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October 23, 2012

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 2013, along with its Consolidated Financial Statements for 2010 and 2011. 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

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. 120264-GU Filed: October 23 , 2012

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.

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

Beth Keating Attorney – Governmental Affairs 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. **<u>Capital Stock and Funded Debt:</u>** 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 117,515,919 shares were issued and outstanding at July 25, 2012 and publicly traded on the New York Stock Exchange under the symbol "GAS";

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

c. As of June 30, 2012, AGLR held 216,522 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 (1)	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 (2)	5.25%

(1) Extended and renewed letters of credit through May 2015.

(2) Bond is currently callable at par.

Applicant's indebtedness pursuant to these arrangements totals approximately $200.1 million.

Applicant also has an additional $175,776,439 of long-term inter-company debt. As of June 30, 2012, Applicant's inter-company debt carries an interest rate of 5.23%, which approximates AGLR's weighted cost of capital for its outstanding long term debt as of March 31, 2012. Applicant does not anticipate redeeming any of these securities in calendar year 2012 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, PSC-10-00692-FOF-GU and PSC-11-0568-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, 2012 that interest rate was.482%.

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. **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.

9. **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 23rd day of October, 2012.

Beth Keating

Beth Keating
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215 S. Monroe Street, Suite 601
Tallahassee, FL 32301
(850) 521-1706
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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
For the years ended December 31, 2011 and 2010

Pivotal Utility Holdings, Inc.

Consolidated Financial Statements and Notes

For the years ended December 31, 2011 and 2010

Table of Contents

GLOSSARY OF KEY TERMS

AFUDC	Allowance for funds used during construction
AGL Resources	AGL Resources Inc. and its subsidiaries
Bcf	Billion cubic feet
ERC	Environmental remediation costs, which are generally 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
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
NUI	NUI Corporation - an acquisition which was completed in November 2004
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
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, 2011 and 2010, 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 provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Atlanta, Georgia
February 22, 2012

Pivotal Utility Holdings, Inc.
Consolidated Statements of Financial Position

In thousands	As of December 31, 2011	2010
Current assets		
Cash and cash equivalents (Note 2)	**$270**	$–
Receivables (less allowance for uncollectible accounts of $8,683 at December 31, 2011 and $9,123 at December 31, 2010) (Note 2)	**61,236**	83,375
Inventories (Note 2)	**30,089**	29,911
Derivative instruments – current portion (Note 2, Note 3 and Note 5)	**21,739**	18,504
Other current assets	**37,957**	34,467
Total current assets	**151,291**	166,257
Long-term assets and other deferred debits		
Property, plant and equipment	**1,167,361**	1,117,503
Less accumulated depreciation	**345,232**	323,685
Property, plant and equipment - net (Note 2)	**822,129**	793,818
Goodwill (Note 2)	**176,560**	176,560
Recoverable environmental remediation costs (Note 2 and Note 8)	**146,982**	90,056
Derivative instruments (Note 2, Note 3 and Note 5)	**4,728**	1,245
Recoverable postretirement benefits (Note 2 and Note 6)	**2,390**	3,117
Recoverable regulatory infrastructure program costs (Note 2)	**842**	1,127
Other	**32,202**	25,026
Total long-term assets and other deferred debits	**363,704**	297,131
Total assets	**$1,337,124**	$1,257,206
Current liabilities		
Due to affiliates (Note 4, Note 7 and Note 8)	**$91,807**	$93,709
Derivative instruments – current portion (Note 2, Note 3 and Note 5)	**21,739**	18,504
Customer credit balances and deposits	**14,653**	14,575
Accrued environmental remediation liabilities – current portion (Note 2 and Note 8)	**11,084**	10,554
Accrued natural gas costs (Note 2)	**9,636**	4,735
Accounts payable - trade	**8,769**	13,178
Accrued taxes	**5,880**	6,799
Current portion of capital leases (Note 7 and Note 8)	**1,898**	864
Other current liabilities	**5,933**	10,992
Total current liabilities	**171,399**	173,910
Long-term liabilities and other deferred credits		
Long-term debt and capital leases, net of current portion (Note 7 and Note 8)	**375,876**	377,775
Accumulated deferred income taxes (Note 2 and Note 9)	**150,154**	126,335
Accrued environmental remediation liabilities (Note 2 and Note 8)	**124,082**	76,076
Accumulated removal costs (Note 2)	**69,753**	66,378
Accrued pension obligations (Note 6)	**34,046**	28,223
Derivative instruments (Note 2, Note 3 and Note 5)	**4,728**	1,245
Accrued retirement benefit costs (Note 6)	**4,230**	1,877
Regulatory tax liability (Note 2)	**2,067**	2,390
Unamortized investment tax credits (Note 2)	**1,067**	1,310
Other long-term liabilities and other deferred credits	**23,622**	27,194
Total long-term liabilities and other deferred credits	**789,625**	708,803
Commitments and contingencies (see Note 8)		
Equity		
Common shareholder's equity; no par value; 12,807,111 shares authorized, issued and outstanding	**376,100**	374,493
Total liabilities and equity	**$1,337,124**	$1,257,206

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Consolidated Statements of Income

In thousands	Years ended December 31, 2011	2010
Operating revenues (Note 2)	**$473,158**	$489,881
Operating expenses		
Cost of goods sold (Note 2)	**276,822**	297,552
Operation and maintenance	**83,064**	92,012
Depreciation and amortization (Note 2)	**31,864**	29,089
Taxes other than income taxes (Note 2 and Note 9)	**5,582**	6,110
Total operating expenses	**397,332**	424,763
Operating income	**75,826**	65,118
Other income	**1,271**	592
Interest expense, net	**(16,649)**	(13,379)
Earnings before income taxes	**60,448**	52,331
Income tax expense (Note 9)	**24,801**	21,551
Net income	**$35,647**	$30,780

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Consolidated Statements of Equity

In thousands	Common shares	Additional paid-in-capital	Retained earnings	Accumulated other comprehensive loss	Total
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)	–	–	–	(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**	**147,324**	**234,872**	**(7,703)**	**374,493**
Comprehensive income:					
Net income	–	–	35,647	–	35,647
Loss resulting from unfunded pension and postretirement obligation (net of $10,964 in taxes)	–	–	–	(8,618)	(8,618)
Total comprehensive income	–	–	–	–	27,029
Dividends	–	–	(25,422)	–	(25,422)
Balance as of December 31, 2011	**12,807**	**$147,324**	**$245,097**	**$(16,321)**	**$376,100**

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Consolidated Statements of Cash Flows

In thousands	Years ended December 31, 2011	2010
Cash flows from operating activities		
Net income	**$35,647**	$30,780
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization (Note 2)	**31,864**	29,089
Deferred income taxes (Note 9)	**34,460**	28,986
Changes in certain assets and liabilities		
Receivables (Note 2)	**22,139**	(4,364)
Accrued natural gas costs (Note 2)	**4,901**	(8,672)
Inventories (Note 2)	**(178)**	4,402
Accounts payable - trade	**(4,409)**	(1,986)
Environmental remediation costs (Note 2 and Note 8)	**(8,406)**	(6,788)
Accrued expenses	**(13,735)**	1,118
Other – net	**(15,777)**	(12,658)
Net cash flow provided by operating activities	**86,506**	59,907
Cash flows from investing activities		
Expenditures for property, plant and equipment (Note 2)	**(58,049)**	(95,099)
Net cash flow used in investing activities	**(58,049)**	(95,099)
Cash flows from financing activities		
Issuances of gas facility revenue bonds (Note 7)	**–**	160,000
Dividends paid	**(25,422)**	(22,527)
Net (payments) to borrowings from AGL Resources (Note 4)	**(1,902)**	58,597
Principal payments under capital lease obligations (Note 7)	**(863)**	(891)
Payments of gas facility revenue bonds (Note 7)	**–**	(160,000)
Net cash flow (used in) provided by financing activities	**(28,187)**	35,179
Net increase (decrease) in cash and cash equivalents	**270**	(13)
Cash and cash equivalents at beginning of period	**–**	13
Cash and cash equivalents at end of period	**$270**	$–
Cash paid during the period for		
Interest	**$12,396**	$10,472
Income taxes	**$2,012**	$159

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Note 1 – Organization and Basis of Presentation

General

Pivotal Utility is a wholly owned subsidiary of AGL Resources Inc., which engages in the sale and distribution of natural gas to approximately 385 thousand 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, 2011 are prepared in accordance with GAAP and include accounts of our utility operating divisions. We have eliminated intercompany profits and transactions in consolidation except for intercompany profits where recovery of such amounts are probable under the affiliates' rate regulation process.

Certain amounts from prior periods have been reclassified and revised to conform to the current period presentation. The reclassifications and revisions had no material impact on our prior period balances.

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 primarily consist of natural gas sales and transportation services billed to residential, commercial, industrial and other customers. We bill customers monthly, and our 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. For 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 change as well. 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. Customers' accounts are written off 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 assets and liabilities, accounts payable, short-term debt, retirement plan assets, other current assets and liabilities and accrued interest approximate fair value. See Note 3 for additional fair value disclosures.

As defined in the 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 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 exchange-traded derivatives, money market funds and retirement plan assets.

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 over-the-counter forwards and options and retirement plan assets.

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. Our Level 3 assets and liabilities are primarily related to our retirement plan assets as described in Note 3 and Note 6.

The authoritative guidance related to fair value measurements and disclosures also includes 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 instruments are traded in active markets.

Derivative Instruments

Fair Value Hierarchy As required by the authoritative guidance, derivative 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. To mitigate the risk that a counterparty to a derivative instrument defaults on settlement or otherwise fails to perform under contractual terms, we have established procedures to monitor the creditworthiness of counterparties, seek guarantees or collateral back-up in the form of cash or letters of credit. See Note 3 for additional fair value disclosures.

Natural Gas Derivative Instruments The fair value of natural gas derivative 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 instruments.

Elizabethtown Gas, in accordance with a directive from the New Jersey BPU, enters into derivative 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. Thus, hedge accounting is not elected and, in accordance with accounting guidance pertaining to rate-regulated entities, unrealized changes in the fair value of these derivative instruments are deferred or accrued as regulatory assets or liabilities.

Debt

We estimate the fair value of 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 consider our currently assigned ratings for unsecured debt. See Note 3 for the fair value of our debt.

Property, Plant and Equipment

A summary of our PP&E by classification as of December 31, 2011 and 2010 is provided in the following table.

In thousands	**2011**	**2010**
Transmission and distribution	$1,039,946	$994,975
Storage	5,881	5,276
Other	95,065	86,345
Construction work in progress	26,469	30,907
Total gross PP&E	1,167,361	1,117,503
Less accumulated depreciation	345,232	323,685
Total net PP&E	$822,129	$793,818

PP&E 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 recognize no gains or losses on depreciable utility property that is retired or otherwise disposed, as required under the composite depreciation method. Such gains and losses are ultimately refunded to or recovered from customers through future rate adjustments.

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 rates for Elizabethtown Gas, Florida City Gas and Elkton Gas are listed in the following table.

	2011	**2010**
Elizabethtown Gas(1)	2.5%	2.4%
Elkton Gas(1)	2.4%	2.3%
Florida City Gas(1)	3.9%	3.7%

(1) Composite straight-line depreciation rates

We compute depreciation expense on a straight-line basis over the following estimated useful lives of the assets.

In years	**Estimated useful lives**
Transportation equipment (1)	5 – 10
Other	up to 40

(1) May be depreciated in excess of useful life and recovered in rates.

AFUDC

Elizabethtown Gas is authorized by the New Jersey BPU to capitalize 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 0.53% as of December 31, 2011 and 0.40% as of December 31, 2010. Additionally, we recorded $293 thousand for the year ended December 31, 2011 and $497 thousand of AFUDC for the year ended December 31, 2010.

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 evaluate our goodwill balances for impairment on an annual basis 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. AGL Resources tests goodwill impairment utilizing a fair value approach at a reporting unit level. An impairment charge is recognized if the carrying value of a reporting unit's goodwill exceeds its implied fair value. We have recorded $176.6 million of goodwill in our Consolidated Statements of Financial Position as of December 31, 2011 and 2010.

AGL Resources' goodwill impairment analysis for the years ended December 31, 2011 and 2010 was performed in the fourth quarter and indicated that the fair value of our reporting units substantially exceed their carrying value and the reporting units are not at risk of failing Step 1 of the impairment evaluation. As a result, we did not recognize any goodwill impairment charges.

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. .

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. These investment tax credits are being amortized over the estimated life of the related properties as credits to income in accordance with regulatory requirements.

Investment tax credits of approximately $1.1 million 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.

Accumulated Deferred Income Tax Assets and Liabilities In accordance with authoritative guidance related to income taxes, 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 depreciation and other differences in those items as deferred income tax assets or liabilities in our Consolidated Statements of Financial Position. We measure these deferred income tax assets and liabilities using enacted income tax rates.

Regulatory Income Tax Liability For our regulated utilities we also measure deferred income tax assets and liabilities using enacted income tax rates. Thus, when the statutory income tax rate declines before a temporary difference has fully reversed, the deferred income tax liability must be reduced to reflect the newly enacted income tax rates. In accordance with authoritative guidance related to rate-regulated entities, the amount of such a reduction is transferred to our regulatory income tax liability, which we are amortizing over the lives of the related properties as the temporary difference reverses or 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 should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. This guidance also addresses derecognition, classification, interest and penalties on income taxes and accounting in interim periods.

Uncertain Tax Positions We recognize accrued interest related to uncertain tax positions in interest expense and penalties in operating expenses in the Consolidated Statements of Income. As of December 31, 2011, 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. In other instances, we are allowed to recover from customers other taxes that are imposed upon us. We record such taxes as operating expense and record the corresponding customer charges as revenue. These taxes were 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. Our utilities have rate structures which 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 bill date to the end of the accounting period. These are within receivables included in the Consolidated Statements of Financial Position.

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. In addition, the tariffs for Elkton Gas contain revenue normalization mechanisms that mitigate the impact of conservation and declining customer usage.

Cost of Goods Sold

We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms set by the state regulatory agencies. Under these mechanisms, all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. Therefore, in accordance with the authoritative guidance for rate-regulated entities, we defer or accrue (that is, include as an asset or liability in the Consolidated Statements of Financial Position and exclude from or include in the Statements of Consolidated Income, respectively) the difference between the actual cost of goods sold incurred and the amount of commodity revenue earned in a given period, such that no operating margin is recognized related to these costs. The deferred or accrued amount is either billed or refunded to our customers prospectively through adjustments to the commodity rate. Deferred natural gas costs are reflected as regulatory assets identified as recoverable natural gas costs, and accrued natural gas costs are reflected as regulatory liabilities which are identified as accrued natural gas costs within our Consolidated Statements of Financial Position. For more information, see "Regulatory Assets and Liabilities" below in Note 2.

Repair and Maintenance Expense

We record expense for repair and maintenance costs as incurred.

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. This accounting treatment does not affect the future annual operating lease cash obligations. For more information, see "Commitments and Contingencies" in Note 8.

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 in the current period are capitalized as regulatory assets when it is probable that such costs or 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 as of December 31, are summarized in the following table:

In thousands	As of December 31, 2011	2010
Regulatory assets – current		
Derivative Instruments	$21,738	$18,504
Recoverable weather normalization	7,872	4,824
Recoverable regulatory infrastructure program costs	365	–
Total regulatory assets – current	**29,975**	**23,328**
Regulatory assets – long-term		
Elizabethtown Gas recoverable ERC	146,982	90,056
Unamortized loss on reacquired debt	7,311	7,949
Recoverable retirement benefit costs	2,390	3,117
Recoverable greenhouse gas costs	974	–
Recoverable regulatory infrastructure program costs	842	1,127
Other	25,814	16,376
Total regulatory assets – long-term	**184,313**	**118,625**
Total regulatory assets	**$214,288**	**$141,953**
Regulatory liabilities – current		
Accrued natural gas costs	$9,636	$4,735
Other	2,137	3,680
Total regulatory liabilities – current	**11,773**	**8,415**
Regulatory liabilities – long-term		
Accumulated removal costs	69,753	66,378
Regulatory income tax liability	2,067	2,390
Unamortized investment tax credit	1,067	1,310
Other	2,085	3,979
Total regulatory liabilities – long-term	**74,972**	**74,057**
Total regulatory liabilities	**$ 86,745**	**$ 82,472**

Our regulatory assets are probable or recovery 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 of our regulatory assets recoverable through base rates are subject to review by the respective state regulatory commission 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 we believe that we will be able to recover such costs, consistent 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 be classified as an extraordinary item.

Additionally, while some regulatory liabilities would be written-off, others would continue to be recorded as liabilities but not as regulatory liabilities. Although the natural gas distribution industry is competing with alternative fuels, primarily electricity, 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 that do not represent revenue collected from customers for expenditures that have not yet been incurred 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.

The majority of our regulatory assets listed in the preceding table are included in base rates except for the recoverable regulatory infrastructure program costs, recoverable ERC and accrued natural gas costs, which are recovered through specific rate riders on a dollar-for-dollar basis. The rate riders that authorize the recovery of regulatory infrastructure program costs and natural gas costs include both a recovery of cost and a return on investment during the recovery period.

Environmental Remediation Costs Our ERC liabilities are estimates of future remediation costs for investigation and clean up of our former operating sites that are contaminated. Our estimates are based on probabilistic models of potential costs, 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 them. 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 paid and accrued ERCs are deferred in a corresponding regulatory asset until the costs are recovered from customers. We primarily recover these deferred costs through rate riders that authorize dollar-for-dollar recovery. ERC associated with the investigation and remediation of Elizabethtown Gas remediation sites located in the state of New Jersey are recovered under remediation adjustment clauses that include carrying cost on unrecovered expenditures. For more information on our ERC liabilities, see Note 8.

Other Regulatory Assets and Liabilities Our recoverable retirement benefit plan costs are recoverable through base rates over the next 2 to 21 years based on the remaining recovery period as designated by the applicable state regulatory commissions.

Accumulated Removal Costs In accordance with regulatory treatment, our depreciation rates are comprised of two cost components – historical cost, net of estimated salvage, and the estimated cost of removal, or retirement, of certain regulated properties. We collect these costs in base rates through straight-line depreciation expense, with a corresponding credit to accumulated depreciation. Because the accumulated estimated removal costs meet the requirements of authoritative guidance related to regulated operations, we have accounted for them as a regulatory liability and have reclassified them from accumulated depreciation to accumulated removal costs in our Consolidated Statements of Financial Position. In the rate setting process, the liability for these accumulated removal costs are treated as a reduction to the net rate base upon which our regulated utilities have the opportunity to earn their allowed rate of return.

Regulatory Infrastructure Program In 2009, the New Jersey BPU approved an enhanced infrastructure program for Elizabethtown Gas, which was created in response to the New Jersey Governor's request for utilities to assist in the economic recovery by increasing infrastructure investments. In May 2011, the New Jersey BPU approved Elizabethtown Gas' request to spend an additional $40 million under this program before the end of 2012. Costs associated with the investment in this program are recovered through periodic adjustments to base rates. We expect to file for an extension of the program in 2012.

Accounting for Retirement Benefit Plans

The authoritative guidance related to retirement benefits requires that we recognize all obligations related to defined benefit retirement plans and quantify the plans' funded 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 yet recognized as part of net periodic benefit cost as explained in authoritative guidance related to retirement benefits. The assets of our retirement plans were accounted for at fair value and are classified in the fair value hierarchy 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. 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 relate to our utility infrastructure enhancement program accruals, environmental liability accruals, uncollectible accounts and other allowance for contingent losses, goodwill, retirement plan obligations, derivative and hedging activities and provisions for income taxes. Our actual results could differ from our estimates.

Accounting Developments

On September 15, 2011, the FASB issued authoritative guidance related to goodwill impairment testing. The guidance provides us with the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the normally required two-step quantitative impairment test is unnecessary. However, if we conclude otherwise, we are then required to proceed with the quantitative testing. The guidance allows us to bypass the qualitative assessment for any reporting unit in any period and proceed directly to quantitative testing and resume performing the qualitative assessment in any subsequent period. This guidance is effective for public companies on January 1, 2012, but early adoption is permitted. AGL Resources adopted the guidance early and relied upon a qualitative assessment when performing its annual impairment test in the fourth quarter of 2011.

Note 3 – Fair Value Measurements

Derivative Instruments

The following table summarizes, by level within the fair value hierarchy, our derivative assets and liabilities that were accounted for at fair value on a recurring basis for the years ended December 31, 2011 and 2010.

	Recurring fair values Natural gas derivative instruments			
	December 31, 2011		December 31, 2010	
In thousands	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
Quoted prices in active markets (Level 1)	$26,467	$26,467	$19,749	$19,749

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

Retirement Benefit Plans

AGL Resources Inc. Retirement Plan (AGL Retirement Plan), the Employees' Retirement Plan of NUI Corporation (NUI Retirement Plan), the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Postretirement Plan) target asset allocations are approximately 80% equity and 20%fixed income. The plans investments policy provides for some variation in these targets. The actual asset allocations of our retirement plans are presented in the following table by Level within the fair value hierarchy.

	December 31, 2011									
	Pension plans (1)					Other retirement plans				
In millions	Level 1	Level 2	Level 3	Total	% of total	Level 1	Level 2	Level 3	Total	% of total
Cash	$12	$0	$0	$12	3%	$1	$0	$0	$1	2%
Equity Securities										
U.S. large cap (2)	95	0	0	95	26%	0	34	0	34	56%
U.S. small cap (2)	53	0	0	53	14%	0	0	0	0	0%
International companies (3)	0	42	0	42	11%	0	10	0	10	16%
Emerging markets (4)	0	13	0	13	4%	0	0	0	0	0%
Fixed income securities										
Corporate bonds (5)	0	66	0	66	18%	0	0	0	0	0%
Other types of investments										
Other (or gov't/muni bonds)	0	0	0	0	0%	0	16	0	16	26%
Global hedged equity (6)	0	0	30	30	8%	0	0	0	0	0%
Absolute return (7)	0	0	34	34	9%	0	0	0	0	0%
Private capital (8)	0	0	25	25	7%	0	0	0	0	0%
Total assets at fair value	$160	$121	$89	$370	100%	$1	$60	$0	$61	100%
% of fair value hierarchy	43%	33%	24%	100%		2%	98%	0%	100%	

	December 31, 2010									
	Pension plans (1)					Other retirement plans				
In millions	Level 1	Level 2	Level 3	Total	% of total	Level 1	Level 2	Level 3	Total	% of total
Cash	$7	$0	$0	$7	2%	$1	$0	$0	$1	1%
Equity Securities										
U.S. large cap (2)	91	0	0	91	26%	0	36	0	36	57%
U.S. small cap (2)	51	0	0	51	15%	0	0	0	0	0%
International companies (3)	0	43	0	43	12%	0	12	0	12	19%
Emerging markets (4)	0	16	0	16	4%	0	0	0	0	0%
Fixed income securities										
Corporate bonds (5)	0	56	0	56	16%	0	15	0	15	23%
Other types of investments										
Global hedged equity (6)	0	0	35	35	10%	0	0	0	0	0%
Absolute return (7)	0	0	30	30	9%	0	0	0	0	0%
Private capital (8)	0	0	22	22	6%	0	0	0	0	0%
Total assets at fair value	$149	$115	$87	$351	100%	$1	$63	$0	$64	100%
% of fair value hierarchy	42%	33%	25%	100%		1%	99%	0%	100%	

(1) Includes $6 million at December 31, 2011 and $7 million at December 31, 2010 of medical benefit (health and welfare) component for 401h accounts to fund a portion of the other retirement benefits.
(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 AGL Resources' retirement plan assets in Level 3 of the fair value hierarchy

	Fair value measurements using significant unobservable inputs – Level 3 December 31, 2011				
In millions	**Global hedged equity**	**Absolute return**	**Private capital**	**Equity securities – international companies**	**Total**
Assets:					
Beginning balance	$35	$30	$22	$0	$87
Gains included in changes in net assets	(1)	1	5	0	5
Purchases	2	3	1	0	6
Sales	(6)	0	(3)	0	(9)
Ending balance	$30	$34	$25	$0	$89

	December 31, 2010				
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)	0	0	0	(4)	(4)
Gains included in changes in net assets	2	2	2	0	6
Purchases	0	14	8	0	22
Sales	0	(12)	(1)	(1)	(14)
Ending balance	$35	$30	$22	$0	$87

(1) Transferred to Level 2 as a result of change in investment vehicle and pricing inputs becoming directly observable. Transfers out of Level 3 are determined using values at the end of the period in which the transfer occurs.
(2) There were no transfers between Level 1 and Level 2 for any of the periods presented.

Debt

Our long-term 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. The following table presents the carrying value and fair value of our long-term debt for the years ended December 31, 2011 and 2010:

	As of December 31,	
In millions	**2011**	**2010**
Carrying amount	$378	$379
Fair value	$378	$379

Note 4 - Amounts Due to Affiliates

We had $91.8 million in payables at December 31, 2011 and $93.7 million in payables at December 31, 2010, due to AGL Resources and affiliated companies, which consist primarily of our participation in AGL Resources' money pool to fund our working capital requirements.

Note 5 – Derivative Instruments

Derivative Instruments

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 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 instruments and energy-related contracts to manage natural gas price risks.

The fair value of natural gas derivative 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 instruments we use.

Quantitative Disclosures Related to Derivative Instruments

Elizabethtown Gas has entered into over-the-counter swap contracts to purchase natural gas. These derivative 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, 2011 and 2010, we had net long natural gas contracts outstanding in the following quantities:

Natural gas contracts

In Bcf	December 31, 2011	December 31, 2010
Hedge designation:		
Not designated	18	18
Total	18	18
Hedge position:		
Long	18	18
Net long position	18	18

All of the contracts outstanding as of December 31, 2011 have durations of two years or less.

Derivative Instruments on the Consolidated Statements of Financial Position

In accordance with regulatory requirements gains and losses on derivative instruments used at Elizabethtown Gas are reflected in accrued natural gas costs within our Consolidated Statements of Financial Position. $27.3 million of realized losses were recorded during 2011, and $34.5 million were recorded during 2010.

The following table presents the fair value and Statements of Financial Position classification of our derivative instruments:

In thousands	Statement of financial position location (1)	December 31, 2011	December 31, 2010
Not designated as cash flow hedges			
Asset Instruments			
Current natural gas contracts	Derivative instruments assets and liabilities – current portion	$21,739	$18,504
Noncurrent natural gas contracts	Derivative instruments assets and liabilities	$4,728	$1,245
Liability Instruments			
Current natural gas contracts	Derivative instruments assets and liabilities – current portion	$(21,739)	$(18,504)
Noncurrent natural gas contracts	Derivative instruments assets and liabilities	$(4,728)	$(1,245)
Total derivative 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 its pension and other retirement benefit plans whose goal is 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 plans' assets are 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 funded status. Changes in the projected benefit obligation (PBO) and accumulated postretirement benefit obligation (APBO) are mainly driven by the assumed discount rate. Additionally, equity market performance has a significant effect on our market-related value of plan assets (MRVPA), which is used by the AGL Retirement Plan, to determine the expected return on the plan assets component of net annual pension cost. The MRVPA is a calculated value and differs from the actual market value of plan assets. Gains and losses on plan assets are spread through the MRVPA based on the five-year moving weighted average methodology.

Pension Benefits

AGL Resources sponsors two tax-qualified defined benefit retirement plans for our eligible employees, the AGL Retirement Plan and the 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 used 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 accrue future benefits under the career average earnings formula.

Effective January 1, 2012, the AGL Retirement Plan was frozen with respect to participation for non-union employees hired on or after that date. Such employees will be entitled to employer provided benefits under their defined contribution plan, that exceed defined contribution benefits for employees who participate in the defined benefit plan.

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.

Other Defined Benefit Retirement Benefits

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

The AGL Welfare 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 us. In addition, the AGL Welfare Plan provides life insurance for all employees if they have ten years of service at retirement. The state regulatory commissions have approved phase-in plans that defer a portion of the related benefits expense for future recovery.

We recorded a regulatory asset for anticipated future recoveries of $2.4 million as of December 31, 2011 and $3.1 million as of December 31, 2010. We recorded a liability of $4.2 million as of December 31, 2011 and $1.9 million as of December 31, 2010 for our expected expenses under the AGL Welfare Plan. AGL Resources expects to pay $21 million of insurance claims for the postretirement plan in 2012, 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..

Effective July 1, 2009, Medicare eligible retirees covered by the AGL Welfare Plan, including all of those at least age 65, receive benefits through our contribution to a retiree health reimbursement arrangement account.

Effective January 1, 2010, enhancements were made to the pre-65 medical coverage of the AGL Welfare Plan 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. Due to the cap, there is no impact on the periodic benefit cost or on our accumulated projected benefit obligation for the AGL Welfare Plan for a change in the assumed healthcare cost trend.

AGL Resources also has a separate unfunded supplemental retirement health care plan that provides health care and life insurance benefits to employees of discontinued businesses. This plan is noncontributory with defined benefits. Net plan expenses were immaterial in 2011. The PBO associated with this plan was $3 million December 31, 2011.

Contributions

Our employees generally do not contribute to these pension and other retirement plans, however, pre-65 AGL retirees make nominal contributions to their health care plan. 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 and established a 100% funding target (over a 7-year amortization period) for plan years beginning after December 31, 2007. If certain conditions were met, the Worker, Retiree and Employer Recovery Act of 2008 allowed us to measure our required minimum contributions based on a funding target of 100% in 2010 and 2011. In 2011 AGL Resources contributed $56 million to the AGL Retirement Plan and the NUI Retirement Plan. In 2010 AGL Resources contributed $31 million to the AGL Retirement Plan and the NUI Retirement Plan.

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 the various asset classes, our expected investments of plan assets and asset management. We base our expected allocation of plan assets on a diversified portfolio consisting of domestic and international equity securities, fixed income securities, 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 based our discount rate on a yield curve provided by our actuaries that is derived from a portfolio of high quality (rated AA or better) corporate bonds and the equivalent annuity cash flows separately for each pension plan.

The following tables present details about our pension and other retirement plans.

Dollars in millions	Pension plans 2011	Pension plans 2010	Other retirement plans 2011	Other retirement plans 2010
Change in plan assets				
Fair value of plan assets, January 1,	$344	$303	$71	$63
Actual return on plan assets	(10)	37	(3)	8
Employer contributions	58	31	7	7
Benefits paid	(28)	(27)	(8)	(7)
Plan curtailment and settlements	(1)	0	0	0
Fair value of plan assets, December 31,	$363	$344	$67	$71
Change in benefit obligation				
Benefit obligation, January 1,	$531	$463	$107	$101
Service cost	13	11	1	0
Interest cost	28	27	5	6
Actuarial loss	58	57	9	7
Benefits paid	(27)	(27)	(8)	(7)
Plan curtailment and settlements	(1)	0	0	0
Benefit obligation, December 31,	$602	$531	$114	$107
Funded status at end of year	$(239)	$(187)	$(47)	$(36)
Amounts recognized in the Consolidated Statements of Financial Position consist of				
Long-term asset	$0	$0	$0	$0
Current liability	(2)	(1)	0	0
Long-term liability	(237)	(186)	(47)	(36)
Total liability at December 31,	$(239)	$(187)	$(47)	$(36)
Pivotal Utility's share of net liability recorded on Consolidated Statements of Financial Position	$(34)	$(28)	$(4)	$(2)
Accumulated benefit obligation (1)	$568	$506	n/a	n/a
Supplemental information for underfunded pension plans included above as of December 31, 2011:				
Aggregate benefit obligation	$602	$531	n/a	n/a
Aggregate accumulated benefit obligation	568	506	n/a	n/a
Aggregate fair value of plan assets	$363	$344	n/a	n/a
Assumptions used to determine benefit obligations				
Discount rate	4.6%	5.4%	4.5%	5.2%
Rate of compensation increase	3.7%	3.7%	3.7%	3.7%

(1) ABO differs from the projected benefit obligation in that the ABO excludes the effect of salary and wage increases.

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

Dollars in millions	Pension plans 2011	Pension plans 2010	Pension plans 2009	Other retirement plans 2011	Other retirement plans 2010	Other retirement plans 2009
Net benefit cost						
Service cost	$13	$11	$8	$1	$0	$0
Interest cost	28	27	26	5	6	6
Expected return on plan assets	(32)	(28)	(29)	(5)	(5)	(4)
Net amortization of prior service cost	(2)	(2)	(2)	(4)	(4)	(4)
Recognized actuarial loss	14	10	9	2	2	2
Net periodic benefit cost	$21	$18	$12	$(1)	$(1)	$0
Assumptions used to determine benefit costs						
Discount rate (1)	5.4%	6.0%	6.2%	5.2%	5.8%	6.2%
Expected return on plan assets (1)	8.5%	8.8%	9.0%	8.5%	8.8%	9.0%
Rate of compensation increase(1)	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%

(1) Rates are presented on a weighted average basis

As a result of a cap on expected cost for the AGL Welfare Plan, a one-percentage-point increase or decrease in the assumed health care trend does not materially affect periodic benefit cost or accumulated benefit obligation of the Plan.

The following table presents the amounts not yet reflected in net periodic benefit cost and included in net regulatory assets and accumulated OCI as of December 31, 2011 and 2010:

In millions	Accumulated OCI Pension plan	Accumulated OCI Other retirement plans
December 31, 2011:		
Prior service cost (credit)	$ (13)	$ (4)
Net loss	312	51
Total	$299	$47
December 31, 2010:		
Prior service credit	$(15)	$(8)
Net loss	226	35
Total	$211	$27

The 2012 estimated amortization out of regulatory assets or accumulated OCI for these plans are set forth in the following table.

In millions	Accumulated OCI Pension plans	Accumulated OCI Other retirement plans
Amortization of prior service credit	$(2)	$(3)
Amortization of net loss	20	3

The following table presents the gross benefit payments expected for the years ended December 31, 2012 through 2021 for our pension and other retirement plans. There will be benefit payments under these plans beyond 2021.

In millions	Pension plans	Other retirement plans
2012	$29	$7
2013	29	8
2014	30	7
2015	31	7
2016	31	8
2017-2021	174	38

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 million in 2011 and in 2010.

Note 7 - Debt

The following table provides maturity dates, year-to-date weighted average interest rates and amounts outstanding for our various debt securities and facilities that are included in our Consolidated Statements of Financial Position.

In millions	Year(s) due	December 31, 2011 Weighted average interest rate	December 31, 2011 Outstanding	December 31, 2010 Weighted average interest rate	December 31, 2010 Outstanding
Short-term debt					
Current portion of capital leases	2012	4.9%	$2	4.9%	$1
Total short-term debt		**4.9%**	**$2**	**4.9%**	**$1**
Long-term debt					
Gas facility revenue bonds	2022 - 2033	1.2%	$200	1.3%	$200
Affiliate Promissory note	2034	5.8%	176	6.1%	176
Capital leases	2012	n/a	–	4.9%	2
Total long-term debt		3.3%	**$376**	**3.6%**	**$378**
Total debt		3.3%	**$378**	**3.6%**	**$379**

Current Portion of Capital Leases The current portion of our capital leases at December 31, 2011 and 2010 was composed of portions of our capital lease obligations that are due within the next twelve months. 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 2012. 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.

Long-term Debt Our long-term debt at December 31, 2011 and 2010 matures more than one year from the Statements of Financial Position date and consisted of gas facility revenue bonds and an affiliate promissory note.

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 before the expiration of the letters of credit using the proceeds of AGL Capital Corporation's commercial paper issuances.

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 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 periodically to maintain the appropriate targeted capitalization percentages. During 2011, the Affiliate Promissory Note was not increased. The Affiliate Promissory Note is due December 31, 2034 and had an initial interest rate of 6.3%, 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, 2011, the interest rate on this note was 5.8%. The initial principal amount of the Affiliate Promissory Note of $72 million is adjusted on an annual basis to conform to Pivotal Utility's target capitalization of 45%. As of December 31, 2011, the amount outstanding under the Affiliate Promissory Note was $175.8 million.

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 commitments as of December 31, 2011.

In thousands	Total	2012	2013	2014	2015	2016	Thereafter
Recorded contractual obligations:							
Long-term debt (1)	$377,774	$1,898	$ –	$–	$–	$–	$375,876
Environmental remediation liabilities (2)	135,166	11,084	27,782	22,920	14,250	13,604	45,526
Total	$512,940	$12,982	$27,782	$22,920	$14,250	$13,604	$421,402
Unrecorded contractual obligations and commitments (3):							
Pipeline charges, storage capacity and gas supply	$340,914	$60,891	$54,276	$45,667	$35,639	$22,755	$121,686
Interest charges (4)	47,574	2,235	2,206	2,205	2,206	2,205	36,517
Operating leases (5)	42,573	4,113	4,065	4,056	4,227	4,290	21,822
Asset management agreements (6)	11,250	5,000	5,000	1,250	–	–	–
Performance surety bonds	1,972	1,806	166	–	–	–	–
Total	$444,283	$74,045	$65,713	$53,178	$42,072	$29,250	$180,025

(1) Includes current portion of capital leases.
(2) Includes charges recoverable through rate rider mechanisms.
(3) In accordance with GAAP, these items are not reflected in our Consolidated Statements of Financial Position.
(4) Floating rate interest charges are calculated based on the interest rate as of December 31, 2011 and the maturity date of the underlying debt instrument. As of December 31, 2011, we had $712 thousand of accrued interest on our Consolidated Statements of Financial Position that will be paid in 2012.
(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. Our operating leases are primarily for real estate.

(6) Represent fixed-fee minimum payments for affiliated asset management agreement with Sequent.

Environmental Matters

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	$124 – $174	$124	$9
North Carolina	10 – 16	11	2
Total	$134 - $190	$135	$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. We recovered $3.9 million in 2011 and $2.2 million in 2010 from our ERC rate riders.

Litigation

We are involved in litigation arising in the normal course of business. Although in some cases the company is unable to estimate the amount of loss reasonably possible in addition to any amounts already recognized, it is possible that the resolution of these contingencies, either individually or in aggregate, will require the company to take charges against, or will result in reductions in, future earnings. It is the opinion of management that the resolution of these contingencies, either individually or in aggregate, could be material to earnings in a particular period but 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 shown in the Consolidated Statements of Income are shown in the following table.

In thousands	2011	2010
Current income taxes		
Federal	$(9,329)	$(9,117)
State	(87)	1,935
Deferred income taxes		
Federal	30,220	26,183
State	4,240	2,803
Amortization of investment tax credits	(243)	(253)
Total	$24,801	$21,551

The reconciliations between the statutory federal income tax rate, the effective rate and the related amount of tax for the years ended December 31, 2011 and 2010 on our Consolidated Statements of Income are presented in the following table.

In thousands	2011	2010
Computed tax expense at statutory rate	$21,157	$18,316
State income tax, net of federal income tax benefit	3,736	3,299
Amortization of investment tax credits	(243)	(253)
Other – net	151	189
Total income tax expense at effective rate	$24,801	$21,551

Accumulated Deferred Income Tax Assets and Liabilities

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

	As of December 31,	
In thousands	2011	2010
Accumulated deferred income tax liabilities		
Property – accelerated depreciation and other property-related items	$151,340	$127,144
Pension and other employee benefits	3,288	3,555
Other	19,697	13,038
Total accumulated deferred income tax liabilities	$174,325	$143,737
Accumulated deferred income tax assets		
Unfunded pension and postretirement benefit obligation	$16,242	$5,279
Bad debts and insurance reserves	3,501	3,663
Environmental response cost	–	2,605
Other	4,428	5,855
Total accumulated deferred income tax assets	24,171	17,402
Net accumulated deferred tax liability	$150,154	$126,335

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 or any state for years before 2007.

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.

	Expiration	Type of fee	Annual	Profit sharing / fees payments	
Dollars in thousands	date	structure	fee	2011	2010
Elizabethtown Gas	Mar 2014	Tiered Structure	(A)	$8,762	$9,778
Florida City Gas	Mar 2013	Profit -sharing	50%	1,845	1,280

Elkton Gas	Mar 2011	Fixed-fee	(B)	14	14
Total				$10,621	$11,072

(A) Shared on a tiered structure including a minimum payment of $5 million.
(B) Annual fixed fee is approximately $14 thousand. 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.

On March 30, 2011, the New Jersey BPU authorized the renewal of the asset management agreement between Elizabethtown Gas and Sequent. The renewed agreement requires Sequent to pay minimum annual fees of $5 million to Elizabethtown Gas and includes overall margin sharing levels of 70% to Elizabethtown Gas and 30% to Sequent. In October 2011, the Virginia Commission authorized the renewal of the asset management agreement between Virginia Natural Gas and Sequent. The minimum and overall sharing levels of the renewed agreement are consistent with the prior agreement.

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

We also engage in transactions with AGL Resources' affiliates consistent with its services and tax allocation agreements.