ORIGINAL

State of Florida

Public Service Commission

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

DATE: November 13, 2000

TO: Division of Economic Regulation (Revell)

FROM: Division of Regulatory Oversight (Vandiver) DV

RE: Docket No. 000768-GU; City Gas Company of Florida
Audit Report; Rate Case - Projected Test Year Ended September 30, 2001
Audit Control No. 00-264-4-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, they should send it to the Division of Records and Reporting. There are confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
Miami District Office (Welch)
Division of Records and Reporting
Division of Legal Services

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES
Miami District Office

CITY GAS COMPANY OF FLORIDA

RATE CASE AUDIT

PROJECTED TEST YEAR ENDED SEPTEMBER 30, 2001

DOCKETED NO. 000768-GU
AUDIT CONTROL NO. 00-264-4-1

Gabby Leon, Audit Manager

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Ruth Young, Audit Staff

Raymond Grant, Audit Staff

Kathy L. Welch, Audit Supervisor

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DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT

NOVEMBER 6, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying schedules of Rate Base, Capital Structure and Net Operating Income for the historical year ending 9/30/99 and projected year ending 9/30/01 for City Gas Company of Florida Company. There is confidential information associated with this audit.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amount were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed - The exhibit amount were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Confirmed-Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

Verify- The item was tested for accuracy and compared to the substantiating documentation.

RATE BASE : Examined Plant in Service by sampling Construction Work in Progress work orders for the period September 1995 through September 1999. Judgementally selected Plant additions for the period September 1999 to June 2000. Capital expenditures for the projected years 2000 and 2001 were reviewed by staff engineer, Norm Whitman. Examined Land and Land Rights.

Reviewed the company's procedures for recording retirements. Judgementally selected and tested plant retirements to determine if retirements were recorded according to Rule 25-7.0461, Florida Administrative Code, Capitalization Versus Expenses and Uniform Retirements.

Construction Work in Process (CWIP) and Common Plant allocations for the period July 2000 through September 2001 were reviewed by staff engineer, Norm Whitman.

Verified Accumulated Depreciation for one month in historical test year ended September 30, 1999, in projected year end September 30, 2000 and projected year end September 30, 2001.

Examined Acquisition Adjustments and related Accumulated Amortization. Reconciled balances to the general ledger and prior rate case work for the test year. Determined which had never been approved in an order.

Examined Rate Base Adjustments. Obtained supporting documentation for all adjustments to Rate Base and determined if all adjustments in the Commission Order were made.

CAPITAL STRUCTURE: Compiled components of the capital structure for the year ended September 30, 1999 using the surveillance audit. Verified that the non-regulated assets supported by the utility's capital structure were removed from the capital structure in the rate base/capital structure reconciliation. Obtained supporting documentation for forecast from the company. Reviewed answers related to 2001 with Tallahassee staff and obtained more documentation. Due to time restrictions, the answers were not reviewed.

NET OPERATING INCOME: Compiled utility revenue, operating, and maintenance expense accounts for the year ended September 30, 1999.

Revenues: Performed an analytical review of revenues from 1995 to 2001. Compiled revenues for the fiscal year end September 30, 99. Recomputed the revenue according to the billing register and compared with the amounts reported in the minimum filing requirements. Recalculated customer billing for each rate class. The scope was limited in that we did not review the forecasted revenues or the methodology. These are being reviewed by the Tallahassee staff.

Expenses: Prepared an analytical review comparing prior two years expenses to fiscal year end September 30, 1999 to determine the expense accounts to select for audit. Determined which accounts were trended for projected fiscal year end September 30, 2001 based on a factor, and which were budgeted. For those trended, examined expenses of selected accounts for fiscal year ended 9/30/99 by selecting transactions randomly on a judgmental basis. For those budgeted, the appropriate assumptions and documentation were reviewed for reasonableness.

Tested the method of allocating charges to and from the utility and all affiliates, subsidiaries, divisions and non-regulated operations. Verified intercompany charges to and from divisions, subsidiaries, affiliates, and non-regulated operations to determine if an appropriate amounts of costs were allocated. Assumptions and documentation were reviewed for budgeted amounts to determine reasonableness.

Tested the calculation of depreciation expense for fiscal year end September 30, 1999.

Recalculated the expense projected for fiscal year end September 30, 2001. Verified the method of allocating projected fiscal year end September 30, 2001 depreciation on common plant with the engineer's report.

Examined support for taxes other than income for 1999 and reviewed to determine the relationship to the utility. Determined the percent of increase of 2001 over 1999. Selected high accounts to review the forecast methodology.

Recalculated income taxes using adjusted balances for both 1999 and 2001.

Compiled and recalculated adjustments to Net Operating Income and traced to last rate case Order PSC-96-1404-FOF-GU.

OTHER: Read Internal audits and external audit working papers. Read Board of Directors minutes.

AUDIT EXCEPTION NO. 1

SUBJECT: STRUCTURES AND IMPROVEMENTS

STATEMENT OF FACT: In the Company's projected test year common Plant allocation on Schedule G-1 page 20, the company has removed from plant $147,963 of the $197,284 included in plant for the 1995 renovation of the 1001 building (the new call center). This left $49,321 in Plant in Service.

Accumulated Depreciation included in account 390 on Schedule G-1 page 22 is $23,280 of this total, $17,460 was allocated to non-utility. In 1999, the Company let this lease lapse for 6 months. When it was reacquired, it was reacquired by NUI for the new call center. At that time the inside was cleared and completely redone.

According to the Code of Federal Regulations 34 CFR 201, retirements are accounted for by crediting the book cost to the plant account and debiting the Accumulation Depreciation by the same amount.

OPINION: The old renovations should be retired and removed from the rate case. Therefore, the Company should make the following entry to the books:

	Debit	Credit
Accumulated depreciation	$197,284	
Plant (account 390-1001 Building)		$197,284

Because a portion of this amount removed in a common plant adjustment, common plant adjustment should be debited by $147,963 and common plant accumulated depreciation credited by $147,969. The Company should also remove $1,233 ($4,931 total 2001 depreciation expense times 25% utility related) of depreciation expense related to this plant account for 2001.

AUDIT EXCEPTION NO. 2

SUBJECT: CAPITAL LEASES

STATEMENT OF FACT: The company made an adjustment in October 1999 and reclassified it in December 1999, to record capital leases for transportation equipment for both City Gas and NUI. These costs and the associated accumulated amortization are recorded in the projected rate base numbers. (City Gas-plant in service and NUI-common plant allocation)

According to Generally Accepted Accounting Principles (GAAP), these leases are supposed to be amortized. Instead, City Gas has recorded the costs of the lease in account 880.

NUI has followed GAAP and depreciated the asset instead of recording the lease expense.

OPINION: City Gas should have recorded amortization expense instead of recording the lease payments in account 880-Other Expenses. However, adjusting this expense will have no effect on net operating income.

AUDIT EXCEPTION NO. 3

SUBJECT: ACCOUNTS RECEIVABLE - OTHER

STATEMENT OF FACT: Upon the review of Accounts Receivable-Other, it was determined that the account contained appliance related items. The company did not exclude the non-utility portion from this account. The average historical balance for accounts 143.001, 143.002, 142.001 and 143.361 totals $259,608. The forecasted average balance for 9/2001 is $341,553.

OPINION: The company should remove the non-utility portion of this account.

If the company's allocation percentage for 2001 of 12.5% is used, the adjustment would be $42,694. Using the new 2001 non-regulated percentage determined in a later Disclosure in this report of 21.51%, this would reduce the working capital by $73,468.

AUDIT EXCEPTION NO. 4

SUBJECT: ACCOUNT 154 - PLANT AND OPERATIONS MATERIALS AND SUPPLIES

STATEMENT OF FACT: Account 154 includes materials and supplies used for the appliance business according to a company representative. The company did not exclude the non-utility portion from this account. The average historical balance as of 9/99 is $1,321,725 and the forecasted average balance for 9/2001 is $1,073,810.

OPINION: The company should remove the non-utility portion of this account. If the company's allocation percentage for 2001 of 12.5% is used, the adjustment would be $134,226. Using the new 2001 non-regulated percentage determined in a later disclosure in this report of 21.51%, this would reduce the working capital by $230,977.

AUDIT EXCEPTION NO. 5

SUBJECT: LEGAL FEES CHARGED BOTH TO 923-OUTSIDE SERVICES TRENDED EXPENSES AND PROJECTED ACQUISITION ADJUSTMENT EXPENSES

STATEMENT OF FACT: City Gas incurred $38,013.05 of legal fees related to the acquisition of the Homestead lateral during 1999. These costs were charged to account 923-Outside Services in 1999 and trended up by three percent in 2000 and again in 2001. Total costs included in account 923 in 2001 for these costs were $40,328.04. In preparing the projections for the acquisition adjustment the company properly included these costs with the acquisition adjustment but did not reduce account 923.

OPINION: The costs need to be removed from account 923. The total costs of $40,328.04 should be removed from expense and increase net operating income. The state tax effect of this adjustment is $2,218 and the federal is $12,957.41.

AUDIT EXCEPTION NO. 6

SUBJECT: AFTER HOURS DISPATCH

STATEMENT OF FACT: City Gas is now using Elizabethtown Dispatching service to dispatch its after hours calls. The company was previously using a local answering service. The costs for this new service are included in the customer care costs in account 923-Outside Services. The costs were based on a budget of $1,642,573 and allocated to City Gas at 25% or $411,053.89.

The budget that was used, however, was for the entire Elizabethtown dispatching cost and not just after hours costs.

OPINION: City Gas was asked to arrive at a more reasonable methodology. For two weeks in September, the company monitored the number of calls on all shifts. During the first week, 32% of all calls were after hours calls and during the second, 35%. The company averaged these at 34% and allocated the total budget of $1,642,573 at 34% or $558,475. The company then allocated these costs based on customer counts at May 2000. Based on these counts, City Gas would be allocated 29% of the after hours costs or $161,958.

This reduces the expenses and increases net operating income by $249,096. The state tax effect would be an increase of $13,700 and federal of $80,035.

AUDIT EXCEPTION NO. 7

SUBJECT: COLLECTIONS AND CUSTOMER CARE

STATEMENT OF FACT: City Gas has consolidated the customer care and collections operations for Elizabethtown utility and appliance business and City Gas utility and appliance business in Miami. Expenses for accounts 901 and 903 were reduced in the projected year because of this change and account 923-NUI management fee was increased. The 903 and 923 account amount that was for customer care was based on budgeted numbers for five divisions: 218, 219, 220, 237, and 252. Department 220 was previously handled in Elizabethtown and department 252 was in North Carolina. Therefore, there is no possibility of costs related to these departments being included in 1999 City Gas costs and trended forward for these two divisions.

The company also reduced account 901 and 903 for some of these costs. Charges for these departments were made to accounts other than 901 and 903 that were trended up. The charges are shown on the following schedule and total $74,263 after trending.

OPINION: Accounts that appear in City Gas 1999 expenses that were trended should be reduced for charges to Customer Care that were not charged to accounts 901 and 903 since the costs recorded in 1999 should be included in the budget for those divisions.

The total expense reduction according to the attached workpaper is $74,263. The state tax effect is an increase of $4,084 and the federal is an increase of $23,861.

CITY GAS CO.
CUSTOMER CARE DIVISION 237
COSTS CHARGED TO ACCOUNTS OTHER THAN 901 AND 903
AUDITOR: KATHY WELCH
DATE: OCTOBER 23, 2000

ACCOUNT CHARGED	AMOUNT		PAYROLL TREND	INFLATION TREND	TOTAL
416	27,096	NOT TRENDED			0
920	7,853	PAYROLL TREND	7,853		7,853
874	7,993	PAYROLL TREND	7,993		7,993
880	1,354	INFLATION		1,354	1,354
923	54	INFLATION		54	54
870	19,538	INFLATION		19,538	19,538
880	162	INFLATION		162	162
921	2,191	INFLATION		2,191	2,191
921	11,565	INFLATION		11,565	11,565
926	22,078	NOT TRENDED			0
921	7,267	INFLATION		7,267	7,267
879	478	INFLATION		478	478
880	545	INFLATION		545	545
912	10,671	INFLATION		10,671	10,671
880	20	INFLATION		20	20
	118,865		15,846	53,845	69,691
	TRENDING RATE 2000		1.04	1.03	
			16,480	55,460	71,940
	TRENDING RATE 2001		1.04	1.03	
	REMOVE FROM FORECAST EXPENSES		17,139	57,124	74,263

AUDIT EXCEPTION NO. 8

SUBJECT: RENT EXPENSE FOR CALL CENTER

STATEMENT OF FACT: The rent for the call center (1001 Building) was included in two accounts. Six months of the rent, or $28,194 was included in 1999 expenses for account 931. These expenses were trended up by three percent in 2000 and 2001. Therefore, the total expense amount included in account 931 for 2001 was $29,911. The call center operations are now considered part of NUI and were included in account 903 based on a budgeted amount and then allocated to City Gas at 25%.

The company also included $75,000 of rent for this building in the projection for the call center in this budget. Actual rent for the building is $67,092 including tax. The $75,000 was allocated at 25% to City Gas utility business. The difference between actual and the lease is $7,908. Therefore, the forecast for the call center in account 903 is overstated by $1,977 (7,908*.25).

OPINION: The rent in account 931 is overstated by $29,911 and the rent included in account 903 after allocation is overstated by $1,977. This reduces operating expenses and increases net operating income by $31,888. The effect on state taxes is an increase of $1,754. The effect on federal income tax is an increase of $10,246.

AUDIT EXCEPTION NO. 9

SUBJECT: BILLING DONE BY AN AFFILIATE COMPANY

STATEMENT OF FACT: Billing costs of $822,679 in account 903 were forecast using a budget for Utility Billing Service, an affiliate company that does the City Gas billing. Although Utility Billing Service was performing this task in 1999, these costs were included in account 921 at $664,000. The forecast increased costs in 2001 over the amount removed from 1999 by 24%.

Review of the amount removed from the trended accounts in 1999 revealed that the reason for the increase was that the company did not remove a monthly entry of $18,546 for Utility Business Service overhead that was included in account 921 (subaccount 619787) and the true-ups totaling $21,003 that were made in September of 1999. The company left these amounts in the other trended amount of $763,904 in account 921. The total for the twelve months of 1999 is $222,552 less the $21,003 for the true up or $213,823 in 2001 after trending at 3% for two years. This reduces the other trended costs in account 921 to $608,856 in 2001.

In addition to the increases, neither City Gas or Utility Billing Service have allocated costs to the leased customers. The charge for the leased appliances appears on the customers bill. 27.87% of customers are leased appliance customers.

OPINION: The $201,549 that relates to the budgeted Utility Business Services that was included in trended accounts should be removed from 1999 expenses and trended up at 3% for 2000 and 2001 or $213,823. The state tax effect of this adjustment is $11,760. The federal tax effect is $68,701.

The costs for projected bill production on Schedule G-2 page 15 in account 903 of $822,679 and the related postage of $440,007 (total $1,262,686 reduction to expense) should be allocated to the appliance business at 27.87% or $351,911. The state income tax effect of this adjustment is an increase of $19,355 and the federal is an increase of $113,069.

	HISTORIC BASE YEAR 09/30/99	HISTORIC YEAR +1 09/30/00	PROJECTED TEST YEAR 09/30/01
ACCOUNT 921			
OTHER TRENDED-GAS CONTROL AND ENERGY PLANNING	562,355	581,226	596,603
OTHER TRENDED UBS ENTRY	201,549	207,595	213,823 A
PER MFR OTHER TRENDED	763,904	788,821	810,426
The UBS amount should have been in the bill production below.	(201,549)	(207,595)	
Net after staff adjustment	562,355	581,226	
BILL PRODUCTION MOVED TO 903 PER MFR	664,000	683,920	
This should have included the other trended UBS above.	201,549	207,595	
Net after staff adjustment	865,549	891,515	
ACCOUNT 903			
BILL PRODUCTION PER MFR TRANSFERRED FROM 921 IN 2001			822,679
POSTAGE PER MFR	342,174	352,439	440,007
Total projected for 2001 for bill production that should be allocated			1,262,686
PERCENT OF CUSTOMERS LEASED			27.87%
			351,911
STATE TAX RATE			5.50%
STATE TAX			19,355
NET EXPENSE			332,556
FEDERAL TAX RATE			34.00%
FEDERAL TAX			113,069

A: TAX EFFECT OF REMOVING UBS COSTS FROM TREND	213,823
STATE TAX RATE	5.50%
STATE TAX	11,760
NET EXPENSE	202,063
FEDERAL TAX RATE	34.00%
FEDERAL TAX	68,701

AUDIT EXCEPTION 10

PAGES 16 AND 17

CONFIDENTIAL

AUDIT EXCEPTION NO. 11

SUBJECT: AMERICAN GAS ASSOCIATION DUES

STATEMENT OF FACTS: For the fiscal year end 9/30/99, AGA dues were charged to account 921 in the amount of $35,161.24 and account 930 in the amount of $2,969.28; for a total of $38,130.52. Of this amount, 20% ($7,626) was credited and charged to North Carolina, leaving a total of $30,504.52. This amount was trended to determine projected 9/30/01 expense based on a general inflation rate of 3%, resulting in $32,363 included in 9/30/01 expenses on Schedule G-2 of the filing. Also, the company made an adjustment on Schedule G-2 of the filing to reduce expenses for AGA dues in the amount of $4,045. A 10% adjustment was made in the prior rate case by the Commission.

The total AGA invoice for dues for the year end 9/30/99 was $201,655. Of this amount, according to company documentation, 14.39% should have been allocated to City Gas. This allocation is based on operating income. Applying this percent to the total results in a charge to City Gas of $29,005 for the year.

OPINION: The trended expense for Projected 9/30/01 for AGA dues should be reduced to reflect the 14.39% allocation documented by the company. At the same time, the adjustment reducing the expense by 10% should also be changed to reflect the new trended amount.

	Company Calculation	Staff Calculation	Difference
Amount for 9/30/99	30,505	29,005	(1,500)
Trended for 9/30/00	103.00%	103.00%	103.00%
	31,420	29,876	(1,545)
Trended for 9/30/01	103.00%	103.00%	103.00%
	32,363	30,772	(1,591)
10% Reduction	(4,045)	(3,077)	968
Net amount allowed for AGA dues	28,318	27,695	(623)

Also, the NARUC Committee on Utility Association Oversight performed an analysis of the American Gas Association dues and determined percents for different categories of dues. This will be reviewed by the Tallahassee staff.

AUDIT EXCEPTION NO. 12

SUBJECT: **SUPERVISION AND ENGINEERING EXPENSE PROJECTED FOR FYE 9/30/01 IN ACCOUNT 870.**

STATEMENT OF FACTS: The company budgeted $270,557 for project development for fiscal year end 9/30/01 in account 870-Supervision and Engineering on Schedule G-2, Page 12 of 34 of the filing. The total amount budgeted by NUI Headquarters before allocation to City Gas Operations was $541,114. According to documentation provided by the company, the expenses consist of labor, outside consultants, car allowances, training, administration, travel, communications, and materials and supplies. The administration could consist of negotiating terms of the agreement, financial analysis, and among other items preliminary drawings. It may also include some permitting, environmental studies and other expenses.

The City Gas projects that are involved in the $270,557 budget are:
Clewiston Expansion Project (East/West)
Praxair's Mims Project (Brevard)
Montenay Power Corp (Dade)
Florida International University Project
Landfill Gas Projects (Brevard)
Miscellaneous Florida Natural Gas Procurement Program Projects

Capital item vs. Expense
The company said that it is recording these items as expenses rather than capital items because of the American Institute of Certified Public Accountants Statement of Position 98-5 "Reporting on the Costs of Start-up Activities" (SOP 98-5).

However, 18 CFR Chapter 1, Balance Sheet Account 183.2, Other preliminary survey and investigation charges, states: "This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation, ..." "If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be made to account 426.5, Other Deductions, or the appropriate operating expense account."

Timing of Capital Projects
These projects are projected for fiscal year end 2001. The PSC engineering staff report recommends that two of these projects be excluded from rate base as they do not appear to be ready to be started in fiscal year end 9/30/01. They are the Praxair's Mims Project in Brevard and the Landfill Gas Projects in Brevard. Also, the Florida International University Project is not included in the projected capital budget for 9/30/01.

The engineering report does not come to a conclusion regarding the Clewiston project.

OPINION: (1) It appears that the expenses that are involved in this budget should be included, according to the CFR, in account 183.2.

OPINION: (2) It is necessary to determine whether the capital expansions on the projects involved will take place in fiscal year end 9/30/01 before these items are determined to be included in projected 9/30/01 as either an expense, stay part of Account 183.2 or be included in the capital project costs. If the costs are kept in Account 183.2, they should be included in working capital. The schedule attached to this disclosure allocates the $270,557 to each of the projects based on the projected cost of the project to the total.

COMPANY: CITY GAS COMPANY
TITLE: ANALYSIS OF CAPITAL PROJECTS AND EXPENSES PROJECTED FOR 2001
PERIOD: FISCAL YEAR END 9/30/01

ATTACHMENT TO DISCLOSURE REGARDING SUPERVISION AND ENGINEERING EXPENSE PROJECTED FOR FYE 9/30/01 IN ACCOUNT 870.

Description of Project	Capital Amount	% of Total	Allocation of Account 870	Engineering Analysis
Clewiston Expansion Project (East/West)	17,648,800	88.3774%	239,111	Not yet decided
Praxair's Mims Project (Brevard)	1,275,000	6.3846%	17,274	Not in 2001
Montenay Power Corp (Dade)	600,000	3.0045%	8,129	In 2001
FIU Project	Cannot locate	Project in projected data		
Landfill Gas Projects (Brevard)	126,000	0.6310%	1,707	Not in 2001
Miscellaneous Florida Natural Gas Procurement Program - SF Center	320,000	1.6024%	4,335	In 2001
	19,969,800	1.0000	270,557	

AUDIT EXCEPTION NO. 13

SUBJECT: ALLOCATION TO NON-UTILITY

STATEMENT OF FACT: Account 880 Other Expense and 874 Mains & Services on Schedule G-2 includes general expenses of $596,489 that were not allocated to the appliance business. A breakdown of the expense accounts that were not allocated to the appliance business follows:

Account	Sub-Act	Description	Amount
874	615730	Bldg Facilities-Utilities	$ 106,822
880	608788	Bldg Serv.-O/S Other Maintenance	$ 12,984
880	614299	Bldg Serv.-General Supply	$ 208,574
			$ 328,380

These expenses included maintenance on the buildings and electricity for buildings that were removed in the common plant allocation. The company used 12.5% to allocate administrative costs to the appliance business. A disclosure later in this report states that 21.51% should be used to allocate utility expense to non-regulated activities

OPINION: If the total expenses of $328,380 were allocated at 12.5%, the reduction to expenses would be $44,854 as shown below. The state tax effect of this adjustment is an increase of $2,467 and the federal is an increase of $14,412. If the total expenses of $328,380 were allocated at 21.51%, the reduction to expenses would be $74,936 as shown below. The state tax effect of this adjustment is an increase of $4,121 and the federal is an increase of $24,077.

Total Expenses	$328,380
Non-Utility Allocation %	21.51%
Non-Utility Amount	$ 70,634
Trended Up For 2000 at 1.03%	$ 72,754
Trended Up For 2001 at 1.03%	$ 74,936
Less: State Tax (5.5%)	$ 4,121
Subtotal	$ 70,815
Less: Federal Tax (34%)	$ 24,077

Total Expenses	$328,380
Non-Utility Allocation %	12.5 %
Non-Utility Amount	$ 42,279
Trended Up For 2000 at 1.03%	$ 43,547
Trended Up For 2001 at 1.03%	$ 44,854
Less: State Tax (5.5%)	$ 2,467
Subtotal	$ 42,387
Less: Federal Tax (34%)	$ 14,412

AUDIT EXCEPTION NO. 14

SUBJECT: A & G ALLOCATION TO NON-UTILITY

STATEMENT OF FACT: City Gas removed $82,423 from expenses on Schedule G-2, page 2 to allocate administrative and general expenses to the appliance business. This adjustment was based on an adjustment made in the audit of the last rate case. For the year 2001, City Gas included $695,387 of expenses and used an allocation for non-utility of 12.5% which resulted in the $82,423. The 12.5% allocation did not include the leased appliance customers in the number of customer allocation.

OPINION: Including these customers increases the factor to 21.51% (see the attached schedule). If the $695,387 of expenses were allocated at 21.51%, the reduction to expenses would be $141,834 instead of $82,423 or a difference of an additional $59,411 that needs to be removed from expenses. The state tax effect of this adjustment is an increase of $3,268 and the federal is an increase of $26,913.

CITY GAS CO.
ADJUSTED ALLOCATION FACTOR
TEST YEAR ENDED SEPTEMBER 30, 2001

	CITY GAS REGULATED	CITY GAS APPLIANCE	TOTAL
GROSS PAYROLL	5,002	1,565	6,567
GROSS PLANT	180,984	26,595	207,579
NUMBER OF CUSTOMERS	100,719	38,920	139,639
PERCENT OF TOTAL PAYROLL	76.17%	23.83%	100.00%
PERCENT OF TOTAL PLANT	87.19%	12.81%	100.00%
PERCENT OF TOTAL CUSTOMERS	72.13%	27.87%	100.00%
TOTAL	235.48%	64.52%	
AVERAGE OF THREE	78.49%	21.51%	
AVERAGE USED BY CO. 2001		12.20%	
DIFFERENCE-ADDITIONAL NEEDS TO BE ALLOCATED		9.31%	

AUDIT EXCEPTION NO. 15

SUBJECT: PROJECTED 2001 GROUP INSURANCE AND BENEFITS

STATEMENT OF FACTS: Included in expenses for projected year end 2001 in Account 926 are:

1. Benefits for City Gas employees in the amount of $803,844.

2. Benefits billed from NUI for employees that work for NUI and allocate part of their time to City Gas in the amount of $1,313,407.

These two items are included in Schedule G-2, page 17 of the filing.

When asked for documentation, the company replied that the amounts that were budgeted in the filing were preliminary and also included an error. The company supplied documentation for a revised budget.

The revised budget for group insurance for City Gas employees is $606,876 and the revised amount for benefits for employees allocated from NUI is $964,731. The company explained that the reasons for the difference is that it removed budgeted amounts for non-regulated business employees (appliance and propane).

The original amounts in the rate case exhibits included non-regulated business employees. These amounts were adjusted out of the projected 2001 expenses on Schedule G-2 of the filing, Page 2. The amount removed for the appliance business is $2,026,256. Of that amount, $356,949 applies to benefits. In a separate adjustment to the projected expenses on G-2 p. 2, the company removed $577,680 for benefits for customer care employees.

An audit of the revised budgeted amounts indicates that there are no non-regulated business employees included in either the City Gas portion or the amounts allocated from NUI. Since the company removed appliance customer benefits in these revised amounts, leaving the adjustment in on Schedule G-2, page 2 of the filing would duplicate the removal. It, therefore, needs to be removed.

Also, included in the amounts allocated from NUI is a credit for pension expense. This is addressed in another disclosure in this report.

OPINION: The revised 2001 budget decreases expense in the amount of $545,644. The change in the adjustment to remove non-regulated business employees increases expenses in the amount of $934,629. This is a net increase in expenses of $388,985. The schedule attached details the accounts and schedules affected. The state tax effect is $21,394 and the federal tax effect is $124,981.

COMPANY: CITY GAS COMPANY
TITLE: GROUP INURANCE PROJECTED FOR 01
PERIOD: PROJECTED 01

Schedule attached to Exception regarding Group Insurance in Account 926

Account 926	Projected 01 Per MFR G-2,pg17	Projected 01 Revised Amounts	Reduce Expenses	State Tax 5.5%	Fed Tax 34%
Group Insurance for City Gas Employees	803,844	606,876	(196,968)		
Group Insurance for NUI allocated Employees	1,313,407	964,731	(348,676)		
Included in G-2 Operating Expense			(545,644)	(30,010)	(175,315)

Account 926	Co. Adjustment to Projected 01 G-2, Page 2	Staff Revised Adjustments	Increase Expenses		
Appliance Business Adjustment - Group Insurance Part	(356,949)	0	356,949		
Customer Care	(577,680)	0	577,680		
			934,629	51,405	300,296
NET INCREASE TO EXPENSE			388,985	21,394	124,981

AUDIT EXCEPTION NO. 16

SUBJECT: CAPITALIZED BENEFITS REDUCTION TO EXPENSES

STATEMENT OF FACTS: In its projected expenses in account 926 for fiscal year end 9/30/01 included in Schedule G-2, page 17 of 34 of the filing, the company included a reduction of benefits for capitalized labor in the amount of $142,991.90. The capitalized labor was budgeted by the company in the amount of $408,548, and a 35% benefit amount was applied.

We determined that certain engineering labor included in the capital budget was not included when applying the 35% benefit rate. Also, the documentation for the 35% rate showed that the rate, based on historical 9/30/99, is 38%. This rate is determined by dividing the total payroll taxes and benefits for historical 9/30/99 by the total labor for historical 9/30/99.

OPINION: The expenses in account 926 should be reduced in the amount of $31,910, and utility plant in service should be increased in the same amount. Attached to this exception is a schedule detailing the calculations. The effect of state taxes is $1,755.05, and the effect of federal taxes is $10,262.68.

COMPANY: CITY GAS CO
TITLE: CAPITALIZED BENEFITS
PERIOD: PROJECTED YEAR END 9/30/01

EXHIBIT TO CAPITALIZED BENEFITS EXCEPTION

RC	DESCRIPTION	2001 Budgeted Capital Labor	2001 Budgeted Revised	Difference
145	Distribution-Brevard	60,052	60,052	
146	Engineering-Brevard	127,796	127,796	
141	Distribution-Meter Shop	12,000	12,000	
149	Engineering-Port St.Lucie	0	51,720	
143	Engineering-Miami	208,700	208,700	
		408,548	460,268	
		35.00%	38.00%	
		142,992	174,902	31,910

AUDIT EXCEPTION NO. 17

SUBJECT: PROJECTED FYE 9/30/01 DEPRECIATION AND AMORTIZATION EXPENSE

STATEMENT OF FACTS: According to Schedule G-2, Page 26 of 34 of the filing, the total depreciation and amortization expense projected for FYE 9/30/01 is $6,458,774. This is the amount audited by staff. This differs from the amount included in Schedule G-2, page 1 of 34 (Calculation of the Projected Test Year-Net Operating Income-Summary) which is $6,622,601 before company adjustments. The company explained the amount on the Net Operating Income summary of $6,622,601 is incorrect and that the expense is overstated on that schedule.

OPINION: The amount of depreciation and amortization expense on Schedule G-2, page 1 of 34 of the filing should be reduced as follows:

	Depreciation and Amortization Expense
MFR G-2, Page 26 of 34	$6,458,774
MFR G-2, Page 1 of 24	$6,662,601
Reduction to Expense	($ 163,827)

The federal tax effect is $52,638 and the state tax effect is $9,010.

AUDIT EXCEPTION NO. 18

SUBJECT: BELOW THE LINE EXPENSE

STATEMENT OF FACTS: The Company incurred late fees of $3,540 related to past due amounts for vehicles leased from S&S Express Car Rental, Inc. in December 1998. These expenses were recorded in account 880 Other Expenses, Sub account 613376 Vehicle Fleet Rental. A breakdown of the late charges are presented below.

VEHICLE. NO	VEHICLES DESCRIPTION	SER #	TAG #	LATE FEES
RETURNED VEHICLES				
541	91 CHEVY/S10 PK	0M8160084	TDU11Z	$ 210.00
774	93 CHEVY	4PE133970	H6869M	$ 180.00
702	93 CHEVY PK	9PE211685	TDU47P	$ 210.00
770	94 CAVALIER	5R7312021	NGK071	$ 165.00
771	94 CAVALIER	9R7312362	NGK51I	$ 165.00
838	96 LUMINA	3T9140139	NGK70B	$ 165.00
702	93 CHEVY PK	9PE211685	TDU47P	$ 210.00
770	94 CAVALIER	5R7312021	NGK071	$ 165.00
MONTH TO MONTH LEASE VEHICLES				
715	93 CHEVY PK	7PE211348	TDU50P	$ 210.00
782	94 CHEVY UTIL-WLIFT	8RE273152	PTL90G	$ 165.00
785	94 CHEVY UTIL-WLIFT	7RE270971	NGK74A	$ 165.00
775	94 CHEVY	7RE193633	QYY96E	$ 165.00
783	94 CHEVY UTIL-WLIFT	3RE270790	NGK30A	$ 165.00
718	93 CHEVY PK	5PE240282	PBG27M	$ 210.00
784	94 CHEVY UTIL-WLIFT	8RE270462	TDU33P	$ 165.00
LEASE ENDS 1/13/99				
738	94 CHEVY	5RE15777	PJU66G	$ 165.00
739	94 CHEVY	9RE156180	PJU65G	$ 165.00
LEASE ENDS 12/24/98				
794	94 CHEVY	2RE303914	RNH94E	$ 165.00
795	94 CHEVY	5RE306063	RNH96E	$ 165.00
LEASE ENDS 3/13/2000				
862	95 CHEVY 3/4 TON	2SF240002	TDU359	$ 165.00
TOTAL				$3,540.00

Trended Up For 2000 at 1.03	$3,646.00
Trended Up For 2001 at 1.03	$3,775.58
Less:State Tax (5.5%)	$ 206.55
	$3,569.13
Time Federal Tax (34%)	$1,213.47
Total	$2,355.66

OPINION: Late fees are to be recorded below the line. Therefore, the forecasted 2001 expenses related to this item of $3,775.58 are to be reduced. The state tax effect related to this item is $206.55 and the federal tax effect is $1,213.47.

AUDIT EXCEPTION NO. 19

SUBJECT: INCOME TAXES

STATEMENT OF FACT: When calculating the interest synchronization on Schedule G-3 page 2 for the projected 2001 year, the company used an interest per books number of $4,955,250. The interest that was included in the per books tax calculation for projected year 2001 was $5,225,425. This is a difference of $270,675.

The company also expensed for tax purposes the amortization of debt discount of $67,656 and the amortization of the loss on reacquired debt of $42,660. This totals $110,316.

OPINION: The interest synchronization adjustment needs to be changed to reflect the per books 2001 number that was forecast. Using a 5.5% state tax rate and a 34% federal tax rate, this would change the interest synchronization adjustment to $64,240 for state and $375,277 for federal. The difference between these amounts and those recorded on G-3 page 2 and adjusted on G-2 page 3 is $14,887 for state and $86,968 for federal. This adjustment increases tax expense by a total of $101,855.

Since the amortization of debt discount and the loss on reacquired debt is included in the calculation of the cost of debt, it needs to be determined if reducing income in the calculation of tax expense is proper treatment. If it is removed, it will increase state tax by $6,067 and federal tax by $35,445 or a total increase of $41,512.

AUDIT EXCEPTION NO. 20

SUBJECT: PROPERTY TAXES

STATEMENT OF FACTS: The utility did not allocate property taxes to non-utility operations. Also, property taxes include an estimate of approximately $391,170 for the east-west pipeline expansion. A 2.3010% composite factor was applied to the east-west investment amount of $17 million.

OPINION: Property taxes for non-utility properties are approximately $15,261. The tax amount used is from the 2000 property tax bill. The non-utility factors used are from Schedule G-1 page 17. See the attached schedule for calculation.

The state tax and federal tax are $839 and $4,903, respectively. The after tax adjustment if $9,518.

Non-Utility Allocation - Property Taxes

Location	2000 Proposed Amount	Non-Utility %	Proposed Non-Utility Allocation
Miami 955 E. 25 st	22,526.67	41%	9,235.93
Miami 933 E. 25 st	13,606.74	19%	2,585.28
Titusville	1,239.21	58%	718.74
Rockledge	9,383.97	29%	2,721.35
			15,261.31

The above tax amount is the due in March amount. The discount for payment in November is usually 4%. Therefore, staff did not increase the above 2000 tax amounts to reflect the 3% increase for 2001 used by the company. The net effect would not be material.

AUDIT EXCEPTION NO. 21

SUBJECT: NET OPERATING INCOME SCHEDULE G-1

STATEMENTS OF FACTS: The amounts included in Schedule G-1, page 1 of the filing for operation and maintenance expenses and conservation expenses for historical plus one (FYE 9/30/00) are different in some cases from the supporting documentation in the rate case exhibits.

Although FYE 9/30/00 does not affect the projected FYE 9/30/01 expenses, the use of incorrect amounts on G-1 for operation and maintenance expenses could be misleading when comparing three years of expenses from that schedule.

Schedule G-1 includes operation and maintenance expenses in the amount of $24,755,781 for historical plus one, and conservation expense in the amount of $2,079,967 for the same period. This is also on Schedule G-2, page 4. These amounts are a combination of 8 months actual and four months budget for the fiscal year end 9/30/00. It was determined that an error was made in calculating the eight months actual expenses. The total 8 months according to the general ledger and four months budget is $21,043,990 rather than $24,755,781.

The company's schedule G-2, page 18, included trended and budgeted operating and maintenance expenses for $20,553,547 in the historical year plus one. The total amount for conservation expenses on that schedule is $2,016,495. The expenses are a combination of certain accounts trended based on actual 9/30/99 balances, and fiscal year end 2000 budgets for other accounts.

On schedule G-1, page 1 and G-2, page 18, projected 2001 expenses are trended numbers based on actual 9/30/99 and budgeted amounts for 2001.

OPINION: The company used actual and budget amounts on its lead schedule G-1 for historical plus one. However, for projected 2001 on G-1, the company used trended numbers based on actual 9/30/99 and budgeted amounts for 2001.

The error in calculation and mismatch of data on G-1 does not affect the final outcome for projected 01. However, the use of incorrect amounts for operating and maintenance expense on G-1, and the use of different types of data for the expenses could be misleading when comparing the three years of expenses shown on Schedule G-1, page 1. A schedule detailing the differences follows this exception.

COMPANY: CITY GAS CO
TITLE: HISTORICAL PLUS ONE
FYE 9/30/00
PERIOD: PROJECTED 9/30/01

Schedule attached to Audit exception regarding NOI Schedule G-1.

Comparison of G-1

	Revised Historical plus one 8 mos actual 4 mos budget FYE 9/30/00	Projected 01 FYE 9/30/01	Percent Change
O&M	21,043,990	22,981,629	9.2076%
Conservation	2,079,967	2,308,203	10.9731%
	23,123,957	25,289,832	

	Totally Projected FYE 9/30/00	Projected 01 FYE 9/30/01	Percent Change
O&M	20,553,547	22,981,629	11.8134%
Conservation	2,016,495	2,308,203	14.4661%
	22,570,042	25,289,832	

AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: PROJECTED PLANT

STATEMENT OF FACT: The Company has included in its filing and in its projected plant documentation, projects that, according to our engineers, were on hold or canceled. A schedule of these projects with dollar values follows.

Staff engineer, Norm Whitman will be addressing this issue in his report.

SCHEDULE NO. 1

PROJECT ANALYSIS

Project Name	Status	Account	Actual FY 1999	Budget FY 2000	Actual FY 2001	Total
Doral Park	On Hold	376.10	$35,066.81		$95,000.00	$130,066.81
	On Hold	380.10	$224.83			$224.83
	On Hold	380.20	$2,403.50			$2,403.50
7th Street	Cancelled	376.20	$13,564.32		$140,000.00	$153,564.32
		380.20	$10,324.98			$10,324.98
		382.10	$462.56		$90.85	$553.41
Dade County School	Cancelled	382.10		$100,075.20	$100,000.00	$200,075.20
Residential Mains	Cancelled	376.20		$120,000.00		$120,000.00
TOTAL			$62,047.00	$220,075.20	$335,090.85	$617,213.05

AUDIT DISCLOSURE NO. 2

SUBJECT: ACQUISITION ADJUSTMENTS

STATEMENT OF FACT: The Company has included in its filing the following Acquisition Adjustments for 2001:

	AMOUNT	ACCUMULATED AMORTIZATION	AMORTIZATION EXPENSE
GDU	$745,001.00	$70,174.00	$24,080.00
Vero Beach Lateral	$182,010.00	$24,267.00	$6,066.96
Homestead Lateral	$553,572.00	$29,216.00	$18,452.00

These Acquisition Adjustments have not been approved by the Commission. According to the Company the Vero Beach Lateral and the Homestead Laterals were fully depreciated when purchased by City Gas Company. Staff spoke to Mr. John Long from the Florida Gas Transmission and he verified that indeed these projects were fully depreciated.

AUDIT DISCLOSURE NO. 3

SUBJECT: ALLOCATION OF COMMON PLANT

STATEMENT OF FACT: According to the engineer's report, nine adjustments for the common plant allocations were made. All adjustments resulted in decreases to the projected test year gas plant in service on Schedule G-1 p.1 of 28 of the filing. Please, refer to the engineer's report for the accounts and the adjusted amounts.

OPINION: The adjustments of the common plant allocations would also decrease accumulated depreciation and depreciation expenses.

AUDIT DISCLOSURE NO. 4

SUBJECT: REGULATORY LIABILITY-GAIN ON SALE OF PROPERTY

STATEMENT OF FACTS: In August of 1997, City Gas sold its Medley property for a gain of $788,169. The company properly recorded the amount attributed to the regulated portion of $180,556 above the line. This portion of the gain has not been amortized. Commission Order No. 11628 for Florida Power Corp., issued February 1983, stated that gains should be amortized over a five year period. Also, the unamortized portion of the gain should be included as a cost-free liability in the working capital allowance.

The liability which includes the $180,556 balance is not included in the working capital allowance.

OPINION: The yearly amortization should be $36,111 based on the gain of $180,556. The average unamortized balance as of 9/99 is $120,371 and as of 9/01 would be $48,148. Therefore, the working capital allowance for the projected year should be reduced by $48,148.

Amortization of Gain on Sale - over 5 years

	Balance	Average		
8/97	$180,556			
8/97	177,547		monthly amortization	3,009
9/97	174,537			
9/98	138,426		yearly amortization	36,111
9/99	102,315	120,371		
9/00	66,204	84,259		
9/01	30,093	48,148		

AUDIT DISCLOSURE NO. 5

SUBJECT: UNCOLLECTIBLE ACCOUNTS

STATEMENT OF FACT: City Gas has included $508,000 in 1999 for uncollectible accounts in account 904 in operating expenses. It has included $840,000 in the year 2001 projection for this account. This is a 65% increase in the account. Revenues projected for 2001 increased 8.3% over 1999 revenues. The utility has included its budgeted 2001 costs for collections in account 923 under its customer care costs. The budget was based on its planned collection activities and was not based on 1999 costs. Richard Gruber's testimony discusses the company's increased efforts to improve the high level of uncollectible accounts including credit card acceptance, telephone check acceptance, reminder calls, increased training for collections representatives, third party field collections, and skip tracing. The average percent of uncollectible accounts to revenue for the last three years is .76623%. Projected revenue is 64,230,185. For interim rates, staff used a four year history of .62888% to compute uncollectible expense.

OPINION: The company has included increased costs for its uncollectible recovery effort in projected 2001 expenses and implemented new programs to reduce uncollectible accounts. However, City Gas has increased uncollectible expenses in account 904 for the projected year 2001 by 65% over 1999. If uncollectible accounts were reduced to a three year average rate, uncollectible accounts for 2001 would be $492,150.94 ($64,230,185*.76623%). This would reduce the expense and increase net operating income by $347,849.06 ($840,000-$492,150.94). State tax expense would increase by $19,132 and federal by $111,764.

If uncollectible accounts were reduced to a four year average rate of .62888%, or $403,879.40 ($64,230,185*.62888), the expenses would be reduced and net operating income increased by $436,120.60 ($840,000-$403,879.40). State tax expense would increase by $23,987 and federal by $140,125.

AUDIT DISCLOSURE NO. 6

SUBJECT: **EXPENSES FOR CLEWISTON CAPITAL EXPANSION PROJECTED IN ACCOUNTS 874 AND 878 FOR FISCAL YEAR END 9/30/01**

STATEMENT OF FACTS: The company projected a capital expansion for the Clewiston project in the amount of $15.8 million for the fiscal year end 9/30/01.

Associated with this are operating and maintenance expenses projected for fiscal year end 9/30/01 in Accounts 874, Mains and Services, in the amount of $52,000 and Account 878, Mains, in the amount of $66,000.

Th company explained that "the O&M expense for the East-West pipeline (Clewiston project) was estimated based on a staff of two full time persons in the Okeechobee area. These two proposed employees are to be responsible for all aspects of operating and maintenance (patrolling, line locates, leak survey, cathodic maintenance, valve maintenance, pressure control and scada work, etc.)." Of the amounts projected, $45,000 is for annual salary and benefits in each of the accounts. These are not planned employee additions, but rather contracted.

OPINION: Before these expenses are determined to be reasonable, it is necessary to determine whether the capital expansion will take place in fiscal year end 9/30/01. The PSC engineering report will address this. The engineer should also determine whether this is a reasonable amount for operating and maintenance expenses in the first year.

AUDIT DISCLOSURE 7

CONFIDENTIAL

PAGES 45, 46 AND 47

AUDIT DISCLOSURE NO. 8

SUBJECT: **PENSION EXPENSE BUDGETED FOR PROJECTED 01 IN ACCOUNT 926**

STATEMENT OF FACTS: For the Fiscal Year End 9/30/01 the company projected a credit to pension expense in the amount of $120,000 on Schedule G-2, page 17 or 34 of the filing. This amount was estimated by the company's actuaries, Towers Perrine. A formal report was not available at the time of this audit. However, Towers Perrine indicated that its calculations assume that the plan assets grow 5% from June 30, 2000 values and are adjusted for benefit payments. The discount rate is assumed to continue to be 7.5%.

Also, included in Account 926 is an allocation from NUI for benefits for employees who allocate time to City Gas as discussed in another exception in this report. Part of the expenses in this allocation is a credit for pension expense. The expense is calculated as follows:

NUI Headquarters Credit	($ 919,632)
% to City	19.7%
Credit to City	($ 181,168)
ETG Credit	($2,455,876)
Headcount % to City	23%
	($ 564,851)
%to City	19.7%
	($ 111,275)

OPINION: The company should be asked at the time of hearing whether this amount has been revised.

AUDIT DISCLOSURE NO. 9

SUBJECT: ALLOCATION FACTOR

STATEMENT OF FACT: NUI prepares an allocation factor using three factors: labor, plant, and customers. There are no customers shown on the matrix that calculates the factor for the appliance businesses for Elizabethtown, City Gas, or North Carolina. Elizabethtown and North Carolina do not lease appliances like City Gas does. Using customers for appliance sales would not be comparable to utility customers. Including leased appliance customers would result in a higher allocation to City Gas than the other customers and would create a mismatch with the other division appliance businesses.

However, this matrix is also used for allocating costs between City Gas utility business and the appliance business. To not include leased appliance customers when performing this allocation results in an understatement of costs being allocated to the appliance business.

This allocation factor is used in the common plant allocation, the allocation of many expenses and in many of the filing adjustments. A revised allocation factor calculation follows.

OPINION: Since number of customers cannot be determined for all NUI businesses, a more appropriate allocation factor should be used. Revenue may be a more appropriate factor to replace number of customers in the three factor methodology and should be used in future allocations. A schedule of only City Gas factors was prepared and is attached to this disclosure. It changes the appliance allocation within City Gas from 12.2 to 21.51%. To correct allocations that have already been made the following adjustments are needed.

1. Total working capital allocated to non-regulated activities in 2001 was ($1,223,629) and was allocated by the company at 12.5% or ($152,954). If the 21.51% is used, $263,203 should be added to working capital or an additional $110,249.

2. The company made an allocation for administrative and general expenses which is being adjusted in a separate disclosure.

3. NUI corporate costs were allocated using different factors for each division. Most were allocated using the Common Services 1 allocation which included all businesses and divisions. The amounts allocated to regulated and non-regulated City Gas operations are shown on the following page. These accounts are totaled and reallocated at 21.51%. This would increase the allocation to non-regulated services for NUI corporate costs by $519,273.

4. The customer care costs that were included in the projected year were allocated

using the 12.5% factor to non-regulated operations. The total customer care costs for both regulated and non-regulated are $1,982,110. At 21.51%, $426,352 should have been charged to the appliance business and $1,555,758 should have been charged to the regulated operations. The actual amount charged in the filing was $1,734,347. Therefore, an additional $178,589 needs to be removed from the customer care expenses.

5. Group insurance allocated from NUI headquarters and from Elizabethtown were both allocated using the matrix and were included in 926 costs. The total of regulated and non-regulated amounts allocated were $1,072,466.50. The amount budgeted and allocated to regulated account 926 in the rate case is $964,739, a difference of $107,736. If the $1,072,466.50 was allocated at 21.5%, $230,688 would be removed. Therefore, an additional $122,952 should be removed from expenses.

CITY GAS CO.
ADJUSTED ALLOCATION FACTOR
TEST YEAR ENDED SEPTEMBER 30, 2001
AUDITOR: KATHY WELCH
DATE: OCTOBER 23, 2000

	CITY GAS REGULATED	CITY GAS APPLIANCE	TOTAL
GROSS PAYROLL	5,002	1,565	6,567
GROSS PLANT	180,984	26,595	207,579
NUMBER OF CUSTOMERS	100,719	38,920	139,639
PERCENT OF TOTAL PAYROLL	76.17%	23.83%	100.00%
PERCENT OF TOTAL PLANT	87.19%	12.81%	100.00%
PERCENT OF TOTAL CUSTOMERS	72.13%	27.87%	100.00%
TOTAL	235.48%	64.52%	
AVERAGE OF THREE	78.49%	21.51%	
AVERAGE USED BY CO. 2001		12.20%	
DIFFERENCE-ADDITIONAL NEEDS TO BE ALLOCATED		9.31%	

CITY GAS CO.
ALLOCATIONS FROM NUI

	REGULATED	NON-REGULATED	TOTAL	TOTAL TIMES 21.51%
301	103,115	13,405	116,520	25,063
332	110,357	14,346	124,703	26,824
219	218,629	28,002	246,631	53,050
281	52,749	6,756	59,505	12,800
286	88,121	19,846	107,967	23,224
298	3,092	380	3,472	747
290	87,588	10,780	98,368	21,159
362	26,432	3,253	29,685	6,385
412	146,393	18,017	164,410	35,365
401	269,059	33,115	302,174	64,998
408	66,008	8,124	74,132	15,946
413	244,371	30,076	274,447	59,034
414	39,808	4,900	44,708	9,617
415	137,926	16,975	154,901	33,319
000	323,212	39,773	362,985	78,078
470	282,786	34,804	317,590	68,314
471	63,677	7,837	71,514	15,383
472	134,191	16,516	150,707	32,417
473	16,647	2,049	18,696	4,022
474	34,974	4,305	39,279	8,449
477	48,534	5,973	54,507	11,724
479	95,572	13,782	109,354	23,522
482	246,675	30,360	277,035	59,590
501	29,188	3,593	32,781	7,051
502	64,945	7,993	72,938	15,689
503	169,174	20,821	189,995	40,868
506	480,876	59,185	540,061	116,167
507	110,787	13,636	124,423	26,763
512	46,230	5,690	51,920	11,168
514	151,097	18,597	169,694	36,501
551	91,498	11,261	102,759	22,103
553	135,217	16,642	151,859	32,665
556	51,428	6,330	57,758	12,424
557	43,866	5,399	49,265	10,597
561	72,490	8,922	81,412	17,512
563	75,107	9,244	84,351	18,144
871	77,183	9,499	86,682	18,645
572	34,888	4,294	39,182	8,428
	4,473,890	564,480	5,038,370	1,083,753
ACTUAL CHARGED TO NON-REG FOR NUI CORP. ACCOUNTS ABOVE				564,480
ADJUSTMENT				519,273

AUDIT DISCLOSURE NO. 10

SUBJECT: FRANCHISE AND GROSS RECEIPT REVENUES

STATEMENT OF FACT: The company incorrectly used the 9/97 Franchise/Gross Receipt Revenues to calculate the 9/99 Net Operating Income adjustments. Below is the revision of 9/99 Net Operating Income Revenue Adjustments, total revenues, and the forecasting of Franchise/Gross Receipt Revenues.

Adjustment Title	Per G/L	Per Filing	Difference
Operating Revenues			
Cost of Gas	(23,280,148)		
Off-System Sales	(19,018,130)		
Franchise/Gross Receipts Revenues	(2,334,388)		
ECP Revenues	(1,967,551)		
Total Revenues Adjustments	(46,600,217)	(47,349,461)	749,244

Operating Revenues	Per Books	Adjustments	Adjusted
Schedule G-2	78,350,986	(47,349,461)	31,001,525
Recalculated by staff	78,350,986	(46,600,217)	31,750,769
Difference			(749,244)

The operating revenues was understated by $749,244.

Recalculation of projected gross receipt & franchise taxes

Projected Test Yr. Total Revenues	Historic Base Yr. Total Revenues	Increase in Revenues	Per G/L Gross Receipt & Franchise Taxes	Projected Test Year Gross Receipt Franchise & Taxes
33,574,637	31,001,525	1.0830	2,334,388	2,528,141
			Company's Filing	2,523,902
			Difference	2,239
			Difference in Percentage	0.00886%

OPINION: The company forecasted the gross receipt & franchise taxes based on therms sales and usage not on the historical data of gross receipt & franchise taxes. When staff recalculated the projected gross receipt & franchises taxes using the factor of the increase in revenue (1.083) from above, the difference between the recalculated taxes and company's forecasted taxes was diminutive. Thus, the forecasting of the gross receipt and franchise taxes by the company was correct.

AUDIT DISCLOSURE NO. 11

SUBJECT: ACCOUNT 924 INSURANCE

STATEMENT OF FACTS: Account 924, according to MFR G-2, page 17 of 34 is trended using the general inflation factor of 3%. The historical amount for 9/30/99 is $35,401. This is in subaccount 619814. The total trended for projected 9/30/01 is $37,557.

Documentation provided by the company indicates that subaccount 619814 is the nonregulated portion of a combination of all insurances, which are general liability, workmen's compensation, and property insurance.

This subaccount was not removed from expenses in the appliance adjustment at 9/30/01 on MFR G-2, page 2 of 34.

OPINION: If this is the nonregulated portion of insurance expense, it should not be included in the trended expenses.

COMPANY EXHIBITS

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: CITY GAS COMPANY OF FLORIDA
A DIVISION OF NUI CORPORATION

DOCKET NO. 000768-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH AVERAGE RATE BASE FOR THE HISTORIC BASE YEAR, THE HISTORIC BASE YEAR PLUS ONE, AND THE PROJECTED TEST YEAR.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 09/30/99
HISTORIC BASE YEAR + 1: 09/30/00
PROJECTED TEST YEAR: 09/30/01
WITNESS: R. CLANCY

		Historical Base Year (1999)			Historical Base Year + 1 (2000)	Projected Test Year (2001)		
Line No.	Description	Average Unadjusted	Company Adjustments	Average Adjusted	Average Unadjusted	Average Unadjusted	Company Adjustments	Average Adjusted
	UTILITY PLANT							
1	GAS PLANT IN SERVICE	$ 143,756,865	$ 3,041,377	$ 146,798,242	$ 156,451,363	$ 169,205,682	$ -	$ 169,205,682
2	COMMON PLANT ALLOCATED	-	665,093	665,093	-	-	555,877	555,877
3	ACQUISITION ADJUSTMENT	30,337,093	(29,188,220)	1,148,873	30,810,354	31,184,548	(29,370,230)	1,814,318
4	CONSTRUCTION WORK IN PROGRESS	5,242,621	(4,093,626)	1,148,995	2,829,654	6,709,934	-	6,709,934
5	TOTAL	179,336,579	(29,575,376)	149,761,203	190,091,371	207,100,164	(28,814,353)	178,285,811
	DEDUCTIONS							
6	ACCUMULATED DEPRECIATION - UTILITY PLANT	58,563,873	(870,236)	57,693,637	63,541,520	67,713,522	-	67,713,522
7	ACCUM. DEPR. - COMMON PLANT ALLOCATED	-	(256,399)	(256,399)	-	-	(5,359)	(5,359)
8	ACCUM. AMORTIZATION - ACQUISITION ADJ'TS	10,573,358	(10,208,116)	365,242	11,595,214	12,629,164	(12,201,852)	427,312
9	TOTAL DEDUCTIONS	69,137,231	(11,334,751)	57,802,480	75,136,734	80,342,686	(12,207,211)	68,135,475
10	UTILITY PLANT, NET	110,199,348	(18,240,625)	91,958,723	114,954,637	126,757,478	(16,607,142)	110,150,336
	ALLOWANCE FOR WORKING CAPITAL							
11	BALANCE SHEET METHOD	(18,208,266)	20,995,036	2,786,770	(21,062,910)	(33,279,225)	37,115,659	3,836,434
12	TOTAL RATE BASE	$ 91,991,082	$ 2,754,411	$ 94,745,493	$ 93,891,727	$ 93,478,253	$ 20,508,517	$ 113,986,770
13	NET OPERATING INCOME	$ 5,254,796	$ 205,925	$ 5,460,721	$ 4,922,383	$ 3,280,858	$ 1,290,301	$ 4,571,159
14	RATE OF RETURN	5.71%		5.76%	5.24%	3.51%		4.01%

SUPPORTING SCHEDULES: B-2 p 1, G-1 pp 2, 4, 5 & 7, G-5

RECAP SCHEDULES

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: CITY GAS COMPANY OF FLORIDA
A DIVISION OF NUI CORPORATION

DOCKET NO.: 000768-GU

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13 MONTH AVERAGE COST OF CAPITAL FOR THE PROJECTED TEST YEAR

TYPE OF DATA SHOWN:
PROJECTED TEST YEAR: 09/30/01
WITNESS: R. CLANCY

			Adjustments							
Line No.	Description	Per Books	To Conform with Ratio of Investor Sources	Specific	Pro Rata	Adjusted	Ratio	Cost Rate	Weighted Cost	Consolidated Investor Sources
1	COMMON EQUITY	37,348,761	13,649,387	-	(8,913,718)	42,084,430	36.92%	11.70%	4.32%	43.38%
2	LONG TERM DEBT	53,645,942	5,924,882	-	(10,412,094)	49,158,730	43.13%	6.54%	2.82% a	50.67%
3	SHORT TERM DEBT	26,572,040	(19,574,269)	-	(1,223,106)	5,774,665	5.07%	8.00%	0.41% a	5.95%
4	CUSTOMER DEPOSITS	5,596,459	-	-	-	5,596,459	4.91%	6.73%	0.33% a	
5	DEFERRED TAXES	20,221,678	-	(9,732,846)	-	10,488,832	9.20%	0.00%	0.00%	
6	TAX CREDIT	883,654	-	-	-	883,654	0.78%	0.00%	0.00%	
7	TOTAL	144,268,534	-	(9,732,846)	(20,548,918)	113,986,770	100.00%		7.88%	

INTEREST SYNCHRONIZATION CALCULATION			
RATE BASE		$113,986,770	
x WEIGHTED AVERAGE COST OF DEBT	(SUM OF "a")	3.56%	
SYNCHRONIZED INTEREST		4,057,929	
INTEREST PER BOOKS		4,955,250	
INTEREST PER BOOKS OVER SYNCHRONIZED INTEREST CALCULATED		897,321	
STATE TAX @	5.50%	49,353	49,353
		847,968	
FEDERAL TAX @	34.00%		288,309
TOTAL INCOME TAX ADJUSTMENT			$337,662

SUPPORTING SCHEDLES: G-1 pp 7 & 8, G-3 p 3-8

RECAP SCHEDULES: A1, A5, G2 p 3

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: CITY GAS COMPANY OF FLORIDA
A DIVISION OF NUI CORPORATION

DOCKET NO. 000768-GU

EXPLANATION: PROVIDE THE CALCULATION OF NET OPERATING INCOME PER BOOKS FOR THE HISTORIC BASE YEAR, THE PROJECTED NET OPERATING INCOME FOR THE HISTORIC BASE YEAR + 1, AND THE PROJECTED TEST YEAR.

TYPE OF DATA SHOWN:
HISTORIC BASE YEAR DATA: 09/30/99
HISTORIC BASE YEAR + 1: 09/30/00
PROJECTED TEST YEAR: 09/30/01
WITNESS: R. CLANCY

		Historical Base Year (1999)			Historical Base Year + 1 (2000)	Projected Test Year (2001)		
Line No.	Description	Per Books	Company Adjustments	Adjusted	Per Books	Per Books	Company Adjustments	Adjusted
1	OPERATING REVENUE:							
2	OPERATING REVENUES	78,350,986	(47,349,461)	31,001,525	95,868,874	61,790,681	(30,655,548)	31,135,133
3	REVENUE RELIEF	-	-	-	-	-	-	-
4	CHANGE IN UNBILLED REVENUES	-	-	-	(2,799)	-	-	-
5	REVENUES DUE TO GROWTH	-	-	-	482,548	2,439,504	-	2,439,504
6	TOTAL REVENUES	78,350,986	(47,349,461)	31,001,525	96,348,623	64,230,185	(30,655,548)	33,574,637
7	OPERATING EXPENSES:							
8	COST OF GAS	41,404,438	(41,404,438)	-	53,776,860	25,004,943	(25,004,943)	-
9	OPERATION & MAINTENANCE	21,826,748	(4,546,255)	17,280,493	24,755,781	22,981,629	(3,387,549)	19,594,080
10	CONSERVATION COSTS				2,079,967	2,308,203	(2,308,203)	-
11	DEPRECIATION & AMORTIZATION	5,288,697	524,911	5,813,608	6,082,404	6,622,601	344,687	6,967,288
12	REVENUE RELATED TAXES	-	-	-	2,394,768	2,523,902	(2,523,902)	-
13	TAXES OTHER THAN INCOME	4,596,848	(3,208,794)	1,388,054	2,585,746	2,909,103	(385,800)	2,523,303
14	INCOME TAXES FEDERAL	(700,739)	911,067	210,328	(492,200)	(1,195,200)	1,126,949	(68,251)
15	INCOME TAXES - STATE	(119,952)	155,955	36,003	(92,709)	(204,594)	192,912	(11,682)
16	DEFERRED TAXES - FEDERAL	659,628	-	659,628	252,607	(35,037)	-	(35,037)
17	DEFERRED TAXES - STATE	152,690	-	152,690	83,016	33,777	-	33,777
18	INVESTMENT TAX CREDITS	(12,168)	12,168	-	-	-	-	-
19	TOTAL OPERATING EXPENSES	73,096,190	(47,555,386)	25,540,804	91,426,240	60,949,327	(31,945,849)	29,003,478
20	NET OPERATING INCOME	5,254,796	205,925	5,460,721	4,922,383	3,280,858	1,290,301	4,571,159

SUPPORTING SCHEDULES: C-1, G-2 pp 2-5

RECAP SCHEDULES: G1 p1, A4