

AGL RESOURCES INC
Form 10-Q/A
November 26, 2014

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

FORM 10-Q/A
Amendment No. 1

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

For the Quarterly Period Ended March 31, 2014

Commission File Number 1-14174

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

Georgia
(State of incorporation)

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

AGL Resources Inc.: (1) has filed all reports required to be filed by Section 13 of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

The number of shares of AGL Resources Inc.'s common stock, \$5.00 Par Value, outstanding as of April 22, 2014 was 119,257,873.

TABLE OF CONTENTS

		Page
	<u>Explanatory Note</u>	3
	<u>Glossary of Key Terms</u>	4
Item Number.		
	<u>PART I - FINANCIAL INFORMATION</u>	
<u>1</u>	<u>Condensed Consolidated Financial Statements (Unaudited)</u>	5
	<u>Condensed Consolidated Statements of Financial Position</u>	5
	<u>Condensed Consolidated Statements of Income</u>	6
	<u>Condensed Consolidated Statements of Other Comprehensive Income</u>	7
	<u>Condensed Consolidated Statements of Equity</u>	8
	<u>Condensed Consolidated Statements of Cash Flows</u>	9
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	10
	<u>Note 1 - Organization and Basis of Presentation</u>	10
	<u>Note 2 - Significant Accounting Policies and Methods of Application</u>	11
	<u>Note 3 - Regulated Operations</u>	14
	<u>Note 4 - Fair Value Measurements</u>	15
	<u>Note 5 - Derivative Instruments</u>	16
	<u>Note 6 - Employee Benefit Plans</u>	18
	<u>Note 7 - Debt and Credit Facilities</u>	19
	<u>Note 8 - Equity</u>	20
	<u>Note 9 - Non-Wholly Owned Entities</u>	20
	<u>Note 10 - Commitments, Guarantees and Contingencies</u>	22
	<u>Note 11 - Segment Information</u>	23
	<u>Note 12 - Discontinued Operations</u>	24
	<u>Note 13 - Revision to Prior Period Financial Statements</u>	25
	<u>Note 14 - Subsequent Events</u>	28
<u>2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
	<u>Forward-Looking Statements</u>	29
	<u>Executive Summary</u>	29
	<u>Results of Operations</u>	32
	<u>Liquidity and Capital Resources</u>	38
	<u>Critical Accounting Policies and Estimates</u>	42
	<u>Accounting Developments</u>	42
<u>4</u>	<u>Controls and Procedures</u>	43
	<u>PART II - OTHER INFORMATION</u>	
<u>6</u>	<u>Exhibits</u>	44
	<u>SIGNATURE</u>	45

Unless the context requires otherwise, references to “we,” “us,” “our,” the “company” or “AGL Resources” mean consolidated AGL Resources Inc. and its subsidiaries.

Explanatory Note:

We are filing this Amendment No. 1 on Form 10-Q/A (this “Amended Filing”) to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 (the “Original Filing”), to: (i) revise management’s conclusions regarding internal control over financial reporting and disclosure controls and procedures as of March 31, 2014 and (ii) revise the financial statements to adjust certain amounts in the accounting for revenue recognition related to certain of our regulatory infrastructure programs since 1998 and adjust our amortization of intangible assets for our customer relationships and trade names for the quarters ended March 31, 2014 and 2013, as well as update other previously-identified immaterial adjustments. Accordingly, we hereby amend and replace in their entirety Items 1, 2, 4 and 6 in the Original Filing.

Additionally, we are recasting certain prior period information in our Quarterly Report on Form 10-Q for the quarterly periods ended March 31, 2014 and 2013 to conform with segment reporting changes made in connection with the sale of our Tropical Shipping business, as a result of entering into a definitive agreement to sell this business on April 4, 2014. We concluded that this divestiture qualified for discontinued operations treatment of this business during the second quarter of 2014. Accordingly, the operations and cash flows of this business were removed from our ongoing operations and the assets and liabilities of this business were classified as held for sale, as reported in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.

We did not maintain effective controls to appropriately apply the accounting guidance related to the recognition of allowed versus incurred costs. Specifically, the Company did not have controls to address the recognition of allowed versus incurred costs, primarily related to an allowed equity return, applied to the accounting for our regulated infrastructure programs and related disclosures that operated at a level of precision to prevent or detect potential material misstatements to the Company’s consolidated financial statements. This control deficiency resulted in the misstatement of our regulatory assets and operating revenues and related financial disclosures and resulted in the revision of our consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 and each of the quarters ended March 31, 2014 and June 30, 2014. Additionally, this control deficiency could result in misstatements of the aforementioned accounts and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected. Accordingly, our management has concluded that the control deficiency constitutes a material weakness.

As required by Rule 12b-15, our principal executive officer and principal financial officer are providing updated certifications. Accordingly, we hereby amend Item 6 in the Original Filing to reflect the filing of the new certifications.

On November 7, 2014, we filed an amended Form 10-K/A revising certain prior period information with respect to our Annual Report on Form 10-K for the year ended December 31, 2013, due to the revenue recognition and amortization of intangible asset issues referred to above. We previously disclosed in our Form 10-K/A that the revisions did not impact any incentive compensation that was based on our results for 2013, 2012 and 2011. However, subsequent to the filing of our Form 10-K/A, we determined that for 2011, had the underlying accounting originally reflected the distinction between regulatory accounting principles and GAAP, certain long-term incentives that were based on our results for the performance period ended December 31, 2011, would not have been awarded. Specifically, in February 2012, based upon results for the performance period ended December 31, 2011, we would not have awarded officers (as defined for purposes of Section 16 of the Securities Exchange Act of 1934, as amended) (1) performance cash unit awards with an aggregate value of approximately \$1 million and (2) a total of 37,290 shares

of restricted stock. Management has evaluated this item in relation to its previously filed Form 10-K/A and materiality conclusions under Staff Accounting Bulletin No. 99 and has concluded that it would not change its prior materiality conclusion. This impact on executive compensation will be reviewed by the Compensation Committee of our Board of Directors and by the full Board to determine appropriate actions.

Except as indicated above, this Amended Filing does not purport to reflect any information or events subsequent to the filing date of the Original Filing. As such, this Amended Filing speaks only as of the date the Original Filing was filed, and we have not undertaken herein to amend, supplement or update any information contained in the Original Filing to give effect to any subsequent events. Accordingly, this Amended Filing should be read in conjunction with the Original Filing and any documents filed by us with the Securities and Exchange Commission (SEC) subsequent to the Original Filing, including our amended Annual Report on Form 10-K/A for the year ended December 31, 2013, filed with the SEC on November 7, 2014, our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed with the SEC on July 30, 2014, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, filed with the SEC on November 7, 2014.

Table of Contents

GLOSSARY OF KEY TERMS

2013 Form 10-K	Our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 6, 2014
2013 Form 10-K/A	Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on November 7, 2014
AFUDC	Allowance for funds used during construction, which represents the estimated cost of funds, from both debt and equity sources, used to finance the construction of major projects and is capitalized in PP&E and considered rate base for ratemaking purposes
AGL Capital	AGL Capital Corporation
AGL Credit Facility	\$1.3 billion credit agreement entered into by AGL Capital to support its commercial paper program
AGL Resources	AGL Resources Inc., together with its consolidated subsidiaries
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Central Valley	Central Valley Gas Storage, LLC
EBIT	Earnings before interest and taxes, the primary measure of our operating segments' profit or loss, which includes operating income and other income and excludes financing costs, including interest on debt and income tax expense
ERC	Environmental remediation costs
FASB	Financial Accounting Standards Board
Fitch	Fitch Ratings
GAAP	Accounting principles generally accepted in the United States of America
Georgia Commission	Georgia Public Service Commission, the state regulatory agency for Atlanta Gas Light
Golden Triangle	Golden Triangle Storage, Inc.
Heating Degree Days	A measure of the 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
Moody's	Moody's Investors Service
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
Nicor	Nicor Inc.
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	

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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
Piedmont	Piedmont Natural Gas Company, Inc.
Pivotal Home Solutions	Nicor Energy Services Company, doing business as Pivotal Home Solutions
PP&E	Property, plant and equipment
S&P	Standard & Poor's Ratings Services
Sawgrass Storage	Sawgrass Storage, LLC
SEC	Securities and Exchange Commission
Sequent	Sequent Energy Management, L.P.
SouthStar	SouthStar Energy Services, LLC
STRIDE	Atlanta Gas Light's Strategic Infrastructure Development and Enhancement program
Triton	Triton Container Investments, LLC
Tropical Shipping	Tropical Shipping and Construction Company Limited, and also the name used throughout this filing to describe the business operations of our former cargo shipping segment (excluding Triton), which now has been classified as discontinued operations and held for sale
U.S.	United States
VIE	Variable interest entity
Virginia Commission	Virginia State Corporation Commission, the state regulatory agency for Virginia Natural Gas
Virginia Natural Gas	Virginia Natural Gas, Inc.
WACOG	Weighted average cost of gas

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

In millions, except share amounts	March 31, 2014	As of December 31, 2013	March 31, 2013
Current assets			
Cash and cash equivalents	\$267	\$81	\$122
Short-term investments	49	49	41
Receivables			
Energy marketing	1,226	786	627
Gas, unbilled and other	1,075	736	839
Less allowance for uncollectible accounts	49	29	39
Total receivables, net	2,252	1,493	1,427
Inventories, net	253	658	384
Assets held for sale	264	283	291
Regulatory assets	250	114	72
Derivative instruments	127	99	100
Other	127	118	93
Total current assets	3,589	2,895	2,530
Long-term assets and other deferred debits			
Property, plant and equipment	11,054	10,938	10,450
Less accumulated depreciation	2,367	2,295	2,181
Property, plant and equipment, net	8,687	8,643	8,269
Goodwill	1,827	1,827	1,822
Regulatory assets	696	705	868
Intangible assets	140	145	131
Derivative instruments	11	20	11
Other	314	315	231
Total long-term assets and other deferred debits	11,675	11,655	11,332
Total assets	\$15,264	\$14,550	\$13,862
Current liabilities			
Energy marketing trade payables	\$1,119	\$671	\$653
Short-term debt	741	1,171	868
Other accounts payable - trade	434	421	306
Accrued expenses	385	203	161
Temporary LIFO liquidation	252	-	179
Current portion of long-term debt and capital leases	200	-	226
Regulatory liabilities	161	183	238
Customer deposits and credit balances	104	136	115
Accrued environmental remediation liabilities	82	70	63
Derivative instruments	63	75	20
Liabilities held for sale	36	40	34
Other	177	148	196
Total current liabilities	3,754	3,118	3,059

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Long-term liabilities and other deferred credits			
Long-term debt	3,610	3,813	3,324
Accumulated deferred income taxes	1,655	1,628	1,539
Regulatory liabilities	1,550	1,518	1,498
Accrued pension and retiree welfare benefits	405	404	509
Accrued environmental remediation liabilities	358	377	362
Derivative instruments	19	5	4
Other	70	74	74
Total long-term liabilities and other deferred credits	7,667	7,819	7,310
Total liabilities and other deferred credits	11,421	10,937	10,369
Commitments, guarantees and contingencies (see Note 10)			
Equity			
Common stock, \$5 par value; 750,000,000 shares authorized: outstanding: 119,247,421 shares at March 31, 2014, 118,888,876 shares at December 31, 2013 and 118,123,770 shares at March 31, 2013			
	597	595	592
Additional paid-in capital	2,060	2,054	2,020
Retained earnings	1,289	1,063	1,085
Accumulated other comprehensive loss	(135)	(136)	(211)
Treasury shares, at cost: 216,523 shares at March 31, 2014 and December 31, 2013 and March 31, 2013	(8)	(8)	(8)
Total common shareholders' equity	3,803	3,568	3,478
Noncontrolling interest	40	45	15
Total equity	3,843	3,613	3,493
Total liabilities and equity	\$ 15,264	\$ 14,550	\$ 13,862

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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

In millions, except per share amounts	Three months ended	
	March 31,	
	2014	2013
Operating revenues (includes revenue taxes of \$68 for the three months in 2014 and \$50 for the three months in 2013)	\$2,462	\$1,612
Operating expenses		
Cost of goods sold	1,400	920
Operation and maintenance	289	231
Depreciation and amortization	93	102
Taxes other than income taxes	88	69
Total operating expenses	1,870	1,322
Operating income	592	290
Other income	3	5
Interest expense, net	(46)	(45)
Income before income taxes	549	250
Income tax expense	203	91
Income from continuing operations	346	159
(Loss) income from discontinued operations	(50)	1
Net income	296	160
Less net income attributable to the noncontrolling interest	12	10
Net income attributable to AGL Resources Inc.	\$284	\$150
Per common share information		
Basic earnings (loss) per common share		
Continuing operations	\$2.82	\$1.27
Discontinued operations	(0.43)	0.01
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	\$2.39	\$1.28
Diluted earnings (loss) per common share		
Continuing operations	\$2.81	\$1.26
Discontinued operations	(0.43)	0.01
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	\$2.38	\$1.27
Cash dividends declared per common share	\$0.49	\$0.47
Weighted average number of common shares outstanding		
Basic	118.5	117.4
Diluted	118.9	117.7

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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

In millions	Three months ended March 31,	
	2014	2013
Net income	\$296	\$160
Other comprehensive income, net of tax		
Retirement benefit plans		
Reclassification of actuarial losses to net benefit cost (net of income tax of \$1 for the three months ended March 31, 2014, and \$2 for the three months ended March 31, 2013)	1	4
Reclassification of prior service credits to net benefit cost	-	(1)
Retirement benefit plans	1	3
Cash flow hedges, net of tax		
Net derivative instrument gains arising during the period (net of income tax of \$1 for the three months ended March 31, 2013)	4	2
Reclassification of realized derivative (gains) losses to net income (net of income tax of \$1 for the three months ended March 31, 2013)	(4)	2
Cash flow hedges, net	-	4
Other comprehensive income, net of tax	1	7
Comprehensive income	297	167
Less comprehensive income attributable to noncontrolling interest	12	10
Comprehensive income attributable to AGL Resources Inc.	\$285	\$157

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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

In millions, except per share amounts	AGL Resources Inc. Shareholders							Total	
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other		Treasury shares		Noncontrolling interest
	Shares	Amount			loss	loss			
Balance as of December 31, 2012 (1)	117.9	\$590	\$ 2,015	\$990	\$ (218)	\$(8)	\$ 22	\$3,391	
Net income	-	-	-	150	-	-	10	160	
Other comprehensive income	-	-	-	-	7	-	-	7	
Dividends on common stock (\$0.47 per share)	-	-	-	(55)	-	-	-	(55)	
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)	
Stock granted, share-based compensation, net of forfeitures	-	-	(6)	-	-	-	-	(6)	
Stock issued, dividend reinvestment plan	-	1	2	-	-	-	-	3	
Stock issued, share-based compensation, net of forfeitures	0.2	1	6	-	-	-	-	7	
Stock-based compensation expense, net of tax	-	-	3	-	-	-	-	3	
Balance as of March 31, 2013	118.1	\$592	\$ 2,020	\$1,085	\$ (211)	\$(8)	\$ 15	\$3,493	

In millions, except per share amounts	AGL Resources Inc. Shareholders							Total	
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other		Treasury shares		Noncontrolling interest
	Shares	Amount			loss	loss			
Balance as of December 31, 2013 (1)	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

1) Includes correcting adjustments for the years ended December 31, 1998 through 2012. See Note 13 for additional information.

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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

In millions	Three months ended	
	March 31, 2014	2013
Cash flows from operating activities		
Net income	\$296	\$160
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	93	102
Loss (income) from discontinued operations, net of taxes	50	(1)
Deferred income taxes	8	(25)
Change in derivative instrument assets and liabilities	(17)	18
Changes in certain assets and liabilities		
Inventories, net of temporary LIFO liquidation	656	494
Accrued expenses	182	30
Trade payables, other than energy marketing	52	(6)
Energy marketing receivables and trade payables, net	8	87
Prepaid taxes	2	76
Receivables, other than energy marketing	(319)	(167)
Deferred/accrued natural gas costs	(228)	43
Other, net	63	33
Net cash flow (used) provided by operating activities of discontinued operations	7	6
Net cash flow provided by operating activities	853	850
Cash flows from investing activities		
Expenditures for property, plant and equipment	(161)	(147)
Acquisitions of assets	-	(122)
Other, net	2	15
Net cash flow used in investing activities of discontinued operations	(5)	(2)
Net cash flow used in investing activities	(164)	(256)
Cash flows from financing activities		
Net repayments of commercial paper	(430)	(509)
Dividends paid on common shares	(58)	(55)
Distribution to noncontrolling interest	(17)	(17)
Other, net	4	5
Net cash flow used in financing activities	(501)	(576)
Net increase in cash and cash equivalents – continuing operations	186	14
Net increase in cash and cash equivalents – discontinued operations	2	4
Cash and cash equivalents (including held for sale) at beginning of period	105	131
Cash and cash equivalents (including held for sale) at end of period	293	149
Less cash and cash equivalents held for sale at end of period	26	27
Cash and cash equivalents (excluding held for sale) at end of period	\$267	\$122
Cash paid during the period for		
Interest	\$58	\$58
Income taxes	\$14	\$26
Non cash financing transaction		

Refinancing of gas facility revenue bonds	\$-	\$200
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See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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 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.

The December 31, 2013 Condensed Consolidated Statement of Financial Position data was derived from our revised audited financial statements filed on November 7, 2014 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. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A filed on November 7, 2014.

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 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 consolidated 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 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.

Revision of Previously-Issued Financial Statements We have revised our 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. We evaluated the cumulative impact of these items, together with other previously-identified adjustments for the same periods under the guidance in Accounting Standards Codification 250 Accounting Changes for Error Corrections (ASC 250) relating to SEC Staff Accounting Bulletin (SAB) No. 99, Materiality, and concluded that the revisions were not material, individually or in the aggregate, to any previously-issued quarterly or annual financial statements. We also evaluated the impact of revising these items through an adjustment to our financial statements for the quarter ended September 30, 2014 and concluded, based on the guidance within ASC 250 relating to SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, to revise our previously-issued financial statements to reflect the impact of these revisions. Our prior-period financial statements have been revised in this Amended Filing. On November 7, 2014, we filed an amended Form 10-K/A revising certain prior period information with respect to our Annual Report on Form 10-K for the year ended December 31, 2013. See Note 13 for additional information.

We previously disclosed in our Form 10-K/A that the revisions did not impact any incentive compensation that was based on our results for 2013, 2012 and 2011. However, subsequent to the filing of our Form 10-K/A, we determined that for 2011, had the underlying accounting originally reflected the distinction between regulatory accounting principles and GAAP, certain long-term incentives that were based on our results for the performance period ended December 31, 2011, would not have been awarded. Specifically, in February 2012, based upon results for the performance period ended December 31, 2011, we would not have awarded officers (as defined for purposes of Section 16 of the Securities Exchange Act of 1934, as amended) (1) performance cash unit awards with an aggregate value of approximately \$1 million and (2) a total of 37,290 shares of restricted stock. Management has evaluated this item in relation to its previously filed Form 10-K/A and materiality conclusions under Staff Accounting Bulletin No. 99 and has concluded that it would not change its prior materiality conclusion.

Discontinued Operations On April 4, 2014 we entered into a definitive agreement to sell Tropical Shipping, which historically operated within our cargo shipping segment. We closed on the sale of Tropical Shipping in September 2014. The assets and liabilities of these businesses are classified as held for sale on the unaudited Condensed Consolidated Statements of Financial Position, and the financial results of these businesses 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 a part of the sale and has been reclassified into our "other" segment. See Note 12 for additional information.

Table of Contents

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 2013 Form 10-K/A. Other than as described in Note 13, there were no significant changes to our accounting policies during the three months ended March 31, 2014.

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 rate-regulated subsidiaries, uncollectible accounts and other allowances for contingent losses, goodwill and other 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.

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. At March 31, 2014 and 2013, and December 31, 2013, there were \$26 million, \$27 million and \$24 million, respectively, of cash and cash equivalents held by Tropical Shipping that were 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.

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 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, 2014 and 2013, and December 31, 2013, 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 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. 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, 2014 is expected to be restored prior to year end. The inventory decrement as of March 31, 2013 was restored prior to December 31, 2013.

Table of Contents

Our retail operations, wholesale services and midstream operations segments carry inventory at the lower of cost or market value, 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 adjustments to reduce the weighted average cost of the natural gas inventory to market value. For the three months ended March 31, 2014, wholesale services recorded a \$2 million LOCOM adjustment to reduce the value of our inventories to market value. We recorded no LOCOM adjustment for the three months ended March 31, 2013.

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 2013 Form 10-K/A.

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

Derivative Instruments

The fair value of the natural gas and weather derivative instruments that we use to manage exposures arising from changing natural gas prices and weather risk 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 4 and Note 5 for additional derivative disclosures.

Goodwill

During the first quarter of 2014, we completed an engineering study at our storage and fuels reporting unit within midstream operations, which indicated a reduced forecast of working gas capacity from what was projected when our 2013 annual goodwill impairment analysis was performed during the fourth quarter of 2013. Given that the 2013 annual goodwill impairment test indicated that the estimated fair value of this reporting unit exceeded its carrying amount by less than 5%, we considered this reduced storage capacity as an indicator of potential impairment and, accordingly, conducted an interim goodwill impairment analysis during the first quarter of 2014.

The estimated fair value of this reporting unit was determined utilizing the income approach, which estimated the fair value based upon the present value of estimated future cash flows. The forecasts used in the income approach, which were updated during the first quarter of 2014 to reflect the contracting activity that occurred during the quarter, assume discrete period revenue growth through fiscal 2022 to reflect the recovery of subscription rates, stabilization of earnings and establishment of a reasonable base year that was used to estimate the terminal value. Consistent with our 2013 annual goodwill impairment testing, we assumed a long-term earnings growth rate in the terminal year of 2.5%,

which we believe is appropriate given the current economic and industry specific expectations. As of the valuation date, we utilized a discount rate of 7.0%, which we believe is appropriate as it reflects the relative risk and the time value of money, and is consistent with the peer group of this reporting unit as well as the discount rates that were utilized in our 2013 annual goodwill impairment tests.

The cash flow forecasts for this reporting unit assumed earnings growth over the next eight years. Should this growth not occur, this reporting unit may fail step one during a future goodwill impairment test. Along with any reductions to our cash flow forecasts, changes in other assumptions used in our impairment analysis may require us to proceed to step two of the goodwill impairment test in a future period.

Table of Contents

Our interim goodwill impairment test indicated that the estimated fair value of this reporting unit continues to exceed its carrying amount with a cushion of less than 10%. Continued declines in capacity or subscription rates, a sustained period at the current subscription rates or other changes to the assumptions and factors used in this analysis may result in a future failure of step one of the goodwill impairment test. The risk of impairment of the underlying long-lived assets is not estimated to be significant as the assets have long remaining useful lives and authoritative guidance requires such assets to be tested for impairment on the basis of undiscounted cash flows over their remaining useful lives. We will continue to monitor this reporting unit for potential impairment. Our goodwill balances by segment as of March 31, 2014, and December 31, 2013, and changes in the amount of goodwill for the three months ended March 31, 2013, are provided in the following table.

In millions	Distribution Operations	Retail Operations	Midstream Operations	Consolidated
December 31, 2012 (1)	\$1,640	\$122	\$14	\$ 1,776
2013 acquisitions	-	46	-	46
March 31, 2013 (1)	\$1,640	\$168	\$14	\$ 1,822
December 31, 2013 (1)	\$1,640	\$173	\$14	\$ 1,827
March 31, 2014 (1)	\$1,640	\$173	\$14	\$ 1,827

(1) Excludes goodwill at Tropical Shipping which is classified as held for sale. See Note 12 for additional information.

Other Income

Our other income is detailed in the following table. For more information on our equity investment income, see Note 9.

In millions	Three months ended March 31,	
	2014	2013
Equity investment income	\$3	\$3
AFUDC - equity	1	3
Other, net	(1)	(1)
Total other income	\$3	\$5

Earnings Per Common Share

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

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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	
	March 31,	
	2014 (1)	2013 (1)
Income from continuing operations (2)	\$334	\$149
(Loss) income from discontinued operations, net of tax (3)	(50)	1
Net income attributable to AGL Resources Inc.	\$284	\$150
Denominator:		
Basic weighted average number of shares outstanding (4)	118.5	117.4
Effect of dilutive securities	0.4	0.3
Diluted weighted average number of shares outstanding	118.9	117.7
Basic earnings (loss) per common share		
From continuing operations	\$2.82	\$1.27
From discontinued operations	(0.43)	0.01
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	\$2.39	\$1.28
Diluted earnings (loss) per common share		
From continuing operations	\$2.81	\$1.26
From discontinued operations	(0.43)	0.01
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	\$2.38	\$1.27

(1) Amounts revised and or include prior period adjustments. See Note 13 for additional information.

(2) Excludes net income attributable to the noncontrolling interest.

(3) For additional information on our discontinued operations, see Note 12.

(4) Daily weighted average shares outstanding.

Table of Contents

Accounting Developments

On April 10, 2014, the FASB issued authoritative guidance related to reporting discontinued operations. The guidance generally raises the threshold for disposals to qualify as discontinued operations and requires new disclosures of both discontinued operations and certain other material disposals that do not meet the definition of a discontinued operation. The guidance will be effective for us prospectively beginning January 1, 2015 and it is not expected to have a material impact on our consolidated financial statements nor will it have an impact on our accounting for the sale of Tropical Shipping. While permitted, we do not intend to adopt the guidance early.

Note 3 - 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 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 estimated 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. The following table summarizes our regulatory assets and liabilities as of the dates presented.

In millions	March 31, 2014 (1)	December 31, 2013 (1)	March 31, 2013 (1)
Regulatory assets			
Deferred natural gas costs	\$161	\$1	\$-
Recoverable ERC	38	45	28
Recoverable pension and retiree welfare benefit costs	9	9	19
Other	42	59	25
Total regulatory assets - current	250	114	72
Recoverable ERC	419	433	415
Recoverable pension and retiree welfare benefit costs	97	99	192
Recoverable regulatory infrastructure program costs	57	55	125
Long-term debt fair value adjustment	80	82	88
Other	43	36	48
Total regulatory assets - long-term	696	705	868
Total regulatory assets	\$946	\$819	\$940
Regulatory liabilities			
Bad debt over collection	\$41	\$41	\$39
Accumulated removal costs	27	27	17
Accrued natural gas costs	24	92	133
Deferred seasonal rates	20	-	20
Other	49	23	29
Total regulatory liabilities - current	161	183	238
Accumulated removal costs	1,456	1,445	1,413
Regulatory income tax liability	27	27	26
Unamortized investment tax credit	25	26	28
Bad debt over collection	14	17	20
Other	28	3	11

Total regulatory liabilities - long-term	1,550	1,518	1,498
Total regulatory liabilities	\$1,711	\$1,701	\$1,736

(1) Amounts revised to include prior period adjustments. See Note 13 for additional information.

Base rates are designed to provide the opportunity for both a recovery of cost and 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 believe that we will be able to recover such costs consistent with our historical recoveries.

Unrecognized Ratemaking Amounts We have authorized unrecognized ratemaking amounts that are not reflected within our unaudited Condensed Consolidated Statements of Financial Position as indicated in the following table. 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 collected in rates from our customers. For additional information, see Note 13.

In millions

March 31, 2014	\$102
December 31, 2013	\$93
March 31, 2013	\$71

Table of Contents

Natural Gas Costs We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms set 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 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. The following table illustrates the change in net position of these costs from March 31, 2013 to March 31, 2014.

In millions	March 31, 2014	March 31, 2013	Change
Deferred natural gas costs	\$ 161	\$-	\$ 161
Accrued natural gas costs	(24)	(133)	109
Total (1)	\$ 137	\$(133)	\$ 270

(1) The \$270 million change resulted from increased natural gas prices during the first quarter of 2014 compared to the first quarter of 2013, primarily driven by colder weather experienced in the current quarter. These costs will be fully recovered in future periods.

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. The ERC assets and liabilities are associated with our distribution operations segment and are generally recoverable through rate mechanisms.

Our ERC 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. As cleanup options and plans mature and cleanup contracts are entered into, we are increasingly able to provide conventional engineering estimates of the likely costs of many elements of the remediation program. These estimates contain various engineering 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. The following table provides additional information on the costs related to remediation of our current and former operating sites as of March 31, 2014 and reflects minor changes in estimates since December 31, 2013.

In millions	Probabilistic model cost estimates	Engineering estimates	Amount recorded	Expected costs over next 12 months
Illinois	\$211 - \$461	\$42	\$246	\$39
New Jersey	139 - 233	6	144	25
Georgia and Florida	28 - 112	8	39	10
North Carolina	n/a	11	11	8
Total	\$378 - \$806	\$67	\$440	\$82

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 Consolidated Statements of Financial Position as of the dates presented. See Note 5 for additional derivative instrument information.

In millions	March 31, 2014		December 31, 2013		March 31, 2013	
	Assets (1)	Liabilities	Assets (1)	Liabilities	Assets (1)	Liabilities
Natural gas derivatives						
Quoted prices in active markets (Level 1)	\$18	\$(38)	\$6	\$(79)	\$14	\$(38)
Significant other observable inputs (Level 2)	50	(75)	67	(79)	49	(23)
Netting of cash collateral	69	31	43	78	40	37
Total carrying value (2) (3)	\$137	\$(82)	\$116	\$(80)	\$103	\$(24)
Interest rate derivatives						
Significant other observable inputs (Level 2)	\$-	\$-	\$-	\$-	\$6	\$-

(1) Balances of \$1 million at March 31, 2014, \$3 million at December 31, 2013 and \$2 million at March 31, 2013 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) for any of the dates presented.

(3) There were no 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. The fair value adjustment of Nicor Gas' first mortgage bonds is being amortized over the lives of the bonds. The following table presents the carrying amount and fair value of our long-term debt as of the following dates.

In millions	March 31, 2014	December 31, 2013	March 31, 2013
Long-term debt carrying amount	\$3,810	\$3,813	\$3,550
Long-term debt fair value (1)	4,095	3,956	4,006

(1) Fair value determined using Level 2 inputs.

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 values are described in Note 2 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. 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, 2014, for agreements with such features, derivative instruments with liability fair values totaled \$82 million, for which we had posted no collateral to our counterparties. The maximum collateral that could be required with these features is \$15 million. For more information, see “Energy Marketing Receivables and Payables” in Note 2, which also have credit-risk-related or other contingent features. Our derivative instrument activities are included within operating cash flows as an adjustment to net income of (\$17) million and \$18 million for the three months ended March 31, 2014 and 2013, respectively. See Note 4 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 unaudited Condensed Consolidated Financial Statements.

Accounting Treatment	Recognition and Measurement	
	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 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, 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	Realized and unrealized gains or losses on the derivative instrument are recognized in earnings
Not designated as hedges	Derivative carried at fair value	Gains or losses 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
	Distribution operations’ gains and losses on derivative instruments are deferred as regulatory assets or liabilities until included in cost of goods sold	

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

In Bcf (1)	March 31, 2014 (2)	December 31, 2013	March 31, 2013
Hedge designation			
Cash flow hedges	6	6	6
Not designated as hedges	277	183	304
Total hedges	283	189	310

Hedge position			
Short position	(2,491)	(2,622)	(1,902)
Long position	2,774	2,811	2,212
Net long position	283	189	310

- (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 97% of these contracts have durations of two years or less and the remaining 3% expire between 2 and 5 years.

Table of Contents

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 Nicor Gas and Elizabethtown Gas are reflected in accrued natural gas costs within our Consolidated Statements of Financial Position until billed to customers. The following amounts represent the net realized gains (losses) related to these natural gas cost hedges for the periods presented.

In millions	Three months ended	
	March 31, 2014	March 31, 2013
Nicor Gas	\$2	\$(1)
Elizabethtown Gas	3	(3)

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.

In millions	Classification	March 31, 2014		December 31, 2013		March 31, 2013	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Designated as cash flow hedges and fair value hedges							
Natural gas contracts	Current	\$2	\$-	\$3	\$(1)	\$3	\$(1)
Interest rate swap agreements	Current	-	-	-	-	5	-
Total		2	-	3	(1)	8	(1)

Not designated as cash flow hedges

Natural gas contracts	Current	675	(703)	691	(761)	332	(327)
Natural gas contracts	Long-term	80	(98)	206	(220)	46	(48)
Total		755	(801)	897	(981)	378	(375)
Gross amount of recognized assets and liabilities (1)		757	(801)	900	(982)	386	(376)
Gross amounts offset in our unaudited Condensed Consolidated Statements of Financial Position (2)		(619)	719	(781)	902	(275)	352
Net amounts of assets and liabilities presented in our unaudited Condensed Consolidated Statements of Financial Position (3)		\$138	\$(82)	\$119	\$(80)	\$111	\$(24)

(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)

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As required by the authoritative guidance related to derivatives and hedging, the gross amounts of recognized assets and liabilities above do not include cash collateral held on deposit in broker margin accounts of \$100 million as of March 31, 2014, \$121 million as of December 31, 2013 and \$77 million as of March 31, 2013. Cash collateral is included in the “Gross amounts offset in our unaudited Condensed Consolidated Statements of Financial Position” line of this table.

- (3) At March 31, 2014, December 31, 2013 and March 31, 2013 we held letters of credit from counterparties that would offset, under master netting arrangements, 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.

In millions	Three months ended	
	2014	March 31, 2013
Designated as cash flow hedges		
Natural gas contracts - net gain reclassified from OCI to cost of goods sold	\$3	\$-
Natural gas contracts - net gain reclassified from OCI to operation and maintenance expense	1	-
Interest rate swaps - loss reclassified from OCI to interest expense	-	(3)
Income tax benefit	-	1
Net of tax	4	(2)
Not designated as hedges (1)		
Natural gas contracts - net fair value adjustments recorded in operating revenues	(30)	(24)
Natural gas contracts - net fair value adjustments recorded in cost of goods sold (2)	2	-
Income tax benefit	11	8
Net of tax	(17)	(16)
Total losses on derivative instruments, net of tax	\$(13)	\$