

AGL RESOURCES INC
Form 10-Q
November 07, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2014

Commission File Number 1-14174

AGL RESOURCES INC.
Ten Peachtree Place NE, Atlanta, Georgia 30309
404-584-4000

Georgia
(State of incorporation)

58-2210952
(I.R.S. Employer Identification No.)

AGL Resources Inc. (1) has filed all reports required to be filed by Section 13 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.

AGL Resources Inc. has submitted electronically and posted on its corporate website every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

AGL Resources Inc. is a large accelerated filer and is not a shell company.

The number of shares of AGL Resources Inc.'s common stock, \$5.00 Par Value, outstanding as of October 31, 2014, was 119,572,999.

AGL RESOURCES INC.
Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 2014

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GLOSSARY OF KEY TERMS

| | |
|---------------------------|---|
| 2013 Form 10-K | Our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 6, 2014 |
| 2013 Form 10-K/A | Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on November 7, 2014 |
| AFUDC | Allowance for funds used during construction, which represents the estimated cost of funds, from both debt and equity sources, used to finance the construction of major projects, capitalized in PP&E and considered rate base for ratemaking purposes |
| AGL Capital | AGL Capital Corporation |
| AGL Credit Facility | \$1.3 billion credit agreement entered into by AGL Capital to support its commercial paper program, which matures in November 2017 |
| AGL Resources | AGL Resources Inc., together with its consolidated subsidiaries |
| Atlanta Gas Light | Atlanta Gas Light Company |
| Atlantic Coast Pipeline | Atlantic Coast Pipeline, LLC |
| Bcf | Billion cubic feet |
| Central Valley | Central Valley Gas Storage, LLC |
| Compass Energy | Compass Energy Services, Inc., which was sold in 2013 |
| Dalton Pipeline | A 50% undivided ownership interest in a pipeline facility in Georgia |
| EBIT | Earnings before interest and taxes, the primary measure of our operating segments' profit or loss, which includes operating income and other income and excludes financing costs, including interest on debt and income tax expense |
| ERC | Environmental remediation costs |
| FASB | Financial Accounting Standards Board |
| 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 | Golden Triangle Storage, Inc. |
| Heating Degree Days | A measure of the weather, 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 |
| Horizon Pipeline | Horizon Pipeline Company, LLC |
| Illinois Commission | Illinois Commerce Commission, the state regulatory agency for Nicor Gas |
| Jefferson Island | Jefferson Island Storage & Hub, LLC |
| LIFO | Last-in, first-out |
| LNG | Liquefied natural gas |
| LOCOM | Lower of weighted average cost or market price |
| Marketers | Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission |
| MGP | Manufactured Gas Plant |
| Moody's | Moody's Investors Service |
| New Jersey BPU | New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas |
| Nicor Gas | Northern Illinois Gas Company, doing business as Nicor Gas Company |
| Nicor Gas Credit Facility | \$700 million credit facility entered into by Nicor Gas to support its commercial paper program, which matures in December 2017 |
| 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 goods sold and revenue tax expense |
| OTC | Over-the-counter |
| PBR | Performance-based rate |
| PennEast Pipeline | PennEast Pipeline Company, LLC |
| Piedmont | Piedmont Natural Gas Company, Inc. |
| Pivotal Home Solutions | Nicor Energy Services Company, doing business as Pivotal Home Solutions |
| PP&E | Property, plant and equipment |
| S&P | Standard & Poor's Ratings Services |
| Sawgrass Storage | Sawgrass Storage, LLC |
| 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 |
| Triton | Triton Container Investments, LLC |
| Tropical Shipping | Tropical Shipping and Construction Company Limited, and also the name used throughout this filing to describe the business operations of our former cargo shipping segment (excluding Triton), which has been classified as discontinued operations and held for sale |
| U.S. | United States |
| VaR | Value-at-risk is 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 |
| VIE | Variable interest entity |
| Virginia Commission | Virginia State Corporation Commission, the state regulatory agency for Virginia Natural Gas |
| Virginia Natural Gas | Virginia Natural Gas, Inc. |
| WACOG | Weighted average cost of gas |

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

| In millions, except share amounts | September 30, 2014 | As of December 31, 2013 Revised | September 30, 2013 Revised |
|---|-----------------------|--|----------------------------------|
| Current assets | | | |
| Cash and cash equivalents | \$32 | \$81 | \$97 |
| Short-term investments | 8 | 49 | 41 |
| Receivables | | | |
| Energy marketing | 544 | 786 | 502 |
| Gas, unbilled and other | 409 | 736 | 308 |
| Less allowance for uncollectible accounts | 37 | 29 | 32 |
| Total receivables, net | 916 | 1,493 | 778 |
| Inventories, net | 796 | 658 | 788 |
| Regulatory assets | 105 | 114 | 87 |
| Derivative instruments | 102 | 99 | 97 |
| Assets held for sale | - | 283 | 294 |
| Other | 134 | 118 | 70 |
| Total current assets | 2,093 | 2,895 | 2,252 |
| Long-term assets and other deferred debits | | | |
| Property, plant and equipment | 11,352 | 10,938 | 10,761 |
| Less accumulated depreciation | 2,427 | 2,295 | 2,281 |
| Property, plant and equipment, net | 8,925 | 8,643 | 8,480 |
| Goodwill | 1,827 | 1,827 | 1,822 |
| Regulatory assets | 637 | 705 | 845 |
| Intangible assets | 130 | 145 | 152 |
| Other | 341 | 335 | 259 |
| Total long-term assets and other deferred debits | 11,860 | 11,655 | 11,558 |
| Total assets | \$13,953 | \$14,550 | \$13,810 |
| Current liabilities | | | |
| Short-term debt | \$681 | \$1,171 | \$832 |
| Energy marketing trade payables | 612 | 671 | 539 |
| Other accounts payable - trade | 298 | 421 | 295 |
| Current portion of long-term debt | 200 | - | - |
| Accrued expenses | 173 | 203 | 149 |
| Customer deposits and credit balances | 122 | 136 | 140 |
| Regulatory liabilities | 118 | 183 | 174 |
| Accrued environmental remediation liabilities | 82 | 70 | 48 |
| Derivative instruments | 45 | 75 | 38 |
| Liabilities held for sale | - | 40 | 39 |
| Other | 131 | 148 | 153 |

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| | | | |
|---|-----------|-----------|-----------|
| Total current liabilities | 2,462 | 3,118 | 2,407 |
| Long-term liabilities and other deferred credits | | | |
| Long-term debt | 3,605 | 3,813 | 3,816 |
| Accumulated deferred income taxes | 1,655 | 1,628 | 1,551 |
| Regulatory liabilities | 1,567 | 1,518 | 1,524 |
| Accrued pension and retiree welfare benefits | 406 | 404 | 511 |
| Accrued environmental remediation liabilities | 372 | 377 | 416 |
| Other | 84 | 79 | 79 |
| Total long-term liabilities and other deferred credits | 7,689 | 7,819 | 7,897 |
| Total liabilities and other deferred credits | 10,151 | 10,937 | 10,304 |
| Commitments, guarantees and contingencies (see Note 10) | | | |
| Equity | | | |
| Common stock, \$5 par value; 750,000,000 shares authorized: outstanding: 119,564,666 shares at September 30, 2014, 118,888,876 shares at December 31, 2013, and 118,778,298 shares at September 30, 2013 | 599 | 595 | 595 |
| Additional paid-in capital | 2,080 | 2,054 | 2,047 |
| Retained earnings | 1,222 | 1,063 | 1,042 |
| Accumulated other comprehensive loss | (133) | (136) | (208) |
| Treasury shares, at cost: 216,523 shares at September 30, 2014, December 31, 2013, and September 30, 2013 | (8) | (8) | (8) |
| Total common shareholders' equity | 3,760 | 3,568 | 3,468 |
| Noncontrolling interest | 42 | 45 | 38 |
| Total equity | 3,802 | 3,613 | 3,506 |
| Total liabilities and equity | \$ 13,953 | \$ 14,550 | \$ 13,810 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| In millions, except per share amounts | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2014 | 2013 Revised | 2014 | 2013 Revised |
| Operating revenues (includes revenue taxes of \$9 and \$103 for the three and nine months in 2014 and \$9 and \$83 for the three and nine months in 2013) | \$589 | \$574 | \$3,940 | \$2,991 |
| Operating expenses | | | | |
| Cost of goods sold | 198 | 174 | 2,000 | 1,447 |
| Operation and maintenance | 193 | 199 | 693 | 634 |
| Depreciation and amortization | 93 | 104 | 281 | 309 |
| Taxes other than income taxes | 30 | 27 | 160 | 139 |
| Total operating expenses | 514 | 504 | 3,134 | 2,529 |
| Gain on disposition of assets | 3 | - | 3 | 11 |
| Operating income | 78 | 70 | 809 | 473 |
| Other income | 3 | 7 | 8 | 18 |
| Interest expense, net | (44) | (37) | (135) | (126) |
| Income before income taxes | 37 | 40 | 682 | 365 |
| Income tax expense | 14 | 16 | 254 | 137 |
| Income from continuing operations | 23 | 24 | 428 | 228 |
| (Loss) income from discontinued operations, net of tax | (31) | 1 | (80) | 1 |
| Net (loss) income | (8) | 25 | 348 | 229 |
| Less net income attributable to the noncontrolling interest | - | - | 14 | 11 |
| Net (loss) income attributable to AGL Resources Inc. | \$(8) | \$25 | \$334 | \$218 |
| Per common share information | | | | |
| Basic earnings (loss) per common share | | | | |
| Continuing operations | \$0.19 | \$0.20 | \$3.48 | \$1.85 |
| Discontinued operations | (0.25) | 0.01 | (0.67) | 0.01 |
| Basic (loss) earnings per common share attributable to AGL Resources Inc. common shareholders | \$(0.06) | \$0.21 | \$2.81 | \$1.86 |
| Diluted earnings (loss) per common share | | | | |
| Continuing operations | \$0.19 | \$0.20 | \$3.47 | \$1.84 |
| Discontinued operations | (0.25) | 0.01 | (0.67) | 0.01 |
| Diluted (loss) earnings per common share attributable to AGL Resources Inc. common shareholders | \$(0.06) | \$0.21 | \$2.80 | \$1.85 |
| Cash dividends declared per common share | \$0.49 | \$0.47 | \$1.47 | \$1.41 |
| Weighted average number of common shares outstanding | | | | |
| Basic | 119.0 | 118.2 | 118.8 | 117.8 |
| Diluted | 119.4 | 118.5 | 119.2 | 118.1 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| In millions | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2014 | 2013 Revised | 2014 | 2013 Revised |
| Net (loss) income | \$(8) | \$25 | \$348 | \$229 |
| Other comprehensive income (loss), net of tax | | | | |
| Retirement benefit plans | | | | |
| Reclassification of actuarial losses to net benefit cost (net of income tax of \$2 and \$5 for the three and nine months ended September 30, 2014, and \$3 and \$8 for the three and nine months ended September 30, 2013) | 2 | 3 | 7 | 11 |
| Reclassification of prior service credits to net benefit cost (net of income tax of \$(1) for the nine months ended September 30, 2013) | - | (2) | (1) | (3) |
| Retirement benefit plans | 2 | 1 | 6 | 8 |
| Cash flow hedges, net of tax | | | | |
| Net derivative instrument (losses) gains arising during the period | (2) | - | 2 | - |
| Reclassification of realized derivative instrument (gains) losses to net income (net of income tax of \$(1) for the nine months ended September 30, 2014 and \$1 for the nine months ended September 30, 2013) | - | - | (5) | 2 |
| Cash flow hedges, net | (2) | - | (3) | 2 |
| Other comprehensive income, net of tax | - | 1 | 3 | 10 |
| Comprehensive (loss) income | (8) | 26 | 351 | 239 |
| Less comprehensive income attributable to noncontrolling interest | - | - | 14 | 11 |
| Comprehensive (loss) income attributable to AGL Resources Inc. | \$(8) | \$26 | \$337 | \$228 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| In millions, except per share amounts | AGL Resources Inc. Shareholders | | | | | | | | |
|--|---------------------------------|--------|----------------------------------|---------------------------------|---------------------------------------|---------|--------------------|----------------------------|------------------|
| | Common stock | | Additional paid-in capital | Retained earnings Revised | Accumulated other comprehensive | | Treasury shares | Noncontrolling interest | Total Revised |
| | Shares | Amount | | | loss | income | | | |
| Balance as of December 31, 2012 | 117.9 | \$ 590 | \$ 2,015 | \$ 990 | \$ (218) | \$ (8) | \$ 22 | \$ 3,391 | |
| Net income | - | - | - | 218 | - | - | 11 | 229 | |
| Other comprehensive income | - | - | - | - | 10 | - | - | 10 | |
| Dividends on common stock (\$1.41 per share) | - | - | - | (166) | - | - | - | (166) | |
| Contribution from noncontrolling interest | - | - | - | - | - | - | 22 | 22 | |
| Distributions to noncontrolling interests | - | - | - | - | - | - | (17) | (17) | |
| Stock granted, share-based compensation, net of forfeitures | - | - | (6) | - | - | - | - | (6) | |
| Stock issued, dividend reinvestment plan | 0.2 | 1 | 7 | - | - | - | - | 8 | |
| Stock issued, share-based compensation, net of forfeitures | 0.7 | 4 | 22 | - | - | - | - | 26 | |
| Stock-based compensation expense, net of tax | - | - | 9 | - | - | - | - | 9 | |
| Balance as of September 30, 2013 | 118.8 | \$ 595 | \$ 2,047 | \$ 1,042 | \$ (208) | \$ (8) | \$ 38 | \$ 3,506 | |

AGL Resources Inc. Shareholders

| | AGL Resources Inc. Shareholders | | | | | | | | |
|--|---------------------------------|--------|----------------------------------|----------------------|---------------------------------------|--------|--------------------|----------------------------|-------|
| | Common stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive | | Treasury shares | Noncontrolling interest | Total |
| | Shares | Amount | | | loss | income | | | |

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| In millions, except per share amounts | Shares | Amount | capital | Revised | loss | shares | interest | Revised |
|--|--------|--------|----------|----------|-----------|---------|----------|----------|
| Balance as of December 31, 2013 | 118.9 | \$ 595 | \$ 2,054 | \$ 1,063 | \$ (136) | \$ (8) | \$ 45 | \$ 3,613 |
| Net income | - | - | - | 334 | - | - | 14 | 348 |
| Other comprehensive income | - | - | - | - | 3 | - | - | 3 |
| Dividends on common stock (\$1.47 per share) | - | - | - | (175) | - | - | - | (175) |
| Distributions to noncontrolling interests | - | - | - | - | - | - | (17) | (17) |
| Stock granted, share-based compensation, net of forfeitures | - | - | (11) | - | - | - | - | (11) |
| Stock issued, dividend reinvestment plan | 0.1 | 1 | 8 | - | - | - | - | 9 |
| Stock issued, share-based compensation, net of forfeitures | 0.6 | 3 | | | | | | |