantly since the last case. Corporate governance related expenses have also increased as a result of the new Sarbanes-Oxley legislation. The Company believes that its O&M expenses are still in line with its industry peers in Florida, all of whom have experienced similar increases. These increases take on greater significance when combined with 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 has not materialized at the rate projected in the last case. Virtually all of the Company's rate classes fell short of rate case projections in terms of throughput for our proposed historical base year (fiscal 2002). Consequently, in fiscal 2002, overall net revenues (defined as gross revenues less PGA, ECCR and tax revenues) produced by the Company's current rates fell short of the net revenues projected in the last case. Our projections for the proposed test year indicate that this will again be true at current rates.

4. Continued investment in economically feasible projects should increase rate base to approximately \$126 million during the projected test year of 2004. This compares to \$118 million at the end of fiscal 2001, the projected test year for the last rate case. Rate relief will help allow NUI City Gas to pursue additional opportunities that will ultimately benefit all ratepayers.

5. Another objective of this case is to have a rate design that allows us to better track costs to serve the various customer segments, to provide more flexibility to compete for and retain load and to reduce the sensitivity of margins to short-term changes in sales volumes brought about by fluctuations in gas costs and competing alternative fuel prices.

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

Expense (O&M, depreciation, amortization and taxes)	\$ 4.5 million
Revenues	\$ 4.0 million
Rate base	\$ 0.4 million
Capital structure	<u>\$(1.9)million</u>
Total estimated rate increase	<u>\$ 7.0 million</u>

**C. Steps Taken to Avoid an Increase**

1. Since NUI City Gas' previous rate case, NUI Corporation has undergone re-engineering evaluations of certain processes in order to increase efficiency and reduce costs. As a result, the company has restructured along process lines and implemented several recommended projects that should result in cost savings as well as improved customer service in the years ahead. Part of the reorganization effort involved pushing certain corporate service functions into the business units that they served rather than having them as shared services at the corporate level. This included items such as corporate marketing and portions of legal and IT. The utility's sales and marketing function was also restructured. These changes resulted in the elimination of some positions, as well as better accountability.

2. Some of the initiatives undertaken to lower costs include the redesign of the Company's Integrated Voice Response System (IVR) and improving the estimating function. We also negotiated new union contracts that established individual performance standards and provided for individualized salary increases based on performance instead of the traditional union concept of group-based salary increases without regard to performance. This helped to control costs as well as improve productivity. We also reduced operating expense while at the same time improving service levels by bringing work that had been performed by outside service contractors back to the utility. We reduced maintenance and outage costs in Brevard County by completing the Vierra loop and reinforcement expansion into the western portion of the county. Further, we implemented an automated meter reading program for difficult-to-read accounts. This improves customer satisfaction by helping to minimize estimates and eliminates the resulting telephone calls and their associated costs. Also, in order to reduce the impact to the Company of the rising cost of health care and related insurance costs, we have restructured our medical plans to increase deductibles and co-payments, as well as increased the employee share of premiums for health coverage.

3. The Company has made concerted efforts to increase revenues by increasing natural gas throughput and customer growth and aggressively expanding into the

large industrial markets in western Palm Beach County. Growth, however, has been a challenge in the post 9-11 environment. The overall poor economy and record high gas prices have further exacerbated our attempts to grow the Company's industrial base. For the residential and commercial markets we developed divisional growth plans that identify areas for expansion within each of our geographical segments. These plans are designed to increase load and customer counts within each divisional area and are expected to be particularly helpful as the economy improves.

4. NUI City Gas has implemented additional budgetary controls and financial and management reporting tools to help control costs and better predict results on a monthly basis. Predictability of earnings helps to stabilize stock prices, which in turn generally provides better access to capital markets at reasonable prices.

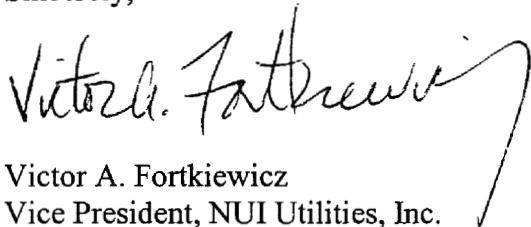
Despite these and other measures, the need to maintain the Company's financial integrity requires NUI City Gas to file a request for a rate increase at this time.

**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 366.06(4)-, Florida Statutes.

NUI City Gas respectfully requests the Commission to approve the period ending September 30, 2004 as the projected test period for the permanent rate increase, and the period ending September 30, 2002 as the historical test period for the interim rate increase.

Sincerely,



Victor A. Fortkiewicz  
Vice President, NUI Utilities, Inc.