GUNSTER
FLORIDA'S LAW FIRM FOR BUSINESS

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October 26, 2016

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 2017, along with its Consolidated Financial Statements for 2014 and 2015. 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 26th, 2016

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 Southern Gas Company Utility Money Pool (formerly the AGL Resources Inc's 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 Southern Company Gas (formerly known as AGL Resources Inc.) an energy services holding company headquartered in Atlanta, Georgia. On July 1, 2016 Southern Company completed a merger and Southern Company Gas became a wholly-owned, direct subsidiary of Southern Company. 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 – Regulatory Affairs
Southern Company Gas
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, Southern Company) is submitted for the Commission's consideration:

a. Total authorized common stock of Applicant's ultimate corporate parent, Southern Company, is 1.5 billion shares, of which 942 million shares were issued and outstanding at June 30, 2016 and publicly traded on the New York Stock Exchange under the symbol "SO";

b. Southern Company subsidiaries have 108 million shares and 17 million shares of preferred stock authorized and outstanding, respectively and has 65 million shares and 26 million shares of preferred stock authorized and outstanding, respectively. Applicant has no issued or outstanding preferred or preference stock;

c. As of June 30, 2016, Southern Company held 0.4 million 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 Southern Company: none

e. The amount of Applicant's capital stock held by affiliated corporations: 100% held by NUI Corporation, an indirect wholly owned subsidiary of Southern Company.

f. The amount of capital stock held in any fund by Applicant or Southern Company: 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 $227,689,277 of long-term inter-company debt. As of June 30, 2016, Applicant's inter-company debt carries an interest rate of

4.89%, which approximates Southern Company Gas' weighted cost of capital for its outstanding long term debt as of March 31, 2016. Applicant does not anticipate redeeming any of these securities in calendar year 2017 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 Southern Gas Company'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, PSC-14-0677-FOF-GU, and PSC-15-0571-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 Southern Company Gas' cost for borrowing these funds under its commercial paper program. As of June 30, 2016 that interest rate was .658%.

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. Southern Gas Company'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 Southern Company Gas.

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 Southern Gas Company'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 26th day of October, 2016.

Beth Keating

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

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

Financial Statements
For the years ended December 31, 2015 and 2014

Pivotal Utility Holdings, Inc.
For the years ended December 31, 2015 and 2014

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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
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
MGP	Manufactured gas plant
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
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 balance sheets as of December 31, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, 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, 2016, except as to Notes 2 and 13 which are as of March 25, 2016

Pivotal Utility Holdings, Inc.
Balance Sheets - Assets

	As of December 31,	
In thousands	**2015**	**2014**
Current assets		
Receivables		
Natural gas customers	$ 22,864	$ 44,157
Unbilled revenues	17,838	31,292
Other	2,084	34,064
Less allowance for uncollectible accounts	5,550	5,960
Total receivables, net	37,236	103,553
Inventories		
Natural gas stored	21,586	28,719
Other	2,625	2,332
Total inventories	24,211	31,051
Prepaid taxes	15,325	12,435
Regulatory assets	5,938	1,964
Deferred income taxes	3,540	3,791
Other	2,751	2,174
Total current assets	89,001	154,968
Long-term assets and other deferred debits		
Property, plant and equipment	1,469,483	1,373,511
Less accumulated depreciation	405,415	402,647
Property, plant and equipment, net	1,064,068	970,864
Goodwill	176,560	176,560
Recoverable environmental remediation costs	85,922	74,985
Other regulatory assets	24,769	27,011
Recoverable retiree welfare benefit costs	851	970
Other	5,562	6,240
Total long-term assets and other deferred debits	1,357,732	1,256,630
Total assets	$ 1,446,733	$ 1,411,598

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Balance Sheets - Liabilities

In thousands, except share amounts	As of December 31, 2015	2014
Current liabilities		
Due to affiliates	$ 64,545	$ 73,242
Accrued environmental remediation liabilities	23,800	25,600
Accounts payable - trade	15,385	11,471
Customer deposits and credit balances	14,890	14,845
Derivative instruments	12,291	13,243
Other regulatory liabilities	5,106	7,452
Accrued taxes	3,682	20,732
Accrued natural gas costs	2,126	13,497
Other	6,152	6,873
Total current liabilities	147,977	186,955
Long-term liabilities and other deferred credits		
Long-term debt	426,833	404,421
Accumulated deferred income taxes	215,180	189,983
Accrued environmental remediation liabilities	105,892	102,769
Accumulated removal costs	90,178	84,460
Accrued pension and retiree welfare benefits	42,529	42,730
Other regulatory liabilities	2,785	6,896
Derivative instruments	1,567	3,070
Regulatory income tax liability	907	1,165
Unamortized investment tax credits	267	421
Other	14,217	16,578
Total long-term liabilities and other deferred credits	900,355	852,493
Total liabilities and other deferred credits	1,048,332	1,039,448
Commitments and contingencies (see Note 9)		
Equity		
Common stock, no par value; 12,807,111 shares authorized, issued and outstanding	—	—
Additional paid-in capital	151,728	136,168
Retained earnings	272,050	262,369
Accumulated other comprehensive loss	(25,377)	(26,387)
Total equity	398,401	372,150
Total liabilities and equity	$ 1,446,733	$ 1,411,598

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Income

In thousands	Years ended December 31, 2015	2014
Operating revenues	$ 401,128	$ 494,252
Operating expenses		
Cost of goods sold	188,298	282,554
Operation and maintenance	89,671	86,101
Depreciation and amortization	39,295	37,527
Taxes other than income taxes	6,295	5,634
Total operating expenses	323,559	411,816
Operating income	77,569	82,436
Other (expense) income	(489)	1,423
Interest expense, net	(13,140)	(11,500)
Income before income taxes	63,940	72,359
Income tax expense	24,953	36,787
Net income	$ 38,987	$ 35,572

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Comprehensive Income

In thousands	Years ended December 31, 2015	2014
Net income	$ 38,987	$ 35,572
Other comprehensive income (loss), net of tax		
Retirement benefit plans, net of tax		
Actuarial loss arising during the period (net of income tax of $758 and $7,198)	(1,138)	(10,454)
Prior service cost arising during the period (net of income tax of $46 and $24)	67	(35)
Reclassification of actuarial loss to net benefit cost (net of income tax of $1,877 and $1,363)	2,736	1,984
Reclassification of prior service cost to net benefit cost (net of income tax of $452 and $453)	(655)	(655)
Retirement benefit plans, net	1,010	(9,160)
Comprehensive income	$ 39,997	$ 26,412

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Equity

In thousands, except share amounts	Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance as of December 31, 2013	12,807	$ 170,830	$ 260,837	$ (17,227)	$ 414,440
Net income	—	—	35,572	—	35,572
Other comprehensive loss	—	—	—	(9,160)	(9,160)
Dividends paid to AGL Resources	—	—	(34,040)	—	(34,040)
Recapitalization	—	(34,662)	—	—	(34,662)
Balance as of December 31, 2014	12,807	$ 136,168	$ 262,369	$ (26,387)	$ 372,150
Net income	—	—	38,987	—	38,987
Other comprehensive income	—	—	—	1,010	1,010
Dividends paid to AGL Resources	—	—	(29,306)	—	(29,306)
Recapitalization	—	15,560	—	—	15,560
Balance as of December 31, 2015	12,807	$ 151,728	$ 272,050	$ (25,377)	$ 398,401

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Cash Flows

In thousands	Years ended December 31, 2015	2014
Cash flows from operating activities		
Net income	$ 38,987	$ 35,572
Adjustments to reconcile net income to net cash flow provided by operating activities:		
Depreciation and amortization	39,295	37,527
Deferred income taxes	24,478	13,694
Change in derivative instrument assets and liabilities	(2,455)	17,645
Changes in certain assets and liabilities		
Receivables	34,317	(23,547)
Proceeds from insurance settlement	32,000	45,000
Inventories	6,840	1,178
Accounts payable - trade	2,067	(430)
Pension and retiree welfare benefits	863	6,547
Other regulatory assets and liabilities	(4,339)	10,117
Environmental remediation costs	(9,614)	32,619
Accrued natural gas costs	(15,633)	(2,322)
Prepaid miscellaneous taxes	(19,941)	545
Other, net	(2,531)	(8,535)
Net cash flow provided by operating activities	124,334	165,610
Cash flows from investing activities		
Expenditures for property, plant and equipment	(123,637)	(97,205)
Net cash flow used in investing activities	(123,637)	(97,205)
Cash flows from financing activities		
Recapitalization	15,560	(34,662)
Net borrowings from AGL Resources	13,049	12
Dividends paid to AGL Resources	(29,306)	(34,040)
Principal payments under capital lease obligations	—	(26)
Net cash flow used in financing activities	(697)	(68,716)
Net decrease in cash and cash equivalents	—	(311)
Cash and cash equivalents at beginning of period	—	311
Cash and cash equivalents at end of period	$ —	$ —
Cash paid during the period for		
Interest	$ 12,032	$ 10,472
Income taxes	3,662	7,294

See Notes to Financial Statements.

Pivotal Utility Holdings, Inc.
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 396,000 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 three utility operating divisions.

Basis of Presentation

Our financial statements as of and for the year ended December 31, 2015 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 - Proposed Merger with Southern Company

On August 23, 2015, AGL Resources entered into an Agreement and Plan of Merger (Merger Agreement) with The Southern Company (Southern Company) and a new wholly owned subsidiary of Southern Company (Merger Sub), providing for the merger of Merger Sub with and into AGL Resources, with AGL Resources surviving as a wholly owned subsidiary of Southern Company. At the effective time of the merger each share of AGL Resources' common stock, other than certain excluded shares, will convert into the right to receive $66 in cash, without interest, less any applicable withholding taxes. Following the effective time of the merger, we will remain a wholly owned subsidiary of AGL Resources who will become a wholly owned, direct subsidiary of Southern Company.

Completion of the merger remains subject to various closing conditions, including, among others (i) the receipt of required regulatory approvals from the Federal Communications Commission, California Public Utilities Commission, Georgia Public Services Commission, Illinois Commerce Commission, Maryland Public Service Commission and New Jersey Board of Public Utilities, and such approvals having become final orders and (ii) the absence of a judgment, order, decision, injunction, ruling or other finding or agency requirement of a governmental entity prohibiting the closing of the merger. To date, the following closing conditions have been satisfied.

- The California Public Utilities Commission approved the proposed merger on March 22, 2016;
- The Virginia State Corporation Commission approved the proposed merger on February 23, 2016;
- The waiting period under the Hart-Scott-Rodino Act expired on December 4, 2015; and
- At a special meeting of shareholders held on November 19, 2015, the proposed merger was approved by the shareholders of AGL Resources.

AGL Resources and Southern Company have made joint filings seeking regulatory approval of the proposed merger with all of the required state regulatory agencies.

Note 3 - Significant Accounting Policies and Methods of Application

Cash Management Money Pool

We participate in AGL Resources' utility money pool, under which we make short-term borrowings from the money pool and contribute surplus funds to the money pool. Our borrowings from the money pool are recorded as due to affiliates in our Balance Sheets and intercompany interest expense is recorded in our Statements of Income for these borrowings.

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 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 agencies.

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 derivative assets and liabilities. The carrying values of receivables, due to affiliates, accounts payable, other current assets and liabilities and accrued interest approximate fair value. See Note 5 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 5 and Note 7. We determine both transfers into and out of Level 3 using values at the end of the quarterly 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 the 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, which 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 5 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 6 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 or losses related to these derivatives are reflected in natural gas costs and ultimately included in our customers' bills. As previously noted, such derivative transactions are reported at fair value each reporting period on our Balance Sheets. 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.

Property, Plant and Equipment

A summary of our PP&E by classification as of December 31, 2015 and 2014 is provided in the following table.

In thousands	2015	2014
Transportation and distribution	$ 1,283,065	$ 1,208,503
Storage facilities	7,112	7,417
Other	109,709	107,234
Construction work in progress	69,597	50,357
Total PP&E, gross	1,469,483	1,373,511
Less accumulated depreciation	405,415	402,647
Total PP&E, net	$ 1,064,068	$ 970,864

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 do not recognize gains or losses on depreciable utility property that is retired or otherwise disposed, as required under the composite depreciation method. Such gains or 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.

	2015	2014
Elizabethtown Gas	2.4%	2.5%
Elkton Gas	2.7	2.8
Florida City Gas	3.9	3.9

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 Balance Sheets and as AFUDC in our Statements of Income where the debt component is recorded in other income and the equity component recorded in interest expense. The New Jersey BPU has authorized a variable rate based on the FERC method of accounting for AFUDC. The AFUDC rate was 1.69% as of December 31, 2015 and 0.44% as of December 31, 2014. We recorded $392,000 of AFUDC for the year ended December 31, 2015 and $1.6 million for the year ended December 31, 2014.

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. For our 2015 annual goodwill impairment test, we performed the qualitative Step 0 assessment focusing on the following qualitative factors: macroeconomic conditions, industry and market conditions, cost factors, financial performance and events specific to us. Our Step 0 analysis concluded that it is more likely than not that the fair value exceeds the carrying amount and a quantitative assessment was not required.

Accounting for Retirement Benefit Plans

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.

We recognize the funded status of our plans as an asset or a liability on our Balance Sheets, 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 7. 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.

Taxes

Income Taxes We do not file our own federal or state income tax returns; instead, our pre-tax income is included in AGL Resources' 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. AGL Resources is no longer subject to income tax examinations by the Internal Revenue Service or any state for years prior to 2012.

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 on our Balance Sheets.

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 Balance Sheets. These investment tax credits are being amortized over the estimated life of the related properties as credits to income tax expense. At December 31, 2015, investment tax credits of approximately $267,000 previously deducted for income tax purposes for Elizabethtown Gas, Florida City Gas and Elkton Gas have been deferred for financial accounting purposes and are being amortized as credits to income over the estimated lives of the related properties in accordance with regulatory requirements.

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 Balance Sheets. We measure these deferred income tax assets and liabilities using enacted income tax rates.

Regulatory Income Tax Liability We 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. There were no uncertain tax positions during the twelve months ended

December 31, 2015 or 2014.

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

Revenues

We record revenues when goods or services are provided to customers. These 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 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 Balance Sheets 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 profit 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 on our natural gas costs, see Note 4.

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 9.

Dividend Distributions

We paid dividends of $29.3 million to AGL Resources during 2015. Elizabethtown Gas is restricted by their dividend policy as established by the New Jersey BPU in the amount it can dividend to AGL Resources to the extent of 70% of its quarterly net income.

Use of Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to use judgment and 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 the accounting for 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

Accounting standards adopted in 2015

In April 2015, the FASB issued updated authoritative guidance related to debt issuance costs. The amendment modifies the presentation of unamortized debt issuance costs on our Balance Sheets. Under the new guidance, we present such amounts as a direct deduction from the face amount of the debt, similar to unamortized debt discounts and premiums, rather than as an asset. Amortization of the debt issuance costs continues to be reported as interest expense on the Statements of Income. While the guidance would have been effective for us beginning January 1, 2016, we elected to adopt its provisions effective April 1, 2015, and have applied its provisions to each prior period presented for comparative purposes. This new guidance resulted in an adjustment to the presentation of debt issuance costs primarily from other long-term assets to offset the related debt balances in long-term debt totaling approximately $1.0 million and $1.6 million as of December 31, 2015 and 2014, respectively.

Other newly issued accounting standards and updated authoritative guidance

In May 2014, the FASB updated 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. In July 2015, the FASB delayed the effective date by one year and the guidance will be effective for us beginning January 1, 2018. Early adoption of the standard is permitted, but not before the original effective date of December 15, 2016. 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.

In April 2015, the FASB issued authoritative guidance related to the accounting for fees paid in connection with arrangements with cloud-based software providers. Under the new guidance, unless a software arrangement includes specific elements enabling customers to possess and operate software on platforms other than that offered by the cloud-based provider, the cost of such arrangements is to be accounted for as an operating expense of the period incurred. The new guidance was applied prospectively and became effective for us on January 1, 2016. We have determined that this new guidance will not have a material impact on our financial statements.

In November 2015, the FASB issued updated authoritative guidance to the balance sheet classification of deferred taxes, which requires companies to present deferred income tax assets and deferred income tax liabilities as noncurrent in a classified balance sheet instead of the current requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts. The guidance is effective for us beginning January 1, 2017. Early application is permitted either prospectively or retrospectively. We have determined that this new guidance will only impact the presentation of deferred tax balances in our Balance Sheets upon adoption.

Note 4 - Regulated Operations

Our regulatory assets and liabilities reflected within our Balance Sheets as of December 31 are summarized in the following table.

In thousands	2015	2014
Regulatory assets		
Deferred natural gas costs	$ 5,664	$ 1,402
Area extension program	98	500
Other	176	62
Total regulatory assets - current	5,938	1,964
Recoverable ERC	85,922	74,985
Area extension program	13,231	11,916
Unamortized loss on reacquired debt	6,079	6,079
Recoverable greenhouse gas costs	903	3,380
Recoverable retiree welfare benefit costs	851	970
Other	4,556	5,636
Total regulatory assets - long-term	111,542	102,966
Total regulatory assets	$ 117,480	$ 104,930
Regulatory liabilities		
Accrued natural gas costs	$ 2,126	$ 13,497
Other	5,106	7,452
Total regulatory liabilities - current	7,232	20,949
Accumulated removal costs	90,178	84,460
Regulatory income tax liability	907	1,165
Unamortized investment tax credits	267	421
Other	2,785	6,896
Total regulatory liabilities - long-term	94,137	92,942
Total regulatory liabilities	$ 101,369	$ 113,891

Base rates are designed to provide the opportunity to recover cost and earn 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 agency 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 our industry is competing with alternative fuels, we continue to recover our costs through cost-based rates established by the state regulatory agencies. 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 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 on our Balance Sheets. 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, 2015	$	3,844
December 31, 2014		2,159

Natural Gas Costs We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms established 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. We defer or accrue the difference between the actual cost of gas 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.

Recoverable ERC 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 former MGP 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 environmental remediation liabilities are estimates of future remediation costs for investigation and cleanup of our current and former operating sites that are contaminated. Our estimates are determined using engineering-based estimates and probabilistic models of potential costs when such estimates cannot be made, on an undiscounted basis. These estimates contain various 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, legal expenses or other costs for which we may be held liable but for which we cannot reasonably estimate an amount.

Our accrued environmental remediation liabilities are not regulatory liabilities; however the associated expenses are deferred as a corresponding regulatory asset until the costs are recovered from customers. These recoverable environmental remediation assets are a combination of accrued environmental remediation 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 to remediate our current and former operating sites.

Dollars in thousands	**Number of sites**	**Probabilistic model cost estimates(1)**	**Engineering-based estimates**	**Amount recorded**	**Expected costs over next 12 months**	**Cost recovery period**
New Jersey	6	\$114,997 — \$194,897	$ 7,374	$ 122,372	$ 18,300	7 years (2)
North Carolina (3)	1	n/a	7,320	7,320	5,500	No recovery
Total	7	\$114,997 — \$194,897	$ 14,694	$ 129,692	$ 23,800	

(1) The year-end ERC estimates were completed as of November 30, 2015. 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 settlement with an insurance company for environmental claims relating to potential contamination at several MGP sites in New Jersey and North Carolina. The terms of the settlement required the insurance company to pay us a total of $77 million to be paid in two installments. We received a $45 million installment in 2014 and the remaining $32 million was paid in 2015. The New Jersey BPU has approved the use of the insurance proceeds to reduce the ERC expenditures that otherwise would have been recovered from our customers in future periods. This reduces our recoverable ERC regulatory asset and has a favorable impact on the rates for our customers.

Area extension projects In 1995, the Florida Commission approved a tariff that allows Florida City Gas to complete various area extension projects and recover the costs over a ten year period. These expenses are capitalized as regulatory assets until they are recovered through customer billings.

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 not 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 on our Balance Sheets. 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 September 2015, Elizabethtown Gas filed the Safety, Modernization and Reliability Tariff (SMART) plan with the New Jersey BPU seeking approval to invest more than $1.1 billion to replace 630 miles of vintage cast iron, steel and copper pipeline, as well as 240 regulator stations. If approved, the program is expected to be completed by 2027. As currently proposed, costs incurred under the program would be recovered primarily through a rider surcharge over a period of 10 years.

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, the precursor to the accelerated infrastructure replacement 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%, 4.27% of which 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 invested $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 allowed Elizabethtown Gas to increase its base rates effective November 1, 2015 for investments made under the program. The program was completed in October 2015.

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 8 years, based on the remaining recovery period as designated by the applicable state regulatory commissions.

Note 5 - Fair Value Measurements

The methods used to determine the fair values of our assets and liabilities are described within Note 3.

Retirement Benefit Plan Assets

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.

In thousands	December 31, 2015 Level 1	Level 2	Level 3	Total	% of total
Cash	$ 377	$ 26	$ —	$ 403	1%
Equity securities:					
U.S. large cap[1]	$ 6,730	$ 18,035	$ —	$ 24,765	32%
U.S. small cap[1]	5,164	2,183	—	7,347	9
International companies[2]	—	11,316	—	11,316	15
Emerging markets[3]	—	2,501	—	2,501	3
Total equity securities	$ 11,894	$ 34,035	$ —	$ 45,929	59%
Fixed income securities:					
Corporate bonds[4]	$ —	$ 8,192	$ —	$ 8,192	10%
Other (or gov't/muni bonds)	—	13,656	—	13,656	18
Total fixed income securities	$ —	$ 21,848	$ —	$ 21,848	28%
Other types of investments:					
Global hedged equity[5]	$ —	$ —	$ 3,640	$ 3,640	5%
Absolute return[6]	—	—	3,859	3,859	5
Private capital[7]	—	—	1,780	1,780	2
Total other investments	$ —	$ —	$ 9,279	$ 9,279	12%
Total assets at fair value	$ 12,271	$ 55,909	$ 9,279	$ 77,459	100%
% of fair value hierarchy	16%	72%	12%	100%	

In thousands	December 31, 2014 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%	

The actual 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, 2015									
In thousands	Level 1		Level 2		Level 3		Total		% of total
Cash	$	156	$	—	$	—	$	156	1%
Equity securities:									
U.S. large cap[1]	$	—	$	8,469	$	—	$	8,469	58%
International companies[2]		—		2,551		—		2,551	17
Total equity securities	$	—	$	11,020	$	—	$	11,020	75%
Fixed income securities:									
Corporate bonds[4]	$	—	$	3,573	$	—	$	3,573	24%
Total fixed income securities	$	—	$	3,573	$	—	$	3,573	24%
Total assets at fair value	$	156	$	14,593	$	—	$	14,749	100%
% of fair value hierarchy		1%		99%		—		100%	

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%	

(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, 2013	$	3,983	$	3,612	$	2,038	$ 9,633
Actual return on plan assets		90		170		180	440
Sales		(1,461)		—		(417)	(1,878)
Balance at December 31, 2014	$	2,612	$	3,782	$	1,801	$ 8,195
Actual return on plan assets		(98)		77		148	127
Purchases		1,169		—		—	1,169
Sales		(43)		—		(169)	(212)
Balance at December 31, 2015	$	3,640	$	3,859	$	1,780	$ 9,279

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

Natural Gas 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 Balance Sheets as of the periods presented.

	December 31, 2015				December 31, 2014			
In thousands	Assets		Liabilities		Assets		Liabilities	
Significant other observable inputs (Level 2)	$	—	$	(13,858)	$	—	$	(16,313)

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	2015	2014
Long-term debt carrying amount	$ 426,833	$ 404,421
Long-term debt fair value [1]	426,833	404,421

(1) Fair value determined using Level 2 inputs.

Note 6 - 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, 2015 and 2014, we had net long natural gas contracts outstanding in the following quantities:

Natural gas contracts	December 31,	
In Bcf	2015	2014
Hedge designation:		
Not designated	17.6	17.7
Total volumes	17.6	17.7
Hedge position:		
Long	17.6	17.7
Net long position	17.6	17.7

All of the contracts outstanding as of December 31, 2015 have durations of two years or less.

Derivative Instruments on the Balance Sheets

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 Balance Sheets until billed to customers. The following amounts deferred as a regulatory asset or liability on our Balance Sheets represent the net realized gains (losses) related to these natural gas hedging activities as of December 31.

In thousands	2015	2014
Elizabethtown Gas	$ (19,694)	$ 2,139

The following table presents the fair values and Balance Sheets classifications of our derivative instruments as of December 31:

		2015		2014	
In thousands	Classification	Assets	Liabilities	Assets	Liabilities
Not designated as hedges					
Natural gas contracts	Current	$ —	$ (12,291)	$ —	$ (13,243)
Natural gas contracts	Long-term	—	(1,567)	—	(3,070)
Derivative instruments presented on our Balance Sheets		$ —	$ (13,858)	$ —	$ (16,313)

Note 7 - Employee Benefit Plans

Oversight of Plans

As described in Note 3, 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, they examined projections of asset returns and volatility over a long-term horizon. In connection with this analysis, AGL Resources evaluated the risk and return trade-offs 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 5 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 multi-employer 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 the Employees' Retirement Plan of NUI Corporation 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

AGL Resources considered a variety of factors in determining and selecting their assumptions for the discount rates at December 31. At the end of 2015, they changed the method used to estimate the service and interest cost components of net periodic benefit cost for their defined benefit pension and other postretirement benefit plans. Historically, AGL Resources estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. AGL Resources has elected to use a full yield curve approach in the estimation of these components of benefit cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

Our pro rata portion of the cost components of the AGL Plan and the AGL Welfare Plan are set forth in the following table.

	AGL Plan		AGL Welfare Plan	
Dollars in thousands	2015	2014	2015	2014
Service cost	$ 2,111	$ 2,004	$ 147	$ 153
Interest cost	5,954	6,550	710	733
Expected return on plan assets	(7,153)	(7,469)	(1,300)	(1,224)
Net amortization of prior service cost	(1,140)	(1,132)	55	56
Recognized actuarial loss	4,090	3,048	458	265
Net periodic benefit cost	$ 3,862	$ 3,001	$ 70	$ (17)
Assumptions used to determine benefit costs				
Discount rate (1)	4.2%	5.0%	4.0%	4.7%
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	3.7

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

The following tables present details about our pro rata portion of the AGL Plan and the AGL Welfare Plan.

	AGL Plan		AGL Welfare Plan	
Dollars in thousands	2015	2014	2015	2014
Change in plan assets				
Fair value of plan assets, January 1,	$ 81,597	$ 84,006	$ 16,773	$ 15,803
Actual return on plan assets	3,513	5,300	(483)	970
Employer contributions	—	—	815	880
Benefits paid	(8,501)	(7,709)	(815)	(880)
Fair value of plan assets, December 31,	$ 76,609	$ 81,597	$ 16,290	$ 16,773
Change in benefit obligation				
Benefit obligation, January 1,	$ 118,653	$ 104,745	$ 17,654	$ 17,412
Service cost	2,111	2,004	147	153
Interest cost	5,954	6,550	710	733
Actuarial (gain) loss	(4,541)	13,063	(366)	235
Benefits paid	(8,501)	(7,709)	(815)	(879)
Benefit obligation, December 31,	$ 113,676	$ 118,653	$ 17,330	$ 17,654
Funded status at end of year	$ (37,067)	$ (37,056)	$ (1,040)	$ (881)
Amounts recognized on our Balance Sheets				
Long-term liability (1)	$ (37,067)	$ (37,056)	$ (1,040)	$ (881)
Accumulated benefit obligation (2)	$ 100,777	$ 105,560	$ 17,329	$ 17,654
Assumptions used to determine benefit obligations				
Discount rate (3)	4.6%	4.2%	4.4%	4.0%
Rate of compensation increase (3)	3.7	3.7	3.7	3.7

(1) Amounts represent qualified benefit plans. Unqualified benefit plan liabilities were $4.4 million and $4.8 million as of December 31, 2015 and 2014, respectively.

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

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

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 AGL Welfare Plan were as follows:

	2015	2014
Health care cost trend rate assumed for next year	7.9%	8.1%
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 AGL Welfare Plan would have not have a material 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 AGL 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:

	2015		2014	
In thousands	AGL Plan	AGL Welfare Plan	AGL Plan	AGL Welfare Plan
Prior service (credit) cost	$ (3,596)	$ (1)	$ (4,627)	$ 58
Net loss	38,192	7,104	41,517	6,179
Total	$ 34,596	$ 7,103	$ 36,890	$ 6,237

The 2016 estimated amortization out of accumulated OCI for these plans is set forth in the following table.

In thousands	AGL Plan	AGL Welfare Plan
Amortization of prior service (credit) cost	$ 1,094	$ (2)
Amortization of net loss	(3,277)	(501)

The following table presents the gross benefit payments expected for the years ended December 31, 2016 through 2025 for our pro rata portion of AGL Resources' pension and welfare plans. There will be benefit payments under these plans beyond 2025.

In thousands	AGL Plan	AGL Welfare Plan
2016	$ 10,208	$ 992
2017	9,708	1,048
2018	9,669	1,117
2019	9,791	1,167
2020	9,997	1,195
2021-2025	49,273	6,145

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, AGL Resources may contribute in excess of the minimum required amount. As required by The Pension Protection Act of 2006 (the Act), AGL Resources calculates the minimum amount of funding using the traditional unit credit cost method. In 2015 and 2014, 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 approximately $1.5 million and $1.4 million in 2015 and 2014, respectively.

Note 8 - 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 Balance Sheets.

		December 31, 2015		December 31, 2014	
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	0.9%	$ 200,100
Affiliate promissory note	2034	4.5	227,689	4.3	205,943
Total principal long-term debt		2.8%	$ 427,789	2.6%	$ 406,043
Unamortized debt issuance costs		n/a	(956)	n/a	(1,622)
Total debt		n/a	$ 426,833	n/a	$ 404,421

Long-term Debt

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.

Affiliate Promissory Note We entered into a promissory note with AGL Resources (Affiliate Promissory Note) for the purpose of refinancing our short-term debt and recapitalizing our capital structure in accordance with our 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 2015, $15.6 million was converted from the Affiliate Promissory Note to equity in order 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, 2015, the effective interest rate on this note was 4.5%. The initial principal amount of the Affiliate Promissory Note for Pivotal Utility is adjusted on an annual basis to conform to Pivotal Utility's target capitalization of 45%.

Default Provisions

Our debt includes provisions that, if not complied with, could require early payment or similar actions. The most important default events include the following:

- a maximum leverage ratio;
- insolvency events and/or nonpayment of scheduled principal or interest payments;
- acceleration of other financial obligations; and
- change of control provisions.

We have no triggering events in our debt instruments that are tied to changes in our specified credit ratings. We were in compliance with all existing debt provisions and covenants as of December 31, 2015 and 2014.

Note 9 - Commitments and Contingencies

We incur 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, 2015.

In thousands	Total	2016	2017	2018	2019	2020	2021 & Thereafter
Recorded contractual obligations:							
Long-term debt	$ 427,789	$ —	$ —	$ —	$ —	$ —	$ 427,789
Environmental remediation liabilities [(1)]	129,692	23,800	26,800	30,900	23,000	13,620	11,572
Total	$ 557,481	$ 23,800	$ 26,800	$ 30,900	$ 23,000	$ 13,620	$ 439,361

Unrecorded contractual obligations and commitments[(2)]:							
Pipeline charges, storage capacity and gas supply[(3)]	$ 573,585	$ 65,068	$ 61,212	$ 63,021	$ 55,925	$ 39,918	$ 288,441
Interest charges[(4)]	28,611	2,290	2,284	2,284	2,283	2,290	17,180
Operating leases[(5)]	25,637	4,084	4,001	3,946	3,947	4,083	5,576
Asset management agreements[(6)]	14,878	4,253	4,250	4,250	2,125	—	—
Performance surety bonds	1,788	1,788	—	—	—	—	—
Total	$ 644,499	$ 77,483	$ 71,747	$ 73,501	$ 64,280	$ 46,291	$ 311,197

(1) Includes charges recoverable through rate rider mechanisms.

(2) In accordance with GAAP, these items are not reflected in our Balance Sheets.

(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, 2015 and the maturity date of the underlying debt instrument. As of December 31, 2015, we have $815,000 of accrued interest on our Balance Sheets that will be paid in 2016.

(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.

Environmental Matters

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. See Note 4 for additional information on our environmental remediation costs.

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 10 - 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 for the years ended December 31 are shown in the following table.

In thousands		2015	2014
Current income taxes			
Federal	$	(345) $	15,296
State		974	7,987
Deferred income taxes			
Federal		20,934	13,261
State		3,544	433
Amortization of investment tax credits		(154)	(190)
Total income tax expense on Statements of Income	$	24,953 $	36,787

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		2015	2014
Computed tax expense at statutory rate	$	22,387 $	25,495
State income tax, net of federal income tax benefit		3,373	5,519
Amortization of investment tax credits		(154)	(190)
Other, net		(653)	5,963
Total income tax expense on Statements of Income	$	24,953 $	36,787

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		2015	2014
Long-term accumulated deferred income tax liabilities			
Property - accelerated depreciation and other property-related items	$	243,083 $	220,578
Environmental response costs		174	—
Other		5,216	7,346
Total long-term accumulated deferred income tax liabilities	$	248,473 $	227,924
Long-term accumulated deferred income tax assets			
Unfunded pension and retiree welfare benefit obligation	$	17,440 $	18,152
Prepaid lease		4,646	5,414
Pension and other employee benefits		2,781	1,504
Bad debts and insurance reserves		2,431	2,607
Environmental response costs		—	4,415
Other		9,535	9,640
Total long-term accumulated deferred income tax assets	$	36,833 $	41,732
Net long-term accumulated deferred tax liability	$	211,640 $	186,192

Tax Benefits

As of December 31, 2015 and 2014, we did not have a liability for unrecognized tax benefits. Based on current information, we do not anticipate that this will change materially in 2016. As of December 31, 2015, we did not have a liability recorded for payment of interest or penalties associated with uncertainty in income taxes, nor did we have any such interest or penalties during 2015 or 2014.

Note 11 - 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 7. 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, 2013	$	(17,227)
Other comprehensive loss before reclassification		(10,489)
Reclassification		1,329
As of December 31, 2014		(26,387)
Other comprehensive loss before reclassification		(1,071)
Reclassification		2,081
As of December 31, 2015	$	(25,377)

(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, 2015 and the favorable (unfavorable) impact on net income.

In thousands[1]		2015		2014
Retirement benefit plan amortization of				
Actuarial losses[2]	$	(4,613)	$	(3,347)
Prior service credits[2]		1,107		1,109
Total before income tax		(3,506)		(2,238)
Income tax expense		1,425		909
Total reclassification for the period	$	(2,081)	$	(1,329)

(1) Amounts in parentheses indicate debits, or reductions, to profit/loss and credits to accumulated other comprehensive loss.
(2) Amortization of these accumulated other comprehensive loss components is included in the computation of net periodic benefit cost. See Note 7 for additional details about net periodic benefit cost.

Note 12 - 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.

Dollars in thousands	Expiration date	Type of fee structure	Annual fee	Profit sharing / fees payments 2015		Profit sharing / fees payments 2014
Elizabethtown Gas	March 2019	Tiered	(1)	$ 28,617	$	18,124
Florida City Gas	(2)	Profit-sharing	50%	767		673
Total				$ 29,384	$	18,797

(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 $64.5 million and $73.2 million in payable at December 31, 2015 and 2014, respectively, which was due to AGL Resources, primarily related to our participation in AGL Resources' money pool. We also had $227.7 million and $205.9 million outstanding at December 31, 2015 and 2014, respectively, related to a promissory note with AGL Resources. See Note 8 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 13 - Subsequent Events

Our management evaluated subsequent events for potential recognition and disclosure through March 25, 2016, the date these financial statements were available to be issued, and determined that no significant events have occurred subsequent to period end.