GUNSTER
FLORIDA'S LAW FIRM FOR BUSINESS

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November 13, 2017

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 2018, along with its Consolidated Financial Statements for 2016 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

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: November 13, 2017

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

Pivotal Utility Holdings, Inc. d/b/a 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 Company Gas Utility Money Pool.

In support, Applicant states:

1. **<u>Applicant Information:</u>** The name and principal business address of Applicant are Pivotal Utility Holdings, Inc., 520 Green Lane, Union, New Jersey 07083. Applicant is the indirect wholly owned subsidiary of Southern Company Gas an energy services holding company headquartered in Atlanta, Georgia. Applicant is engaged in the business of distributing natural gas in service territories located in portions of the states of New Jersey, Florida and Maryland. Through its Florida City Gas division, Applicant supplies natural gas to customers in Miami-Dade, Broward, Palm Beach, St. Lucie, Indian River, Martin, Brevard, Hendry and Glades, 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, The Southern Company) is submitted for the Commission's consideration:

a. Total authorized common stock of Applicant's ultimate corporate parent, The Southern Company, is 1.5 billion shares, of which 999 million shares were issued and outstanding at June 30, 2017 and publicly traded on the New York Stock Exchange under the symbol "SO";

b. Applicant and The Southern Company have no outstanding preferred or preference stock;

c. As of June 30, 2017, The Southern Company held 0.9 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 The 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 The Southern Company.

f. The amount of capital stock held in any fund by Applicant or The 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 issued 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 Jersey 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 Jersey Development Authority and Pivotal Utility Holdings	March 1, 2013	$39 million (2)	variable rate bonds
Amended and Restated Loan Agreement between New Jersey 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 may redeem, repurchase, and/or cancel all or a portion of these revenue bonds in 2018.

Applicant also has an additional $305,253,936 of long-term inter-company debt. If Applicant redeems, repurchases, and/or cancels all or a portion of the revenue bonds in 2018, then Applicant may increase its long-term inter-company borrowings to maintain its appropriate capital structure. As of June 30, 2017, Applicant's inter-company debt carries an interest rate of 4.61%, which approximates Southern

Company Gas' weighted cost of capital for its outstanding long term debt as of March 31, 2017.

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 Company Gas'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, PSC-15-0571-FOF-GU, and PSC-16-0559-FOF-GU.

b. Maximum Principal Amount: The amount of short-term borrowings from the Utility Money Pool will not exceed $800,000,000 (aggregate for Applicant's three utilities).

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, 2017 that interest rate was 1.407%.

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

e. **Additional Provisions:** As noted above, Applicant may redeem, repurchase, and/or cancel all or a portion of the revenue bonds in 2018.

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

7. **Lawful Object and Purpose:** Applicant is authorized to participate in the Utility Money Pool by its Articles of Incorporation and applicable law. Participation in the arrangement is consistent with the proper performance by Applicant of service as a public utility and reasonably necessary and appropriate for such purposes.

8. **Filings With Other State or Federal Regulatory Bodies:** Applicant has authority for participation in the Utility Money Pool from the New Jersey Board of Public Utilities, whose address is 44 S. Clinton Avenue, Trenton, New Jersey 08625. Southern Company Gas' Utility Money Pool was originally authorized by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 (as amended), which was repealed as of February 2006.

9. **Control or Ownership:** There is no measure of control or ownership exercised by or over Applicant as to any other public utility. Applicant is a wholly owned subsidiary of its parent holding company, NUI Corporation, which is a wholly owned subsidiary of 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 Company Gas' 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 13th day of November, 2017.

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 Southern Company Gas)

Financial Statements as of December 31, 2016 and 2015
and for the years then ended, and Independent Auditors' Reports

Index to the Notes to Financial Statements

Deloitte.

Deloitte & Touche LLP
Suite 2000
191 Peachtree Street NE
Atlanta, GA 30303-1924
USA

Tel: +1 404 220 1500
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
Pivotal Utility Holdings, Inc.

We have audited the accompanying financial statements of Pivotal Utility Holdings, Inc. (the "Company"), which comprise the balance sheet as of December 31, 2016, and the related statements of income, comprehensive income, cash flows, and equity for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 the auditor's 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, the auditor considers 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. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 31, 2017

pwc

Report of Independent Auditors

To the Management of Pivotal Utility Holdings, Inc.:

We have audited the accompanying financial statements of Pivotal Utility Holdings, Inc. (a wholly owned subsidiary of Southern Company Gas, the "Company"), which comprise the balance sheet as of December 31, 2015, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit 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. as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 11, 2016

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

STATEMENTS OF INCOME

Pivotal Utility Holdings, Inc.
For the Years Ended December 31, 2016 and 2015

	2016	2015
	(in thousands)	
Operating Revenues	$ **382,480**	$ 401,128
Operating Expenses:		
Cost of natural gas	**164,130**	188,298
Other operations and maintenance	**107,260**	89,671
Depreciation and amortization	**41,462**	39,295
Taxes other than income taxes	**6,141**	6,295
Total operating expenses	**318,993**	323,559
Operating Income	**63,487**	77,569
Interest expense, net of amounts capitalized	**14,432**	13,962
Other income, net	**1,885**	333
Earnings Before Income Taxes	**50,940**	63,940
Income taxes	**20,476**	24,953
Net Income	$ **30,464**	$ 38,987

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

Pivotal Utility Holdings, Inc.
For the Years Ended December 31, 2016 and 2015

	2016	2015
	(in thousands)	
Net Income	$ **30,464**	$ 38,987
Other comprehensive income (loss):		
Pension and other postretirement benefit plans:		
Benefit plan net loss, net of tax of $(7,585) and $(712), respectively	**(11,114)**	(1,071)
Reclassification adjustment for amounts included in net income, net of tax of $702 and $1,425, respectively	**1,016**	2,081
Total Other Comprehensive Income (Loss)	**(10,098)**	1,010
Comprehensive Income	$ **20,366**	$ 39,997

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
Pivotal Utility Holdings, Inc.
For the Years Ended December 31, 2016 and 2015

		2016		2015
		(in thousands)		
Operating Activities:				
Net income	$	**30,464**	$	38,987
Adjustments to reconcile net income to net cash provided from operating activities —				
Depreciation and amortization, total		**41,462**		39,295
Deferred income taxes		**16,865**		24,324
Pension, postretirement, and other employee benefits		**(16,016)**		1,222
Mark-to-market adjustments		**(22,243)**		(2,455)
Other, net		**631**		(13,274)
Changes in certain current assets and liabilities —				
—Receivables		**(16,035)**		66,727
—Prepaid taxes		**7,318**		1,386
—Natural gas for sale		**2,995**		6,828
—Other current assets		**(3,977)**		(3,605)
—Accrued taxes		**(10,100)**		(21,327)
—Accounts payable		**(5,448)**		2,067
—Accrued compensation		**(1,258)**		(473)
—Other current liabilities		**14,208**		(15,368)
Net cash provided from operating activities		**38,866**		124,334
Investing Activities:				
Property additions		**(150,318)**		(114,797)
Cost of removal, net of salvage		**(9,155)**		(10,687)
Change in construction payables, net		**5,031**		1,847
Other investing activities		**2,711**		—
Net cash used for investing activities		**(151,731)**		(123,637)
Financing Activities:				
Net borrowings from parent		**77,565**		13,049
Capital contributions from parent company		**64,854**		15,560
Dividends to parent		**(29,554)**		(29,306)
Net cash provided from (used for) financing activities		**112,865**		**(697)**
Net Change in Cash and Cash Equivalents		**—**		—
Cash and Cash Equivalents at Beginning of Period		**—**		—
Cash and Cash Equivalents at End of Period	**$**	**—**	**$**	**—**
Supplemental Cash Flow Information:				
Interest, net of amounts capitalized	$	**13,145**	$	12,032
Income taxes		**849**		3,662
Accrued property additions at end of period		**11,286**		5,992

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
Pivotal Utility Holdings, Inc.
At December 31, 2016 and 2015

Assets		**2016**		2015
		(in thousands)		
Current Assets:				
Receivables —				
Customer accounts receivable	$	**29,336**	$	22,864
Unbilled revenues		**27,925**		17,838
Other accounts and notes receivable		**1,560**		2,084
Accumulated provision for uncollectible accounts		**(4,789)**		(5,550)
Materials and supplies		**368**		398
Natural gas for sale		**20,818**		23,813
Prepaid taxes		**6,799**		15,325
Prepaid expenses		**9,732**		1,231
Assets from risk management activities, net of collateral		**7,473**		—
Regulatory assets		**10,562**		5,938
Other current assets		**96**		5,060
Total current assets		**109,880**		89,001
Property, Plant, and Equipment:				
In service		**1,529,536**		1,399,885
Less accumulated depreciation		**418,136**		405,415
Plant in service, net of depreciation		**1,111,400**		994,470
Construction work in progress		**69,999**		69,598
Total property, plant, and equipment		**1,181,399**		1,064,068
Other Property and Investments:				
Goodwill		**176,560**		176,560
Deferred Charges and Other Assets:				
Assets from risk management activities, net of collateral		**912**		—
Regulatory assets		**137,866**		111,542
Other deferred charges and assets		**4,778**		5,562
Total deferred charges and other assets		**143,556**		117,104
Total Assets	**$**	**1,611,395**	$	1,446,733

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS
Pivotal Utility Holdings, Inc.
At December 31, 2016 and 2015

Liabilities and Stockholder's Equity	**2016**	**2015**
	(in thousands)	
Current Liabilities:		
Due to affiliates	$ **62,640**	$ 64,545
Accounts payable	**16,873**	15,385
Customer deposits	**13,788**	14,890
Accrued Taxes —		
Accrued income taxes	**2,142**	—
Other accrued taxes	**5,798**	3,682
Accrued interest	**446**	815
Accrued compensation	**2,393**	3,637
Liabilities from risk management activities, net of collateral	**—**	12,291
Regulatory liabilities	**17,254**	7,232
Accrued environmental remediation	**29,225**	23,800
Other current liabilities	**1,938**	1,700
Total current liabilities	**152,497**	147,977
Long-Term Debt (see notes)	**504,482**	426,833
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	**250,072**	215,180
Accrued pension and retiree welfare benefits	**28,179**	42,529
Other cost of removal obligations	**90,833**	90,178
Accrued environmental remediation	**81,988**	105,892
Other regulatory liabilities	**3,685**	3,692
Liabilities from risk management activities, net of collateral	**—**	1,567
Other deferred credits and liabilities	**12,560**	14,484
Total deferred credits and other liabilities	**467,317**	473,522
Total Liabilities	**1,124,296**	1,048,332
Stockholder's Equity		
Common stock, no par value; 12,807,111 shares authorized, issued, and outstanding	**—**	—
Paid-in capital	**216,481**	151,728
Retained earnings	**272,960**	272,050
Accumulated other comprehensive loss	**(2,342)**	(25,377)
Total Stockholder's Equity	**487,099**	398,401
Total Liabilities and Stockholder's Equity	$ **1,611,395**	$ 1,446,733
Commitments and Contingent Matters (see notes)		

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF EQUITY
Pivotal Utility Holdings, Inc.
For the Years Ended December 31, 2016 and 2015

	Number of Common Shares		Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Loss		Total
					(in thousands)				
Balance at 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 to parent	—		—		(29,306)		—		(29,306)
Capital contributions from parent company	—		15,560		—		—		15,560
Balance at December 31, 2015	12,807	$	151,728	$	272,050	$	(25,377)	$	398,401
Net income	—		—		30,464		—		30,464
Other comprehensive loss	—		—		—		(10,098)		(10,098)
Reclassification of accumulated other comprehensive loss to regulatory assets	—		—		—		33,133		33,133
Dividends to parent	—		—		(29,554)		—		(29,554)
Capital contributions from parent company	—		64,854		—		—		64,854
Stock-based compensation			(101)		—		—		(101)
Balance at December 31, 2016	**12,807**	**$**	**216,481**	**$**	**272,960**	**$**	**(2,342)**	**$**	**487,099**

The accompanying notes are an integral part of these financial statements.

Pivotal Utility Holdings, Inc.
Notes to Financial Statements
December 31, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Pivotal Utility Holdings, Inc. (the Company) engages in the sale and distribution of natural gas to approximately 402 thousand customers in three states through its utility operating divisions that include Elizabethtown Gas in New Jersey, Florida City Gas in Florida, and Elkton Gas in Maryland. The Company is a wholly-owned subsidiary of Southern Company Gas (formerly known as AGL Resources Inc.). On July 1, 2016, Southern Company Gas completed its previously announced merger (Merger) with The Southern Company (Southern Company) and became a wholly-owned, direct subsidiary of Southern Company.

The Company is subject to regulation by the regulatory agencies of each state in which it operates. As such, the Company's financial statements reflect the effects of rate regulation in accordance with accounting principles generally accepted in the United States of America (GAAP) and comply with the accounting policies and practices prescribed by its regulatory commissions. The preparation of financial statements in conformity with GAAP requires the use of estimates, and the actual results may differ from those estimates.

The impact of the acquisition method of accounting was not pushed down to the Company and is not reflected in the financial statements included herein.

Certain prior year data in the financial statements has been modified or reclassified to conform to the presentation used by Southern Company Gas. Changes to the statements of cash flows include revised financial statement line item descriptions to align with the new balance sheet descriptions and expanded line items within each type of cash flow activity. Changes to the balance sheets include changing certain captions to conform to the presentation of Southern Company Gas.

Recently Issued Accounting Standards

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers,* replacing the existing accounting standard and industry specific guidance for revenue recognition with a five-step model for recognizing and measuring revenue from contracts with customers. The underlying principle of the guidance is to recognize revenue to depict the transfer of goods or services to customers at an amount an entity expects to collect. The new standard also requires enhanced quantitative and qualitative disclosures regarding the nature, amount, timing, and uncertainty of revenue and the related cash flows arising from contracts with customers.

While the Company expects most of its revenue to be within the scope of ASC 606, it has not fully completed its evaluation of such arrangements. The majority of the Company's revenue, including energy provided to customers, is from tariff offerings that provide natural gas without a defined contractual term. For such arrangements, the Company generally expects that the revenue from contracts with these customers will continue to be equivalent to the natural gas supplied and billed in that period (including unbilled revenues) and will not result in a significant shift in the timing of revenue recognition for such sales.

The Company's ongoing evaluation of other revenue streams and related contracts includes longer term contractual commitments. Some revenue arrangements, such as certain alternative revenue programs, are expected to be excluded from the scope of ASC 606 and therefore, be accounted for and presented separately from revenues under ASC 606 on the Company's financial statements. In addition, the power and utilities industry is currently addressing other specific industry issues.

The new standard is effective for interim and annual reporting periods beginning after December 15, 2017. The Company must select a transition method to be applied either retrospectively to each prior reporting period presented or retrospectively with a cumulative effect adjustment to retained earnings at the date of initial adoption. As the ultimate impact of the new standard has not yet been determined, the Company has not elected its transition method.

On November 20, 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which simplifies the presentation of deferred income taxes. ASU 2015-17 requires deferred tax assets and liabilities to be presented as non-current in a classified balance sheet and is effective for fiscal years beginning after December 15, 2016, including interim periods within that reporting period. As permitted, the Company elected to early adopt the guidance in 2016. Prior to the adoption of ASU 2015-17, all deferred income tax assets and liabilities were required to be separated into current and non-current amounts. The adoption of ASU 2015-17 did not have an impact on the results of operations, financial position, or cash flows.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). ASU 2016-02 requires lessees to recognize on the balance sheet a lease liability and a right-of-use asset for all leases. ASU 2016-02 also changes the recognition, measurement, and presentation of expense associated with leases and provides clarification regarding the identification of certain components of contracts that would represent a lease. The accounting required by lessors is relatively unchanged. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The

Company is currently evaluating the new standard and has not yet determined its ultimate impact; however, adoption of ASU 2016-02 is expected to have a significant impact on the Company's balance sheet.

On October 24, 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory* (ASU 2016-16). Current GAAP prohibits the recognition of current and deferred income taxes for an affiliate asset transfer until the asset has been sold to an outside party. ASU 2016-16 requires an entity to recognize the income tax consequences of an affiliate transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. The amendments will be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company is currently assessing the impact of the standard on its financial statements.

Regulatory Assets and Liabilities

The Company is subject to accounting requirements for the effects of rate regulation. Regulatory assets represent probable future revenues associated with certain costs that are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are expected to be credited to customers through the ratemaking process.

Regulatory assets and liabilities reflected in the balance sheets at December 31, relate to:

	2016	2015
	(in thousands)	
Regulatory Assets		
Recoverable weather normalization adjustment	$ **10,439**	$ 176
Area extension program	**120**	98
Deferred natural gas costs	**3**	5,664
Regulatory assets – current	**10,562**	5,938
Recoverable environmental remediation costs	**72,481**	85,922
Area extension program	**14,097**	13,231
Unamortized losses on reacquired debt	**5,497**	6,079
Regulatory infrastructure program	**2,527**	1,190
Recoverable pension and retiree welfare benefit costs	**41,366**	851
Other	**1,898**	4,269
Regulatory assets – long-term	**137,866**	111,542
Total Regulatory Assets	$ **148,428**	$ 117,480
Regulatory Liabilities		
Accrued natural gas costs	$ **15,580**	$ 2,126
Other	**1,674**	5,106
Regulatory liabilities – current	**17,254**	7,232
Other cost of removal obligations	**90,833**	90,178
Regulatory income tax liability	**673**	907
Other	**3,012**	2,785
Regulatory liabilities – long-term	**94,518**	93,870
Total Regulatory Liabilities	$ **111,772**	$ 101,102

In the event that the Company's operations are no longer subject to applicable accounting rules for rate regulation, the Company would be required to write off to income related regulatory assets and liabilities that are not specifically recoverable through regulated rates. In addition, the Company would be required to determine if any impairment to other assets, including plant, exists and write down the assets, if impaired, to their fair values. All regulatory assets and liabilities are to be reflected in rates. See Note 3 under "Regulatory Matters" for additional information.

Revenues

The Company records revenues when goods or services are provided to customers. Those revenues are based on rates approved by the state regulatory agencies of the Company's utilities. The Company's 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 natural gas not yet billed to these customers, from the last bill date to the end of the accounting period. For other commercial and industrial customers, revenues are based on actual deliveries to the end of the period.

The tariffs for Elizabethtown Gas contain weather normalization adjustments that partially mitigate the impact of unusually cold or warm weather on customer billings and natural gas revenues. The weather normalization adjustments 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 tariffs for Elkton Gas contain revenue normalization mechanisms that mitigate the impact of conservation and declining customer usage. The weather normalization adjustments and revenue normalization mechanisms are alternative revenue programs, which allow recognition of revenue prior to billing as long as the amounts will be collected within 24 months of recognition.

Concentration of Revenue

The Company has a diversified base of customers. No single customer or industry comprises 10% or more of revenues. For all periods presented, uncollectible accounts averaged less than 2% of revenues.

Cost of Natural Gas

The Company charges its customers for natural gas consumed using natural gas cost recovery mechanisms set by the applicable state regulatory agencies. Under these mechanisms, all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. The Company defers or accrues the difference between the actual cost of natural gas and the amount of commodity revenue earned in a given period such that no operating income is recognized related to these costs. The deferred or accrued amount is either billed or refunded to customers prospectively through adjustments to the commodity rate. Deferred and accrued natural gas costs are included in the balance sheets as regulatory assets and regulatory liabilities, respectively.

Income and Other Taxes

The Company does not file its own federal or state income tax returns. Instead, the Company is included in Southern Company's consolidated federal income tax return and Southern Company Gas' various state income tax returns. Prior to the Merger, the Company was included in the consolidated tax returns of Southern Company Gas.

The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences. Federal investment tax credits utilized are deferred and amortized to income over the average life of the related property. Taxes that are collected from customers on behalf of governmental agencies to be remitted to these agencies are presented on the balance sheets.

The Company recognizes tax positions that are "more likely than not" of being sustained upon examination by the appropriate taxing authorities. See Note 4 under "Unrecognized Tax Benefits" for additional information.

Property, Plant, and Equipment

Property, plant, and equipment is stated at original cost less any regulatory disallowances and impairments. Original cost includes: materials; labor; minor items of property; appropriate administrative and general costs; payroll-related costs such as taxes, pensions, and other benefits; and the interest capitalized and cost of equity funds used during construction.

The Company's property, plant, and equipment in service consisted of the following at December 31:

	2016	2015
	(in thousands)	
Distribution and transmission	$ **1,407,789**	$ 1,283,065
Information technology equipment and software	**51,702**	49,585
Storage facilities	**7,193**	7,112
Other	**62,852**	60,123
Total plant in service	$ **1,529,536**	$ 1,399,885

The cost of replacements of property, exclusive of minor items of property, is capitalized. The cost of maintenance, repairs, and replacement of minor items of property is charged to other operations and maintenance expenses as incurred or performed.

Depreciation

Depreciation of the original cost of plant in service is provided using composite straight-line rates. Following are the composite rates for the years ending December 31:

	2016	2015
Elizabethtown Gas	**2.3%**	2.4%
Elkton Gas	**2.6**	2.7
Florida City Gas	**4.3**	3.9

Depreciation studies are conducted periodically to update the composite rates that are approved by the respective state regulatory agencies. When property subject to composite depreciation is retired or otherwise disposed of in the normal course of business, its original cost, together with the cost of removal, less salvage, is charged to accumulated depreciation. As such, gains or losses are not recognized, instead they are ultimately refunded to, or recovered from, customers through future rate adjustments. Minor items of property included in the original cost of the asset are retired when the related property unit is retired.

Allowance for Funds Used During Construction (AFUDC)

The Company records AFUDC for Elizabethtown Gas, which represents the estimated debt and equity costs of capital funds that are necessary to finance the construction of new regulated facilities. While cash is not realized currently, AFUDC increases the revenue requirement and is recovered over the service life of the asset through a higher rate base and higher depreciation. The capital expenditures of the other two utilities do not qualify for AFUDC treatment. The AFUDC composite rate for Elizabethtown Gas was 1.68% and 1.69% for the years ended 2016 and 2015, respectively. The Company recorded $343 thousand and $392 thousand of AFUDC for the years ended December 31, 2016 and 2015, respectively.

Goodwill

Goodwill is not amortized, but is subject to an annual impairment test during the fourth quarter of each year, or more frequently if impairment indicators arise. In assessing goodwill for impairment, the Company has the option of first performing a qualitative assessment to determine that it is more likely than not that fair value of its reporting unit exceeds its carrying value (commonly referred to as Step 0). If the Company chooses not to perform a qualitative assessment, or the result of Step 0 indicates a probable decrease in fair value of its reporting unit below its carrying value, a quantitative two-step test is performed (commonly referred to as Step 1 and Step 2). Step 1 compares the fair value of the reporting unit to its carrying value including goodwill. If the carrying value exceeds the fair value, Step 2 is performed to allocate the fair value of the reporting unit to its assets and liabilities in order to determine the implied fair value of goodwill, which is compared to the carrying value of goodwill to calculate an impairment loss, if any.

For the 2016 and 2015 annual goodwill impairment tests, the Step 0 assessment was performed focusing on the following qualitative factors: macroeconomic conditions, industry and market conditions, cost factors, financial performance, entity specific events, and events specific to each reporting unit. This Step 0 analysis concluded that it is more likely than not that the fair value of the Company's reporting units that have goodwill exceeds their carrying amounts and a quantitative assessment was not required.

Cash Management Money Pool

The Company participates in Southern Company Gas' utility money pool, under which short-term borrowings are made from the money pool and surplus funds are contributed to the money pool. Borrowings from the money pool are recorded as due to affiliates in the balance sheets and intercompany interest expense is recorded in the statements of income for these borrowings. See Note 9 for additional information.

Receivables and Allowance for Uncollectible Accounts

The Company's receivables consist primarily of natural gas sales and transportation services billed to residential, commercial, industrial, and other customers. Customers are billed monthly and payment is due within 30 days. For the majority of receivables, an allowance for doubtful accounts is established based on historical collection experience and other factors. For the remaining receivables, if the Company is aware of a specific customer's inability to pay, an allowance for doubtful accounts is recorded to reduce the receivable balance to the amount the Company reasonably expects to collect. If circumstances change, the estimate of the recoverability of accounts receivable could change as well. Circumstances that could affect this estimate include, but are not limited to, customer credit issues, customer deposits, and general economic conditions. Customers' accounts are written off once they are deemed to be uncollectible.

Materials and Supplies

Generally, materials and supplies include propane, fleet fuel, and other materials and supplies. Materials are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, at weighted average cost when installed.

Natural Gas for Sale

The Company's natural gas inventories are carried at cost on a weighted average cost of gas basis.

Fair Value Measurements

The Company has 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, accounts payable, due to affiliates, other current assets and liabilities, accrued interest, and long-term debt approximate their respective fair value. The Company's nonfinancial assets and liabilities include pension and other retirement benefits. See Notes 2 and 7 for additional fair value 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). The Company utilizes 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. The Company primarily applies the market approach for recurring fair value measurements to utilize the best available information. Accordingly, the Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Fair value balances are classified 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. The Company's 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. Market price data is obtained from multiple sources in order to value certain Level 2 transactions and this data is representative of transactions that occurred in the marketplace. Level 2 instruments include 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. Level 3 assets, liabilities, and any applicable transfers are primarily related to the Company's pension and welfare benefit plan assets as described in Note 2. Transfers into and out of Level 3 are determined using values at the end of the interim period in which the transfer occurred.

Financial Instruments

The Company uses derivative financial instruments to limit exposure to fluctuations in natural gas prices, interest rates, and commodity prices. All derivative financial instruments are recognized as either assets or liabilities on the balance sheets (shown separately as "Risk Management Activities") and are measured at fair value. See Note 7 for additional information regarding fair value. Derivative contracts that qualify as cash flow hedges of anticipated transactions or are recoverable through the respective state regulatory agency approved fuel-hedging programs result in the deferral of related gains and losses in other comprehensive income (OCI) or regulatory assets and liabilities, respectively, until the hedged transactions occur. Any ineffectiveness arising from cash flow hedges is recognized currently in net income. Cash flows from derivatives are classified on the statements of cash flows in the same category as the hedged item. See Note 8 for additional information regarding derivatives.

The Company offsets fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement. The Company had no outstanding collateral repayment obligations or rights to reclaim collateral arising from derivative instruments recognized at December 31, 2016.

Comprehensive Income

The objective of comprehensive income is to report a measure of all changes in common stock equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income consists of net income, changes in the fair value of qualifying cash flow hedges, certain changes in pension and other postretirement benefit plans, and reclassifications for amounts included in net income.

Dividend Distributions

The Company paid dividends of \$29.6 million and \$29.3 million to Southern Company Gas during 2016 and 2015, respectively. Elizabethtown Gas is restricted by the dividend policy as established by its state regulatory agency (the New Jersey BPU) in the amount it can dividend to Southern Company Gas to the extent of 70% of its quarterly net income.

2. RETIREMENT BENEFITS

Effective July 1, 2016, in connection with the Merger, Southern Company Services, Inc., a subsidiary of Southern Company, became the sponsor of Southern Company Gas' pension and other postretirement benefit plans. The Company participates in the Southern Company Gas qualified defined benefit, trusteed, pension plan - AGL Resources Inc. Retirement Plan (AGL Plan) - that covers certain eligible employees. The qualified pension plan is funded in accordance with requirements of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. Southern Company Gas provides certain non-qualified defined benefit and defined contribution pension plans for a selected group of the Company's management and highly compensated employees. Benefits under these non-qualified pension plans are funded on a cash basis. The Company also participates in the Southern Company Gas postretirement benefit plan - AGL Welfare Plan - which provides medical care and life insurance benefits for eligible retired employees.

In connection with the Merger, Southern Company Gas performed updated valuations of its pension and other postretirement benefit plan assets and obligations to reflect actual census data at the new measurement date of July 1, 2016. The Company recorded a regulatory asset of \$41 million as of December 31, 2016 related to unrecognized prior service cost and actuarial gain/loss as it is probable that this amount will be recovered through future rates of the Company's utilities.

The following disclosures reflect the Company's balances and activity in the AGL Plan and the AGL Welfare Plan under the multiple-employer method of accounting.

Actuarial Assumptions

The weighted average rates assumed in the actuarial calculations used to determine both the net periodic costs for the pension and other postretirement benefit plans for the periods presented and the benefit obligations as of the measurement date are presented below.

Assumptions used to determine net periodic costs:	**July 1, 2016 through December 31, 2016**	**January 1, 2016 through June 30, 2016**	Year Ended Ended December 31, 2015
Pension plans			
Discount rate - interest costs (*)	3.21%	4.00%	4.20%
Discount rate - service costs (*)	4.07	4.80	4.20
Expected long-term return on plan assets	7.75	7.80	7.80
Annual salary increase	3.50	3.70	3.70
Other postretirement benefit plans			
Discount rate - interest costs (*)	2.84%	3.60%	4.00%
Discount rate - service costs (*)	3.96	4.70	4.00
Expected long-term return on plan assets	5.93	6.60	7.80
Annual salary increase	3.50	3.70	3.70

(*) Effective January 1, 2016, the Company uses a spot rate approach to estimate the service cost and interest cost components. Previously, the Company estimated these components using a single weighted average discount rate.

Assumptions used to determine benefit obligations:	**December 31, 2016**	December 31, 2015
Pension plans		
Discount rate	4.39%	4.60%
Annual salary increase	3.50	3.70
Other postretirement benefit plans		
Discount rate	4.15%	4.40%
Annual salary increase	3.50	3.70

The Company estimates the expected return on plans assets by evaluating expected bond returns, equity risk premiums, asset allocations, the effects of active plan management, the impact of periodic plan asset rebalancing, and historical performance. The Company also considers guidance from its investment advisors in making a final determination of its expected rate of return on assets. To the extent the actual rate of return on assets realized over the course of a year is greater or less than the assumed rate, it does not affect that year's annual pension or welfare plan cost; rather, this gain or loss reduces or increases future pension or welfare plan costs.

An additional assumption used in measuring the accumulated other postretirement benefit obligations (APBO) is the weighted average medical care cost trend rate. The weighted average medical care cost trend rates used in measuring the APBO as of December 31, 2016 were as follows:

	Initial Cost Trend Rate	Ultimate Cost Trend Rate	Year That Ultimate Rate is Reached
Pre-65	6.60%	4.50%	2038
Post-65 medical	8.40	4.50	2038
Post-65 prescription	8.40	4.50	2038

An annual increase or decrease in the assumed medical care cost trend rate of 1% would affect the APBO; however, the impact on the service and interest cost components would be immaterial.

Pension Plans

The total accumulated benefit obligation for the pension plans was $107 million at December 31, 2016 and $101 million at December 31, 2015. Changes in the projected benefit obligation and the fair value of plan assets for the Company's qualified pension plans for the periods ended December 31, 2016, June 30, 2016, and December 31, 2015 were as follows:

	July 1, 2016 through December 31, 2016	January 1, 2016 through June 30, 2016	Year Ended Ended December 31, 2015
		(in thousands)	
Change in benefit obligation			
Benefit obligation at beginning of period	$ 131,634	$ 113,676	$ 118,653
Service cost	1,221	1,063	2,111
Interest cost	2,542	2,786	5,954
Benefits paid	(4,484)	(4,165)	(8,501)
Actuarial loss (gain)	(12,784)	18,274	(4,541)
Benefit obligation at end of period	118,129	131,634	113,676
Change in plan assets			
Fair value of plan assets at beginning of period	75,861	76,609	81,597
Actual return on plan assets	4,326	3,417	3,513
Employer contributions	17,507	—	—
Benefits paid	(4,484)	(4,165)	(8,501)
Fair value of plan assets at end of period	93,210	75,861	76,609
Accrued liability	$ 24,919	$ 55,773	$ 37,067

At December 31, 2016, the projected benefit obligations for the qualified and non-qualified pension plans were $118 million and $5 million, respectively. All pension plan assets are related to the qualified pension plan.

Amounts recognized in the balance sheets at December 31, 2016 and 2015 related to the Company's qualified pension plans consist of the following:

	2016	2015
	(in thousands)	
Other regulatory assets, deferred	$ 35,131	$ —
Employee benefit obligations	(24,919)	(37,067)

Presented below are the amounts included in accumulated OCI and regulatory assets at December 31, 2016 and 2015 related to the qualified defined benefit pension plans that had not yet been recognized in net periodic pension cost along with the estimated amortization of such amounts for 2017.

	Prior Service Cost		Net (Gain) Loss	
	(in thousands)			
Balance at December 31, 2016:				
Accumulated OCI	**$**	**(333)**	**$**	**3,007**
Regulatory assets (liabilities)		**(2,185)**		**37,316**
Total	**$**	**(2,518)**	**$**	**40,323**
Balance at December 31, 2015:				
Accumulated OCI	$	(3,596)	$	38,192
Regulatory assets		—		—
Total	$	(3,596)	$	38,192
Estimated amortization in net periodic cost in 2017:				
Accumulated OCI	$	141	$	(236)
Regulatory assets (liabilities)		926		(3,359)

The components of OCI and the changes in the balance of regulatory assets related to the qualified defined benefit pension plans for the periods ended December 31, 2016, June 30, 2016, and December 31, 2015 are presented in the following table:

	Accumulated OCI		Regulatory Assets	
	(in thousands)			
Balance at December 31, 2014:	$	36,890	$	—
Net (gain) loss		655		—
Reclassification adjustments:				
Amortization of prior service costs		1,140		—
Amortization of net loss		(4,089)		—
Total reclassification adjustments		(2,949)		—
Total change		(2,294)		—
Balance at December 31, 2015:	$	34,596	$	—
Net (gain) loss		**18,085**		**(11,522)**
Reclassification adjustments:				
Amortization of prior service costs		**617**		**477**
Amortization of net loss		**(1,915)**		**(2,533)**
Reclassification from accumulated OCI to regulatory assets		**(48,709)**		**48,709**
Total reclassification adjustments		**(50,007)**		**46,653**
Total change		**(31,922)**		**35,131**
Balance at December 31, 2016:	**$**	**2,674**	**$**	**35,131**

The Company's pro rata components of Southern Company Gas' net periodic pension costs for the periods presented were as follows:

	Years Ended December 31, 2016	2015
	(in thousands)	
Service cost	$ 2,284	$ 2,111
Interest cost	5,328	5,954
Expected return on plan assets	(7,789)	(7,153)
Amortization:		
Prior service costs	(1,094)	(1,140)
Net loss	4,448	4,090
Net periodic pension cost	$ 3,177	$ 3,862

Net periodic pension cost is the sum of service cost, interest cost, and other costs netted against the expected return on plan assets. The expected return on plan assets is determined by multiplying the expected rate of return on plan assets and the market-related value of plan assets.

Future benefit payments reflect expected future service and are estimated based on assumptions used to measure the projected benefit obligation for the pension plans. At December 31, 2016, the Company's estimated benefit payments were as follows:

	Benefit Payments
	(in thousands)
2017	$ 10,347
2018	10,093
2019	10,115
2020	10,409
2021	10,216
2022 to 2026	50,544

Other Postretirement Benefits

Changes in the APBO and the fair value of plan assets for the periods ended December 31, 2016, June 30, 2016, and December 31, 2015 were as follows:

	July 1, 2016 through December 31, 2016	**January 1, 2016 through June 30, 2016**	Year Ended December 31, 2015
		(in thousands)	
Change in benefit obligation			
Benefit obligation at beginning of period	$ 16,761	$ 17,330	$ 17,654
Service cost	70	60	147
Interest cost	238	277	710
Benefits paid	(356)	(577)	(815)
Actuarial gain	(967)	(329)	(366)
Benefit obligation at end of period	15,746	16,761	17,330
Change in plan assets			
Fair value of plan assets at beginning of period	16,322	16,290	16,773
Actual return (loss) on plan assets	523	32	(483)
Employer contributions	356	577	815
Benefits paid	(356)	(577)	(815)
Fair value of plan assets at end of period	16,845	16,322	16,290
(Prepaid asset) accrued liability	$ (1,099)	$ 439	$ 1,040

Amounts recognized in the balance sheets at December 31, 2016 and 2015 related to the Company's other postretirement benefit plans consist of the following:

	2016	2015
	(in thousands)	
Other regulatory assets, deferred	**$ 4,973**	$ —
Employee benefit asset (obligation)	**1,099**	(1,040)

Presented below are the amounts included in accumulated OCI and regulatory assets at December 31, 2016 and 2015 related to the other postretirement benefit plans that had not yet been recognized in net periodic other postretirement benefit cost. The estimated amortization of such amounts for 2017 is immaterial.

	Prior Service Cost	Net (Gain) Loss
	(in thousands)	
Balance at December 31, 2016:		
Accumulated OCI	**$ —**	**$ 602**
Regulatory assets	**—**	**4,973**
Total	**$ —**	**$ 5,575**
Balance at December 31, 2015:		
Accumulated OCI	$ (1)	$ 7,104
Total	$ (1)	$ 7,104

The components of OCI, along with the changes in the balance of regulatory assets (liabilities), related to the other postretirement benefit plans for the periods ended December 31, 2016, June 30, 2016, and December 31, 2015 are presented in the following table:

	Accumulated OCI	Regulatory Assets
	(in thousands)	
Balance at December 31, 2014:	$ 6,237	$ —
Net (gain) loss	1,378	—
Reclassification adjustments:		
Amortization of prior service costs	(55)	—
Amortization of net loss	(457)	—
Total reclassification adjustments	(512)	—
Total change	866	—
Balance at December 31, 2015:	$ 7,103	$ —
Net (gain) loss	**(11)**	**(1,079)**
Reclassification adjustments:		
Amortization of prior service costs	**(1)**	**(1)**
Amortization of net loss	**(201)**	**(235)**
Reclassification from accumulated OCI to regulatory assets	**(6,288)**	**6,288**
Total reclassification adjustments	**(6,490)**	**6,052**
Total change	**(6,501)**	**4,973**
Balance at December 31, 2016:	**$ 602**	**$ 4,973**

The Company's pro rata components of Southern Company Gas' other postretirement benefit plans' net periodic cost for the periods presented were as follows:

	Years Ended December 31,	
	2016	2015
	(in thousands)	
Service cost	**$ 130**	$ 147
Interest cost	**515**	710
Expected return on plan assets	**(856)**	(1,300)
Amortization:		
Prior service costs	**2**	55
Net loss	**435**	458
Net periodic postretirement benefit cost	**$ 226**	$ 70

Future benefit payments, including prescription drug benefits, reflect expected future service and are estimated based on assumptions used to measure the APBO for the other postretirement benefit plans. At December 31, 2016, estimated benefit payments were as follows:

	Benefit Payments
	(in thousands)
2017	$ 885
2018	952
2019	1,010
2020	1,057
2021	1,101
2022 to 2026	5,468

Benefit Plan Assets

Southern Company Gas' pension plan and other postretirement benefit plan assets are managed and invested in accordance with all applicable requirements, including ERISA and the Internal Revenue Code of 1986, as amended. The investment policies for both the pension plan and the other postretirement benefit plans cover a diversified mix of assets, including equity and fixed income securities, real estate, and private equity. Southern Company Gas minimizes the risk of large losses primarily through diversification but also monitors and manages other aspects of risk.

The assets of the AGL Plan were allocated 69% equity, 20% fixed income, 1% cash, and 10% other at December 31, 2016 compared to the Company's targets of 53% equity, 15% fixed income, 2% cash, and 30% other. The plan's investment policy provides for variation around the target asset allocation in the form of ranges. The Company's pro rata share of the AGL Plan assets was 9.49% and 9.05% for December 31, 2016 and 2015, respectively.

The assets of the AGL Welfare Plan were allocated 74% equity, 23% fixed income, 1% cash, and 2% other at December 31, 2016 compared to the Company's targets of 72% equity, 24% fixed income, 1% cash, and 3% other. The investment policy provides for variation around the target asset allocation in the form of ranges. The Company's pro rata share of the AGL Welfare Plan assets was 16.06% and 16.39% for December 31, 2016 and 2015, respectively.

The assets of the AGL Plan and the AGL Welfare Plan were allocated 72% equity and 28% fixed income at December 31, 2015 compared to the Company's targets of 70% to 95% equity, 5% to 20% fixed income, and up to 10% cash. The investment policies provided for some variation in these targets in the form of ranges around the target.

The investment strategy for plan assets related to the Southern Company Gas' qualified pension plan is to be broadly diversified across major asset classes. The asset allocation is established after consideration of various factors that affect the assets and liabilities of the pension plan including, but not limited to, historical and expected returns and interest rates, volatility, correlations of asset classes, the current level of assets and liabilities, and the assumed growth in assets and liabilities. Because a significant portion of the liability of the pension plan is long-term in nature, the assets are invested consistent with long-term investment expectations for return and risk. To manage the actual asset class exposures relative to the target asset allocation, the Southern Company Gas employs a formal rebalancing program for its pension plan assets. As additional risk management, external investment managers and service providers are subject to written guidelines to ensure appropriate and prudent investment practices.

Investment Strategies

Detailed below is a description of the investment strategies for each major asset category for the Southern Company Gas pension plans disclosed above:

- ***Domestic equity.*** A mix of large and small capitalization stocks with generally an equal distribution of value and growth attributes, managed both actively and through passive index approaches.
- ***International equity.*** A mix of growth stocks and value stocks with both developed and emerging market exposure, managed both actively and through passive index approaches.
- ***Fixed income.*** A mix of domestic and international bonds.
- **Special situations.** Investments in opportunistic strategies with the objective of diversifying and enhancing returns and exploiting short-term inefficiencies as well as investments in promising new strategies of a longer-term nature.
- ***Real estate investments.*** Investments in traditional private market equity-oriented investments (indirectly through pooled funds or partnerships) and in publicly traded real estate securities.
- ***Private equity.*** Investments in private partnerships that invest in private or public securities typically through privately-negotiated and/or structured transactions, including leveraged buyouts, venture capital, and distressed debt.

Benefit Plan Asset Fair Values

Following are the fair value measurements for the pension plan assets as of December 31, 2016 and 2015. The fair values presented are prepared in accordance with GAAP. For purposes of determining the fair value of the pension plan assets and the appropriate level designation, management relies on information provided by the plan's trustee. This information is reviewed and evaluated by management with changes made to the trustee information as appropriate.

Valuation methods of the primary fair value measurements disclosed in the following tables are as follows:

- ***Domestic and international equity.*** Investments in equity securities such as common stocks, American depositary receipts, and real estate investment trusts that trade on a public exchange are classified as Level 1 investments and are valued at the closing price in the active market. Equity investments with unpublished prices (i.e. pooled funds) are valued as Level 2, when the underlying holdings used to value the investment are comprised of Level 1 or Level 2 equity securities.
- ***Fixed income.*** Investments in fixed income securities are generally classified as Level 2 investments and are valued based on prices reported in the market place. Additionally, the value of fixed income securities takes into consideration certain items such as broker quotes, spreads, yield curves, interest rates, and discount rates that apply to the term of a specific instrument.
- ***Real estate investments, private equity, and special situations investments.*** Investments in real estate, private equity, and special situations are generally classified as Net Asset Value as a Practical Expedient, since the underlying assets typically do not have publicly available observable inputs. The fund manager values the assets using various inputs and techniques depending on the nature of the underlying investments. Techniques may include purchase multiples for comparable transactions, comparable public company trading multiples, discounted cash flow analysis, prevailing market capitalization rates, recent sales of comparable investments, and independent third-party appraisals. The fair value of partnerships is determined by aggregating the value of the underlying assets less liabilities.

The Company's pro rata portion of fair values of pension plan assets as of December 31, 2016 and 2015 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases. Absolute return investment assets are presented in the tables below based on the nature of the investment.

As of December 31, 2016	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value as a Practical Expedient (NAV)	Total
		(in thousands)		
Assets:				
Domestic equity(*)	$ 13,449	$ 32,507	$ —	$ 45,956
International equity(*)	—	17,581	—	17,581
Fixed income:				
U.S. Treasury, government, and agency bonds	—	8,072	—	8,072
Corporate bonds	—	3,860	—	3,860
Pooled funds	—	6,275	—	6,275
Cash equivalents and other	1,159	467	7,880	9,506
Real estate investments	342	—	1,382	1,724
Private equity	—	—	236	236
Total	$ 14,950	$ 68,762	$ 9,498	$ 93,210

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

As of December 31, 2015	Pension plans Level 1	Level 2	Level 3	Total	% of total
		(in thousands)			
Cash	$ 377	$ 26	$ —	$ 403	1%
Equity securities:					
U.S. large cap(a)	$ 6,730	$ 18,035	$ —	$ 24,765	32%
U.S. small cap(a)	5,164	2,183	—	7,347	9
International companies(b)	—	11,316	—	11,316	15
Emerging markets(c)	—	2,501	—	2,501	3
Total equity securities	**$ 11,894**	**$ 34,035**	**$ —**	**$ 45,929**	**59%**
Fixed income securities:					
Corporate bonds(d)	$ —	$ 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(e)	$ —	$ —	$ 3,640	$ 3,640	5%
Absolute return(f)	—	—	3,859	3,859	5
Private capital(g)	—	—	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%	

(a) Includes funds that invest primarily in U.S. common stocks.
(b) Includes funds that invest primarily in foreign equity and equity-related securities.
(c) Includes funds that invest primarily in common stocks of emerging markets.
(d) Includes funds that invest primarily in investment grade debt and fixed income securities.
(e) Includes funds that invest in limited/general partnerships, managed accounts, and other investment entities issued by non-traditional firms or "hedge funds."
(f) Includes funds that invest primarily in investment vehicles and commodity pools as a "fund of funds."
(g) 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 the Company's pension plan assets in Level 3 of the fair value hierarchy at December 31, 2015:

	Global Hedged Equity	Absolute Return	Private Capital	Total
		(in thousands)		
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 in 2015. During 2016, the Level 3 assets were accounted for at net asset value as a practical expedient.

The fair values of other postretirement benefit plan assets as of December 31, 2016 and 2015 are presented below. These fair value measurements exclude cash, receivables related to investment income, pending investments sales, and payables related to pending investment purchases. For 2016, special situations (absolute return and hedge funds) investment assets are presented in the table below based on the nature of the investment.

	Fair Value Measurements Using			
As of December 31, 2016	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Net Asset Value as a Practical Expedient (NAV)**	**Total**
		(in thousands)		
Assets:				
Domestic equity(*)	$ 402	$ 9,286	$ —	$ 9,688
International equity(*)	—	2,820	—	2,820
Fixed income:				
U.S. Treasury, government, and agency bonds	—	82	—	82
Corporate bonds	—	36	—	36
Pooled funds	—	3,760	—	3,760
Cash equivalents and other	126	—	268	394
Real estate investments	10	—	47	57
Private equity	—	—	8	8
Total	$ 538	$ 15,984	$ 323	$ 16,845

(*) Level 1 securities consist of actively traded stocks while Level 2 securities consist of pooled funds. Management believes that the portfolio is well-diversified with no significant concentrations of risk.

As of December 31, 2015	Other postretirement plans Level 1	Level 2	Total	% of total
		(in thousands)		
Cash	**$ 156**	**$ —**	**$ 156**	**1%**
Equity securities:				
U.S. large cap[(a)]	$ —	$ 8,469	$ 8,469	58%
International companies[(b)]	—	2,551	$ 2,551	17
Total equity securities	$ —	$ 11,020	$ 11,020	75%
Fixed income securities:				
Corporate bonds[(c)]	$ —	$ 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%	

(a) Includes funds that invest primarily in U.S. common stocks.
(b) Includes funds that invest primarily in foreign equity and equity-related securities.
(c) Includes funds that invest primarily in common stocks of emerging markets.

Employee Savings Plan

Southern Company Services, Inc. sponsors 401(k) defined contribution plans covering certain eligible employees. The AGL Resources Inc. 401(k) plans provide matching contributions of either 65% on up to 8% of an employee's eligible compensation, or a 100% matching contribution on up to 3% of an employee's eligible compensation, followed by a 75% matching contribution on up to the next 3% of an employee's eligible compensation. Total matching contributions made to the AGL Resources Inc. 401(k) plans for each of the periods ended December 31, 2016 and 2015 were $1.5 million.

For employees not accruing a benefit under the AGL Plan, additional contributions made to the 401(k) plans for the period ended December 31, 2016 and 2015 were immaterial.

3. CONTINGENCIES AND REGULATORY MATTERS

General Litigation Matters

The Company is assessing its alleged involvement in an incident that occurred in one of its service territories that resulted in several deaths, injuries, and property damage. One of the Company's utilities has been named as one of the defendants in several lawsuits related to this incident. At December 31, 2016, the Company recorded reserves for its potential exposure from this case. The ultimate outcome of this matter cannot be determined at this time.

The Company is subject to certain claims and legal actions arising in the ordinary course of business. The ultimate outcome of these matters and such pending or potential litigation against the Company cannot be predicted at this time; however, for current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on the Company's financial statements.

Environmental Matters

The Company's operations are subject to extensive regulation by state and federal environmental agencies under a variety of statutes and regulations governing environmental media, including the handling and disposal of waste and releases of hazardous substances. Compliance with these environmental requirements involves significant capital and operating costs to clean up affected sites. The Company conducts studies to determine the extent of any required clean up and has recognized in its financial statements the costs to clean up known impacted sites.

The Company is subject to environmental remediation liabilities associated with seven former manufactured gas plant sites in two different states. Accrued environmental remediation costs of $111 million have been recorded in the balance sheets as of December 31, 2016, $29 million of which is expected to be incurred over the next 12 months. These environmental remediation expenditures are recoverable from customers through rate mechanisms approved by the applicable state regulatory agencies, with the exception of one site representing $5 million of the total accrued remediation costs.

The Company's ultimate environmental compliance strategy and future environmental capital expenditures will be affected by the final requirements of new or revised environmental regulations and the outcome of any legal challenges to the environmental rules. The ultimate outcome of these matters cannot be determined at this time.

In 2014, the Company reached a settlement with an insurance company for environmental claims relating to potential contamination at several manufactured gas plant sites in New Jersey and North Carolina. The terms of the settlement required the insurance company to pay the Company a total of $77 million in two installments. The Company received a $45 million installment in 2014 and the remaining $32 million in July 2015. The New Jersey BPU approved the use of the insurance proceeds to reduce the regulatory assets associated with environmental remediation costs that otherwise would have been recovered from Elizabethtown Gas customers.

Regulatory Matters

The Merger was approved by the New Jersey BPU on June 29, 2016 and the Maryland Public Service Commission on May 3, 2016. Approval by the Florida Public Service Commission was not required. In connection with the Merger approval orders, the Company was required to:

- provide rate credits of $17.9 million to customers in New Jersey and Maryland;
- file a rate case at Elizabethtown Gas no later than September 1, 2016, with another rate case no later than three years after the 2016 rate case; and
- file a base rate case at Elkton within two years of closing the Merger.

See *"Customer Refunds"* and *"Base Rate Case"* below for additional information.

Regulatory Infrastructure Programs

The Company has infrastructure improvement programs at several of its utilities. Descriptions of these programs are as follows:

Elizabethtown Gas

Elizabethtown Gas' extension of the Aging Infrastructure Replacement (AIR) enhanced infrastructure program effective in 2013 allowed for infrastructure investment of $115 million over four years, and is focused on the replacement of aging cast iron in its pipeline system. Carrying charges on the additional capital spend are being accrued and deferred for regulatory purposes at a WACC of 6.65%. In conjunction with the general base rate case filed with the New Jersey BPU on September 1, 2016, Elizabethtown Gas requested recovery of the AIR program. See "Base Rate Case" herein for additional information.

In 2014, the New Jersey BPU approved Natural Gas Distribution Utility Reinforcement Effort, a program that improved Elizabethtown Gas' distribution system's resiliency against coastal storms and floods. Under the plan, Elizabethtown Gas invested $15 million in infrastructure and related facilities and communication planning over a one-year period from August 2014 through September 2015. Effective November 2015, Elizabethtown Gas increased its base rates for investments made under the program.

In September 2015, Elizabethtown Gas filed the Safety, Modernization and Reliability Tariff 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 through a rider surcharge over a period of 10 years.

The ultimate outcome of these matters cannot be determined at this time.

Florida City Gas

In September 2015, the Florida PSC approved Florida City Gas' Safety, Access, and Facility Enhancement program, under which costs incurred for replacing aging pipes will be recovered through a rate rider with annual adjustments and true-ups. Under the program, Florida City Gas is authorized to spend $105 million over a 10-year period on infrastructure relocation and enhancement projects.

Customer Refunds

In the third quarter 2016, Elizabethtown Gas provided direct per-customer rate credits totaling $17.5 million to its customers in accordance with the Merger approval from the New Jersey BPU. These rate credits were allocated among Elizabethtown Gas' customer classes based on the base rate revenues reflected in the rates that resulted from its most recent base rate proceeding.

In the fourth quarter 2016, Elkton Gas provided direct per-customer rate credits totaling $0.4 million to its customers in accordance with the Merger approval from the Maryland Public Service Commission. These rate credits were funded from an increase in the amount paid through Elkton Gas' asset management agreement.

Base Rate Case

On September 1, 2016, Elizabethtown Gas filed a general base rate case with the New Jersey BPU as required under its AIR program and in accordance with the Merger approval, requesting an increase in annual revenues of $19 million, based on an allowed return on equity of 10.25%. The Company expects the New Jersey BPU to issue an order on the filing in the third quarter 2017. The ultimate outcome of this matter cannot be determined at this time.

Unrecognized Ratemaking Amounts

The following table illustrates the Company's authorized ratemaking amounts that are not recognized on its balance sheets. These amounts are primarily composed of an allowed equity rate of return on assets associated with the Company's AIR program. These amounts will be recognized as revenues in the Company's financial statements in the periods they are billable to customers.

		Elizabethtown Gas
		(in thousands)
December 31, 2016	**$**	**5,535**
December 31, 2015		3,844

4. INCOME TAXES

On behalf of the Company, Southern Company will file a consolidated federal income tax return and Southern Company Gas will file various state income tax returns. Under a joint consolidated income tax allocation agreement, each Southern Company subsidiary's current and deferred tax expense is computed on a stand-alone basis and no subsidiary is allocated more current expense than would be paid if it filed a separate income tax return. In accordance with the Internal Revenue Service (IRS) regulations, the Company is jointly and severally liable for the federal tax liability. Prior to the Merger, the Company was a part of Southern Company Gas' federal consolidated income tax return and various state income tax returns.

Current and Deferred Income Taxes

Details of income tax provisions for the years ended December 31, 2016 and 2015 are as follows:

		2016		2015
		(in thousands)		
Federal —				
Current	$	**2,410**	$	(345)
Deferred		**14,655**		20,934
		17,065		20,589
State —				
Current		**1,201**		974
Deferred		**2,329**		3,544
		3,530		4,518
Amortization of investment tax credits		**(119)**		(154)
Total	$	**20,476**	$	24,953

The tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases, which give rise to deferred tax assets and liabilities, are as follows:

		2016		2015
		(in thousands)		
Deferred tax liabilities —				
Accelerated depreciation	$	**248,736**	$	220,665
Property basis differences		**32,833**		35,760
Regulatory assets associated with employee benefit obligations		**19,395**		1,651
Other		**4,691**		5,738
Total		**305,655**		263,814
Deferred tax assets —				
Federal net operating loss		**7,558**		—
Federal effect of state deferred taxes		**13,286**		10,945
Employee benefit obligations		**18,996**		23,321
Prepaid lease		**4,231**		5,058
Bad debt and insurance reserves		**2,274**		2,611
Other		**9,238**		10,239
Total		**55,583**		52,174
Accumulated deferred income taxes, net	$	**250,072**	$	211,640

In November 2015, the FASB issued ASU 2015-17, which simplifies the presentation of deferred income taxes. See Note 1 under "Recently Issued Accounting Standards" for additional information.

At December 31, 2016, the tax-related regulatory liabilities to be credited to customers were $673 thousand. These liabilities are primarily attributable to unamortized ITCs.

Deferred federal and state ITCs are amortized over the average life of the related property with such amortization normally applied as a credit to reduce depreciation in the statements of income. Credits amortized in this manner amounted to $119 thousand and $154 thousand for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016, all ITCs available to reduce federal income taxes payable had been utilized.

Effective Tax Rate

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	Years Ended December 31,	
	2016	2015
Federal statutory rate	**35.0%**	35.0%
State income tax, net of federal deduction	**5.3**	5.6
Other	**(0.1)**	(1.6)
Effective income tax rate	**40.2%**	39.0%

Unrecognized Tax Benefits

The Company has no unrecognized tax benefits for any period presented. The Company classifies interest on tax uncertainties as interest expense; however, the Company had no accrued interest or penalties for unrecognized tax benefits for any period presented.

It is reasonably possible that the amount of the unrecognized tax benefits could change within 12 months. The settlement of federal and state audits could impact the balances. At this time, an estimate of the range of reasonably possible outcomes cannot be determined.

Southern Company is a participant in the Compliance Assurance Process of the IRS. The audits by the IRS or any state have either concluded, or the statute of limitations has expired with respect to income tax examinations, for periods prior to 2012.

5. FINANCING

The following table provides maturity dates, year-to-date weighted average interest rates, and amounts outstanding for various debt securities and facilities that are included in the balance sheets.

		December 31, 2016		December 31, 2015	
Dollars in thousands	**Year(s) due**	**Weighted average interest rate**	**Outstanding**	Weighted average interest rate	Outstanding
Gas facility revenue bonds	2022-2033	**1.3%**	**$ 200,100**	0.9%	$ 200,100
Affiliate promissory note	2034	**3.6**	**305,254**	4.5	227,689
Total principal long-term debt		**2.7%**	**$ 505,354**	2.8%	$ 427,789
Unamortized debt issuance costs		**n/a**	**$ (872)**	n/a	$ (956)
Total debt		**n/a**	**$ 504,482**	n/a	$ 426,833

Gas Facility Revenue Bonds

The Company is party to a series of loan agreements with the New Jersey Economic Development Authority and Brevard County, Florida under which five series of gas facility revenue bonds have been issued. These revenue bonds are issued by state agencies or counties to investors, and proceeds from each issuance then are loaned to the Company. Southern Company Gas fully and unconditionally guarantees all of the Company's gas facility revenue bonds.

Affiliate Promissory Note

The Company entered into a promissory note with Southern Company Gas (Affiliate Promissory Note) for the purpose of refinancing its short-term debt and recapitalizing its capital structure in accordance with the Company's target capitalization of 45% and with authorizations of the New Jersey BPU and the Florida Commission. The Affiliate Promissory Note is adjusted periodically to maintain the appropriate targeted capitalization percentages. During 2016, $64.9 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 Southern Company Gas and Southern Company Gas Capital Corporation, a 100%-owned financing subsidiary of Southern Company Gas. As of December 31, 2016, the effective interest rate on this note was 3.6%.

6. COMMITMENTS

Pipeline Charges, Storage Capacity, and Gas Supply

Pipeline charges, storage capacity, and gas supply include charges recoverable through a natural gas cost recovery mechanism, or alternatively, billed to marketers of natural gas as well as demand charges associated with Sequent Energy Management, L.P. (Sequent), a wholly-owned subsidiary of Southern Company Gas that engages in wholesale marketing of natural gas supply services.

Contractual Obligations

Contractual obligations at December 31, 2016 were as follows:

	2017	2018-2019	2020-2021	After 2021	Total
			(in thousands)		
Long-term debt[a] -					
Principal	$ —	$ —	$ —	$ 505,354	$ 505,354
Interest	2,569	5,138	5,138	17,739	30,584
Pipeline charges, storage capacity, and gas supply[b]	65,553	113,869	86,746	284,348	550,516
Operating leases[c]	4,082	7,946	8,269	1,394	21,691
Asset management agreements[d]	4,253	6,375	—	—	10,628
Other purchase commitments[e]	28,975	1,054	—	—	30,029
Total	$105,432	$ 134,382	$ 100,153	$ 808,835	$1,148,802

(a) Amounts are reflected based on final maturity dates. The Company plans to continue, when economically feasible, to retire higher-cost securities and replace these obligations with lower-cost capital if market conditions permit. Variable rate interest obligations are estimated based on rates at January 1, 2017 and do not include interest on the affiliated promissory note.

(b) Includes charges recoverable through a natural gas cost recovery mechanism, subject to review by the respective state regulatory agencies.

(c) Certain operating leases have provisions for step rent or escalation payments and certain lease concessions are accounted for by recognizing the future minimum lease payments on a straight-line basis over the respective minimum lease terms. However, this accounting treatment does not affect the future annual operating lease cash obligations as shown herein. The Company's operating leases are primarily related to equipment purchases and real estate licenses.

(d) Represent fixed-fee minimum payments for Sequent's affiliated asset management agreements.

(e) Primarily consists of contractual environmental remediation liabilities that are generally recoverable through base rates or rate rider mechanisms.

Indemnities

In certain instances, the Company has undertaken to indemnify current property owners and others against costs associated with the effects and/or remediation of contaminated sites for which it may be responsible under applicable federal or state environmental laws, generally with no limitation as to the amount. These indemnifications relate primarily to ongoing coal tar cleanup. See Note 3 under "Environmental Matters" for additional information. The Company believes that the likelihood of payment under its other environmental indemnifications is remote. No liability has been recorded for such indemnifications as the fair value was inconsequential at inception.

7. FAIR VALUE MEASUREMENTS

Fair value measurements are based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement and reflects a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement. See Note 1 for additional information.

As of December 31, 2016, assets measured at fair value on a recurring basis during the period, together with their associated level of the fair value hierarchy, were as follows:

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Net Asset Value as a Practical Expedient (NAV)**	**Total**
			(in thousands)		
Assets:					
Energy-related derivatives	**$ —**	**$ 8,385**	**$ —**	**$ —**	**$ 8,385**

As of December 31, 2015, liabilities measured at fair value on a recurring basis during the period, together with their associated level of the fair value hierarchy, were as follows:

	Fair Value Measurements Using				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value as a Practical Expedient (NAV)	Total
			(in thousands)		
Liabilities:					
Energy-related derivatives	$ —	$ 13,858	$ —	$ —	$ 13,858

Valuation Methodologies

The energy-related derivatives primarily consist of exchange-traded and non-exchange-traded derivatives such as over-the-counter forwards and options. These are standard products used within the energy industry and are valued using the market approach. The inputs used are mainly from observable market sources, such as forward natural gas prices and implied volatility. See Note 8 for additional information on how these derivatives are used.

8. DERIVATIVES

The Company is exposed to market risks, primarily commodity price risk, interest rate risk, and weather risk. To manage the volatility attributable to these exposures, the Company nets its exposures, where possible, to take advantage of natural offsets and enters into various derivative transactions for the remaining exposures pursuant to the Company's policies in areas such as counterparty exposure and risk management practices. The Company's policy is that derivatives are to be used primarily for hedging purposes and mandates strict adherence to all applicable risk management policies. Derivative positions are monitored using techniques including, but not limited to, market valuation, value at risk, stress testing, and sensitivity analysis. Derivative instruments are recognized at fair value in the balance sheets as either assets or liabilities and are presented on a net basis. See Note 7 for additional information. In the statements of cash flows, the cash impacts of settled energy-related are recorded as operating activities.

Energy-Related Derivatives

The Company enters into energy-related derivatives to hedge exposures to natural gas and other fuel price changes. However, due to cost-based rate regulations and other various cost recovery mechanisms, The Company has limited exposure to market volatility in prices of natural gas. The Company manages fuel-hedging programs, implemented per the guidelines of each respective state regulatory agencies, through the use of financial derivative contracts, which is expected to continue to mitigate price volatility.

Energy-related derivative contracts are accounted for under one of three methods:

- *Regulatory Hedges* - Energy-related derivative contracts which are designated as regulatory hedges relate primarily to the Company's fuel-hedging programs, where gains and losses are initially recorded as regulatory liabilities and assets, respectively, and then are included in the cost of natural gas as the underlying natural gas is used in operations and ultimately recovered through cost recovery clauses.
- *Cash Flow Hedges* - Gains and losses on energy-related derivatives designated as cash flow hedges (which are mainly used to hedge anticipated purchases and sales) are initially deferred in OCI before being recognized in the statements of income in the same period as the hedged transactions are reflected in earnings.
- *Not Designated* - Gains and losses on energy-related derivative contracts that are not designated or fail to qualify as hedges are recognized in the statements of income in the period of change.

At December 31, 2016, the net volume of energy-related derivative contracts for natural gas positions totaled 18 billion cubic feet for the Company, together with the longest hedge date of 2018 over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions.

Derivative Financial Statement Presentation and Amounts

The Company's derivative contracts are subject to master netting arrangements or similar agreements and are reported net on its financial statements. Some of these energy-related derivative contracts may contain certain provisions that permit intra-contract netting of derivative receivables and payables for routine billing and offsets related to events of default and settlements. At December 31, 2016 and 2015, the fair value of energy-related derivatives was reflected in the balance sheets as follows:

		Asset Derivatives			Liability Derivatives	
Derivative Category	**Balance Sheet Location**	**December 31, 2016**	December 31, 2015	**Balance Sheet Location**	**December 31, 2016**	December 31, 2015
		(in thousands)			*(in thousands)*	
Derivatives designated as hedging instruments for regulatory purposes						
Energy-related derivatives:						
	Assets from risk management activities – current	**$ 7,473**	$ —	Liabilities from risk management activities – current	**$ —**	$ 12,291
	Assets from risk management activities – deferred	**912**	—	Liabilities from risk management activities – deferred	**—**	1,567
Total derivatives designated as hedging instruments for regulatory purposes		**$ 8,385**	$ —		**$ —**	$ 13,858
Gross amounts of recognized assets and liabilities[(a)]		**$ 8,385**	$ —		**$ —**	$ 13,858
Gross amounts offset in the balance sheets		**$ —**	$ —		**$ —**	$ —
Net amounts of derivatives assets and liabilities, presented in the balance sheets[(b)]		**$ 8,385**	$ —		**$ —**	$ 13,858

(a) The gross amounts of recognized assets and liabilities are netted on the balance sheets to the extent that there were netting arrangements with the counterparties.

(b) As of December 31, 2016 and 2015, letters of credit from counterparties offset an immaterial portion of these assets under master netting arrangements.

At December 31, 2016 and 2015, the pre-tax effects of unrealized derivative gains (losses) arising from energy-related derivative instruments designated as regulatory hedging instruments and deferred were as follows:

		Unrealized Losses			Unrealized Gains	
Derivative Category	**Balance Sheet Location**	**December 31, 2016**	December 31, 2015	**Balance Sheet Location**	**December 31, 2016**	December 31, 2015
		(in thousands)			*(in thousands)*	
Energy-related derivatives:						
	Other regulatory assets, current	**$ —**	$ (12,291)	Other regulatory liabilities, current	**$ 7,473**	$ —
	Other regulatory assets, deferred	**—**	(1,567)	Other regulatory liabilities, deferred	**912**	—
Total energy-related derivative gains (losses)		**$ —**	$ (13,858)		**$ 8,385**	$ —

Contingent Features

The Company does not have any credit arrangements that would require material changes in payment schedules or terminations as a result of a credit rating downgrade. There are certain derivatives that could require collateral, but not accelerated payment, in the event of a credit rating change below BBB- and/or Baa3. At December 31, 2016, the Company had no collateral posted with derivative counterparties to satisfy these arrangements.

At December 31, 2016, the fair value of derivative liabilities with contingent features and the maximum potential collateral requirements arising from the credit-risk-related contingent features were immaterial.

Generally, collateral may be provided by a guaranty, letter of credit, or cash. If collateral is required, fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral are not offset against fair value amounts recognized for derivatives executed with the same counterparty.

The Company is exposed to losses related to financial instruments in the event of counterparties' nonperformance. The Company only enters into agreements and material transactions with counterparties that have investment grade credit ratings by Moody's Investors Service Inc. and S&P Global Ratings or with counterparties who have posted collateral to cover potential credit exposure. The Company has also established risk management policies and controls to determine and monitor the creditworthiness of counterparties in order to mitigate its exposure to counterparty credit risk.

The Company also utilizes master netting agreements whenever possible to mitigate exposure to counterparty credit risk. When the Company is engaged in more than one outstanding derivative transaction with the same counterparty and it also has a legally enforceable netting agreement with that counterparty, the "net" mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty and a reasonable measure of the Company's credit risk. The Company also uses other netting agreements with certain counterparties with whom it conducts significant transactions. Master netting agreements enable the Company to net certain assets and liabilities by counterparty. The Company also nets across product lines and against cash collateral, provided the master netting and cash collateral agreements include such provisions. The Company may require counterparties to pledge additional collateral when deemed necessary. Therefore, the Company does not anticipate a material adverse effect on the financial statements as a result of counterparty nonperformance.

9. AFFILIATE TRANSACTIONS

The Company has agreements with Sequent for transportation and storage capacity to meet natural gas demands. The following table provides additional information on the Company's asset management agreements with Sequent.

	Expiration date	Type of fee structure	Annual fee	Profit sharing / fees payments 2016	Profit sharing / fees payments 2015
				(in thousands)	
Elizabethtown Gas	March 2019	Tiered	(a)	$ 15,043	$ 28,617
Florida City Gas	(b)	Profit-sharing	50%	1,169	767
Elkton Gas	March 2018	Fixed	(c)	14	14
Total				$ 16,226	$ 29,398

(a) 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 $4.25 million to Elizabethtown Gas and includes tiered margin sharing levels between Elizabethtown Gas and Sequent.

(b) The term of the agreement is evergreen and renews automatically each year unless terminated by either party.

(c) In December 2016, the term of the agreement was extended to March 31, 2018 at a rate of $1,125 per month.

Amounts Due to Affiliates

The Company had $62.6 million and $64.5 million in payable at December 31, 2016 and 2015, respectively, which was due to Southern Company Gas, primarily related to the participation in the Southern Company Gas money pool. The Company also had $305.3 million and $227.7 million outstanding at December 31, 2016 and 2015, respectively, related to a promissory note with Southern Company Gas. See Note 5 for additional information on the Affiliate Promissory Note.

The Company also engages in transactions with Southern Company Gas' affiliates consistent with its services and tax allocation agreements.

10. SUBSEQUENT EVENTS

Management evaluated subsequent events for potential recognition and disclosure through March 31, 2017, the date these financial statements were available to be issued, and determined that no significant events have occurred subsequent to period end.