AGL RESOURCES INC
Form 10-Q
August 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2011

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-14174

AGL RESOURCES INC.
(Exact name of registrant as specified in its charter)

Georgia	58-2210952
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Ten Peachtree Place NE, Atlanta, Georgia 30309
(Address and zip code of principal executive offices)

404-584-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” ”accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding as of July 29, 2011
Common Stock, $5.00 Par Value	78,461,591

AGL RESOURCES INC.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2011

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Glossary of Key Terms

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GLOSSARY OF KEY TERMS

2010 Form 10-K	Our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 9, 2011
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Bridge Facility	Credit agreement entered into by AGL Capital Corporation to finance a portion of the proposed merger with Nicor
Chattanooga Gas	Chattanooga Gas Company
Credit Facility	$1.0 billion credit agreement entered into by AGL Capital Corporation
EBIT	Earnings before interest and taxes, a non-GAAP measure that includes operating income and other income and excludes financing costs, including interest and debt and income tax expense each of which we evaluate on a consolidated level; as an indicator of our operating performance, EBIT should not be considered an alternative to, or more meaningful than, earnings before income taxes, or net income attributable to AGL Resources Inc. as determined in accordance with GAAP
ERC	Environmental remediation costs associated with our distribution operations segment which are generally recoverable through rate mechanisms
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings
GAAP	Accounting principles generally accepted in the United States of America
Georgia Commission	Georgia Public Service Commission, the state regulatory agency for Atlanta Gas Light
Golden Triangle Storage	Golden Triangle Storage, Inc.
Hampton Roads	Virginia Natural Gas' pipeline project which connects its northern and southern pipelines
Heating Degree Days	A measure of the effects of weather on our businesses, calculated when the average daily temperatures are less than 65 degrees Fahrenheit
Heating Season	The period from November through March when natural gas usage and operating revenues are generally higher because more customers are connected to our distribution systems when weather is colder
Jefferson Island	Jefferson Island Storage & Hub, LLC
LOCOM	Lower of weighted-average cost or current market price
Magnolia	Magnolia Enterprise Holdings, Inc.
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission
Moody's	Moody's Investors Service
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
Nicor	Nicor Inc., an Illinois corporation
NYMEX	New York Mercantile Exchange, Inc.
OCI	Other comprehensive income
Operating margin	A non-GAAP measure of income, calculated as operating revenues minus cost of gas, that excludes operation and maintenance expense, depreciation and amortization, taxes other than income taxes, and the gain or loss on the sale of our assets; these items are included in our calculation of operating income as reflected in our Condensed Consolidated Statements of Income. Operating margin should not be considered an alternative to, or more meaningful than, operating income as determined in accordance with GAAP
Piedmont	Piedmont Natural Gas Company, Inc.
PP&E	Property, plant and equipment

Regulatory Infrastructure Program	Programs that update or expand our distribution systems and liquefied natural gas facilities to improve system reliability and meet operational flexibility and growth. These programs include the pipeline replacement program and the STRIDE program at Atlanta Gas Light and Elizabethtown Gas' utility infrastructure enhancements program.
S&P	Standard & Poor's Ratings Services
SEC	Securities and Exchange Commission
Sequent	Sequent Energy Management, L.P.
SouthStar	SouthStar Energy Services LLC
STRIDE	Atlanta Gas Light's Strategic Infrastructure Development and Enhancement program
Term Loan Facility	$300 million credit agreement entered into by AGL Capital Corporation of which $150 million was drawn in January 2011 and subsequently repaid and the agreement terminated in February 2011
VaR	Value at risk is defined as the maximum potential loss in portfolio value over a specified time period that is not expected to be exceeded within a given degree of probability
Virginia Natural Gas	Virginia Natural Gas, Inc.
WACOG	Weighted-average cost of gas

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PART 1 – Financial Information
Item 1. Financial Statements

AGL RESOURCES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

		As of	
In millions	Jun. 30, 2011	Dec. 31, 2010	Jun. 30, 2010
Current assets			
Cash and cash equivalents	$ 21	$ 24	$ 16
Receivables			
Energy marketing receivables (Note 2)	614	788	520
Gas, unbilled and other receivables	181	390	161
Less: allowance for uncollectible accounts	22	16	21
Total receivables	773	1,162	660
Inventories, net (Note 2)	544	639	560
Derivative financial instruments – current portion (Note 2, Note 4 and Note 5)	122	182	160
Recoverable regulatory infrastructure program costs – current portion (Note 2)	47	48	44
Recoverable environmental remediation costs – current portion (Note 2 and Note 9)	7	7	8
Other current assets	89	104	77
Total current assets	1,603	2,166	1,525
Long-term assets and other deferred debits			
Property, plant and equipment	6,447	6,266	6,150
Less: accumulated depreciation	1,860	1,861	1,849
Property, plant and equipment-net	4,587	4,405	4,301
Goodwill	418	418	418
Recoverable regulatory infrastructure program costs (Note 2)	281	244	259
Recoverable environmental remediation costs (Note 2 and Note 9)	215	164	156
Derivative financial instruments (Note 2, Note 4 and Note 5)	30	46	49
Other	83	79	78
Total long-term assets and other deferred debits	5,614	5,356	5,261
Total assets	$ 7,217	$ 7,522	$ 6,786
Current liabilities			
Energy marketing trade payable (Note 2)	$ 681	$ 744	$ 599
Short-term debt (Note 4 and Note 7)	144	733	394
Accounts payable – trade	138	184	121
Accrued expenses	112	139	99
Accrued regulatory infrastructure program costs – current portion (Note 2)	90	62	67
Derivative financial instruments – current portion (Note 2, Note 4 and Note 5)	22	44	67
	20	14	16

Accrued environmental remediation liabilities – current portion (Note 2 and Note 9)					
Current portion of long-term debt		10		300	300
Other current liabilities		182		212	199
Total current liabilities		1,399		2,432	1,862
Long-term liabilities and other deferred credits					
Long-term debt (Note 4 and Note 7)		2,164		1,673	1,553
Accumulated deferred income taxes		853		768	729
Accumulated removal costs		253		182	186
Accrued environmental remediation liabilities (Note 2 and Note 9)		171		129	123
Accrued regulatory infrastructure program costs (Note 2)		168		166	175
Accrued pension obligations (Note 6)		152		186	146
Accrued postretirement benefit costs (Note 6)		32		36	34
Derivative financial instruments (Note 2, Note 4 and Note 5)		7		4	8
Other long-term liabilities and other deferred credits		104		110	143
Total long-term liabilities and other deferred credits		3,904		3,254	3,097
Total liabilities and other deferred credits		5,303		5,686	4,959
Commitments and contingencies (Note 9)					
Equity					
AGL Resources Inc. common shareholders' equity, $5 par value; 750,000,000 shares authorized		1,896		1,813	1,810
Noncontrolling interest (Note 8)		18		23	17
Total equity		1,914		1,836	1,827
Total liabilities and equity	$	7,217	$	7,522	$ 6,786

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Key Terms

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AGL RESOURCES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

In millions, except per share amounts	Three months ended June 30, 2011	2010	Six months ended June 30, 2011	2010
Operating revenues	$ 375	$ 359	$ 1,253	$ 1,362
Operating expenses				
Cost of gas	134	141	589	712
Operation and maintenance	127	119	258	244
Depreciation and amortization	42	39	83	79
Taxes other than income taxes	12	12	25	26
Total operating expenses	315	311	955	1,061
Operating income	60	48	298	301
Other income	2	0	3	2
Interest expense, net	(32)	(26)	(61)	(54)
Earnings before income taxes	30	22	240	249
Income tax expense	11	8	87	90
Net income	19	14	153	159
Less net income attributable to the noncontrolling interest (Note 8)	1	0	11	11
Net income attributable to AGL Resources Inc.	$ 18	$ 14	$ 142	$ 148
Per common share data (Note 2)				
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	$ 0.23	$ 0.17	$ 1.83	$ 1.91
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	$ 0.23	$ 0.17	$ 1.82	$ 1.90
Cash dividends declared per common share	$ 0.45	$ 0.44	$ 0.90	$ 0.88
Weighted-average number of common shares outstanding (Note 2)				
Basic	77.9	77.4	77.8	77.3
Diluted	78.5	77.8	78.3	77.7

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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AGL RESOURCES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	AGL Resources Inc. Shareholders							
	Common stock		Premium on common	Earnings	Accumulated other comprehensive	Treasury	Noncontrolling	
In millions, except per share amounts	Shares	Amount	stock	reinvested	loss	shares	interest	Total
Balance as of Dec. 31, 2009	77.5	$ 390	$ 679	$ 848	$ (116)	$ (21)	$ 39	$ 1,819
Net income	0.0	0	0	148	0	0	11	159
Other comprehensive loss	0.0	0	0	0	(11)	0	0	(11)
Dividends on common stock ($0.88 per share)	0.0	0	0	(68)	0	2	0	(66)
Purchase of additional 15% ownership interest in SouthStar	0.0	0	(51)	0	(1)	0	(6)	(58)
Distributions to noncontrolling interest (Note 8)	0.0	0	0	0	0	0	(27)	(27)
Purchase of treasury shares	(0.1)	0	0	0	0	(2)	0	(2)
Issuance of treasury shares	0.6	0	(8)	(2)	0	18	0	8
Stock-based compensation expense (net of tax)	0.0	0	4	0	0	1	0	5
Balance as of Jun. 30, 2010	78.0	$ 390	$ 624	$ 926	$ (128)	$ (2)	$ 17	$ 1,827

	AGL Resources Inc. Shareholders							
	Common stock		Premium on common	Earnings	Accumulated other comprehensive	Treasury	Noncontrolling	
In millions, except per share amounts	Shares	Amount	stock	reinvested	loss	shares	interest	Total
Balance as of Dec. 31, 2010	78.0	$ 391	$ 631	$ 943	$ (150)	$ (2)	$ 23	$ 1,836
Net income	0.0	0	0	142	0	0	11	153
Other comprehensive loss	0.0	0	0	0	(1)	0	0	(1)
Dividends on common stock ($0.90 per share)	0.0	0	2	(70)	0	0	0	(68)
Distributions to noncontrolling interest (Note 8)	0.0	0	0	0	0	0	(16)	(16)

Benefit, dividend reinvestment and stock purchase plans	0.4	2	8	0	0	(2)	0	8
Purchase of treasury shares	0.0	0	0	0	0	(2)	0	(2)
Stock-based compensation expense (net of tax)	0.0	0	4	0	0	0	0	4
Balance as of Jun. 30, 2011	78.4	$ 393	$ 645	$ 1,015	$ (151)	$ (6)	$ 18	$ 1,914

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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AGL RESOURCES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

In millions	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Comprehensive income attributable to AGL Resources Inc. (net of tax)				
Net income attributable to AGL Resources Inc.	$ 18	$ 14	$ 142	$ 148
Cash flow hedges:				
Derivative financial instruments unrealized losses arising during the period	0	(11)	(1)	(17)
Reclassification of derivative financial instruments realized losses included in net income	0	2	0	6
Other comprehensive loss	0	(9)	(1)	(11)
Comprehensive income	$ 18	$ 5	$ 141	$ 137
Comprehensive income attributable to noncontrolling interest (net of tax)				
Net income attributable to noncontrolling interest	$ 1	$ 0	$ 11	$ 11
Cash flow hedges:				
Derivative financial instruments unrealized losses arising during the period	0	0	0	(1)
Reclassification of derivative financial instruments realized losses included in net income	0	0	0	1
Other comprehensive income	0	0	0	0
Comprehensive income	$ 1	$ 0	$ 11	$ 11
Total comprehensive income, including portion attributable to noncontrolling interest (net of tax)				
Net income	$ 19	$ 14	$ 153	$ 159
Cash flow hedges:				
Derivative financial instruments unrealized losses arising during the period	0	(11)	(1)	(18)
Reclassification of derivative financial instruments realized losses included in net income	0	2	0	7
Other comprehensive loss	0	(9)	(1)	(11)
Comprehensive income	$ 19	$ 5	$ 152	$ 148

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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AGL RESOURCES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

In millions	Six months ended June 30, 2011	2010
Cash flows from operating activities		
Net income	$153	$159
Adjustments to reconcile net income to net cash flow provided by operating activities		
Change in derivative financial instrument assets and liabilities	57	44
Depreciation and amortization	83	79
Deferred income taxes	64	36
Changes in certain assets and liabilities		
Inventories	95	112
Energy marketing receivables and energy marketing trade payables, net (Note 2)	111	170
Deferred natural gas costs	26	1
Gas, unbilled and other receivables	215	208
Gas and trade payables	(46)	(75)
Other – net	(98)	(19)
Net cash flow provided by operating activities	660	715
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(196)	(249)
Other	0	(2)
Net cash flow used in investing activities	(196)	(251)
Cash flows from financing activities		
Net payments and borrowings of short-term debt	(589)	(208)
Payment of senior notes	(300)	0
Dividends paid on common shares	(68)	(66)
Distribution to noncontrolling interest (Note 8)	(16)	(27)
Purchase of treasury shares	(2)	(2)
Issuance of senior notes	495	0
Purchase of additional 15% ownership interest in SouthStar	0	(58)
Payment of gas facility revenue bonds	0	(121)
Benefit, dividend reinvestment and stock purchase plans	8	8
Other	5	0
Net cash flow used in financing activities	(467)	(474)
Net decrease in cash and cash equivalents	(3)	(10)
Cash and cash equivalents at beginning of period	24	26
Cash and cash equivalents at end of period	$21	$16
Cash paid during the period for		
Interest	$56	$53
Income taxes	$10	$35

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Key Terms

EAGL RESOURCES INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Organization and Basis of Presentation

General

AGL Resources Inc. is an energy services holding company that conducts substantially all its operations through its subsidiaries. Unless the context requires otherwise, references to “we,” “us,” “our,” “the company,” or “AGL Resources” mean consolidated AGL Resources Inc. and its subsidiaries.

In December 2010, we entered into an Agreement and Plan of Merger (Merger Agreement) with Nicor, which we anticipate completing during the second half of 2011. See Note 3 for additional discussion of the proposed merger.

The December 31, 2010 Condensed Statement of Financial Position data was derived from our audited financial statements, but does not include all disclosures required by GAAP. We have prepared the accompanying unaudited Condensed Consolidated Financial Statements under the rules and regulations of the SEC. In accordance with such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with GAAP. Our Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of our financial results for the interim periods. You should read these Condensed Consolidated Financial Statements in conjunction with our Consolidated Financial Statements and related notes included in Item 8 of our 2010 Form 10-K.

Due to the seasonal nature of our business, our results of operations for the three and six months ended June 30, 2011 and 2010, and our financial condition as of December 31, 2010, and June 30, 2011 and 2010, are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period.

Basis of Presentation

Our Condensed Consolidated Financial Statements include our accounts, the accounts of our majority-owned and controlled subsidiaries and the accounts of our variable interest entity for which we are the primary beneficiary. We have eliminated intercompany profits and transactions in consolidation except for intercompany profits where recovery of such amounts are probable under the affiliates’ rate regulation process. Certain amounts from prior periods have been reclassified and revised to conform to the current period presentation. The reclassifications and revisions had no material impact on our prior period balances.

Note 2 – Significant Accounting Policies and Methods of Application

Use of Accounting Estimates

Our accounting policies are described in Note 2 to our Consolidated Financial Statements and related notes included in Item 8 of our 2010 Form 10-K. There were no significant changes to our accounting policies during the six months ended June 30, 2011.

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 and the related disclosures of contingent assets and liabilities. We based our estimates on historical experience, where applicable, and various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis and make adjustments in subsequent periods to reflect more current information if we determine that updated assumptions and estimates are warranted. Our estimates may involve complex situations requiring a high degree of judgment either in the application and interpretation of existing financial accounting literature or in the development of estimates that impact our financial statements. The most significant estimates include our regulatory infrastructure program accruals, ERC liability accruals, allowance for uncollectible accounts, contingencies, pension and postretirement obligations, derivative and hedging activities and provision for income taxes. Our actual results could differ from those estimates and such differences could be material.

Fair Value Measurements

The carrying values of cash and cash equivalents, receivables, derivative financial assets and liabilities, accounts payable, other current assets and liabilities and accrued interest approximate fair value. There have been no significant changes to our fair value methodologies, as described in Note 2 to our Consolidated Financial Statements and related notes included in Item 8 of our 2010 Form 10-K.

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As defined in the authoritative guidance related to fair value measurements and disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in 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 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. See Note 4 for additional fair value disclosure.

Energy Marketing Receivables and Payables

Our wholesale services segment provides services to retail and wholesale marketers and utility and industrial customers. These customers, also known as counterparties, utilize netting agreements, which enable wholesale services to net receivables and payables by counterparty. Wholesale services also nets across product lines and against cash collateral, provided the master netting and cash collateral agreements include such provisions. The amounts due from or owed to wholesale services' counterparties are netted and recorded on our Condensed Consolidated Statements of Financial Position as energy marketing receivables and energy marketing payables.

Our wholesale services segment has some trade and credit contracts that have explicit minimum credit rating requirements. These credit rating requirements typically give counterparties the right to suspend or terminate credit if our credit ratings are downgraded to non-investment grade status. Under such circumstances, wholesale services would need to post collateral to continue transacting business with some of its counterparties. No collateral has been posted under such provisions since our credit ratings have always exceeded the minimum requirements. As of June 30, 2011, December 31, 2010 and June 30, 2010, the collateral that wholesale services would have been required to post if our credit ratings had been downgraded to non-investment grade status would not have had a material impact to our consolidated results of operations, cash flows or financial condition. However, if such collateral were not posted, wholesale services' ability to continue transacting business with these counterparties would be negatively impacted.

Inventories

For our distribution operations segment, we record natural gas stored underground at the WACOG. For Sequent and SouthStar we account for natural gas inventory at the lower of WACOG or market price. SouthStar and Sequent evaluate the weighted-average cost of their natural gas inventories against market prices to determine whether any declines in market prices below the WACOG are other-than-temporary. For any declines considered to be other-than-temporary, we record adjustments to reduce the weighted-average cost of the natural gas inventory to market price. SouthStar and Sequent recorded LOCOM adjustments for the periods presented as follows:

	Three months ended June 30,		Six months ended June 30,	
In millions	2011	2010	2011	2010
SouthStar	$ 0	$ 0	$ 0	$ 0
Sequent	$ 0	$ 0	$ 0	$ 4

Regulatory Assets and Liabilities

We account for the financial effects of regulation in accordance with authoritative guidance related to regulated entities whose rates are designed to recover the costs of providing service. In accordance with this guidance, incurred costs and estimated future expenditures that would otherwise be charged to expense are capitalized and recorded as regulatory assets when it is probable that the incurred costs or estimated future expenditures will be recovered in rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have not yet been incurred. Generally, regulatory assets are amortized into expense and regulatory liabilities are amortized into income over the period authorized by the regulatory commissions. Further, we are not aware of any evidence that these costs will not be recoverable through either rate riders or base rates, and believe that we will be able to recover these costs, consistent with our historical recoveries.

As of June 30, 2011, there have been no new types of regulatory assets or liabilities from those discussed in Note 2 to our Consolidated Financial Statements and related notes in Item 8 of our 2010 Form 10-K.

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Our regulatory assets and liabilities and the associated assets and liabilities are summarized in the following table.

In millions	Jun. 30, 2011	Dec. 31, 2010	Jun. 30, 2010
Regulatory assets			
Recoverable regulatory infrastructure program costs	$328	$292	$303
Recoverable ERC	222	171	164
Recoverable seasonal rates	0	11	0
Recoverable postretirement benefit costs	9	9	10
Other	42	42	44
Total regulatory assets	601	525	521
Associated assets			
Derivative financial instruments	12	20	23
Total regulatory and associated assets	$613	$545	$544
Regulatory liabilities			
Accumulated removal costs	$253	$182	$186
Derivative financial instruments	12	20	23
Regulatory tax liability	15	15	16
Unamortized investment tax credit	11	12	12
Deferred natural gas costs	49	23	31
Deferred seasonal rates	8	0	9
Other	26	24	20
Total regulatory liabilities	374	276	297
Associated liabilities			
Regulatory infrastructure program costs	258	228	242
ERC	180	132	128
Total associated liabilities	438	360	370
Total regulatory and associated liabilities	$812	$636	$667

The increase in ERC costs is discussed further in Note 9. The increase in regulatory infrastructure program costs primarily relates to updated engineering estimates based on actual path and rights of way for pipeline added to the program in 2010.

Earnings per Common Share

We compute basic earnings per common share attributable to AGL Resources Inc. common shareholders by dividing our net income attributable to AGL Resources Inc. by the daily weighted-average number of common shares outstanding. Diluted earnings per common share attributable to AGL Resources Inc. common shareholders reflect the potential reduction in earnings per common share attributable to AGL Resources Inc. common shareholders that could occur when potentially dilutive common shares are added to common shares outstanding.

We derive our potentially dilutive common shares by calculating the number of shares issued under restricted stock or issuable under restricted stock units and stock options. The vesting of shares of the restricted stock and restricted stock units depends on the satisfaction of certain performance criteria. The future issuance of shares underlying the outstanding stock options depends upon whether the exercise prices of the stock options are less than the average market price of the common shares for the respective periods. The following table shows the calculation of our diluted shares attributable to AGL Resources Inc. common shareholders for the periods presented, if performance units currently earned under our plans ultimately vest and stock options currently exercisable at prices below the average market prices are exercised:

	Three months ended June 30,		Six months ended June 30,	
In millions	2011	2010	2011	2010
Denominator for basic earnings per share (1)	77.9	77.4	77.8	77.3
Assumed exercise of restricted stock, restricted stock units and stock options	0.6	0.4	0.5	0.4
Denominator for diluted earnings per share	78.5	77.8	78.3	77.7

(1) Daily weighted-average shares outstanding.

The following table contains the weighted-average shares attributable to outstanding stock options that were excluded from the computation of diluted earnings per common share attributable to AGL Resources Inc. because their effect would have been anti-dilutive, as the exercise prices were greater than the average market price.

	June 30,		
In millions	2011 (2)	2010	Change (1)
Three months ended	0.0	0.8	(0.8)
Six months ended	0.0	0.8	(0.8)

(1) The decrease was primarily a result of a higher average market value of our common shares compared to the same period during 2010.
(2) 0.0 values represent amounts less than 0.1 million.

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Note 3 – Proposed Merger with Nicor

On December 6, 2010, we entered into a Merger Agreement with Nicor, a copy of which was filed with the SEC on December 7, 2010. In accordance with the Merger Agreement, each share of Nicor common stock outstanding, other than shares to be cancelled and Dissenting Shares, as defined in the Merger Agreement, will be converted into the right to receive consideration of (i) 0.8382 of a share of our common stock and (ii) $21.20 in cash, subject to adjustments in certain circumstances to ensure that the transaction satisfies the “continuity of interest” requirement for a “reorganization” within Section 368(a) of the Internal Revenue Code. The Merger Agreement contains certain termination rights for both Nicor and us, and provides for the payment of fees and expenses upon the termination of the Merger Agreement under certain circumstances. Upon the closing of the proposed merger, it is anticipated that our shareholders will own approximately 67%, and Nicor shareholders will own approximately 33%, of the combined company.

In April 2011, we received antitrust clearance from the Department of Justice and the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvement Act. Additionally, in April 2011, the SEC declared effective our registration statement on Form S-4 which registered our common stock to be issued in connection with the proposed merger. In June 2011, we and Nicor received shareholder approval of the proposed merger at our respective shareholder meetings. Completion of the proposed merger is conditioned upon, among other things, regulatory approval by the Illinois Commerce Commission.

In January 2011, we filed a joint application with Nicor to the Illinois Commerce Commission for approval of the proposed merger. The application did not request a rate increase, but included a commitment to maintain the number of full-time equivalent employees at Nicor’s natural gas utility for a period of three years following merger completion. The Illinois Commerce Commission has eleven months to act upon the application, with their deadline for action being December 16, 2011. During May 2011, we and Nicor submitted joint testimony to the Illinois Commerce Commission rebutting the initial testimony of the Staff of the Illinois Commerce Commission and several intervenors who recommended that the Illinois Commerce Commission deny the joint application or that it impose various requirements on the joint applicants as conditions of approval. Hearings on the matter were held in July 2011.

The proposed merger may also be subject to review by the governmental authorities of various other federal, state or local jurisdictions under the antitrust and utility regulation or other applicable laws of those jurisdictions. We have provided a voluntary notice of the merger to the New Jersey BPU and the Maryland Public Service Commission (Maryland Commission), which included a description of the transaction, described the benefits of the transaction and explained why we do not believe that the approval of the New Jersey BPU or Maryland Commission is required to complete the merger. It is possible that one or more state commissions will open proceedings to determine whether they have jurisdiction over the merger. In the event that any reviewing authorities are determined to have jurisdiction over the merger transaction, there can be no assurance that the reviewing authorities will approve the merger without restrictions or conditions (which are difficult to predict or quantify) that would have a material adverse effect on the combined company if the merger were completed.

We and Nicor currently anticipate receiving the required authorizations, approvals and consents to complete the proposed merger in the second half of 2011. However, there can be no assurance as to the timing of these authorizations, approvals and consents or as to our ultimate ability to obtain such authorizations, consents or approvals (or any additional authorizations, approvals or consents which may otherwise become necessary) or that such authorizations, approvals or consents will be obtained on terms and subject to conditions satisfactory to us and Nicor. The Merger Agreement with Nicor contains termination rights for both us and Nicor and provides that, if we terminate the agreement under specified circumstances, we may be required to pay a termination fee of $67 million. In addition, if we terminate the agreement due to a failure to obtain the necessary financing for the transaction, we may also be required to pay Nicor $115 million.

During the three months ended June 30, 2011, we recorded approximately $13 million ($8 million net of tax) of transaction expenses associated with the proposed merger, while we recorded approximately $18 million ($11 million net of tax) of such expenses during the six months ended June 30, 2011. These costs are expensed as incurred. For additional information concerning the proposed merger please see our Form 8-K filed with the SEC on December 7, 2010 and Form S-4/A filed with the SEC on April 28, 2011.

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Note 4 – Fair Value Measurements

The following table summarizes, by level within the fair value hierarchy, our derivative financial assets and liabilities that were accounted for at fair value on a recurring basis as of the periods presented.

	Recurring fair values Derivative financial instruments					
	June 30, 2011		December 31, 2010		June 30, 2010	
In millions	Assets	Liabilities	Assets (1)	Liabilities	Assets	Liabilities
Quoted prices in active markets (Level 1)	$ 13	$ (52)	$ 22	$ (71)	$ 34	$ (55)
Significant other observable inputs (Level 2)	102	(17)	153	(29)	148	(50)
Netting of cash collateral	37	40	53	52	27	30
Total carrying value (2) (3)	$ 152	$ (29)	$ 228	$ (48)	$ 209	$ (75)

(1) Less than $1 million premium at December 31, 2010 associated with weather derivatives has been excluded as they are based on intrinsic value, not fair value.
(2) There were no material unobservable inputs (Level 3) for any of the periods presented.
(3) There were no material transfers between Level 1, Level 2, or Level 3 for any of the periods presented.

In addition, we have several financial and nonfinancial assets and liabilities subject to fair value measures. These financial assets and liabilities include cash and cash equivalents, accounts receivable, accounts payable and debt. For cash and cash equivalents, accounts receivable and accounts payable we consider carrying value to materially approximate fair value due to their short-term nature. The nonfinancial assets and liabilities include pension and post-retirement benefits, which are presented in Note 3 to our Consolidated Financial Statements and related notes included in Item 8 of our 2010 Form 10-K.

Our debt is recorded at carrying value. We estimate the fair value of our debt using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile. In determining the market interest yield curve, we considered our currently assigned ratings for unsecured debt. The following table presents the carrying value and fair value of our debt as of the following periods.

In millions	June 30, 2011	December 31, 2010	June 30, 2010
Long-term debt carrying amount (1)	$ 2,174	$ 1,973	$ 1,853
Long-term debt fair value (1)	$ 2,339	$ 2,122	$ 2,144
Short-term debt carrying amount (2)	$ 144	$ 733	$ 394
Short-term debt fair value (2)	$ 144	$ 733	$ 394

(1) June 30, 2011 includes $10 million of medium-term notes that are due in June 2012. December 31, 2010 and June 30, 2010 include $300 million of senior notes repaid in January 2011.
(2) June 30, 2011 excludes $10 million of medium-term notes that are due in June 2012. December 31, 2010 and June 30, 2010 exclude $300 million of senior notes repaid in January 2011.

Note 5 – Derivative Financial Instruments

Our risk management activities are monitored by our Risk Management Committee, which consists of members of senior management and is charged with reviewing and enforcing our risk management activities and policies. Our use of derivative financial instruments and physical transactions is limited to predefined risk tolerances associated with pre-existing or anticipated physical natural gas sales and purchases and system use and storage. We use the following types of derivative financial instruments and physical transactions to manage natural gas price, interest rate, weather and foreign currency risks:

- forward contracts;
- futures contracts;
- options contracts;
- financial swaps;
- treasury locks;
- weather derivative contracts;
- storage and transportation capacity transactions; and
- foreign currency forward contracts.

Our derivative financial instruments do not contain any material credit-risk-related or other contingent features that could increase the payments for collateral that we post in the normal course of business when our financial instruments are in net liability positions. Additional information on our energy marketing receivables and payables, which do have credit-risk-related or other contingent features, is discussed in Note 2.

On May 4, 2011, we entered into interest rate swaps with an aggregate notional amount of $250 million to effectively convert a portion of our fixed rate interest obligation on the $300 million 6.4% senior notes due July 15, 2016 to a variable-rate obligation. We pay a floating interest rate equal to the three-month London Inter-bank Offered Rate (LIBOR) plus 3.9%. We designated the interest rate swaps as fair value hedges. The fair values of our interest rate swaps were reflected as a long-term derivative asset of $3 million at June 30, 2011. For more information on our senior notes, see Note 7.

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There have been no other significant changes to our derivative financial instruments, as described in Note 2 and Note 4 to our Consolidated Financial Statements and related notes included in Item 8 of our 2010 Form 10-K. The table below summarizes the various ways in which we account for our derivative instruments and the impact on our Condensed Consolidated Financial Statements:

Accounting Treatment	Recognition and Measurement: Statement of Financial Position	Recognition and Measurement: Income Statement
Cash flow hedge	Recorded at fair value	Ineffective portion of the gain or loss on the derivative instrument is recognized in earnings
	Effective portion of the gain or loss on the derivative instrument is reported initially as a component of accumulated other comprehensive income (loss)	Effective portion of the gain or loss on the derivative instrument is reclassified out of accumulated other comprehensive income (loss) into earnings when the forecasted transaction affects earnings
Fair value hedge	Recorded at fair value	Ineffective portion of the gain or loss on the derivative instrument is recognized in earnings
	Change in fair value of the derivative instrument is recorded as an adjustment to book value	Effective portion of the gain or loss on the derivative instrument is recognized in earnings
Not designated as hedges	Recorded at fair value	The gain or loss on the derivative instrument is recognized in earnings
	Elizabethtown Gas' derivative financial instruments are recorded as a regulatory asset or liability until included in natural gas costs	The gain or loss on these derivative instruments is reflected in natural gas costs and is ultimately included in billings to customers
	Change in fair value of the derivative instrument is recorded as an adjustment to book value	Change in fair value of the derivative instrument is recognized in earnings

Quantitative Disclosures Related to Derivative Financial Instruments

As of the periods presented, our derivative financial instruments were comprised of both long and short natural gas positions. A long position is a contract to purchase natural gas, and a short position is a contract to sell natural gas.

We had net long natural gas contracts outstanding in the following quantities:

Natural gas contracts

In Bcf	June 30, 2011 (1)	December 31, 2010	June 30, 2010
Hedge designation:			
Cash flow	1	4	5
Not designated	191	220	244
Total	192	224	249
Hedge position:			
Short	(1,559)	(1,605)	(1,571)
Long	1,751	1,829	1,820
Net long position	192	224	249

(1) Approximately 97% of these contracts have durations of two years or less and the remaining 3% expire in 3 to 6 years.

Derivative Financial Instruments on the Condensed Consolidated Statements of Financial Position

In accordance with regulatory requirements, realized losses on derivative financial instruments used at Elizabethtown Gas in our distribution operations segment were reflected in deferred natural gas costs within our Condensed Consolidated Statements of Financial Position for the periods presented and are contained in the following table.

	Three months ended June 30,		Six months ended June 30,	
In millions	2011	2010	2011	2010
Elizabethtown Gas	$ 5	$ 7	$ 13	$ 15

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The following table presents the fair value and statements of financial position classification of our derivative financial instruments:

In millions	Statement of financial position location (1) (2)	As of Jun. 30, 2011	Dec. 31, 2010	Jun. 30, 2010
Designated as cash flow and fair value hedges				
Asset Financial Instruments				
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	$ 1	$ 3	$ 4
Interest rate swap agreements	Derivative financial instruments assets – long-term portion	3	0	0
Liability Financial Instruments				
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	(2)	(5)	(8)
Interest rate swap agreements	Derivative financial instruments liabilities – long-term portion	0	0	(13)
Total		2	(2)	(17)
Not designated as cash flow hedges				
Asset Financial Instruments				
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	297	541	528
Noncurrent natural gas contracts	Derivative financial instruments assets and liabilities	70	105	120
Liability Financial Instruments				
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	(263)	(489)	(458)
Noncurrent natural gas contracts	Derivative financial instruments assets and liabilities	(60)	(80)	(96)
Total		44	77	94
Total derivative financial instruments		$ 46	$ 75	$ 77

(1) These amounts are netted within our Condensed Consolidated Statements of Financial Position. Some of our derivative financial instruments have asset positions which are presented as a liability in our Condensed Consolidated Statements of Financial Position, and we have derivative instruments that have liability positions which are presented as an asset in our consolidated statements of financial position.

(2) As required by the authoritative guidance related to derivatives and hedging, the fair value amounts above are presented on a gross basis. As a result, the amounts above do not include cash collateral held on deposit in broker margin accounts of $77 million as of June 30, 2011, $57 million as of June 30, 2010 and $105 million as of December 31, 2010. Accordingly, the amounts above will differ from the amounts presented on our Condensed Consolidated Statements of Financial Position and the fair value information presented for our derivative financial instruments in the recurring values table of this note.

Derivative Financial Instruments on the Condensed Consolidated Statements of Income

The following table presents the impacts of our derivative financial instruments in our Condensed Consolidated Statements of Income:

In millions	For the three months ended June 30, 2011	For the three months ended June 30, 2010	For the six months ended June 30, 2011	For the six months ended June 30, 2010
Designated as cash flow hedges				
Natural gas contracts – loss reclassified from OCI into cost of gas for settlement of hedged item (1)	$ (1)	$ (3)	$ (1)	$ (10)
Not designated as hedges				
Natural gas contracts – fair value adjustments recorded in operating revenues (2)	10	(2)	16	16
Natural gas contracts – net fair value adjustments recorded in cost of gas (3)	0	(1)	(1)	(3)
Total gains (losses) on derivative instruments	$ 9	$ (6)	$ 14	$ 3

(1) We expect that $1 million of pre-tax net losses will be reclassified from OCI into cost of gas for the settlement of hedged items over the next twelve months.

(2) Associated with the fair value of existing derivative instruments at June 30, 2011 and 2010.

(3) Excludes gains recorded in cost of gas associated with weather derivatives of $4 million for the six months ended June 30, 2011 and losses of $20 million for the six months ended June 30, 2010.

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Note 6 - Employee Benefit Plans

Pension Benefits

We sponsor two tax-qualified defined benefit retirement plans for our eligible employees, the AGL Resources Inc. Retirement Plan and the Employees' Retirement Plan of NUI Corporation. A defined benefit plan specifies the amount of benefits an eligible participant eventually will receive using information about the participant. Following are the combined cost components of our two defined pension plans for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
In millions	2011	2010	2011	2010
Service cost	$ 4	$ 2	$ 7	$ 5
Interest cost	7	7	14	14
Expected return on plan assets	(8)	(7)	(16)	(15)
Amortization of prior service cost				