AGL RESOURCES INC
Form 10-Q
April 28, 2015

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 March 31, 2015

Commission File Number 1-14174

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

Georgia	58-2210952
(State of incorporation)	(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 April 23, 2015, was 119,934,611.

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GLOSSARY OF KEY TERMS

2014 Form 10-K	Our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the SEC on February 12, 2015
2014 Form 10-Q/A	Our Quarterly Report on Form 10-Q/A for the period ended March 31, 2014, filed with the SEC on November 26, 2014
AGL Capital	AGL Capital Corporation
AGL Credit Facility	$1.3 billion credit agreement entered into by AGL Capital to support its commercial paper program
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
CUB	Citizens Utility Board
EBIT	Earnings before interest and taxes, the primary measure of our reportable 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 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
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 current 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
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
PGA	Purchased gas adjustment
Piedmont	Piedmont Natural Gas Company, Inc.
PP&E	Property, plant and equipment
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
Triton	Triton Container Investments, LLC
Tropical Shipping	Tropical Shipping and Construction Company Limited
U.S.	United States
VaR	Value-at-risk
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

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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	As of March 31, 2015	December 31, 2014	March 31, 2014
Current assets			
Cash and cash equivalents	$ 41	$ 31	$ 267
Short-term investments	8	8	49
Receivables			
Natural gas, unbilled and other	834	797	1,075
Energy marketing	611	779	1,226
Less allowance for uncollectible accounts	48	35	49
Total receivables, net	1,397	1,541	2,252
Inventories, net	302	716	253
Derivative instruments	189	245	127
Regulatory assets	63	83	250
Assets held for sale	-	-	264
Other	79	266	127
Total current assets	2,079	2,890	3,589
Long-term assets and other deferred debits			
Property, plant and equipment	11,689	11,552	11,054
Less accumulated depreciation	2,515	2,462	2,367
Property, plant and equipment, net	9,174	9,090	8,687
Goodwill	1,827	1,827	1,827
Regulatory assets	634	631	696
Intangible assets	116	125	140
Derivative instruments	24	42	11
Other	284	304	314
Total long-term assets and other deferred debits	12,059	12,019	11,675
Total assets	$ 14,138	$ 14,909	$ 15,264
Current liabilities			
Energy marketing trade payables	$ 586	$ 777	$ 1,119
Short-term debt	526	1,175	741
Other accounts payable – trade	285	312	434
Accrued expenses	259	229	385
Regulatory liabilities	168	112	161
Customer deposits and credit balances	109	125	104
Accrued environmental remediation liabilities	93	87	82
Temporary LIFO liquidation	87	-	252
Current portion of long-term debt	75	200	200
Derivative instruments	48	88	63
Liabilities held for sale	-	-	36
Other	135	114	177

Total current liabilities	2,371	3,219	3,754
Long-term liabilities and other deferred credits			
Long-term debt	3,524	3,602	3,610
Accumulated deferred income taxes	1,738	1,724	1,655
Regulatory liabilities	1,612	1,601	1,550
Accrued pension and retiree welfare benefits	526	525	405
Accrued environmental remediation liabilities	326	327	358
Derivative instruments	4	5	19
Other	73	78	70
Total long-term liabilities and other deferred credits	7,803	7,862	7,667
Total liabilities and other deferred credits	10,174	11,081	11,421
Commitments, guarantees and contingencies (see Note 10)			
Equity			
Common stock, $5 par value; 750,000,000 shares authorized: outstanding: 119,927,459 shares at March 31, 2015, 119,647,149 shares at December 31, 2014, and 119,247,421 shares at March 31, 2014	601	599	597
Additional paid-in capital	2,090	2,087	2,060
Retained earnings	1,444	1,312	1,289
Accumulated other comprehensive loss	(201)	(206)	(135)
Treasury shares, at cost: 216,523 shares at March 31, 2015, December 31, 2014, and March 31, 2014	(8)	(8)	(8)
Total common shareholders’ equity	3,926	3,784	3,803
Noncontrolling interest	38	44	40
Total equity	3,964	3,828	3,843
Total liabilities and equity	$ 14,138	$ 14,909	$ 15,264

See Notes to condensed consolidated financial statements (unaudited).

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

In millions, except per share amounts	Three months ended March 31, 2015	2014
Operating revenues (includes revenue taxes of $56 for the three months in 2015 and $68 for the three months in 2014)	$ 1,721	$ 2,462
Operating expenses		
Cost of goods sold	935	1,400
Operation and maintenance	249	289
Depreciation and amortization	97	93
Taxes other than income taxes	76	88
Total operating expenses	1,357	1,870
Operating income	364	592
Other income	3	3
Interest expense, net	(44)	(46)
Income before income taxes	323	549
Income tax expense	118	203
Income from continuing operations	205	346
Loss from discontinued operations, net of tax	-	(50)
Net income	205	296
Less net income attributable to the noncontrolling interest	12	12
Net income attributable to AGL Resources Inc.	$ 193	$ 284
Amounts attributable to AGL Resources Inc.		
Income from continuing operations attributable to AGL Resources Inc.	$ 193	$ 334
Loss from discontinued operations, net of tax	-	(50)
Net income attributable to AGL Resources Inc.	$ 193	$ 284
Per common share information		
Basic earnings (loss) per common share		
Continuing operations	$ 1.62	$ 2.82
Discontinued operations	-	(0.43)
Basic earnings per common share attributable to AGL Resources Inc.	$ 1.62	$ 2.39
Diluted earnings (loss) per common share		
Continuing operations	$ 1.62	$ 2.81
Discontinued operations	-	(0.43)
Diluted earnings per common share attributable to AGL Resources Inc.	$ 1.62	$ 2.38
Cash dividends declared per common share	$ 0.51	$ 0.49
Weighted average number of common shares outstanding		
Basic	119.3	118.5
Diluted	119.6	118.9

See Notes to condensed consolidated financial statements (unaudited).

Glossary of Key Terms

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

	Three months ended March 31,	
In millions	2015	2014
Net income	$ 205	$ 296
Other comprehensive income (loss), net of tax		
Retirement benefit plans, net of tax		
Reclassification of actuarial losses to net benefit cost (net of income tax of $2 and $1 for the three months ended March 31, 2015 and 2014, respectively)	3	1
Reclassification of prior service cost to net benefit cost	-	-
Retirement benefit plans, net	3	1
Cash flow hedges, net of tax		
Net derivative instrument gain arising during the period (net of income tax of $1 for the three months ended March 31, 2015)	2	4
Reclassification of realized derivative instrument gain to net income	-	(4)
Cash flow hedges, net	2	-
Other comprehensive income, net of tax	5	1
Comprehensive income	210	297
Less comprehensive income attributable to noncontrolling interest	12	12
Comprehensive income attributable to AGL Resources Inc.	$ 198	$ 285

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		Additional paid-in	Retained	Accumulated other comprehensive	Treasury	Noncontrolling	
In millions, except per share amounts	Shares	Amount	capital	earnings	loss	shares	interest	Total
Balance as of December 31, 2013	118.9	$ 595	$ 2,054	$ 1,063	$ (136)	$ (8)	$ 45	$ 3,613
Net income	-	-	-	284	-	-	12	296
Other comprehensive income	-	-	-	-	1	-	-	1
Dividends on common stock ($0.49 per share)	-	-	-	(58)	-	-	-	(58)
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)
Stock granted, share-based compensation, net of forfeitures	-	-	(11)	-	-	-	-	(11)
Stock issued, dividend reinvestment plan	-	-	2	-	-	-	-	2
Stock issued, share-based compensation, net of forfeitures	0.3	2	12	-	-	-	-	14
Stock-based compensation expense, net of tax	-	-	3	-	-	-	-	3
Balance as of March 31, 2014	119.2	$ 597	$ 2,060	$ 1,289	$ (135)	$ (8)	$ 40	$ 3,843

	AGL Resources Inc. Shareholders							
	Common stock		Additional paid-in	Retained	Accumulated other comprehensive	Treasury	Noncontrolling	
In millions, except per share amounts	Shares	Amount	capital	earnings	loss	shares	interest	Total
Balance as of December 31, 2014	119.6	$ 599	$ 2,087	$ 1,312	$ (206)	$ (8)	$ 44	$ 3,828
Net income	-	-	-	193	-	-	12	205
Other comprehensive income	-	-	-	-	5	-	-	5

Dividends on common stock ($0.51 per share)	-	-	-	(61)	-	-	-	(61)
Distributions to noncontrolling interests	-	-	-	-	-	-	(18)	(18)
Stock granted, share-based compensation, net of forfeitures	-	-	(12)	-	-	-	-	(12)
Stock issued, dividend reinvestment plan	0.1	-	3	-	-	-	-	3
Stock issued, share-based compensation, net of forfeitures	0.2	2	10	-	-	-	-	12
Stock-based compensation expense, net of tax	-	-	2	-	-	-	-	2
Balance as of March 31, 2015	119.9	$ 601	$ 2,090	$ 1,444	$ (201)	$ (8)	$ 38	$ 3,964

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	Three months ended March 31, 2015	2014
Cash flows from operating activities		
Net income	$ 205	$ 296
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	97	93
Change in derivative instrument assets and liabilities	33	(17)
Deferred income taxes	5	8
Loss from discontinued operations, net of tax	-	50
Changes in certain assets and liabilities		
Inventories, net of temporary LIFO liquidation	501	656
Prepaid and miscellaneous taxes	267	199
Accrued/deferred natural gas costs	22	(228)
Accrued expenses	(54)	(15)
Receivables, other than energy marketing	(24)	(319)
Energy marketing receivables and trade payables, net	(23)	8
Trade payables, other than energy marketing	(13)	52
Other, net	104	63
Net cash flow provided by operating activities of discontinued operations	-	7
Net cash flow provided by operating activities	1,120	853
Cash flows from investing activities		
Expenditures for property, plant and equipment	(188)	(161)
Other, net	4	2
Net cash flow used in investing activities of discontinued operations	-	(5)
Net cash flow used in investing activities	(184)	(164)
Cash flows from financing activities		
Net repayments of commercial paper	(649)	(430)
Payment of senior notes	(200)	-
Dividends paid on common shares	(61)	(58)
Distribution to noncontrolling interest	(18)	(17)
Other, net	2	4
Net cash flow used in financing activities	(926)	(501)
Net increase in cash and cash equivalents – continuing operations	10	186
Net increase in cash and cash equivalents – discontinued operations	-	2
Cash and cash equivalents (including held for sale) at beginning of period	31	105
Cash and cash equivalents (including held for sale) at end of period	41	293
Less cash and cash equivalents held for sale at end of period	-	26
Cash and cash equivalents (excluding held for sale) at end of period	$ 41	$ 267
Cash paid (received) during the period for		
Interest	$ 57	$ 58
Income taxes	(140)	14

See Notes to condensed consolidated financial statements (unaudited).

Glossary of Key Terms

AGL 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 of 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.

Our Condensed Consolidated Statements of Financial Position as of December 31, 2014 were derived from our audited consolidated financial statements, but do 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 statement of our financial results for the interim periods and should be read in conjunction with our consolidated financial statements and related notes included in Item 8 of our 2014 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 or financial condition to be expected for or as of 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 or otherwise controlled subsidiaries and the accounts of our variable interest entity, SouthStar, for which we are the primary beneficiary. For unconsolidated entities that we do not control, we use the equity method of accounting and our proportionate share of income or loss is recorded on the unaudited Condensed Consolidated Statements of Income. See Note 9 for additional information. We have eliminated intercompany profits and transactions in consolidation except for intercompany profits where recovery of such amounts is probable under the affiliates' rate regulation process.

In November 2014, we filed a Form 10-Q/A to revise our March 31, 2014 financial statements and other affected disclosures for items related to the recognition of revenues for certain of our regulatory infrastructure programs and the amortization of our intangible assets as originally filed in our Form 10-Q for the period ended March 31, 2014. Our financial statements for the period ended March 31, 2014, reflect the revised amounts reported in our 2014 Form 10-Q/A.

In September 2014, we closed on the sale of Tropical Shipping, which operated within our former cargo shipping segment. The assets and liabilities of these businesses as of March 31, 2014 are classified as held for sale on the unaudited Condensed Consolidated Statements of Financial Position, and the financial results of these businesses for the three months ended March 31, 2014 are reflected as discontinued operations on the unaudited Condensed Consolidated Statements of Income. Amounts shown in the following notes, unless otherwise indicated, exclude assets held for sale and discontinued operations. Cargo shipping also included our investment in Triton, which was not part of the sale and has been reclassified into our "other" non-reportable segments. See Note 12 for additional information on the sale of Tropical Shipping.

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 2014 Form 10-K. There were no significant changes to our accounting policies during the three months ended March 31, 2015.

Use of Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to use judgment and make estimates 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 accounting literature or in the development of estimates that impact our financial statements. The most significant estimates relate to the accounting for our rate-regulated subsidiaries, goodwill and other intangible assets, derivative and hedging activities, uncollectible accounts and other allowances for contingent losses, retirement plan benefit obligations and provisions for income taxes. We evaluate our estimates on an ongoing basis, and our actual results could differ from our estimates.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash on deposit, money market accounts and certificates of deposit held by domestic subsidiaries with original maturities of three months or less. As of March 31, 2014, there was $26 million of cash and cash equivalents held by Tropical Shipping that was excluded from cash and cash equivalents within our unaudited Condensed Consolidated Statements of Financial Position and included in assets held for sale. For more information on the sale of Tropical Shipping, see Note 12.

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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 that enable our wholesale services segment to net receivables and payables by counterparty upon settlement. Wholesale services also nets across product lines and against cash collateral, provided the master netting and cash collateral agreements include such provisions. While the amounts due from, or owed to, wholesale services' counterparties are settled net, they are recorded on a gross basis in our unaudited Condensed Consolidated Statements of Financial Position as energy marketing receivables and energy marketing trade payables.

Our wholesale services segment has trade and credit contracts that contain 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. To date, our credit ratings have exceeded the minimum requirements. As of March 31, 2015 and 2014, and December 31, 2014, 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. If such collateral were not posted, wholesale services' ability to continue transacting business with these counterparties would be negatively impacted.

Inventories

For our regulated utilities, except Nicor Gas, our natural gas inventories and the inventories we hold for Marketers in Georgia are carried at cost on a WACOG basis. In Georgia's competitive environment, Marketers sell natural gas to firm end-use customers at market-based prices. Part of the unbundling process, which resulted from deregulation and provides this competitive environment, is the assignment to Marketers of certain pipeline services that Atlanta Gas Light has under contract. On a monthly basis, Atlanta Gas Light assigns the majority of the pipeline storage services that it has under contract to Marketers, along with a corresponding amount of inventory. Atlanta Gas Light also retains and manages a portion of its pipeline storage assets and related natural gas inventories for system balancing and to serve system demand. See Note 10 for information regarding a regulatory filing by Atlanta Gas Light related to natural gas inventory.

Nicor Gas' inventory is carried at cost on a LIFO basis. Inventory decrements occurring during the year 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. Any temporary LIFO liquidation is included as a current liability in our unaudited Condensed Consolidated Statements of Financial Position. Interim inventory decrements that are 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. The inventory decrement as of March 31, 2015 is expected to be restored prior to year-end. The inventory decrement as of March 31, 2014 was restored prior to December 31, 2014.

Our retail operations, wholesale services and midstream operations segments carry inventory at LOCOM, where cost is determined on a WACOG basis. For these segments, we 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 pre-tax adjustments to our unaudited Condensed Consolidated Statements of Income to reduce the weighted average cost of the natural gas inventory to market value. For the three months ended March 31, 2015 and 2014, we had LOCOM adjustments primarily at wholesale services of $10 million and $2 million, respectively.

Additionally, we have $12 million of inventory at wholesale services that is currently inaccessible due to operational issues at a third party storage facility. The owner of the storage facility is working to resolve these issues. While we expect this inventory to be fully recovered, the timing of withdrawal of this gas may be impacted by the operational issues.

Regulated Operations

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 that would otherwise be charged to expense in the current period are capitalized as regulatory assets when it is probable that such costs 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 estimated expenditures that have not yet been incurred. Generally, regulatory assets and regulatory liabilities are amortized into our unaudited Condensed Consolidated Statements of Income over the period authorized by the regulatory commissions.

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Fair Value Measurements

We have financial and nonfinancial assets and liabilities subject to fair value measurement. The financial assets and liabilities measured and carried at fair value include cash and cash equivalents, and derivative assets and liabilities. The carrying values of receivables, short- and long-term investments, accounts payable, short-term debt, other current assets and liabilities, and accrued interest approximate fair value. Our nonfinancial assets and liabilities include pension and other retirement benefits, which are presented in Note 4 to our consolidated financial statements and in related notes included in Item 8 of our 2014 Form 10-K.

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 observance of those inputs in accordance with the fair value hierarchy.

Derivative Instruments

The fair values of the natural gas and weather derivative instruments that we use to manage exposures arising from changing natural gas prices and weather risk reflect 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 also use forward-starting interest rate swaps and interest rate lock agreements to lock in fixed interest rates on our forecasted issuances of debt. The objective of these hedges is to offset the variability of future payments associated with the interest rate on debt instruments we expect to issue. The gain or loss on the interest rate swaps designated as cash flow hedges is generally deferred in accumulated OCI until settlement, at which point it is amortized to interest expense over the life of the related debt. We use external market quotes and indices to value substantially all of our derivative instruments. See Note 4 and Note 5 for additional derivative disclosures.

Goodwill

We perform an annual goodwill impairment test on our reporting units that contain goodwill during the fourth quarter of each year, or more frequently if impairment indicators arise. These indicators include, but are not limited to, a significant change in operating performance, the business climate, legal or regulatory factors, or a planned sale or disposition of a significant portion of the business. To estimate the fair value of our reporting units, we use two generally accepted valuation approaches, the income approach and the market approach, using assumptions consistent with a market participant’s perspective. The results of the two valuation approaches are weighted to estimate the fair value of each reporting unit. There were no triggering events during the current period that would require us to perform an interim impairment test. The amounts of goodwill as of March 31, 2015 and 2014, and December 31, 2014 are provided below.

In millions	Distribution operations	Retail operations	Midstream operations	Consolidated
Goodwill	$1,640	$173	$14	$ 1,827

Earnings Per Common Share

We compute basic earnings per common share attributable to AGL Resources Inc. by dividing our net income attributable to the common shareholders of AGL Resources Inc. by the daily weighted average number of common shares outstanding. Diluted earnings per common share attributable to AGL Resources Inc. reflect the potential reduction in earnings per common share attributable to AGL Resources Inc. that occurs when the exercise and/or conversion of all potentially dilutive common shares is added to the common shares outstanding.

We derive our potentially dilutive common shares by calculating the number of shares issuable under restricted stock, restricted stock units and stock options award programs. The vesting of certain shares of the restricted stock and restricted stock units depends on the satisfaction of defined performance and/or time-based criteria. The future issuance of shares underlying the outstanding stock options depends on whether the market price of the common shares underlying the options exceeds the respective exercise prices of the stock options. The following table shows the calculation of our diluted shares attributable to AGL Resources Inc. for the periods presented as if performance units currently earned under the plan ultimately vest and as if stock options currently exercisable at prices below the average market prices are exercised.

In millions (except per share amounts)	Three months ended March 31, 2015	2014
Income from continuing operations attributable to AGL Resources Inc.	$193	$334
Loss from discontinued operations, net of tax	-	(50)
Net income attributable to AGL Resources Inc.	$193	$284
Denominator:		
Basic weighted average number of common shares outstanding (1)	119.3	118.5
Effect of dilutive securities	0.3	0.4
Diluted weighted average number of common shares outstanding (2)	119.6	118.9
Basic earnings per common share		
Continuing operations	$1.62	$2.82
Discontinued operations	-	(0.43)
Basic earnings per common share attributable to AGL Resources Inc.	$1.62	$2.39
Diluted earnings per common share (2)		
Continuing operations	$1.62	$2.81
Discontinued operations	-	(0.43)
Diluted earnings per common share attributable to AGL Resources Inc.	$1.62	$2.38

(1) Daily weighted average shares outstanding.

(2) There were no outstanding stock options excluded from the computation of diluted earnings per common share attributable to AGL Resources Inc. for any of the periods presented because their effect would have been anti-dilutive as the exercise prices were greater than the average market price.

Accounting Developments

In February 2015, the FASB issued updated authoritative guidance related to the consolidation of other legal entities into our financial statements. The amendments modify aspects of the consolidation determination that could potentially impact us, including the analysis of limited partnerships and similar legal entities, fee arrangements, and related party relationships. The guidance will be effective for us beginning January 1, 2016. Early adoption is permitted. We may elect to apply the new guidance either retrospectively to each prior period presented or via a cumulative effect adjustment upon the date of initial application. We have not yet determined the impact of this new guidance, nor have we selected a transition method.

In April 2015, the FASB issued updated authoritative guidance related to debt issuance costs. The amendment modifies the presentation of unamortized debt issuance costs on our consolidated statements of financial position. Under the new guidance, we will present such amounts as a direct deduction from the face amount of the debt, similar to unamortized debt discounts and premiums, rather than as an asset. Amortization of the debt issuance costs will continue to be reported as interest expense. The guidance will be effective for us beginning January 1, 2016. Early adoption is permitted. The new guidance must be applied retrospectively to each prior period presented. We have determined that the impact of this new guidance will not be material.

In April 2015, the FASB issued authoritative guidance related to the accounting for fees paid in connection with arrangements with cloud-based software providers. Under the new guidance, unless a software arrangement includes specific elements enabling customers to possess and operate software on platforms other than that offered by the cloud-based provider, the cost of such arrangements is to be accounted for as an operating expense of the period incurred. The new guidance may be applied either prospectively or retrospectively, is effective for us beginning January 1, 2016, and early adoption is permitted. We are currently evaluating our software arrangements in light of the new guidance.

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Note 3 - Regulated Operations

Our regulatory assets and liabilities reflected within our unaudited Condensed Consolidated Statements of Financial Position as of the dates presented are summarized in the following table.

In millions	March 31, 2015	December 31, 2014	March 31, 2014
Regulatory assets			
Recoverable ERC	$ 37	$ 49	$ 38
Recoverable pension and retiree welfare benefit costs	11	12	9
Deferred natural gas costs	7	3	161
Recoverable seasonal rates	-	10	-
Other	8	9	42
Total regulatory assets - current	63	83	250
Recoverable ERC	331	326	419
Recoverable pension and retiree welfare benefit costs	108	110	97
Recoverable regulatory infrastructure program costs	73	69	57
Long-term debt fair value adjustment	72	74	80
Other	50	52	43
Total regulatory assets - long-term	634	631	696
Total regulatory assets	$ 697	$ 714	$ 946
Regulatory liabilities			
Accrued natural gas costs	$ 53	$ 27	$ 24
Bad debt over collection	30	33	41
Accumulated removal costs	25	25	27
Deferred seasonal rates	20	-	20
Other	40	27	49
Total regulatory liabilities - current	168	112	161
Accumulated removal costs	1,524	1,520	1,456
Regulatory income tax liability	27	34	27
Unamortized investment tax credit	22	22	25
Bad debt over collection	19	12	14
Other	20	13	28
Total regulatory liabilities - long-term	1,612	1,601	1,550
Total regulatory liabilities	$ 1,780	$ 1,713	$ 1,711

Base rates are designed to provide the opportunity to recover cost and earn a return on investment during the period rates are in effect. As such, all of our regulatory assets recoverable through base rates are subject to review by the respective state regulatory commission during future rate proceedings. We are not aware of 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 such costs consistent with our historical recoveries.

Unrecognized Ratemaking Amounts The following table illustrates our authorized ratemaking amounts that are not recognized in our unaudited Condensed Consolidated Statements of Financial Position. These amounts are primarily composed of an allowed equity rate of return on assets associated with certain of our regulatory infrastructure programs. These amounts will be recognized as revenues in our financial statements in the periods they are billable to our customers.

In millions	Atlanta Gas Light	Virginia Natural Gas	Elizabethtown Gas	Total
March 31, 2015	$ 119	$ 12	$ 2	$ 133
December 31, 2014	113	12	2	127
March 31, 2014	88	12	2	102

Natural Gas Costs We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms established by the state regulatory agencies. Under these mechanisms, all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. We defer or accrue the difference between the actual cost of natural gas and the amount of commodity revenue earned in a given period, such that no operating margin is recognized related to these costs. The deferred or accrued amount is either billed or refunded to our customers prospectively through adjustments to the commodity rate. Deferred natural gas costs are reflected as regulatory assets and accrued natural gas costs are reflected as regulatory liabilities.

Environmental Remediation Costs We are subject to federal, state and local laws and regulations governing environmental quality and pollution control that require us to remove or remedy the effect on the environment of the disposal or release of specified substances at our current and former operating sites, substantially all of which is related to our former MGP sites. The ERC assets and liabilities are associated with our distribution operations segment and remediation costs are generally recoverable from customers through rate mechanisms approved by regulators. Accordingly, both costs incurred to remediate the former MGP sites, plus the future estimated cost recorded as liabilities, net of amounts previously collected, are recognized as a regulatory asset until recovered from customers.

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Our accrued environmental remediation liabilities are estimates of future remediation costs for investigation and cleanup of our current and former operating sites that are contaminated. These estimates are based on conventional engineering estimates and the use of probabilistic models of potential costs when such estimates cannot be made, on an undiscounted basis. These estimates contain various assumptions, which we refine and update on an ongoing basis. These liabilities do not include other potential expenses, such as unasserted property damage claims, personal injury or natural resource damage claims, legal expenses or other costs for which we may be held liable but for which we cannot reasonably estimate an amount.

Our accrued environmental remediation liabilities are not regulatory liabilities; however, the associated expenses are deferred as a corresponding regulatory asset until the costs are recovered from customers. We primarily recover these deferred costs through three rate riders that authorize dollar-for-dollar recovery. We expect to collect $37 million in revenues over the next 12 months, which is reflected as a current regulatory asset. The following table provides more information on the estimated costs to remediate our current and former operating sites as of March 31, 2015.

In millions	# of sites	Probabilistic model cost estimates	Engineering estimates	Amount recorded	Expected costs over next 12 months	Cost recovery period
Illinois (1)	26	$ 208 - $466	$ 43	$ 242	$ 45	As incurred
New Jersey	6	105 - 177	14	112	14	7 years
Georgia and Florida	13	40 - 81	15	55	26	5 years
North Carolina (2)	1	n/a	10	10	8	No recovery
Total	46	$ 353 - $724	$ 82	$ 419	$ 93	

(1) Nicor Gas is responsible in whole or in part for 26 MGP sites, of which two sites have been remediated and their use is no longer restricted by the environmental condition of the property. Nicor Gas and Commonwealth Edison Company are parties to an agreement to cooperate in cleaning up residue at 23 of the sites. Nicor Gas' allocated share of cleanup costs for these sites is 52%.

(2) We have no regulatory recovery mechanism for the site in North Carolina. Therefore, there is no amount included within our regulatory assets and changes in estimated costs are recognized in income in the period of change.

In July 2014, we reached a $77 million insurance settlement for environmental claims relating to potential contamination at our MGP sites in New Jersey and North Carolina. The terms of the settlement required the $77 million to be paid in two installments. We received $45 million in the third quarter of 2014 and this payment was primarily recorded as a reduction to our recoverable ERC regulatory asset. The remaining $32 million is due in the third quarter of 2015. We will file for approval with the New Jersey BPU to utilize the insurance proceeds related to the New Jersey sites to reduce the ERC expenditures that otherwise would have been recovered from our customers in future periods. Once approved, the settlement is expected to reduce our recoverable ERC regulatory asset and have a favorable impact on the rates for our Elizabethtown Gas customers.

Note 4 - Fair Value Measurements

The methods used to determine the fair values of our assets and liabilities are described within Note 2.

Derivative Instruments

The following table summarizes, by level within the fair value hierarchy, our derivative assets and liabilities that were carried at fair value on a recurring basis in our unaudited Condensed Consolidated Statements of Financial Position as of the dates presented. See Note 5 for additional derivative instrument information.

	March 31, 2015	December 31, 2014	March 31, 2014

In millions	Assets (1)	Liabilities	Assets (1)	Liabilities	Assets (1)	Liabilities
Quoted prices in active markets (Level 1)	$-	$(106)	$58	$(80)	$18	$(38)
Significant other observable inputs (Level 2)	108	(52)	174	(94)	50	(75)
Netting of cash collateral	104	106	52	81	69	31
Total carrying value (2)	$212	$(52)	$284	$(93)	$137	$(82)

(1) Balances of $1 million at March 31, 2015, $3 million at December 31, 2014 and $1 million at March 31, 2014, associated with certain weather derivatives have been excluded, as they are accounted for based on intrinsic value rather than fair value.

(2) There were no significant unobservable inputs (Level 3) or significant transfers between Level 1, Level 2 or Level 3 for any of the dates presented.

Debt

Our long-term debt is recorded at amortized cost, with the exception of Nicor Gas' first mortgage bonds, which are recorded at their acquisition-date fair value. We amortize the fair value adjustment of Nicor Gas' first mortgage bonds over the lives of the bonds. The following table lists the carrying amount and fair value of our long-term debt as of the dates presented.

In millions	March 31, 2015	December 31, 2014	March 31, 2014
Long-term debt carrying amount	$ 3,599	$ 3,802	$ 3,810
Long-term debt fair value (1)	4,102	4,231	4,095

(1) Fair value determined using Level 2 inputs.

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Note 5 - Derivative Instruments

Our objectives and strategies for using derivative instruments, related accounting policies and methods used to determine their fair values are described in Note 2 to our consolidated financial statements and related notes included in Item 8 of our 2014 Form 10-K. See Note 4 for additional fair value disclosures.

Certain of our derivative instruments contain credit-risk-related or other contingent features that could require us to post collateral in the normal course of business when our financial instruments are in net liability positions. As of March 31, 2015, December 31, 2014 and March 31, 2014, for agreements with such features, derivative instruments with liability fair values totaled $52 million, $93 million and $82 million, respectively, for which we had posted no collateral to our counterparties. The maximum collateral that could be required with these features is $7 million. For more information, see “Energy Marketing Receivables and Payables” in Note 2, which also have credit-risk-related contingent features. Our derivative instrument activities are included within operating cash flows as an increase (decrease) to net income of $33 million and $(17) million for the three months ended March 31, 2015 and 2014, respectively. See Note 4 for additional derivative instrument information. The following table summarizes the ways in which we account for our derivative instruments and the impact on our unaudited condensed consolidated financial statements.

	Recognition and Measurement	
Accounting Treatment	Statements of Financial Position	Statements of Income
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 realized and unrealized 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 realized and unrealized on the derivative instrument and the hedged item are recognized in earnings. As a result, 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
	Changes in fair value of the hedged item are recorded as adjustments to the carrying amount of the hedged item	
Not designated as hedges	Derivative carried at fair value	Gains or losses realized and unrealized 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 cost of goods sold	Gains or losses realized and unrealized on these derivative instruments are ultimately included in billings to customers and are recognized in cost of goods sold in the same period as the related revenues

Quantitative Disclosures Related to Derivative Instruments

As of the dates 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. As of the dates presented, we had a net long natural gas contracts position outstanding in the following quantities:

In Bcf (1)	March 31, 2015 (2)	December 31, 2014	March 31, 2014
Cash flow hedges	9	9	6
Not designated as hedges	231	75	277
Total volumes	240	84	283
Short position – cash flow hedges	(6)	(7)	(2)

Short position – not designated as hedges	(2,735)	(2,825)	(2,489)
Long position – cash flow hedges	15	16	8
Long position – not designated as hedges	2,966	2,900	2,766
Net long position	240	84	283

(1) Volumes related to Nicor Gas exclude variable-priced contracts, which are carried at fair value, but whose fair values are not directly impacted by changes in commodity prices.

(2) Approximately 96% of these contracts have durations of two years or less and the remaining 4% expire between two and five years.

Derivative Instruments in our Unaudited Condensed Consolidated Statements of Financial Position

In accordance with regulatory requirements, gains and losses on derivative instruments used to hedge natural gas purchases for customer use at distribution operations are reflected in accrued natural gas costs within our unaudited Condensed Consolidated Statements of Financial Position until billed to customers. The following amounts deferred as a regulatory asset or liability in our unaudited Condensed Consolidated Statements of Financial Position represent the net realized gains (losses) related to these natural gas cost hedges as of the periods presented.

	Three months ended March 31,	
In millions	2015	2014
Nicor Gas	$(3)	$2
Elizabethtown Gas	(4)	3

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The following table presents the fair values and unaudited Condensed Consolidated Statements of Financial Position classifications of our derivative instruments as of the dates presented.

		March 31, 2015		December 31, 2014		March 31, 2014	
In millions	Classification	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Designated as cash flow or fair value hedges							
Natural gas contracts	Current	$ -	$ (6)	$ 6	$ (11)	$ 2	$ -
Natural gas contracts	Long-term	-	(1)	-	(1)	-	-
Interest rate swap agreements	Current	1	-	-	-	-	-
Interest rate swap agreements	Long-term	3	-	-	-	-	-
Total designated as cash flow or fair value hedges		$ 4	$ (7)	$ 6	$ (12)	$ 2	$ -
Not designated as hedges							
Natural gas contracts	Current	$ 557	$ (592)	$ 1,061	$ (1,020)	$ 675	$ (703)
Natural gas contracts	Long-term	98	(109)	145	(119)	80	(98)
Total not designated as hedges		$ 655	$ (701)	$ 1,206	$ (1,139)	$ 755	$ (801)
Gross amount of recognized assets and liabilities (1) (2)		659	(708)	1,212	(1,151)	757	(801)
Gross amounts offset in our unaudited Condensed Consolidated Statements of Financial Position (2)		(446)	656	(925)	1,058	(619)	719
Net amounts of assets and liabilities presented in our unaudited Condensed Consolidated Statements of Financial Position (3)		$ 213	$ (52)	$ 287	$ (93)	$ 138	$ (82)

(1) The gross amounts of recognized assets and liabilities are netted within our unaudited Condensed Consolidated Statements of Financial Position to the extent that we have netting arrangements with the counterparties.

(2) As required by the authoritative guidance related to derivatives and hedging, the gross amounts of recognized assets and liabilities do not include cash collateral held on deposit in broker margin accounts of $210 million as of March 31, 2015, $133 million as of December 31, 2014, and $100 million as of March 31, 2014. Cash collateral is included in the "Gross amounts offset in our unaudited Condensed Consolidated Statements of Financial Position" line of this table.

(3) As of March 31, 2015, December 31, 2014, and March 31, 2014, we held letters of credit from counterparties that under master netting arrangements would offset an insignificant portion of these assets.

Derivative Instruments in the Unaudited Condensed Consolidated Statements of Income

The following table presents the impacts of our derivative instruments in our unaudited Condensed Consolidated Statements of Income for the periods presented.

	Three months ended March 31,	
In millions	2015	2014
Designated as cash flow or fair value hedges		
Natural gas contracts - net (loss) gain reclassified from OCI into cost of goods sold	$(1)	$3
	-	1

Natural gas contracts - net gain reclassified from OCI into operation and maintenance expense		
Interest rate swaps - net gain reclassified from OCI into interest expense	1	-
Income tax benefit	-	-
Total designated as cash flow or fair value hedges, net of tax	-	4
Not designated as hedges (1)		
Natural gas contracts - net (loss) recorded in operating revenues	(24)	(30)
Natural gas contracts - net (loss) gain recorded in cost of goods sold (2)	(2)	2
Income tax benefit	10	11
Total not designated as hedges, net of tax	(16)	(17)
Total gains (losses) on derivative instruments, net of tax	$(16)	$(13)

(1) Associated with the fair value of derivative instruments held at March 31, 2015 and 2014.

(2) Excludes losses recorded in cost of goods sold associated with weather derivatives of $2 million and $5 million for the three months ended March 31, 2015 and 2014, respectively.

Any amounts recognized in operating income related to ineffectiveness or due to a forecasted transaction that is no longer expected to occur were immaterial for the three months ended March 31, 2015 and 2014. Our expected gains to be reclassified from OCI into cost of goods sold, operation and maintenance expense, interest expense and operating revenues and recognized in our unaudited Condensed Consolidated Statements of Income over the next 12 months are $9 million. These deferred gains and losses are related to natural gas derivative contracts associated with retail operations' and Nicor Gas' system use. The expected gains are based upon the fair values of these financial instruments at March 31, 2015. The effective portions of gains and losses on derivative instruments qualifying as cash flow hedges that were recognized in OCI during the periods are presented in our unaudited Condensed Consolidated Statements of Income. See Note 8 for these amounts.

There have been no other significant changes to our derivative instruments, as described in Note 2, Note 4 and Note 5 to our consolidated financial statements and related notes included in Item 8 of our 2014 Form 10-K.

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Note 6 - Employee Benefit Plans

Pension Benefits

We sponsor the AGL Resources Inc. Retirement Plan, a tax-qualified defined benefit retirement plan for our eligible employees, which is described in Note 6 to our consolidated financial statements and related notes included in Item 8 of our 2014 Form 10-K. Following are the components of our pension costs for the periods indicated.

	Three months ended March 31,	
In millions	2015	2014
Service cost	$7	$6
Interest cost	11	12
Expected return on plan assets	(16)	(16)
Net amortization of prior service cost	(1)	-
Recognized actuarial loss	8	5
Net periodic pension benefit cost	$9	$7

Welfare Benefits

The benefits of our Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. are described in Note 6 to our consolidated financial statements and related notes included in Item 8 of our 2014 Form 10-K. Following are the components of our welfare costs for the periods indicated.

	Three months ended March 31,	
In millions	2015	2014
Service cost	$1	$1
Interest cost	3	4
Expected return on plan assets	(2)	(2)
Net amortization of prior service cost	-	(1)
Recognized actuarial loss	1	1
Net periodic welfare benefit cost	$3	$3

Note 7 - Debt and Credit Facilities

The following table provides maturity dates, year-to-date weighted average interest rates and amounts outstanding for our various debt securities and facilities for the periods presented. We fully and unconditionally guarantee all debt issued by AGL Capital. For additional information on our debt, see Note 8 in our consolidated financial statements and related notes in Item 8 of our 2014 Form 10-K.

	March 31, 2015				March 31, 2014	
Dollars in millions	Year(s) due	Weighted average interest rate (1)	Outstanding	Outstanding at December 31, 2014	Weighted average interest rate (1)	Outstanding
Short-term debt						
Commercial paper - AGL Capital (2)	2015	0.5 %	$ 176	$ 590	0.3 %	$ 440
	2015	0.4	350	585	0.2	301

Commercial paper - Nicor Gas (2)						
Total short-term debt		0.4 %	$ 526	$ 1,175	0.3 %	$ 741
Current portion of long-term debt	2016	2.9 %	$ 75	$ 200	5.0 %	$ 200
Long-term debt - excluding current portion						
Senior notes	2016-2043	5.0 %	$ 2,625	$ 2,625	5.0 %	$ 2,625
First mortgage bonds	2016-2038	6.0	425	500	5.6	500
Gas facility revenue bonds	2022-2033	0.8	200	200	0.9	200
Medium-term notes	2017-2027	7.8	181	181	7.8	181
Total principal long-term debt		4.9	3,431	3,506	4.9	3,506
Fair value adjustment of long-term debt (3)	n/a	n/a	77	80	n/a	88
Unamortized debt premium, net	n/a	n/a	16	16	n/a	16
Total non-principal long-term debt		n/a	93	96	n/a	104
Total long-term debt – excluding current portion			$ 3,524	$ 3,602		$ 3,610
Total debt			$ 4,125	$ 4,977		$ 4,551

(1) Interest rates are calculated based on the daily weighted average balance outstanding for the three months ended March 31.
(2) As of March 31, 2015, the effective interest rates on our commercial paper borrowings were 0.5% for AGL Capital and 0.4% for Nicor Gas.
(3) See Note 4 for additional information on our fair value measurements.

Commercial Paper Programs

We maintain commercial paper programs at AGL Capital and at Nicor Gas that consist of short-term, unsecured promissory notes used in conjunction with cash from operations to fund our seasonal working capital requirements. Working capital needs fluctuate during the year and are highest during the injection period in advance of the Heating Season. Nicor Gas' commercial paper program supports working capital needs at Nicor Gas, while all of our other subsidiaries and SouthStar participate in AGL Capital's commercial paper program. During the first three months of 2015, our commercial paper maturities ranged from 1 to 58 days, and at March 31, 2015, remaining terms to maturity ranged from 1 to 20 days. Total borrowings and repayments netted to a payment of $649 million during the first three months of 2015. During the first three months of 2015, we had no commercial paper issuances with original maturities over three months.

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Senior Notes

On January 15, 2015, $200 million of senior notes matured and were repaid using the proceeds from commercial paper borrowings.

Interest Rate Swaps

On January 23, 2015, we executed $800 million in notional value of 10 year and 30 year fixed-rate, forward-starting interest rate swaps to hedge potential interest rate volatility prior to anticipated issuances of senior notes during 2015 and 2016. These debt issuances will be used to reduce our commercial paper for the amount that was borrowed to repay our senior notes that matured in January 2015 and to fund upcoming debt maturities as well as increased capital expenditures associated with utility investment and construction of our new pipeline projects. We have designated the forward-starting interest rate swaps, which will be settled on the debt issuance dates, as cash flow hedges. We performed a qualitative assessment of effectiveness as of March 31, 2015 and concluded that the hedges remain highly effective.

Financial and Non-Financial Covenants

The AGL Credit Facility and the Nicor Gas Credit Facility each include a financial covenant that requires us to maintain a ratio of total debt to total capitalization of no more than 70% at the end of any fiscal month; however, our goal is to maintain these ratios at levels between 50% and 60%. These ratios, as calculated in accordance with the debt covenants, include standby letters of credit and surety bonds and exclude accumulated OCI items related to non-cash pension adjustments, welfare benefits liability adjustments and accounting adjustments for cash flow hedges. Adjusting for these items, the following table contains our debt-to-capitalization ratios for the dates presented, which are below the maximum allowed.

	March 31, 2015	December 31, 2014	March 31, 2014
AGL Credit Facility	50 %	55 %	54 %
Nicor Gas Credit Facility	54	62	54

The credit facilities contain certain non-financial covenants that, among other things, restrict liens and encumbrances, loans and investments, acquisitions, dividends and other restricted payments, asset dispositions, mergers and consolidations and other matters customarily restricted in such agreements.

Default Provisions

Our credit facilities and other financial obligations include provisions that, if not complied with, could require early payment or similar actions. The most important default events include the following:

- a maximum leverage ratio
- insolvency events and/or nonpayment of scheduled principal or interest payments
- acceleration of other financial obligations, and
- change of control provisions.

We have no triggering events in our debt instruments that are tied to changes in our specified credit ratings or our stock price and have not entered into any transaction that requires us to issue equity based on credit ratings or other triggering events. We were in compliance with all existing debt provisions and covenants, both financial and non-financial, for all periods presented.

Note 8 - Equity

Our OCI (loss) amounts are aggregated within our accumulated other comprehensive loss on our unaudited Condensed Consolidated Statements of Financial Position. The following table provides changes in the components of our accumulated other comprehensive loss balances, net of the related income tax effects.

	2015			2014		
In millions (1)	Cash flow hedges	Retirement benefit plans	Total	Cash flow hedges	Retirement benefit plans	Total
For the three months ended March 31,						
As of beginning of period	$ (6)	$ (200)	$ (206)	$ 1	$ (137)	$ (136)
OCI, before reclassifications	2	-	2	4	-	4
Amounts reclassified from accumulated OCI	-	3	3	(4)	1	(3)
Net current period other comprehensive income	2	3	5	-	1	1
As of end of period	$ (4)	$ (197)	$ (201)	$ 1	$ (136)	$ (135)

(1) All amounts are net of income taxes. Amounts in parentheses indicate debits to accumulated other comprehensive loss.

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The following table provides details of the reclassifications out of accumulated other comprehensive loss and the ultimate favorable (unfavorable) impact on net income for the periods presented.

In millions (1)	Three months ended March 31, 2015	2014
Cash flow hedges		
Cost of goods sold (natural gas contracts)	$(1)	$3
Operation and maintenance expense (natural gas contracts)	-	1
Interest expense (interest rate contracts)	1	-
Total before income tax	-	4
Income tax benefit	-	-
Total cash flow hedges, net of income tax	-	4
Retirement benefit plans		
Operation and maintenance expense (actuarial losses) (2)	(5)	(2)
Total before income tax	(5)	(2)
Income tax benefit	2	1
Total retirement benefit plans	(3)	(1)
Total reclassification for the period	$(3)	$3

(1) Amounts in parentheses indicate reductions to our net income and to accumulated other comprehensive loss. Except for retirement benefit plan amounts, the net income impacts are immediate.

(2) Amortization of these accumulated other comprehensive loss components is included in the computation of net periodic benefit cost. See Note 6 for additional details about net periodic benefit cost.

Note 9 - Non-Wholly Owned Entities

SouthStar, a joint venture owned by us and Piedmont, is our only variable interest entity (VIE) for which we are the primary beneficiary. This requires us to consolidate its assets, liabilities, revenues and expenses. For additional information on SouthStar, see Note 10 to our consolidated financial statements and related notes included in Item 8 of our 2014 Form 10-K. Earnings from SouthStar in 2015 and 2014 were allocated entirely in accordance with the ownership interests.

Cash flows used in our investing activities include capital expenditures for SouthStar of $1 million for the three months ended March 31, 2015, and $2 million for the three months ended March 31, 2014. Cash flows used in our financing activities include SouthStar's distribution to Piedmont for its portion of SouthStar's annual earnings from the previous year, which generally occurs in the first quarter of each fiscal year. For the three months ended March 31, 2015 and 2014, SouthStar distributed $18 million and $17 million, respectively, to Piedmont. SouthStar's creditors have no recourse to our general credit beyond our corporate guarantees that we have provided to SouthStar's counterparties and natural gas suppliers. The following table provides additional information on SouthStar's assets and liabilities as of the dates presented.

	March 31, 2015			December 31, 2014			March 31, 2014		
In millions	Consolidated	SouthStar (1)	% (2)	Consolidated	SouthStar (1)	% (2)	Consolidated	SouthStar (1)	% (2)
Current assets	$ 2,079	$ 182	9 %	$ 2,890	$ 238	8 %	$ 3,589	$ 235	7 %
Goodwill and other intangible assets	1,943	119	6	1,952	125	6	1,967	131	7
Long-term assets and other deferred	10,116	17	-	10,067	17	-	9,708	16	-

debits									
Total assets	$ 14,138	$ 318	2 %	$ 14,909	$ 380	3 %	$ 15,264	$ 382	3 %
Current liabilities	$ 2,371	$ 46	2 %	$ 3,219	$ 71	2 %	$ 3,754	$ 106	3 %
Long-term liabilities and other deferred credits	7,803	1	-	7,862	-	-	7,667	-	-
Total Liabilities	10,174	47	-	11,081	71	1	11,421	106	1
Equity	3,964	271	7	3,828	309	8	3,843	276	7
Total liabilities and equity	$ 14,138	$ 318	2 %	$ 14,909	$ 380	3 %	$ 15,264	$ 382	3 %

(1) These amounts reflect information for SouthStar and exclude intercompany eliminations and the balances of our wholly owned subsidiary with an 85% ownership interest in SouthStar.

(2) SouthStar's percentage of the amount in our unaudited Condensed Consolidated Statements of Financial Position.

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The following table provides information on SouthStar's operating revenues and operating expenses for the periods presented, which are consolidated within our unaudited Condensed Consolidated Statements of Income.

In millions	Three months ended March 31, 2015	Three months ended March 31, 2014
Operating revenues	$311	$374
Operating expenses		
Cost of goods sold	203	270
Operation and maintenance	23	23
Depreciation and amortization	2	3
Taxes other than income taxes	1	-
Total operating expenses	229	296
Operating income	$82	$78

Equity Method Investments

For more information about our equity method investments, see Note 10 to our consolidated financial statements and related notes in Item 8 of our 2014 Form 10-K. The carrying amounts within our unaudited Condensed Consolidated Statements of Financial Position of our investments that are accounted for under the equity method were as follows:

In millions	March 31, 2015	December 31, 2014	March 31, 2014
Triton	$ 57	$ 62	$ 67
Horizon Pipeline	14	14	15
Other (1)	5	4	1
Total	$ 76	$ 80	$ 83

(1) Primarily includes our current investment of $2 million in PennEast Pipeline and $3 million in Atlantic Coast Pipeline as of March 31, 2015 and $1 million and $2 million, respectively, as of December 31, 2014.

Income from our equity method investments is classified as other income in our unaudited Condensed Consolidated Statements of Income. The following table provides the income from our equity method investments for the periods presented.

In millions	Three months ended March 31, 2015	Three months ended March 31, 2014
Triton	$-	$2
Horizon Pipeline	1	1
Total	$1	$3

In the third quarter of 2014, we entered into partnerships to form two new interstate pipeline companies within our midstream operations segment as described below. The capacity from these pipelines will further enhance system reliability as well as provide access to a more diverse supply of natural gas. We have concluded that, at present, both companies are VIEs. We are not considered the primary beneficiary and, therefore, we have not consolidated the financial statements for these companies in our unaudited condensed consolidated financial statements because we share in the ability to direct the activities that most significantly impact their economic performance with their other member companies. We have accounted for our investment in these companies using the equity method of accounting, and have classified the investment within other noncurrent assets in our unaudited Condensed Consolidated Statements of Financial Position.

PennEast Pipeline In August 2014, we entered into a partnership in which we hold a 20% ownership interest in a new interstate pipeline company formed to develop and operate a 108-mile natural gas pipeline between New Jersey and Pennsylvania with initial transportation capacity of 1 Bcf per day, which may be expanded to 1.2 Bcf per day. Subject to FERC approval, construction is scheduled to begin in the first quarter of 2017.

Atlantic Coast Pipeline In September 2014, we entered into a project in which we hold a 5% ownership interest to develop and operate a 550-mile natural gas pipeline in North Carolina, Virginia and West Virginia with initial transportation capacity of 1.5 Bcf per day, which may be expanded to 2.0 Bcf per day. Subject to FERC approval, construction is scheduled to begin in the second half of 2016.

Glossary of Key Terms

Note 10 - Commitments, Guarantees and Contingencies

We incur various contractual obligations and financial commitments in the normal course of our operating and financing activities that are reasonably likely to have a material effect on liquidity or the availability of capital resources. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities.

We also are involved in legal or administrative proceedings before various courts and agencies with respect to general claims, environmental remediation, gas cost prudence reviews and other matters. Although we are unable to determine the ultimate outcomes of these contingencies, we believe that our financial statements appropriately reflect these amounts, including the recording of liabilities when a loss is probable and reasonably estimable. For more information on these matters, see Note 11 in our consolidated financial statements and related notes in Item 8 of our 2014 Form 10-K.

Contingencies and Guarantees

Contingent financial commitments, such as financial guarantees, represent obligations that become payable only if certain predefined events occur. We have certain subsidiaries that enter into various financial and performance guarantees and indemnities providing assurance to third parties. We believe the likelihood of payment under our guarantees is remote. No liability has been recorded for such guarantees and indemnifications, as the fair value was inconsequential at inception.

Regulatory Matters

In December 2012, we filed a petition with the Georgia Commission for approval to resolve a volumetric imbalance of natural gas related to Atlanta Gas Light’s use of retained storage assets to operationally balance the system for the benefit of the natural gas market. In September 2014, we filed a stipulation that was entered between us, staff of the Georgia Commission and several Marketers that included a resolution of the 4.6 Bcf imbalance over a five-year period from January 1, 2015 through December 31, 2019. The Georgia Commission approved the stipulation in December 2014. Over the five-year period, discretionary funds available to the Universal Service Fund, which is controlled by the Georgia Commission, will be used to resolve 25% of the imbalance, or approximately 1.15 Bcf of natural gas. Atlanta Gas Light is obligated to resolve 25% of the 4.6 Bcf imbalance, or approximately 1.15 Bcf of natural gas, through system injections. The cost to resolve the remaining balance of approximately 2.3 Bcf of natural gas will be recovered from all Marketers through charges for system retained storage gas as it is used by the Marketers. As of March 31, 2015 Atlanta Gas Light had replaced approximately 15% of its 1.15 Bcf obligation and we have a reserve in our unaudited Condensed Consolidated Statements of Financial Position representing the remaining future estimated obligation.

In August 2014, staff of the Illinois Commission and the CUB filed testimony in the 2003 gas cost prudence review disputing certain gas loan transactions offered by Nicor Gas under its Chicago Hub services requesting refunds of $18 million and $22 million, respectively. We filed surrebuttal testimony in December 2014 in this proceeding disputing that any refund is due, as Nicor Gas was authorized to enter into these transactions, and revenues associated with such transactions reduced ratepayers’ costs as either credits to the PGA or reductions to base rates consistent with then-current Illinois Commission orders governing these activities. We believe these claims engage in hindsight speculation, which is expressly prohibited in a prudence review examination, and we intend to vigorously defend against these claims. Evidentiary hearings occurred in March 2015. Post-trial briefs will be filed later in 2015 and no date has been set for a proposed decision by the Administrative Law Judges. Similar gas loan transactions were provided in other open PGA review years. The resolution will ultimately be decided by the Illinois Commission. We are currently unable to predict the ultimate outcome and have recorded no liability for this matter.

In February 2015, Atlanta Gas Light made a filing with the Georgia Commission for a true-up recovery of $178 million related to our 15-year pipeline replacement program that ended on December 31, 2013. This recovery is for unrecovered revenue requirement for the program through December 2014. The surcharge increases proposed in the filing include an initial one-time $2.46 rate increase collected from 2016 through 2025, or an alternative phased-in schedule of four $0.58 cumulative increases in 2017, 2018, 2019 and 2020 collected through 2030. Our petition is under review; however, the Georgia Commission has not scheduled a formal proceeding for this and we are currently unable to predict the ultimate outcome of this matter.

One of the capital projects under Atlanta Gas Light's pipeline replacement program experienced construction issues on certain segments in late 2013, and prior to these segments being placed into service it was necessary to complete mitigation work. Atlanta Gas Light is pursuing contractual and legal claims against third party contractors responsible for the construction issues. In August 2014, Atlanta Gas Light reached an agreement with the Georgia Commission whereby it would delay recovery of the mitigation costs to a future rate proceeding after completion of litigation and the amount of recoveries from third party contractors was known. The mitigation costs of $32 million were not included in the February 2015 true-up filing discussed above. We are currently unable to predict the ultimate outcome of this matter.

Glossary of Key Terms

Environmental Matters

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control that require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites. See Note 3 for additional information on our environmental remediation costs.

Litigation

We are involved in litigation arising in the normal course of business. Although in some cases we are unable to estimate the amount of loss reasonably possible in addition to any amounts already recognized, it is possible that the resolution of these contingencies, either individually or in aggregate, will require us to take charges against, or will result in reductions in, future earnings. Management believes that while the resolution of these contingencies, whether individually or in aggregate, could be material to earnings in a particular quarter, they will not have a material adverse effect on our consolidated financial position or cash flows for the year. For additional litigation information, see Note 11 in our consolidated financial statements and related notes in Item 8 of our 2014 Form 10-K.

PBR Proceeding Nicor Gas' PBR plan was a regulatory plan that provided economic incentives based on natural gas cost performance. The PBR plan went into effect in 2000 and was terminated effective January 1, 2003, following allegations that Nicor Gas acted improperly in connection with the plan. Under this plan, Nicor Gas' total gas supply costs were compared to a market-sensitive benchmark. Savings and losses relative to the benchmark were determined annually and shared equally with sales customers. Since 2002, the amount of the savings and losses required to be shared has been disputed by the CUB and others, with the Illinois Attorney General intervening, and subject to extensive contested discovery and other regulatory proceedings before administrative law judges and the Illinois Commission. In 2009, the staff of the Illinois Commission, Illinois Attorney General and CUB requested refunds of $85 million, $255 million and $305 million, respectively.

On June 7, 2013, the Illinois Commission issued an order requiring us to refund $72 million to current Nicor Gas customers through our PGA mechanism based upon natural gas throughput over 12 months beginning on July 1, 2013. All refunds were completed in the first half of 2014. The CUB's February 28, 2014 appeal of the Illinois Commission's order requesting refunds consistent with its 2009 request was rejected by the appellate court in Illinois on March 18, 2015. The CUB could appeal this decision to the Illinois Supreme Court.

Note 11 - Segment Information

Our reportable segments comprise revenue-generating components of the company for which we produce separate financial information internally that we regularly use to make operating decisions and assess performance. Our determination of reportable segments considers the strategic operating units under which we manage sales of various products and services to customers in differing regulatory environments. We manage our businesses through four reportable segments – distribution operations, retail operations, wholesale services and midstream operations. Our non-reportable segments are combined and presented as "other segments."

Effective September 1, 2014, we closed on the sale of Tropical Shipping, which operated within our former cargo shipping segment. The assets and liabilities of these businesses as of March 31, 2014 are classified as held for sale on the unaudited Condensed Consolidated Statements of Financial Position, and the financial results of these businesses for the three months ended March 31, 2014 are reflected as discontinued operations on the unaudited Condensed Consolidated Statements of Income. Amounts shown in this note, unless otherwise indicated, exclude assets held for sale and discontinued operations. Cargo shipping also included our investment in Triton, which was not part of the sale and has been reclassified to a non-reportable segment. See Note 12 for additional information on our discontinued operations.

Our distribution operations segment is the largest component of our business and includes natural gas local distribution utilities that construct, manage and maintain intrastate natural gas pipelines and distribution facilities in seven states. Although the operations of distribution operations are geographically dispersed, the operating subsidiaries within the distribution operations segment are regulated utilities with rates determined by individual state regulatory commissions. These natural gas distribution utilities have similar economic and risk characteristics.

We are also involved in several related and complementary businesses. Our retail operations segment includes retail natural gas marketing to end-use customers primarily in Georgia and Illinois. Additionally, retail operations provides home protection products and services. Our wholesale services segment engages in natural gas storage and gas pipeline arbitrage and related activities. Additionally, this segment provides natural gas asset management and/or related logistics services for each of our utilities except Nicor Gas, as well as for non-affiliated companies. Our midstream operations segment includes our non-utility storage and pipeline operations, including the operation of high-deliverability natural gas storage assets. Our "other" non-reportable segments include subsidiaries that individually are not significant on a stand-alone basis and that do not fit into one of our reportable segments.

The chief operating decision maker of the company is the Chairman, President and Chief Executive Officer, who utilizes EBIT as the primary measure of profit and loss in assessing the results of each segment's operations. EBIT includes operating income and other income and expenses. Items we do not include in EBIT are income taxes and financing costs, including interest expense, each of which we evaluate on a consolidated basis. Summarized statements of income, statements of financial position and capital expenditure information by segment as of and for the periods presented are shown in the following tables.

Glossary of Key Terms

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Three months ended March 31, 2015

In millions	Distribution operations	Retail operations	Wholesale services (1)	Midstream operations	Other segments (2)	Intercompany eliminations	Consolidated
Operating revenues from external parties	$ 1,285	$ 341	$ 90	$ 19	$ 6	$ (20)	$ 1,721
Intercompany revenues	56	-	-	-	-	(56)	-
Total operating revenues	1,341	341	90	19	6	(76)	1,721
Operating expenses							
Cost of goods sold	776	210	9	10	5	(75)	935
Operation and maintenance	185	37	24	6	(2)	(1)	249
Depreciation and amortization	82	6	-	5	4	-	97
Taxes other than income taxes	71	1	1	1	2	-	76
Total operating expenses	1,114	254	34	22	9	(76)	1,357
Operating income (loss)	227	87	56	(3)	(3)	-	364
Other income	1	-	-	1	1	-	3
EBIT	$ 228	$ 87	$ 56	$ (2)	$ (2)	$ -	$ 367
Identifiable and total assets (3)	$ 11,899	$ 1,100	$ 698	$ 693	$ 9,052	$ (9,304)	$ 14,138
Capital expenditures	$ 170	$ 2	$ 1	$ 3	$ 12	$ -	$ 188

Three months ended March 31, 2014

In millions	Distribution operations	Retail operations	Wholesale services (1)	Midstream operations	Other segments (2)	Intercompany eliminations	Consolidated
Operating revenues from external parties	$ 1,726	$ 406	$ 331	$ 44	$ 3	$ (48)	$ 2,462
Intercompany revenues	75	-	-	-	-	(75)	-
Total operating revenues	1,801	406	331	44	3	(123)	2,462
Operating expenses							
Cost of goods sold	1,202	280	3	36	-	(121)	1,400
Operation and maintenance	211	37	36	6	1	(2)	289
Depreciation and amortization	78	8	-	5	2	-	93
Taxes other than income taxes	82	1	1	1	3	-	88
Total operating expenses	1,573	326	40	48			