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October 9, 2009

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VIA HAND DELIVERY

Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Application for Authority to Issue Debt Security During Calendar Year 2010, Pursuant to Section 366.04, F.S., and Chapter 25-8, F.A.C., by Florida City Gas

Dear Ms. Cole:

Enclosed for filing, please find an original and 5 copies of the Application of Florida City Gas for Authority to Issue Debt Security During the Calendar Year 2010, along with a copy of the pleading on diskette in Word format. A copy of this filing has also been provided to the Office of Public Counsel.

Your assistance in this matter is greatly appreciated. If you have any questions, please do not hesitate to contact me.

Sincerely,

Beth Keating

Beth Keating
AKERMAN SENTERFITT
106 East College Avenue, Suite 1200
Tallahassee, FL 32302-1877
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{TL205756;1}Enclosures

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application by Florida City Gas for Authority to Issue Debt Security Pursuant to Florida Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code	)))))	Docket No.__________ Filed: October 9, 2009

APPLICATION OF FLORIDA CITY GAS
FOR AUTHORITY TO ISSUE DEBT SECURITY

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

In support, Applicant states:

1. **Applicant Information:** The name and principal business address of Applicant are Pivotal Utility Holdings, Inc., 300 Connell Drive, Berkeley Heights, New Jersey 07922 Applicant is the indirect wholly owned subsidiary of AGL Resources Inc. ("AGLR"), an energy services holding company headquartered in Atlanta, Georgia. Applicant is engaged in the business of distributing natural gas in service territories located in portions of the states of New Jersey, Florida and Maryland. Through its Florida City Gas division, Applicant supplies natural gas to customers in Miami-Dade, Broward, Palm Beach, St. Lucie, Indian River, Martin, and Brevard Counties, Florida. Accordingly, Applicant is regulated as a "public utility" by the Florida Public Service Commission ("Commission") under Chapter 366, Florida Statutes. Exhibit A provides the Applicant's most recent audited financial statements.

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

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 Akerman Senterfitt 106 East College Avenue Suite 1200 Tallahassee, FL 32301	Elizabeth Wade Senior Regulatory Counsel AGL Resources Inc. Ten Peachtree Place, NW 15th Floor Atlanta, GA 30309

4. **Capital Stock and Funded Debt:** The following additional information regarding the financial condition of Applicant (and its ultimate parent corporation, AGLR) is submitted for the Commission's consideration:

a. Total authorized common stock of Applicant's ultimate corporate parent, AGLR, is 750,000,000 shares, of which 78,009,982 shares were issued and outstanding at June 30, 2009 and publicly traded on the New York Stock Exchange under the symbol "AGL";

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

c. As of June 30, 2009, AGLR held 710,813 shares in its treasury. The amount of capital stock held as reacquired securities by Applicant: none

d. The amount of capital stock pledged by Applicant or AGLR: none

e. The amount of Applicant's capital stock held by affiliated corporations: 100% held by NUI Corporation, a wholly owned subsidiary of AGLR.

f. The amount of capital stock held in any fund by Applicant or AGLR: none

The table below summarizes Applicant's outstanding loan agreements, pursuant to which Applicant has borrowed the proceeds of the offerings of industrial development revenue bonds by each of these public financing entities. The terms and payments under Applicant's loan agreements with the public financing entities mirrors those of the revenue bonds.

Description	Date	Principal amount	Interest
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	5-June-08	$46.5 million	variable rate bonds
Loan Agreement between Brevard County, Florida and Pivotal Utility Holdings	5-June-08	$20 million	variable rate bonds
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	4-Sept-08	$39 million	variable rate bonds
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	5-June-08	$54.6 million	variable rate bonds
Loan Agreement between New Jersey Economic Development Authority and Pivotal Utility Holdings	1-Dec-98	$40 million	5.25%

Applicant's indebtedness pursuant to these arrangements totals approximately $200.1 million. Applicant also has an additional $114,232,550 of long-term inter-company debt. As of June 30, 2009, Applicant's inter-company debt carries an interest rate of 5.92%, which rate approximates AGLR's weighted cost of capital for its outstanding long term debt as of December 31, 2008. Applicant does not anticipate redeeming any of these securities in calendar year 2010 but will if necessary to maintain its appropriate capital structure.

5. **Proposed Transactions:**

(a) Nature of Transactions: Applicant requests authorization to finance its on-going cash requirements through its participation and borrowings from and investments in AGLR's Utility Money Pool. Applicant will make short-term borrowings not to exceed $800,000,000 (aggregate for Applicant's three utilities) annually from the Utility Money Pool according to limits that are consistent, given the seasonal nature of Applicant's business and its anticipated cash demands, with Applicant's capitalization. Florida City Gas's share of these borrowings will not exceed $250 million. Applicant's requested authorization is consistent with the authority granted in Order Nos. PSC-05-1221-FOF-GU, PSC-06-1039-FOF-GU, PSC-07-0955-FOF-GU and PSC-08-0768-FOF-GU.

b. **Maximum Principal Amount:** The amount of short-term borrowings from the Utility Money Pool will not exceed $800,000,000.

c. **Present Estimate of Interest Rate:** The interest rate paid by Applicant on borrowings from the Utility Money Pool is essentially a pass-through of AGLR's cost for borrowing these funds under its commercial paper program. As of June 30, 2009 that interest rate was 0.609%.

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

e. **Additional Provisions:** none

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

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

8. **Counsel Passing on Legality of the Issue:**

Brian Betancourt
LeBoeuf, Lamb, Greene & MacRae, LLP
125 West 55th Street
New York, NY 10019

9. **Filings With Other State or Federal Regulatory Bodies:** Applicant has authority for participation in the Utility Money Pool from the New Jersey Board of Public Utilities, whose address is Two Gateway Center, Newark, New Jersey 07102. AGLR's Utility Money Pool was originally authorized by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935 (as amended), which was repealed as of February 2006.

10. **Control or Ownership:** There is no measure of control or ownership exercised by or over Applicant as to any other public utility. Applicant is a wholly owned subsidiary of its parent holding company, NUI Corporation, which is a wholly owned subsidiary of AGL Resources Inc.

WHEREFORE, Pivotal Utility Holdings, Inc. d/b/a Florida City Gas, doing business in Florida respectfully requests that the Commission:

(a) publish notice of intent to grant the application pursuant to Section 366.04(1), Florida Statutes, as soon as possible;

(b) schedule this matter for agenda as early as possible;

(c) authorize Applicant to make short-term borrowings not to exceed $800,000,000 annually from AGLR's Utility Money Pool for the purposes and in the manner described herein;

(d) grant such other relief as the Commission deems appropriate.

Respectfully submitted this 9th day of October, 2009.

Beth Keating

Beth Keating
Akerman Senterfitt Attorneys at Law
106 East College Avenue
Suite 1200
Tallahassee, FL 32301
(850) 224-9634
Attorneys for PIVOTAL UTILITY HOLDINGS, INC., d/b/a FLORIDA CITY GAS

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

Consolidated Financial Statements
As of and for the years ended December 31, 2008 and 2007

Pivotal Utility Holdings, Inc.

Consolidated Financial Statements

As of and for the years ended December 31, 2008 and 2007

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GLOSSARY OF KEY TERMS

Bcf	Billion cubic feet
ERC	Environmental remediation costs which are recoverable through rate mechanisms
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings
Florida Commission	Florida Public Service Commission
FSP	FASB Staff Position
GAAP	Accounting principles generally accepted in the United States of America
Moody's	Moody's Investors Service
New Jersey Commission	New Jersey Board of Public Utilities
NUI	NUI Corporation - an acquisition which was completed in November 2004
OCI	Other comprehensive income
OTC	Over-the-counter
Pivotal Utility	Pivotal Utility Holdings, Inc., doing business as Elizabethtown Gas, Elkton Gas and Florida City Gas
PP&E	Property, plant and equipment
PRP	Pipeline Replacement Program
S&P	Standard & Poor's Ratings Services
SFAS	Statement of Financial Accounting Standards
WNA	Weather normalization adjustment

REFERENCED ACCOUNTING STANDARDS

FIN 39	FASB Interpretation No. (FIN) 39 "Offsetting of Amounts Related to Certain Contracts"
FSP FIN 39-1	FASB Staff Position 39-1 "Amendment of FIN 39"
FIN 48	FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS Statement No. 109"
FSP FAS 133-1	FSP No. FAS 133-1, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133"
FSP FAS 157-3	FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active"
SFAS 71	SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS 109	SFAS No. 109, "Accounting for Income Taxes"
SFAS 133	SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"
SFAS 142	SFAS No. 142, "Goodwill and Other Intangible Assets"
SFAS 148	SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure"
SFAS 149	SFAS No. 149, "Amendment of SFAS 133 on Derivative Instruments and Hedging Activities"
SFAS 157	SFAS No. 157, "Fair Value Measurements"
SFAS 158	SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"
SFAS 161	SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities, an amendment of SFAS 133"

Report of Independent Auditors

To the Shareholder of Pivotal Utility Holdings, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of common shareholder's equity and of cash flows present fairly, in all material respects, the financial position of Pivotal Utility Holdings, Inc. (a wholly owned subsidiary of AGL Resources Inc.) and its subsidiaries at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Atlanta, Ga.
February 5, 2009

Pivotal Utility Holdings, Inc.
Consolidated Balance Sheets

In thousands	As of December 31, 2008	2007
Current assets		
Cash and cash equivalents	$1	$320
Receivables (less allowance for uncollectible accounts of $5,939 at December 31, 2008 and $6,077 at December 31, 2007)	126,157	122,222
Inventories	69,168	48,970
Elizabethtown Gas hedging program	19,163	3,994
Deferred natural gas costs	18,847	23,738
Prepaid expenses and other current assets	19,530	19,497
Total current assets	252,866	218,741
Property, plant and equipment		
Property, plant and equipment	1,011,372	958,739
Less accumulated depreciation	310,495	291,607
Property, plant and equipment — net	700,877	667,132
Other assets		
Goodwill (see Note 1)	176,560	177,300
Unrecovered environmental remediation	64,713	65,023
Elizabethtown Gas hedging program	3,645	199
Unrecovered postretirement benefits	2,889	3,497
Other	14,385	7,969
Total other assets	262,192	253,988
Total assets	$1,215,935	$1,139,861
Current liabilities		
Due to affiliates	$98,273	$71,598
Elizabethtown Gas hedging program	22,715	4,142
Customer deposits	12,463	12,606
Accrued taxes	9,642	15,111
Payables	8,479	7,431
Accrued environmental remediation liabilities – current portion	7,334	4,321
Deferred natural gas costs	1,271	2,002
Short-term debt and capital leases	868	13,303
Other current liabilities	11,034	8,644
Total current liabilities	172,079	139,158
Accumulated deferred income taxes	81,724	81,520
Long-term liabilities and other deferred credits (excluding long-term debt)		
Accumulated removal costs	78,437	70,417
Accrued environmental remediation liabilities	60,550	67,269
Accrued pension costs	31,886	3,730
Elizabethtown Gas hedging program	3,645	199
Accrued postretirement benefit costs	3,468	613
Regulatory tax liability	3,046	3,391
Unamortized investment tax credits	1,824	2,103
Other long-term liabilities and other deferred credits	28,879	32,767
Total long-term liabilities and other deferred credits (excluding long term debt)	211,735	180,489
Commitments and contingencies (see Note 7)		
Capitalization		
Long-term debt and capital leases, net of current portion	368,105	376,178
Common shareholder's equity; no par value; 12,807,111 shares authorized, issued and outstanding	382,292	362,516
Total capitalization	750,397	738,694
Total liabilities and capitalization	$1,215,935	$1,139,861

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Consolidated Income

In thousands	Year ended December 31, 2008	2007
Operating revenues	$631,749	$610,308
Operating expenses		
Cost of gas	449,467	424,612
Operation and maintenance	84,191	78,685
Depreciation and amortization	31,868	29,468
Taxes other than income taxes	5,794	5,760
Total operating expenses	571,320	538,525
Operating income	60,429	71,783
Other income	198	769
Interest expense, net	(13,307)	(17,145)
Earnings before income taxes	47,320	55,407
Income taxes	17,690	22,282
Net income	$29,630	$33,125

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Consolidated Common Shareholder's Equity

In thousands	Common shares	Premium on common stock	Earnings reinvested	Other comprehensive income (loss)	Total
Balance as of December 31, 2006	12,807	$153,862	$189,183	$8,272	$351,317
Comprehensive income:					
Net income	-	-	33,125	-	33,125
Gain resulting from unfunded pension and postretirement obligation (net of $4,831 in taxes)	-	-	-	6,626	6,626
Total comprehensive income					39,751
Dividends	-	-	(28,552)	-	(28,552)
Balance as of December 31, 2007	12,807	$153,862	$193,756	$14,898	$362,516
Comprehensive income:					
Net income	-	-	29,630	-	29,630
Loss resulting from unfunded pension and postretirement obligation (net of $14,535 in taxes)	-	-	-	(21,089)	(21,089)
Total comprehensive income					8,541
Conversion of debt to equity (Note 6)	-	11,235		-	11,235
Balance as of December 31, 2008	12,807	$165,097	$223,386	$(6,191)	$382,292

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.
Statements of Consolidated Cash Flows

In thousands	For the year ended December 31, 2008	2007
Cash flows from operating activities		
Net income	$29,630	$33,125
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	31,868	29,468
Deferred income taxes	14,457	12,331
Changes in certain assets and liabilities		
Inventories	(20,198)	11,054
Payables	1,048	(5,350)
Deferred natural gas costs	4,160	(9,608)
Accrued taxes	(5,469)	12,493
Receivables	(3,935)	(26,387)
Other – net	(13,735)	256
Net cash flow provided by operating activities	37,826	57,382
Cash flows from investing activities		
Expenditures for property, plant and equipment	(56,190)	(56,957)
Sale of properties	643	834
Net cash flow used in investing activities	(55,547)	(56,123)
Cash flows from financing activities		
Payments of gas facility revenue bonds	(161,000)	-
Issuances of variable rate gas facility revenue bonds	161,000	-
Dividends paid	-	(28,552)
Net repayments of short-term debt	(12,349)	(4,603)
Principal payments under capital lease obligations	(953)	(1,094)
Net borrowings from AGL Resources Inc.	30,704	33,216
Net cash flow provided by (used in) financing activities	17,402	(1,033)
Net (decrease) increase in cash and cash equivalents	(319)	226
Cash and cash equivalents at beginning of period	320	94
Cash and cash equivalents at end of period	$1	$320
Cash paid during the period for		
Interest	$6,059	$10,872
Income taxes	$1,912	$2,457

See Notes to Consolidated Financial Statements.

Pivotal Utility Holdings, Inc.

Notes to Consolidated Financial Statements

Note 1 - Accounting Policies and Methods of Application

General

The consolidated financial statements include all subsidiaries of Pivotal Utility, a wholly-owned subsidiary of AGL Resources Inc. (AGL Resources). Pivotal Utility is engaged in the sale and distribution of natural gas to approximately 383,000 customers in three states through its utility operating divisions which include Elizabethtown Gas (New Jersey), Florida City Gas (Florida) and Elkton Gas (Maryland). Unless the context requires otherwise, references to "we," "us," "our" or the "company" mean consolidated Pivotal Utility and its subsidiaries.

Basis of Presentation

Our consolidated financial statements as of and for the period ended December 31, 2008 and December 31, 2007, include our accounts and the accounts of our subsidiaries. We have eliminated any intercompany profits and transactions in consolidation; however, we have not eliminated intercompany profits when such amounts are probable of recovery under the affiliates' rate regulation process.

Certain amounts from prior periods have been reclassified and revised to conform to the current period presentation.

Cash and Cash Equivalents

Our cash and cash equivalents consist primarily of cash on deposit, money market accounts and certificates of deposit with original maturities of three months or less.

Receivables and Allowance for Uncollectible Accounts

Our receivables consist of natural gas sales and transportation services billed to residential, commercial, industrial and other customers. We bill customers monthly, and accounts receivable are due within 30 days. For the majority of our receivables, we establish an allowance for doubtful accounts based on our collection experience. On certain other receivables where we are aware of a specific customer's inability or reluctance to pay, we record an allowance for doubtful accounts against amounts due to reduce the net receivable balance to the amount we reasonably expect to collect. However, if circumstances change, our estimate of the recoverability of accounts receivable could be different. Circumstances that could affect our estimates include, but are not limited to, customer credit issues, the level of natural gas prices, customer deposits and general economic conditions. We write-off accounts once we deem them to be uncollectible.

Inventories

We record natural gas stored underground at weighted average cost.

Property, Plant and Equipment

Property, plant and equipment expenditures consist of property and equipment that is in use, being held for future use and under construction. We report it at its original cost, which includes the following:

- material and labor
- contractor costs
- construction overhead costs, and
- an allowance for funds used during construction (AFUDC) which represents the estimated cost of funds from both debt and equity sources, used to finance the construction of major projects and is capitalized in rate base for ratemaking purposes when the completed projects are placed in service.

We charge property retired or otherwise disposed of to accumulated depreciation since such costs are recovered in rates.

A summary of our PP&E by classification as of December 31, 2008 and 2007 is provided in the following table.

In thousands	2008	2007
Transmission and distribution	$879,002	$849,952
Storage	9,259	9,259
Other	90,089	84,266
Construction work in progress	33,022	15,262
Total gross PP&E	1,011,372	958,739
Accumulated depreciation	(310,495)	(291,607)
Total net PP&E	$700,877	$667,132

Depreciation Expense

We compute depreciation expense by applying composite, straight-line rates (approved by the state regulatory agencies) to the investment in depreciable property. The composite, straight-line rate for Elizabethtown Gas, Florida City Gas and Elkton Gas was approximately 3.3% for 2008 and 3.2% for 2007.

Allowance for Funds Used During Construction

Elizabethtown Gas is authorized by its state regulatory agency to record the cost of debt and equity funds as part of the cost of construction projects in our consolidated balance sheets and as AFUDC in the statements of consolidated income. The New Jersey Commission has authorized a variable rate based on the FERC method of accounting for AFUDC. At December 31, 2008 the rate was 2.84%. The total AFUDC for the years ended December 31, 2008, and 2007 was $299 thousand and $357 thousand, respectively. The capital expenditures of our other regulated utilities do not qualify for AFUDC treatment.

Goodwill

SFAS 142 requires AGL Resources to perform an annual goodwill impairment test at a reporting unit level. We performed this annual test as of our fiscal year-end or December 31, 2008 and 2007 and did not recognize any impairment charges. We also assess goodwill for impairment if events or changes in circumstances may indicate an impairment of goodwill exists. When such events or circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected future cash flows. In the event the sum of the expected future cash flows resulting from the use of the asset is less than the carrying value of the asset, we record an impairment loss equal to the excess of the asset's carrying value over its fair value. We conduct this assessment principally through a review of financial results, changes in state and federal legislation and regulation, regulatory and legal proceedings and the periodic regulatory filings for our company. Our goodwill decreased by $740 thousand due to accumulated deferred income tax adjustments associated with the acquisition of NUI.

Taxes

The reporting of our assets and liabilities for financial accounting purposes differs from the reporting for income tax purposes. The principal differences between net income and taxable income relate to the timing of deductions, primarily due to the benefits of tax depreciation since we generally depreciate assets for tax purposes over a shorter period of time than for book purposes. The determination of our provision for income tax purposes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We report the tax effects of depreciation and other differences in those items as deferred income tax assets or liabilities in our consolidated balance sheets in accordance with SFAS 109 and FIN 48. Investment tax credits at December 31, 2008, of approximately $1,824 thousand previously deducted for income tax purposes for Elizabethtown Gas, Florida City Gas and Elkton Gas have been deferred for financial accounting purposes and are being amortized as credits to income over the estimated lives of the related properties in accordance with regulatory requirements.

We do not collect income taxes from our customers on behalf of governmental authorities. We collect and remit various taxes on behalf of various governmental authorities. We record these amounts in our consolidated balance sheets except taxes in the state of Florida which we are required to include in revenues and operating expenses. These Florida related taxes are not material for any periods presented.

Revenues

We record revenues when services are provided to customers. Those revenues are based on rates approved by the state regulatory commissions of our utilities. The Elizabethtown Gas, Florida City Gas and Elkton Gas rate structures include volumetric rate designs that allow recovery of costs through gas usage. Revenues from sales and transportation services are recognized in the same period in which the related volumes are delivered to customers. Revenues from residential and certain commercial and industrial customers are recognized on the basis of scheduled meter readings. In addition, revenues are recorded for estimated deliveries of gas not yet billed to these customers, from the last meter reading date to the end of the accounting period. These are included in the consolidated balance sheets as unbilled revenue. For other commercial and industrial customers and all wholesale customers, revenues are based on actual deliveries to the end of the period.

The tariffs for Elizabethtown Gas contain WNA's that partially mitigate the impact of unusually cold or warm weather on customer billings and operating income. The WNA's purpose is to reduce the effect of weather on customer bills by reducing bills when winter weather is colder than normal and increasing bills when winter weather is warmer than normal.

Cost of gas

We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms set by the state regulatory agencies. Under these mechanisms, we defer (that is, include as a current asset or liability in the consolidated balance sheets and exclude from the statements of consolidated income) the difference between the actual cost of gas and what is collected from or billed to customers in a given period. The deferred amount is either billed or refunded to our customers prospectively through adjustments to the commodity rate.

Comprehensive Income

Our comprehensive income includes net income plus OCI, which includes $21,089 thousand of unrealized losses in 2008 and $6,626 thousand of unrealized gains in 2007 on minimum pension and postretirement liability adjustments affecting shareholder's equity that GAAP excludes from net income.

Use of Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The most significant estimates include our regulatory accounting, the allowance for doubtful accounts, allowance for contingencies, environmental liability accruals, unbilled revenue recognition, pension and postretirement obligations, derivative and hedging activities, and provision for income taxes. Our actual results could differ from those estimates.

Accounting Developments

SFAS 161 In March 2008, the FASB issued SFAS 161, which is effective for fiscal years beginning after November 15, 2008. SFAS 161 amends the disclosure requirements of SFAS 133 to provide an enhanced understanding of how and why derivative instruments are used, how they are accounted for and their effect on an entity's financial condition, performance and cash flows. We will adopt SFAS 161 effective on January 1, 2009, which will require additional disclosures, but will not have a financial impact to our consolidated results of operations, cash flows or financial condition.

FSP FAS 133-1 The FASB issued this FSP in September 2008 and it is effective for fiscal years beginning after November 15, 2008. This FSP requires more detailed disclosures about credit derivatives, including the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of the instruments. This FSP will have no financial impact to our consolidated results of operations, cash flows or financial condition. We will adopt FSP FAS 133-1 effective on January 1, 2009.

FSP FAS 157-3 The FASB issued this FSP in October 2008 and it is effective upon issuance including prior periods for which financial statements have not been issued. This FSP clarifies the application of SFAS 157 in an inactive market, including; how internal assumptions should be considered when measuring fair value, how observable market information in a market that is not active should be considered and how the use of market quotes should be used when assessing observable and unobservable data. We adopted this FSP as of September 30, 2008; it had no financial impact to our consolidated results of operations, cash flows or financial condition.

Note 2 - Amounts Due to Affiliates

We had $98,273 thousand in payables at December 31, 2008 and $71,598 thousand in payables at December 31, 2007, due to AGL Resources and affiliated companies, which consists primarily of our participation in AGL Resources' money pool to fund our working capital requirements.

Note 3 – Financial Instruments

Netting of Cash Collateral and Derivative Assets and Liabilities under Master Netting Arrangements

We maintain accounts with brokers to facilitate financial derivative transactions in support of our energy marketing and risk management activities. Based on the value of our positions in these accounts and the associated margin requirements, we may be required to deposit cash into these broker accounts.

On January 1, 2008, we adopted FSP FIN 39-1, which required that we offset cash collateral held in these broker accounts on our balance sheet with the associated fair value of the instruments in the accounts. Prior to the adoption of FIN 39-1 we presented such cash collateral on a gross basis within other current assets and liabilities on our consolidated balance sheet. Our cash collateral amounts are provided in the following table.

	As of December 31,	
In thousands	**2008**	**2007**
Obligations to return cash collateral	$(3,552)	$(148)

Fair value measurements

In September 2006, the FASB issued SFAS 157, which establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements; however, it eliminates inconsistencies in the guidance provided in previous accounting pronouncements. The carrying value of cash and cash equivalents, receivables, accounts payable, other current liabilities and accrued interest approximate fair value. The following table shows the carrying amounts and fair values of our long-term debt including any current portions included in our consolidated balance sheets.

In thousands	Carrying amount	Estimated fair value
As of December 31, 2008	$ 368,973	$360,774
As of December 31, 2007	377,132	372,086

We estimate the fair value of our revenue bonds debt using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile. In determining the market interest yield curve, we considered our currently assigned ratings for unsecured debt of BBB+ by S&P, Baa1 by Moody's and A- by Fitch. Furthermore, we estimated the fair value of our affiliate promissory notes and capital leases using the carrying amount. For more information on our debt see Note 6.

SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In December 2007, the FASB provided a one-year deferral of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually. We adopted SFAS 157 on January 1, 2008, for our financial assets and liabilities, which primarily consist of derivatives we record in accordance with SFAS 133. The adoption of SFAS 157 primarily impacts our disclosures and did not have a material impact on our results of operations, cash flows and financial condition. We will adopt SFAS 157 for our nonfinancial assets and liabilities on January 1, 2009, and are currently evaluating the impact to our results of operations, cash flows and financial condition.

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observance of those inputs. SFAS 157 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 SFAS 157 are as follows:

Level 1

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 items consist of financial instruments with exchange-traded derivatives.

Level 2

Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial and commodity instruments that are valued using valuation methodologies. These methodologies are primarily industry-standard methodologies that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. We obtain market price data from multiple sources in order to value some of our Level 2 transactions and this data is representative of transactions that occurred in the market place. As we aggregate our disclosures by counterparty, the underlying transactions for a given counterparty may be a combination of exchange-traded derivatives and values based on other sources. Instruments in this category include shorter tenor exchange-traded and non-exchange-traded derivatives such as OTC forwards and options.

Level 3

Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. We do not have any material assets or liabilities classified as level 3.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Recurring fair value measurements as of December 31, 2008				
In thousands	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Netting of cash collateral	Total carrying value
Assets:					
Derivatives – hedging program	$22,808	$-	$-	$-	$22,808
Liabilities:					
Derivatives – hedging program	22,808	-	-	3,552	26,360

The determination of the fair values above incorporates various factors required under SFAS 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of our nonperformance risk on our liabilities.

In accordance with a directive from the New Jersey Commission, Elizabethtown Gas enters into derivative transactions to hedge the impact of market fluctuations in natural gas prices. Pursuant to SFAS 133, such derivative products are marked to market each reporting period. In accordance with regulatory requirements, realized gains and losses related to these derivatives are reflected in deferred natural gas costs and ultimately included in billings to customers. Unrealized gains and losses are reflected as a regulatory asset or liability, as appropriate, in our consolidated balance sheets. As of December 31, 2008, Elizabethtown Gas had entered into over-the-counter swap contracts to purchase approximately 11 Bcf of natural gas. Approximately 57% of these contracts have durations of one year or less, and none of these contracts extends beyond January 2011. The fair value of these derivative instruments are listed in the following table. For more information on our regulatory assets and liabilities see Note 4.

In thousands	Current asset	Long-term asset	Current liability	Long-term liability
As of December 31, 2008	$19,163	$3,645	$22,715	$3,645
As of December 31, 2007	3,994	199	4,142	199

Note 4 - Regulatory Assets and Liabilities

We have recorded regulatory assets and liabilities in our consolidated balance sheets in accordance with SFAS 71. Our regulatory assets and liabilities, and associated liabilities for our unrecovered ERC and the associated assets and liabilities for Elizabethtown Gas hedging program, are summarized in the following table.

In thousands	As of December 31, 2008	2007
Regulatory assets		
Elizabethtown Gas unrecovered ERC	$66,015	$66,325
Unrecovered deferred natural gas costs	18,847	23,738
Unrecovered postretirement benefit costs	2,889	3,497
Other	18,330	9,240
Total regulatory assets	106,081	102,800
Associated assets		
Elizabethtown Gas hedging program	22,808	4,193
Total regulatory and associated assets	$128,889	$106,993
Regulatory liabilities		
Accumulated removal costs	$78,437	$70,417
Elizabethtown Gas hedging program	22,808	4,193
Regulatory tax liability	3,046	3,391
Unamortized investment tax credits	1,824	2,103
Deferred natural gas costs	1,271	2,002
Other	13,180	7,698
Total regulatory liabilities	120,566	89,804
Associated liabilities		
Elizabethtown Gas ERC	57,479	61,076
Total associated Liabilities	57,479	61,076
Total regulatory and associated liabilities	$178,045	$150,880

Our regulatory assets are recoverable through either rate riders or base rates specifically authorized by a state regulatory commission. Base rates are designed to provide both a recovery of cost and a return on investment during the period rates are in effect. As such, all our regulatory assets are subject to review by the respective state regulatory commission during any future rate proceedings. In the event that the provisions of SFAS 71 were no longer applicable, we would recognize a write-off of net regulatory assets that would result in a charge to net income, and be classified as an extraordinary item. Additionally, the regulatory liabilities would not be written-off but would continue to be recorded as liabilities but not as regulatory liabilities. Although the natural gas distribution industry is becoming increasingly competitive, our utility operations continue to recover their costs through cost-based rates established by the state regulatory commissions. As a result, we believe that the accounting prescribed under SFAS 71 remains appropriate. It is also our opinion that all regulatory assets are recoverable in future rate proceedings, and therefore we have not recorded any regulatory assets that are recoverable but are not yet included in base rates or contemplated in a rate rider.

All the regulatory assets included in the previous table are included in base rates except for the unrecovered PRP costs, unrecovered ERC and deferred natural gas costs, which are recovered through specific rate riders on a dollar for dollar basis. The rate riders that authorize recovery of the unrecovered PRP costs and the unrecovered deferred natural gas costs include both a recovery of costs and a return on investment during the recovery period. The ERC associated with the investigation and remediation of Elizabethtown Gas remediation sites located in the state of New Jersey are recovered under a remediation adjustment clause and include the carrying cost on unrecovered amounts not currently in rates. Elizabethtown Gas's hedging program asset and liability reflect unrealized losses or gains that will be recovered from or passed to rate payers through the recovery of its natural gas costs on a dollar for dollar basis, once the losses or gains are realized. Unrecovered postretirement benefit costs are recoverable through base rates over the next 5 to 24 years based on the remaining recovery period as designated by the applicable state regulatory commissions. The regulatory liabilities are refunded to ratepayers through a rate rider or base rates. If the regulatory liability is included in base rates, the amount is reflected as a reduction to the rate base in setting rates.

Pipeline Replacement Program

In August 2006, the New Jersey Commission issued an order adopting a pipeline replacement cost recovery rider program for the replacement of certain 8" cast iron main pipes and any unanticipated 10"-12" cast iron main pipes integral to the replacement of the 8" main pipes. The order allows Elizabethtown Gas to recognize revenues under a deferred recovery mechanism for costs to replace the pipe that exceeds a baseline amount of $3 million. Elizabethtown Gas' recognition of these revenues could be disallowed by the New Jersey Commission if its return on equity exceeds the authorized rate of 10%. The term of the stipulation is from the date of the order through December 31, 2008. Total replacement costs through December 31, 2008 were $21 million, of which $16 million will be eligible for the deferred recovery mechanism. Revenues recognized and deferred for recovery under the stipulation are estimated to be approximately $2 million. All costs incurred under the program are included in Elizabethtown Gas' current rate case, which was filed in March 2009.

Environmental Remediation Costs

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites.

In New Jersey, Elizabethtown Gas is currently conducting remediation activities with oversight from the New Jersey Department of Environmental Protection. Although we cannot estimate the actual total cost of future environmental investigation and remediation efforts with precision, based on probabilistic models similar to those used at one of our affiliated utilities' former operating sites, the range of reasonably probable costs is $57,479 thousand to $115,455 thousand. As of December 31, 2008, we have recorded a liability equal to the low end of the range, or $57,479 of which $6,710 thousand in expenditures are expected to be incurred over the next 12 months.

Prudently incurred remediation costs for the New Jersey properties have been authorized by the New Jersey Commission to be recoverable in rates through a remediation adjustment clause. As a result, Elizabethtown Gas has recorded a regulatory asset of approximately $66,015 thousand, inclusive of interest, as of December 31, 2008, reflecting the future recovery of both incurred costs and accrued carrying charges. Elizabethtown Gas expects to collect $1,302 thousand in revenues over the next 12 months. Elizabethtown Gas has also been successful in recovering a portion of remediation costs incurred in New Jersey from insurance carriers and we continue to pursue additional recovery.

Note 5 - Employee Benefit Plans

Oversight of Plans

The Retirement Plan Investment Committee (the Committee) appointed by AGL Resources' Board of Directors is responsible for overseeing the investments of the AGL Resources Inc. Retirement Plan (AGL Retirement Plan) and the Employees' Retirement Plan of NUI Corporation (NUI Retirement Plan). Further, AGL Resources has an Investment Policy (the Policy) for the AGL Retirement Plan and the NUI Retirement Plan that aims to preserve these plans' capital and maximize investment earnings in excess of inflation within acceptable levels of capital market volatility. To accomplish this goal, the AGL Retirement Plan and the NUI Retirement Plan assets are actively managed to optimize long-term return while maintaining a high standard of portfolio quality and proper diversification.

The Policy's risk management strategy establishes a maximum tolerance for risk in terms of volatility to be measured at 75% of the volatility experienced by the S&P 500. AGL Resources will continue to diversify the AGL Retirement Plan and the NUI Retirement Plan investments to minimize the risk of large losses in a single asset class. The Policy's permissible investments include domestic and international equities (including convertible securities and mutual funds), domestic and international fixed income (corporate and U.S. government obligations), cash and cash equivalents and other suitable investments. The asset mix of these permissible investments is maintained within the Policy's target allocations as described on page 17, but the Committee can vary allocations between various classes and/or investment managers in order to improve investment results.

Equity market performance and corporate bond rates have a significant effect on our reported unfunded accumulated benefit obligation (ABO), as the primary factors that drive the amount of our unfunded ABO are the assumed discount rate and the actual return on plan assets. Additionally, equity market performance has a significant effect on our market-related value of plan assets (MRVPA), which is a calculated value and differs from the actual market value of plan assets. The MRVPA recognizes the difference between the actual market value and expected market value of our plan assets and is determined by actuaries using a five-year moving weighted average methodology. Gains and losses on plan assets are spread through the MRVPA based on the five-year moving weighted average methodology, which affects the expected return on plan assets component of pension expense.

Pension Benefits

AGL Resources sponsors two tax-qualified defined benefit retirement plans for our eligible employees, the AGL Retirement Plan and the NUI Retirement Plan. A defined benefit plan specifies the amount of benefits an eligible participant eventually will receive using information about the participant. We generally calculate the benefits under the AGL Retirement Plan and the NUI Retirement Plan based on age, years of service and pay. The benefit formula for the AGL Retirement and the NUI Retirement Plan are a career average earnings formula, except for participants of the AGL Retirement Plan who were employees as of July 1, 2000, and who were at least 50 years of age as of that date. For those participants, we use a final average earnings benefit formula, and will continue to use this benefit formula for such participants until June 2010, at which time any of those participants who are still active will accrue future benefits under the career average earnings formula. The NUI Retirement Plan covers all of NUI's employees who were employed on or before December 31, 2006,

Postretirement Benefits

AGL Resources sponsors a defined benefit postretirement health care plan for eligible employees, - the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Postretirement Plan). Eligibility for benefits is based on age and years of service. The AGL Postretirement Plan covers all eligible AGL Resources employees who were employed as of June 30, 2002, if they reach retirement age while working for AGL Resources. The state regulatory commissions have approved phase-ins that defer a portion of other postretirement benefits expense for future recovery. We recorded a regulatory asset for these future recoveries of $2,889 thousand as of December 31, 2008 and $3,497 thousand as of December 31, 2007. In addition, we recorded a liability of $3,468 thousand as of December 31, 2008 and $613 thousand as of December 31, 2007 for our expected expenses under the AGL Postretirement Plan. AGL Resources expects to pay $7 million of insurance claims for the postretirement plan in 2009, but does not anticipate making any additional contributions.

Effective December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. This act provides for a prescription drug benefit under Medicare (Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Medicare-eligible participants receive prescription drug benefits through a Medicare Part D plan offered by a third party and to which we subsidize participant premiums. Medicare-eligible retirees who opt out of the AGL Postretirement Plan are eligible to receive a cash subsidy which may be used towards eligible prescription drug expenses.

Contributions

Our employees do not contribute to the retirement plans. Additionally, we annually fund our postretirement plan; however, our retirees contribute 20% of medical premiums, 50% of the medical premium for spousal coverage and 100% of the dental premium to the AGL Postretirement Plan. We fund the plans by contributing at least the minimum amount required by applicable regulations and as recommended by our actuary. However, we may also contribute in excess of the minimum required amount. We calculate the minimum amount of funding using the projected unit credit cost method.

The Pension Protection Act (the Act) of 2006 contained new funding requirements for single employer defined benefit pension plans. The Act establishes a 100% funding target for plan years beginning after December 31, 2008. However, a delayed effective date of 2011 may apply if the pension plan meets the following targets; 92% funded in 2008; 94% funded in 2009; and 96% funded in 2010. In December 2008, the Worker, Retiree and Employer Recovery Act of 2008 allowed us to measure our 2008 and 2009 funding target at 92%. In 2008 and 2007, we did not make contributions, as they were not required for our pension plans. For more information on our expected 2009 contributions to our pension plans, see Note 7.

SFAS 158

In September 2006, the FASB issued SFAS 158. Pivotal Utility adopted SFAS 158 prospectively on December 31, 2006. SFAS 158 requires that we recognize all obligations related to defined benefit pensions and other postretirement benefits. This statement requires that we quantify the plans' funding status as an asset or a liability on our consolidated balance sheets.

SFAS 158 further requires that we measure the AGL Retirement Plan and the NUI Retirement Plan assets and obligations that determine our funded status as of the end of the fiscal year. We are also required to recognize as a component of OCI the changes in funded status that occurred during the year that are not recognized as part of net periodic benefit costs as explained in SFAS No. 87, "Employers' Accounting for Pensions," or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

Based on the funded status of our defined benefit pension and postretirement benefit plans we reported an after-tax loss to our OCI of $21,089 thousand, an increase of $35,624 thousand to accrued pension and postretirement obligations and a decrease of $14,535 thousand to accumulated deferred income taxes. Our adoption of SFAS 158 on December 31, 2006, had no impact on our earnings. The following tables present details about AGL Resources pension and postretirement plans.

	AGL Retirement Plan		NUI Retirement Plan		AGL Postretirement Plan	
Dollars in millions	2008	2007	2008	2007	2008	2007
Change in benefit obligation						
Benefit obligation, January 1,	$353	$368	$74	$86	$94	$95
Service cost	7	7	-	-	-	1
Interest cost	22	21	4	5	6	6
Actuarial loss (gain)	9	(23)	-	(9)	(1)	-
Benefits paid	(21)	(20)	(6)	(8)	(4)	(8)
Benefit obligation, December 31,	$370	$353	$72	$74	$95	$94
Change in plan assets						
Fair value of plan assets, January 1,	$313	$303	$70	$72	$70	$63
Actual (loss) gain on plan assets	(93)	30	(22)	6	(21)	7
Employer contribution	1	-	-	-	4	8
Benefits paid	(21)	(20)	(6)	(8)	(4)	(8)
Fair value of plan assets, December 31,	$200	$313	$42	$70	$49	$70
Amounts recognized in the consolidated balance sheets consist of						
Current liability	$(1)	$(1)	$-	$-	$-	$-
Long-term liability	(169)	(39)	(30)	(4)	(46)	(24)
Total liability at December 31,	$(170)	$(40)	$(30)	$(4)	$(46)	$(24)
Pivotal Utility's share of net liability recorded on consolidated balance sheets (1)	$(2)	$-	$(30)	$(4)	$(3)	$(1)
Assumptions used to determine benefit obligations						
Discount rate	6.2%	6.4%	6.2%	6.4%	6.2%	6.4%
Rate of compensation increase	3.7%	3.7%	-	3.7%	3.7%	3.7%
Accumulated benefit obligation	$352	$337	$73	$74	N/A	N/A

(1) Values of $- represent amounts less than $1 million.

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

	AGL Retirement Plan		NUI Retirement Plan		AGL Postretirement Plan	
Dollars in millions	2008	2007	2008	2007	2008	2007
Net benefit cost						
Service cost	$7	$7	$-	$-	$-	$1
Interest cost	22	21	4	5	6	6
Expected return on plan assets	(26)	(25)	(6)	(6)	(6)	(5)
Net amortization	(1)	(1)	(1)	(1)	(4)	(4)
Recognized actuarial loss	3	7	-	-	1	1
Net annual pension and postretirement costs	$5	$9	$(3)	$(2)	$(3)	$(1)
Pivotal Utility's share of net annual pension and postretirement costs	$1	$1	$(3)	$(2)	$(1)	$-
Assumptions used to determine benefit costs						
Discount rate	6.4%	5.8%	6.4%	5.8%	6.4%	5.8%
Expected return on plan assets	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Rate of compensation increase	3.7%	3.7%	-	-	3.7%	3.7%

There were no other changes in plan assets and benefit obligations recognized for our retirement and postretirement plans for the year ended December 31, 2008.The 2009 estimated OCI amortization and expected refunds for these plans are set forth in the following table.

In millions	AGL Retirement Plan	NUI Retirement Plan	AGL Postretirement Plan
Amortization of prior service cost	$(1)	$(1)	$(4)
Amortization of net loss	14	1	2
Refunds expected	-	-	-

We consider a number of factors in determining and selecting assumptions for the overall expected long-term rate of return on plan assets. We consider the historical long-term return experience of our assets, the current and expected allocation of our plan assets, and expected long-term rates of return. We derive these expected long-term rates of return with the assistance of our investment advisors and generally base these rates on a 10-year horizon for various asset classes, our expected investments of plan assets and active asset management as opposed to investment in a passive index fund. We base our expected allocation of plan assets on a diversified portfolio consisting of domestic and international equity securities, fixed income, real estate, private equity securities and alternative asset classes.

We consider a variety of factors in determining and selecting our assumptions for the discount rate at December 31. We consider certain market indices, including Moody's Corporate AA long-term bond rate, the Citigroup Pension Liability rate, a single equivalent discount rate derived with the assistance of our actuaries and our own payment stream based on these indices to develop our rate. Consequently, we selected a discount rate of 6.2% as of December 31, 2008, following our review of these various factors. Our actual retirement and postretirement plans' weighted average asset allocations at December 31, 2008 and 2007 and our target asset allocation ranges are as follows:

	Target Range Asset Allocation	AGL Retirement Plan		NUI Retirement Plan		AGL Postretirement Plan	
		2008	2007	2008	2007	2008	2007
Equity	30%-95%	63%	68%	63%	71%	70%	73%
Fixed income	10%-40%	30%	25%	32%	27%	28%	26%
Real estate and other	10%-35%	6%	3%	-	2%	-	-
Cash	0%-10%	1%	4%	5%	-	2%	1%

The health care trend rate for the AGL Postretirement Plan is capped at 2.5%. This cap limits the increase in the contributions to the annual change in the consumer price index (CPI). An annual CPI rate of 2.5% was assumed for future years. Assumed health care cost trend rates impact the amounts reported for AGL Resources' health care plan. A one-percentage-point change in the assumed health care cost trend rates would have the following effects for the AGL Postretirement Plan.

	AGL Postretirement Plan One-Percentage-Point	
In millions	Increase	Decrease
Effect on total of service and interest cost	$-	$-
Effect on accumulated postretirement benefit obligation	4	(3)

The following table presents expected benefit payments for the years ended December 31, 2009 through 2018 for the retirement and postretirement health care plans. There will be benefit payments under these plans beyond 2018.

In millions	AGL Retirement Plan	NUI Retirement Plan	AGL Postretirement Plan
2009	$20	$6	$7
2010	20	6	7
2011	21	6	7
2012	21	6	7
2013	21	6	7
2014-2018	116	28	35
Total	$219	$58	$70

The following table presents the amounts not yet reflected in net periodic benefit cost and included in accumulated OCI as of December 31, 2008.

In millions	AGL Retirement Plan	NUI Retirement Plan	AGL Postretirement Plan
Prior service credit	$(7)	$(12)	$(17)
Net loss	195	21	39
Accumulated OCI	188	9	22
Net amount recognized in statement of financial position	(170)	(30)	(46)
Prepaid (accrued) cumulative employer contributions in excess of net periodic benefit cost	$18	$(21)	$(24)

There were no other changes in plan assets and benefit obligations recognized in the AGL Retirement Plan, the NUI Retirement Plan or the AGL Postretirement Plan for the year ended December 31, 2008.

Employee Savings Plan Benefits

AGL Resources sponsors a Retirement Savings Plus Plan (RSP), a defined contribution benefit plan that allows eligible participants to make contributions to their accounts up to specified limits.

Note 6 - Debt

Our issuance of various securities, including long-term and short-term debt, is subject to customary approval or authorization by state and federal regulatory bodies, including state public service commissions. The following table provides more information on our various securities.

Dollars in thousands	Year(s) due	Interest rate (1)	Weighted average Interest rate(2)	Outstanding as of Dec.31, 2008	Dec. 31, 2007
Short-term debt					
Capital leases	2009	4.9%	4.9%	$868	$954
Line of credit	-	-	-	-	12,349
Total short-term debt and capital leases		4.9%	4.9%	868	13,303
Long-term debt					
Gas facility revenue bonds, net of unamortized issuance costs	2022-2033	0.7-5.3%	3.2%	200,100	200,100
Affiliate Promissory note	2034	6.3	6.3	164,352	171,558
Capital leases	2013	4.9	4.9	3,653	4,520
Total long-term debt and capital leases		3.9%	4.6%	368,105	376,178
Total debt		**3.9%**	**4.6%**	$368,973	$389,481

(1) As of December 31, 2008.

(2) For the year ended December 31, 2008.

Short-term Debt

Our short-term debt at December 31, 2008 is composed of the current portions of our capital lease obligations. At December 31, 2007 short-term debt was composed of Pivotal Utility's line of credit and the current portions of our capital lease obligations.

Pivotal Utility Line of Credit This $20 million line of credit, which had been established to support Elizabethtown Gas' hedging program, was terminated in October 2008. For more information on this hedging program, see Note 3.

Long-term Debt

Our long-term debt matures more than one year from the balance sheet date and consists of gas facility revenue bonds, affiliate promissory note and capital leases. The notes are unsecured and rank on parity with all our other unsecured indebtedness.

Gas Facility Revenue Bonds Pivotal Utility is party to a series of loan agreements with the New Jersey Economic Development Authority (NJEDA) pursuant to which the NJEDA has issued a series of gas facility revenue bonds as shown in the following table.

Issue Date	Amount (in millions)	Interest rate	Maturity
July 1994 (1)	$47	0.70%	Oct. 2022
July 1994 (1)	20	1.10	Oct. 2024
June 1992 (1)	39	1.10	June 2026
June 1992 (1)	55	0.85	June 2032
July 1997	39	5.25	Nov. 2033
Total	$200		

(1) Interest rate is adjusted daily or weekly. Rates indicated are as of December 31, 2008.

In 2008, a portion of our gas facility revenue bonds failed to draw enough potential buyers due to the dislocation or disruption in the auction markets as a result of the downgrades to the bond insurers that provide credit protections for these instruments which reduced investor demand and liquidity for these types of investments. In March and April 2008, we tendered these bonds with a cumulative principal amount of $161 million through commercial paper borrowings.

In June and September 2008, we completed a Letter of Credit Agreement for these bonds which provided additional credit support which increased investor demand for the bonds. As a result, these bonds with a cumulative principal amount of $161 million were successfully auctioned and issued as variable rate gas facility bonds and reduced our commercial paper borrowings. The bonds with principal amounts of $55 million, $47 million and $39 million now have interest rates that reset daily and the bond with a principal amount of $20 million has an interest rate that resets weekly. There was no change to the maturity dates on these bonds.

Affiliate Promissory Note Pivotal Utility entered into a promissory note with AGL Resources (Affiliate Promissory Note) for the purpose of refinancing short-term debt and recapitalizing the capital structure of Pivotal Utility and of its utility operating divisions, Elizabethtown Gas, Florida City Gas and Elkton Gas, in accordance with Pivotal Utility's target capitalization of 45% and with authorizations of the New Jersey Commission and the Florida Commission. The Affiliate Promissory Note is adjusted from time to time to maintain the appropriate targeted capitalization percentages. Accordingly, during 2008, $11,235 thousand was converted from the Affiliate Promissory Note to equity to maintain such ratios. The Affiliate Promissory Note is due December 31, 2034 and had an initial interest rate of 6.28%, which adjusts on a periodic basis based upon weighted-average costs and expenses of borrowing the then outstanding long-term debt of both AGL Resources and AGL Capital Corporation, a wholly-owned financing subsidiary of AGL Resources. As of December 31, 2008, the interest rate on this note was 6.25%. The initial principal amount of the Affiliate Promissory Note of $72 million is adjusted on an annual basis to conform with Pivotal Utility's target capitalization of 45% and with the authorizations of the New Jersey Commission and the Florida Commission. As of December 31, 2008, the amount outstanding under the Affiliate Promissory Note was $164,352 thousand.

Capital Leases Our capital leases consist primarily of a sale/leaseback transaction completed in 2002 by Florida City Gas related to its gas meters and other equipment and will be repaid at approximately $1 million per year until 2013. Pursuant to the terms of the lease agreement, Florida City Gas is required to insure the leased equipment during the lease term. In addition, at the expiration of the lease term, Florida City Gas has the option to purchase the leased meters from the lessor at their fair market value. The fair market value of the equipment will be determined on the basis of an arm's-length transaction between an informed and willing buyer.

Note 7 - Commitments and Contingencies

We have incurred various contractual obligations and financial commitments in the normal course of our operating and financing activities. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. The following table illustrates our expected future contractual payments such as debt and lease agreements, and commitment and contingencies as of December 31, 2008.

		Payments due before December 31,			
In thousands	**Total**	**2009**	**2010 & 2011**	**2012 & 2013**	**2014 & thereafter**
Long-term debt	$368,105	$-	$1,755	$1,898	$364,452
Pipeline charges, storage capacity and gas supply	273,574	56,972	90,341	49,608	76,653
Interest charges	77,998	3,719	7,022	7,023	60,234
Environmental remediation costs	67,884	7,334	30,027	30,523	-
Operating leases	56,647	6,021	8,236	8,135	34,255
Standby letters of credit, performance / surety bonds	1,194	1,019	175	-	-
Pension contributions	1,140	1,140	-	-	-
Short-term debt	868	868	-	-	-
Total	$847,410	$77,073	$137,556	$97,187	$535,594

Environmental Remediation Costs

We own a former NUI remediation site in Elizabeth City, North Carolina that is subject to a remediation order by the North Carolina Department of Energy and Natural Resources. We had recorded liabilities of $10 million and $11 million as of December 31, 2008 and 2007, respectively, related to this site.

There is one other site in North Carolina where investigation and remediation is likely, although no remediation order exists and we do not believe costs associated with this site can be reasonably estimated. In addition, there are as many as six other sites with which NUI had some association, although no basis for liability has been asserted, and accordingly we have not accrued any remediation liability. There are currently no cost recovery mechanisms for the environmental remediation sites in North Carolina.

Litigation

We are involved in litigation arising in the normal course of business. We believe the ultimate resolution of such litigation will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Note 8 - Income Taxes

We have two categories of income taxes in our statements of consolidated income: current and deferred. Current income tax expense consists of federal and state income tax less applicable tax credits related to the current year. Deferred income tax expense generally is equal to the changes in the deferred income tax liability and regulatory tax liability during the year.

Investment Tax Credits

Deferred investment tax credits associated with Pivotal Utility are included as a regulatory liability in our consolidated balance sheets. These investment tax credits are being amortized over the estimated life of the related properties as credits to income in accordance with regulatory requirements. We reduce income tax expense in our statements of consolidated income for the investment tax credits. Components of income tax expense shown in the statements of consolidated income are as follows.

	Year ended December 31,	
In thousands	2008	2007
Current income taxes		
Federal	$2,888	$7,671
State	624	2,676
Deferred income taxes		
Federal	12,289	9,087
State	2,168	3,244
Investment tax credits	(279)	(396)
Total	$17,690	$22,282

The reconciliations between the statutory federal income tax rate, the effective rate and the related amount of tax for the year ended December 31, 2008 and 2007 are presented in the following table.

	2008		2007	
Dollars in thousands	Amount	% of Pretax Income	Amount	% of Pretax Income
Computed tax expense at statutory rate	$16,562	35.0%	$19,393	35.0%
State income tax, net of federal income tax benefit	3,132	6.6	3,485	6.3
Amortization of investment tax credits	(279)	(0.6)	(396)	(1.0)
Other -- net	(1,725)	(3.6)	(200)	(0.1)
Total income tax expense at effective rate	$17,690	37.4%	$22,282	40.2%

Accumulated Deferred Income Tax Assets and Liabilities

We report some of our assets and liabilities differently for financial accounting purposes than we do for income tax purposes. We report the tax effects of the differences in those items as deferred income tax assets or liabilities in our consolidated balance sheet. We measure the assets and liabilities using income tax rates that are currently in effect. Because of the regulated nature of the utilities' business, we recorded a regulatory tax liability in accordance with SFAS 109, which we are amortizing over approximately 30 years. Components that give rise to the net accumulated deferred income tax liability are as follows.

In thousands	As of December 31, 2008	2007
Accumulated deferred income tax liabilities		
Property - accelerated depreciation and other property-related items	$88,600	$72,561
Unrecovered gas costs	7,591	8,938
Plant acquisition adjustments	278	278
Pension and other employee benefits	434	13,672
Other	5,470	4,156
Total accumulated deferred income tax liabilities	$102,373	$99,605
Accumulated deferred income tax assets		
Environmental remediation liability	$3,035	$92
Bad debts and insurance reserves	2,483	2,902
Other	15,131	15,091
Total accumulated deferred income tax assets	20,649	18,085
Net accumulated deferred tax liability	$81,724	$81,520

Note 9 - Related Party Transactions

We have agreements with our affiliate, Sequent Energy Management, L.P. (Sequent) for transportation and storage capacity to meet our natural gas demands. The following table provides additional information on our asset management agreements with Sequent.

Dollars in millions	Expiration date	Type of fee structure	Annual fee	Profit sharing / fees payments 2008	2007
Elkton Gas	Mar 2009	Fixed-fee	(A)	$-	$-
Elizabethtown Gas	Mar 2011	Tiered Structure	(B)	5	6
Florida City Gas	Mar 2013	Profit -sharing	50%	1	1
Total				$6	$7

(A) Annual fixed fee is approximately $14,000. This agreement is in a year-to-year evergreen period and can be terminated with ninety days notice prior to the end of subsequent terms.

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

See Note 2, Note 5 and Note 6 for discussion of other intercompany transactions.

Pivotal Utility also engages in transactions with AGL Resources' affiliates consistent with its services and tax allocation agreements.