

000 768-GU

AUDIT EXCEPTION NO. 10

SUBJECT: PROJECTED FYE 9/30/01 EXPENSES FOR METER TURN ONS, TURN OFFS, READ ONLYS AND NONPAYMENT TURN ONS IN ACCOUNT 878.

STATEMENT OF FACTS: The company budgeted expenses in account 878-Meter and House Regulator Expense in the amount of \$654,871 for meter turn ons, turn offs, read onlys and nonpayment turn ons for fiscal year end September 30, 2001 on Schedule G-2, page 13 of 34 of the filing. The company explained that as of October 1, 1999 the appliance business started charging an hourly rate of \$52 to the utility for the work described above. Prior to that time, the utility was charged direct labor and direct material only. The hourly charge is addressed in a disclosure in this report.

It also should be noted, that as of October 1, 1999, the appliance business was a division of NUI. However, its records were included in the City Gas general ledger. The company representative further explained that the possibility exists that as of October 1, 2000 the appliance business and the utility business will become separate accounting and reporting entities.

Although the company used the 2001 budget for account 878 in projected expenses for 2001, it did not reduce the accounts entirely where the charges for this type of work was performed. These accounts are listed on the attached schedule following this disclosure. These accounts were trended and included in the expenses for projected year end 9/30/01 on schedule G-2 of the filing. The total is \$217,910.

OPINION: Expenses in account 878 for projected fiscal year end 9/30/01 should be reduced in the amount of \$217,910. The state tax effect is \$11,985 and the federal tax effect is \$70,015.

NYL 12-29-00
DECLASSIFIED

COMPANY: CITY GAS COMPANY
 TITLE: COST OF TURN ONS, TURN OFFS,
 READ ONLYS AND NONPAYMENT TURN ONS
 PERIOD: PROJECTED 01

Labor and other accounts that are included in Accounts 878, 870 and 902 associated with turn ons, turn offs, read onlys and nonpayment turn ons. This is based on accounts determined by the utility to be left in the expenses for these items in the surveillance report for FYE 9/30/99.

| Account | Description | 12 mos end 9/30/99 per G/L Acc't. | 878** Payroll | 878**Other | 879**Payroll | 879**Other | 902**Payroll | 902**Other | |
|-------------|----------------------------------|--------------------------------------|----------------|----------------|---------------|---------------|--------------|--------------|--------------|
| 600863 | Leak Invest-Labor Reg | 2,935 | 879 | | 2,935 | | | | |
| 601613 | Relights-Labor Reg | 3,533 | 879 | | 3,533 | | | | |
| 601654 | Cgi-MeterWork-Lab Reg | 3,062 | 878 | 3,062 | | | | | |
| 601665 | Mtr Turmon/MtrWork/Paint-Lab Reg | 845 | 878 | 845 | | | | | |
| 601676 | Meter Turnoff-Reg Labor | 29,603 | 878 | 29,603 | | | | | |
| 601688 | Meter Read Only-Labor Reg | 17,551 | 878 | 17,551 | | | | | |
| 601699 | Meter Turn Ons-Labor Reg | 97,907 | 878 | 97,907 | | | | | |
| 601857 | Mtr Reading Re Rd-Lbr Reg | 1,146 | 902 | | | | 1,146 | | |
| 603108 | Leak Invest-Labor OT | 1,012 | 879 | | 1,012 | | | | |
| 603788 | Relights-Labor OT | 3,128 | 879 | | 3,128 | | | | |
| 603824 | Mtr chngs/MtrWork Paint/OT | (37) | 878 | (37) | | | | | |
| 603830 | Meter Turnoff-OT Labor | 4,906 | 878 | 4,906 | | | | | |
| 603842 | Meter Read Only -OT Labor | 2,762 | 878 | 2,762 | | | | | |
| 603848 | Meter Turn Ons Laor OT | 25,645 | 878 | 25,645 | | | | | |
| 610697 | Mtr Reading-Meals | 7,475 | 902 | | | | | 7,475 | |
| 615231 | Meter Chngs-Stores Inv. | 70 | 878 | | | | | 70 | |
| | | <u>201,543</u> | | <u>182,244</u> | <u>0</u> | <u>10,608</u> | <u>0</u> | <u>1,146</u> | <u>7,545</u> |
| | | | | 4.00% | | 4.00% | | 4.00% | 3.00% |
| | | | | <u>7,290</u> | | <u>424</u> | | <u>46</u> | <u>302</u> |
| FYE 9/30/00 | | <u>209,605</u> FYE 9/30/00 | <u>189,534</u> | | <u>11,032</u> | | <u>1,192</u> | <u>7,847</u> | |
| | | | 4.00% | | 4.00% | | 4.00% | 3.00% | |
| | | | <u>7,581</u> | | <u>441</u> | | <u>48</u> | <u>235</u> | |
| FYE 9/30/01 | | <u>217,910</u> FYE 9/30/01 | <u>197,115</u> | | <u>11,474</u> | | <u>1,240</u> | <u>8,082</u> | |
| | | ===== | ===== | | ===== | | ===== | ===== | |

** Account 878 is trended based on both inflation of 3% and payroll of 4% .
 ** Account 879 is trended based on both inflation of 3% and payroll of 4%.
 ** Account 902 is trended based on both inflation of 3% and payroll of 4%.

CONFIDENTIAL

AUDIT DISCLOSURE NO. 7

SUBJECT: EXPENSES FOR METER TURN ONS, TURN OFFS, READ ONLYS AND NONPAYMENT TURN ONS IN ACCOUNT 878 FOR PROJECTED FISCAL YEAR END 9/30/01

STATEMENT OF FACTS: The company budgeted expenses in the amount of \$654,871 in Account 878 on Schedule G-2, page 13 of 34 of the filing, for meter turn ons, turn offs, read onlys and nonpayment turn ons for fiscal year end 9/30/01. The company explained that as of the beginning of fiscal year end 9/30/00, the appliance business was separated from the utility business and an hourly rate of \$52 an hour is charged to the utility from the appliance business for the work described above. There is no written contract between the utility business and the appliance business.

The hourly rate is calculated as follows:

1. Determination of the cost for each technician who performs this work.* (Including overtime, benefits, supervision, transportation and communications.)
2. Determination of the net billable hours per technician.*
(Total hours in years less non productive time such as vacation, holidays, illness, training, break time, shop time and travel time.)
3. Cost per technician times the number of technicians equal total cost per year.*
4. Billable hours per technician times the number of technicians equal the billable hours per year.*
5. Cost per year divided by billable hours per year equals the hourly rate of \$52.*

*See attached company prepared schedule.

The company stated that there was no written contract with the appliance business, and when asked if a comparison of cost to market for the new affiliate billing for NUI's appliance business was prepared, they stated that there was no specific comparison. "...there are no contractors large enough to bid for this type of work. As a general comparison, we can compare the rate charged to us by our plumbing contractors for \$65 per hour, which would include a component for profit."

OPINION: There should be a written contract between the appliance business and utility business to avoid any problems of billing in the future. Also, policy for both the

telephone and electric utilities has been to bill its regulated affiliates at lower of cost or market. A study was not performed to determine this.

**NUI City Gas Company
Floor Price Hourly Rate Calculation for Appliance Services**

**Exhibit "A"
(Confidential)**

Annualized Cost per Technician in Each Contractual Job Classification

| | Service Tech I | | Service Tech II | | Apprentice | | Helper | | Total |
|--|----------------|------------|-----------------|------------|------------|-----------|-----------|-----------|--------------|
| | Brevard & PSL | | Miami | Brevard | Miami | Brevard | Miami | Brevard | |
| | Miami | PSL | | | | | | | |
| Base Rate, effective 4/00 | \$ 28,974 | \$ 28,974 | \$ 27,643 | \$ 27,643 | \$ 23,504 | \$ 23,504 | \$ 18,283 | \$ 18,283 | |
| Premium Rates & OT | \$ 4,597 | \$ 2,298 | \$ 4,386 | \$ 2,193 | \$ 3,729 | \$ 1,865 | \$ 2,901 | \$ 1,450 | |
| Maximum Bonus @ 2.4% of Base Rate Pay | \$ 695 | \$ 695 | \$ 663 | \$ 663 | \$ 564 | \$ 564 | \$ 439 | \$ 439 | |
| Total Wages | \$ 34,267 | \$ 31,968 | \$ 32,692 | \$ 30,499 | \$ 27,797 | \$ 25,933 | \$ 21,623 | \$ 20,172 | |
| Benefits & Payroll Taxes @ 32% of Base Rate Pay | \$ 9,272 | \$ 9,272 | \$ 8,846 | \$ 8,846 | \$ 7,521 | \$ 7,521 | \$ 5,851 | \$ 5,851 | |
| Total Wages and Hours Paid | \$ 43,538 | \$ 41,240 | \$ 41,538 | \$ 39,345 | \$ 35,318 | \$ 33,454 | \$ 27,473 | \$ 26,023 | |
| Supervision | \$ 12,100 | \$ 12,100 | \$ 12,100 | \$ 12,100 | \$ 12,100 | \$ 12,100 | \$ 12,100 | \$ 12,100 | |
| Transportation | \$ 8,700 | \$ 8,700 | \$ 8,700 | \$ 8,700 | \$ 8,700 | \$ 8,700 | \$ 8,700 | \$ 8,700 | |
| Communications | \$ 590 | \$ 590 | \$ 590 | \$ 590 | \$ 590 | \$ 590 | \$ 590 | \$ 590 | |
| Total Cost per Technician | \$ 64,928 | \$ 62,630 | \$ 62,928 | \$ 60,735 | \$ 56,708 | \$ 54,844 | \$ 48,863 | \$ 47,413 | |
| Net Billable Hours per Technician - Note (1) | 1,201 | 1,119 | 1,225 | 1,143 | 1,225 | 1,143 | 1,225 | 1,143 | |
| # of Incumbent Technicians in Each Classification | 10 | 8 | 7 | 5 | 4 | - | - | - | |
| Aggregate Cost of Labor (Including Benefits, Payroll Taxes, Supervision, Fleet and Communications) | \$ 649,285 | \$ 501,040 | \$ 440,497 | \$ 303,677 | \$ 226,834 | \$ - | \$ - | \$ - | \$ 2,121,333 |
| Aggregate Billable Hours per Year | 12,010 | 8,952 | 8,575 | 5,715 | 4,900 | - | - | - | 40,152 |
| Cost of Labor per Billable Hour | | | | | | | | | \$ 52.83 |

Note (1): Paid hours less provision for travel time between jobs, shop time, training time, CGI calls, paid time off and other non-productive time. This varies among the job classifications due to time in service and, principally, eligibility for different levels of paid time off.