

AGL RESOURCES INC  
Form 10-Q  
August 01, 2012

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2012

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

(State or other jurisdiction of incorporation or  
organization)

58-2210952

(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  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  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.

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Large accelerated filer

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

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 25, 2012
Common Stock, \$5.00 Par Value	117,515,999

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## AGL RESOURCES INC.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2012

## TABLE OF CONTENTS

	Page(s)
Glossary of Key Terms	3
Item Number.	
<u>PART I – FINANCIAL INFORMATION</u>	
1	4
	4
	5
	6
	7
	8
	9
	9
	9
	15
	16
	17
	20
	21
	22
	23
	25
2	29
	29
	29
	30
	33
	40
	44
3	45
4	47
<u>PART II – OTHER INFORMATION</u>	

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1		<u>Legal Proceedings</u>	48
1	A	<u>Risk Factors</u>	48
		<u>Unregistered Sales of Equity Securities and Use of</u>	
2		<u>Proceeds</u>	48
6		<u>Exhibits</u>	49
		<u>SIGNATURE</u>	50

Glossary of Key Terms

2

---

Table of Contents  
GLOSSARY OF KEY TERMS

2011 Form 10-K	Our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on February 22, 2012
AGL Capital	AGL Capital Corporation
AGL Credit Facility	\$1.3 billion credit agreement entered into by AGL Capital to support the AGL Capital commercial paper program
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Central Valley	Central Valley Gas Storage, LLC
Chattanooga Gas	Chattanooga Gas Company
EBIT	Earnings before interest and taxes, a non-GAAP measure that includes operating income and other income and excludes financing costs, including interest on 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
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.
Heating Degree Days	A measure of the effects of weather on our businesses, calculated as the extent to which the average daily temperature is less than 65 degrees Fahrenheit
Heating Season	The period from November through March when natural gas usage and operating revenues are generally higher because weather is colder
Henry Hub	A major interconnection point of natural gas pipelines in Erath, Louisiana where NYMEX natural gas future contracts are priced
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
LIBOR	London Inter-Bank Offered Rate
LIFO	Last-in, first-out, an accounting method used to value inventory
LOCOM	Lower of weighted average cost or current market price
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission
Moody's	Moody's Investors Service New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas

New Jersey BPU	
Nicor	Nicor Inc. - an acquisition completed in December 2011 and former holding company of Nicor Gas
Nicor Advanced Energy	Prairie Point Energy, LLC, doing business as Nicor Advanced Energy
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
Nicor Services	Nicor Energy Services Company
Nicor Solutions	Nicor Solutions, LLC
NUI	NUI 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 goods sold and revenue tax expense, that excludes operation and maintenance expense, depreciation and amortization, certain taxes other than income taxes, Nicor merger expenses, and gains or losses on the sale of our assets, if any; these items are included in our calculation of operating income as reflected in our 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
OTC	Over-the-counter
PBR	Performance-based rate, a regulatory plan that ended in 2003, which provided economic incentives based on natural gas cost performance
Piedmont	Piedmont Natural Gas Company, Inc.
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.
Seven Seas	Seven Seas Insurance Company, Inc.
SNG	Substitute natural gas, a synthetic form of gas manufactured from coal
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 to repay the \$300 million senior notes due in 2011
TEU	Twenty-foot equivalent unit, a measure of volume in containerized shipping equal to one 20-foot-long container
Triton	Triton Container Investments LLC, a cargo container leasing company in which we have an investment
Tropical Shipping	A wholly owned business and a carrier of containerized freight in the Bahamas and the Caribbean region
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.
Virginia Commission	Virginia State Corporation Commission, the state regulatory agency for Virginia Natural Gas
WACOG	Weighted average cost of gas

Glossary of Key Terms



Table of Contents

## PART 1 – Financial Information

## Item 1. Financial Statements

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

In millions	June 30, 2012	As of December 31, 2011	June 30, 2011
<b>Current assets</b>			
Cash and cash equivalents	\$ 87	\$ 69	\$ 21
Short-term investments	61	53	0
<b>Receivables</b>			
Gas, unbilled and other receivables	349	692	181
Energy marketing receivables	347	607	614
Less allowance for uncollectible accounts	39	15	22
Total receivables	657	1,284	773
Inventories	549	750	544
Derivative instruments – current portion	181	226	111
Regulatory assets – current portion	146	131	71
Other current assets	199	233	83
Total current assets	1,880	2,746	1,603
<b>Long-term assets and other deferred debits</b>			
Property, plant and equipment	10,091	9,779	6,447
Less accumulated depreciation	2,004	1,879	1,860
Property, plant and equipment, net	8,087	7,900	4,587
Goodwill	1,813	1,813	418
Regulatory assets – noncurrent portion	1,128	1,079	543
Derivative instruments – noncurrent portion	45	62	29
Other long-term assets and other deferred debits	321	313	37
Total long-term assets and other deferred debits	11,394	11,167	5,614
Total assets	\$ 13,274	\$ 13,913	\$ 7,217
<b>Current liabilities</b>			
Short-term debt	\$ 731	\$ 1,321	\$ 142
Current portion of long-term debt and capital leases	231	17	12
Energy marketing trade payables	383	590	681
Accounts payable – trade	248	294	130
Accrued regulatory infrastructure program costs – current portion	158	131	90
Customer deposits and credit balances	139	152	39



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Accrued expenses	138	162	112
Regulatory liabilities – current portion	137	112	66
Accrued environmental remediation liabilities – current portion	59	37	20
Derivative instruments – current portion	58	99	22
Other current liabilities	178	169	85
<b>Total current liabilities</b>	<b>2,460</b>	<b>3,084</b>	<b>1,399</b>
Long-term liabilities and other deferred credits			
Long-term debt	3,334	3,561	2,164
Accumulated deferred income taxes	1,509	1,445	853
Regulatory liabilities – noncurrent portion	1,453	1,405	296
Accrued environmental remediation liabilities	371	290	171
Accrued other retirement benefit costs	296	320	32
Accrued pension obligations	221	238	152
Accrued regulatory infrastructure program costs	119	145	168
Derivative instruments – noncurrent portion	8	11	7
Other long-term liabilities and other deferred credits	74	75	61
<b>Total long-term liabilities and other deferred credits</b>	<b>7,385</b>	<b>7,490</b>	<b>3,904</b>
<b>Total liabilities and other deferred credits</b>	<b>9,845</b>	<b>10,574</b>	<b>5,303</b>
Commitments, guarantees and contingencies (see Note 9)			
<b>Equity</b>			
AGL Resources Inc. common shareholders' equity, \$5 par value; 750,000,000 shares authorized	3,412	3,318	1,896
Noncontrolling interest	17	21	18
<b>Total equity</b>	<b>3,429</b>	<b>3,339</b>	<b>1,914</b>
<b>Total liabilities and equity</b>	<b>\$ 13,274</b>	<b>\$ 13,913</b>	<b>\$ 7,217</b>

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Key Terms

Table of Contents

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

In millions, except per share amounts	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Operating revenues (includes revenue taxes of \$14 and \$55 for the three and six months in 2012)	\$ 686	\$ 375	\$ 2,090	\$ 1,253
Operating expenses				
Cost of goods sold	240	134	959	589
Operation and maintenance	218	119	463	248
Depreciation and amortization	102	42	206	83
Taxes other than income taxes	32	12	96	25
Nicor merger expenses	3	8	13	10
Total operating expenses	595	315	1,737	955
Operating income	91	60	353	298
Other income	9	2	13	3
Interest expense, net	(45 )	(32 )	(92 )	(61 )
Earnings before income taxes	55	30	274	240
Income tax expense	20	11	100	87
Net income	35	19	174	153
Less net income attributable to the noncontrolling interest	1	1	10	11
Net income attributable to AGL Resources Inc.	\$ 34	\$ 18	\$ 164	\$ 142
Per common share data				
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	\$ 0.28	\$ 0.23	\$ 1.40	\$ 1.83
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	\$ 0.28	\$ 0.23	\$ 1.40	\$ 1.82
Cash dividends declared per common share	\$ 0.46	\$ 0.45	\$ 0.82	\$ 0.90
Weighted-average number of common shares outstanding				
Basic	116.9	77.9	116.8	77.8
Diluted	117.2	78.5	117.1	78.3

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Key Terms

Table of Contents

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

In millions	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income	\$ 35	\$ 19	\$ 174	\$ 153
Other comprehensive income (loss), net of tax				
Retirement benefit plans				
Reclassification of losses and prior service costs to net benefit cost (net of income tax of \$3 and \$4 for the three and six months ended June 30, 2012)	7	0	8	0
Retirement benefit plans, net	7	0	8	0
Cash flow hedges, net of tax				
Net derivative instrument losses (gains) arising during the period (net of income tax of \$3 and \$1 for the three and six months ended June 30, 2012)	4	0	2	(1 )
Cash flow hedges, net	4	0	2	(1 )
Other comprehensive income (loss), net of tax	11	0	10	(1 )
Comprehensive income	46	19	184	152
Less comprehensive income attributable to noncontrolling interest	(1 )	(1 )	(10 )	(11 )
Comprehensive income attributable to AGL Resources Inc.	\$ 45	\$ 18	\$ 174	\$ 141

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Key Terms

Table of Contents

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

## AGL Resources Inc. Shareholders

In millions, except per share amounts	Common stock		Additional	Retained	Accumulated other	Treasury	Noncontrolling	Total
	Shares	Amount	paid-in capital	earnings	loss	shares	interest	
Balance as of December 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	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 June 30, 2011	78.4	\$ 393	\$ 645	\$ 1,015	\$ (151 )	\$ (6 )	\$ 18	\$ 1,914

## AGL Resources Inc. Shareholders

In millions, except per share amounts	Common stock		Additional	Retained	Accumulated other	Treasury	Noncontrolling	Total
	Shares	Amount	paid-in capital	earnings	loss	shares	interest	
Balance as of December 31, 2011	117.0	\$ 586	\$ 1,989	\$ 967	\$ (217 )	\$ (7 )	\$ 21	\$ 3,339
Net income	0.0	0	0	164	0	0	10	174
Other comprehensive income	0.0	0	0	0	10	0	0	10
Dividends on common stock (\$0.82 per share)	0.0	0	0	(96 )	0	0	0	(96 )
Distributions to noncontrolling interest	0.0	0	0	0	0	0	(14 )	(14 )
Benefit, dividend reinvestment and stock purchase plans	0.5	3	9	0	0	(1 )	0	11

Stock-based compensation expense (net of tax)	0.0	0	5	0	0	0	0	5
Balance as of June 30, 2012	117.5	\$ 589	\$ 2,003	\$ 1,035	\$ (207 )	\$ (8 )	\$ 17	\$ 3,429

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Key Terms

7

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Table of Contents

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

In millions	Six months ended June 30,	
	2012	2011
Cash flows from operating activities		
Net income	\$ 174	\$ 153
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	206	83
Deferred income taxes	56	64
Change in derivative instrument assets and liabilities	18	49
Changes in certain assets and liabilities		
Receivables, other than energy marketing	367	215
Inventories, net of temporary LIFO liquidation	242	95
Energy marketing receivables and trade payables, net	53	111
Prepaid taxes	33	(1 )
Trade payables, other than energy marketing	(46 )	(46 )
Other – net	(21 )	(63 )
Net cash flow provided by operating activities	1,082	660
Cash flows from investing activities		
Expenditures for property, plant and equipment	(350 )	(196 )
Net cash flow used in investing activities	(350 )	(196 )
Cash flows from financing activities		
Net payments and borrowings of short-term debt	(590 )	(589 )
Dividends paid on common shares	(96 )	(68 )
Distribution to noncontrolling interest	(14 )	(16 )
Payment of senior notes	0	(300 )
Payments of term loan facility	0	(150 )
Proceeds from term loan facility	0	150
Issuance of senior notes	0	495
Other	(14 )	11
Net cash flow used in financing activities	(714 )	(467 )
Net increase (decrease) in cash and cash equivalents	18	(3 )
Cash and cash equivalents at beginning of period	69	24
Cash and cash equivalents at end of period	\$ 87	\$ 21
Cash paid during the period for		
Interest	\$ 86	\$ 56
Income taxes	\$ 4	\$ 10

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Key Terms

Table of Contents

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.

On December 9, 2011, we closed our merger with Nicor and created a combined company with increased scale and scope in the distribution, storage and transportation of natural gas. As such, the businesses acquired as part of the merger are included for 2012, but not for the three and six months ended or as of June 30, 2011 in our unaudited Condensed Consolidated Financial Statements. See Note 3 for additional information.

As a result of the Nicor merger, AGL Resources shareholders of record as of the close of business on December 8, 2011, received a pro rata dividend for the stub period, accruing from November 19, 2011. The dividend payments made in February 2012 were reduced by this stub period dividend.

The December 31, 2011 Condensed Consolidated 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 unaudited 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 unaudited Condensed Consolidated Financial Statements in conjunction with our Consolidated Financial Statements and related notes included in Item 8 of our 2011 Form 10-K.

Due to the seasonal nature of our business and other factors, our results of operations and our financial condition for the periods presented 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 unaudited Condensed Consolidated Financial Statements include our accounts, the accounts of our wholly owned subsidiaries, the accounts of our majority owned and controlled subsidiaries and the accounts of our consolidated variable interest entity (VIE) for which we are the primary beneficiary. For unconsolidated entities that we do not control, but exercise significant influence over, we use the equity method of accounting and our proportionate share of income or loss is recorded in the unaudited Condensed Consolidated Statements of Income. See Note 8 for additional information. 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

Our accounting policies are described in Note 2 to our Consolidated Financial Statements and related notes included in Item 8 of our 2011 Form 10-K. There were no significant changes to our accounting policies during the six months ended June 30, 2012.

#### Use of Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our estimates may involve complex situations requiring a high degree of judgment either in the application and interpretation of existing literature or in the development of estimates that impact our financial statements. The most significant estimates relate to our pipeline replacement program accruals, environmental liability accruals, uncollectible accounts and other allowances for contingent losses, goodwill and intangible assets, retirement plan benefit obligations, derivative and hedging activities and provisions for income taxes. We evaluate our estimates on an ongoing basis and our actual results could differ from our estimates.

#### Glossary of Key Terms



Table of Contents

## Investments

Our investments in debt and equity securities are as follows:

In millions	June 30, 2012	December 31, 2011	June 30, 2011
Money market funds	\$ 76	\$ 59	\$ 0
Corporate bonds	5	6	0
Other investments	6	7	0
Total	\$ 87	\$ 72	\$ 0

Investments in debt and equity securities are classified on the unaudited Condensed Consolidated Statements of Financial Position as follows:

In millions	June 30, 2012	December 31, 2011	June 30, 2011
Cash and cash equivalents	\$ 17	\$ 9	\$ 0
Short-term investments	61	53	0
Other long-term assets and other deferred debits	9	10	0
Total	\$ 87	\$ 72	\$ 0

Investments categorized as trading (including money market funds) totaled \$76 million at June 30, 2012 and \$59 million at December 31, 2011.

Corporate bonds and certain other investments are categorized as held-to-maturity. The contractual maturities of the held-to-maturity investments at June 30, 2012 are as follows:

In millions	Years to maturity			Total
	Less than 1 year	1-5 years	5-10 years	
Held-to-maturity investments	\$ 2	\$ 5	\$ 0	\$ 7

Our investments also include certain investments, including certificates of deposit and bank accounts, maintained to fulfill statutory or contractual requirements. These investments totaled \$2 million at June 30, 2012 and \$3 million at December 31, 2011. Gains or losses included in earnings resulting from the sale of investments were not significant.

## Inventories

Nicor Gas' inventory is carried at cost on a LIFO basis. Inventory decrements occurring during interim periods that are expected to be restored prior to year-end are charged to cost of goods sold at the estimated annual replacement cost, and the difference between this cost and the actual liquidated LIFO layer cost is recorded as a temporary LIFO inventory liquidation. This is classified in other current liabilities on our unaudited Condensed Consolidated Statements of Financial Position. The inventory decrement as of June 30, 2012 is expected to be restored prior to year-end. Interim inventory decrements not expected to be restored prior to year-end are charged to cost of goods sold

at the actual LIFO cost of the layers liquidated.

Our retail operations, wholesale services and midstream operations segments 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. Consequently, as a result of declining natural gas prices during the six months ended June 30, 2012, retail operations, wholesale services and midstream operations recorded LOCOM adjustments to cost of goods sold in the following amounts, to reduce the value of their inventories to market value.

In millions	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Retail operations	\$ 0	\$ 0	\$ 3	\$ 0
Wholesale services	0	0	18	0
Midstream operations	0	0	1	0

#### 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 our wholesale services segment 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 settled net, but are recorded on a gross basis in our unaudited Condensed Consolidated Statements of Financial Position as energy marketing receivables and energy marketing payables.

#### Glossary of Key Terms

Table of Contents

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, 2012, December 31, 2011 and June 30, 2011, 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.

Fair Value Measurements

We have several financial and nonfinancial assets and liabilities subject to fair value measures. The financial assets and liabilities include cash and cash equivalents, receivables, derivative assets and liabilities, accounts payable and debt. The carrying values of cash and cash equivalents, short and long-term investments, derivative assets and liabilities, short-term debt, other current assets and liabilities and accrued interest approximate fair value. The nonfinancial assets and liabilities include pension and other retirement benefits, which are presented in Note 4 to our Consolidated Financial Statements and related notes included in Item 8 of our 2011 Form 10-K.

As defined in the authoritative guidance related to fair value measurements and disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in valuing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements to utilize the best available information. Accordingly, we use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We classify fair value balances based on the reliability of those inputs in accordance with the fair value hierarchy.

Natural Gas Derivative Instruments

The fair value of the natural gas derivative instruments that we use to manage exposures arising from changing natural gas prices reflects the estimated amounts that we would receive or pay to terminate or close the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts. We use external market quotes and indices to value substantially all of our derivative instruments. See Note 5 for additional derivative disclosures.

Distribution Operations Nicor Gas, subject to review by the Illinois Commission, and Elizabethtown Gas, in accordance with a directive from the New Jersey BPU, enter into derivative instruments to hedge the impact of market fluctuations in natural gas prices. In accordance with the authoritative guidance related to derivatives and hedging, such derivative transactions are accounted for at fair value each reporting period in our unaudited Condensed Consolidated Statements of Financial Position. In accordance with regulatory requirements, any realized gains and losses related to these derivatives are reflected in natural gas costs and ultimately included in billings to customers. Thus, hedge accounting is not elected and, in accordance with accounting guidance pertaining to rate-regulated entities, unrealized changes in the fair value of these derivative instruments are deferred or accrued as regulatory assets or liabilities until the related revenue is recognized.

Nicor Gas also enters into swap agreements to reduce the earnings volatility of certain forecasted operating costs arising from fluctuations in natural gas prices, such as the purchase of natural gas for company use. These derivative instruments are carried at fair value. To the extent hedge accounting is not elected, changes in such fair values are immediately recorded in the current period as operation and maintenance expense.

**Retail Operations** We have designated a portion of our derivative instruments, consisting of financial swaps to manage the risk associated with forecasted natural gas purchases and sales, as cash flow hedges under the authoritative guidance related to derivatives and hedging. We record derivative gains or losses arising from cash flow hedges in OCI and reclassify them into earnings in the same period as the settlement of the underlying hedged item.

We currently have minimal hedge ineffectiveness defined as when the gains or losses on the hedging instrument do not offset the losses or gains on the hedged item. This cash flow hedge ineffectiveness is recorded in cost of goods sold in our unaudited Condensed Consolidated Statements of Income in the period in which it occurs. We have not designated the remainder of our derivative instruments as hedges under the authoritative guidance related to derivatives and hedging and, accordingly, we record changes in the fair value of such instruments within cost of goods sold in our Consolidated Statements of Income in the period of change.

Glossary of Key Terms

Table of Contents

We enter into weather derivative contracts as economic hedges of operating margins in the event of warmer than normal weather in the Heating Season. We account for these contracts using the intrinsic value method under the authoritative guidance related to financial instruments. These weather derivative instruments do not qualify for accounting hedge designation and accordingly changes in value are reflected in cost of goods sold on our unaudited Condensed Consolidated Statements of Income.

**Wholesale Services** We purchase natural gas for storage when the difference in the current market price we pay to buy and transport natural gas plus the cost to store the natural gas is less than the market price we can receive in the future, resulting in a positive net operating margin. We use NYMEX futures contracts and other OTC derivatives to sell natural gas at that future price to substantially lock-in the operating margin we will ultimately realize when the stored natural gas is sold. We also enter into transactions to secure transportation capacity between two delivery points in order to serve our customers and various markets. We use NYMEX futures and other OTC derivatives to capture the price differential or location spread between the locations served by the capacity in order to substantially lock in the operating margin we will ultimately realize when we physically flow natural gas between the two delivery points. These futures contracts meet the definition of derivatives under the authoritative guidance related to derivatives and hedging and are accounted for at fair value in our unaudited Condensed Consolidated Statements of Financial Position, with changes in fair value recorded in our unaudited Condensed Consolidated Statements of Income in the period of change. These futures contracts are not designated as hedges as may be permitted under the guidance.

The purchase, transportation, storage and sale of natural gas are accounted for on a weighted average cost or accrual basis, as appropriate, rather than on the fair value basis we utilize for the derivatives used to mitigate the natural gas price risk associated with our storage portfolio. Further, we incur monthly demand charges for the contracted storage and transportation capacity, and payments associated with asset management agreements and record these demand charges in our unaudited Condensed Consolidated Statements of Income in the period they are incurred. This difference in accounting can result in volatility in our reported earnings, even though the economic margin is essentially unchanged from the date the transactions were consummated.

**Midstream Operations** During the construction of our storage caverns, we use derivative instruments to reduce our exposure to the risk of changes in the price of natural gas that will be purchased in future periods for gas associated with bringing our facilities into service, including pad gas that is considered to be a component of the storage cavern's construction costs. We use derivative instruments to economically hedge operational and optimization purchases and sales and these instruments do not qualify as cash flow hedges.

We have designated as cash flow hedges, those derivative instruments executed to manage the risk with the purchase of pad gas. Any derivative gains or losses arising from the cash flow hedges will remain in accumulated OCI until the pad gas is sold, which will not occur until the storage caverns are decommissioned. The fair value of these derivative instruments currently has minimal hedge ineffectiveness which is recorded in cost of goods sold in our Consolidated Statements of Income in the period in which it occurs.

**Earnings Per Common Share**

We compute basic earnings per common share attributable to AGL Resources Inc. common shareholders by dividing our 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. The increase in weighted average shares is primarily due to the issuance of 38.2 million shares in connection with the Nicor merger.

We derive our potentially dilutive common shares by calculating the number of shares issuable under restricted stock, restricted stock units and stock options. The vesting of certain shares of the restricted stock and restricted stock units

depends on the satisfaction of defined performance criteria. The future issuance of shares underlying the outstanding stock options depends on whether the exercise prices of the stock options are less than the average market price of the common shares for the respective periods.

Glossary of Key Terms

12

---

Table of Contents

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 the plan ultimately vest and if stock options currently exercisable at prices below the average market prices are exercised:

In millions (except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income attributable to AGL Resources Inc.	\$ 34	\$ 18	\$ 164	\$ 142
Denominator:				
Basic weighted average number of shares outstanding (1)	116.9	77.9	116.8	77.8
Effect of dilutive securities	0.3	0.6	0.3	0.5
Diluted weighted average number of shares outstanding	117.2	78.5	117.1	78.3
Basic and diluted earnings per share				
Basic	\$ 0.28	\$ 0.23	\$ 1.40	\$ 1.83
Diluted	\$ 0.28	\$ 0.23	\$ 1.40	\$ 1.82

(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:

In millions	June 30,	
	2012	2011
Three months ended	0.6	0.0
Six months ended	0.0	0.0

The increase in the number of shares that were excluded from the computation for the three months ended June 30, 2012 is primarily the result of a decrease in the average market value of our common shares compared to the same period during 2011.

#### 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 in the current period are capitalized as regulatory assets when it is probable that such costs or 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. We are not aware of any evidence that these costs will not be

recoverable through either rate riders or base rates, and we believe that we will be able to recover these costs, consistent with our historical recoveries. In the event that the authoritative guidance related to regulated operations were no longer applicable, we would recognize a write-off of regulatory assets that would result in a charge to net income, and be classified as an extraordinary item.

Glossary of Key Terms

13

---



Table of Contents

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

In millions	June 30, 2012 (1)	December 31, 2011 (2)	June 30, 2011
<b>Regulatory assets - current</b>			
Recoverable regulatory infrastructure program costs	\$47	\$48	\$47
Recoverable retirement benefit costs	27	29	0
Recoverable ERC	30	7	7
Other	42	47	17
<b>Total regulatory assets - current</b>	<b>146</b>	<b>131</b>	<b>71</b>
<b>Regulatory assets - long-term</b>			
Recoverable ERC	428	351	215
Recoverable regulatory infrastructure program costs	313	305	281
Recoverable retirement benefit costs	232	262	9
Long-term debt fair-value adjustment	94	99	0
Unamortized losses on reacquired debt	20	21	10
Other	41	41	28
<b>Total regulatory assets - long-term</b>	<b>1,128</b>	<b>1,079</b>	<b>543</b>
<b>Total regulatory assets</b>	<b>\$1,274</b>	<b>\$1,210</b>	<b>\$614</b>
<b>Regulatory liabilities - current</b>			
Accrued natural gas costs	\$73	\$53	\$49
Bad debt rider	31	30	0
Accumulated removal costs	14	14	0
Other	19	15	17
<b>Total regulatory liabilities - current</b>	<b>137</b>	<b>112</b>	<b>66</b>
<b>Regulatory liabilities - long-term</b>			
Accumulated removal costs	1,366	1,321	253
Unamortized investment tax credit	31	32	11
Regulatory income tax liability	25	27	15
Bad debt rider	18	14	0
Other	13	11	17
<b>Total regulatory liabilities - long-term</b>	<b>1,453</b>	<b>1,405</b>	<b>296</b>
<b>Total regulatory liabilities</b>	<b>\$1,590</b>	<b>\$1,517</b>	<b>\$362</b>

- (1) The increase in regulatory assets and liabilities from December 31, 2011, includes an increase in our recoverable ERC due to a \$103 million increase in the estimates of our ERC liabilities primarily related to Nicor Gas' former operating sites in Illinois. See Note 9 – Commitments, Guarantees and Contingencies for additional ERC disclosures.
- (2) The increase in regulatory assets and liabilities from June 30, 2011, includes \$545 million related to the addition of Nicor Gas' regulatory assets and includes \$1,330 million related to the addition of Nicor Gas' regulatory liabilities.

As of June 30, 2012, 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 2011 Form 10-K.

## Accounting Developments

On January 1, 2012, we adopted authoritative guidance related to fair value measurements. The guidance expands the qualitative and quantitative disclosures required for Level 3 significant unobservable inputs. The guidance also limits the application of the highest and best use premise to non-financial assets and liabilities. This guidance had no impact on our unaudited Condensed Consolidated Financial Statements. See Note 4 for additional fair value disclosures.

On January 1, 2012, we adopted authoritative guidance related to comprehensive income. The guidance eliminates the option to present OCI in the unaudited Condensed Consolidated Statements of Equity, but allows companies to elect to present net income and OCI in one continuous statement (unaudited Condensed Consolidated Statements of Comprehensive Income) or in two consecutive statements. This guidance does not change any of the components of net income or OCI and earnings per share will still be calculated based on net income. This guidance did not have a material impact on our unaudited Condensed Consolidated Financial Statements.

Glossary of Key Terms

Table of Contents

## Note 3 – Merger with Nicor

On December 9, 2011, we completed our \$2.5 billion merger with Nicor. The preliminary allocation of the total purchase consideration transferred to the fair value of assets acquired and liabilities assumed included adjustments for the fair value of Nicor's assets and liabilities. During the second quarter of 2012, we completed our evaluation of the ERC liabilities for our sites in Illinois, which resulted in an increase of \$109 million in the liability from the amount recorded in our initial purchase price allocation. As these costs are recoverable from our customers as they are paid, we have recorded a regulatory asset associated with the recorded liabilities, which is reflected in our table of purchase price allocation for Nicor Gas' regulatory assets and liabilities below. See Note 9 – Commitments, Guarantees and Contingencies for additional ERC discussion. The preliminary allocation of the purchase price is presented in the following table.

In millions

Current assets	\$ 932
Property, plant and equipment	3,202
Goodwill	1,395
Other noncurrent assets, excluding goodwill	900
Current liabilities	(1,170)
Long-term debt	(599 )
Other noncurrent liabilities	(2,157)
Total purchase consideration	\$ 2,503

The estimated fair values of the assets acquired and the liabilities assumed were determined based on the accounting guidance for fair value measurements under GAAP. The estimated fair value measurements assume the highest and best use of the assets by market participants, considering the use of the asset that is physically possible, legally permissible and financially feasible at the measurement date. Modifications to the purchase price allocation may occur as a result of our continuing review of the assumptions and estimates underlying the preliminary allocation of the purchase price.

We concluded that net book value is a reasonable estimate of fair value for Nicor's tangible and intangible assets and liabilities that are explicitly subject to cost-of-service ratemaking. The company determined the fair value of Nicor's long-term debt using the income approach, and used a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile. As a result, our purchase price allocation included an adjustment of \$99 million to step-up the basis of Nicor's long-term debt to fair value as of the merger date. A corresponding regulatory asset was recorded in connection with the fair value adjustment of the debt. While the regulatory asset related to debt is not included in rate base, the costs are recovered over the term of the debt through the authorized rate of return component of base rates. The following table summarizes our purchase price allocation for Nicor Gas' regulatory assets and liabilities.

In millions

Current assets	\$ 36
Other noncurrent assets, excluding goodwill	586
Current liabilities	(80 )
Other noncurrent liabilities	(1,137)

For all other assets and liabilities acquired from Nicor, we considered the income, market and cost approaches to fair valuation. The income approach estimates the fair value by discounting the projected future cash flows at our weighted average cost of capital. We utilized this approach to obtain the business enterprise values for each reporting unit. Additionally, we used the income approach to determine the fair values for intangible trade names and customer relationships assets.

The market approach is based on the premise that the fair value can be determined through the use of prices and other relevant information generated by the market transactions involving identical or comparable assets or liabilities. Finally, the cost approach utilizes the concept of replacement cost as an indicator of fair value. We applied the market and cost approach to estimate the fair value of the property, plant and equipment. Our valuations included a \$31 million step-up for Nicor's non-regulatory property, plant and equipment. This was primarily related to the vessels and related equipment at our cargo shipping segment. The excess of the purchase price paid over the estimated fair values of the assets acquired and liabilities assumed was recognized as goodwill, which is not deductible for tax purposes.

Within our operating expenses, we recognized merger expenses of \$3 million (\$2 million net of tax) for the three months ended June 30, 2012 compared to \$8 million (\$5 million net of tax) recorded by AGL Resources during the same period in 2011. We recognized \$13 million (\$8 million net of tax) of merger expenses during the six months ended June 30, 2012 compared to \$10 million (\$6 million net of tax) recorded by AGL Resources for the same period in 2011. These costs were expensed as incurred. In addition, our 2011 unaudited Condensed Consolidated Statements of Income include incremental debt issuance costs and interest expense related to financing the cash portion of the purchase consideration in advance of the merger closing date. The amount included for the three months ended June 30, 2011 was \$5 million (\$3 million net of tax) and the amount included for the six months ended June 30, 2011 was \$8 million (\$5 million net of tax).

#### Glossary of Key Terms

Table of Contents

Pro forma financial information The following unaudited pro forma financial information reflects our consolidated results of operations as if the merger with Nicor had taken place on January 1, 2011. The unaudited pro forma information has been calculated after conforming our accounting policies and adjusting Nicor's results to reflect the depreciation and amortization that would have been charged assuming fair value adjustments to property, plant and equipment, debt and intangible assets had been applied on January 1, 2011, together with the consequential tax effects.

AGL Resources and Nicor together incurred approximately \$96 million of costs directly related to the merger in the twelve months ended December 31, 2011 and \$20 million was incurred in the six months ended June 30, 2011. These expenses are excluded from the pro forma earnings presented below.

The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of results of operations that would have been achieved had the pro forma events taken place on the dates indicated, or of the future consolidated results of operations of the combined company.

In millions, except per share amounts	Twelve months ended December 31, 2011	Six months ended June 30, 2011
Total revenues	\$ 4,680	\$ 2,767
Net income attributable to AGL Resources Inc.	\$ 304	\$ 200
Basic earnings per common share	\$ 2.62	\$ 1.72
Diluted earnings per common share	\$ 2.61	\$ 1.71

## Note 4 – Fair Value Measurements

The methods used to determine the fair value of our assets and liabilities are described within Note 2 – Significant Accounting Policies and Methods of Application.

## Derivative Instruments

The following table summarizes, by level within the fair value hierarchy, our derivative assets and liabilities that were accounted for at fair value on a recurring basis as of the periods presented. See Note 5 – Derivative Instruments for additional derivative instrument information.

In millions	June 30, 2012		Recurring fair values Derivative instruments December 31, 2011		June 30, 2011	
	Assets	Liabilities	Assets (1)	Liabilities	Assets	Liabilities
Natural gas derivatives						
Quoted prices in active markets (Level 1)	\$ 9	\$ (103 )	\$ 11	\$ (145 )	\$ 1	\$ (52 )
Significant other observable inputs (Level 2)	148	(48 )	229	(68 )	99	(17 )
	52	85	32	115	37	40

Netting of cash collateral						
Total carrying value (2)						
(3)	\$ 209	\$ (66 )	\$ 272	\$ (98 )	\$ 137	\$ (29 )
Interest rate derivatives						
Significant other observable inputs (Level 2)						
	\$ 17	\$ 0	\$ 13	\$ (13 )	\$ 3	\$ 0

(1) \$3 million at December 31, 2011 associated with weather derivatives have been excluded as they are accounted for based on intrinsic 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.

#### Money Market Funds

In millions	June 30, 2012	December 31, 2011	June 30, 2011
Money market funds (1)	\$76	\$59	\$0

(1) Recorded at fair value and classified as Level 1 within the fair value hierarchy.

#### Debt

Our long-term debt is recorded at amortized cost, with the exception of Nicor Gas' first mortgage bonds, which are recorded at acquisition date fair 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. The following table presents the amortized cost and fair value of our long-term debt as of the following periods.

In millions	June 30, 2012	December 31, 2011	June 30, 2011
Long-term debt amortized cost (1)	\$3,564	\$ 3,576	\$ 2,174
Long-term debt fair value (1) (2)	\$4,043	\$ 3,938	\$ 2,339

(1) June 30, 2012 includes current portion of long-term debt of \$230 million while December 31, 2011 includes current portion of long-term debt of \$15 million as well as the debt assumed in the Nicor merger with a stepped-up carrying value of \$594 million.

(2) Valued using Level 2 inputs.

#### Glossary of Key Terms

Table of Contents

## Note 5 – Derivative Instruments

A description of our objectives and strategies for using derivative instruments, related accounting policies and methods used to determine their fair value are described in Note 2 – Significant Accounting Policies and Methods of Application. See Note 4 – Fair Value Measurements for additional fair value disclosures.

Certain of our derivative instruments contain credit-risk-related or other contingent features that could increase the payments for collateral we post in the normal course of business when our financial instruments are in net liability positions. As of June 30, 2012 for agreements with such features, derivative instruments with liability fair values totaled approximately \$66 million for which we had posted no collateral to our counterparties. In addition, our energy marketing receivables and payables, which also have credit-risk-related or other contingent features, are discussed in Note 2. Our derivative instrument activities are included within operating cash flows as an adjustment to net income and were \$18 million for the six months ended June 30, 2012 and \$49 million for the six months ended June 30, 2011. See Note 4 – Fair Value Measurements for additional derivative instrument information.

The following table summarizes the various ways in which we account for our derivative instruments and the impact on our Consolidated Financial Statements.

Accounting Treatment	Recognition and Measurement	
	Statement of Financial Position	Income Statement
Cash flow hedge	Derivative carried 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 OCI (loss)	Effective portion of the gain or loss on the derivative instrument is reclassified out of accumulated OCI (loss) and into earnings when the hedged transaction affects earnings
Fair value hedge	Derivative carried at fair value	Gains or losses on the derivative instrument and the hedged item are recognized in earnings. As a result,
	Changes in fair value of the hedged item are recorded as adjustments to the carrying amount of the hedged item	to the extent the hedge is effective, the gains or losses will offset and there is no impact on earnings. Any hedge ineffectiveness will impact earnings.
Not designated as hedges	Derivative carried at fair value	Realized and unrealized gains or losses on the derivative instrument are recognized in earnings
	Distribution operations' gains and losses on derivative instruments are deferred as regulatory assets or liabilities 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

## Distribution Operations

Unrealized changes in the fair value of these derivative instruments are deferred as regulatory assets or liabilities respectively within our unaudited Condensed Consolidated Statements of Financial Position until recovered from customers. The following amounts represent realized losses incurred.

In millions	Three months ended		Six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Nicor Gas	\$ 25	n/a	\$ 26	n/a
	7	5	16	13

Elizabethtown  
Gas

Glossary of Key Terms

17

---



Table of Contents

## Quantitative Disclosures Related to Derivative Instruments

As of the periods presented, our derivative instruments were comprised of both long and short natural gas positions. A long position is a contract to purchase natural gas, and a short position is a contract to sell natural gas. We had net long natural gas contracts outstanding in the following quantities.

## Natural gas contracts

In Bcf	December 31, 2011		
	June 30, 2012 (1) (2)	(2)	June 30, 2011
<b>Hedge designation:</b>			
Cash flow	7	5	1
Not designated	47	186	191
Total	54	191	192
<b>Hedge position:</b>			
Short	(2,018 )	(1,680 )	(1,559 )
Long	2,072	1,871	1,751
Net long position	54	191	192

(1) Approximately 98% of these contracts have durations of two years or less and the remaining 2% expire between 2 to 6 years.

(2) Volumes related to Nicor Gas exclude variable-priced contracts, which are accounted for as derivatives, but whose fair values are not directly impacted by changes in commodity prices.

## Derivative Instruments Impact on the Unaudited Condensed Consolidated Statements of Financial Position

The following table presents the fair value and unaudited Condensed Consolidated Statements of Financial Position classification of our derivative instruments as of the periods presented:

In millions	Unaudited Condensed Consolidated Statements of Financial Position	Location (1) (2)	June 30, 2012	December 31, 2011	June 30, 2011
Designated as cash flow and fair value hedges					
Asset Instruments					
Current natural gas contracts	Derivative instruments assets and liabilities – current portion		\$ 6	\$ 9	\$ 1
Interest rate swap agreements	Derivative instruments assets – long-term portion		17	13	3
Liability Instruments					
Current natural gas contracts	Derivative instruments assets and liabilities – current portion		(7 )	(12 )	(2 )
Interest rate swap agreements	Derivative instruments liabilities – long-term portion		0	(13 )	0
Total			16	(3 )	2
Not designated as cash flow hedges					
Asset Instruments					
Current natural gas contracts	Derivative instruments assets and liabilities – current portion		493	706	286
Noncurrent natural gas contracts	Derivative instruments assets and liabilities		69	133	69

Liability Instruments			
Current natural gas contracts	Derivative instruments assets and liabilities – current portion	(489 )	(689 ) (263 )
Noncurrent natural gas contracts	Derivative instruments assets and liabilities	(66 )	(116 ) (60 )
Total		7	34 32
Total derivative instruments		\$ 23	\$ 31 \$ 34

(1) These amounts are netted within our unaudited Condensed Consolidated Statements of Financial Position for amounts which we have netting arrangements with the counterparties.

(2) As required by the authoritative guidance related to derivatives and hedging, the fair value amounts are presented on a gross basis. As a result, the amounts do not include cash collateral held on deposit in broker margin accounts of \$137 million as of June 30, 2012, \$147 million as of December 31, 2011 and \$77 million as of June 30, 2011. Accordingly, these amounts will differ from the amounts presented on our unaudited Condensed Consolidated Statements of Financial Position and the fair value information