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Writer's E-Mail Address: bkeating@gunster.com

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September 27, 2011

**BY HAND DELIVERY**

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: New Filing - **Application for authority to issue debt security, pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida City Gas.**

Dear Ms. Cole:

Enclosed for filing, please find the original and three copies of the Application of Florida City Gas for Authority to Issue Debt Security During Calendar Year 2012, along with its Consolidated Financial Statements for 2009 and 2010. A copy of the pleading in Word format on CD is also enclosed. A copy of this filing has been provided via email to the Office of Public Counsel.

Thank you for your assistance with this filing. As always, please do not hesitate to contact me if you have any questions whatsoever.

Sincerely,

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

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## 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._________ Filed: September 27 , 2011 |

## APPLICATION OF FLORIDA CITY GAS
## <u>FOR AUTHORITY TO ISSUE DEBT SECURITY</u>

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. **<u>Applicant Information:</u>** 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. **<u>Incorporation and Domestication</u>:** 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
Attorney
Gunster Law Firm
215 S. Monroe Street, Suite 601
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 78,461,591 shares were issued and outstanding at July 29, 2011 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, 2011, AGLR held 184,789 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 re-issued in October 2010.

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

Applicant's indebtedness pursuant to these arrangements totals approximately $200.1 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 were remarketed as variable gas facility revenue bonds utilizing credit enhancements.

Applicant also has an additional $175,776,439 of long-term inter-company debt. As of June 30, 2011, Applicant's inter-company debt carries an interest rate of 5.78%, which approximates AGLR's weighted cost of capital for its outstanding long term debt as of December 31, 2010. Applicant does not anticipate redeeming any of these securities in calendar year 2011 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, PSC-09-0745-FOF-GU and PSC-10-0692-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, 2011 that interest rate was .315%.

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 27th day of September, 2011.

Beth Keating

Beth Keating
Gunster Law Firm
215 S. Monroe Street, Suite 601
Tallahassee, FL 32301
850-521-1706
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, 2010 and 2009

**Pivotal Utility Holdings, Inc.**

**Consolidated Financial Statements and Notes**

**As of and for the years ended December 31, 2010 and 2009**

## Table of Contents

## 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 |
| 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 financial statements 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, 2010 and 2009, 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 9, 2011

# Pivotal Utility Holdings, Inc.
## Consolidated Statements of Financial Position

| *In thousands* | As of December 31,, 2010 | 2009 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents (Note 2) | $- | $13 |
| Receivables (less allowance for uncollectible accounts of $9,123 at December 31, 2010 and $6,415 at December 31, 2009) (Note 2) | 83,375 | 79,011 |
| Inventories (Note 2) | 29,911 | 34,313 |
| Derivative financial instruments – current portion (Note 2, Note 3 and Note 5) | 18,504 | 9,449 |
| Recoverable deferred natural gas costs (Note 2) | 2,534 | - |
| Prepaid expenses and other current assets | 29,643 | 24,012 |
| Total current assets | 163,967 | 146,798 |
| **Property, plant and equipment** | | |
| Property, plant and equipment | 1,117,503 | 1,058,632 |
| Less accumulated depreciation | 323,685 | 326,201 |
| Property, plant and equipment - net (Note 2) | 793,818 | 732,431 |
| **Long-term assets and other deferred debits** | | |
| Goodwill (see Note 2) | 176,560 | 176,560 |
| Recoverable environmental remediation costs (Note 2 and Note 8) | 90,056 | 77,003 |
| Recoverable postretirement benefits (Note 2 and Note 6) | 1,672 | 2,280 |
| Derivative financial instruments (Note 2, Note 3 and Note 5) | 1,245 | 1,261 |
| Recoverable utility infrastructure enhancement (Note 2) | 1,127 | 1,412 |
| Other | 26,471 | 21,087 |
| Total long-term assets and other deferred debits | 297,131 | 279,603 |
| **Total assets** | $1,254,916 | $1,158,832 |
| **Current liabilities** | | |
| Due to affiliates (Note 4) | $93,709 | $90,751 |
| Derivative financial instruments –current portion (Note 2, Note 3 and Note 5) | 18,504 | 9,449 |
| Customer deposits | 14,575 | 14,772 |
| Payables | 13,178 | 15,164 |
| Accrued environmental remediation liabilities – current portion (Note 2 and Note 8) | 10,554 | 12,070 |
| Accrued taxes | 6,799 | 6,019 |
| Deferred natural gas costs (Note 2) | 2,445 | 8,583 |
| Current portion of capital leases (Note 7) | 864 | 891 |
| Other current liabilities | 10,992 | 11,797 |
| Total current liabilities | 171,620 | 169,496 |
| **Long-term liabilities and other deferred credits** | | |
| Long-term debt and capital leases, net of current portion (Note 7) | 377,775 | 340,262 |
| Accumulated deferred income taxes (Note 2 and Note 9) | 126,335 | 100,159 |
| Accrued environmental remediation liabilities (Note 2 and Note 8) | 76,076 | 68,295 |
| Accumulated removal costs (Note 2) | 66,378 | 63,911 |
| Accrued pension costs (Note 6) | 28,223 | 24,106 |
| Regulatory tax liability (Note 2) | 2,390 | 2,704 |
| Accrued postretirement benefit costs (Note 6) | 1,877 | 2,851 |
| Unamortized investment tax credits (Note 2) | 1,310 | 1,563 |
| Derivative financial instruments (Note 2, Note 3 and Note 5) | 1,245 | 1,261 |
| Other long-term liabilities and other deferred credits | 27,194 | 30,848 |
| Total long-term liabilities and other deferred credits | 708,803 | 635,960 |
| **Commitments and contingencies (see Note 8)** | | |
| **Equity** | | |
| Common shareholder's equity; no par value; 12,807,111 shares authorized, issued and outstanding | 374,493 | 353,376 |
| **Total liabilities and equity** | $1,254,916 | $1,158,832 |

See Notes to Consolidated Financial Statements.

# Pivotal Utility Holdings, Inc.
# Consolidated Statements of Income

| *In thousands* | Years ended December 31, 2010 | 2009 |
|---|---|---|
| Operating revenues (Note 2) | $489,881 | $539,328 |
| Operating expenses | | |
| Cost of gas (Note 2) | 297,552 | 356,521 |
| Operation and maintenance | 92,012 | 92,794 |
| Depreciation and amortization (Note 2) | 29,089 | 32,884 |
| Taxes other than income taxes (Note 2 and Note 9) | 6,110 | 6,085 |
| Total operating expenses | 424,763 | 488,284 |
| Operating income | 65,118 | 51,044 |
| Other income | 592 | 377 |
| Interest expense, net | (13,379) | (14,054) |
| Earnings before income taxes | 52,331 | 37,367 |
| Income tax expense (Note 9) | 21,551 | 14,183 |
| Net income | $30,780 | $23,184 |

See Notes to Consolidated Financial Statements.

# Pivotal Utility Holdings, Inc.
## Consolidated Statements of Equity

| *In thousands* | Common shares | Premium on common stock | Earnings reinvested | Accumulated other comprehensive loss | Total |
|---|---|---|---|---|---|
| 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) | - | - | - | 2,887 | 2,887 |
| Total comprehensive income | | | | | 26,071 |
| Dividends | - | - | (20,610) | | (20,610) |
| Conversion of equity to debt | - | (34,377) | - | - | (34,377) |
| Balance as of December 31, 2009 | 12,807 | $ 130,720 | $225,960 | $(3,304) | $353,376 |
| Comprehensive income: | | | | | |
| Net income | - | - | 30,780 | - | 30,780 |
| Loss resulting from unfunded pension and postretirement obligation (net of $3,006 in taxes) (Note 6) | - | - | - | (4,399) | (4,399) |
| Total comprehensive income | - | - | - | - | 26,381 |
| Dividends | - | - | (22,527) | | (22,527) |
| Conversion of debt to equity | - | 16,604 | 659 | - | 17,263 |
| Balance as of December 31, 2010 | 12,807 | $ 147,983 | $234,213 | $(7,703) | $374,493 |

See Notes to Consolidated Financial Statements.

# Pivotal Utility Holdings, Inc.
# Consolidated Statements of Cash Flows

| *In thousands* | For the year ended December 31, 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $30,780 | $23,184 |
| Adjustments to reconcile net income to net cash flow provided by operating activities | | |
| Depreciation and amortization (Note 2) | 29,089 | 32,884 |
| Deferred income taxes (Note 9) | 28,986 | 16,123 |
| Changes in certain assets and liabilities | | |
| Inventories (Note 2) | 4,402 | 34,855 |
| Accrued taxes | 780 | (3,623) |
| Payables | (1,986) | 6,685 |
| Receivables (Note 2) | (4,364) | 47,146 |
| Environmental remediation costs | (6,788) | 591 |
| Deferred natural gas costs (Note 2) | (8,672) | 26,159 |
| Other – net | (12,320) | (22,664) |
| Net cash flow provided by operating activities | 59,907 | 161,340 |
| **Cash flows from investing activities** | | |
| Expenditures for property, plant and equipment | (95,099) | (69,658) |
| Net cash flow used in investing activities | (95,099) | (69,658) |
| **Cash flows from financing activities** | | |
| Issuances of gas facility revenue bonds | 160,000 | - |
| Net (payments to) borrowings from AGL Resources Inc. (Note 4) | 58,597 | (70,192) |
| Principal payments under capital lease obligations (Note 7) | (891) | (868) |
| Dividends paid | (22,527) | (20,610) |
| Payments of gas facility revenue bonds | (160,000) | - |
| Net cash flow provided by (used in) financing activities | 35,179 | (91,670) |
| Net (decrease) increase in cash and cash equivalents | (13) | 12 |
| Cash and cash equivalents at beginning of period | 13 | 1 |
| Cash and cash equivalents at end of period | $- | $13 |
| **Cash paid during the period for** | | |
| Interest | $10,472 | $2,578 |
| Income taxes | $159 | $151 |

See Notes to Consolidated Financial Statements

# Notes to Consolidated Financial Statements

## Note 1 – Organization and Basis of Presentation

### 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 383,000 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.

### Basis of Presentation

Our consolidated financial statements as of and for the period ended December 31, 2010 are prepared in accordance with GAAP and include accounts of our utility operating divisions. 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.

## Note 2 – Significant Accounting Policies and Methods of Application

### 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 receivables where we are aware of a specific customer's inability or reluctance to pay, we record an allowance for doubtful accounts to reduce the net receivable balance to the amount we reasonably expect to collect. 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.

### 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 Note 3 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 valuing 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. As we aggregate our disclosures by counterparty, the underlying transactions for a given counterparty may be a combination of exchange-traded derivatives and values based on other sources. Instruments in this category include shorter tenor exchange-traded and non-exchange-traded derivatives such as OTC forwards and options.

**Level 3**

Pricing inputs 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 have no assets or liabilities classified as Level 3, except for retirement plan assets as described in Note 3 and Note 6.

The authoritative guidance related to fair value measurements and disclosures also 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.

**Derivative Financial Instruments**

***Fair Value Hierarchy*** As required by the authoritative 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. The determination of the fair values 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.

***Natural Gas Derivative Financial Instruments*** 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 of our derivative financial instruments.

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. In accordance with 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.

**Debt**

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 determining the market interest yield curve, we considered our currently assigned ratings for unsecured debt.

## Property, Plant and Equipment

A summary of our PP&E by classification as of December 31, 2010 and 2009 is provided in the following table.

| *In thousands* | 2010 | 2009 |
|---|---|---|
| Transmission and distribution | $994,975 | $913,230 |
| Storage | 5,276 | 7,107 |
| Other | 86,345 | 98,099 |
| Construction work in progress | 30,907 | 40,196 |
| Total gross PP&E | 1,117,503 | 1,058,632 |
| Accumulated depreciation | (323,685) | (326,201) |
| Total net PP&E | $793,818 | $732,431 |

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.

### Depreciation Expense

We compute depreciation expense by applying composite depreciation rates (approved by the state regulatory agencies) to the investment in depreciable property. The composite depreciation rate for Elizabethtown Gas, Florida City Gas and Elkton Gas are listed in the following table. We depreciate transportation over a period of 5 to 10 years.

| | 2010 | 2009 |
|---|---|---|
| Elizabethtown Gas | 2.4% | 3.1% |
| Elkton Gas | 2.3% | 2.1% |
| Florida City Gas | 3.7% | 3.9% |

### AFUDC

Elizabethtown Gas is authorized by the New Jersey BPU 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. The AFUDC rate was 0.40% as of December 31, 2010, and 0.41% as of December 31, 2009. Additionally, we recorded $497,000 of AFUDC for the year ended December 31, 2010, and $100,000 for the year ended December 31, 2009.

### 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 annually evaluate our goodwill balances for impairment or more frequently if impairment indicators arise. These indicators include, but are not limited to, 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. AGL Resources tests goodwill impairment utilizing a fair value approach at a reporting unit level. We have included $176,560,000 of goodwill in our Consolidated Statements of Financial Position as of December 31, 2010 and 2009.

AGL Resources' goodwill impairment analysis for the years ended December 31, 2010 and 2009 of the identifiable net assets acquired in business combinations indicated that the fair value substantially exceeded the carrying value, and are not at risk of failing step one of the impairment evaluation. As a result, we did not recognize any goodwill impairment charges and do not anticipate taking goodwill impairment charges in the foreseeable future.

## 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 $1,310,000 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.

***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 associated with distribution operations are included as a regulatory liability in our Consolidated Statements of Financial Position. 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.

***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.

***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 our 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 consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% 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, 2010 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 2011.

***Uncertain Tax Positions*** 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, 2010, we did not have a liability recorded for payment of interest and penalties associated with uncertain tax positions.

***Tax Collections*** 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 immaterial for all 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. Additionally, 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 Consolidated 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 Consolidated Statements of 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. These amounts are reflected as regulatory assets identified as recoverable natural gas costs or regulatory liabilities which are identified as deferred natural gas costs within our Consolidated Statements of Financial Position. For more information, see "Regulatory Assets and Liabilities" below.

**Operating leases**

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 accounting treatment does not affect the future annual operating lease cash obligations.

**Comprehensive Income**

Our comprehensive income includes net income plus OCI, which includes, net of taxes, $4,399,000 of unrealized losses in 2010 and $2,887,000 of unrealized gains in 2009 on minimum pension and postretirement liability adjustments affecting shareholder's equity that GAAP excludes from net income.

**Regulatory Assets and Liabilities**

We account for the financial effects of regulation in accordance with authoritative guidance related to regulated entities whose rates are designed to recover the costs of providing service. In accordance with this guidance, incurred costs and estimated future expenditures that would otherwise be charged to expense are capitalized and recorded as regulatory assets when it is probable that the incurred costs or estimated future expenditures will be recovered in rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have not yet been incurred. Generally, regulatory assets are amortized into expense and regulatory liabilities are amortized into income over the period authorized by the regulatory commissions.

Our regulatory assets and liabilities and the associated assets and liabilities are summarized in the following table.

| *In thousands* | As of December 31, 2010 | 2009 |
|---|---|---|
| **Regulatory assets** | | |
| Elizabethtown Gas recoverable ERC | $90,056 | $77,003 |
| Recoverable natural gas costs | 2,534 | - |
| Recoverable postretirement benefit costs | 1,672 | 2,280 |
| Recoverable utility infrastructure enhancement | 1,127 | 1,412 |
| Other | 24,527 | 18,421 |
| Total regulatory assets | 119,916 | 99,116 |
| **Associated assets** | | |
| Derivative financial instruments | 19,749 | 10,710 |
| **Total regulatory and associated assets** | $139,665 | $109,826 |
| **Regulatory liabilities** | | |
| Accumulated removal costs | $66,378 | $63,911 |
| Derivative financial instruments | 19,749 | 10,710 |
| Deferred natural gas costs | 2,445 | 8,583 |
| Regulatory tax liability | 2,390 | 2,704 |
| Unamortized investment tax credits | 1,310 | 1,563 |
| Other | 7,658 | 9,627 |
| Total regulatory liabilities | 99,930 | 97,098 |
| **Associated liabilities** | | |
| Utility infrastructure enhancement | 221 | - |
| Elizabethtown Gas ERC | 75,506 | 69,057 |
| Total associated Liabilities | 75,727 | 69,057 |
| Total regulatory and associated liabilities | $175,657 | $166,155 |

(1) For a discussion of ERC, see Note 8.

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 recoverable through base rates are subject to review by the respective state regulatory commissions during future rate proceedings. We are not aware of any evidence that these costs will not be recoverable through either rate riders or base rates, and believe that we will be able to recover these costs, consistently with our historical recoveries. 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 would be classified as an extraordinary item.

Additionally, the regulatory liabilities would not be written-off but 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 recoverable utility infrastructure program costs, recoverable 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 recoverable utility infrastructure program costs and the deferred natural gas costs include both a recovery of costs and a return on investment during the recovery period.

***Environmental Remediation Costs*** Our ERC liabilities are customarily reported estimates of future remediation costs for our former operating sites that are contaminated 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 are included as a corresponding regulatory asset. These recoverable ERC assets are a combination of accrued ERC liabilities and recoverable cash expenditures for investigation and cleanup costs. We primarily recover these costs through rate riders. 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 recoverable amounts not currently in rates. For more information on our ERC liabilities, see Note 8.

***Derivative Financial Instruments*** Elizabethtown Gas' derivative financial instrument 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. For more information on Elizabethtown Gas' derivative financial instruments, see Note 5.

***Other Regulatory Assets and Liabilities*** Our recoverable postretirement benefit costs are recoverable through base rates over the next 3 to 22 years based on the remaining recovery period as designated by the applicable state regulatory commissions.

**Utility Infrastructure Program** In 2009, the New Jersey BPU approved an accelerated enhanced infrastructure program, which 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 has been established whereby estimated rates go 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. In December 2010, Elizabethtown Gas made a request to the New Jersey BPU to spend an additional $40 million under this program to be spent in 2011 and 2012. The outcome of this request is still pending.

During the year ended December 31, 2010, we incurred approximately $46 million under the approved accelerated enhanced infrastructure program.

### Accounting for employee benefit plans

The authoritative guidance related to retirement benefits requires that we recognize all obligations related to defined benefit pensions 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. Our 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.

### 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. Our estimates may 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 Utility Infrastructure Enhancement program accruals, environmental liability accruals, uncollectible accounts and other allowances 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**

We have evaluated subsequent events through the time that our financial statements were issued and determined that no significant events have occurred subsequent to period end.

## Note 3 – Fair Value Measurements

The methods used to determine fair value for our assets and liabilities are fully described within Note 2.

**Derivative Financial Instruments**

The following table summarizes, by level within the fair value hierarchy, our derivative financial assets and liabilities that were accounted for at fair value on a recurring basis for the years ended December 31, 2010 and 2009.

| | Recurring fair values Natural gas derivative financial instruments | | | |
|---|---|---|---|---|
| | December 31, 2010 | | December 31, 2009 | |
| *In thousands* | **Assets (1)** | **Liabilities (1)** | **Assets (1)** | **Liabilities (1)** |
| Quoted prices in active markets (Level 1) | $19,749 | $19,749 | $10,710 | $10,710 |

(1) There were no transfers between Level 1, Level 2, or Level 3 for any periods presented.

**Other Fair Value Measures**

In addition to our derivative financial instruments above, we have several financial and nonfinancial assets and liabilities subject to fair value measures. These financial assets and liabilities include cash and cash equivalents, accounts receivable, accounts payable and debt. For cash and cash equivalents, accounts receivable and accounts payable, we consider carrying value to materially approximate fair value due to their short-term nature. The nonfinancial assets and liabilities include pension and post-retirement benefits.

*Pension and post-retirement benefits* AGL Resources pension and postretirement target asset allocations consist 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 for the year ended December 31, 2010, are presented in the table below.

| | 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 | $7 | $- | $- | $7 | 2% | $1 | $- | $- | $1 | 1% |
| Equity Securities | | | | | | | | | | |
| U.S. large cap (2) | 91 | - | - | 91 | 26% | - | 36 | - | 36 | 57% |
| U.S. small cap (2) | 51 | - | - | 51 | 15% | - | - | - | - | - |
| International companies (3) | - | 43 | - | 43 | 12% | - | 12 | - | 12 | 19% |
| Emerging markets (4) | - | 16 | - | 16 | 4% | - | - | - | - | - |
| Fixed income securities | | | | | | | | | | |
| Corporate bonds (5) | - | 56 | - | 56 | 16% | - | 15 | - | 15 | 23% |
| Other types of investments | | | | | | | | | | |
| Global hedged equity (6) | - | - | 35 | 35 | 10% | - | - | - | - | - |
| Absolute return (7) | - | - | 30 | 30 | 9% | - | - | - | - | - |
| Private capital (8) | - | - | 22 | 22 | 6% | - | - | - | - | - |
| Total assets at fair value | $149 | $115 | $87 | $351 | 100% | $1 | $63 | $- | $64 | 100% |
| % of fair value hierarchy | 42% | 33% | 25% | 100% | | 1% | 99% | - | 100% | |

(1) Includes $7 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 United States common stocks.
(3) Includes funds that invest primarily in foreign equity and equity-related securities.
(4) Includes funds that invest 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.

| | Fair value measurements using significant unobservable inputs – Level 3 | | | | |
|---|---|---|---|---|---|
| *In millions* | Global hedged equity | Absolute return | Private capital | Equity securities – international companies | Total |
| **Assets:** | | | | | |
| Beginning balance | $33 | $26 | $13 | $5 | $77 |
| Transfers out of Level 3 (1) | - | - | - | (4) | (4) |
| Gains included in changes in net assets | 2 | 2 | 2 | - | 6 |
| Purchases and issuances | - | 14 | 8 | - | 22 |
| Sales and settlements | - | (12) | (1) | (1) | (14) |
| Ending balance | $35 | $30 | $22 | $- | $87 |

(1) Transferred to Level 2 as a result of change in investment vehicle and pricing inputs becoming directly observable.

*Debt* Our debt is recorded at carrying value. We estimate the fair value of our debt using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile. In determining the market interest yield curve, we considered our currently assigned ratings for unsecured debt. The following table presents the carrying value and fair value of our debt for the years ended December 31, 2010 and 2009:

| | As of December 31, | |
|---|---|---|
| *In thousands* | 2010 | 2009 |
| Carrying amount | $378,639 | $341,153 |
| Fair value | $378,639 | $337,274 |

## Note 4 - Amounts Due to Affiliates

We had $93,709,000 in payables at December 31, 2010 and $90,751,000 in payables at December 31, 2009, 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 5 – Derivative Financial Instruments

### Derivative Assets and Liabilities under Master Netting Arrangements

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.

### *Quantitative Disclosures Related to Derivative Financial Instruments*

Elizabethtown Gas has entered into over-the-counter swap contracts to purchase natural gas. These 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, 2010 and 2009, we had net long natural gas contracts outstanding in the following quantities:

| Hedge designation | Natural gas contracts (in Bcf) |
|---|---|
| Not designated as hedge | 18 |
| Total | 18 |

Approximately 90% of these contracts outstanding as of December 31, 2010 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 2.

### *Derivative Financial Instruments on the Consolidated Statements of Financial Position*

In accordance with regulatory requirements realized losses or gains on derivative financial instruments used at Elizabethtown Gas are reflected in deferred natural gas costs within our Consolidated Statements of Financial Position. During 2010, $34,530,000 of realized losses were recorded and during 2009 $37,526,000 of realized losses were recorded.

The following table presents the fair value and Statements of Financial Position classification of our derivative financial instruments as of December 31, 2010 and 2009.

| *In thousands* | **Consolidated Statements of Financial Position location** | **As of December 31, 2010** | **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 | $18,504 | $9,449 |
| Noncurrent natural gas contracts | Derivative financial instruments assets and liabilities | $1,245 | $1,261 |
| **Liability Financial Instruments** | | | |
| Current natural gas contracts | Derivative financial instruments assets and liabilities – current portion | $(18,504) | $(9,449) |
| Noncurrent natural gas contracts | Derivative financial instruments assets and liabilities | $(1,245) | $(1,261) |
| | **Total derivative financial instruments** | **$ -** | **$ -** |

## Note 6 - Employee Benefit Plans

### 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 our retirement and postretirement benefit plans aimed 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 United States government obligations), cash and cash equivalents and other suitable investments.

Equity market performance and corporate bond rates have a significant effect on our reported unfunded projected benefit obligation (PBO) and accumulated postretirement benefit obligation (APBO), as the primary factors that drive the value of our 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 our 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 our 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 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.

AGL Resources generally calculates the benefits under the AGL Retirement Plan 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 used this benefit formula for such participants until December 31, 2010, at which time any of those participants who were still actively employed accrued future benefits under the career average earnings formula.

The NUI Retirement Plan covers substantially all 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 our 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. In addition, 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 $1,672,000 as of December 31, 2010 and $2,280,000 as of December 31, 2009. In addition, we recorded a liability of $1,877,000 as of December 31, 2010 and $2,851,000 as of December 31, 2009 for our expected expenses under the AGL Postretirement Plan. AGL Resources expects to pay $8 million of insurance claims for the postretirement plan in 2011, 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 received prescription drug benefits through a Medicare Part D plan offered by a third party and to which AGL Resources 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 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, there is no impact on the periodic benefit cost or on our accumulated projected benefit obligation for the AGL postretirement plan for a change in the assumed healthcare cost trend.

**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 of 2006 (the Act), 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 allowed us to measure our minimum required contributions based on a funding target at 96% in 2009 and 100% in 2010. In 2010 AGL Resources contributed $31 million to the qualified pension plans. In 2009, AGL Resources contributed $24 million to the qualified pension plans. For more information on our 2011 contributions to our pension plans, see Note 6.

## Assumptions

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 including Moody's Corporate AA long-term bond rate, the Citigroup Pension Liability rate, and other high-grade bond indices 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.

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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* | **2010** | **2009** | **2010** | **2009** |
| **Change in plan assets** | | | | |
| Fair value of plan assets, January 1, | $303 | $242 | $63 | $49 |
| Actual return on plan assets | 37 | 61 | 8 | 14 |
| Employer contribution | 31 | 26 | 7 | 7 |
| Benefits paid | (27) | (26) | (7) | (7) |
| Fair value of plan assets, December 31, | $344 | $303 | $71 | $63 |
| **Change in benefit obligation** | | | | |
| Benefit obligation, January 1, | $463 | $442 | $101 | $95 |
| Service cost | 11 | 8 | - | - |
| Interest cost | 27 | 26 | 6 | 6 |
| Plan amendment | - | - | - | 1 |
| Actuarial loss | 57 | 13 | 7 | 6 |
| Benefits paid | (27) | (26) | (7) | (7) |
| Benefit obligation, December 31, | $531 | $463 | $107 | $101 |
| **Funded status at end of year** | $(187) | $(160) | $(36) | $(38) |
| **Amounts recognized in the Consolidated Statements of Financial Position consist of** | | | | |
| Current liability | $(1) | $(1) | $- | $- |
| Long-term liability | (186) | (159) | (36) | (38) |
| Total liability at December 31, | $(187) | $(160) | $(36) | $(38) |
| Pivotal Utility's share of net lability recorded on Consolidated Statements of Financial Position | $(28) | $(24) | $(2) | $(3) |
| **Assumptions used to determine benefit obligations** | | | | |
| Discount rate | 5.2 - 5.4% | 5.8 - 6.0% | 5.2% | 5.8% |
| Rate of compensation increase | 3.7% | 3.7% | 3.7% | 3.7% |
| **Accumulated benefit obligation** | $506 | $448 | Not applicable | |

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

| Dollars in millions | Retirement plans 2010 | 2009 | Postretirement plan 2010 | 2009 |
|---|---|---|---|---|
| **Net benefit cost** | | | | |
| Service cost | $11 | $8 | $- | $- |
| Interest cost | 27 | 26 | 6 | 6 |
| Expected return on plan assets | (28) | (29) | (5) | (4) |
| Net amortization | (2) | (2) | (4) | (4) |
| Recognized actuarial loss | 10 | 9 | 2 | 2 |
| Net annual pension cost | $18 | $12 | $(1) | $- |
| Pivotal Utility's share of net annual pension and postretirement costs | $3 | $3 | $- | $- |
| **Assumptions used to determine benefit costs** | | | | |
| Discount rate | 5.8 - 6.0% | 6.2% | 5.8% | 6.2% |
| Expected return on plan assets | 8.75% | 9.0% | 8.75% | 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, 2010. The 2011 estimated OCI amortization 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 | 14 | 2 |

The following table presents expected benefit payments for the years ended December 31, 2011 through 2020 for AGL Resources' retirement and postretirement plans. There will be benefit payments under these plans beyond 2020.

| In millions | Retirement plans | Postretirement plan |
|---|---|---|
| 2011 | $29 | $8 |
| 2012 | 29 | 8 |
| 2013 | 29 | 7 |
| 2014 | 30 | 7 |
| 2015 | 31 | 7 |
| 2016-2020 | 168 | 38 |
| Total | $316 | $75 |

The following table presents the amounts not yet reflected in AGL Resources' net periodic benefit cost and included in accumulated OCI as of December 31, 2010.

| In millions | Retirement plans | Postretirement plan |
|---|---|---|
| Prior service credit | $(15) | $(8) |
| Net loss | 226 | 35 |
| Accumulated OCI | 211 | 27 |
| Net amount recognized in Consolidated Statements of Financial Position | (187) | (36) |
| Prepaid (accrued) cumulative employer contributions in excess of net periodic benefit cost | $24 | $(9) |

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, 2010.

### Employee Savings Plan Benefits

AGL 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 $1,025,000 in 2010 and $1,022,000 in 2009.

## Note 7 - Debt

Our issuance of securities, including long-term and short-term debt, is subject to customary approval, authorization or review by state and federal regulatory bodies, including public service commissions in the states where we conduct business, and the FERC. The following table shows all debt obligations included in our Consolidated Statements of Financial Position.

| | | December 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|---|
| *In thousands* | **Year(s) due** | **Weighted average interest rate** | **Outstanding** | **Weighted average interest rate** | **Outstanding** |
| **Short-term debt** | | | | | |
| Current portion of capital leases | 2011 | 4.9% | $864 | 4.9% | $891 |
| **Total short-term debt** | | **4.9%** | **$864** | **4.9%** | $891 |
| **Long-term debt** | | | | | |
| **Gas facility revenue bonds** | | | | | |
| Issued July 1994 | 2022 | 0.3% | $46,500 | 0.2% | $46,500 |
| Issued July 1994 | 2024 | 0.4 | 20,000 | 0.6 | 20,000 |
| Issued June 1992 | 2026 | 0.2 | 39,000 | 0.2 | 39,000 |
| Issued June 1992 | 2032 | 0.3 | 54,600 | 0.2 | 54,600 |
| Issued July 1997 | 2033 | 5.3 | 40,000 | 5.3 | 40,000 |
| **Total** | | **1.3%** | **$200,100** | **1.2%** | **$200,100** |
| Affiliate Promissory note | 2034 | 6.1% | $175,777 | 5.9% | $137,400 |
| Capital leases | 2013 | 4.9% | $1,898 | 4.9% | $2,762 |
| **Total long-term debt** | | **3.6%** | **$377,775** | **3.2%** | **$340,262** |
| **Total debt** | | **3.6%** | **$378,639** | **3.2%** | **$341,153** |

***Short-term Debt*** Our short-term debt at December 31, 2010 and 2009 was composed of current portions of our capital lease obligations.

***Long-term Debt*** Our long-term debt at December 31, 2010 and 2009 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*** We are party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) under which the NJEDA has issued a series of gas facility revenue bonds. These gas revenue bonds are issued by state agencies or counties to investors, and proceeds from the issuance are then loaned to us. In June and September 2010, the letters of credit supporting the gas revenue bonds were set to expire, and according to the terms of the bond indentures, AGL Resources repurchased the bonds prior to the expiration of the letters of credit using the proceeds of commercial paper issuances.

In October 2010, AGL Resources successfully remarketed $160,100,000 in gas facility revenue bonds with rates that reset daily. The weighted average interest rates of our gas facility revenue bonds during 2010 ranged from 0.23% to 5.25%. New letters of credit, which will expire in years 2022-2033, were issued by the banks to support each of the four series of gas facility revenue bonds. AGL Resources also amended our loan agreements with the state organizations in order to eliminate third party guaranty insurance on the bonds.

***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 2010, the Affiliate Promissory Note was increased by $38,377,000 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, 2010, the interest rate on this note was 6.1%. The initial principal amount of the Affiliate Promissory Note of $72,000,000 is adjusted on an annual basis to conform to Pivotal Utility's target capitalization of 45%. As of December 31, 2010, the amount outstanding under the Affiliate Promissory Note was $175,777,000.

***Capital Leases*** Our capital leases consist primarily of a sale/leaseback transaction completed in 2002 by Florida City Gas. The sale/leaseback of its gas meters and other equipment will be repaid at approximately $1,000,000 per year until 2013. Based on the terms of the lease agreement, Florida City Gas is required to insure the leased equipment during the lease term. 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 based on an arm's-length transaction between an informed and willing buyer.

## Note 8 - 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, 2010.

| *In thousands* | Total | 2011 | 2012 & 2013 | 2014 & 2015 | 2016 & Thereafter |
|---|---|---|---|---|---|
| **Recorded contractual obligations:** | | | | | |
| Long-term debt | $377,775 | $- | $1,898 | $- | $375,877 |
| Environmental remediation liabilities (1) | 86,630 | 10,554 | 37,178 | 38,898 | - |
| Short-term debt (2) | 864 | 864 | - | - | - |
| Total | $465,269 | $11,418 | $39,076 | $38,898 | $375,877 |
| **Unrecorded contractual obligations and commitments** (3): | | | | | |
| Pipeline charges, storage capacity and gas supply | $333,830 | $61,503 | $98,529 | $58,454 | $115,344 |
| Interest charges (4) | 55,345 | 2,558 | 5,117 | 5,117 | 42,554 |
| Operating leases (5) | 46,528 | 4,138 | 8,135 | 8,238 | 26,017 |
| Pension contributions (6) | 3,580 | 3,580 | - | - | - |
| Performance / surety bonds | 2,047 | 1,747 | 300 | - | - |
| Total | $441,330 | $73,526 | $112,081 | $71,809 | $183,915 |

(1) Includes costs recoverable through rate rider mechanisms along with unrecoverable costs charged to expense.
(2) Our Short-term debt reflects payments of capital leases.
(3) In accordance with GAAP, these items are not reflected in our Consolidated Statements of Financial Position.
(4) Floating rate debt is based on the interest rate as of December 31, 2010 and the maturity of the underlying debt instrument. As of December 31, 2010, we have $733,000 of accrued interest on our Consolidated Statements of Financial Position that will be paid in 2011.
(5) 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. Additionally, minimum payments have not been reduced by minimum sublease rentals of $15,696,042 due in the future under noncancelable subleases.
(6) Based on the current funding status of the plans, we would be required to make a minimum contribution to our pension plans of approximately $3,580,000 in 2011. However we may make additional contributions in 2011.

### 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. Additionally, we owned and operated a number of MGP sites at which hazardous substances may be present. In accordance with GAAP, we have established reserves for environmental remediation obligations when it is probable that a liability exists and the amount or range of amounts can be reasonably estimated. The following table provides more information on the costs related to remediation of our former operating sites.

| *In millions* | Cost estimate range | Amount recorded | Expected costs over next twelve months |
|---|---|---|---|
| New Jersey | $75 - 138 | $75 | $10 |
| North Carolina | 11 - 16 | 11 | 1 |
| Total | $86 - $154 | $86 | $11 |

We historically reported estimates of future environmental remediation costs based on probabilistic models of potential costs. We presently report estimates of future remediation costs on an undiscounted basis. As we continue to conduct the actual remediation and enter into cleanup contracts, we are increasingly able to provide conventional engineering estimates of the likely costs of many elements of the remediation program. These estimates contain various engineering uncertainties, and we regularly 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.

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 included as a corresponding regulatory asset. These recoverable ERC assets are a combination of accrued ERC liabilities and recoverable cash expenditures for investigation and cleanup costs. We primarily recover these costs through rate riders and have recorded a total Recoverable ERC asset of $90,056,000 for December 31, 2010 and $77,003,000 for the same period last year. We recovered $2,188,000 in 2010 and $3,010,000 in 2009 from our ERC rate riders.

### Rental Expense

We incurred rental expense in the amounts of $1,691,000 (net of $4,295,000 in sublease rent received) in 2010 and $1,814,000 (net of $5,791,000 in sublease rent received) in 2009.

### 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 9 - Income Taxes

### 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. Components of income tax expense in the Consolidated Statements of Income are shown in the following table.

| *In thousands* | 2010 | 2009 |
|---|---|---|
| Current income taxes | | |
| Federal | $(9,117) | $(2,969) |
| State | 1,935 | 1,290 |
| Deferred income taxes | | |
| Federal | 26,183 | 14,679 |
| State | 2,803 | 1,444 |
| Amortization of investment tax credits | (253) | (261) |
| Total | $21,551 | $14,183 |

The reconciliations between the statutory federal income tax rate, the effective rate and the related amount of tax for the years ended December 31, 2010 and 2009 on our Consolidated Statements of Income are presented in the following table.

| *In thousands* | 2010 | 2009 |
|---|---|---|
| Computed tax expense at statutory rate | $18,316 | $13,078 |
| State income tax, net of federal income tax benefit | 3,299 | 2,536 |
| Amortization of investment tax credits | (253) | (261) |
| Other – net | 189 | (1,170) |
| Total income tax expense at effective rate | $21,551 | $14,183 |

### Accumulated Deferred Income Tax Assets and Liabilities

Our deferred tax assets include $5,279,000 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, 2010 | 2009 |
|---|---|---|
| **Accumulated deferred income tax liabilities** | | |
| | 3, | , |
| Property – accelerated depreciation and other property-related items | $127,144 | $99,070 |
| Pension and other employee benefits | 3,555 | 4,196 |
| Other | 13,038 | 7,865 |
| Total accumulated deferred income tax liabilities | $143,737 | 111,131 |
| **Accumulated deferred income tax assets** | | |
| Unfunded pension and postretirement benefit obligation | $5,279 | $2,273 |
| Bad debts and insurance reserves | 3,663 | 2,628 |
| Environmental response cost | 2,605 | 2,616 |
| Other | 5,855 | 3,455 |
| Total accumulated deferred income tax assets | 17,402 | 10,972 |
| Net accumulated deferred tax liability | $126,335 | $100,159 |

AGL Resources files a U.S. federal consolidated income tax return and state income tax returns. AGL Resources is no longer subject to income tax examinations by the Internal Revenue Service for years before 2008 or any state for years before 2006.

## Note 10 - 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 thousands* | Expiration date | Type of fee structure | Annual fee | Profit sharing / fees payments 2010 | 2009 |
|---|---|---|---|---|---|
| Elizabethtown Gas | Mar 2011 | Tiered Structure | (A) | $9,778 | $10,956 |
| Florida City Gas | Mar 2013 | Profit -sharing | 50% | 1,280 | 911 |
| Elkton Gas | Mar 2011 | Fixed-fee | (B) | 14 | 14 |
| Total | | | | $11,072 | $11,881 |

(A) Shared on a tiered structure including a minimum payment of $5,000,000.
(B) 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.

See Note 4 and Note 7 for discussion of other intercompany transactions.

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