



Public Service Commission

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DATE: November 4, 2003
TO: Division of Economic Regulation (Brinkley)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030569-GU; **Company Name:** City Gas Company of Florida; **Audit Purpose:** Rate Case for Year Ended Actual September, 2002, Projected Year Ended September 2004; **Audit Control No.** 03-252-4-1

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, it should send the response to the Division of the Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
 Division of the Commission Clerk and Administrative Services (2)
 Division of Competitive Markets and Enforcement (Harvey)
 General Counsel
 Office of Public Counsel

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FLORIDA PUBLIC SERVICE COMMISSION

**DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING**

Miami District Office

**CITY GAS COMPANY
RATE CASE
YEAR ENDED ACTUAL SEPTEMBER, 2002
PROJECTED YEAR ENDED SEPTEMBER 2004
DOCKET NO. 030569-GU
AUDIT CONTROL NO. 03-252-4-1**

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Gabriela Leon, Audit Manager

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Iliana Piedra, Audit Staff

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Kathy Welch, Public Utilities Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT
OCTOBER 31, 2003**

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described in this report to audit the Rate Base, Cost of Capital and Net Operating Income Schedules for the projected period ended September 30, 2004 for City Gas Company of Florida. These schedules were prepared by the utility as part of its petition for a rate increase as part of docket number 030569-GU.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must 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.

Confidential documents were received in performing this audit.

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 amounts were reconciled with the general ledger, and accounts were scanned for errors or inconsistency.

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

Examined - The exhibit amounts were reconciled with the general ledger. The general account balances were traced to the 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.

Verified - The item was tested for accuracy, and substantiating documentation was examined.

Rate Base: Traced components to detailed schedules and reviewed adjustments for NUI plant and common plant and accumulated depreciation. Tested additions to NUI plant since the last audit and traced common plant allocations to the common plant study. Obtained supporting documentation for 2004 additions. Compiled all acquisition adjustments and reconciled to last rate case. Traced amount approved since the last rate case to Commission Order and recalculated accumulated amortization. Traced adjustment made for non-approved amounts to last rate case and to company's testimony; verified that the related amortization is not above the line.

Reconciled actual working capital accounts to company's balance sheet; recalculated adjustments made; read Commission Orders for the two last rate cases for possible adjustments. Verified charges for selected accounts. Reconciled 2004 forecast balances to company's forecast balance sheet; recalculated forecast adjustments and compared to historical. Analyzed assumptions used for various components and recalculated amounts.

Utility Plant-in-Service: Reviewed the list of projects expected to be closed to plant in projected test year 2004 as well as documentation supporting the basis for the projected construction expenditures. Agreed projected expenditures to contracts, estimates and proposals.

Compiled plant balances for September 2002 through September 2003. Reconciled the 2003 budgets used to project plant additions for June 2003 through September 2003 on Schedule G-1 Monthly Plant Additions which supports Schedule G1 Historic Year +1 page 9 of 28.

Compiled plant balance for September 2001 through September 2002 on Schedule G1-Monthly Plant Balances.

Compiled plant retirements for September 2002 through May 2003 on Schedule G1-Monthly Plant Retirements on page 25 of 28. Retirement entries from the retirement ledger were agreed to the retirement recorded on the plant detail schedule.

Construction Work In Process (CWIP): Compiled CWIP. Reviewed detailed charges in CWIP by projects, and agreed the charges to invoices, journal entries and contracts.

Accumulated Depreciation & Depreciation Expense: Recalculated Accumulated Depreciation & Depreciation Expense for fiscal year ended 2002, 2003, and 2004 using the appropriate depreciation rates and the 13-month average plant from the general ledger.

Traced the amortization of the leased vehicles booked in the Other Depreciation to the general ledger for fiscal years ended 2002 and 2003. Verified the recording of the leased vehicles by reviewing the lease invoices and randomly recalculated the amortization of some leases.

Cost of Capital: For forecast 2004 reconciled City Gas balances to the books. Recalculated the adjustment to conform with ratio of investor sources. Traced the specific adjustment to last rate case workpapers. Recalculated the pro-rata adjustments.

Long-term and short-term debt rates were recalculated. For long-term debt the capital leases, outstanding amounts were traced to City Gas or Elizabethtown balance sheets. The interest expense was recalculated, however, it was not fully tested due to time limits.

Cost of Capital was traced to the company's reconciliation to rate base.

Net Operating Income Adjustments (NOI): NOI adjustments were traced to proper supporting documentation.

Revenue: Read the testimony and obtained support documentation such as the forecast

of the customer growth, sales degree days, and the new rates. Reviewed the large commercial volume customers' bills for reduction or discontinuation in term usage due the economic conditions. Recalculated franchise and gross receipt taxes and customer growth rates.

Traced the actual revenue for fiscal years ended 2002 and 2003 to the general ledger. Randomly recalculated customers' bills for the fiscal year ended 2002 using the rates from the tariff.

Operating and Maintenance Expenses: Traced Operating and Maintenance expenses for the test year ended 9/30/02 to the company's general ledger. Tested accounts that were trended based on year 2002 actuals and accounts that were trended using actual test year ending May 2003. Accounts requested by the analysts to be reviewed, were also sampled as well as accounts that showed a high increase from the year 2001 to 2002 on the analytical review. The analytical review was prepared using the company's annual reports for the years 2001 and 2002. The preliminary budget that was used to forecast certain accounts was audited. The fiscal year ended 2003 was compared to projected 2004.

Examined NUI corporate operating and maintenance (O&M) accounts and allocations to City Gas Company of Florida (CGCF) for the fiscal year ended September 30, 2002. Chose a judgmental sample of O&M expenses and examined the invoices for supporting documentation. Reviewed and recalculated the trended NUI corporate O&M accounts and allocations to CGCF for projected fiscal year ended September 30, 2004. Reviewed the preliminary budget NUI corporate O&M accounts and allocations to CGCF for the projected fiscal year ended September 30, 2004.

The taxes other than income taxes were recalculated by taking actual filed payroll times the payroll rate, revenue times the tax rates and recalculating the actual 2003 property tax and determining the assessed value and percent of tax to assessed value.

Income tax expense and interest synchronization were recalculated.

Other: Read board of directors minutes and internal and external outside auditor workpapers.

AUDIT EXCEPTION NO. 1

SUBJECT: FISCAL 2004 PROJECTED PURCHASED OF COMPUTERS

STATEMENT OF FACT: On Schedule G1-Calculation of Projected Test Year Rate Base, Page 10 of 28, for fiscal year September 2004, the company has projected expenditures of \$125,000 for new computers. The \$125,000 is included in account 391-Office Furniture & Equipment. The company could not provide supporting documentation for the projected purchases of the computers and we recommend that the \$125,000 along with the associated accumulated depreciation and depreciation expense be removed until these projected purchases could be substantiated.

AUDIT EXCEPTION NO. 2

SUBJECT: NUI PLANT ALLOCATIONS FOR 2004

STATEMENT OF FACT: In the 2004 rate base adjustments in the filing, on G-1 page 4 of 28, the company included \$8,128,138 for an allocation from NUI for its common plant. This amount included projected 13-month average plant at 2004 of \$33,715,065.68 which included 2004 additions of \$7,618,655.82 and was allocated to City Gas at 20.2%. It also included a work order system allocated 100% to City Gas in the amount of \$110,000 (13-month average \$25,384.52), and a new billing system for \$6,000,000 (13-month average of \$4,515,384.62) allocated at 28%.

OPINION: The company provided a list of budget items totaling \$7,670,533 to support the \$7,618,633.82 of additions. Supporting documentation including a description of the project and contracts or estimates received to date were requested from the company. Descriptions were received for \$2,359,990 of these proposed additions. No contracts or estimates were provided. Included in the descriptions of the projects was a statement saying that the Wintel Stabilization of \$445,200 was cancelled from the budget. We never received which months any of these projects were included in the budget to determine the 13-month average effect of adjusting any of these projects out. In addition, because the answers to the request were received after the end of field work, we were unable to determine the amount of associated accumulated depreciation and depreciation expense that related to these items. The 13-month average effect of the \$445,200 for the cancelled project should be removed along with the associated accumulated depreciation and depreciation expense. The reasonableness of the other projects should be determined. The 2004 fiscal year of the company has already begun and if these projects are to take place, estimates should be available.

The company also reported that they had cancelled the budget project for the \$6,000,000 billing system. The 13-month average effect should be removed from 2004 rate base, \$4,515,384.62. The 13-month average accumulated depreciation associated with this addition is \$321,161.54 and is included in the adjustment of \$3,821,245 to 2004 rate base for accumulated depreciation on G-1 page 4. Depreciation expense of \$793,269 for the billing system was included in the depreciation adjustment for NUI plant of \$1,131,596 in the operating and maintenance adjustments on G-2 page 2 of 34. All of these amounts should be removed.

AUDIT EXCEPTION NO. 3

SUBJECT: NUI PLANT ADDITIONS 1999 TO 2003

STATEMENT OF FACT: Additions to the NUI plant accounts since the last rate case until 2003, were selected from the detail of the general ledger for the plant accounts. These additions are included in the total allocation of NUI plant of \$8,128,138 (including 2004 projections discussed in exception 2) which is included in the G-1 schedules on page 4 of 28. A summary of the additions tested follows this exception.

OPINION: Several issues with the sample of additions to NUI plant are identified in the attached schedules. The company included costs to build out leasehold improvements for its tenants. They included these costs because they also included the rent associated with the rent of the space. However, in another disclosure in this report, we recommended that only the utility portion of the rent be included and the rent from the tenants would be removed to below the line.

In addition, several invoices were never received. The detail for the plant accounts was requested on 9/23/03 and received on 10/2/03. The sample was selected that day and requested on 10/2/03. A portion of the supporting documentation for the sample was received on 10/15/02, 10/17/02 and 10/21/02.

Some invoices related to leasehold build-outs for affiliate companies and should have been directly billed to those companies. A detail of each charge to the ledger reviewed and the amount removed from the NUI rate base allocation follow. The total adjustment to NUI plant for these adjustments is \$3,986,575.50. Since the company used 20.2% to allocate these plant accounts to City Gas, these adjustments would reduce rate base adjustment of the company of \$8,128,138 by \$805,692.25. Since these additions are before the test year, there would be no difference in this amount and the 13-month average amount.

Because several of the requests for questions about the invoices were received after the end of field work, we were unable to determine the accumulated depreciation and depreciation expense associated with these items.

The \$805,692.25 should be removed from the NUI plant allocation in the adjustments to rate base for 2004 and the company should provide the associated accumulated depreciation and depreciation expense for the attached items.

CITY GAS COMPANY OF FLORIDA
 ANALYSIS OF TESTING OF NUI PLANT ADDITIONS
 TEST YEAR ENDED SEPTEMBER 30, 2002 PROJECTED 2004

AMOUNT	ACCOUNT	DESCRIPTION	REMOVE	MONTH	YEAR
400,000.00	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	400,000.00	5	2001
181,216.00	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	181,216.00	5	2001
111,307.97	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	111,307.97	6	2001
151,510.34	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	151,510.34	6	2001
240,110.54	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	240,110.54	6	2001
197,916.88	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	197,916.88	7	2001
76,306.19	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	76,306.19	7	2001
69,112.00	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	69,112.00	2	2002
15,807.00	390.10	HVAC LEASEHOLD IMPROVEMENTS-NOT SURE IF FOR TENANT OR UTILITY		2	2002
25,822.83	390.10	HVAC LEASEHOLD IMPROVEMENTS-NOT SURE IF FOR TENANT OR UTILITY		2	2002
5,840.60	390.10	HVAC LEASEHOLD IMPROVEMENTS-NOT SURE IF FOR TENANT OR UTILITY		2	2002
11,364.06	390.10	NEVER RECEIVED HVAC	11,364.06	2	2002
50,882.28	390.10	HVAC LEASEHOLD IMPROVEMENTS-NOT SURE IF FOR TENANT OR UTILITY		2	2002
107,997.30	390.10	LEASEHOLD IMPROV. RELATED TO PLAZA-JE BUT NO INVOICES PROVIDED	107,997.30	2	2002
620.00	390.10	NEVER RECEIVED LEASEHOLD IMPROVEMENTS PLAZA		3	2002
119,846.92	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	119,846.92	7	2002
24,045.99	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	24,045.99	7	2002
16,043.10	390.10	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	16,043.10	7	2002
1,805,750.01		TOTAL ACCOUNT REVIEWED	1,706,777.30		
2,661,124.36		ENDING BALANCE PER LEDGER			
855,364.35		BEGINNING BALANCE PER LEDGER			
1,805,760.01		ADDITIONS			
100.00%		PERCENT OF ADDITIONS REVIEWED			

CITY GAS COMPANY OF FLORIDA
ANALYSIS OF TESTING OF NUI PLANT ADDITIONS
TEST YEAR ENDED SEPTEMBER 30, 2002 PROJECTED 2004

AMOUNT	ACCOUNT	DESCRIPTION	REMOVE	MONTH	YEAR
33,345.42	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	33,345.42	10	2001
103,371.59	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	103,371.59	10	2001
6,432.94	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	6,432.94	11	2001
5,008.50	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	5,008.50	12	2001
3,524.50	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	3,524.50	12	2001
71.32	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	871.32	12	2001
1,600.00	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	1,600.00	12	2001
96.05	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	96.05	12	2001
225.00	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	225.00	12	2001
9,034.59	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	9,034.59	12	2001
147.87	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	147.87	12	2001
241.42	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	241.42	12	2001
292.93	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	292.93	12	2001
223.93	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	223.93	12	2001
3,175.00	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	3,175.00	12	2001
990.75	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	990.75	1	2002
1,290.76	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	1,290.76	2	2002
425.74	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	425.74	2	2002
856.26	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	856.26	2	2002
1,792.25	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	1,792.25	2	2002
20,003.76	390.20	NEVER RECEIVED INV. BUT PER CO. FOR MOVING UTIL. ACCT AND TAX TO BEDMINSTER		2	2002
174.90	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	174.90	2	2002
122.62	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	122.62	2	2002
12,628.75	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	12,628.75	2	2002
191.26	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	191.26	2	2002
52.31	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	52.31	2	2002
109,421.88	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	109,421.88	2	2002
20,856.80	390.20	ACCOUNTING AND TAX MOVE TO BEDMINSTER		2	2002
11,121.23	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	11,121.23	2	2002
2,236.76	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	2,236.76	2	2002
45,456.66	390.20	NEVER RECEIVED	45,456.66	2	2002
33.66	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	33.66	2	2002
565.74	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	565.74	2	2002
13,601.26	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	13,601.26	2	2002
169,459.75	390.20	NEVER RECEIVED BUT PER CO. FOR MOVE OF ACCT. AND TAX TO BEDMINSTER		3	2002
33,345.42	390.20	NEVER RECEIVED ERISCO LEASE	33,345.42	7	2002
103,371.59	390.20	NEVER RECEIVED ERISCO LEASE	103,371.59	7	2002
4,302.35	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	4,302.35	9	2002
(2,294.83)	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	(2,294.83)	9	2002
(1,003.76)	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	(1,003.76)	9	2002
(778.68)	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	(778.68)	9	2002
(4,916.66)	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	(4,916.66)	9	2002
211,991.16	390.20	NUI TELECOM LEASE IMPROVEMENTS- AFFILIATE SHOULD HAVE BEEN DIRECT	211,991.16	9	2002
16,810.71	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	16,810.71	9	2002
65,421.23	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	65,421.23	9	2002
8,357.44	390.20	LEASE RENOVATIONS UBS LEASE-AFFILIATE SHOULD HAVE BEEN DIRECT	8,357.44	9	2002
446.25	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	446.25	9	2002
658.75	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	658.75	9	2002
(143,149.95)	390.20	ERISCO LEASE RENOVATIONS- THIS IS A TENANT ON THE 3RD AND 4TH FLOOR	(143,149.95)	9	2002
871,435.18		TOTAL REVIEWED IN ACCOUNT 390.2	661,114.87		
1,445,460.91		ENDING BALANCE PER LEDGER			
0.00		BEGINNING BALANCE			
1,445,460.91		ADDITIONS DURING THIS RATE CASE			
60.29%		ADDITIONS REVIEWED			

CITY GAS COMPANY OF FLORIDA
ANALYSIS OF TESTING OF NUI PLANT ADDITIONS
TEST YEAR ENDED SEPTEMBER 30, 2002 PROJECTED 2004

AMOUNT	ACCOUNT	DESCRIPTION	REMOVE	MONTH	YEAR
10,414.50	391.10	FURNITURE CAN'T TELL WHO GOT THE FURNITURE IN THIS ACCOUNT-NOT IDENTIFIED			
20,000.00	391.10	SAYS NUI TELECOM RELEASE OF CLAIMS	20,000.00	2	2002
55,003.76	391.10	NUI TELECOM OFFICE FURNITURE	55,003.76	2	2002
140,292.60	391.10	NUI TELECOM OFFICE FURNITURE	140,292.60	2	2002
12,198.79	391.10	NUI TELECOM OFFICE FURNITURE	12,198.79	2	2002
5,971.03	391.10	NUI TELECOM OFFICE FURNITURE	5,971.03	2	2002
29,418.76	391.10	SALE OF ERISCO FURNITURE LOOKS LIKE NUI PROVIDED AS PART OF LEASE	29,418.76	2	2002
273,299.44		SAMPLED ITEMS IN 391.1	262,884.94	2	2002
986,155.20		ENDING BALANCE 2003			
661,164.95		BEGINNING BALANCE LAST CASE			
324,990.25		ADDITIONS			
84.09%		PERCENT SAMPLED			
0.00	391.20	TESTED			
185,391.10		ENDING BALANCE			
		NO BEGINNING BALANCE			
		CONSISTS OF FAX AND COPY MACHINES-CAN'T TELL WHICH AFFILIATE IS USING			
195,547.00	391.30	TIFFANY CONSULTING FOR EMS BROKERS	195,547.00	6	2000
750.00	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		8	2000
5,997.00	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		9	2000
97,747.50	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		9	2000
25,327.00	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		9	2000
39,484.00	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		9	2000
33,574.00	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		9	2000
6,204.00	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		9	2000
(2,182.50)	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		10	2000
3,727.50	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		10	2000
31,097.50	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		10	2000
52,260.50	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		11	2000
16,143.00	391.30	TRADING SYSTEM USED BY UTIL. FOR PGA.		1	2002
15,160.00	391.30	PEOPLESFT STUDY UPGRADE USED FOR ACCOUNTING		1	2002
212,000.00	391.30	WINDOWS 2000 TECHNOLOGY REFRESH PROJECT ROLLOUT OF NEW IBM PC'S AND SERVERS		1	2002
212,000.00	391.30	WINDOWS 2000 TECHNOLOGY REFRESH PROJECT ROLLOUT OF NEW IBM PC'S AND SERVERS		1	2002
113,446.87	391.30	TECHNOLOGY LEASE-LOTUS PRO CHANGOUT OF PC FROM MICROSOFT TO IBM-CANCELLED NOW		1	2002
20,865.26	391.30	NEVER RECEIVED	20,865.26	1	2002
115,875.00	391.30	TECHNOLOGY LEASE SIEMENS FOR COMPUTERS PRINTERS AND SERVERS		1	2002
68,667.86	391.30	TECHNOLOGY LEASE-3 YEAR CONTRACT		1	2002
98,964.16	391.30	NEVER RECEIVED	98,964.16	2	2002
427,358.54	391.30	PEOPLESFT WORK		2	2002
207,212.51	391.30	WINS INTERNAL DEVELOPMENT CANCELLED PROJECT		2	2002
177,353.70	391.30	NEVER RECEIVED MAY BE AFFILIATE MARGIN REVIEW PROJECT	177,353.70	3	2002
(11,165.00)	391.30	TRADING SYSTEM-MAY BE AFFILIATE	(11,165.00)	7	2003
(2,984.72)	391.30	TRADING SYSTEM-MAY BE AFFILIATE	(2,984.72)	7	2003
(108,510.46)	391.30	TRADING SYSTEM-MAY BE AFFILIATE	(108,510.46)	7	2003
2,051,920.22		ADDITIONS REVIEWED	370,069.94		
18,904,876.55		ENDING BALANCE			
15,240,889.32		BALANCE LAST CASE			
3,663,987.23		ADDITIONS CAN'T TELL WHICH NEW LAPTOPS RELATE TO AFFILIATES			
56.00%		PERCENT OF ADDITIONS REVIEWED			

CITY GAS COMPANY OF FLORIDA
ANALYSIS OF TESTING OF NUI PLANT ADDITIONS
TEST YEAR ENDED SEPTEMBER 30, 2002 PROJECTED 2004

AMOUNT	ACCOUNT	DESCRIPTION	REMOVE	MONTH	YEAR
264,089.17		ENDING BALANCE 392.5			
439,333.47		BEGINNING BALANCE			
(175,744.30)		RETIREMENTS MADE-NET			
		NO TIME TO DETERMINE IF CAR LEASES ARE FOR NUI COMMON EMPLOYEES=TALLAHASSEE NEEDS TO FOLLOW UP.			
23,570.53	392.60	LEASE ON HONDA FOR SOVRAN			
21,541.68	392.60	LEASE ON JAGUAR FOR CHARLES GARBER			
45,112.21		TOTAL TESTED			
73,827.80		ENDING BALANCE NO BEGINNING BAL			
61.10%		PERCENT TESTED			
19,915.23	397.00	METAPHONE PILOT TIAL USING CITRIX SERVERS TO PROVIDE REMOTE ACCESS TO NUI SYSTEMS		1	2002
12,721.19	397.00	METAPHONE PILOT TIAL USING CITRIX SERVERS TO PROVIDE REMOTE ACCESS TO NUI SYSTEMS		1	2002
51,149.45	397.00	INTERNET CONNECTIONS AND SWITCHES			
26,969.45	397.00	INTERNET CONNECTIONS AND SWITCHES			
68,329.45	397.00	INTERNET CONNECTIONS AND SWITCHES			
59,890.65	397.00	SCADA TRAFFIC FILTERING PROJECT			
30,869.45	397.00	SCADA TRAFFIC FILTERING PROJECT			
985,728.45	397.00	NEVER RECEIVED TIC ENTERPRISES NORTEL PHONES PURCHASED FROM AFFILIATE	985,728.45	1	2001
1,255,573.32		TOTAL TESTED	985,728.45		
3,329,561.72		ENDING BALANCE			
424,108.60		BEGINNING BALANCE			
2,905,453.12		ADDITIONS			
43.21%		ADDITIONS TESTED			
424,439.33	398.00	TECHNOLOGY LEASE CAPITALIZED FOR COMPUTERS, SERVERS, AND PRINTERS			
918,443.72		ENDING BALANCE			
46.21%		PERCENT TESTED			
TOTAL REMOVED			3,986,575.50		

AUDIT EXCEPTION NO. 4

SUBJECT: INTEREST PAYABLE WORKING CAPITAL

STATEMENT OF FACTS: Included in the working capital on G-1 page 1, the company calculated interest payable by using a ratio of City Gas debt to NUI Utilities debt and applying that ratio to NUI Utilities interest payable. This pro-rata interest payable was compared to City Gas interest payable recorded on the books and an adjustment was made to working capital for the difference to increase working capital by \$198,324.

The amounts used for NUI Utilities debt in this calculation were mistated and the pro-rata ratio of City Gas debt to NUI Utilities debt was not accurate. After this correction the adjustment is to increase working capital by \$97,685. See the attached schedule for this calculation.

OPINION: Since the company increased working capital by \$198,324 when it should have been increased by \$97,685, a reduction of \$100,639 is needed to correct the change in the company calculation.

REVISED SHARE OF INTEREST PAYABLE

	LONG TERM DEBT

CITY GAS	(55,058,430)
NUI UTILITIES	(261,513,740)
 CITY GAS RATIO	 21%
 CITY GAS PRO-RATA SHARE	
NUI UTILITIES INTEREST PAYABLE	(5,031,917)
CITY GAS RATIO	21%

CITY GAS PRO RATA INTEREST PAY	(1,056,703)
	=====
 ACTUAL INTEREST ACCRUED - CITY GAS	
BOOKS ACCT 237.209	(447,850)
ACCT 237.210	(706,538)

CITY GAS BOOKS	(1,154,388)
CITY GAS PRO-RATA SHARE	(1,056,703)

DIFFERENCE- INCREASE W.C.	(97,685)
 AMOUNT INCLUDED IN FORECAST	
ADJUSTMENTS - INCREASE W.C.	(198,324)

 DIFFERENCE - DECREASE TO	 100,639
WORKING CAPITAL	=====

AUDIT EXCEPTION NO. 5

SUBJECT: ACCRUED TAXES PAYABLE-WORKING CAPITAL

STATEMENT OF FACTS: The amount forecast for accrued property taxes- Account 236.250 for 2004 in the working capital amount on G-1 page 1 is a 13-month average of \$388,405. This calculation was understated because the account balance forecast from January - September 2004 was not increased for the forecast monthly accrual amount. The forecast average balance as of September 2004 should be \$760,589 after including a monthly increase to the account balance. See the attached schedule for the calculation.

OPINION: Working Capital should be decreased by \$372,184 to reflect the correct balance of the accrued taxes payable account.

ACCRUED PROPERTY TAXES

INCLUDED IN MFR'S

ACCT	SEPT 03	OCT 03	NOV 03	DEC 03	JAN 04	FEB 04	MAR 04	APR 04	MAY 04	JUN 04	JUL 04	AUG 04	SEPT 04	AVERAGE
236.25	(1,151,887)	(1,279,887)	(1,407,887)		(134,400)	(134,400)	(134,400)	(134,400)	(134,400)	(134,400)	(134,400)	(134,400)	(134,400)	(388,405)

REVISED

236.25	(1,151,887)	(1,279,887)	(1,407,887)		(134,400)	(268,800)	(403,200)	(537,600)	(672,000)	(806,400)	(940,800)	(1,075,200)	(1,209,600)	(760,589)
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DECREASE TO WORKING CAPITAL (372,185)
=====

AUDIT EXCEPTION NO. 6

SUBJECT: PURCHASED GAS COST TRUE-UP-WORKING CAPITAL

STATEMENT OF FACTS: The purchased gas cost true-up is included in G-1 page 1. The company prepared a 2004 true-up schedule which includes the forecast amounts used for Account 191.003 - PGA Over-recoveries. This account is included in working capital as a credit amount. The true-up schedule shows \$1,741,968 for the month of October 2003. The balance sheet, which is included in the MFR, shows \$1,471,968 for the month of October 2003. This represents a difference of \$270,000.

OPINION: Working Capital should be decreased by \$20,770. This is the 13-month average effect of the difference in the balances discussed above.

AUDIT EXCEPTION NO. 7

SUBJECT: ACCOUNT 874 ELECTRIC BILLS

STATEMENT OF FACT: In MFR G-2 page 12, included in account 874 Mains and Services (general ledger account 615730) in the amount of \$125,160 for 2002 are invoices related to Florida Power and Light bills for the 933 and 955 buildings and also for the Brevard office building. These bills were charged 100% to the utility and they need to be allocated to non-regulated operations.

OPINION: The total amount that was tested in the sample of the above account related to the electric bills is \$59,709.43. Based on each property's allocation factor using the 2004 common plant study the total that should be removed from account 874 to non-regulated operations is \$19,967.96 (\$942.05+\$4,913.82+\$14,112.09).

This account was forecasted using actual year 2002 and trending it for general inflation and customer growth.

BREVARD OFFICE BUILDING

\$ 7,486.79
x 12 %Allocate percent to non-regulated operations
\$ 898.41
x 1.0248 Trended for general inflation and customer growth for 2003
\$ 920.69
x 1.0232 Trended for general inflation and customer growth for 2004
\$ 942.05

933 BUILDING

\$22,315.21
x 21%Allocate percent to non-regulated operations
\$ 4,686.19
x 1.0248 Trended for general inflation and customer growth for 2003
\$ 4,802.41
x 1.0232 Trended for general inflation and customer growth for 2004
\$ 4,913.82

955 BUILDING

\$29,907.43

x 45% Allocate percent to non-regulated operations

\$13,458.34

x 1.0248 Trended for general inflation and customer growth for 2003

\$13,792.11

x 1.0232 Trended for general inflation and customer growth for 2004

\$14,112.09

AUDIT EXCEPTION NO. 8

SUBJECT: ACCOUNT 874 CANCELLED PROJECT NON-RECURRING

STATEMENT OF FACT: In MFR Schedule G-2 page 12 , the Company has included in account 874 Mains and Services (general ledger account 601141) the amount of \$91,741.27 for cancelled projects in April 2003. This account was trended using May 2003 actuals and trending is based on payroll for year 2004.

OPINION: According to a company representative, these cancelled projects are extraordinary and non-recurring and should be removed from the trended 2004 figures. Account 874 should be reduced by \$95,410.92.

\$91,741.27
x 1.04
<hr/>
\$95,410.92

AUDIT EXCEPTION NO. 9

SUBJECT: ACCOUNT 880 OTHER EXPENSES

STATEMENT OF FACT: In MFR Schedule G-2, page 13, account 880 Other Expense (general ledger account 614299) the Company has included in 2002 , 100% of the following expenses to the utility.

A. \$16,013.38 of yearly expenses related to the storage of files. This amount was not allocated to the Appliance Business. It was charged 100% to the utility.

B. \$4,809.81 monthly for the cleaning of the 955 building

C. \$1,118.25 monthly for cleaning of the 933 building

D. \$881.75 garbage pickup at the 933 building that fell in the Operating and Maintenance Expense sample. Other amounts may have been included. However, due to time constraints no other items were sampled.

E. \$52,853.00 of security charges for the 955 and 933 buildings

F. A one time charge of \$8,800 for the painting of the 933 building

OPINION: These costs relate to maintenance of buildings which are shared by the non-regulated part of the business and the buildings are allocated to non-regulated in the common plant study. However, the costs for the buildings were not. These costs should be allocated as follow:

TYPE	MONTHLY	YEARLY	NON-UTILITY PER COMMON PLANT	ALLOCATION TO NON-REG OPERATIONS
A. File Storage		16,013.38	21%	3,362.81
B. Clean 955	4,809.81	57,717.72	45%	25,972.97
C. Clean 933	1,118.25	13,419.00	21%	2,817.99
D. Garbage		881.75	21%	185.17
E. Security		52,853.30	21%	11,099.19
F. Painting		8,800.00	21%	1,848.00
				45,286.13

We believe there are other charges to this account that could possibly be related to non-regulated operations. The above listed items were the only items that fell in our sample. Due to time constraints we were unable to expand our sample of this account.

AUDIT EXCEPTION NO. 10

SUBJECT: ACCOUNT 892 CANCELLED PROJECT NON-RECURRING

STATEMENT OF FACT: In MFR Schedule G-2 page 14 , the Company has included in account 892 Services (general ledger account 600813) the amount of \$13,487.86 for cancelled projects in April 2003. This account was forecast using May 2003 actuals and trending it based on payroll for year 2004.

OPINION: According to a company representative, these cancelled projects are non-recurring and should be removed from the trended 2004 figures.

Account 892 should be reduced by \$14,027.37.

\$13,487.86
x 1.04
<hr/>
\$14,027.37

AUDIT EXCEPTION NO. 11

SUBJECT: CUSTOMER CARE ACCOUNT 901 AND 903

STATEMENT OF FACT: In fiscal year 2002, the Customer Care and Collection Department Employees were paid out of Elizabethtown Gas even though many were located in Miami. The departments involved were 217-Collections Miami, 218-Collections New Jersey, 219-Customer Care Corporate, 220-Customer Relations, and 237-Customer Care. In 2003, departments 217, 219, and 237 were paid out of City Gas payroll. All of these departments are allocated based on arrears percentages for the collections department and call volume for the customer care and relations departments.

In preparing the budget for the 2004 filing, the customer care and collections payroll and the allocation out to Elizabethtown was included in the budget on the G-2 schedules as payroll trended using 12-month actual year ending May 2003. The amount included in the schedules was \$1,186,716 for the amounts included in City Gas and \$1,073,947 for the amount allocated out. See the attached detail schedule.

However, the company did not begin paying the payroll for these departments until October 2002.

OPINION: Since City Gas did not start paying the payroll for departments 217, 219 and 237 until October 2002, using the actual balances for the 12-months ending May 2003 excluded payroll for these divisions and the allocation out for June to September 2002. Therefore, the accounts were understated. The actual amounts for fiscal year 2003 were reviewed and are shown on the attached schedule. The net charge to City Gas using the 2003 actuals is \$158,884. The amount in the filing is \$112,769. This resulted in an understatement in 2003 of \$46,115. Since the payroll was trended up by 4% in 2004, the actual understatement for 2004 was \$47,959.60.

City Gas Company of Florida
Analysis of the Account 903 Forecast
Test Year Ended September 30, 2002 Projected 2004

Actual 2002	Trended 2003	Trended 2004	Actual 2003	FERC Account	Ledger Account
			486,725.00	Account 901	
8,775.00	9,038.00	13,350.00	12,686.00	Account 903	601677
		163,217.00	247,155.00	Account 903	601824
31,771.00	32,724.00	49,584.00	52,157.00	Account 903	601840
		926,051.00	1,324,904.00	Account 903	601887
4,366.00	4,497.00	4,754.00	4,619.00	Account 903	601895
742.00	764.00	17,702.00	25,624.00	Account 903	601906
		12,228.00	12,037.00	Account 903	603968
111.00	115.00	(170.00)	(164.00)	Account 903	603980
<u>45,765.00</u>	<u>47,138.00</u>	<u>1,186,716.00</u>	<u>2,165,743.00</u>	Total	
999,704.00	1,029,695.00	(1,073,947.00)	(2,006,859.00)	Account 923 allocation to Elizabethtown in 903 in filing (618253)	
<u>1,045,469.00</u>	<u>1,076,833.00</u>	<u>112,769.00</u>	<u>158,884.00</u>	Net increase using 2003 actuals	
			1,186,716.00	Per filing	
			(1,073,947.00)	Per filing	
			<u>112,769.00</u>	Net increase per filing	
			<u>46,115.00</u>	Company understated	
			1.04	Payroll factor to trend up to 2004	
			<u>47,959.60</u>	2004 understated	

AUDIT EXCEPTION NO. 12

SUBJECT: ACCOUNT 903 EXPENSES OF PHOTO COPY MACHINE RENTAL

STATEMENT OF FACT: Included in MFR Schedule G-2, page 15, the Company has included in account 903, Customer Records and Collections (general ledger account 613600), \$1,488.35 and \$1,329.92 in January 31, 2003, for photo copy machine maintenance expense and \$1,336.16 for the rental of a photo copy machine in the customer care building. These expense amounts were charged 100% to the utility. This account was trended based on actual May 2003 forecast figures on general inflation and customer growth.

OPINION: These amounts should be allocated to non-regulated operations.

\$ 1,488.35	Photo copy machine maintenance in the customer care building
1,329.92	Photo copy machine maintenance in the customer care building
<u>1,336.16</u>	Rental for photo copy machine in the customer care building
\$ 4,154.43	
	x 45% Allocation to non-regulated operation according to the 2004 common plant study
<u>\$ 1,869.49</u>	
x 1.0232	Inflation and customer growth for 2004
<u>\$ 1,912.86</u>	

Account 903 in 2004 should be reduced by \$1,912.86.

AUDIT EXCEPTION NO. 13

SUBJECT: AFFILIATE CHARGES FOR BILLING AND PAYMENT PROCESSING (903)

STATEMENT OF FACT: Utility Business Service (UBS) is a division of NUI. In 2003, UBS billed City Gas for printing and mailing its bills and for processing its payments. The costs for this service were included in account 903 projections based on a 12-month ended May 2003 trend. The amounts included in account 903 for these charges were \$677,521 for billing (617050) and \$219,253 for payment processing (617058). The charges were determined by the actual number of bills and payments processed for City times a rate determined by UBS. The rate charged in 2003 was 52 cents a bill and 28 cents a payment. In 2003, there were 1,329,532 bills produced for City Gas and 835,695 bills paid. The rate was based on budgeted 2003 costs for the responsibility group that handles print and mail (RC641), computer operations (RC643), and payment processing (RC642). Inter-company margins were added on to these estimated costs. A 13% margin was added on to print and mail costs and computer operations adding two cents per bill and four cents per bill respectively. A seven percent margin was added on to payment processing, or another two cents.

OPINION: The Commission usually requires affiliate transactions to be recorded at the lower of cost or market rates. The actual cost per bill in 2003 was 40 cents and per payment was 21 cents. Market rates were reviewed and found to be higher than actual 2003 cost. If these amounts are trended up for customer growth, payroll increases, and inflation, the costs increase to 41 cents and 22 cents. Based on actual number of bills and payments increased for customer growth, using the actual costs without a margin would reduce bill costs by \$128,466 and payment costs by \$38,334. A schedule detailing the calculation is attached.

COMPANY CALCULATION OF RATES

	PRINT AND MAIL RC 641	DATA CENTER RC 643	PAYMENT PROCESS RC 642
ESTIMATED COST FOR DIVISION	1,436,448	3,009,266	895,158
VOLUME	10,502,091	9,456,804	3,434,957
RATE	0.14	0.32	0.26
MARGIN	13.00%	13.00%	7.00%
PRICED RATE	0.16	0.36	0.28

RATES BASED ON ACTUAL O3 NUMBERS

COST FOR DIVISION	1,423,665	2,660,929	746,841
VOLUME	11,769,366	9,456,804	3,542,984
RATE	0.1210	0.2814	0.2108

RATES BASED ON ACTUAL O3 NUMBERS TRENDED UP FOR 04

(INCREASED PAYROLL BY 4% AND OTHER COSTS BY 2.2% INFLATION RATE)

COST FOR DIVISION	1,459,870	2,727,366	766,097
VOLUME	11,769,366	9,456,804	3,542,984
RATE	0.1240	0.2884	0.2162

CITY GAS VOLUME INCREASED BY CUSTOMER GROWTH OF .12	1,331,228	1,331,228	836,698
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ESTIMATED COST FOR 04 USING ACTUAL WITHOUT PROFIT MARGIN	165,125	383,929	180,919
COMBINE DATA CENTER	383,929	(383,929)	

TOTAL	549,055	0	180,919
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PROJECTED IN FILING	677,521		219,253
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DIFFERENCE	(128,466)		(38,334)
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AUDIT EXCEPTION NO. 14

SUBJECT: ACCOUNT 912 AMORTIZATION OF DEFERRED PIPING

STATEMENT OF FACT: In MFR Schedule G-2 page 16, the company has included in account 912-Demonstrating and Selling Expense amortization of deferred piping for 2004 using a preliminary budget in the amount of \$328,740.

OPINION: Using the Company's amortization schedules, excluding additions for 2004, the amortization for 2004 is as follows:

\$120,492	Miami
\$24,096	Treasure Coast
<u>\$81,012</u>	Brevard

\$225,600

These schedules used forecast 2003 deferred piping. The difference between the forecast and actual is as follows:

	Deferred Piping Per Estimate	Deferred Piping Actual	Yearly Amortization Estimate	Yearly Amortization Actual	Difference
Miami	(\$301,000.45)	(\$323,520.95)	(\$30,096.00)	(\$32,852.00)	
Treasure Coast	\$115,097.33	\$110,439.00	\$11,508.00	\$11,044.00	
Brevard	\$387,768.44	\$351,988.21	\$38,772.00	\$35,199.00	
	<u>\$201,865.32</u>	<u>\$138,906.26</u>	<u>\$20,184.00</u>	<u>\$13,391.00</u>	<u>(\$6,793.00)</u>

The actual increases to deferred piping for the last three years were:

2003	\$138,906
2002	\$109,020
2001	\$ 72,174
Total	\$320,100

The average for three years is \$106,700.

Staff conservatively used the 2003 additions to estimate 2004. The amortization is computed using ten years. However, the first year is divided by one-half for the half year convention.

\$138,906	Estimated 2004 additions
\$13,890	Divided by 10 years amortization
\$6,945	Divided by ½ year convention
	Additional amortization in 2004

Therefore, staff has estimated amortization for 2004 to be:

\$ 225,600	Per company's schedules
(\$6,793)	Correct 2003 from estimate to actual
<u> \$6,945</u>	Estimate of 2004 addition amortization
\$ 225,752	Estimated Depreciation
<u>\$ 328,740</u>	Per Company's filing in G-2

(\$102,988) Difference

AUDIT EXCEPTION NO. 15

SUBJECT: ACCOUNT 921-ACCOUNTS RECEIVABLE WRITTEN-OFF

STATEMENT OF FACT: Included in MFR Schedule G-2, page 17, account 921 Office Supplies and Expense (general ledger account 613275) the Company wrote off miscellaneous accounts receivable in September 2002 for \$314,691.41 related to the Sayre office which is another affiliate and a receivable set up for the Langer lawsuit.

This account is trended on actual 2002 figures using customer growth and general inflation.

OPINION: These expenses in the amount of \$329,977.66 ($\$314,691.42 * 1.0248 * 1.0232$) are non-recurring and should be removed from the trended amount in 2004.

AUDIT EXCEPTION NO. 16

SUBJECT: ACCOUNT 921- RENT OF THE ANKRON PLAZA WAREHOUSE

STATEMENT OF FACT: In MFR schedule G-2, page 17, included in account 921 Office Supplies and Expense (general ledger account 613285) there is a charge of \$1,852.70 for 100% of the rent of the Ankron Plaza Warehouse at Pt. St. Lucie.

According to the common plant study the Ankron Plaza at Pt. St. Lucie should be allocated 72% to the utility and 28% to the non-regulated operations.

This account was trended using 2002 balances times customer growth and inflation.

OPINION: Operating and Maintenance expense account 921 in the amount of \$6,527.38 should be removed for the non-regulated portion of rent expense of the Ankron Plaza at Pt. St. Lucie.

\$ 1,852.70 Monthly rent
x 12 Months

\$22,232.40 Total Rent

x 28% Percent attributed to Non-Regulated Operations
\$ 6,225 .07 Portion attributed to Non-Regulated Operations
x 1.0248 Trend for 2003 Customer growth and inflation

\$ 6,379.38
x 1.0232 Trend for 2004 Customer growth and inflation

\$ 6,527.38

AUDIT EXCEPTION NO. 17

SUBJECT: ACCOUNT 921-PHOTO COPY EXPENSES

STATEMENT OF FACT: Included in account 921 Office Supplies and Expense (general ledger account 613285) of MFR Schedule G-2, page 17, were 13-months of photocopy machine rental expenses for invoices paid to IOS Capital Inc. The invoices were charged 100% to the utility in year 2000. The copier is in the Pt. St. Lucie/Vero office which according to the 2004 common plant study is charged 28% to non-regulated operations. This account was trended based on actual 2002 figures and using customer growth and general inflation. The monthly charge for the photocopy machine was \$125.68.

OPINION: The calculation of the photocopy expenses that should be removed is \$574.58.

\$ 125.68	Monthly photocopy machine rental expense
x 13	Number of months charged to this account
<u>\$1,633.84</u>	
- 125.68	Remove one month since the company charged 13 months
<u>\$1,508.16</u>	
x 28%	Percent of non-regulated allocation per common plant study
<u>\$ 422.28</u>	
\$ 125.68	To remove the 13 th month
<u>\$ 547.96</u>	
x 1.0248	Customer growth and inflation for 2003
<u>\$ 561.54</u>	
x 1.0232	Customer growth and inflation for 2004
<u>\$ 574.58</u>	Total amount that needs to be removed

AUDIT EXCEPTION NO. 18

SUBJECT: ACCOUNT 921- MAINTENANCE CONTRACT FOR MINOLTA COPIER

STATEMENT OF FACT: The Company has included in account 921, Office Supplies and Expense (general ledger account 613285) on the MFR Schedule G-2, page 17, invoices related to a maintenance contract for a Minolta copier. In May 2002 the Company was charged \$1,042.37 for this contract.

For June to September City Gas was billed \$1,034.23 for a Minolta copier in the Rockledge Building. According to the common plant allocation the Rockledge Building is allocated 19% to non-utility operations.

OPINION: Account 921 (general ledger account 613285) should be reduced by \$651.70.

\$1,034.23	Charge from June to September
x 4	months
<u>\$4,136.92</u>	
\$1,042.37	Charge in May
<u>\$5,179.29</u>	
x 12%	Common Plant study allocation related to the Rockledge Building
<u>\$ 621.51</u>	
x 1.0248	Inflation and customer growth 2003
<u>\$ 636.92</u>	
x 1.0232	Inflation and customer growth 2004
<u>\$ 651.70</u>	

EXCEPTION NO. 19

SUBJECT: FERC 921 - ALLOCATED OFFICE SUPPLIES AND EXPENSES

STATEMENT OF FACT: The utility's filing reflects a balance of \$2,012,118 for MFR Schedule G2, for Office Supply and Expenses for the projected 12-month period ended September 30, 2004. Included in this balance is \$1,243,725 of allocated cost from Elizabethtown Gas Company to City Gas and allocated cost from City Gas to Elizabethtown.

The projected balance of \$1,243,725 above is based on the utility's historical 12-month period ended September 30, 2002, actual allocated balance of \$1,186,109 and applying a combined general inflation and customer growth factor for the years 2003 and 2004 of 4.86 percent. ($\$1,186,109 \times 1.0486\%$)

OPINION: The utility's allocated Office Supplies and Expense for the projected 12-month period ended September 30, 2004, is overstated by \$35,808 because R/C 420 - Distribution Services included charitable donations which should be considered non-regulatory and recorded below the line for the projected test year. See the audit staff's calculations on the following page.

EXCEPTION NO. 19, CONTINUED

Per Company

<u>R/C Dept.</u>	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>2002 and 2003 GI/CG Factor</u>	<u>CGCF Projected @ 09/30/2004</u>
167	\$250,801	80.57%	\$202,059	4.86%	\$211,874
222	397,012	100.00%	397,012	4.86%	416,297
352	240,750	80.57%	193,961	4.86%	203,383
358	187,851	80.57%	151,343	4.86%	158,695
363	221,402	80.57%	178,373	4.86%	187,038
420	250,601	80.57%	201,898	4.86%	211,705
441			(85,164)	4.86%	(89,301)
443			<u>(53,373)</u>	4.86%	<u>(55,966)</u>
	\$1,548,417		\$1,186,109		\$1,243,725

Audit Adjustments

<u>R/C Dept.</u>	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>2002 and 2003 GI/CG Factor</u>	<u>CGCF Projected @ 09/30/2004</u>
167	\$0	80.57%	\$0	4.86%	\$0
222	0	100.00%	0	4.86%	0
352	0	80.57%	0	4.86%	0
358	0	80.57%	0	4.86%	0
363	0	80.57%	0	4.86%	0
420	(42,385)	80.57%	(34,149)	4.86%	(35,808)
441			0	4.86%	0
443			<u>0</u>	4.86%	<u>0</u>
	(\$42,385)		(\$34,149)	4.86%	(\$35,808)

Note 1 The 2003 and 2004 GI/CG factors are calculated as 2.48% x 2.32% = 4.86%.

EXCEPTION NO. 20

SUBJECT: FERC 923 - ALLOCATED ACCOUNTING SERVICES

STATEMENT OF FACT: The utility's filing reflects a balance of \$972,032 for allocated accounting services from NUI for the projected 12-month period ended September 30, 2004, which is included in the \$1,757,142 balance on MFR Schedule G2.

The projected balance above is based on the utility's 12-month period ended May 31, 2003, actual allocated balance of \$949,992 and applying a general inflation and customer growth factor of 2.32 percent. ($\$949,992 \times 1.0232\%$)

OPINION: The utility's allocated accounting services from NUI for the projected 12-month period ended September 30, 2004, is overstated by \$112,399 because R/C 556 - Corporate Accounting includes the NUI expenses incurred to re-audit its 2000 and 2001 operations. These expenses should be considered nonrecurring and removed for the projected test year. See audit staff's calculations below.

Per Company

<u>R/C Dept.</u>	<u>NUI Amount @05/31/2003</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @05/31/2003</u>	<u>2004 GI/CG Factor</u>	<u>CGCF Projected @ 09/30/2004</u>
556	\$4,107,040	(Note 1)	\$774,861	1.0232	\$792,838
557	323,387	(Note 1)	61,012	1.0232	62,428
563	107,788	(Note 1)	18,216	1.0232	18,639
571	<u>408,093</u>	(Note 1)	<u>95,902</u>	1.0232	<u>98,127</u>
	\$4,946,308		\$949,992		\$972,032

Audit Adjustments

<u>R/C Dept.</u>	<u>NUI Amount @05/31/2003</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @05/31/2003</u>	<u>2004 GI/CG Factor</u>	<u>CGCF Projected @ 09/30/2004</u>
556	(\$650,000)	(Note 2)	(\$109,850)	1.0232	(\$112,399)
557	0		0	1.0232	0
563	0		0	1.0232	0
571	<u>0</u>		<u>0</u>	1.0232	<u>0</u>
	(\$650,000)	(Note 3)	(\$109,850)		(\$112,399)

Note 1 The corporate allocation is based on 16.9% for monthly allocations June-September 2002 and 20.2% for monthly allocations October-May 2003.

Note 2 The corporate allocation is based on 16.9% for the September 2002 allocation.

Note 3 Remove nonrecurring audit fees.

EXCEPTION NO. 21

SUBJECT: FERC 923 - ALLOCATED EXECUTIVE SERVICES

STATEMENT OF FACT: The utility's filing reflects a balance of \$1,232,642 for allocated executive services from NUI for the projected 12-month period ended September 30, 2004, which is included in the \$2,373,697 balance on MFR Schedule G2.

The projected balance above is based on the utility's preliminary budget allocation for the 12-month period ended September 30, 2004.

OPINION: The utility's allocated executive services from NUI for the projected 12-month period ended September 30, 2004, is understated by \$866,569 because of the following audit staff determinations. See audit staff's calculations on the following page.

- 1) The allocated amount for R/C 001 - Corporate Non-Cash Items is understated by \$6,618 based on NUI's preliminary budget calculations.
- 2) The utility failed to include \$129,771 of cost budgeted for R/C 291 - Public Affairs expenses which the audit staff reduced to \$110,083 to remove \$19,688 of charitable donations included in the preliminary budget.
- 3) The utility failed to include \$334,585 of cost budgeted for R/C 401 - Executive expenses.
- 4) The utility failed to include \$262,637 of cost budgeted for R/C 413 - Corporate Secretary expenses.
- 5) The utility failed to include \$152,646 of cost budgeted for R/C 415 - Investor Relations expenses.

$$(\$6,618 + \$110,083 + \$334,585 + \$262,637 + \$152,646 = \$866,569)$$

EXCEPTION NO. 21, CONTINUED

Per Company

R/C Dept.	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>Preliminary Budget</u>	<u>CGCF Projected @ 09/30/2004</u>
001	(\$3,761,372)	16.20%	(\$609,342)		\$1,232,642
291	663,739	16.20%	107,526		0
401	2,206,971	16.20%	357,529		0
413	1,116,037	16.20%	180,798		0
414	494,560	16.20%	80,119		0
415	<u>516,302</u>	16.20%	<u>83,641</u>		<u>0</u>
	\$1,236,237		\$200,270		\$1,232,642

Audit Adjustments

R/C Dept.	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>Preliminary Budget</u>	<u>CGCF Projected @ 09/30/2004</u>
001	(Note 4)			(Note 1)	\$6,618
291	(Note 4)			(Notes 2 & 3)	110,083
401	(Note 4)			(Note 3)	334,858
413	(Note 4)			(Note 3)	262,637
414	(Note 4)				0
415	(Note 4)			(Note 3)	<u>152,646</u>
					\$866,569

Note 1 The MFR filing was \$6,618 less than the preliminary budget information provided to the audit staff.

Note 2 Adjust the company preliminary budget amount of \$129,771 to \$110,083 by removing \$19,688 of budgeted charitable donations.

Note 3 The utility failed to include preliminary budget information for these R/Cs.

Note 4 Historical information was not used to audit or develop the projected 2004 budget. However, the audit staff's review of historical 2002 test year information indicates that several significant adjustments would have been required to remove nonutility travel and entertainment expenses and charitable donations. The existence of these types of expenses is not readily discernable in the utility's budget information except where noted in No. 2 above.

EXCEPTION NO. 22

SUBJECT: FERC 923 - ALLOCATED HUMAN RESOURCE SERVICES (HR)

STATEMENT OF FACT: The utility's filing reflects a balance of \$572,262 for allocated HR services from NUI for the projected 12-month period ended September 30, 2004, which is included in the \$2,853,087 balance on MFR Schedule G-2.

The projected balance above is based on the utility's historical 12-month period ended September 30, 2002, actual allocated balance of \$545,751 and applying a combined general inflation and customer growth factor for the years 2003 and 2004 of 4.86 percent. (\$545,751 x 1.0486%)

OPINION: The utility's allocated HR services from NUI for the projected 12-month period ended September 30, 2004, is overstated by \$60,336 because of the following audit staff determinations. See audit staff's calculations on the following page.

- 1) R/C 470 - HR Administration includes \$1,187 of allocated cost for a vehicle lease that was bought out and should be recorded on Elizabethtown Gas Company's books.
- 2) R/C 471 - Employee and Labor Relations should be reduced by \$22,285 to remove the allocated salary expense associated with a reduction in labor since the historical test year.
- 3) R/C 472 - Compensation and Benefits should be reduced by \$1,768 to remove the allocated cost for consulting fees that was recorded twice for the same invoice.
- 4) R/C 473 - HRIS should be reduced by \$15,168 to remove the allocated salary expense associated with a reduction in labor since the historical test year.
- 5) R/C 474 - Training and Organizational Development should be reduced by \$19,928 to remove the allocated salary expense associated with a reduction in labor since the historical test year.

$$(\$1,187 + \$22,285 + \$1,768 + \$15,168 + \$19,928 = \$60,366)$$

EXCEPTION NO. 22, CONTINUED

Per Company

<u>R/C Dept.</u>	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>2003 &2004 GI/CG Factors</u>	<u>CGCF Projected @ 09/30/2004</u>
470	\$334,819	16.90%	\$56,584	4.86%	\$59,333
471	360,520	16.90%	68,499	4.86%	71,826
472	655,557	16.90%	110,789	4.86%	116,171
473	369,145	16.90%	62,386	4.86%	65,416
474	753,181	16.90%	127,288	4.86%	133,471
479	<u>201,576</u>	57.30%	<u>120,206</u>	4.86%	<u>126,045</u>
	\$2,674,798		\$545,751		\$572,262

Audit Adjustments

<u>R/C Dept.</u>	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>2003 &2004 GI/CG Factors</u>	<u>CGCF Projected @ 09/30/2004</u>
470	(\$6,696)	16.90%	(\$1,132)	4.86%	(\$1,187)
471	(111,858)	16.90%	(21,253)	4.86%	(22,285)
472	(9,978)	16.90%	(1,686)	4.86%	(1,768)
473	(85,592)	16.90%	(14,465)	4.86%	(15,168)
474	(112,453)	16.90%	(19,005)	4.86%	(19,928)
<u>479</u>	<u>0</u>	57.30%	<u>0</u>	4.86%	<u>0</u>
	(\$326,578)		(\$57,541)		(\$60,336)

Note 1 The corporate amount is 16.9% of the NUI amount plus a \$758 adjustment to the CFGC allocated amount.

Note 2 The 2003 and 2004 GI/CG factors are calculated as $2.48\% \times 2.32\% = 4.86\%$.

EXCEPTION NO. 23

SUBJECT: FERC 923 - ALLOCATED LEGAL SERVICES

STATEMENT OF FACT: The utility's filing reflects a balance of \$785,110 for legal services for the projected 12-month period ended September 30, 2004, which is included in the \$1,757,142 balance on MFR Schedule G2.

The projected balance above is based on the utility's 12-month period ended May 31, 2003, actual allocated balance of \$767,309 and applying a general inflation and customer growth factor of 2.32 percent. ($\$767,309 \times 1.0232\%$) Included in this balance is \$251,870 of direct charge and \$515,439 of allocated legal expenses from NUI.

OPINION: The utility's legal services balance for the projected 12-month period ended September 30, 2004, is overstated by \$16,770, because it includes allocated expenses for North Carolina Gas and TIC Enterprises which are subsidiary operations of NUI. These expenses should be removed and charged directly to the respective operations. See audit staff's calculations below.

Per Company

<u>R/C Dept.</u>	<u>NUI Amount @05/31/2003</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @05/31/2003</u>	<u>2004 GI/CG Factor</u>	<u>CGCF Projected @ 09/30/2004</u>
482	\$2,743,781	(Note 1)	\$515,439	1.0232	\$527,397
482	NA	(Note 2)	<u>251,870</u>	1.0232	<u>257,713</u>
	\$2,743,781		\$767,309		\$785,110

Audit Adjustments

<u>R/C Dept.</u>	<u>NUI Amount @05/31/2003</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @05/31/2003</u>	<u>2004 GI/CG Factor</u>	<u>CGCF Projected @ 09/30/2004</u>
482	(\$96,976)	(Note 3)	(\$16,390)	1.0232	(\$16,770)
482	NA	(Note 2)	<u>0</u>	1.0232	<u>0</u>
	(\$96,976)		(\$16,390)		(\$16,770)

Note 1 The corporate allocation is based on 16.9% for the monthly allocations June-September 2002 and 20.2% for monthly allocations October-May 2003.

Note 2 Direct charge legal fees are recorded on CGCF's books.

Note 3 The corporate allocation is based on 16.9% for legal fees incurred before October 2003.

EXCEPTION NO. 24

SUBJECT: FERC 923 - ALLOCATED MIS AND IT SERVICES

STATEMENT OF FACT: The utility's filing reflects a balance of \$1,621,247 for allocated MIS/IT services from NUI for the projected 12-month period ended September 30, 2004, which is included in the \$2,853,087 balance on MFR Schedule G2.

The projected balance above is based on the utility's historical 12-month period ended September 30, 2002, actual allocated balance of \$1,546,143 and applying a combined general inflation and customer growth factor for the years 2003 and 2004 of 4.86 percent. (\$1,546,143 x 1.0486%)

OPINION: The utility's allocated HR services from NUI for the projected 12-month period ended September 30, 2004, is overstated by \$102,349 because of the following audit staff determinations. See audit staff's calculations on the following page.

- 1) R/C 502 - IT Architecture and Planning should be reduced by \$4,573 to remove the allocated salary expense associated with a reduction in labor since the historical test year.
- 2) R/C 503 - IT Infrastructure should be reduced by \$28,430, which removes \$21,023 of allocated salary expense associated with a reduction in labor since the historical test year, and removes \$7,407 of allocated invoiced charges for a service agreement that should have been directly charged to CGCF and a maintenance agreement that should have been amortized over its three-year service life.
- 3) R/C 505 - IT Information Management should be reduced by \$588 to remove the allocated salary expense associated with a reduction in labor since the historical test year.
- 4) R/C 510 - IT Customer Service Support should be reduced by \$14,910 to remove the allocated salary expense associated with a reduction in labor since the historical test year.
- 5) R/C 512 - IT System Consulting should be reduced by \$35,184 to remove the allocated salary expense associated with a reduction in labor since the historical test year.
- 6) R/C 514 - IT Business Solutions should be reduced by \$18,663 to remove the allocated salary expense associated with a reduction in labor since the historical test year.

$$(\$4,573 + \$28,430 + \$588 + \$14,910 + \$35,184 + \$18,663 = \$102,394)$$

EXCEPTION NO. 24, CONTINUED

Per Company

<u>R/C Dept.</u>	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>2003 &2004 GI/CG Factors</u>	<u>CGCF Projected @ 09/30/2004</u>
502	\$800,574	16.20%	\$129,693	4.86%	\$135,993
503	6,162,403	16.20%	998,309	4.86%	1,046,803
505	559,605	16.20%	90,656	4.86%	95,060
507	668,270	16.20%	108,260	4.86%	113,518
510	759,318	16.20%	123,010	4.86%	128,985
512	301,558	16.20%	48,852	4.86%	51,225
514	<u>292,362</u>		<u>47,363</u>	4.86%	<u>49,663</u>
	\$9,544,090		\$1,546,143		\$1,621,247

Audit Adjustments

<u>R/C Dept.</u>	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>2003 &2004 GI/CG Factors</u>	<u>CGCF Projected @ 09/30/2004</u>
502	(\$26,923)	16.20%	(\$4,362)	4.86%	(\$4,573)
503	(167,363)	16.20%	(27,113)	4.86%	(28,430)
505	(3,462)	16.20%	(561)	4.86%	(588)
507	0	16.20%	0	4.86%	0
510	(87,775)	16.20%	(14,220)	4.86%	(14,910)
512	(207,125)	16.20%	(33,554)	4.86%	(35,184)
514	<u>(109,866)</u>		<u>(17,798)</u>	4.86%	<u>(18,663)</u>
	(\$602,514)		(\$97,607)		(\$102,349)

Note 1 The 2003 and 2004 GI/CG factors are calculated as $2.48\% \times 2.32\% = 4.86\%$.

EXCEPTION NO. 25

SUBJECT: FERC 923 - ALLOCATED BUILDING SERVICES

STATEMENT OF FACT: The utility's filing reflects a balance of \$518,327 for allocated building services from NUI for the projected 12-month period ended September 30, 2004, which is included in the \$2,853,087 balance on MFR Schedule G2.

The projected balance above is based on the utility's historical 12-month period ended September 30, 2002, actual allocated balance of \$494,315 and applying a combined general inflation and customer growth factor for the years 2003 and 2004 of 4.86 percent. (\$494,315 x 1.0486%)

OPINION: The utility's allocated building services from NUI for the projected 12-month period ended September 30, 2004, is overstated by \$6,422 because R/C 298 - Real Estate Management Other contains allocated property taxes and rent for the Green Lane property that should be recorded directly on Elizabethtown Gas Company's books. See audit staff's calculations below.

Per Company

<u>R/C Dept.</u>	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>2003 &2004 GI/CG Factors</u>	<u>CGCF Projected @ 09/30/2004</u>
286	\$3,544,977	(Note 1)	\$405,389	4.86%	\$425,081
298	<u>1,258,217</u>	(Note 1)	<u>88,926</u>	4.86%	<u>93,246</u>
	\$4,803,194				\$518,326

Audit Adjustments

<u>R/C Dept.</u>	<u>NUI Amount @09/30/2002</u>	<u>Corporate Allocation</u>	<u>CGCF Amount @09/30/2002</u>	<u>2003 &2004 GI/CG Factors</u>	<u>CGCF Projected @ 09/30/2004</u>
286	\$0		\$0	4.86%	\$0
298	<u>(37,804)</u>	(Note 2)	<u>(6,124)</u>	4.86%	<u>(6,422)</u>
	(\$37,804)		(\$6,124)		(\$6,422)

Note 1 The corporate allocation is a combination of 16.2% for common cost and a direct allocation of building lease cost based on square footage.

Note 2 The corporate allocation is based on 16.2% applied to audit staff's common cost adjustment.

Note 3 The 2003 and 2004 GI/CG factors are calculated as 2.48% x 2.32% = 4.86%.

AUDIT EXCEPTION NO. 26

SUBJECT: INVOICE FOR FLORIDA STORAGE PROJECT

STATEMENT OF FACT: MFR Schedule G-2, page 17, account 923 (general ledger account 616144) contained an invoice for \$19,624.62 in the month May 2003 . This invoice was for the account Florida Storage Project which according to a company representative is a non-regulated project.

This account was trended using 12-months ending May 2003 times customer and growth and inflation for 2004.

OPINION: The amount is non-regulated and should be removed from operating expenses.

\$19,624.62	Non-regulated expense
<u>x 1.0232</u>	Increase for customer growth and inflation
\$20,079.91	Total to be removed from filing

AUDIT EXCEPTION NO. 27

SUBJECT: INSURANCE ACCOUNT 925

STATEMENT OF FACT: Schedule G-2 of the filing shows that the company used a preliminary budget amount of \$1,244,650 for account 925 Injuries and Damages. In 2002, costs were allocated from headquarters to this account for insurance premiums(618434). City Gas also recorded the actual claims related to Florida in this account(615981). In 2004, instead of allocating all insurance costs using the three factor method, the company has reviewed each policy and determined different allocation methods for each. They have determined what it considers direct charges and are only allocating a small portion of costs relating to responsibility code 290 for the people's salary who work in the department and outside consulting fees. The total budget for the department for 2004 was \$5,722,774. Of this amount, \$5,394,490 was for insurance policies and claims that were allocated to the companies directly using various allocation methodologies such as the actual number of vehicles for auto, payroll weighted by workmen's compensation categories for workmen's comp insurance, and actual property by state for property insurance. Actual additions to the injuries and damage reserve by state were also added in. The amount allocated to City Gas of the \$5,394,490 was \$839,743.

Only \$328,284 of the costs remained in RC290 and these costs were allocated to City using the three factor method. The amount allocated was \$67,955. The total insurance expense related to City Gas is the allocated amount of \$67,955 plus what the company calls direct of \$839,743 for a total of \$907,698.

OPINION: The company recorded \$1,244,650 in account 925 for the preliminary budget. Supporting documentation for the budget indicates the forecast cost to be \$907,698. The expense account should be reduced by \$336,952.

AUDIT EXCEPTION NO. 28

SUBJECT: ACCOUNT 926-PENSION AND BENEFITS

STATEMENT OF FACT: In the G-2 schedules, account 926 was trended as follows:

Co. Account	Description	2002 Amount	2003 Amount	2004 Amount	Trend Basis
605142	Post-Ret. Medical	48,600.00	49,805.00	50,960.00	Trend on 2002
617410	Employee Events	17,383.00	17,815.00	18,228.00	Trend on 2002
Total Trended on	2002	\$65,983.00	\$67,620.00	\$69,188.00	
605247	Stock Grants			91,462.00	Preliminary Budget
607868	Pension Plan	53,129.00	54,447.00	613,551.00	Preliminary Budget
Total Trended on	Preliminary Budget	\$53,129.00	\$54,447.00	\$705,013.00	
607875	Pension O/S Cons	(468.00)	(480.00)	4,969.00	Trend 12 mth. 5/03
619925	Capitalized Benefit	(190,253.00)	(194,972.00)	(98,622.00)	Trend 12 mth. 5/03
Total Trended on	12 months 5/03	\$ 939,223.00	\$962,516.00	\$1,491,992.00	
Total for 926		\$ 748,502.00	\$767,064.00	\$1,398,339.00	

OPINION: As shown above in account 605142, the company included post-retirement medical in the amounts trended using 2002 numbers. \$50,960 was included for this expense. However, in reviewing the supporting documentation for the preliminary budget for Pension and Stock Grants, it was found that the allocation of these costs also included the post-retirement medical. Therefore, the \$50,960 should be removed from the forecast.

The supporting documentation for the \$705,013 of the preliminary budget was charged to City Gas based on total costs of \$11,052,000. These total costs were divided into two categories, direct of \$5,065,236 (46%) and allocated of \$5,686,764 (54%). A portion of each of these amounts was charged to City Gas. The company was asked several times to provide the supporting documentation of how the direct numbers were arrived at and how the total allocated amount was arrived at. At the end of field work, the company had still not provided this information. If the costs were allocated based on payroll, the allocation to City Gas would have been less than recorded by the company. The company needs to provide documentation to the analyst to prove that the \$5,065,236 were actually direct costs or the costs should be reduced. The total amount allocated to City Gas for pension was \$613,551 and for stock grants \$91,462.

Employee benefits were trended on the 12-month period ended May 31, 2003. For part of

the year benefits were charged to this account using a 20% rate times total payroll. For part of the year, a rate of \$775 per employee was used. A review of the actual costs showed that the 20% rate without pensions (the pension was charged using the preliminary budget) was actually 10% and the company has redone the calculation of the \$775 per month per employee and found it should be reduced by \$96.11 per month per employee. This reduction is approximately the same as staff's calculation of the rate per employee dollar of 12.33% using actual 2003 amounts. If this rate were multiplied by the actual 2004 payroll dollars, net of capitalized wages, the filing for 2004 would be reduced by \$483,480. (See the attached schedule.

When this reduction is added to the reduction for the post-employment medical, the total reduction to the forecast for account 926 is \$534,440.

TOTAL PAYROLL IN THE G-2 SCHEDULES FOR 2004 NET OF CAPITALIZED WAGES	6,305,531
AMOUNT CREDITED TO PAYROLL FOR ALLOCATION OF ALL COSTS TO ELIZABETHTOWN INCLUDES ITS OWN ALLOCATION OF BENEFITS	1,073,947
TOTAL PAYROLL 2004 BEFORE ALLOC. TO ELIZABETHTOWN	7,379,478
PERCENT OF ACTUAL BENEFITS TO TOTAL WAGES 03	12.33%
AMOUNT THAT SHOULD HAVE BEEN CHARGED TO CITY	909,890
TOTAL ACCOUNT 689261 PER FILING	1,491,992
TOTAL ACCOUNT 619925 CAPITALIZED	(98,622)
TOTAL PER FILING	1,393,370
AMOUNT OVERSTATED	(483,480)

AUDIT EXCEPTION NO. 29

SUBJECT: ACCOUNT 931 RENT OF 74TH STREET WAREHOUSE

STATEMENT OF FACT: In MFR Schedule G-2, page 18, account 931 Rents (general ledger account 613520) is for rent for the 74th Street Warehouse. According to the 2004 common plant allocation study this warehouse should be allocated 23% to non-utility operations.

OPINION: Operation and Maintenance Expense account 931 should be reduced by \$8,148.48.

\$ 114,304	Total in Account 931, 613520 for 2002
x 23%	Common plant study allocation 23% allocated to non-utility
<u>\$ 26,290</u>	Operations for the 74 th Street Warehouse
(18,519)	Company removed 16.2% of this account in the NOI Adjustments
<u>\$ 7,771</u>	Additional amount that needs to be taken out for non-regulated
x 1.0248	Customer growth and inflation for 2003
<u>\$ 7,963.72</u>	
x 1.0232	Customer growth and inflation for 2004
<u>\$ 8,148.48</u>	Total trended adjustment for 2004

AUDIT EXCEPTION NO. 30

SUBJECT: PAYROLL TAXES

STATEMENT OF FACT: In Schedule G-7 page 2 of the company filing for the 2004 projected year, the company used \$8,451,425 as the tax base and an eight percent rate to arrive at \$676,114 of payroll taxes. The company actually backed in to the \$8,451,425 by extracting the payroll taxes from individual responsibility centers and dividing them by the eight percent rate.

OPINION: To test payroll taxes, staff multiplied payroll in the filing by the eight percent and compared it to the company amounts. Based on the G-2 schedules, payroll in 2004 is \$6,305,531. Deducted from this number, however, was the amount of customer care payroll and other expenses allocated to Elizabethtown. Since payroll tax is allocated to Elizabethtown when the credit is arrived at, it is already being reduced for the taxes related to the credit. Therefore, it needs to be added back in to arrive at total payroll. When this credit is added back in, and total payroll is multiplied by the 8% tax rate, taxes are overstated by \$85,768. (See attached schedule)

**CITY GAS COMPANY OF FLORIDA
ANALYSIS OF PAYROLL TAXES
TEST YEAR ENDED SEPTEMBER 30, 2002, PROJECTED 2004
KATHY L. WELCH
OCTOBER 24, 2004**

PAYROLL PER G-2 SCHEDULE	6,305,531.00
ADD BACK IN CREDIT TO CUSTOMER CARE ACCOUNT 903 FOR ALLOCATION TO EGT SINCE THE CREDIT INCLUDES PAYROLL TAX ON THE PAYROLL ALLOCATED OUT	1,073,789.00
TOTAL PAYROLL	<u>7,379,320.00</u>
PAYROLL TAX RATE	8.00%
TAX EXPENSE	<u>590,345.60</u>
TAX PER G-7 PAGE 2	676,114.00
TAX OVERSTATED	<u><u>(85,768.40)</u></u>

AUDIT DISCLOSURES

AUDIT DISCLOSURE NO. 1

SUBJECT: UNCOLLECTIBLE EXPENSE ACCOUNT 904

STATEMENT OF FACTS: The company forecasted \$1,258,290 to Account 904 in the G-1 schedules for 2004. This forecast is based on the increase for general inflation and customer growth rate.

When interim rates were approved, the staff recommendation included a four year average of write-offs to determine an adjustment to uncollectible expense. The company provided a four year average for 2004. This totals \$1,049,267. See the attached schedule.

OPINION: Using a method consistent with staff's recommendation, uncollectible expense should be reduced by \$209,023. This would reflect a four year average figure as of September 2004.

FY	Revenue by FERC - Excluding Off System Sales and True ups for PGA and CRA						Net Write-offs
	480 Residential	481 Comm & Ind	489 Transporation	487 LPC	488 Misc	Total	
Projected FY'04	37,624,555	22,174,996	14,381,300	420,000	672,524	75,273,375	1,259,120
12 mo. @Aug'03	35,203,692	21,092,003	13,286,578	358,385	893,349	70,834,007	1,070,343
FY'2002	31,094,593	18,477,326	12,357,948	227,421	734,257	62,891,545	824,820
FY'2001	38,061,422	28,717,929	10,020,768	525,387	601,989	77,927,495	1,042,786

4 year average: 71,731,606 1,049,267

AUDIT DISCLOSURE NO. 2

SUBJECT: ACCOUNT 912-FORECAST MARKETING

STATEMENT OF FACT: MFR Schedule G-2, page 16, shows \$450,533 in account 912 Demonstrating and Selling, (general ledger account 602248) for the projected year 2004 based on the preliminary budget. This account was trended using 2002 actual of \$289,892 which trends up to 2004 \$303,974. They then added two salaries for channel manager positions. Each salary amounted to \$50,000 plus \$20,000 of benefits. This amounts to \$140,000 for the new jobs and \$289,892 for the trended salaries for the total of \$443,974. The company included \$450,533. The salary was determined by using an online salary service such as salary.com, salaryexpert.com or wageweb.com. These websites match salary levels to inputted positions.

The person who was in charge of marketing in 2002 had \$46,871.31 charged to account 912 in 2002 (general ledger account 602248) and he is no longer employed by City Gas Company and is not being replaced. This amount was trended for two years and is \$50,208 ($\$46,871.31 * 1.03 * 1.04$) It is in the 2004 forecast of salaries.

OPINION: The Company has not hired anyone related to the above positions as of October 18, 2003. There was \$6,559 of the \$450,533 that could not be identified. The former marketing director's salary is non-recurring and \$50,208 should be removed from the forecast of account 912.

AUDIT DISCLOSURE NO. 3

SUBJECT: ACCOUNT 912-DEMONSTRATING AND SELLING

STATEMENT OF FACT: According to G-2, page 16, Account 912 was trended using calendar year 2002 expenses and increasing them for customer growth and inflation for 2003 and 2004. Included in sub-account 612896, was an invoice for \$14,151 to Huthwaite to develop a seminar for coaching for sales effectiveness.

OPINION: The company may not normally hire a consultant to develop a seminar. The amount may not be recurring.

\$14,151	Seminar development
x 1.0248	Customer Growth and Inflation 2003
<u>\$14,502</u>	
x 1.0232	Customer Growth and Inflation 2004
<u>\$14,838</u>	Trended amount for the development of the seminar

AUDIT DISCLOSURE NO. 4

SUBJECT: ACCOUNT 912-FORECAST PROMOTIONAL MERCHANDISE

STATEMENT OF FACT: The forecast for account 912 Demonstrating and Selling on MFR Schedule G-2, page 16, is for \$347,400.00. General ledger accounts 606404, 606540, and 606701 represent only \$187,400 of this budget total. The company's explanation why these items are needed follow:

Account 606404- \$6,900 (\$2,300 every 4 months) for pens, umbrellas, and various hand-outs at sponsored events and \$60,000 of incentives, training costs, events for plumbers, HVAC contractors, appliance dealers, equipment distributors, realtors and other identified channels.

Account 606540- \$106,800 split as follows: \$42,000 (\$3,500 per month) for the model value program to increase the number of gas burner tips in model homes. All the burner tips that builders want to display in their models that are not covered by ECCR incentives. Also, \$64,800 (\$5,400 per month) for the load enhancement program to increase the average throughput per new home by partially covering some of the builders installation costs in non-model homes where doing so increases the internal rate of return of the overall project.

Account: 606751- \$13,600 represent dues for trade associations such as the Treasure Coast Builders Association, Florida Restaurant Association, Latin Builders Association and miscellaneous sponsorships. City Gas contends that these costs are necessary to develop the kinds of relationships with key decision makers in order to promote natural gas within these key markets segments in the service areas.

\$ 6,900	
60,000	
106,800	
13,600	
<hr/>	
\$187,300	Total per City Gas explanation
\$187,400	Total per the preliminary budget on G-2

OPINION: The company has not incurred any of these costs to date or provided estimates from projects already incurred to support the costs.

AUDIT DISCLOSURE NO. 5

SUBJECT: ACCOUNT 913 -MONTHLY INCENTIVES

STATEMENT OF FACT: In MFR Schedule G-2 page 16, the Company included \$210,000 in account 930 that was trended based on a preliminary budget for 2004 (general ledger account 607566). The \$210,000 consists of the following estimates:

\$	90,000	For incentives
	90,000	For direct mail (3 @ \$30,000 each)
	30,000	For bill inserts (3 @ \$10,000 each)
	<u>210,000</u>	
\$	210,000	

According to the company the \$90,000 of incentives is an estimate for items such as co-op advertising, development and production of in-store point of purchase displays, interest rate buy-downs, or co-promotions on natural gas appliances. These incentives will be given to channel partners.

The content of a direct mail retention effort has not been finalized and no contract has been executed to do so. The \$30,000 cost for each was determined based on a budget using experience. If direct mailing is performed the budget should cover the developments and production of a one-fold postcard at bulk rate postage and mailing house fees for 100,000 pieces. Or, it should cover the production of a letter sized multi-lingual pamphlet, carrier sorted first class postage to all Miami residential customers.

The exact content of bill inserts has not been determined but will focus on non-price attributes of gas usage and Company service improvements. The \$10,000 cost for each was based on \$.10 per customer including development and production. No additional postage expense is anticipated.

AUDIT DISCLOSURE NO. 6

SUBJECT: ACCOUNT 916

STATEMENT OF FACT: In MFR Schedule G-2 page 16, the Company included \$66,000. This amount was based on a preliminary budget for 2004 (general ledger account 607589). The Company's explanation as to how this budget was determined follows:

"This budget is for non-ECCR qualified ads. A specific media placement schedule has not been developed, therefore, the budget procedure is to evenly distribute the budget total over the year. In year 2003, one project that was completed cost \$10,246 for the development and production of brochures."

AUDIT DISCLOSURE NO. 7

SUBJECT: ACCOUNT 923-LEGAL

STATEMENT OF FACT: The G-2 schedule page 19, contains legal expenses charged directly to City Gas. The account was trended using the 12-months ended May 31, 2003 and increased for customer growth and inflation in 2004.

Included in these costs are two legal bills for Hopping Green (\$19,003.97 and \$11,559.47). These invoices were for the approval of the flat rate billing project.

OPINION: The approval of the flat rate billing project was a large undertaking that may not be recurring and may be more appropriately amortized in a manner similar to rate case expenses.

\$11,559.47
x 1.0232
\$11,827.65

AUDIT DISCLOSURE NO. 8

SUBJECT: FERC 923 - ALLOCATED BUILDING SERVICES - LEASE OBLIGATIONS

STATEMENT OF FACT: NUI leases office space for its corporate operations from two locations in the cities of Elizabethtown and Bedminster, NJ.

CGCF was budgeted to receive an allocated amount for shared service and unoccupied space for the following two properties for the historic test year ended September 31, 2002.

<u>Property</u>	<u>R/C</u>	<u>NUIHQ(a)</u>	<u>Corporate Allocation</u>	<u>Combined</u>
Plaza	286	70.59%	16.2%	11.4%
Bedminster	298	52.53%	16.2%	8.5%

a) NUIHQ above includes all vacant and third-party sub-lease space after removing nonregulated subsidiary operation space.

The utility's projected test year ended September 30, 2004 filing for allocated building services includes historic 2002 office lease expense as calculated above after applying a combined general inflation and customer growth factor for the years 2003 and 2004 of 4.86 percent.

Opinion: The above treatment ignores the fact that the NUI lease obligations are fixed through 2005 and 2006 and that the amount of NUIHQ occupied space has significantly changed since the above calculations were prepared for the 2002 budget.

Additionally, the vacant space that NUI currently is obligated to pay rent on and the third-party sub-lease space should not be included in the regulated operations allocation.

The above budget calculation percentage is restated below using NUI's current space allocation for the projected test year ended September 30, 2004.

<u>Property</u>	<u>R/C</u>	<u>NUIHQ(b)</u>	<u>Corporate Allocation</u>	<u>Combined</u>
Plaza	286	22.7%	20.7%	4.7%
Bedminster	298	45.76%	20.7%	9.5%

b) The audit staff calculation for NUIHQ above removes all vacant, third-party sub-lease and nonregulated subsidiary operation space.

The audit staff was not able to fully address this issue because of time constraints and limited information available and defers disposition to the analyst in Tallahassee.

DISCLOSURE NO. 9

SUBJECT: FERC 923 - ALLOCATED EXECUTIVE SERVICES - PAYROLL EXPENSE

STATEMENT OF FACT: The utility's filing reflects a balance of \$1,232,642 for allocated executive services from NUI for the projected 12-month period ended September 30, 2004, which is included in the \$2,373,697 balance on MFR Schedule G2.

The projected balance above is based on the utility's preliminary budget allocation for the 12-month period ended September 30, 2004.

OPINION: The above amount for allocated executive services includes in R/C 401 the budgeted salary for NUI's former President, John Kean, Jr. who was removed from office in October 2003 and \$162,798 for consulting services budgeted for John Kean, Sr. through March 2004.

John Kean, Jr. was replaced by Mark Abramovic who was Senior Vice President of NUI. The commission should require the utility to supply a revised preliminary budget for R/C 401 that reflects the change in the executive employee salaries.

Additionally, John Kean Sr's consulting contract identified above is due to expire on March 31, 2004, which coincides with the utility's preliminary budget calculations. Therefore, his consulting fees and all related travel and miscellaneous expenses should be considered as non-recurring and be removed from the projected 2004 filing for rate case purposes.

AUDIT DISCLOSURE NO. 10

SUBJECT: ACCOUNT 928-FORECAST RATE CASE EXPENSES

STATEMENT OF FACT: Total forecast rate case expenses on MFR Schedule G-2, page 18, in account 928 Regulatory Commission were \$165,090.

Schedule C-13 shows total rate case expenses for the year 2003 to be \$425,000 and prior rate case expenses to be \$339,905.

OPINION: The calculation of rate case expenses for the year 2004 is as follows:

\$ 339,905.00	Prior Rate Case Expenses
7,081.35	Divided by 48 months
x 20	Months amortized as of 9/30/02
<u>\$ 141,627.00</u>	
\$1 98,218.00	Remaining to be amortized
<u>\$ 425,000.00</u>	Current rate case expense estimate
\$ 623,276.00	
\$ 155,819.50	Divided by four years
<u>\$ 165,090.00</u>	Per G-2 page 18, for 2004
\$ 9,270.50	Difference

We cannot determine why the company projection is higher. However, by the end of the projected test year 2004, all of the prior rate case expense will be amortized except for four months. Therefore, four months or \$28,325.40 should be added to the current rate case expense of \$425,000 for a total of \$453,325.40. If this amount is amortized over 4 years, the amortization expense would be \$113,331.35 which would reduce the test year expense by \$51,758.65.

AUDIT DISCLOSURE NO. 11

SUBJECT: REVISED DEPRECIATION EXPENSE

STATEMENT OF FACT: In Docket No. 30222-GU, the company revised its depreciation rates, which would be implemented as of October 1, 2003. Since the revised depreciation rates were not issued until September 18, 2003, the company used the former depreciation rates to calculate depreciation expense of 2004 in the filing.

OPINION: The 2004 depreciation expense was recalculated using the revised depreciation rates. The new rates would reduce the 2004 depreciation expense and accumulated depreciation before the vehicles amortization by \$243,449 (\$6,838,959 - \$7,082,408). The total adjusted amortization and depreciation expense after vehicles & other amortization expense is \$7,152,130 (\$7,395,579* - \$243,449). The recalculation schedule is on the following page.

Depreciation and amortization in Adjusted 2004 Net Operating Income includes NUI allocated depreciation and removes common plant non-utility depreciation and also needs to be adjusted by the same amount.

Below are the adjustments to the MFR:

	G-2 P.1 NOI	G-2 P.26 Depreciation Expense	G-2 P.26 Total Amortization Depreciation Expense
Per Filing	8,395,317	7,082,408	7,395,579
Less: Adjustment	<u>(243,449)</u>	<u>(243,449)</u>	<u>(243,449)</u>
Adjusted Amount	<u>8,151,868</u>	<u>6,838,959</u>	<u>7,152,130</u>

*Per G-2 p. 26

DEPRECIATION EXPENSE		Depreciation Rates	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Total Depr. Exp.	Per Filing	Difference
A/C NO.	Land & Land Rights																
302	FRANCHISES & CONSENTS		222	222	222	222	222	222	222	222	222	222	222	222	2,664	2,664	0
303	MISCELLANEOUS INTANGIBLE	4.00%	85	85	85	85	85	85	85	85	85	85	85	85	1,018	1,044	(26)
365	RIGHTS-OF-WAY																
369	Measuring/Regulating Equipment	2.90%	137	0	0	0	0	0	0	0	0	0	0	0	137		
371	Other Equipment	2.90%	3	0	0	0	0	0	0	0	0	0	0	0	3		
374	Medley Facility		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	Titusville Gate		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	Treasure Coast Gate		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	Propane Sales		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	West Miami Gate		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	Opa Locka Gate		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	SW Gate		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	Rockledge Office		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	Ravenwood North		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	Miscellaneous Easements		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	Homestead Lateral		0	0	0	0	0	0	0	0	0	0	0	0	0		
374	TOTAL		0	0	0	0	0	0	0	0	0	0	0	0	0		
	Structures & Improvements																
375	Medley Facility Mueller Office Improv.	2.20%	0	0	0	0	0	0	0	0	0	0	0	0	0		
375	Medley Balance	2.20%	0	0	0	0	0	0	0	0	0	0	0	0	0		
375	Propane Sales	2.20%	0	0	0	0	0	0	0	0	0	0	0	0	0		
375	Rockledge - Office	2.20%	4	4	4	4	4	4	4	4	4	4	4	4	43		
375	Titusville Gate	2.20%	27	27	27	27	27	27	27	27	27	27	27	27	325		
375	SE Hialeah Gate	2.20%	1	1	1	1	1	1	1	1	1	1	1	1	13		
375	Hialeah #933 Building	2.20%	996	981	981	981	981	981	981	981	981	981	981	981	11,789		
375	Port St. Lucie	2.20%	7	7	7	7	7	7	7	7	7	7	7	7	83		
375	Items to be Expensed	2.20%	0	0	0	0	0	0	0	0	0	0	0	0	0		
375	Total		1,035	1,020	1,020	1,020	1,020	1,020	1,020	1,020	1,020	1,020	1,020	1,020	12,253	14,465	(2,212)
367	TRANSMISSION MAIN	2.90%	41,943	41,943	41,943	41,943	41,943	41,943	41,943	41,943	41,943	41,943	38,717	41,943	600,092		
376	MAINS-PLASTIC	2.80%	102,599	105,248	106,133	106,859	107,710	108,809	110,002	111,083	111,948	112,599	102,229	112,599	1,297,817		
376	MAINS-OTHER	2.90%	141,938	142,846	143,148	143,395	143,686	144,062	144,471	144,841	145,136	145,358	133,582	145,358	1,717,833		
	TOTAL MAINS		286,480	290,037	291,224	292,197	293,340	294,815	296,417	297,887	299,027	299,900	274,539	299,900	3,515,742	3,537,378	(21,637)
379	GATE STATIONS	2.90%	12,561	12,003	13,008	13,140	13,282	13,432	13,537	13,582	13,720	13,952	14,090	14,123	161,330	168,208	(6,878)
380	SERVICES - PLASTIC	3.80%	81,834	82,904	83,420	83,943	84,474	84,993	85,501	86,013	86,523	87,034	87,544	88,049	1,022,232		
380	SERVICES - METAL	7.10%	75,919	76,743	77,180	77,643	78,105	78,554	78,993	79,437	79,878	80,319	80,761	81,197	944,740		
	TOTAL		157,763	159,648	160,810	161,586	162,579	163,547	164,494	165,460	166,401	167,363	168,306	169,247	1,966,972	2,061,043	(94,071)
381	METERS	4.20%	30,789	31,312	31,541	31,826	31,869	32,109	32,191	32,274	32,514	32,763	32,834	33,073	384,886		
	TOTAL	4.20%	691	691	691	691	691	691	691	691	691	691	691	691	8,293		
	TOTAL		31,480	32,004	32,233	32,317	32,560	32,800	32,882	32,965	33,206	33,444	33,526	33,764	393,179	373,564	19,615
382	METER & REGULATOR INSTALL	3.50%	8,003	8,015	8,024	8,033	8,043	8,052	8,060	8,069	8,078	8,087	8,096	8,105	96,666	88,281	8,384
383	HOUSE REGULATORS	4.40%	7,441	7,451	7,508	7,524	7,586	7,647	7,662	7,677	7,738	7,799	7,814	7,875	91,720	82,982	8,738
384	HOUSE REGULATORS - INSTALL	3.70%	3,839	3,819	3,813	3,800	3,800	3,593	3,588	3,580	3,573	3,566	3,559	3,553	43,087	38,144	4,943
385	INDUSTRIAL M&R STATION EQUIP	3.20%	7,291	7,301	7,305	7,305	7,305	7,305	7,305	7,305	7,305	7,305	7,305	7,305	88,045	90,276	(2,231)
387	OTHER EQUIPMENT	2.90%	372	377	377	377	377	377	377	377	377	377	377	377	4,515	13,741	(9,226)

DEPRECIATION EXPENSE		Depreciation Rates	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Total Depr. Exp.	Per Filing	Difference
Land & Land Rights																	
389	Rockledge - Office		0	0	0	0	0	0	0	0	0	0	0	0	0		
389	Rockledge Rented Improvements		0	0	0	0	0	0	0	0	0	0	0	0	0		
389	Rockledge Proposed Parking Lot		0	0	0	0	0	0	0	0	0	0	0	0	0		
389	Hialeah General Office		0	0	0	0	0	0	0	0	0	0	0	0	0		
389	TOTAL		0	0	0	0	0	0	0	0	0	0	0	0	0		0
Structures & Improvements																	
390	Hialeah #955	2.50%	3,111	3,130	3,166	3,213	3,260	3,312	3,369	3,437	3,484	3,505	3,516	3,517	40,022		
390	Hialeah #933	2.50%	363	363	363	363	363	363	363	363	363	363	363	363	4,362		
390	Medley meter shop	2.50%	0	0	0	0	0	0	0	0	0	0	0	0	0		
390	1001 Office	2.50%	123	0	0	0	0	0	0	0	0	0	0	0	123		
390	Rockledge	2.50%	870	870	877	885	898	917	923	923	936	949	960	970	10,977		
390	Titusville Gate	2.50%	0	0	0	0	0	0	0	0	0	0	0	0	0		
390	Treasure Coast Sign	2.50%	0	0	0	0	0	0	0	0	0	0	0	0	0		
390	Melbourne Antenna Site	2.50%	0	0	0	0	0	0	0	0	0	0	0	0	0		
390	74 Street Warehouse	2.50%	259	259	259	259	259	259	259	259	259	259	259	259	3,112		
390	Port St. Lucie	2.50%	41	41	41	41	41	41	41	41	41	41	41	41	498		
390	Theoretical Reserve Adjustment	2.50%	0	0	0	0	0	0	0	0	0	0	0	0	0		
390	TOTAL		4,767	4,663	4,706	4,760	4,820	4,882	4,956	5,023	5,083	5,117	5,139	5,160	69,074	55,939	3,135
391.1	Office Furniture & Equipment	4.30%	3,361	3,364	3,374	3,400	3,423	3,430	3,450	3,470	3,474	3,479	3,494	3,503	41,223		
391.2	Office Equipment	1.90%	1,265	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	1,312	15,663		
391.3	Computers	16.70%	14,175	14,248	14,392	14,537	14,682	14,827	14,972	15,117	15,262	15,407	15,552	15,697	176,871		
391.4	Computer Capital Lease		0	0	0	0	0	0	0	0	0	0	0	0	0		
391	TOTAL		18,800	18,924	19,078	19,249	19,417	19,589	19,734	19,889	20,048	20,198	20,368	20,512	236,787	326,409	(90,622)
392.1	Cars	2.70%	636	642	639	635	631	628	624	621	617	614	610	607	7,504		
392.2	Light Vehicles	2.70%	34	32	32	32	32	32	32	32	32	32	32	32	381		
392	TOTAL		671	674	670	667	663	659	656	652	649	645	642	638	7,885	24,628	(16,743)
393	Stores Equipment	3.80%	43	43	43	43	43	43	43	43	43	43	43	43	518	575	(57)
394	Tools, Shop, Garage Eqr.	6.70%	4,135	4,197	4,244	4,287	4,335	4,389	4,475	4,555	4,592	4,632	4,674	4,707	53,224	54,942	(1,718)
395	Laboratory Equipment	4.00%	77	77	77	77	77	77	77	77	77	77	77	77	921	2,187	(1,266)
397	Communication Equipment	6.90%	7,444	7,445	7,476	7,507	7,538	7,578	7,618	7,647	7,684	7,681	7,681	7,681	90,960	107,463	(16,503)
398	Miscellaneous Equipment	6.70%	712	712	720	729	737	885	1,170	1,427	1,541	1,544	1,544	1,544	13,264	8,488	4,776
399	Miscellaneous tangible Property		0	0	0	0	0	0	0	0	0	0	0	0	0		
Total Depreciation Expense			563,161	569,414	562,243	564,731	567,625	570,985	574,374	577,521	580,481	583,146	586,228	588,059	8,838,969	7,082,402	(243,443)
Per Filing			576,266	578,801	581,334	583,867	586,401	588,934	591,468	594,002	596,534	599,066	601,600	604,135	7,082,406		
Difference			(23,116)	(19,387)	(19,091)	(19,136)	(18,776)	(17,949)	(17,094)	(16,481)	(16,053)	(15,920)	(42,372)	(18,076)	(243,449)		

COMPANY PREPARED EXHIBITS

FLORIDA PUBLIC SERVICE COMMISSION

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: 09/30/02
 HISTORIC BASE YEAR + 1: 09/30/03
 PROJECTED TEST YEAR: 09/30/04
 WITNESS: G. L. LOPEZ

COMPANY: CITY GAS COMPANY OF FLORIDA
 A DIVISION OF NUI UTILITIES, INC.
 DOCKET NO.: 030569-GU

LINE	NO.	UTILITY PLANT	Historical Base Year (2002)			Historical Base Year + 1 (2003)			Projected Test Year (2004)		
			Average Unadjusted	Company Adjustments	Average Adjusted	Average Unadjusted	Average Unadjusted	Company Adjustments	Average Adjusted		
1		GAS PLANT IN SERVICE	\$ 179,403,905	\$ -	\$ 179,403,905	\$ 188,667,047	\$ 198,469,190	\$ -	\$ 198,469,190		
2		COMMON PLANT ALLOCATED	-	404,038	404,038	-	-	5,723,015	5,723,015		
3		ACQUISITION ADJUSTMENT	31,184,548	(29,370,230)	1,814,318	31,022,261	30,832,927	(29,370,230)	1,462,697		
4		CONSTRUCTION WORK IN PROGRESS	6,953,189	-	6,953,189	6,135,352	6,452,439	-	6,452,439		
5		TOTAL PLANT	217,541,642	(28,966,192)	188,575,450	225,824,660	235,754,556	(23,647,215)	212,107,341		
6		DEDUCTIONS									
7		ACCUMULATED DEPRECIATION - UTILITY PLANT	72,496,299	-	72,496,299	78,830,932	84,927,235	-	84,927,235		
8		ACCUMULATED DEPRECIATION - COMMON PLANT ALLOCATED	-	170,486	170,486	-	-	2,667,538	2,667,538		
9		ACCUMULATED AMORTIZATION - ACQUISITION ADJUSTMENT	13,759,230	(13,188,099)	571,131	14,639,262	15,387,056	(15,160,584)	226,472		
10		TOTAL DEDUCTIONS	86,255,529	(13,017,613)	73,237,916	93,470,194	100,314,291	(12,493,046)	87,821,245		
11		UTILITY PLANT, NET	131,286,113	(15,948,579)	115,337,534	132,354,466	135,440,265	(11,154,169)	124,286,096		
12		ALLOWANCE FOR WORKING CAPITAL									
13		BALANCE SHEET METHOD	(39,234,142)	44,028,291	4,794,149	(44,271,967)	(50,638,514)	49,774,225	(864,289)		
14		TOTAL RATE BASE	\$ 92,051,971	\$ 28,079,712	\$ 120,131,683	\$ 88,082,499	\$ 84,801,751	\$ 38,620,056	\$ 123,421,807		
15		NET OPERATING INCOME	\$ 7,634,346	\$ (1,134,232)	\$ 6,500,114	\$ 4,587,624	\$ 5,241,301	\$ (1,644,344)	\$ 3,596,957		
16		RATE OF RETURN	8.29%		5.41%	5.21%	6.18%		2.91%		

FLORIDA PUBLIC SERVICE COMMISSION

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

TYPE OF DATA SHOWN:
PROJECTED TEST YEAR: 09/30/04
WITNESS: G. L. LOPEZ

COMPANY: CITY GAS COMPANY OF FLORIDA
A DIVISION OF NUI UTILITIES, INC.

DOCKET NO 030569-GU

Line No.	Description	Per Books	Adjustments			Adjusted	Ratio	Cost Rate	Weighted Cost	Consolidated Investor Sources
			To Conform with Ratio of Investor Sources	Specific	Pro Rata					
1	COMMON EQUITY	28,409,942	28,413,084	-	(3,478,218)	53,344,808	43.22%	11.25%	4.86%	48.53%
2	LONG TERM DEBT	56,391,821	2,609,050	-	(3,611,527)	55,389,344	44.88%	6.43%	2.89% a	50.39%
3	SHORT TERM DEBT	32,286,689	(31,022,134)	-	(77,405)	1,187,150	0.96%	2.91%	0.03% a	1.09%
4	CUSTOMER DEPOSITS	5,833,009	-	-	-	5,833,009	4.73%	6.70%	0.32% a	
5	DEFERRED TAXES	12,469,007	-	(5,337,860)	-	7,131,147	5.78%	0.00%	0.00%	
6	TAX CREDIT	536,361	-	-	-	536,361	0.43%	0.00%	0.00%	
7	TOTAL	<u>135,926,829</u>	<u>-</u>	<u>(5,337,860)</u>	<u>(7,167,150)</u>	<u>123,421,819</u>	<u>100.00%</u>		<u>8.10%</u>	

INTEREST SYNCHRONIZATION CALCULATION

RATE BASE		\$123,421,819	
x WEIGHTED AVERAGE COST OF DEBT	(SUM OF "a")	<u>3.24%</u>	
SYNCHRONIZED INTEREST		3,998,867	
INTEREST PER BOOKS		<u>5,507,719</u>	
INTEREST PER BOOKS OVER SYNCHRONIZED INTEREST CALCULATED		1,508,852	
STATE TAX @	5.50%	<u>82,987</u>	82,987
		1,425,865	
FEDERAL TAX @	34.00%		<u>484,794</u>
TOTAL INCOME TAX ADJUSTMENT			<u>\$567,781</u>

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: CITY GAS COMPANY OF FLORIDA
 A DIVISION OF NUI UTILITIES, INC.
 DOCKET NO.: 030569-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: 09/30/02
 HISTORIC BASE YEAR + 1: 09/30/03
 PROJECTED TEST YEAR: 09/30/04
 WITNESS: G. L. LOPEZ

Line No.	Description	Historical Base Year (2002)			Historical Base	Projected Test Year (2004)		
		Per Books	Company Adjustments	Adjusted	Year + 1 (2003) Per Books	Per Books	Company Adjustments	Adjusted
1	<u>OPERATING REVENUE:</u>							
2	OPERATING REVENUES	92,624,730	(56,053,879)	36,570,851	113,135,269	100,402,838	(62,649,878)	37,752,960
3	REVENUE RELIEF	-	-	-	-	-	-	-
4	CHANGE IN UNBILLED REVENUES	-	-	-	154,291	-	-	-
5	REVENUES DUE TO GROWTH	-	-	-	554,179	120,628	-	120,628
6	TOTAL REVENUES	92,624,730	(56,053,879)	36,570,851	113,843,739	100,523,466	(62,649,878)	37,873,588
7	<u>OPERATING EXPENSES:</u>							
8	COST OF GAS	50,729,038	(50,729,038)	-	70,620,452	55,422,306	(55,422,306)	-
9	OPERATION & MAINTENANCE	21,044,400	(1,637,639)	19,406,761	23,524,622	24,120,144	(51,993)	24,068,151
10	CONSERVATION COSTS				2,354,646	3,122,582	(3,122,582)	-
11	DEPRECIATION & AMORTIZATION	7,158,657	(203,659)	6,954,998	8,024,832	7,395,579	999,738	8,395,317
12	REVENUE RELATED TAXES	-	-	-	2,657,566	3,134,516	(3,134,516)	-
13	TAXES OTHER THAN INCOME	4,815,199	(2,649,146)	2,166,053	2,504,882	2,409,046	(192,120)	2,216,926
14	INCOME TAXES FEDERAL	1,808,443	256,012	2,064,455	(2,242,800)	(1,807,323)	(69,807)	(1,877,130)
15	INCOME TAXES - STATE	309,568	43,823	353,391	(383,916)	(309,376)	(11,948)	(321,324)
16	DEFERRED TAXES - FEDERAL	(781,004)	-	(781,004)	1,840,932	1,498,418	-	1,498,418
17	DEFERRED TAXES - STATE	(93,917)	-	(93,917)	354,900	296,273	-	296,273
18	INVESTMENT TAX CREDITS	-	-	-	-	-	-	-
19	TOTAL OPERATING EXPENSES	84,990,384	(54,919,647)	30,070,737	109,256,116	95,282,165	(61,005,534)	34,276,631
20	NET OPERATING INCOME	7,634,346	(1,134,232)	6,500,114	4,587,623	5,241,301	(1,644,344)	3,596,957