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Beth Keating

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Akerman

October 8, 2010

100422-EI

VIA HAND DELIVERY

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Dear Ms. Cole:

Enclosed for filing, please find an original and three copies of the Application of Florida City Gas for Authority to Issue Debt Security During the Calendar Year 2011, as well as its Consolidated Financial Statements for 2008 and 2009. In addition, a copy of the pleading on CD in Word format is included. A copy of this filing has also been provided via electronic mail to the Office of Public Counsel.

Your assistance in this matter is greatly appreciated. If you have any questions, please do not hesitate to contact me.

Sincerely,

Beth Keating

Beth Keating

Enclosures

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application by Florida City Gas for Authority to Issue Debt Security Pursuant to Florida Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code	Docket No. 100422-EI Filed: October 8, 2010

APPLICATION OF FLORIDA CITY GAS
FOR AUTHORITY TO ISSUE DEBT SECURITY

Florida City Gas (the "Applicant"), by and through undersigned counsel, pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code, hereby files this application for authority to undertake short-term indebtedness pursuant to its participation in AGL Resources Inc.'s Utility Money Pool.

In support, Applicant states:

1. **Applicant Information:** The name and principal business address of Applicant are Pivotal Utility Holdings, Inc., 300 Connell Drive, Berkeley Heights, New Jersey 07922. Applicant is the indirect wholly owned subsidiary of AGL Resources Inc. ("AGLR"), an energy services holding company headquartered in Atlanta, Georgia. Applicant is engaged in the business of distributing natural gas in service territories located in portions of the states of New Jersey, Florida and Maryland. Through its Florida City Gas division, Applicant supplies natural gas to customers in Miami-Dade, Broward, Palm Beach, St. Lucie, Indian River, Martin, and Brevard Counties, Florida. Accordingly, Applicant is regulated as a "public utility" by the Florida Public Service Commission ("Commission") under Chapter 366, Florida Statutes. Exhibit A provides the Applicant's most recent audited financial statements.

2. **Incorporation and Domestication:** Applicant was incorporated under the laws of New Jersey in 1969. As noted above, Applicant does business in the states of New Jersey, Florida and Maryland.

3. **Persons Authorized To Receive Notices and Communications:** The names and addresses of the persons authorized to receive notices and communications with respect to this application are as follows:

Beth Keating Akerman Senterfitt 106 East College Avenue Suite 1200 Tallahassee, FL 32301	Elizabeth Wade Chief Counsel – State Regulatory Affairs AGL Resources Inc. Ten Peachtree Place, NW 15th Floor Atlanta, GA 30309

4. **Capital Stock and Funded Debt:** The following additional information regarding the financial condition of Applicant (and its ultimate parent corporation, AGLR) is submitted for the Commission's consideration:

a. Total authorized common stock of Applicant's ultimate corporate parent, AGLR, is 750,000,000 shares, of which 77,930,719 shares were issued and outstanding at July 19, 2010 and publicly traded on the New York Stock Exchange under the symbol "AGL";

b. Neither AGLR nor Applicant has any issued or outstanding preferred stock;

c. As of June 30, 2010, AGLR held 58,322 shares in its treasury. The amount of capital stock held as reacquired securities by Applicant: none

d. The amount of capital stock pledged by Applicant or AGLR: none

e. The amount of Applicant's capital stock held by affiliated corporations: 100% held by NUI Corporation, a wholly owned subsidiary of AGLR.

f. The amount of capital stock held in any fund by Applicant or AGLR: none

The table below summarizes Applicant's outstanding loan agreements, pursuant to which Applicant has borrowed the proceeds of the offerings of industrial development revenue bonds by each of these public financing entities. The terms and payments under Applicant's loan agreements with the public financing entities mirrors those of the revenue bonds.

Description	Date	Principal amount	Interest
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	May 1, 2005	$46.5 million (1)	variable rate bonds
Loan Agreement between Brevard County, Florida and Pivotal Utility Holdings	April 1, 2005	$20 million (1)	variable rate bonds
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	June 1, 2006	$39 million (2)	variable rate bonds
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	May 1, 2007	$54.6 million (1)	variable rate bonds
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	Dec. 1, 1998	$40 million	5.25%

(1) Tendered in May 2010 and to be re-issued in October 2010.

(2) Tendered in August 2010 and to be re-issued in October 2010

Applicant's indebtedness pursuant to these arrangements totals approximately $40 million. In June 2010, the letters of credit that provide credit enhancements to the bonds with principal amounts of $46.5 million, $20 million and $54.6 million expired and in September 2010 the letter of credit related to the bond with the principal amount of $39 million expired. We tendered these bonds through the commercial paper borrowings of an AGL Resources Inc. affiliate. In October 2010 the bonds will be remarketed as variable gas facility revenue bonds utilizing credit enhancements.

Applicant also has an additional $137,399,759 of long-term inter-company debt. As of June 30, 2010, Applicant's inter-company debt carries an interest rate of 5.77%, which approximates AGLR's weighted cost of capital for its outstanding long term debt as of December 31, 2009. Applicant does not anticipate redeeming any of these securities in calendar year 2010 but will if necessary to maintain its appropriate capital structure.

5. **Proposed Transactions:**

(a) Nature of Transactions: Applicant requests authorization to finance its on-going cash requirements through its participation and borrowings from and investments in AGLR's Utility Money Pool. Applicant will make short-term borrowings not to exceed $800,000,000 (aggregate for Applicant's three utilities) annually from the Utility Money Pool according to limits that are consistent, given the seasonal nature of Applicant's business and its anticipated cash demands, with Applicant's capitalization. Florida City Gas's share of these borrowings will not exceed $250 million. Applicant's requested authorization is consistent with the authority granted in Order Nos. PSC-05-1221-FOF-GU, PSC-06-1039-FOF-GU, PSC-07-0955-FOF-GU, PSC-08-0768-FOF-GU and PSC-09-0745-FOF-GU.

b. Maximum Principal Amount: The amount of short-term borrowings from the Utility Money Pool will not exceed $800,000,000.

c. Present Estimate of Interest Rate: The interest rate paid by Applicant on borrowings from the Utility Money Pool is essentially a pass-through of AGLR's cost for borrowing these funds under its commercial paper program. As of June 30, 2010 that interest rate was 0..393.%.

d. Maturity Date(s): Borrowings under the Utility Money Pool mature 364 days after the date of borrowing.

e. Additional Provisions: none

6. **Purpose For Which the Debt Will Be Incurred:** Applicant will use funds borrowed from the Utility Money Pool for capital expenditures, ongoing working capital requirements and general corporate purposes.

7. **Lawful Object and Purpose:** Applicant is authorized to participate in the Utility Money Pool by its Articles of Incorporation and applicable law. Participation in the arrangement is consistent with the proper performance by Applicant of service as a public utility and reasonably necessary and appropriate for such purposes.

8. **Counsel Passing on Legality of the Issue:**

Brian Betancourt
LeBoeuf, Lamb, Greene & MacRae, LLP
125 West 55th Street
New York, NY 10019

9. **Filings With Other State or Federal Regulatory Bodies:** Applicant has authority for participation in the Utility Money Pool from the New Jersey Board of Public Utilities, whose address is Two Gateway Center, Newark, New Jersey 07102. AGLR's Utility Money Pool was originally authorized by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 (as amended), which was repealed as of February 2006.

10. **Control or Ownership:** There is no measure of control or ownership exercised by or over Applicant as to any other public utility. Applicant is a wholly owned subsidiary of its parent holding company, NUI Corporation, which is a wholly owned subsidiary of AGL Resources Inc.

WHEREFORE, Pivotal Utility Holdings, Inc. d/b/a Florida City Gas, doing business in Florida respectfully requests that the Commission:

(a) publish notice of intent to grant the application pursuant to Section 366.04(1), Florida Statutes, as soon as possible;

(b) schedule this matter for agenda as early as possible;

(c) authorize Applicant to make short-term borrowings not to exceed $800,000,000 annually from AGLR's Utility Money Pool for the purposes and in the manner described herein;

(d) grant such other relief as the Commission deems appropriate.

Respectfully submitted this 8th day of October, 2010.

Beth Keating

Beth Keating
Akerman Senterfitt Attorneys at Law
106 East College Avenue
Suite 1200
Tallahassee, FL 32301
(850) 224-9634
Attorneys for PIVOTAL UTILITY HOLDINGS, INC., d/b/a FLORIDA CITY GAS

Pivotal Utility Holdings, Inc.
(A wholly owned subsidiary of AGL Resources Inc.)

Consolidated Financial Statements
As of and for the years ended December 31, 2009 and 2008

TABLE OF CONTENTS

	Pages
Glossary of Key Terms	3
Report of Independent Auditors	4
Audited Financial Statements	
Consolidated Statements of Financial Position	5
Consolidated Statements of Income	6
Consolidated Statements of Equity	7
Consolidated Statements of Cash Flows	8
Note 1 – Accounting Policies and Methods of Application	9 - 13
Note 2 – Amounts Due To Affiliates	13
Note 3 – Derivative Financial Instruments	13 – 15
Note 4 – Employee Benefit Plans	15 – 19
Note 5 – Debt	20 – 21
Note 6 – Commitments and Contingencies	21 – 22
Note 7 – Income Taxes	22 – 23
Note 8 – Related Party Transactions	24

GLOSSARY OF KEY TERMS

AGL Resources	AGL Resources Inc. and its subsidiaries
Bcf	Billion cubic feet
ERC	Environmental remediation costs, which are recoverable through our rate mechanisms
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Florida Commission	Florida Public Service Commission, the state regulatory agency for Florida City Gas.
GAAP	Accounting principles generally accepted in the United States of America
OCI	Other comprehensive income
Pivotal Utility	Pivotal Utility Holdings, Inc., doing business as Elizabethtown Gas, Elkton Gas and Florida City Gas
PP&E	Property, plant and equipment
New Jersey BPU	New Jersey Board of Public utilities, The state regulatory agency for Elizabethtown Gas
WNA	Weather normalization adjustment

Report of Independent Auditors

To the Shareholder of Pivotal Utility Holdings, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of common shareholder's equity and of cash flows present fairly, in all material respects, the financial position of Pivotal Utility Holdings, Inc. (a wholly owned subsidiary of AGL Resources Inc.) and its subsidiaries at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Atlanta, Georgia
February 4, 2010

Pivotal Utility Holdings, Inc.
Consolidated Statements of Financial Position

In thousands	As of December 31, 2009	2008
Current assets		
Cash and cash equivalents (Note 1)	$13	$1
Receivables (less allowance for uncollectible accounts of $6,415 at December 31, 2009 and $5,939 at December 31, 2008) (Note 1)	79,011	126,157
Inventories (Note 1)	34,313	69,168
Derivative financial instruments – current portion (Note 1 and Note 3)	9,449	19,163
Unrecovered deferred natural gas costs (Note 1)	-	18,847
Prepaid expenses and other current assets	24,012	19,530
Total current assets	146,798	252,866
Property, plant and equipment		
Property, plant and equipment	1,058,632	1,011,372
Less accumulated depreciation	326,201	310,495
Property, plant and equipment - net (Note 1)	732,431	700,877
Long-term assets and other deferred debits		
Goodwill (see Note 1)	176,560	176,560
Unrecovered environmental remediation costs (Note 1 and Note 6)	77,003	64,713
Unrecovered postretirement benefits (Note 1 and Note 4)	2,280	2,889
Derivative financial instruments (Note 1 and Note 3)	1,261	3,645
Other	22,499	14,385
Total long-term assets and other deferred debits	279,603	262,192
Total assets	$1,158,832	$1,215,935
Current liabilities		
Due to affiliates (Note 2)	$90,751	$98,273
Payables	15,164	8,479
Customer deposits	14,772	12,463
Accrued environmental remediation liabilities – current portion (Note 1 and Note 6)	12,070	7,334
Derivative financial instruments –current portion (Note 1 and Note 3)	9,449	22,715
Deferred natural gas costs (Note 1)	8,583	1,271
Accrued taxes	6,019	9,642
Short-term debt and capital leases (Note 5)	891	868
Other current liabilities	11,797	11,034
Total current liabilities	169,496	172,079
Long-term liabilities and other deferred credits		
Long-term debt and capital leases, net of current portion (Note 5)	340,262	368,105
Accumulated deferred income taxes (Note 1 and Note 7)	100,159	81,724
Accrued environmental remediation liabilities (Note 1 and Note 6)	68,295	60,550
Accumulated removal costs (Note 1)	63,911	78,437
Accrued pension costs (Note 4)	24,106	31,886
Accrued postretirement benefit costs (Note 4)	2,851	3,468
Regulatory tax liability (Note 1)	2,704	3,046
Unamortized investment tax credits (Note 1)	1,563	1,824
Derivative financial instruments (Note 1 and Note 3)	1,261	3,645
Other long-term liabilities and other deferred credits	30,848	28,879
Total long-term liabilities and other deferred credits	635,960	661,564
Commitments and contingencies (see Note 6)		
Equity		
Common shareholder's equity; no par value; 12,807,111 shares authorized, issued and outstanding	353,376	382,292
Total liabilities and equity	$1,158,832	$1,215,935

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Consolidated Statements of Income

In thousands	Years ended December 31, 2009	2008
Operating revenues (Note 1)	$539,328	$631,749
Operating expenses		
Cost of gas (Note 1)	356,521	449,467
Operation and maintenance	92,794	84,191
Depreciation and amortization (Note 1)	32,884	31,868
Taxes other than income taxes	6,085	5,794
Total operating expenses	488,284	571,320
Operating income	51,044	60,429
Other income	377	198
Interest expense, net	(14,054)	(13,307)
Earnings before income taxes	37,367	47,320
Income tax expense (Note 7)	14,183	17,690
Net income	$23,184	$29,630

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Consolidated Common Shareholder's Equity

In thousands	Common shares	Premium on common stock	Earnings reinvested	Other comprehensive income (loss)	Total
Balance as of December 31, 2007	12,807	$153,862	$193,756	$14,898	$362,516
Comprehensive income:					
Net income	-	-	29,630	-	29,630
Loss resulting from unfunded pension and postretirement obligation (net of $14,535 in taxes)	-	-	-	(21,089)	(21,089)
Total comprehensive income					8,541
Conversion of debt to equity	-	11,235	-	-	11,235
Balance as of December 31, 2008	12,807	$165,097	$223,386	$(6,191)	$382,292
Comprehensive income:					
Net income	-	-	23,184	-	23,184
Gain resulting from unfunded pension and postretirement obligation (net of $1,970 in taxes) (Note 4)	-	-	-	2,887	2,887
Total comprehensive income	-	-	-	-	26,071
Dividends	-	-	(20,610)		(20,610)
Conversion of equity to debt (Note 5)	-	(34,377)	-	-	(34,377)
Balance as of December 31, 2009	12,807	$ 130,720	$225,960	$(3,304)	$353,376

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Consolidated Cash Flows

In thousands	For the year ended December 31, 2009	2008
Cash flows from operating activities		
Net income	$23,184	$29,630
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization (Note 1)	32,884	31,868
Deferred income taxes (Note 7)	16,123	14,457
Changes in certain assets and liabilities		
Inventories (Note 1)	34,855	(20,198)
Payables	6,685	1,048
Deferred natural gas costs (Note 1)	26,159	4,160
Accrued taxes	(3,623)	(5,469)
Receivables (Note 1)	47,146	(3,935)
Other – net	(22,073)	(13,735)
Net cash flow provided by operating activities	161,340	37,826
Cash flows from investing activities		
Expenditures for property, plant and equipment	(69,658)	(56,190)
Sale of properties	-	643
Net cash flow used in investing activities	(69,658)	(55,547)
Cash flows from financing activities		
Principal payments under capital lease obligations (Note 5)	(868)	(953)
Payments of gas facility revenue bonds (Note 5)	-	(161,000)
Issuances of variable rate gas facility revenue bonds (Note 5)	-	161,000
Net repayments of short-term debt (Note 5)	-	(12,349)
Dividends paid	(20,610)	-
Net (payments to) borrowings from AGL Resources Inc. (Note 2)	(70,192)	30,704
Net cash flow (used in) provided by financing activities	(91,670)	17,402
Net increase (decrease) in cash and cash equivalents	12	(319)
Cash and cash equivalents at beginning of period	1	320
Cash and cash equivalents at end of period	$13	$1
Cash paid during the period for		
Interest	$2,578	$6,059
Income taxes	$151	$1,912

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

Note 1 - Accounting Policies and Methods of Application

General

Pivotal Utility Holdings, Inc. (Pivotal Utility) is a wholly-owned subsidiary of AGL Resources Inc. engaged in the sale and distribution of natural gas to approximately 382,000 customers in three states through its utility operating divisions which include Elizabethtown Gas (New Jersey), Florida City Gas (Florida) and Elkton Gas (Maryland). Unless the context requires otherwise, references to "we," "us," "our," the "company", or "Pivotal Utility" mean consolidated Pivotal Utility and its subsidiaries. For a glossary of key terms see page 3.

Basis of Presentation

Our consolidated financial statements as of and for the period ended December 31, 2009, include our accounts and the accounts of our subsidiaries. This means that our accounts are combined with the subsidiaries' accounts. We have eliminated any intercompany profits and transactions in consolidation; however, we have not eliminated intercompany profits when such amounts are probable of recovery under the affiliates' rate regulation process. Certain amounts from prior periods have been reclassified and revised to conform to the current period presentation.

Cash and Cash Equivalents

Our cash and cash equivalents consist primarily of cash on deposit, money market accounts and certificates of deposit with original maturities of three months or less.

Receivables and Allowance for Uncollectible Accounts

Our receivables consist of natural gas sales and transportation services billed to residential, commercial, industrial and other customers. We bill customers monthly, and accounts receivable are due within 30 days. For the majority of our receivables, we establish an allowance for doubtful accounts based on our collection experience and other factors. On certain other receivables where we are aware of a specific customer's inability or reluctance to pay, we record an allowance for doubtful accounts against amounts due to reduce the net receivable balance to the amount we reasonably expect to collect. However, if circumstances change, our estimate of the recoverability of accounts receivable could be different. Circumstances that could affect our estimates include, but are not limited to, customer credit issues, the level of natural gas prices, customer deposits and general economic conditions. We write-off our customer's accounts once we deem them to be uncollectible.

Inventories

We record natural gas stored underground at weighted average cost.

Property, Plant and Equipment

PP&E expenditures consist of property and equipment that is in use, being held for future use and under construction. We report PP&E at its original cost, which includes:

- material and labor
- contractor costs
- construction overhead costs
- an allowance for funds used during construction (AFUDC) which represents the estimated cost of funds, from both debt and equity sources, used to finance the construction of major projects and is capitalized in rate base for ratemaking purposes when the completed projects are placed in service

We charge property retired or otherwise disposed of to accumulated depreciation since such costs are recovered in rates.

A summary of our PP&E by classification as of December 31, 2009 and 2008 is provided in the following table.

In thousands	2009	2008
Transmission and distribution	$913,230	$879,002
Storage	7,107	9,259
Other	98,099	90,089
Construction work in progress	40,196	33,022
Total gross PP&E	1,058,632	1,011,372
Accumulated depreciation	(326,201)	(310,495)
Total net PP&E	$732,431	$700,877

Depreciation Expense

We compute depreciation expense by applying composite, straight-line rates (approved by the state regulatory agencies) to the investment in depreciable property. The composite, straight-line rate for Elizabethtown Gas, Florida City Gas and Elkton Gas are listed in the following table.

	2009	2008
Elizabethtown Gas	3.1%	3.1%
Elkton Gas	2.1%	2.9%
Florida City Gas	3.9%	3.9%

AFUDC

Elizabethtown Gas is authorized by its state regulatory agency to record the cost of debt and equity funds as part of the cost of construction projects in our consolidated statements of financial position and as AFUDC in the statements of consolidated income. The New Jersey BPU has authorized a variable rate based on the FERC method of accounting for AFUDC. At December 31, 2009 the rate was 0.41%. The total AFUDC for the year ended December 31, 2009 and 2008 was $100 thousand and $299 thousand respectively.

Goodwill

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations in accordance with the authoritative guidance. We do not amortize goodwill but annually test it for impairment or when indication of potential impairment exists. These indicators would include a significant change in operating performance, the business climate, legal or regulatory factors, or a planned sale or disposition of a significant portion of the business among other factors. We test goodwill impairment utilizing a fair value approach at a reporting unit level. We have included $176,560 thousand of goodwill in our consolidated statement of financial position as of December 31, 2009 and 2008, which consists of the acquisition of NUI Corporation in 2004.

Our impairment analysis for the years ended December 31, 2009 and 2008 of our identifiable net assets acquired in business combinations indicated that the fair value substantially exceeded the carrying value. As a result, we did not recognize any impairment charges.

Fair Value measurements

The carrying values of cash and cash equivalents, receivables, derivative financial assets and liabilities, accounts payable, pension and postretirement plan assets and liabilities, other current liabilities and accrued interest approximate fair value. See Notes 3, 4 and 5 for additional fair value disclosures.

As defined in authoritative guidance related to fair value measurements and disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observance of those inputs. The guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy defined by the guidance are as follows:

Level 1

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 items consist of financial instruments with exchange-traded derivatives.

Level 2

Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial and commodity instruments that are valued using valuation methodologies. These methodologies are primarily industry-standard methodologies that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. We obtain market price data from multiple sources in order to value some of our Level 2 transactions and this data is representative of transactions that occurred in the market place.

Level 3

Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. We do not have any material assets or liabilities classified as level 3, except for retirement plan assets as described in Note 4.

In April 2009, additional authoritative guidance related to fair value measurements and disclosures established a two-step process to determine if the market for a financial asset is inactive and a transaction is not distressed. Currently, this authoritative guidance does not affect us, as our derivative financial instruments are traded in active markets.

Taxes

The reporting of our assets and liabilities for financial accounting purposes differs from the reporting for income tax purposes. The principal differences between net income and taxable income relate to the timing of deductions, primarily due to the benefits of tax depreciation since we generally depreciate assets for tax purposes over a shorter period of time than for book purposes. The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We report the tax effects of depreciation and other differences in those items as deferred income tax assets or liabilities in our consolidated statements of financial position in accordance with authoritative guidance related to income taxes. Investment tax credits of approximately $1,563 thousand previously deducted for income tax purposes for Elizabethtown Gas, Florida City Gas and Elkton Gas have been deferred for financial accounting purposes and are being amortized as credits to income over the estimated lives of the related properties in accordance with regulatory requirements.

We do not collect income taxes from our customers on behalf of governmental authorities. We collect and remit various taxes on behalf of various governmental authorities. We record these amounts in our consolidated statements of financial position except taxes in the state of Florida which we are required to include in revenues and operating expenses. These Florida related taxes are not material for any periods presented.

Revenues

We record revenues when services are provided to customers. Those revenues are based on rates approved by the state regulatory commissions of our utilities. The Elizabethtown Gas, Florida City Gas, and Elkton Gas rate structures include volumetric rate designs that allow recovery of costs through gas usage. Revenues from sales and transportation services are recognized in the same period in which the related volumes are delivered to customers. Revenues from residential and certain commercial and industrial customers are recognized on the basis of scheduled meter readings. In addition, revenues are recorded for estimated deliveries of gas not yet billed to these customers, from the last meter reading date to the end of the accounting period. These are included in the statements of financial position as unbilled revenue.

The tariffs for Elizabethtown Gas contain WNA's that partially mitigate the impact of unusually cold or warm weather on customer billings and operating margin. The WNA's purpose is to reduce the effect of weather on customer bills by reducing bills when winter weather is colder than normal and increasing bills when weather is warmer than normal.

Cost of gas

We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms set by the state regulatory agencies. Under the these mechanisms, we defer (that is, include as a current asset or liability in the consolidated statements of financial position and exclude from the statements of consolidated income) the difference between the actual cost of gas and what is collected from or billed to customers in a given period. The deferred amount is either billed or refunded to our customers prospectively through adjustments to the commodity rate.

Comprehensive Income

Our comprehensive income includes net income plus OCI, which includes, net of taxes, $2,887 thousand of unrealized gains in 2009 and $21,089 thousand of unrealized losses in 2008 on minimum pension and postretirement liability adjustments affecting shareholder's equity that GAAP excludes from net income.

Regulatory Assets and Liabilities

We have recorded regulatory assets and liabilities in our consolidated statements of financial position in accordance with authoritative guidance related to regulated operations. Our regulatory assets and liabilities, and associated liabilities for our unrecovered regulatory infrastructure program costs, unrecovered ERC and the derivative financial instrument assets and liabilities for our Elizabethtown Gas hedging program, are summarized in the following table.

In thousands	As of December 31, 2009	2008
Regulatory assets		
Elizabethtown Gas unrecovered ERC	$77,003	$66,015
Unrecovered deferred natural gas costs	-	18,847
Unrecovered postretirement benefit costs	2,280	2,889
Other	19,833	18,330
Total regulatory assets	99,116	106,081
Associated assets		
Derivative financial instruments	10,710	22,808
Total regulatory and associated assets	$109,826	$128,889
Regulatory liabilities		
Accumulated removal costs	$63,911	$78,437
Derivative financial instruments	10,710	22,808
Regulatory tax liability	2,704	3,046
Unamortized investment tax credits	1,563	1,824
Deferred natural gas costs	8,583	1,271
Other	9,627	13,180
Total regulatory liabilities	97,098	120,566
Associated liabilities		
Elizabethtown Gas ERC	69,057	57,479
Total associated Liabilities	69,057	57,479
Total regulatory and associated liabilities	$166,155	$178,045

(1) For a discussion of ERC, see Note 6.

Our regulatory assets are recoverable through either rate riders or base rates specifically authorized by a state regulatory commission. Base rates are designed to provide both a recovery of cost and a return on investment during the period rates are in effect. As such, all our regulatory assets are subject to review by the respective state regulatory commission during any future rate proceedings. In the event that the provisions of authoritative guidance related to regulated operations were no longer applicable, we would recognize a write-off of regulatory assets that would result in a charge to net income, and be classified as an extraordinary item.

Additionally, the regulatory liabilities would not be written-off. They would continue to be recorded as liabilities, but not as regulatory liabilities. Although the natural gas distribution industry is becoming increasingly competitive, our utility operations continue to recover their costs through cost-based rates established by the state regulatory commissions. As a result, we believe that the accounting prescribed under the guidance remains appropriate. It is also our opinion that all regulatory assets are recoverable in future rate proceedings, and therefore we have not recorded any regulatory assets that are recoverable but are not yet included in base rates or contemplated in a rate rider. The regulatory liabilities are refunded to ratepayers through a rate rider or base rates. If the regulatory liability is included in base rates, the amount is reflected as a reduction to the rate base in setting rates.

All the regulatory assets included in the preceding table are included in base rates except for the unrecovered regulatory infrastructure program costs, unrecovered ERC and deferred natural gas costs, which are recovered through specific rate riders on a dollar for dollar basis. The rate riders that authorize recovery of unrecovered regulatory infrastructure program costs and the deferred natural gas costs include both a recovery of costs and a return on investment during the recovery period. The ERC associated with the investigation and remediation of Elizabethtown Gas remediation sites located in the state of New Jersey are recovered under a remediation adjustment clause and include the carrying cost on unrecovered amounts not currently in rates. Elizabethtown Gas' derivative financial instruments asset and liability reflect unrealized losses or gains that will be recovered from or passed to rate payers through the recovery of its natural gas costs on a dollar for dollar basis, once the losses or gains are realized.

Unrecovered postretirement benefit costs are recoverable through base rates over the next 4 to 23 years based on the remaining recovery period as designated by the applicable state regulatory commissions.

Regulatory Infrastructure Programs

In April 2009, the New Jersey BPU approved an accelerated $60 million enhanced infrastructure program for Elizabethtown Gas, which began in 2009 and is scheduled to be completed in 2011. This program was created in response to the New Jersey Governor's request for utilities to assist in the economic recovery by increasing infrastructure investments. A regulatory cost recovery mechanism will be established with estimated rates put into effect at the beginning of each year. At the end of the program the regulatory cost recovery mechanism will be trued-up and any remaining costs not previously collected will be included in base rates.

Use of Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. We based our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, and we evaluate our estimates on an ongoing basis. Each of our estimates involve complex situations requiring a high degree of judgment either in the application and interpretation of existing literature or in the development of estimates that impact our financial statements. The most significant estimates include our pipeline replacement program accruals, environmental liability accruals, uncollectible accounts and other allowance for contingencies, pension and postretirement obligations, derivative and hedging activities and provision for income taxes. Our actual results could differ from our estimates.

Subsequent Events

In May 2009, the FASB established guidance for and disclosure of events that occur after the statements of financial position date, but before financial statements are issued, or are available to be issued. This guidance should now be applied by management to the accounting for and disclosure of subsequent events, but does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide different guidance. In accordance with the guidance, we evaluated subsequent events until the time that our financial statements were issued.

Note 2 - Amounts Due to Affiliates

We had $90,751 thousand in payables at December 31, 2009 and $98,273 thousand in payables at December 31, 2008, due to AGL Resources and affiliated companies, which consists primarily of our participation in AGL Resources' money pool to fund our working capital requirements.

Note 3 – Derivative Financial Instruments

Netting of Cash Collateral and Derivative Assets and Liabilities under Master Netting Arrangements

We maintain accounts with brokers to facilitate financial derivative transactions in support of our energy marketing and risk management activities. Based on the value of our positions in these accounts and the associated margin requirements, we may be required to deposit cash into these broker accounts.

The authoritative guidance related to derivatives and hedging requires that we offset cash collateral held in our broker accounts on our consolidated statements of financial position with the associated fair value of the derivative financial instruments in the accounts. We had no cash collateral amount as of December 31, 2009.

Our risk management activities are monitored by AGL Resources' Risk Management Committee, which consists of members of senior management and is charged with reviewing and enforcing our risk management activities and policies. Our use of derivative financial instruments is limited to predefined risk tolerances associated with pre-existing or anticipated physical natural gas sales and purchases and system use. We use derivative financial instruments to manage natural gas price risks.

The fair value of natural gas derivative financial instruments we use to manage exposures arising from changing natural gas prices reflects the estimated amounts that we would receive or pay to terminate or close the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts. We use external market quotes and indices to value substantially all the derivative financial instruments we use.

In accordance with a directive from the New Jersey BPU, Elizabethtown Gas enters into derivative financial instruments to hedge the impact of market fluctuations in natural gas prices. Pursuant to the authoritative guidance related to derivatives and hedging, such derivative transactions are accounted for at fair value each reporting period in our consolidated statements of financial position. In accordance with regulatory requirements realized gains and losses related to these derivatives are reflected in natural gas costs and ultimately included in billings to customers. However, these derivative financial instruments are not designated as hedges in accordance with the guidance. As of December 31, 2009, Elizabethtown Gas had entered into over-the-counter swap contracts to purchase approximately 18 Bcf of natural gas. Approximately 63% of these contracts have durations of one year or less, and none of these contracts extends beyond December 2011. For more information on our regulatory assets and liabilities see Note 1.

Derivative Financial Instruments – Fair Value Hierarchy

The following table sets forth our derivative financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009 and 2008. As required by the guidance, derivative financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Recurring fair values Natural gas derivative financial instruments			
	December 31, 2009		**December 31, 2008**	
In thousands	**Assets (1)**	**Liabilities (1)**	**Assets (1)**	**Liabilities (1)**
Quoted prices in active markets (Level 1)	$10,710	$10,710	22,808	22,808
Netting of cash collateral	-	-	-	3,552
Total carrying value (1)	**$10,710**	**$10,710**	**$22,808**	**$26,360**

(1) There were no significant inputs other than quoted prices in active markets (Level 2) or no significant unobservable inputs (level 3) for any of the periods presented.

The determination of the fair values above incorporates various factors required under the guidance. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of our nonperformance risk on our liabilities.

Quantitative Disclosures Related to Derivative Financial Instruments

As of December 31, 2009, our derivative financial instruments were comprised of both long and short natural gas positions. A long position is a contract to purchase natural gas, and a short position is a contract to sell natural gas. As of December 31, 2009, we had net long natural gas contracts outstanding in the following quantities:

Hedge designation	**Natural gas contracts (in Bcf)**
Not designated	18
Total	18

Derivative Financial Instruments on the Consolidated Statements of Financial Position

In accordance with regulatory requirements, $37,526 thousand of realized losses on derivative financial instruments used at Elizabethtown Gas were reflected in deferred natural gas costs within our consolidated statements of financial position during the year ended December 31, 2009.

The following table presents the fair value and statements of financial position classification of our derivative financial instruments as of December 31, 2009.

In thousands	Statement of financial position location	As of December 31, 2009
Not designated as cash flow hedges under authoritative guidance related to derivatives and hedging		
Asset Financial Instruments		
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	$9,449
Noncurrent natural gas contracts	Derivative financial instruments assets and liabilities	1,261
Liability Financial Instruments		
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	$(9,449)
Noncurrent natural gas contracts	Derivative financial instruments assets and liabilities	(1,261)
	Total derivative financial instruments	-

Note 4 - Employee Benefit Plans

Accounting for employee benefit plans

The authoritative guidance related to retirement benefits requires that we recognize all obligations related to defined benefit pension and other postretirement benefits and quantify the plans' funding status as an asset or a liability on our consolidated statements of financial position. The guidance further requires that we measure the plans' assets and obligations that determine our funded status as of the end of the fiscal year. We are also required to recognize as a component of OCI the changes in funded status that occurred during the year that are not recognized as part of net periodic benefit cost as explained in authoritative guidance related to pension and postretirement benefits.

Based on the funded status of our defined benefit pension and postretirement benefit plans as of December 31, 2009, we reported an after-tax gain to our OCI of $2,887 thousand, a net decrease of $4,857 thousand to accrued pension and postretirement obligations and an increase of $1,970 thousand to accumulated deferred income tax.

Oversight of Plans

The Retirement Plan Investment Committee (the Committee) appointed by AGL Resources' Board of Directors is responsible for overseeing the investments of the AGL Resources Inc. retirement plans. Further, AGL Resources has an Investment Policy (the Policy) for the retirement and postretirement benefit plans that aims to preserve these plans' capital and maximize investment earnings in excess of inflation within acceptable levels of capital market volatility. To accomplish this goal, the retirement and postretirement benefit plans' assets are actively managed to optimize long-term return while maintaining a high standard of portfolio quality and diversification.

AGL Resources will continue to diversify retirement plan investments to minimize the risk of large losses in a single asset class. AGL Resources does not have a concentration of assets in a single entity, industry, country, commodity or class of investment fund. The Policy's permissible investments include domestic and international equities (including convertible securities and mutual funds), domestic and international fixed income (corporate and U.S. government obligations), cash and cash equivalents and other suitable investments.

Equity market performance and corporate bond rates have a significant effect on the reported unfunded projected benefit obligation (PBO) and accumulated postretirement benefit obligation (APBO), as the primary factors that drive the value of the unfunded PBO and APBO are the assumed discount rate and the actual return on plan assets. Additionally, equity market performance has a significant effect on the market-related value of plan assets (MRVPA), which is used by AGL Resources largest pension plan. The MRVPA is a calculated value and differs from the actual market value of plan assets. The MRVPA also recognizes the difference between the actual market value and expected market value of plan assets and is determined by AGL Resources' actuaries using a five-year moving weighted average methodology. Gains and losses on plan assets are spread through the MRVPA based on the five-year moving weighted average methodology, which affects the expected return on plan assets component of pension expense.

Pension Benefits

AGL Resources sponsors two tax-qualified defined benefit retirement plans for our eligible employees, the AGL Resources Inc. Retirement Plan (AGL Retirement Plan) and the Employees' Retirement Plan of NUI Corporation (NUI Retirement Plan). A defined benefit plan specifies the amount of benefits an eligible participant eventually will receive using information about the participant.

The benefits under the AGL Retirement Plan are calculated based on age, years of service and pay. The benefit formula for the AGL Retirement Plan is a career average earnings formula, except for participants who were employees as of July 1, 2000, and who were at least 50 years of age as of that date. For those participants, AGL Resources uses a final average earnings benefit formula, and will continue to use this benefit formula for such participants until December 31, 2010, at which time any of those participants who are still actively employed will accrue future benefits under the career average earnings formula.

The NUI Retirement Plan covers substantially all of NUI Corporation's employees who were employed on or before December 31, 2005, except Florida City Gas union employees, who until February 2008 participated in a union-sponsored multiemployer plan. Pension benefits are based on years of credited service and final average compensation as of the plan freeze date. Effective, January 1, 2006, participation and benefit accrual under the NUI Retirement Plan were frozen. As of that date, former participants in that plan became eligible to participate in the AGL Retirement Plan. Florida City Gas union employees became eligible to participate in the AGL Retirement Plan in February 2008.

Postretirement Benefits

AGL Resources sponsors a defined benefit postretirement health care plan for eligible employees, the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Postretirement Plan). Eligibility for these benefits is based on age and years of service.

The AGL Postretirement Plan includes medical coverage for all eligible AGL Resources employees who were employed as of June 30, 2002, if they reach retirement age while working for AGL Resources. Additionally, the AGL Postretirement Plan provides life insurance for all employees if they have ten years of service at retirement. The state regulatory commissions have approved phase-ins that defer a portion of other postretirement benefits expense for future recovery. We recorded a regulatory asset for these future recoveries of $2,280 thousand as of December 31, 2009 and $2,889 thousand as of December 31, 2008. In addition, we recorded a liability of $2,851 thousand as of December 31, 2009 and $3,468 thousand as of December 31, 2008 for our expected expenses under the AGL Postretirement Plan. AGL Resources expects to pay $8 million of insurance claims for the postretirement plan in 2010, but it does not anticipate making any additional contributions.

Effective December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. This act provides for a prescription drug benefit under Medicare (Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

From January 1, through June 30, 2009, Medicare-eligible participants receive prescription drug benefits through a Medicare Part D plan offered by a third party and to which AGL Resources Inc. subsidized participant premiums. Medicare-eligible retirees who opted out of the AGL Postretirement Plan were eligible to receive a cash subsidy which could be used towards eligible prescription drug expenses. Effective July 1, 2009, Medicare eligible retirees, including all of those at least age 65, receive benefits through AGL Resources Inc. contribution to a retiree health reimbursement arrangement account.

Effective January 1, 2010, enhancements were made to the pre-65 medical coverage by removing the current cap on our expected costs and implementing a new cap determined by the new retiree premium schedule based on salary level and years of service. Consequently, a one-percentage-point change in the assumed health care cost trend rates does not materially affect the periodic benefit costs or our accumulated projected benefit obligation for our postretirement plan.

Contributions

Our employees do not contribute to the retirement plans. We fund the qualified pension plans by contributing at least the minimum amount required by applicable regulations and as recommended by our actuary. However, we may also contribute in excess of the minimum required amount. As required by The Pension Protection Act (the Act) of 2006, we calculate the minimum amount of funding using the traditional unit credit cost method.

The Act contained new funding requirements for single employer defined benefit pension plans. The Act established a 100% funding target (over a 7-year amortization period) for plan years beginning after December 31, 2007. If certain conditions are met, the Worker, Retiree and Employer Recovery Act of 2008 (passed December, 2008) allowed us to measure our 2008 and 2009 minimum required contributions based on a funding target at 92% and 94%, respectively. In 2010, this will increase to 96% and for 2011, it will increase to 100%. In 2009 AGL Resources contributed $24 million to its qualified pension plans. In 2008 AGL Resources did not make contributions to its qualified pension plans as one was not required. For more information on our 2010 contributions to our pension plans, see Note 6.

The following tables present details about the AGL Retirement Plan and the NUI Retirement Plan (retirement plans) and the AGL Postretirement Plan (postretirement plan).

	Retirement plans		Postretirement plan	
Dollars in millions	2009	2008	2009	2008
Change in plan assets				
Fair value of plan assets, January 1,	$242	$383	$49	$70
Actual gain (loss) on plan assets	61	(115)	14	(21)
Employer contribution	26	1	7	4
Benefits paid	(26)	(27)	(7)	(4)
Fair value of plan assets, December 31, (A)	$303	$242	$63	$49
Change in benefit obligation				
Benefit obligation, January 1,	$442	$427	$95	$94
Service cost	8	7	-	-
Interest cost	26	26	6	6
Plan amendment	-	-	1	-
Actuarial loss (gain)	13	9	6	(1)
Benefits paid	(26)	(27)	(7)	(4)
Benefit obligation, December 31, (B)	$463	$442	$101	$95
% funded (A/B)	65.4%	54.8%	62.4%	51.6%
Amounts recognized in the consolidated statements of financial position consist of				
Current liability	$(1)	$(1)	$-	$-
Long-term liability	(159)	(199)	(38)	(46)
Total liability at December 31,	$(160)	$(200)	$(38)	$(46)
Pivotal Utility's share of net liability recorded on consolidated statements of financial position	$(25)	$(32)	$(3)	$(3)
Assumptions used to determine benefit obligations				
Discount rate	5.8 - 6.0%	6.2%	5.8%	6.2%
Rate of compensation increase	3.7%	3.7%	3.7%	3.7%
Accumulated benefit obligation	$448	$425	Not applicable	

The components of our pension and postretirement benefit costs are set forth in the following table.

	Retirement plans		Postretirement plan	
Dollars in millions	2009	2008	2009	2008
Net benefit cost				
Service cost	$8	$7	$-	$-
Interest cost	26	26	6	6
Expected return on plan assets	(29)	(32)	(4)	(6)
Net amortization	(2)	(2)	(4)	(4)
Recognized actuarial loss	9	3	2	1
Net annual pension cost	$12	$2	$-	$(3)
Pivotal Utility's share of net annual pension and postretirement costs	$3	$(2)	$-	$(1)
Assumptions used to determine benefit costs				
Discount rate	6.2%	6.4%	6.2%	6.4%
Expected return on plan assets	9.0%	9.0%	9.0%	9.0%
Rate of compensation increase	3.7%	3.7%	3.7%	3.7%

There were no other changes in plan assets and benefit obligations recognized for AGL Resources retirement and postretirement plans for the year ended December 31, 2009. The 2010 estimated OCI amortization and expected refunds for these plans are set forth in the following table.

In millions	Retirement plans	Postretirement plan
Amortization of prior service credit	$(2)	$(4)
Amortization of net loss	11	2
Refunds expected	-	-

The following table presents expected benefit payments for the years ended December 31, 2010 through 2019 for AGL Resources retirement and postretirement plans. There will be benefit payments under these plans beyond 2019.

In millions	Retirement plans	Postretirement plan
2010	$27	$8
2011	27	8
2012	27	8
2013	27	8
2014	27	7
2015-2019	154	37
Total	$289	$76

The following table presents the amounts not yet reflected in AGL Resources net periodic benefit cost and included in AGL Resources accumulated OCI as of December 31, 2009.

In millions	Retirement plans	Postretirement plan
Prior service credit	$(17)	$(12)
Net loss	187	33
Accumulated OCI	170	21
Net amount recognized in consolidated statements of financial position	(160)	(38)
Prepaid (accrued) cumulative employer contributions in excess of net periodic benefit cost	$10	$(17)

There were no other changes in plan assets and benefit obligations recognized in AGL Resources retirement and postretirement plans for the year ended December 31, 2009.

We consider a number of factors in determining and selecting assumptions for the overall expected long-term rate of return on plan assets. We consider the historical long-term return experience of our assets, the current and expected allocation of our plan assets, and expected long-term rates of return. We derive these expected long-term rates of return with the assistance of our investment advisors and generally base these rates on a 10-year horizon for various asset classes, our expected investments of plan assets and active asset management as opposed to investment in a passive index fund. We base our expected allocation of plan assets on a diversified portfolio consisting of domestic and international equity securities, fixed income, real estate, private equity securities and alternative asset classes.

We consider a variety of factors in determining and selecting our assumptions for the discount rate at December 31. We consider certain market indices and including Moody's Corporate AA long-term bond rate, the Citigroup Pension Liability rate, other high-grade bond indices and a single equivalent discount rate derived with the assistance of our actuaries by matching expected future cash flows in each year to the appropriate spot rates based in high quality (rated AA or better) corporate bonds.

AGL Resources target asset allocations consists of approximately 30% - 95% equity, 10% - 40% fixed income, 10% - 35% real estate and other and the remaining 0% - 10% in cash. AGL Resources actual retirement and postretirement plans' asset allocations by level within the fair value hierarchy at December 31, 2009, are presented in the table below. AGL Resources retirement and postretirement plans' assets were accounted for at fair value and are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and their placement within the fair value hierarchy levels. For more information on a description of the fair value hierarchy, see Note 1.

	Retirement plans (1)					Postretirement plan				
In millions	Level 1	Level 2	Level 3	Total	% of total	Level 1	Level 2	Level 3	Total	% of total
Cash	$12	$-	$-	$12	4%	$1	$-	$-	$1	2%
Equity Securities										
U.S. large cap (2)	73	-	-	73	24%	-	31	-	31	54%
U.S. small cap (2)	44	-	-	44	14%	-	-	-	-	-
International companies (3)	-	35	5	40	13%	-	11	-	11	19%
Emerging markets (4)	-	13	-	13	4%	-	-	-	-	-
Fixed income securities										
Corporate bonds (5)	-	55	-	55	18%	-	14	-	14	25%
Other types of investments										
Global hedged equity (6)	-	-	33	33	11%	-	-	-	-	-
Absolute return (7)	-	-	26	26	8%	-	-	-	-	-
Private capital (8)	-	-	13	13	4%	-	-	-	-	-
Total assets at fair value	$129	$103	$77	$309	100%	$1	$56	$-	$57	100%
% of fair value hierarchy	42%	33%	25%	100%		2%	98%	-	100%	

(1) Includes $6 million of medical benefit (health and welfare) component for 401h accounts to fund a portion of the postretirement obligation
(2) Includes funds that invest primarily in U.S. common stocks
(3) Includes funds that invest primarily in foreign equity and equity-related securities
(4) Includes funds that invests primarily in common stocks of emerging markets
(5) Includes funds that invest primarily in investment grade debt and fixed income securities
(6) Includes funds that invest in limited / general partnerships, managed accounts, and other investment entities issued by non-traditional firms or "hedge funds"
(7) Includes funds that invest primarily in investment vehicles and commodity pools as a "fund of funds"
(8) Includes funds that invest in private equity and small buyout funds, partnership investments, direct investments, secondary investments, directly / indirectly in real estate and may invest in equity securities of real estate related companies, real estate mortgage loans, and real-estate mezzanine loans

The following is a reconciliation of assets in level 3 of the fair value hierarchy.

Retirement Plans

In millions	Total	International equity	Global hedged equity	Absolute return	Private capital
Beginning balance at December 31, 2008	$65	$3	$27	$23	$12
Actual return on plan assets:					
Relating to assets still held at the reporting date	10	2	6	3	(1)
Relating to assets sold during the period:					
Purchases, sales and settlements (net)	2	-	-	-	2
Transfers in and/or out of Level 3	-	-	-	-	-
Ending balance at December 31, 2009	$77	$5	$33	$26	$13

Employee Savings Plan Benefits

AGL Resources sponsors the Retirement Savings Plus Plan (RSP), a defined contribution benefit plan that allows eligible participants to make contributions to their accounts up to specified limits. Under the RSP, we made matching contributions to participant accounts of $1,022 thousand in 2009 and $934 thousand in 2008.

Note 5 - Debt

Our issuance of various securities, including long-term and short-term debt, is subject to customary approval, authorization or review by state and federal regulatory bodies, including state public service commissions, and the FERC as granted by the Energy Policy Act of 2005. The following table shows our long-term debt included in our consolidated statements of financial position. We estimate the fair value using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile.

In thousands	Year(s) due	Interest rate (1)	Weighted average interest rate (1)	Outstanding as of December 31, 2009	2008
Short-term debt					
Capital leases	2010	4.9	4.9	$891	$868
Total short-term debt		**4.9%**	**4.9%**	**$891**	**$868**
Long-term debt					
Gas facility revenue bonds					
Issued July 1994	2022	0.2%	0.2%	$46,500	$46,500
Issued July 1994	2024	0.4	0.6	20,000	20,000
Issued June 1992	2026	0.2	0.2	39,000	39,000
Issued June 1992	2032	0.2	0.2	54,600	54,600
Issued July 1997	2033	5.3	5.3	40,000	40,000
Total		**1.2%**	**1.2%**	**$200,100**	**$200,100**
Affiliate Promissory note	2034	5.9%	5.9%	**$137,400**	**$164,352**
Capital leases	2013	4.9%	4.9%	**2,762**	**3,653**
Total long-term debt (2)		**3.2%**	**3.2%**	**$340,262**	**$368,105**
Total debt		**3.2%**	**3.2%**	**$341,153**	**$368,973**

(1) As of or for the year ended December 31, 2009.

(2) We estimate the fair value was $337,274 thousand as of December 31, 2009 and $360,774 thousand as of December 31, 2008.

Short-term Debt

Our short-term debt at December 31, 2009 and 2008 was composed of current portions of our capital lease obligations.

Long-term Debt

Our long-term debt at December 31, 2009 and 2008 matures more than one year from the statements of financial position date and consists of gas facility revenue bonds, affiliate promissory note and capital leases.

Gas Facility Revenue Bonds Pivotal Utility is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued a series of gas facility revenue bonds. In 2008, we completed letter of credit agreements for the bonds with a cumulative principal amount of $161,100 thousand. These agreements provided additional credit support and increased investor demand. As a result, these bonds were successfully auctioned and issued as variable rate gas facility bonds. The bonds with principal amounts of $54,600 thousand, $46,500 thousand and $39,000 thousand have interest rates that reset daily and the bond with a principal amount of $20,000 thousand has an interest rate that resets weekly. The letter of credit agreements are set to expire in June and September 2010.

Affiliate Promissory Note Pivotal Utility entered into a promissory note with AGL Resources (Affiliate Promissory Note) for the purpose of refinancing short-term debt and recapitalizing the capital structure of Pivotal Utility and of its utility operating divisions, Elizabethtown Gas, Florida City Gas and Elkton Gas, in accordance with Pivotal Utility's target capitalization of 45% and with authorizations of the New Jersey BPU and the Florida Commission. The Affiliate Promissory Note is adjusted from time to time to maintain the appropriate targeted capitalization percentages. Accordingly, during 2009, $34,377 thousand was converted from equity to the Affiliate Promissory Note to maintain such ratios. The Affiliate Promissory Note is due December 31, 2034 and had an initial interest rate of 6.28%, which adjusts on a periodic basis based upon weighted-average costs and expenses of borrowing the then outstanding long-term debt of both AGL Resources and AGL Capital Corporation, a wholly-owned financing subsidiary of AGL Resources. As of December 31, 2009, the interest rate on this note was 5.9%. The initial principal amount of the Affiliate Promissory Note of $72,000 thousand is adjusted on an annual basis to conform with Pivotal Utility's target capitalization of 45% and with the authorizations of the New Jersey BPU and the Florida Commission. As of December 31, 2009, the amount outstanding under the Affiliate Promissory Note was $137,400 thousand.

Capital Leases Our capital leases consist primarily of a sale/leaseback transaction completed in 2002 by Florida City Gas related to its gas meters and other equipment and will be repaid at approximately $1,000 thousand per year until 2013. Pursuant to the terms of the lease agreement, Florida City Gas is required to insure the leased equipment during the lease term. In addition, at the expiration of the lease term, Florida City Gas has the option to purchase the leased meters from the lessor at their fair market value. The fair market value of the equipment will be determined on the basis of an arm's-length transaction between an informed and willing buyer.

Note 6 - Commitments and Contingencies

We have incurred various contractual obligations and financial commitments in the normal course of our operating and financing activities. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. The following table illustrates our expected future contractual payments such as debt and lease agreements, and commitment and contingencies as of December 31, 2009.

In thousands	Total	2010	2011 & 2012	2013 & 2014	2015 & Thereafter
Recorded contractual obligations:					
Long-term debt	$340,262	$-	$2,762	$-	$337,500
Environmental remediation liabilities (1)	80,365	12,070	31,725	35,762	808
Short-term debt	891	891	-	-	-
Total	$421,518	$12,961	$34,487	$35,762	$338,308
Unrecorded contractual obligations and commitments (2):					
Pipeline charges, storage capacity and gas supply	$314,287	$56,812	$93,941	$56,980	$106,554
Interest charges (3)	56,466	2,622	5,060	4,912	43,872
Operating leases (4)	50,625	4,098	8,229	8,077	30,221
Standby letters of credit, performance / surety bonds	1,870	1,870	-	-	-
Pension contributions (5)	1,680	1,680	-	-	-
Total	$424,928	$67,082	$107,230	$69,969	$180,647

(1) Includes charges recoverable through rate rider mechanisms.
(2) In accordance with GAAP, these items are not reflected in our consolidated statements of financial position.
(3) Floating rate debt is based on the interest rate as of December 31, 2009 and the maturity of the underlying debt instrument. As of December 31, 2009, we have $784 thousand of accrued interest on our consolidated statements of financial position that will be paid in 2010.
(4) We have certain operating leases with provisions for step rent or escalation payments and certain lease concessions. We account for these leases by recognizing the future minimum lease payments on a straight-line basis over the respective minimum lease terms, in accordance with authoritative guidance related to leases. However, this lease accounting treatment does not affect the future annual operating lease cash obligations as shown herein.
(5) Based on the current funding status of the plans, we would be required to make a minimum contribution to our pension plans of approximately $1,680 thousand in 2010. We may make additional contributions in 2010.

Environmental Remediation Costs

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites. The following table provides more information on our former operating sites.

In millions	Cost estimate range	Amount recorded	Expected costs over next twelve months
New Jersey	$69 - 134	$69	$11
North Carolina	11 - 16	11	1
Total	$80 - $150	$80	$12

We have identified 6 former operating sites in New Jersey where Elizabethtown Gas owned or operated all or part of these sites. Material cleanups of these sites have not been completed nor are precise estimates available for future cleanup costs and therefore considerable variability remains in future cost estimates. We have also identified a site in North Carolina, which is subject to a remediation order by the North Carolina Department of Energy and Natural Resources, and there are no cost recovery mechanisms for the environmental remediation.

Our ERC liabilities are customarily reported estimates of future remediation costs for these former sites based on probabilistic models of potential costs and on an undiscounted basis. As cleanup options and plans mature and cleanup contracts are entered into, we are able to provide conventional engineering estimates of the likely costs of remediation at our former sites. These estimates contain various engineering uncertainties, but we continuously attempt to refine and update these engineering estimates. These liabilities do not include other potential expenses, such as unasserted property damage claims, personal injury or natural resource damage claims, unbudgeted legal expenses or other costs for which we may be held liable but for which we cannot reasonably estimate an amount.

Our ERC liabilities subject to cost recovery mechanisms, are included as a corresponding regulatory asset. These unrecovered ERC assets are a combination of accrued ERC liabilities and unrecovered cash expenditures for investigation and cleanup costs. We have recorded a total unrecovered ERC asset of $77,003 thousand and $66,015 thousand as of December 31, 2009 and 2008, respectively.

Litigation

We are involved in litigation arising in the normal course of business. We believe the ultimate resolution of such litigation will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Note 7 - Income Taxes

We have two categories of income taxes in our consolidated statements of income: current and deferred. Current income tax expense consists of federal and state income tax less applicable tax credits related to the current year. Deferred income tax expense generally is equal to the changes in the deferred income tax liability and regulatory tax liability during the year.

Investment and Other Tax Credits

Deferred investment tax credits are included as a regulatory liability in our consolidated statements of financial position (see Note 1, "Accounting Policies and Methods of Application"). These investment tax credits are being amortized over the estimated life of the related properties as credits to income in accordance with regulatory requirements. We reduce income tax expense in our consolidated statements of income for the investment tax credits. Components of income tax expense shown in the consolidated statements of income are shown in the following table.

Income Tax Expense

The relative split between current and deferred taxes is due to a variety of factors including true ups of prior year tax returns, and most importantly, the timing of our property-related deductions.

In thousands	2009	2008
Current income taxes		
Federal	$(2,969)	$2,888
State	1,290	624
Deferred income taxes		
Federal	14,679	12,289
State	1,444	2,168
Amortization of investment tax credits	(261)	(279)
Total	$14,183	$17,690

The reconciliations between the statutory federal income tax rate, the effective rate and the related amount of tax for the years ended December 31, 2009 and 2008 on our consolidated statements of income are presented in the following table.

In thousands	2009	2008
Computed tax expense at statutory rate	$13,078	$16,562
State income tax, net of federal income tax benefit	2,536	3,132
Amortization of investment tax credits	(261)	(279)
Other – net	(1,170)	(1,725)
Total income tax expense at effective rate	$14,183	$17,690

Accumulated Deferred Income Tax Assets and Liabilities

We report some of our assets and liabilities differently for financial accounting purposes than we do for income tax purposes. We report the tax effects of the differences in those items as deferred income tax assets or liabilities in our consolidated statements of financial position. We measure the assets and liabilities using income tax rates that are currently in effect. Because of the regulated nature of the utilities' business, we recorded a regulatory tax liability in accordance with authoritative guidance related to income taxes, which we are amortizing over approximately 30 years (see Note 1). Our deferred tax assets include $2,273 thousand related to an unfunded pension and postretirement benefit obligation.

Components that give rise to the net accumulated deferred income tax liability are as follows.

In thousands	As of December 31, 2009	As of December 31, 2008
Accumulated deferred income tax liabilities		
Property – accelerated depreciation and other property-related items	$99,070	$88,600
Pension and other employee benefits	4,196	434
Other	7,865	13,339
Total accumulated deferred income tax liabilities	111,131	102,373
Accumulated deferred income tax assets		
Unfunded pension and postretirement benefit obligation	$2,273	-
Bad debts and insurance reserves	2,628	2,483
Environmental response cost	2,616	3,035
Other	3,455	15,131
Total accumulated deferred income tax assets	10,972	20,649
Net accumulated deferred tax liability	$100,159	$81,724

Tax Benefits

The authoritative guidance related to income taxes requires us to determine whether tax benefits claimed or expected to be claimed on our tax return should be recorded in the consolidated financial statements. Under this guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. This guidance also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of December 31, 2008 and December 31, 2009, we did not have a liability for unrecognized tax benefits. Based on current information, we do not anticipate that this will change materially in 2010.

We recognize accrued interest and penalties related to uncertain tax positions in operating expenses in the consolidated statements of income, which is consistent with the recognition of these items in prior reporting periods. As of December 31, 2009, we did not have a liability recorded for payment of interest and penalties associated with uncertain tax positions.

AGL Resources Inc. files a U.S. federal consolidated income tax return and state income tax returns. AGL Resources Inc. is no longer subject to income tax examinations by the Internal Revenue Service for years before 2008 or any state for years before 2002.

Note 8 - Related Party Transactions

We have agreements with our affiliate, Sequent Energy Management, L.P. (Sequent) for transportation and storage capacity to meet our natural gas demands. The following table provides additional information on our asset management agreements with Sequent.

Dollars in millions	Expiration date	Type of fee structure	Annual fee	Profit sharing / fees payments 2009	2008
Elkton Gas	Mar 2010	Fixed-fee	(A)	$-	$-
Elizabethtown Gas	Mar 2011	Tiered Structure	(B)	$11	$5
Florida City Gas	Mar 2013	Profit -sharing	50%	1	1
Total				$12	$6

(A) Annual fixed fee is approximately $14,000. This agreement is in a year-to-year evergreen period and can be terminated with ninety days notice prior to the end of subsequent terms.
(B) Shared on a tiered structure including a minimum payment of $5 million.

See Note 2, Note 5 and Note 6 for discussion of other intercompany transactions.

Pivotal Utility also engages in transactions with AGL Resources' affiliates consistent with its services and tax allocation agreements.