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October 27, 2015

BY HAND DELIVERY

Ms. Carlotta Stauffer
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. Stauffer:

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 2016, along with its Consolidated Financial Statements for 2013 and 2014. 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 27, 2015

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

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

In support, Applicant states:

1. **<u>Applicant Information:</u>** The name and principal business address of Applicant are Pivotal Utility Holdings, Inc., 300 Connell Drive, Berkeley Heights, New Jersey 07922. Applicant is the indirect wholly owned subsidiary of AGL Resources Inc. ("AGLR"), an energy services holding company headquartered in Atlanta, Georgia. Applicant is engaged in the business of distributing natural gas in service territories located in portions of the states of New Jersey, Florida and Maryland. Through its Florida City Gas division, Applicant supplies natural gas to customers in Miami-Dade, Broward, Palm Beach, St. Lucie, Indian River, Martin, 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 120,087,776 shares were issued and outstanding at July 23, 2015 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, 2015, 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 bank-owned floating rate bond.

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

Applicant also has an additional $205,943,109 of long-term inter-company debt. As of June 30, 2015, Applicant's inter-company debt carries an interest rate of 4.97%, which approximates AGLR's weighted cost of capital for its outstanding long term debt as of December 31, 2014. Applicant does not anticipate redeeming any of these securities in calendar year 2016 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, PSC-12-0648-FOF-GU, PSC-13-0671-FOF-GU, and PSC-14-0677-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, 2015 that interest rate was .450%.

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 27th day of October, 2015.

Beth Keating
Attorney – Governmental Affairs
Gunster
215 S. Monroe Street, Suite 601
Tallahassee, FL 32301
850-521-1706
Attorneys for PIVOTAL UTILITY HOLDINGS, INC., d/b/a FLORIDA CITY GAS

EXHIBIT A

AUDITED FINANCIAL STATEMENTS

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

Financial Statements
For the years ended December 31, 2014 and 2013

Pivotal Utility Holdings, Inc.

Financial Statements and Notes

For the years ended December 31, 2014 and 2013

Table of Contents

	Page
Glossary of Key Terms	3
Report of Independent Accounting Firm	4
Financial Statements and Notes	
Statements of Financial Position	5
Statements of Income	6
Statements of Comprehensive Income	6
Statements of Equity	7
Statements of Cash Flows	8
Note 1 – Organization and Basis of Presentation	9
Note 2 – Significant Accounting Policies and Methods of Application	9
Note 3 – Regulated Operations	14
Note 4 – Fair Value Measurements	17
Note 5 – Derivative Instruments	19
Note 6 – Employee Benefit Plans	20
Note 7 – Debt	23
Note 8 – Commitments and Contingencies	24
Note 9 – Income Taxes	25
Note 10 – Accumulated Other Comprehensive Loss	25
Note 11 – Related Party Transactions	26
Note 12 – Subsequent Events	26

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
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
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
Sequent	Sequent Energy Management, L.P.
WNA	Weather normalization adjustment

pwc

Independent Auditor's Report

To the Shareholder of Pivotal Utility Holdings, Inc.:

We have audited the accompanying financial statements of Pivotal Utility Holdings, Inc. (a wholly owned subsidiary of AGL Resources Inc., the "Company"), which comprise the statements of financial position as of December 31, 2014 and December 31, 2013, and the related statements of income, comprehensive income, equity, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Pivotal Utility Holdings, Inc. at December 31, 2014 and December 31, 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 11, 2015, except as to Note 12 which is as of March 31, 2015

PricewaterhouseCoopers LLP, 1075 Peachtree Street, Suite 2600, Atlanta, GA 30309
T: (678) 419 1000, F: (678) 419 1239, www.pwc.com/us

Pivotal Utility Holdings, Inc.
Statements of Financial Position

In thousands	As of December 31, 2014	2013
Current assets		
Cash and cash equivalents	**$-**	$311
Receivables		
Natural gas	**44,157**	53,309
Unbilled revenues	**31,292**	30,473
Other	**34,064**	1,335
Less allowance for uncollectible accounts	**5,960**	5,111
Total receivables, net	**103,553**	80,006
Inventories	**31,051**	32,229
Prepaid taxes	**11,230**	8,216
Regulatory assets	**1,964**	20,532
Derivative instruments	**-**	1,273
Other	**7,834**	8,342
Total current assets	**155,632**	150,909
Long-term assets and other deferred debits		
Property, plant and equipment	**1,373,511**	1,278,132
Less accumulated depreciation	**402,647**	381,493
Property, plant and equipment, net	**970,864**	896,639
Goodwill	**176,560**	176,560
Recoverable ERC	**72,453**	171,558
Other regulatory assets	**29,543**	16,394
Recoverable retiree welfare benefit costs	**970**	1,088
Recoverable regulatory infrastructure program costs	**–**	273
Other	**7,198**	7,913
Total long-term assets and other deferred debits	**1,257,588**	1,270,425
Total assets	**$1,413,220**	$1,421,334
Current liabilities		
Due to affiliates	**$73,242**	$101,492
Accrued environmental remediation liabilities	**25,600**	24,679
Accrued taxes	**20,732**	17,891
Customer deposits and credit balances	**14,845**	14,357
Accrued natural gas costs	**13,497**	15,058
Derivative instruments	**13,243**	-
Accounts payable – trade	**11,471**	9,693
Other regulatory liabilities	**7,452**	1,994
Other	**6,873**	6,462
Total current liabilities	**186,955**	191,626
Long-term liabilities and other deferred credits		
Long-term debt	**406,043**	377,780
Accumulated deferred income taxes	**189,983**	181,750
Accrued environmental remediation liabilities	**102,769**	131,428
Accumulated removal costs	**84,460**	74,454
Accrued pension and retiree welfare benefits	**42,730**	27,141
Other regulatory liabilities	**6,896**	2,336
Derivative instruments	**3,070**	-
Regulatory income tax liability	**1,165**	1,448
Unamortized investment tax credits	**421**	611
Other	**16,578**	18,320
Total long-term liabilities and other deferred credits	**854,115**	815,268
Total liabilities and other deferred credits	**1,041,070**	1,006,894
Commitments and contingencies (see Note 8)		
Shareholder's equity		
Common stock, no par value; 15,550,990 and 19,507,924 shares authorized, issued and outstanding at December 31, 2014 and 2013, respectively	**–**	–
Additional paid-in capital	**136,168**	170,830
Retained earnings	**262,369**	260,837
Accumulated other comprehensive loss	**(26,387)**	(17,227)
Total equity	**372,150**	414,440
Total liabilities and equity	**$1,413,220**	$1,421,334

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Income

In thousands	Years ended December 31, 2014	2013
Operating revenues	**$494,252**	$482,226
Operating expenses		
Cost of goods sold	**282,554**	277,938
Operation and maintenance	**86,101**	87,923
Depreciation and amortization	**37,527**	34,788
Taxes other than income taxes	**5,634**	6,426
Total operating expenses	**411,816**	407,075
Operating income	**82,436**	75,151
Other income	**1,423**	823
Interest expense, net	**(11,500)**	(12,498)
Income before income taxes	**72,359**	63,476
Income tax expense	**36,787**	24,922
Net income	**$35,572**	$38,554

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Comprehensive Income

In thousands	Years ended December 31, 2014	2013
Net income	**$35,572**	$38,554
Other comprehensive income (loss), net of tax		
Actuarial (loss) gain arising during the period (net of income tax benefit/expense of $6,312 and $(5,040), respectively)	**(9,160)**	7,250
Comprehensive income	**$26,412**	$45,804

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Equity

In thousands	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance as of December 31, 2012	18,188	$159,266	$251,863	$(24,477)	$386,652
Net income	–	–	38,554	–	38,554
Other comprehensive income	–	–	–	7,250	7,250
Dividends	–	–	(29,580)	–	(29,580)
Conversion of affiliate debt to equity	1,320	11,564	–	–	11,564
Balance as of December 31, 2013	19,508	$170,830	$260,837	$(17,227)	$414,440
Net income	–	–	**35,572**	–	**35,572**
Other comprehensive loss	–	–	–	**(9,160)**	**(9,160)**
Dividends	–	–	**(34,040)**	–	**(34,040)**
Conversion of equity to affiliate debt	**(3,957)**	**(34,662)**	–	–	**(34,662)**
Balance as of December 31, 2014	**15,551**	**$136,168**	**$262,369**	**$(26,387)**	**$372,150**

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Cash Flows

In thousands	Years ended December 31, 2014	2013
Cash flows from operating activities		
Net income	**$35,572**	$38,554
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	**37,527**	34,788
Change in derivative instrument assets and liabilities	**17,645**	(8,737)
Deferred income taxes	**13,694**	11,031
Changes in certain assets and liabilities		
Proceeds from insurance settlement	**45,000**	-
Environmental remediation costs	**26,566**	(400)
Other regulatory assets and liabilities	**15,998**	11,044
Pension and retiree welfare benefits	**6,547**	(4,629)
Accrued taxes	**2,836**	(19)
Accounts payable – trade	**1,778**	(806)
Inventories	**1,178**	(12,618)
Accrued natural gas costs	**(2,322)**	12,309
Receivables	**(23,547)**	(16,614)
Other, net	**(11,356)**	18,219
Net cash flow provided by operating activities	**167,116**	82,122
Cash flows from investing activities		
Expenditures for property, plant and equipment	**(98,711)**	(69,275)
Net cash flow used in investing activities	**(98,711)**	(69,275)
Cash flows from financing activities		
Net borrowings from AGL Resources	**12**	6,418
Recapitalization	**(34,662)**	11,564
Dividends paid	**(34,040)**	(29,580)
Principal payments under capital lease obligations	**(26)**	(991)
Net cash flow used in financing activities	**(68,716)**	(12,589)
Net (decrease) increase in cash and cash equivalents	**(311)**	258
Cash and cash equivalents at beginning of period	**311**	53
Cash and cash equivalents at end of period	**$-**	$311
Cash paid during the period for		
Interest	**$10,472**	$10,846
Income taxes	**$7,294**	$2,767

See Notes to Financial Statements.

Notes to Financial Statements

Note 1 – Organization and Basis of Presentation

General

Pivotal Utility is a wholly owned subsidiary of AGL Resources that engages in the sale and distribution of natural gas to approximately 392 thousand customers in three states through its utility operating divisions that 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 Pivotal Utility and its utility operating divisions.

Basis of Presentation

Our financial statements as of and for the period ended December 31, 2014 are prepared in accordance with GAAP and include accounts of our utility operating divisions. Certain amounts from prior periods have been reclassified and revised to conform to the current period presentation. These 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 trade receivables consist primarily 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 our remaining receivables, if 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 receivable balance to the amount we reasonably expect to collect. 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, customer deposits and general economic conditions. Customers' accounts are written off once we deem them to be uncollectible.

Inventories

Our natural gas inventories are carried at cost on a weighted average cost of gas basis.

Regulated Operations

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 that would otherwise be charged to expense in the current period are capitalized as regulatory assets when it is probable that such costs 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 estimated expenditures that have not yet been incurred. Generally, regulatory assets and regulatory liabilities are amortized into our Statements of Income over the period authorized by the regulatory commissions.

Fair Value Measurements

We have financial and nonfinancial assets and liabilities subject to fair value measurement. The financial assets and liabilities measured and carried at fair value include cash and cash equivalents, and derivative assets and liabilities. The carrying values of receivables, accounts payable, other current assets and liabilities and accrued interest approximate fair value. See Note 4 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 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 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 certain 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. Instruments in this category include shorter tenor exchange-traded and non-exchange-traded derivatives such as over-the-counter forwards and options and certain retirement plan assets.

Level 3 Pricing inputs include significant unobservable inputs that may be used with internally developed methodologies to determine management's best estimate of fair value from the perspective of market participants. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. Our Level 3 assets, liabilities and any applicable transfers are primarily related to our pension and welfare benefit plan assets as described in Note 4 and Note 6. 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 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 and gains and losses within the same financial statement category as the hedged item, rather than by the nature of the instrument.

Fair Value Hierarchy Derivative assets and liabilities are classified in their entirety into previously described fair value hierarchy levels 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 measurement of fair value 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 and seek guarantees or collateral backup in the form of cash or letters of credit. See Note 4 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.

In accordance with a directive from the New Jersey BPU, Elizabethtown Gas enters into derivative instruments to hedge the impact of market fluctuations in natural gas prices. In accordance with regulatory requirements, any realized gains and losses related to these derivatives are reflected in natural gas costs and ultimately included in billings to customers. As previously noted, such derivative transactions are reported at fair value each reporting period in our Statements of Financial Position. Hedge accounting is not elected and, in accordance with accounting guidance pertaining to rate-regulated entities, unrealized changes in the fair values 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.

Property, Plant and Equipment

A summary of our PP&E by classification as of December 31, 2014 and 2013 is provided in the following table.

In thousands	2014	2013
Transportation and distribution	$1,208,503	$1,113,796
Storage facilities	7,417	7,261
Other	107,234	85,786
Construction work in progress	50,357	71,289
Total PP&E, gross	1,373,511	1,278,132
Less accumulated depreciation	402,647	381,493
Total PP&E, net	$970,864	$896,639

Our 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; and
- AFUDC.

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 rates (approved by the state regulatory agencies) to the investment in depreciable property. More information on our rates is provided in the following table.

	2014	2013
Elizabethtown Gas	2.5%	2.4%
Elkton Gas	2.8%	2.4%
Florida City Gas	3.9%	3.8%

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 PP&E construction projects in our Statements of Financial Position and as AFUDC in our Statements of Income. The New Jersey BPU has authorized a variable rate based on the FERC method of accounting for AFUDC. The AFUDC rate was 0.44% as of December 31, 2014 and 0.41% as of December 31, 2013. We recorded $1,598 thousand of AFUDC for the year ended December 31, 2014 and $670 thousand for the year ended December 31, 2013.

Goodwill

Our goodwill is not amortized, but is subject to an annual impairment test, which we perform 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 years ended December 31, 2014 and 2013 indicated that our estimated fair value was substantially in excess of the carrying value and that we are not at risk of failing step one of the impairment test.

Accounting for Retirement Benefit Plans

We recognize the funded status of our plans as an asset or a liability on our Statements of Financial Position, measuring the plans' assets and obligations that determine our funded status as of the end of the fiscal year. We generally 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. The assets of our retirement plans are measured 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.

In determining net periodic benefit cost, the expected return on plan assets component is determined by applying our expected return on assets to a calculated asset value, rather than to the fair value of the assets as of the end of the previous fiscal year. For more information, see Note 6. In addition, we have elected to amortize gains and losses caused by actual experience that differs from our assumptions into subsequent periods. The amount to be amortized is the amount of the cumulative gain or loss as of the beginning of the year, excluding those gains and losses not yet reflected in the calculated value, that exceeds 10 percent of the greater of the benefit obligation or the calculated asset value; and the amortization period is the average remaining service period of active employees.

Our employees participate in the AGL Resources' Retirement Plan (AGL Plan) and the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Welfare Plan). We account for our participation in AGL Resources' retirement benefit plans under the multiple-employer method of accounting. We are responsible for our share of plan costs and obligations and are entitled to our share of plan assets.

Taxes

Income Taxes Pivotal Utility does not file its own federal or state income tax returns; instead, its pre-tax income is included in the AGL Resources Inc. consolidated U.S. federal tax return and various state income tax returns. Income taxes are allocated to us pursuant to the AGL Resources Inc. Tax Allocation Agreement and are based upon the tax liability that would have been incurred on a separate company basis.

The reporting of our assets and liabilities for financial accounting purposes differs from the reporting for income tax purposes. The principal difference between net income and taxable income relates 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 temporary differences as deferred income tax assets or liabilities in our Statements of Financial Position.

We have current and deferred income taxes in our 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 is generally 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 Statements of Financial Position. Investment tax credits that were previously deducted for income tax purposes for Elizabethtown Gas, Florida City Gas and Elkton Gas have been deferred for financial accounting purposes. These investment tax credits are being amortized over the estimated life of the related properties as credits to income tax expense 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 differences in those items as deferred income tax assets or liabilities in our Statements of Financial Position. We measure these deferred income tax assets and liabilities using enacted income tax rates.

Regulatory Income Tax Liability 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 amortize 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 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 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.

Uncertain Tax Positions We recognize accrued interest related to uncertain tax positions in interest expense and penalties in operating expenses in our Statements of Income.

Tax Collections We do not collect income taxes from our customers on behalf of governmental authorities, but do collect and remit various other taxes on behalf of various governmental authorities. We record these amounts in our 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 expenses and record the corresponding customer charges as operating revenues.

Revenues

We record revenues when goods or 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 that allow the opportunity to recover certain costs based on 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, unbilled revenues are recognized for estimated deliveries of gas not yet billed to these customers, from the last bill date to the end of the accounting period.

The tariff for Elizabethtown Gas contains WNAs that partially mitigate the impact of unusually cold or warm weather on customer billings and operating margin. The WNAs have the effect of reducing customer bills when winter weather is colder-than-normal and increasing customer bills when weather is warmer-than-normal. In addition, the tariff for Elkton Gas contains 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 for rate-regulated entities, we defer or accrue (that is, include as an asset or liability in our Statements of Financial Position and exclude from or include in our Statements of Income, respectively) the difference between the actual cost of goods sold 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 and accrued natural gas costs are reflected as regulatory liabilities. For more information, see Note 3.

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 Note 8.

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. 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 environmental liability accruals, uncollectible accounts and other allowance for contingent losses, goodwill, retirement plan benefit 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

In May 2014, the FASB issued an update to authoritative guidance related to revenue from contracts with customers. The update replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. The guidance will be effective for us beginning January 1, 2017. Early adoption is not permitted. The new guidance must be applied retrospectively to each prior period presented or via a cumulative effect upon the date of initial application. We have not yet determined the impact of this new guidance, nor have we selected a transition method.

Note 3 – Regulated Operations

Our regulatory assets and liabilities reflected within our Statements of Financial Position as of December 31 are summarized in the following table.

	As of December 31,	
In thousands	**2014**	**2013**
Regulatory assets		
Deferred natural gas costs	$1,402	$641
Recoverable weather normalization	47	7,348
Other	515	12,543
Total regulatory assets – current	1,964	20,532
Elizabethtown Gas recoverable ERC	72,453	171,558
Unamortized loss on reacquired debt	6,079	6,659
Recoverable greenhouse gas costs	3,380	4,426
Recoverable retiree welfare benefit costs	970	1,088
Recoverable regulatory infrastructure program costs	-	273
Other	20,084	5,309
Total regulatory assets – long-term	102,966	189,313
Total regulatory assets	$104,930	$209,845
Regulatory liabilities		
Accrued natural gas costs	$13,497	$15,058
Other	7,452	1,994
Total regulatory liabilities – current	20,949	17,052
Accumulated removal costs	84,460	74,454
Regulatory income tax liability	1,165	1,448
Unamortized investment tax credits	421	611
Other	6,896	2,336
Total regulatory liabilities – long-term	92,942	78,849
Total regulatory liabilities	$113,891	$95,901

Base rates are designed to provide the opportunity to recover 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 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. 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 or proceeding. 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 used to periodically set base rates.

The majority of our regulatory assets and liabilities listed in the preceding table are included in base rates except for the recoverable regulatory infrastructure program costs, Elizabethtown Gas recoverable ERC and 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.

Unrecognized Ratemaking Amounts The following table illustrates our authorized ratemaking amounts that are not recognized in our Statements of Financial Position. These amounts are primarily composed of an allowed equity rate of return on assets associated with certain of our regulatory infrastructure programs and will be recognized as revenues in our financial statements in the periods they are collected in rates from our customers.

In thousands	**Elizabethtown Gas**
December 31, 2014	$2,159
December 31, 2013	1,445

Environmental Remediation Costs We are subject to federal, state and local laws and regulations governing environmental quality and pollution control that require us to remove or remedy the effect on the environment of the disposal or release of specified substances at our current and former operating sites, substantially all of which is related to our manufactured gas plant sites. The remediation costs are generally recoverable from customers through rate mechanisms that have been approved by regulators. Accordingly, both costs incurred to remediate the former MGP sites, plus the future estimated cost recorded as liabilities, net of amounts previously collected, are recognized as a regulatory asset until recovered from customers.

Our ERC liabilities are estimates of future remediation costs for investigation and cleanup of our current and 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. These estimates contain various assumptions, which we refine 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, legal expenses or other costs for which we may be held liable but for which we cannot reasonably estimate an amount.

Our accrued ERC costs are not regulatory liabilities; however, they are deferred as a corresponding regulatory asset until the costs are recovered from customers. These recoverable ERC assets are a combination of accrued ERC liabilities and recoverable cash expenditures for investigation and cleanup costs. We primarily recover these deferred costs through rate riders that authorize dollar-for-dollar recovery.

The following table provides more information on the estimated costs related to remediation of our current and former operating sites.

Dollars in thousands	**Number of sites**	**Probabilistic model cost estimates**(1)	**Engineering estimates**	**Amount recorded**	**Expected costs over next 12 months**	**Cost recovery period**
New Jersey	6	$105,510 - $177,401	$13,791	$117,898	$16,400	7 years (2)
North Carolina (3)	1	n/a	10,484	10,471	9,200	No recovery
Total	7	$105,510 - $177,401	$24,275	$128,369	$25,600	

(1) The year-end ERC cost estimates were completed as of November 30, 2014. The liability recorded reflects a reduction of these cost estimates for expenses incurred during December.
(2) Includes recovery of carrying costs on unrecovered expenditures.
(3) We have no regulatory recovery mechanism for the site in North Carolina. Therefore, there is no amount included within our regulatory assets and changes in estimated costs are recognized in income in the period of change.

In July 2014, we reached a $77 million insurance settlement for environmental claims relating to potential contamination at our MGP sites. The terms of the settlement required the $77 million to be paid in two installments. We received $45 million in the third quarter of 2014 and this payment was primarily recorded as a reduction to our recoverable ERC regulatory asset. The remaining $32 million is due in the third quarter of 2015 and is recorded as an increase in other receivables and a further reduction to our recoverable ERC regulatory asset on our Statements of Financial Position. We will file for approval with the New Jersey BPU to utilize the insurance proceeds related to the New Jersey sites to reduce the ERC expenditures that otherwise would have been recovered from our customers in future periods. As such, the settlement, once approved, is expected to reduce our recoverable ERC regulatory asset and have a favorable impact on the rates for our customers. The remaining decrease in recoverable ERC on our Statements of Financial Position is primarily due to remediation work completed during 2014 and an adjustment to the remediation cost estimates.

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 reclassified them from accumulated depreciation to the accumulated removal cost regulatory liability in our Statements of Financial Position. In the rate setting process, the liability for these accumulated removal costs is 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 the 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 that are approved by the New Jersey BPU. In August 2013, the New Jersey BPU approved the recovery of investments under this program through a permanent adjustment to base rates.

Additionally, in August 2013, we received approval from the New Jersey BPU for an extension of the accelerated infrastructure replacement program, which allows for infrastructure investment of $115 million over four years, effective as of September 1, 2013. Carrying charges on the additional capital expenditures will be deferred at a weighted average cost for capital of 6.65%, of which 4.27% will be within unrecognized ratemaking amounts and will be recognized in future periods when recovered through rates. Unlike the previous program, there will be no adjustment to base rates for the investments under the extended program until Elizabethtown Gas files its next rate case. We agreed to file a general rate case by September 2016.

In September 2013, Elizabethtown Gas filed for a Natural Gas Distribution Utility Reinforcement Effort (ENDURE), a program designed to improve our distribution system's resiliency against coastal storms and floods. Under the proposed plan, Elizabethtown Gas is investing $15 million in infrastructure and related facilities and communication planning over a one year period that began in January 2014. In July 2014, the New Jersey BPU approved a modified ENDURE plan that allows for Elizabethtown Gas to increase its base rates effective November 1, 2015 for investments made under the program.

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

Note 4 – Fair Value Measurements

The methods used to determine the fair values of our assets and liabilities are described within Note 2.

Retirement benefit Plan assets

As further described in Note 2, our employees participate in AGL Resources' retirement benefit plans. The following tables reflect our pro rata share of the assets of the AGL Plan and the AGL Welfare Plan.

The target pension asset allocations are 70% to 95% equity, 5% to 20% fixed income and up to 10% cash for both periods. The plans' investment policies provide for some variation in these targets. The actual asset allocations of our pro rata share of the AGL Plan are presented in the following table by Level within the fair value hierarchy.

	December 31, 2014				
In thousands	Level 1	Level 2	Level 3	Total	% of total
Cash	$360	$90	$-	$450	1%
Equity securities:					
U.S. large cap (1)	$8,556	$18,282	$-	$26,838	33%
U.S. small cap (1)	6,844	2,161	-	9,005	11
International companies (2)	-	11,077	-	11,077	13
Emerging markets (3)	-	2,792	-	2,792	3
Total equity securities	$15,400	$34,312	$-	$49,712	60%
Fixed income securities:					
Corporate bonds (4)	$-	$20,983	$-	$20,983	25%
Other (or gov't/muni bonds)	-	2,972	-	2,972	4
Total fixed income securities	$-	$23,955	$-	$23,955	29%
Other types of investments:					
Global hedged equity (5)	$-	$-	$2,612	$2,612	3%
Absolute return (6)	-	-	3,782	3,782	5
Private capital (7)	-	-	1,801	1,801	2
Total other investments	$-	$-	$8,195	$8,195	10%
Total assets at fair value	$15,760	$58,357	$8,195	$82,312	100%
% of fair value hierarchy	19%	71%	10%	100%	

	December 31, 2013				
In thousands	Level 1	Level 2	Level 3	Total	% of total
Cash	$278	$90	$-	$368	-%
Equity securities:					
U.S. large cap (1)	$8,614	$18,988	$-	$27,602	33%
U.S. small cap (1)	6,669	2,686	-	9,355	11
International companies (2)	-	12,875	-	12,875	15
Emerging markets (3)	-	3,149	-	3,149	4
Total equity securities	$15,283	$37,698	$-	$52,981	63%
Fixed income securities:					
Corporate bonds (4)	$-	$19,173	$-	$19,173	23%
Other (or gov't/muni bonds)	-	2,686	-	2,686	3
Total fixed income securities	$-	$21,859	$-	$21,859	26%
Other types of investments:					
Global hedged equity (5)	$-	$-	$3,983	$3,983	5%
Absolute return (6)	-	-	3,612	3,612	4
Private capital (7)	-	-	2,038	2,038	2
Total other investments	$-	$-	$9,633	$9,633	11%
Total assets at fair value	$15,561	$59,647	$9,633	$84,841	100%
% of fair value hierarchy	18%	71%	11%	100%	

The asset allocations of our pro rata share of the AGL Welfare Plan are presented in the following table by Level within the fair value hierarchy.

	December 31, 2014				
In thousands	Level 1	Level 2	Level 3	Total	% of total
Cash	$90	$-	$-	$90	1%
Equity securities:					
U.S. large cap (1)	$-	$4,593	$-	$4,593	57%
International companies (2)	-	1,441	-	1,441	18
Total equity securities	$-	$6,034	$-	$6,034	75%
Fixed income securities:					
Corporate bonds (4)	$-	$1,981	$-	$1,981	24%
Total fixed income securities	$-	$1,981	$-	$1,981	24%
Total assets at fair value	$90	$8,015	$-	$8,105	100%
% of fair value hierarchy	1%	99%	-%	100%	

	December 31, 2013				
In thousands	Level 1	Level 2	Level 3	Total	% of total
Cash	$93	$-	$-	$93	1%
Equity securities:					
U.S. large cap (1)	$-	$4,816	$-	$4,816	62%
International companies (2)	-	1,297	-	1,297	17
Total equity securities	$-	$6,113	$-	$6,113	79%
Fixed income securities:					
Corporate bonds (4)	$-	$1,575	$-	$1,575	20%
Total fixed income securities	$-	$1,575	$-	$1,575	20%
Total assets at fair value	$93	$7,688	$-	$7,781	100%
% of fair value hierarchy	1%	99%	-%	100%	

(1) Includes funds that invest primarily in U.S. common stocks.
(2) Includes funds that invest primarily in foreign equity and equity-related securities.
(3) Includes funds that invest primarily in common stocks of emerging markets.
(4) Includes funds that invest primarily in investment grade debt and fixed income securities.
(5) Includes funds that invest in limited / general partnerships, managed accounts, and other investment entities issued by non-traditional firms or "hedge funds."
(6) Includes funds that invest primarily in investment vehicles and commodity pools as a "fund of funds."
(7) 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 our pension plan assets in Level 3 of the fair value hierarchy.

In thousands	Global hedged equity	Absolute return	Private capital	Total
Balance at December 31, 2012	$3,520	$3,334	$2,130	$8,984
Actual return on plan assets	463	278	370	1,111
Sales	-	-	(462)	(462)
Balance at December 31, 2013	$3,983	$3,612	$2,038	$9,633
Actual return on plan assets	90	170	180	440
Sales	(1,461)	-	(417)	(1,878)
Ending balance at December 31, 2014	$2,612	$3,782	$1,801	$8,195

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 Statements of Financial Position as December 31.

	Recurring fair values Natural gas derivative instruments			
	December 31, 2014		December 31, 2013	
In thousands	Assets	Liabilities	Assets	Liabilities
Quoted prices in active markets (Level 1)	$-	$(16,313)	$1,332	$-

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

Debt

Our long-term debt is recorded at amortized costs. The following table presents the carrying amount and fair value of our long-term debt as of December 31.

In thousands	2014	2013
Long-term debt carrying amount	$406,043	$377,780
Long-term debt fair value	406,043	377,780

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 our risk management activities and enforcing policies. Our use of derivative instruments, including physical transactions, is limited to predefined risk tolerances associated with pre-existing or anticipated physical natural gas sales and purchases and system use and storage. We use derivative instruments and energy-related contracts to manage natural gas price risks when deemed appropriate.

The fair value of natural gas derivative instruments used to manage our exposure to 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.

Quantitative Disclosures Related to Derivative Instruments

Elizabethtown Gas 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, 2014 and 2013, we had net long natural gas contracts outstanding in the following quantities:

Natural gas contracts	**December 31,**	
In Bcf	**2014**	**2013**
Hedge designation:		
Not designated	18	18
Total volumes	18	18
Hedge position:		
Long	18	18
Net long position	18	18

All of the contracts outstanding as of December 31, 2014 have durations of two years or less.

Derivative Instruments on the Statements of Financial Position

In accordance with regulatory requirements, gains and losses on derivative instruments used at Elizabethtown Gas to hedge natural gas purchases for customer use are reflected in accrued natural gas costs within our Statements of Financial Position until billed to customers. A realized gain of $2,139 thousand and a realized loss of $5,678 thousand were recorded but deferred for regulatory purposes as an asset or liability during 2014 and 2013, respectively.

The following table presents the fair values and Statements of Financial Position classifications of our derivative instruments as of December 31:

		2014		2013	
In thousands	**Classification**	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Not designated as cash flow hedges					
Natural gas contracts	Current	$-	$(13,243)	$1,276	$(3)
Natural gas contracts	Long-term	-	(3,070)	107	(48)
Total		-	(16,313)	1,383	(51)
Gross amount of recognized assets and liabilities		-	(16,313)	1,383	(51)
Gross amounts offset in our Statements of Financial Position		-	-	(51)	51
Net amounts of assets and liabilities presented in our Statements of Financial Position		$-	$(16,313)	$1,332	$-

Note 6 - Employee Benefit Plans

Oversight of Plans

As further described in Note 2, our employees participate in AGL Resources' retirement benefit plans. The following disclosures reflect our balances and activity in the AGL Plan and the AGL Welfare Plan under the multiple-employer method of accounting.

Investment Policies, Strategies and Oversight of Plans

The Retirement Plan Investment Committee, which is appointed by AGL Resources' Board of Directors, is responsible for overseeing the investments of AGL Resources' defined benefit retirement plans. Further, AGL Resources has an Investment Policy for its pension and welfare 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.

In developing AGL Resources' allocation policy for the pension and welfare plan assets, AGL Resources examined projections of asset returns and volatility over a long-term horizon. In connection with this analysis, they evaluated the risk and return tradeoffs of alternative asset classes and asset mixes given long-term historical relationships as well as prospective capital market returns. They also conducted an asset-liability study to match projected asset growth with projected liability growth to determine whether there is sufficient liquidity for projected benefit payments. AGL Resources developed the asset mix guidelines by incorporating the results of these analyses with an assessment of their risk posture, and taking into account industry practices. They periodically evaluate their investment strategy to ensure that plan assets are sufficient to meet the benefit obligations of the plans. As part of the ongoing evaluation, AGL Resources may make changes to their targeted asset allocations and investment strategy.

AGL Resources' investment strategy is designed to meet the following objectives:

- Generate investment returns that, in combination with funding contributions, provide adequate funding to meet all current and future benefit obligations of the plans.
- Provide investment results that meet or exceed the assumed long-term rate of return, while maintaining the funded status of the plans at acceptable levels.
- Improve funded status over time.
- Decrease contribution and expense volatility as funded status improves.

To achieve these investment objectives, AGL Resources' investment strategy is divided into two primary portfolios of return seeking and liability hedging assets. Return seeking assets are intended to provide investment returns in excess of liability growth and reduce deficits in the funded status of the plans, while liability hedging assets are intended to reflect the sensitivity of the liabilities to changes in discount rates.

See Note 4 for a detailed listing of the investment types, amounts and percentages allocated to the plans. AGL Resources will continue to diversify retirement plan investments to minimize the risk of large losses in a single asset class. There is no concentration of assets in a single entity, industry, country, commodity or class of investment fund. The permissible investments of AGL Resources' Investment Policy include domestic and international equities (including convertible securities and mutual funds), domestic and international fixed income securities (corporate and government obligations), cash and cash equivalents and other investments.

Equity market performance and corporate bond rates have a significant effect on our reported funded status. Changes in the projected benefit obligation 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 a calculated value that is used to determine the AGL Plan's expected return on the plan assets component of net annual pension cost. Gains and losses on plan assets are spread through the MRVPA based on the five-year smoothing weighted average methodology.

Pension and Welfare Benefits

We participate in the AGL Plan, which is a tax-qualified defined benefit retirement plan covering 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. Substantially all of our employees who were employed on or before December 31, 2005 participate in this plan. 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. The AGL Plan provides pension benefits to these participants 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 our plan were frozen. As of January 1, 2006, former participants in that plan became eligible to participate in the AGL Plan.

We also participate in the AGL Welfare Plan, which is a defined benefit retiree health care plan. Eligibility for these benefits is based on date of hire, age and years of service. The AGL Welfare Plan provides health care and life insurance benefits to our eligible retired employees and includes a limit on the employer share of cost for employees hired after 1982. Effective March 18, 2014, the AGL Welfare Plan was closed to new employees hired on or after that date.

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 our Medicare-eligible population is provided through an Employer Group Waiver Plan.

Assumptions

We considered a variety of factors in determining and selecting the assumptions used to determine the discount rates at December 31. We based our discount rates separately for each plan on an above-mean yield curve provided by actuaries that is derived from a portfolio of high quality (rated AA or better) corporate bonds with a yield higher than the regression mean curve and the equivalent annuity cash flows.

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

	Pension plan		**Welfare plan**	
Dollars in thousands	**2014**	**2013**	**2014**	**2013**
Service cost	$2,004	$2,263	$153	$171
Interest cost	6,550	5,645	733	711
Expected return on plan assets	(7,469)	(6,855)	(1,224)	(1,007)
Net amortization of prior service cost	(1,132)	(1,144)	56	(521)
Recognized actuarial loss	3,048	4,592	265	604
Net periodic benefit cost	$3,001	$4,501	$(17)	$(42)
Assumptions used to determine benefit costs				
Discount rate (1)	5.0%	4.2%	4.7%	4.0%
Expected return on plan assets (1)	7.8%	7.8%	7.8%	7.8%
Rate of compensation increase (1)	3.7%	3.7%	3.7%	3.8%

(1) Rates are presented on a weighted average basis.

The following tables present details about our pension and welfare plans.

Dollars in thousands	Pension plan 2014	Pension plan 2013	Welfare plan 2014	Welfare plan 2013
Change in plan assets				
Fair value of plan assets, January 1,	$84,006	$66,710	$15,803	$12,996
Actual return on plan assets	5,300	24,534	970	2,807
Employer contributions	-	-	880	686
Benefits paid	(7,709)	(7,239)	(880)	(686)
Fair value of plan assets, December 31,	$81,597	$84,005	$16,773	$15,803
Change in benefit obligation				
Benefit obligation, January 1,	$104,745	$95,735	$17,412	$18,379
Service cost	2,004	2,263	153	171
Interest cost	6,550	5,645	733	711
Actuarial loss (gain)	13,063	8,341	235	(1,163)
Benefits paid	(7,709)	(7,239)	(879)	(686)
Benefit obligation, December 31,	$118,653	$104,745	$17,654	$17,412
Funded status at end of year	$(37,056)	$(20,740)	$(881)	$(1,609)
Amounts recognized in our Statements of Financial Position consist of				
Long-term liability	(37,056)	(20,740)	(881)	(1,609)
Accumulated benefit obligation (1)	$105,560	$92,235	$17,654	$17,412
Assumptions used to determine benefit obligations				
Discount rate	4.2%	5.0%	4.0%	4.7%
Rate of compensation increase	3.7%	3.7%	3.7%	3.7%

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

A portion of the net benefit cost or credit related to these plans has been capitalized as a cost of constructing gas distribution facilities and the remainder is included in operation and maintenance expense.

Assumptions used to determine the health care benefit cost for the welfare plan were as follows:

	2014	2013
Health care cost trend rate assumed for next year	8.1%	8.4%
Ultimate rate to which the cost trend rate is assumed to decline	4.5%	4.5%
Year that reaches ultimate trend rate	2030	2030

Assumed health care cost trend rates can have a significant effect on the amounts reported for our health care plan. A one percentage point change in the assumed health care cost trend rates for the welfare plan would have no effect on the benefit obligation and there was no effect on our service and interest cost.

As a result of a cap on expected cost for the welfare plan, a one percentage point increase or decrease in the assumed health care trend does not materially affect the plan's periodic benefit cost or accumulated benefit obligation.

The following table presents the amounts not yet reflected in net periodic benefit cost and included in accumulated OCI as of December:

In thousands	2014 Pension plan	2014 Welfare plan	2013 Pension plan	2013 Welfare plan
Prior service (credit) cost	$(4,627)	$58	$(5,818)	$114
Net loss	41,517	6,179	27,987	5,955
Total	$36,890	$6,237	$22,169	$6,069

The 2015 estimated amortization out of accumulated OCI for these plans is set forth in the following table.

In thousands	Pension plan	Welfare plan
Amortization of prior service (credit) cost	$(1,131)	$56
Amortization of net loss	4,145	390

The following table presents the gross benefit payments expected for the years ended December 31, 2015 through 2024 for our pension and welfare plans. There will be benefit payments under these plans beyond 2024.

In thousands	Pension plan	Welfare plan
2015	$7,616	$905
2016	7,843	961
2017	8,072	1,016
2018	8,351	1,080
2019	8,591	1,132
2020-2024	47,189	5,934

Contributions

Our employees do not contribute to the pension and welfare plan. The pension plan is funded 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 2014 and 2013, we had no required contributions to the AGL Plan.

Employee Savings Plan Benefits

We sponsor or participate in defined contribution retirement 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 $1,416 thousand in 2014 and $1,225 thousand in 2013.

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 Statements of Financial Position.

		December 31, 2014		December 31, 2013	
Dollars in thousands	Year(s) due	Weighted average interest rate	Outstanding	Weighted average interest rate	Outstanding
Gas facility revenue bonds	2022-2033	0.9%	$200,100	1.0%	$200,100
Affiliate promissory note	2034	4.3	205,943	4.9	177,680
Total long-term debt		2.6%	$406,043	2.9%	$377,780

Long-term Debt

Our long-term debt at December 31, 2014 and 2013 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 and Brevard County, Florida under which a series of gas facility revenue bonds has been issued. These gas facility revenue bonds are issued by state agencies or counties to investors, and proceeds from the issuances are then loaned to us.

During 2013, we refinanced our $200 million outstanding tax-exempt gas facility revenue bonds, which involved a combination of the issuance of $60 million of refunding bonds to, and the purchase of $140 million of existing bonds by, a syndicate of banks. We had no cash receipts or payments in connection with the refinancing. The letters of credit providing credit support for the outstanding revenue bonds along with other related agreements were terminated as a result of the refinancing.

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 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 2014, $34,662 thousand was converted from equity to the Affiliate Promissory Note to maintain the target capitalization ratio. 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, 2014, the interest rate on this note was 4.3%. 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 under our obligations and other commitments as of December 31, 2014.

In thousands	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020 & Thereafter**
Recorded contractual obligations:							
Long-term debt	$406,043	$-	$-	$-	$-	$-	$406,043
Environmental remediation liabilities (1)	128,369	25,600	34,100	13,600	9,600	12,971	32,498
Total	$534,412	$25,600	$34,100	$13,600	$9,600	$12,971	$438,541
Unrecorded contractual obligations and commitments (2):							
Pipeline charges, storage capacity and gas supply (3)	$598,125	$64,350	$58,906	$50,702	$57,287	$43,863	$323,017
Interest charges (4)	23,272	1,720	1,725	1,720	1,720	1,720	14,667
Operating leases (5)	29,158	3,715	4,043	3,963	3,908	3,908	9,621
Asset management agreements (6)	19,125	4,250	4,250	4,250	4,250	2,125	-
Performance surety bonds	1,635	1,505	130	-	-	-	-
Total	$671,315	$75,540	$69,054	$60,635	$67,165	$51,616	$347,305

(1) Includes charges recoverable through rate rider mechanisms.
(2) In accordance with GAAP, these items are not reflected in our Statements of Financial Position.
(3) Includes charges recoverable through a natural gas cost recovery mechanism or alternatively billed to marketers and demand charges associated with Sequent.
(4) Floating rate interest charges are calculated based on the interest rate as of December 31, 2014 and the maturity date of the underlying debt instrument. As of December 31, 2014, we have $660 thousand of accrued interest on our Statements of Financial Position that will be paid in 2015.
(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 GAAP. 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.

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. Management believes that while the resolution of these contingencies, whether individually or in aggregate, could be material to earnings in a particular period, they will not have a material adverse effect on our financial position, results of operations or cash flows.

Note 9 - Income Taxes

Income Tax Expense

The relative split between current and deferred taxes is due to a variety of factors, including true ups of prior year tax returns, and most importantly, the timing of our property-related deductions. Components of income tax expense in our Statements of Income are shown in the following table.

In thousands	2014	2013
Current income taxes		
Federal	**$15,296**	$11,018
State	**7,987**	3,095
Deferred income taxes		
Federal	**13,261**	9,639
State	**433**	1,391
Amortization of investment tax credits	**(190)**	(221)
Total income tax expense on Statements of Income	**$36,787**	$24,922

The reconciliations between the statutory federal income tax rate of 35%, the effective rate and the related amount of income tax expense for the years ended December 31, are presented in the following table.

In thousands	2014	2013
Computed tax expense at statutory rate	**$25,495**	$22,220
State income tax, net of federal income tax benefit	**5,519**	2,947
Amortization of investment tax credits	**(190)**	(221)
Other, net	**5,963**	(24)
Total income tax expense on Statements of Income	**$36,787**	$24,922

Accumulated Deferred Income Tax Assets and Liabilities

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

	As of December 31,	
In thousands	2014	2013
Long-term accumulated deferred income tax liabilities		
Property – accelerated depreciation and other property-related items	**$220,578**	$183,351
Environmental response costs	**-**	9,157
Other	**7,346**	7,356
Total long-term accumulated deferred income tax liabilities	**$227,924**	$199,864
Long-term accumulated deferred income tax assets		
Unfunded pension and retiree welfare benefit obligation	**$18,152**	$11,840
Prepaid lease	**5,414**	-
Environmental response costs	**4,415**	-
Bad debts and insurance reserves	**2,607**	2,081
Pension and other employee benefits	**1,504**	539
Other	**9,640**	6,877
Total long-term accumulated deferred income tax assets	**41,732**	21,337
Net long-term accumulated deferred tax liability	**$186,192**	$178,527

Note 10 - Accumulated Other Comprehensive Loss

Our comprehensive income (loss) includes net income plus OCI, which includes certain changes in pension and welfare benefit plans and reclassifications for amounts included in net income. For more information on our pension and welfare benefit obligations, see Note 6. Our other comprehensive income (loss) amounts are aggregated within our accumulated other comprehensive loss.

The following table provides changes in the components of our accumulated other comprehensive loss balances, net of the related tax effects allocated to each component of OCI.

In thousands (1)	Total
As of December 31, 2012	$(24,477)
Other comprehensive income	7,250
As of December 31, 2013	(17,227)
Other comprehensive loss	(9,160)
As of December 31, 2014	$(26,387)

(1) All amounts are net of income taxes. Amounts in parentheses indicate debits to accumulated other comprehensive loss.

The following table provides details of the reclassifications out of accumulated other comprehensive loss for the year ended December 31, 2014 and the favorable (unfavorable) impact on net income.

In thousands (1)	
Retirement benefit plan amortization of	
Actuarial losses (2)	$(3,347)
Prior service credits (2)	1,109
Total before income tax	(2,238)
Income tax expense	909
Total reclassification for the period	$(1,329)

(1) Amounts in parentheses indicate debits, or reductions, to profit/loss and credits to accumulated other comprehensive loss. Except for retirement benefit plan amounts, the profit/loss impacts are immediate.
(2) Amortization of these accumulated other comprehensive loss components is included in the computation of net periodic benefit cost. See Note 6 for additional details about net periodic benefit cost.

Note 11 - Related Party Transactions

We have agreements with our affiliate, 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.

				Profit sharing / fees payments	
Dollars in thousands	**Expiration date**	**Type of fee structure**	**Annual fee**	**2014**	**2013**
Elizabethtown Gas	March 2019	Tiered	(1)	$18,124	$6,094
Florida City Gas	(2)	Profit-sharing	50%	673	1,128
Total				$18,797	$7,222

(1) In March 2014, the New Jersey BPU authorized the renewal of the asset management agreement between Elizabethtown Gas and Sequent for five years. This renewed agreement began on April 1, 2014 and requires Sequent to pay minimum annual fees of $4,250 thousand to Elizabethtown Gas and includes overall margin sharing levels of 70% to Elizabethtown Gas and 30% to Sequent.
(2) The term of the agreement is evergreen and renews automatically each year unless terminated by either party.

Amounts Due to Affiliates

We had $73,242 thousand and $101,492 thousand in accounts payable at December 31, 2014 and 2013, respectively, 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. See Note 7 for additional discussion of the Affiliate Promissory Note.

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

Note 12 – Subsequent Events

Our management evaluated subsequent events for potential recognition and disclosure through March 31, 2015, the date these financial statements were available to be issued and determined that no significant events have occurred subsequent to period end.