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NUI Corporation (NYSE: NUI)

July 9, 1999

Ms. Blanca S. Bayo, Director Division of Record and Reporting Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0868

Re: Docket No.99003-GU - City Gas Company of Florida Audit Report - PGA Audit Control # 99-042-4-1

Dear Ms. Bayo:

In accordance with Denise Vandiver's letter of June 21, 1999, please accept this letter as City Gas Company of Florida's response to the above referenced Audit Report. We understand that this response will be forwarded for consideration of the staff analyst in the preparation of a recommendation for this case.

The Company disagrees with Audit Disclosure 2. The Company arranges for, and purchases gas storage based upon estimates of the firm sales it expects in the coming winter. Likewise, allocations to the operating divisions are based on projections. By definition, a projection will not be exactly correct, since nobody knows what the weather or customer usage will be before it happens. Over the years the Company's estimates of firm sales and allocations to the operating divisions have proven to be very reasonable. The Company continues to hone and adjust its estimation methodology in an ongoing effort to make the best possible projection.

Audit Disclosure 2 suggests that since allocations for the cost of storage for the period October 1997 through December 1998 were higher than actual usage, that another method for allocation should be used. Staff fails to consider the Company's obligation to serve its customers during system peaks. Were the Company's allocations of capacity and storage inadequate to meet system peaks, the Company would fail to meet its statutory obligation and this Commission would need to take corrective action. This has not happened because of the Company's conservative approach. It would not be appropriate to base allocations on the actual data for only two years. It would be unwise and

NUI Companies and Affiliates: City Gas Company of Florida Elizabethtown Gas Elkton Gas North Carolina Gas

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irresponsible for the Company to purchase and allocate storage based on the actual data for two years that were *warmer* than usual. A two-year warming trend year may be an anomaly. A knee jerk reaction to follow a two-year trend could result in a failure to meet system peak. The Company's projections are based on a much greater body of data gathered over many years. The Company believes its conservative allocation methodology is reasonable, and does not believe it should be changed.

Thanks you for your consideration of this matter.

Sincerely,

P. Call.

Michael A. Palecki Attorney, Regulatory Affairs NUI Corporation (850) 877-5282

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