DOCKET NO. 130253-GU

GUNSTER
FLORIDA'S LAW FIRM FOR BUSINESS

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October 11, 2013

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 2014, along with its Consolidated Financial Statements for 2011 and 2012. 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: October 11, 2013

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, Brevard, Hendry, Glades, and Brevard Counties, Florida. Accordingly, Applicant is regulated as a "public utility" by the Florida Public Service Commission ("Commission") under Chapter 366, Florida Statutes. Exhibit A provides the Applicant's most recent audited financial statements.

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

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

Beth Keating
Attorney – Governmental Affairs
Gunster
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 118,592,240 shares were issued and outstanding at July 24, 2013 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, 2013, AGLR held 216,523 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
Amended and Restated Loan Agreement between New Development Authority and Pivotal Utility Holdings	March 1, 2013	$46.5 million (2)	variable rate bonds
Loan Agreement between Brevard County, Florida and Pivotal Utility Holdings	Feb. 1, 2013	$20 million (1)	variable rate bonds
Amended and Restated Loan Agreement between New Development Authority and Pivotal Utility Holdings	March 1, 2013	$39 million (2)	variable rate bonds
Amended and Restated Loan Agreement between New Development Authority and Pivotal Utility Holdings	March 1, 2013	$54.6 million (2)	variable rate bonds
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	March 1, 2013	$40 million (3)	variable rate bonds

(1) On February 26, 2013, refinanced from auctioned rate bond to bank-owned floating rate bond.

(2) On March 25, 2013, refinanced from auctioned rate bonds to bank-owned floating rate bonds.

(3) On March 25, 2013 refinanced from fixed-rate bond to floating rate bond.

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

Applicant also has an additional $171,819,916 of long-term inter-company debt. As of June 30, 2013, Applicant's inter-company debt carries an interest rate of 5.20%, which approximates AGLR's weighted cost of capital for its outstanding long term debt as of December 31, 2012. Applicant does not anticipate redeeming any of these securities in calendar year 2014 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, PSC-11-0568-FOF-GU and PSC-12-0648-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, 2013 that interest rate was .372%.

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

e. Additional Provisions: none

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

7. **<u>Lawful Object and Purpose:</u>** 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. **<u>Filings With Other State or Federal Regulatory Bodies:</u>** 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. **<u>Control or Ownership:</u>** 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 11th day of October, 2013.

Beth Keating

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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, 2012 and 2011

Pivotal Utility Holdings, Inc.

Consolidated Financial Statements and Notes

For the years ended December 31, 2012 and 2011

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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

Independent Auditor's Report

To the Shareholder of Pivotal Utility Holdings, Inc.:

We have audited the accompanying consolidated financial statements of Pivotal Utility Holdings, Inc. (a wholly owned subsidiary of AGL Resources Inc.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2012 and December 31, 2011, and the related consolidated statements of income, retained earnings, comprehensive income, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pivotal Utility Holdings, Inc. and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 6, 2013, except as to Note 11 which is as of March 29, 2013

Pivotal Utility Holdings, Inc.
Consolidated Statements of Financial Position

In thousands	As of December 31, 2012	2011
Current assets		
Cash and cash equivalents	**$53**	$270
Receivables		
Gas	**35,840**	41,644
Unbilled revenues	**31,110**	28,406
Other	**1,437**	-
Less allowance for uncollectible accounts	**4,995**	8,683
Total receivables, net	**63,392**	61,367
Inventories	**19,611**	30,089
Regulatory assets	**21,950**	29,975
Other current assets	**20,320**	29,721
Total current assets	**125,326**	151,422
Long-term assets and other deferred debits		
Property, plant and equipment	**1,231,232**	1,167,361
Less accumulated depreciation	**367,728**	345,232
Property, plant and equipment, net	**863,504**	822,129
Goodwill	**176,560**	176,560
Recoverable ERC	**147,763**	146,982
Recoverable retirement benefit costs	**1,663**	2,390
Recoverable regulatory infrastructure program costs	**558**	842
Derivative instruments	**65**	4,728
Other	**34,403**	32,202
Total long-term assets and other deferred debits	**1,224,516**	1,185,833
Total assets	**$1,349,842**	$1,337,255
Current liabilities		
Due to affiliates	**$100,935**	$91,807
Accrued environmental remediation liabilities	**20,432**	11,084
Accrued taxes	**17,910**	5,880
Customer credit balances and deposits	**14,157**	14,653
Accounts payable - trade	**10,499**	8,900
Derivative instruments	**7,340**	21,739
Accrued natural gas costs	**2,219**	9,636
Current portion of capital leases	**991**	1,898
Other current liabilities	**2,713**	5,933
Total current liabilities	**177,196**	171,530
Long-term liabilities and other deferred credits		
Long-term debt and capital leases, net of current portion	**371,920**	375,876
Accumulated deferred income taxes	**162,333**	150,154
Accrued environmental remediation liabilities	**112,537**	124,082
Accumulated removal costs	**75,314**	69,753
Accrued pension obligations	**34,213**	34,046
Accrued other retirement benefit costs	**5,383**	4,230
Regulatory income tax liability	**1,753**	2,067
Unamortized investment tax credits	**832**	1,067
Derivative instruments	**65**	4,728
Other long-term liabilities and other deferred credits	**21,381**	23,622
Total long-term liabilities and other deferred credits	**785,731**	789,625
Total liabilities and other deferred credits	**962,927**	961,155
Commitments and contingencies (see Note 8)		
Equity		
Shareholders' equity		
Common stock; no par value; 12,807,111 shares authorized, issued and outstanding	**-**	-
Retained earnings	**252,126**	245,097
Additional paid in capital	**159,266**	147,324
Accumulated other comprehensive loss	**(24,477)**	(16,321)
Total equity	**386,915**	376,100
Total liabilities and equity	**$1,349,842**	$1,337,255

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Consolidated Statements of Income

In thousands	Years ended December 31, 2012	2011
Operating revenues	**$413,971**	$473,158
Operating expenses		
Cost of goods sold	**221,081**	276,822
Operation and maintenance	**76,421**	83,064
Depreciation and amortization	**32,927**	31,864
Taxes other than income taxes	**6,270**	5,582
Total operating expenses	**336,699**	397,332
Operating income	**77,272**	75,826
Other income	**1,180**	1,271
Interest expenses, net	**(15,879)**	(16,649)
Earnings before income taxes	**62,573**	60,448
Income tax expenses	**26,334**	24,801
Net income	**$36,239**	$35,647

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Consolidated Statements of Comprehensive Income

In thousands	Years ended December 31, 2012	2011
Net income	**$36,239**	$35,647
Other comprehensive loss, net of tax		
Actuarial loss arising during the period (net of income tax of $637 and $10,964, respectively)	**(8,156)**	(8,618)
Comprehensive income	**$28,083**	$27,029

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, 2010	12,807	$147,324	$234,872	$(7,703)	$374,493
Net income		–	35,647	–	35,647
Other comprehensive loss	–	–	–	(8,618)	(8,618)
Dividends	–	–	(25,422)	–	(25,422)
Balance as of December 31, 2011	12,807	$147,324	$245,097	$(16,321)	$376,100
Net income		–	36,239	–	36,239
Other comprehensive loss	–	–	–	(8,156)	(8,156)
Dividends	–	–	(29,210)	–	(29,210)
Conversion of debt to equity		11,942	–	–	11,942
Balance as of December 31, 2012	12,807	$159,266	$252,126	$ (24,477)	$ 386,915

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Consolidated Statements of Cash Flows

In thousands	Years ended December 31, 2012	2011
Cash flows from operating activities		
Net income	**$36,239**	$35,647
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	**32,927**	31,864
Deferred income taxes	**12,501**	34,460
Changes in certain assets and liabilities		
Accrued taxes	**12,030**	(919)
Inventories	**10,478**	(178)
Accounts payable - trade	**1,599**	(4,409)
Environmental remediation costs	**(2,978)**	(8,406)
Accrued natural gas costs	**(7,417)**	4,901
Pension and postretirement benefits	**(6,109)**	284
Receivables	**(2,025)**	22,139
Other – net	**(9,734)**	(28,877)
Net cash flow provided by operating activities	**77,511**	86,506
Cash flows from investing activities		
Expenditures for property, plant and equipment	**(64,723)**	(58,049)
Net cash flow used in investing activities	**(64,723)**	(58,049)
Cash flows from financing activities		
Net borrowings from (payments to) AGL Resources	**17,112**	(1,902)
Dividends paid	**(29,210)**	(25,422)
Principal payments under capital lease obligations	**(907)**	(863)
Net cash flow used in financing activities	**(13,005)**	(28,187)
Net (decrease) increase in cash and cash equivalents	**(217)**	270
Cash and cash equivalents at beginning of period	**270**	–
Cash and cash equivalents at end of period	**$53**	$270
Cash paid during the period for		
Interest	**$11,496**	$12,396
Income taxes	**$1,824**	$2,012

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, which engages in the sale and distribution of natural gas to approximately 387 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 periods ended December 31, 2012 and 2011 were 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 primarily consist 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

We have financial and nonfinancial assets and liabilities subject to fair value measures. The financial assets and liabilities measured and carried at fair value include cash equivalents, receivables, derivative assets and liabilities. 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. The nonfinancial assets and liabilities include pension and other retirement benefits. 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 marketplace. 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. Transfers into and out of Level 3 reflect the liquidity at the relevant natural gas trading locations and dates, which affects the significance of unobservable inputs used in the valuation applied to natural gas derivatives. Our Level 3 assets, liabilities and any applicable transfers are primarily related to our pension and other retirement benefit plan assets as described in Note 3 and Note 6. Transfers for retirement plan assets are described further in Note 3. We determine both transfers into and out of Level 3 using values at the end of the interim period in which the transfer occurred.

The authoritative guidance related to fair value measurements and disclosures also includes a two-step process to determine whether the market for a financial asset is inactive or a transaction is not distressed. Currently, this authoritative guidance does not affect us as our derivative instruments are traded in active markets.

Derivative Instruments

Our policy is to classify derivative cash flows in the same category as the hedged item, rather than by the nature of the instrument.

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 own 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 the natural gas derivative instruments that 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. See Note 5 for additional derivative disclosures.

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. As previously noted, 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 until the related revenue is recognized.

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 additional fair value of debt disclosures.

Property, Plant and Equipment

A summary of our PP&E by classification as of December 31, 2012 and 2011 is provided in the following table.

In thousands	**2012**	**2011**
Transportation and distribution	$1,056,796	$1,039,946
Storage	5,898	5,881
Other	97,665	95,065
Construction work in progress	70,873	26,469
Total PP&E, gross	1,231,232	1,167,361
Less accumulated depreciation	367,728	345,232
Total PP&E, net	$863,504	$822,129

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

- material and labor
- contractor costs
- construction overhead costs
- an allowance for 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 straight-line 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 provided in the following table.

	2012	2011
Elizabethtown Gas	2.4%	2.5%
Florida City Gas	3.9%	3.9%
Elkton Gas	2.4%	2.4%

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

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

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

AFUDC and Capitalized Interest

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 0.51% as of December 31, 2012 and 0.53% as of December 31, 2011. We recorded $696 thousand of AFUDC for the year ended December 31, 2012 and $293 thousand for the year ended December 31, 2011.

Goodwill

We perform an annual goodwill impairment test during the fourth quarter of each year, 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. Our goodwill impairment analysis for the year ended December 31, 2012 indicated that our estimated fair value was in excess of the carrying value by approximately 60% and that we are not at risk of failing step-one of the impairment test.

Taxes

Income 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.

We have current and deferred income taxes in our Consolidated Statements of Income. 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 tax expense.

Investment tax credits of approximately $832 thousand previously deducted for income tax purposes for Elizabethtown Gas, Florida City Gas and Elkton Gas have been deferred for financial accounting purposes and are being amortized as credits to income over the estimated lives of the related properties in accordance with regulatory requirements.

Accumulated Deferred Income Tax Assets and Liabilities As noted above, 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. However, the amount of the 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.

Income 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 upon 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 our Consolidated Statements of Income. As of December 31, 2012 and 2011, we did not have a liability recorded for payment of interest or penalties associated with uncertain tax positions.

Tax Collections We do not collect income taxes from our customers on behalf of governmental authorities. However, we do 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 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. Our utilities have rate structures that include volumetric rate designs which 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 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 purpose of a WNA 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. 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. In accordance with the authoritative guidance, 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 Consolidated Statements of 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. See Note 8 for additional commitments and contingencies disclosures.

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 and associated assets and liabilities as of December 31, are summarized in the following table:

	As of December 31,	
In thousands	**2012**	**2011**
Regulatory assets		
Recoverable weather normalization	$14,284	$ 7,872
Derivative Instruments	7,340	21,738
Other	326	365
Total regulatory assets – current	**21,950**	**29,975**
Elizabethtown Gas recoverable ERC	147,762	146,982
Unamortized loss on reacquired debt	6,673	7,311
Recoverable greenhouse gas costs	3,488	974
Recoverable retirement benefit costs	1,663	2,390
Recoverable regulatory infrastructure program costs	558	842
Other	21,421	25,814
Total regulatory assets – long-term	**181,565**	**184,313**
Total regulatory assets	**$203,515**	**$214,288**
Regulatory liabilities		
Accrued natural gas costs	$2,219	$9,636
Other	-	2,137
Total regulatory liabilities – current	**2,219**	**11,773**
Accumulated removal costs	75,314	69,753
Regulatory income tax liability	1,753	2,067
Unamortized investment tax credit	832	1,067
Other	1,510	2,085
Total regulatory liabilities – long-term	**79,409**	**74,972**
Total regulatory liabilities	**$81,628**	**$86,745**

Our regulatory assets are probable of recovery as 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 conventional engineering estimates and the use of probabilistic models of potential costs when such estimates cannot be made, 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. The ERCs 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, and the estimated cost of removal, net of estimated salvage, 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 are a generally accepted component of depreciation, but 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. In July 2012, we filed for an extension of the program up to $135 million in additional spend over five years and we expect a ruling in the first half of 2013.

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 are 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. Our estimates are based 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. We evaluate our estimates on an ongoing basis and our actual results could differ from our estimates.

Accounting Developments

On January 1, 2012, we adopted authoritative guidance related to fair value measurements. The guidance expands the qualitative and quantitative disclosures required for Level 3 significant unobservable inputs. The guidance also limits the application of the highest and best use premise to non-financial assets and liabilities. This guidance had no impact on our consolidated financial statements. See Note 3 for additional fair value disclosures.

On January 1, 2012, we adopted authoritative guidance related to comprehensive income. The guidance eliminates the option to present OCI in the statement of equity, but allows companies to elect to present net income and OCI in one continuous statement of comprehensive income, or in two consecutive statements. This guidance does not change any of the components of net income or OCI. This guidance did not have a material impact on our consolidated financial statements.

Note 3 – Fair Value Measurements

Retirement benefit plans

AGL Resources sponsors three tax qualified defined benefit retirement plans for eligible employees, the AGL Resources Inc. Retirement Plan (AGL Plan), the Employees' Retirement Plan of NUI Corporation (NUI Plan), and the Nicor Gas Retirement Plan (Nicor Plan), as a result of the merger with Nicor in December 2011. Effective as of December 31, 2012, the NUI Plan and the Nicor Plan were merged into the AGL Plan. The participants of the NUI and Nicor plans are now being offered the AGL Plan.

AGL Resources also sponsors two defined benefit retiree health care plans for eligible employees, the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Welfare Plan) and the Nicor Gas Welfare Benefit Plan (Nicor Welfare Plan). Effective December 31, 2012, the Nicor Welfare Plan was terminated and as of January 1, 2013, all participants under that plan became eligible to participate in the AGL Welfare Plan. For more information, see "Employee Benefit Plans" in Note 6.

The target asset allocations of the AGL Resources Inc. Retirement Plan (AGL Plan), the Employees' Retirement Plan of NUI Corporation (NUI Plan) and the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Postretirement Plan) were approximately 81% equity and 19% fixed income. The plans' investment policies provide 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, 2012 (9)									
	Pension plan (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	$14	$2	$-	$16	2%	$1	$-	$-	$1	1%
Equity Securities										
U.S. large cap (2)	69	181	-	250	30%	-	38	-	38	55%
U.S. small cap (2)	60	22	-	82	10%	-	-	-	-	0%
International companies (3)	-	120	-	120	14%	-	12	-	12	18%
Emerging markets (4)	-	34	-	34	4%	-	-	-	-	0%
Fixed income securities										
Corporate bonds (5)	-	216	-	216	26%	-	18	-	18	26%
Other types of investments										
Other (or gov't/muni bonds)	-	30	-	30	3%	-	-	-	-	0%
Global hedged equity (6)	-	-	38	38	4%	-	-	-	-	0%
Absolute return (7)	-	-	36	36	4%	-	-	-	-	0%
Private capital (8)	-	-	23	23	3%	-	-	-	-	0%
Total assets at fair value	$143	$605	$97	$845	100%	$1	$68	$0	$69	100%
% of fair value hierarchy	17%	72%	11%	100%		1%	99%	0%	100%	

	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	$-	$-	$12	3%	$1	$-	$-	$1	2%
Equity Securities										
U.S. large cap (2)	95	-	-	95	26%	-	34	-	34	56%
U.S. small cap (2)	53	-	-	53	14%	-	-	-	-	0%
International companies (3)	-	42	-	42	11%	-	10	-	10	16%
Emerging markets (4)	-	13	-	13	4%	-	-	-	-	0%
Fixed income securities										
Corporate bonds (5)	-	66	-	66	18%	-	-	-	-	0%
Other types of investments										
Other (or gov't/muni bonds)	-	-	-	-	0%	-	16	-	16	26%
Global hedged equity (6)	-	-	30	30	8%	-	-	-	-	0%
Absolute return (7)	-	-	34	34	9%	-	-	-	-	0%
Private capital (8)	-	-	25	25	7%	-	-	-	-	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%	

(1) Includes $8 million at December 31, 2012 and $6 million at December 31, 2011 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.
(9) Reported amounts include the Nicor Plan, as it was merged into the AGL Plan as of December 31, 2012.

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 (1) December 31, 2012			
In millions	Global hedged equity	Absolute return	Private capital	Total
Assets:				
Beginning balance	$30	$34	$25	$89
Gains included in changes in net assets	3	2	3	8
Purchases	15	-	-	15
Sales	(10)	-	(5)	(15)
Ending balance	$38	$36	$23	$97

	December 31, 2011			
In millions	Global hedged equity	Absolute return	Private capital	Total
Assets:				
Beginning balance	$35	$30	$22	$87
(Losses) gains included in changes in net assets	(1)	1	5	5
Purchases	2	3	1	6
Sales	(6)	-	(3)	(9)
Ending balance	$30	$34	$25	$89

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

Derivative Instruments

The following table summarizes, by level within the fair value hierarchy, our derivative assets and liabilities that were carried at fair value on a recurring basis in our Consolidated Statements of Financial Position as of the dates presented.

	Recurring fair values Natural gas derivative instruments			
	December 31, 2012		December 31, 2011	
In thousands	**Assets** (1)	**Liabilities** (1)	**Assets** (1)	**Liabilities** (1)
Quoted prices in active markets (Level 1)	$7,405	$7,405	$26,467	$26,467

(1) There were no transfers between Level 1, Level 2, or Level 3 for any 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, including current portions due, for the following periods:

	As of December 31,	
In millions	2012	2011
Long-term debt carrying amount	$373	$378
Long-term debt fair value (1)	$373	$378

(1) Valued using Level 2 inputs.

Note 4 - Amounts Due to Affiliates

We had $100.9 million in payables at December 31, 2012 and $91.8 million in payables at December 31, 2011, which was due to AGL Resources and affiliated companies. This consisted 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 of 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, 2012 and 2011, we had net long natural gas contracts outstanding in the following quantities:

Natural gas contracts

	December 31,	
In Bcf	**2012**	**2011**
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, 2012 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. $27.8 million of realized losses were recorded during 2012, and $27.3 million were recorded during 2011.

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

		December 31,	
In thousands	**Statement of financial position location**	**2012**	**2011**
Not designated as cash flow hedges			
Asset Instruments			
Current natural gas contracts	Derivative instruments assets and liabilities	$7,340	$21,739
Noncurrent natural gas contracts	Derivative instruments assets and liabilities	65	4,728
Liability Instruments			
Current natural gas contracts	Derivative instruments assets and liabilities	(7,340)	(21,739)
Noncurrent natural gas contracts	Derivative instruments assets and liabilities	(65)	(4,728)
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. defined benefit 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 Plan, to determine the expected return on the plan assets component of net annual pension cost. The MRVPA is a calculated value. 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 the AGL Plan, which is a tax-qualified defined benefit retirement plan for our eligible employees. A defined benefit plan specifies the amount of benefits an eligible participant eventually will receive using information about the participant, including information related to the participant's earnings history, years of service and age. In 2012, AGL Resources also sponsored two other tax-qualified defined benefit retirement plans for eligible employees, the Nicor Plan and the NUI Plan. Effective as of December 31, 2012, the NUI Plan and the Nicor Plan were merged into the AGL Plan.

AGL Resources generally calculates the benefits under the AGL Plan based on age, years of service and pay. The benefit formula for the AGL Plan is currently a career average earnings formula. Participants who were employees as of July 1, 2000 and who were at least 50 years of age as of that date earned benefits until December 31, 2010 under a final average pay formula. Participants who were employed as of July 1, 2000, but did not satisfy the age requirement to continue under the final average earnings formula, transitioned to the career average earnings formula on July 1, 2000.

Effective January 1, 2012, the AGL Plan was frozen with respect to participation for non-union employees hired on or after that date. Such employees are 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 Nicor Plan is a noncontributory defined benefit pension plan covering substantially all union and non-union employees of Nicor Gas and its affiliates that adopted the Nicor Plan, hired prior to 1998. Pension benefits are based on years of service and the highest average salary for management employees and job level for collectively bargained employees (referred to as pension bands). The benefit obligation related to collectively bargained benefits considers the past practice of regular benefit increases.

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

Defined Benefit Welfare Benefits

Until December 31, 2012, AGL Resources sponsored two defined benefit retiree health care plans for eligible employees, the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Welfare Plan) and the Nicor Gas Welfare Benefit Plan (Nicor Welfare Plan). Eligibility for these benefits is based on age and years of service. Effective December 31, 2012, the Nicor Welfare Plan was terminated and as of January 1, 2013, all participants under that plan became eligible to participate in the AGL Welfare Plan. This change in plan participation eligibility did not affect the benefit terms.

The AGL Welfare Plan includes medical coverage for all eligible AGL Resources employees who were employed as of June 30, 2002, if they reach the plan's 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. The AGL Welfare Plan terms include a limit on the employer share of costs at limits based on the coverage tier, plan elected and salary level of the employee at retirement.

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. Additionally, on the pre-65 medical coverage of the AGL Welfare Plan, our expected cost is determined by a 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.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 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. Prescription drug coverage for the Nicor Gas Medicare-eligible population changed, effective January 1, 2013, from an employer-sponsored prescription drug plan with the Retiree Drug Subsidy (RDS) to an Employer Group Waiver Plan (EGWP). The EGWP replaces the employer sponsored prescription drug plan. The expected savings is estimated to be approximately 12% of total Medicare eligible liability.

We recorded a regulatory asset for anticipated future recoveries of $1.7 million as of December 31, 2012 and $2.4 million as of December 31, 2011. In addition, we recorded a regulatory liability of $5.4 million as of December 31, 2012 and $4.2 million as of December 31, 2011 for our expected expenses under the AGL Welfare Plan.

Assumptions

AGL Resources considers a variety of factors in determining and selecting our assumptions for the discount rate at December 31. We based our discount rate at December 31, 2012 on an above mean yield curve provided by our actuaries that is derived from a portfolio of high quality (rated AA or better) corporate bonds that have a yield higher than the regression mean curve and the equivalent annuity cash flows separately for each plan.

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

Dollars in millions	Pension plan 2012 (2)	2011	Other retirement plans 2012 (2)	2011
Change in plan assets				
Fair value of plan assets, January 1,	$754	$344	$67	$71
Actual return on plan assets	101	(10)	10	(3)
Employee contributions	-	-	1	-
Employer contributions	42	58	17	7
Benefits paid	(59)	(28)	(19)	(8)
Medicare Part D reimbursements	-	-	1	-
Plan curtailment and settlements	(1)	(1)	-	-
Fair value of plan assets, December 31,	$837	$363	$77	$67
Change in benefit obligation				
Benefit obligation, January 1,	$968	$531	$397	$107
Service cost	28	13	4	1
Interest cost	44	28	17	5
Actuarial loss(gain)	66	58	(22)	9
Plan amendments	-	-	(25)	-
Medicare Part D reimbursements	-	-	1	-
Benefits paid	(59)	(27)	(19)	(8)
Employee contributions	-	-	1	-
Plan curtailment and settlements	(1)	(1)	-	-
Benefit obligation, December 31,	$1,046	$602	354	$114
Funded status at end of year	$(209)	$(239)	$(277)	$(47)
Amounts recognized in the Consolidated Statements of Financial Position consist of				
Long-term asset	$33	$-	$-	$-
Current liability	(2)	(2)	(12)	-
Long-term liability	(240)	(237)	(265)	(47)
Total liability at December 31,	$(209)	$(239)	$(277)	$(47)
Pivotal Utility's share of net liability recorded on Consolidated Statements of Financial Position	$(34)	$(34)	$(5)	$(4)
Accumulated benefit obligation (2)	$983	$568	n/a	n/a
Supplemental information for underfunded pension plans included above as of December 31, 2012:				
Aggregate benefit obligation	n/a	$602	n/a	n/a
Aggregate accumulated benefit obligation	n/a	568	n/a	n/a
Aggregate fair value of plan assets	n/a	$363	n/a	n/a
Assumptions used to determine benefit obligations				
Discount rate	4.2%	4.6%	4.5%	4.5%
Rate of compensation increase	3.7%	3.7%	3.7%	3.7%

(1) Reported amounts include the Nicor Plan, as it was merged into the AGL Plan as of December 31, 2012.
(2) 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 plan 2012 (1)	2011	2010	Other retirement plans 2012 (1)	2011	2010
Service cost	$28	13	11	$4	1	-
Interest cost	44	28	27	16	5	6
Expected return on plan assets	(64)	(32)	(28)	(5)	(5)	(5)
Net amortization of prior service cost	(2)	(2)	(2)	(3)	(4)	(4)
Recognized actuarial loss	34	14	10	9	2	2
Net periodic benefit cost	$40	$21	$18	$21	$(1)	$(1)
Pivotal Utility's share of net periodic benefit cost recorded on Consolidated Statements of Income	$5	$3	$3	$1	$-	$-
Assumptions used to determine benefit costs						
Discount rate (2)	4.6%	5.4%	6.0%	4.5%	5.2%	5.8%
Expected return on plan assets (2)	8.4%	8.5%	8.8%	8.5%	8.5%	8.8%
Rate of compensation increase (2)	3.7%	3.7%	3.7%	3.8%	3.7%	3.7%

(1) Reported amounts include the Nicor Plan, as it was merged into the AGL Plan as of December 31, 2012.

(2) 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 accumulated OCI as of December 31, 2012 and 2011:

	Accumulated OCI	
In millions	**Pension plan**	**Other retirement plans**
December 31, 2012:		
Prior service credit	$(11)	$(2)
Net loss	324	52
Total	$313	$50
December 31, 2011:		
Prior service credit	$(13)	$(4)
Net loss	312	51
Total	$299	$47

The 2013 estimated amortization out of accumulated OCI for these plans is set forth in the following table.

	Accumulated OCI	
In millions	**Pension plan**	**Other retirement plans**
Amortization of prior service credit	$(2)	$(2)
Amortization of net loss	24	3

The following table presents the gross benefit payments expected for the years ended December 31, 2013 through 2022 for our pension and other retirement plans. There will be benefit payments under these plans beyond 2022.

In millions	**Pension plan**	**Other retirement plans**
2013	$57	$19
2014	60	20
2015	62	21
2016	65	21
2017	68	22
2018-2022	377	121

Contributions

AGL Resources 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. AGL Resources funds 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. In 2012 AGL Resources contributed $40 million to the AGL Plan and the NUI Plan. In 2011 AGL Resources contributed $56 million to the AGL Retirement Plan and the NUI Plan

Employee Savings Plan Benefits

AGL sponsors defined contribution benefit plans that allow eligible participants to make contributions to their accounts up to specified limits. Under these plans, our matching contributions to participant accounts were $1 million in 2012 and 2011.

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, 2012 Weighted average interest rate	December 31, 2012 Outstanding	December 31, 2011 Weighted average interest rate	December 31, 2011 Outstanding
Current portion of capital leases					
Current portion of capital leases	2013	4.9%	$1	4.9%	$2
Total current portion of capital leases		**4.9%**	**$1**	**4.9%**	**$2**
Long-term debt					
Gas facility revenue bonds	2022 - 2033	1.2%	$200	1.2%	$200
Affiliate promissory note	2034	5.2%	172	5.8%	176
Total long-term debt		3.3%	**$372**	3.3%	**$376**
Total debt		3.3%	**$373**	3.3%	**$378**

Short-term Debt

Current Portion of Capital Leases The current portion of our capital leases at December 31, 2012 and 2011 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 of gas meters and other equipment that was completed in 2002 by Florida City Gas and expires in the second quarter of 2013. Based on the terms of the lease agreement, Florida City Gas is required to insure the leased equipment during the lease term. In the second quarter 2012, Florida City Gas had the option to purchase the leased meters from the lessor at their fair market value, but did not exercise this option.

Long-term Debt

Our long-term debt at December 31, 2012 and 2011 consists 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.

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 2012, $11,942 thousand was converted from the Affiliate Promissory Note to Equity to maintain such ratios. The Affiliate Promissory Note is due December 31, 2034 and had an initial interest rate at December 31, 2004 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, 2012, the interest rate on this note was 5.2%. 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%.

Note 8 - Commitments and Contingencies

We have incurred various contractual obligations and financial commitments in the normal course of our operating and financing activities that are reasonably likely to have a material effect on liquidity or the availability of capital resources. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. 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, 2012.

In thousands	**Total**	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**
Recorded contractual obligations:							
Long-term debt (1)	$372,911	$991	$ –	$ –	$–	$–	$371,920
Environmental remediation liabilities (2)	132,969	20,432	12,600	23,100	16,100	14,604	46,133
Total	$505,880	$21,423	$12,600	$23,100	$16,100	$14,604	$418,053
Unrecorded contractual obligations and commitments (3):							
Pipeline charges, storage capacity and gas supply	$317,773	$62,170	$55,251	$42,097	$35,731	$23,036	$99,488
Interest charges (4)	46,974	2,322	2,322	2,322	2,322	2,322	35,364
Operating leases (5)	38,718	4,122	4,099	4,272	4,359	4,334	17,532
Asset management agreements (6)	7,501	5,001	2,500	–	–	–	–
Performance surety bonds	2,848	2,718	130	–	–	–	–
Total	$413,813	$76,332	$64,302	$48,691	$42,412	$29,692	$152,384

(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, 2012 and the maturity date of the underlying debt instrument. As of December 31, 2012, we have $755 thousand of accrued interest on our Consolidated Statements of Financial Position that will be paid in 2013.
(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. The following table provides more information on the costs related to remediation of our former operating sites.

In thousands	**Probabilistic model cost estimates**	**Engineering estimates**	**Amount recorded**	**Expected costs over next twelve months**
New Jersey	$115,718 - $202,931	$6,322	$122,040	$12,407
North Carolina	n/a	10,929	10,929	8,025
Total	$115,718 - $202,931	$17,251	$132,969	$20,432

We have identified 6 former operating sites in New Jersey where Elizabethtown Gas owned or operated all or part of these sites. With the exception of two sites, material cleanups 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 that 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 of this site.

Our ERC liabilities are estimates of future remediation costs for our former operating sites that are contaminated. Our estimates are based on conventional engineering estimates and the use of probabilistic models of potential costs when such estimates cannot be made, which is generally the case when remediation has not commenced or during the early years of a remediation effort. For those elements of the program where we cannot perform engineering estimates, there remains considerable variability in future cost estimates. Accordingly, we have established a probabilistic model to determine a range of potential expenditures to remediate and monitor our former operating sites. We cannot, at this time, identify any single number within this range as a better estimate of likely future costs, and we generally have recorded the low end of the range for our probabilistic cost estimates.

As we 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 assumptions, which we refine and update on an ongoing basis. 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.

With the exception of our North Carolina site, 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.

Litigation

We are involved in litigation arising in the normal course of business. Although in some cases we are 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 us 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	2012	2011
Current income taxes		
Federal	$10,216	$(9,329)
State	3,851	(87)
Deferred income taxes		
Federal	9,508	30,220
State	2,993	4,240
Amortization of investment tax credits	(234)	(243)
Total	$26,334	$24,801

The reconciliations between the statutory federal income tax rate, the effective rate and the related amount of tax for the years ended December 31, 2012 and 2011 on our Consolidated Statements of Income are presented in the following table.

In thousands	2012	2011
Computed tax expense at statutory rate	$21,901	$21,157
State income tax, net of federal income tax benefit	4,221	3,736
Amortization of investment tax credits	(234)	(243)
Other – net	446	151
Total income tax expense at effective rate	$26,334	$24,801

Accumulated Deferred Income Tax Assets and Liabilities

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

In thousands	As of December 31, 2012	2011
Accumulated deferred income tax liabilities		
Property – accelerated depreciation and other property-related items	$159,531	$151,340
Pension and other employee benefits	1,286	3,288
Other	24,432	19,697
Total accumulated deferred income tax liabilities	$185,249	$174,325
Accumulated deferred income tax assets		
Unfunded pension and postretirement benefit obligation	$16,880	$16,242
Bad debts and insurance reserves	2,033	3,501
Environmental response cost	–	–
Other	4,004	4,428
Total accumulated deferred income tax assets	22,917	24,171
Net accumulated deferred tax liability	$162,332	$150,154

AGL Resources files a United States federal income tax return and various state income tax returns. AGL Resources is no longer subject to income tax examinations by the Internal Revenue Service or in any state for years before 2008.

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 2012	2011
Elizabethtown Gas	March 2014	Tiered Structure	(1)	$5,000	$8,762
Florida City Gas	March 2014	Profit -sharing	50%	757	1,845
Total				$5,757	$10,621

(1) Shared on a tiered structure including a minimum payment of $5 million.

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.

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.

Note 11 – Subsequent Event

Our management evaluated subsequent events for potential recognition and disclosure through March 29, 2013, the date these financial statements were available to be issued and determined that no significant events have occurred subsequent to period end.