

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 June 30, 2014

Commission File Number 1-14174

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

Georgia
(State of incorporation)

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

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

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

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

The number of shares of AGL Resources Inc.'s common stock, \$5.00 Par Value, outstanding as of July 23, 2014 was 119,478,539.

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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 period ended June 30, 2014 (the “Original Filing”), to: (i) revise management’s conclusions regarding internal control over financial reporting and disclosure controls and procedures as of June 30, 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 periods ended June 30, 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.

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

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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 amended Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2014, filed with the SEC on November 25, 2014, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, filed with the SEC on November 7, 2014.

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GLOSSARY OF KEY TERMS

2013 Form 10-K	Our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 6, 2014
2013 Form 10-K/A	Our amended Annual Report on Form 10-K/A for the year ended December 31, 2013, filed with the SEC on November 7, 2014
AFUDC	Allowance for funds used during construction, which represents the estimated cost of funds, from both debt and equity sources, used to finance the construction of major projects, capitalized in PP&E and considered rate base for ratemaking purposes
AGL Capital	AGL Capital Corporation
AGL Credit Facility	\$1.3 billion credit agreement entered into by AGL Capital to support its commercial paper program, which matures in November 2017
AGL Resources	AGL Resources Inc., together with its consolidated subsidiaries
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Central Valley	Central Valley Gas Storage, LLC
Compass Energy	Compass Energy Services, Inc., which was sold in 2013
EBIT	Earnings before interest and taxes, the primary measure of our operating segments' profit or loss, which includes operating income and other income and excludes financing costs, including interest on debt and income tax expense
ERC	Environmental remediation costs
FASB	Financial Accounting Standards Board
Fitch	Fitch Ratings
GAAP	Accounting principles generally accepted in the United States of America
Georgia Commission	Georgia Public Service Commission, the state regulatory agency for Atlanta Gas Light
Golden Triangle	Golden Triangle Storage, Inc.
Heating Degree Days	A measure of the weather, calculated when the average daily temperatures are less than 65 degrees Fahrenheit
Heating Season	The period from November through March when natural gas usage and operating revenues are generally higher
Horizon Pipeline	Horizon Pipeline Company, LLC
Illinois Commission	Illinois Commerce Commission, the state regulatory agency for Nicor Gas
Jefferson Island	Jefferson Island Storage & Hub, LLC
LIFO	Last-in, first-out
LNG	Liquefied natural gas
LOCOM	Lower of weighted average cost or market price
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission
MGP	Manufactured Gas Plant
Moody's	Moody's Investors Service
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
Nicor	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, which matures in December 2017
NYMEX	New York Mercantile Exchange, Inc.

OCI	Other comprehensive income
Operating margin	A non-GAAP measure of income, calculated as operating revenues minus cost of goods sold and revenue tax expense
OTC	Over-the-counter
PBR	Performance-based rate
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
QIP	Nicor Gas' Qualified Infrastructure Program
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

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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)
REVISED

In millions, except share amounts	June 30, 2014	As of December 31, 2013	June 30, 2013
Current assets			
Cash and cash equivalents	\$ 122	\$ 81	\$ 153
Short-term investments	8	49	41
Receivables			
Energy marketing	677	786	608
Gas, unbilled and other	520	736	403
Less allowance for uncollectible accounts	51	29	41
Total receivables, net	1,146	1,493	970
Inventories, net			
Inventories, net	460	658	522
Assets held for sale	257	283	289
Regulatory assets	165	114	74
Derivative instruments	105	99	113
Other	121	118	69
Total current assets	2,384	2,895	2,231
Long-term assets and other deferred debits			
Property, plant and equipment	11,188	10,938	10,599
Less accumulated depreciation	2,400	2,295	2,240
Property, plant and equipment, net	8,788	8,643	8,359
Goodwill	1,827	1,827	1,822
Regulatory assets	726	705	880
Intangible assets	135	145	158
Derivative instruments	9	20	17
Other	312	315	241
Total long-term assets and other deferred debits	11,797	11,655	11,477
Total assets	\$ 14,181	\$ 14,550	\$ 13,708
Current liabilities			
Energy marketing trade payables	\$ 724	\$ 671	\$ 628
Short-term debt	448	1,171	521
Other accounts payable - trade	319	421	336
Accrued expenses	213	203	163
Current portion of long-term debt	200	-	-
Regulatory liabilities	149	183	216
Temporary LIFO liquidation	116	-	84
Customer deposits and credit balances	107	136	114
Accrued environmental remediation liabilities	90	70	62
Derivative instruments	50	75	33
Liabilities held for sale	39	40	38
Other	140	148	153

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Total current liabilities	2,595	3,118	2,348
Long-term liabilities and other deferred credits			
Long-term debt	3,607	3,813	3,819
Accumulated deferred income taxes	1,675	1,628	1,534
Regulatory liabilities	1,565	1,518	1,510
Accrued pension and retiree welfare benefits	405	404	510
Accrued environmental remediation liabilities	379	377	406
Derivative instruments	12	5	6
Other	83	74	73
Total long-term liabilities and other deferred credits	7,726	7,819	7,858
Total liabilities and other deferred credits	10,321	10,937	10,206
Commitments, guarantees and contingencies (see Note 10)			
Equity			
Common stock, \$5 par value; 750,000,000 shares authorized: outstanding: 119,464,063 shares at June 30, 2014, 118,888,876 shares at December 31, 2013 and 118,560,687 shares at June 30, 2013	598	595	594
Additional paid-in capital	2,073	2,054	2,037
Retained earnings	1,288	1,063	1,072
Accumulated other comprehensive loss	(133)	(136)	(209)
Treasury shares, at cost: 216,523 shares at June 30, 2014 and December 31, 2013 and June 30, 2013	(8)	(8)	(8)
Total common shareholders' equity	3,818	3,568	3,486
Noncontrolling interest	42	45	16
Total equity	3,860	3,613	3,502
Total liabilities and equity	\$ 14,181	\$ 14,550	\$ 13,708
See Notes to Condensed Consolidated Financial Statements (Unaudited).			

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

In millions, except per share amounts	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Operating revenues (includes revenue taxes of \$26 and \$94 for the three and six months in 2014 and \$24 and \$74 for the three and six months in 2013)	\$889	\$805	\$3,351	\$2,417
Operating expenses				
Cost of goods sold	402	353	1,802	1,273
Operation and maintenance	211	204	500	435
Depreciation and amortization	95	103	188	205
Taxes other than income taxes	42	43	130	112
Total operating expenses	750	703	2,620	2,025
Gain on disposition of assets	-	11	-	11
Operating income	139	113	731	403
Other income	2	6	5	11
Interest expense, net	(45)	(44)	(91)	(89)
Income before income taxes	96	75	645	325
Income tax expense	37	30	240	121
Income from continuing operations	59	45	405	204
Income (loss) from discontinued operations, net of tax	1	(1)	(49)	-
Net income	60	44	356	204
Less net income attributable to the noncontrolling interest	2	1	14	11
Net income attributable to AGL Resources Inc.	\$58	\$43	\$342	\$193
Per common share information				
Basic earnings (loss) per common share				
Continuing operations	\$0.48	\$0.38	\$3.30	\$1.65
Discontinued operations	0.01	(0.01)	(0.42)	-
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	\$0.49	\$0.37	\$2.88	\$1.65
Diluted earnings (loss) per common share				
Continuing operations	\$0.48	\$0.38	\$3.29	\$1.64
Discontinued operations	0.01	(0.01)	(0.42)	-
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	\$0.49	\$0.37	\$2.87	\$1.64
Cash dividends declared per common share	\$0.49	\$0.47	\$0.98	\$0.94
Weighted average number of common shares outstanding				
Basic	118.8	117.8	118.7	117.6
Diluted	119.2	118.2	119.1	117.9

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Net income	\$60	\$44	\$356	\$204
Other comprehensive income, net of tax				
Retirement benefit plans				
Reclassification of actuarial losses to net benefit cost (net of income tax of \$2 and \$3 for the three and six months ended June 30, 2014, and \$3 and \$5 for the three and six months ended June 30, 2013)	4	4	5	8
Reclassification of prior service credits to net benefit cost (net of income tax of \$(1) for the six months ended June 30, 2013)	(1)	-	(1)	(1)
Retirement benefit plans	3	4	4	7
Cash flow hedges, net of tax				
Net derivative instrument (losses) gains arising during the period (net of income tax of \$1 for the three months ended June 30, 2013)	-	(1)	4	1
Reclassification of realized derivative instrument (gains) losses to net income (net of income tax of \$(1) for the three and six months ended June 30, 2014 and \$1 for the six months ended June 30, 2013)	(1)	(1)	(5)	1
Cash flow hedges, net	(1)	(2)	(1)	2
Other comprehensive income, net of tax	2	2	3	9
Comprehensive income	62	46	359	213
Less comprehensive income attributable to noncontrolling interest	2	1	14	11
Comprehensive income from continuing operations attributable to AGL Resources Inc.	\$60	\$45	\$345	\$202

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions, except per share amounts	AGL Resources Inc. Shareholders								
	Common stock		Additional	Retained	Accumulated other		Treasury	Noncontrolling	Total
	Shares	Amount	paid-in capital		earnings	loss			
Balance as of December 31, 2012 (1)	117.9	\$590	\$ 2,015	\$990	\$ (218)	\$ (8)	\$ 22	\$3,391	
Net income	-	-	-	193	-	-	11	204	
Other comprehensive income	-	-	-	-	9	-	-	9	
Dividends on common stock (\$0.94 per share)	-	-	-	(111)	-	-	-	(111)	
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)	
Stock granted, share-based compensation, net of forfeitures	-	-	(6)	-	-	-	-	(6)	
Stock issued, dividend reinvestment plan	0.1	1	5	-	-	-	-	6	
Stock issued, share-based compensation, net of forfeitures	0.6	3	18	-	-	-	-	21	
Stock-based compensation expense, net of tax	-	-	5	-	-	-	-	5	
Balance as of June 30, 2013	118.6	\$594	\$ 2,037	\$1,072	\$ (209)	\$ (8)	\$ 16	\$3,502	

In millions, except per share amounts	AGL Resources Inc. Shareholders								
	Common stock		Additional	Retained	Accumulated other		Treasury	Noncontrolling	Total
	Shares	Amount	paid-in capital		earnings	loss			
Balance as of December 31, 2013 (1)	118.9	\$595	\$ 2,054	\$1,063	\$ (136)	\$ (8)	\$ 45	\$3,613	
Net income	-	-	-	342	-	-	14	356	

Other comprehensive income	-	-	-	-	3	-	-	3
Dividends on common stock (\$0.98 per share)	-	-	-	(117)	-	-	-	(117)
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)
Stock granted, share-based compensation, net of forfeitures	-	-	(12)	-	-	-	-	(12)
Stock issued, dividend reinvestment plan	-	-	6	-	-	-	-	6
Stock issued, share-based compensation, net of forfeitures	0.6	3	17	-	-	-	-	20
Stock-based compensation expense, net of tax	-	-	8	-	-	-	-	8
Balance as of June 30, 2014	119.5	\$598	\$ 2,073	\$1,288	\$ (133)	\$(8)	\$ 42	\$3,860

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).

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

In millions	Six months ended June 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$356	\$204
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	188	205
Loss from discontinued operations, net of taxes	49	-
Deferred income taxes	13	(20)
Change in derivative instrument assets and liabilities	(13)	14
Gain on disposition of assets	-	(11)
Changes in certain assets and liabilities		
Inventories, net of temporary LIFO liquidation	314	261
Receivables, other than energy marketing	238	272
Energy marketing receivables and trade payables, net	162	81
Accrued expenses	10	31
Prepaid taxes	(11)	57
Trade payables, other than energy marketing	(61)	(15)
Deferred/accrued natural gas costs	(129)	40
Other, net	55	31
Net cash flow provided by operating activities for discontinued operations	4	11
Net cash flow provided by operating activities	1,175	1,161
Cash flows from investing activities		
Expenditures for property, plant and equipment	(332)	(315)
Net decrease in short-term investments	41	15
Acquisitions of assets	-	(122)
Disposition of assets	-	12
Other	4	-
Net cash flow used in investing activities for discontinued operations	(13)	(3)
Net cash flow used in investing activities	(300)	(413)
Cash flows from financing activities		
Net repayments of commercial paper	(723)	(857)
Dividends paid on common shares	(117)	(111)
Distribution to noncontrolling interest	(17)	(17)
Payment of senior notes	-	(225)
Issuance of senior notes	-	494
Other, net	14	21
Net cash flow used in financing activities	(843)	(695)
Net increase in cash and cash equivalents - continuing operations	41	45
Net (decrease) increase in cash and cash equivalents - discontinued operations	(9)	8
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	137	184
Less cash and cash equivalents held for sale at end of period	15	31

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Cash and cash equivalents (excluding held for sale) at end of period	\$122	\$153
Cash paid during the period for		
Interest	\$95	\$89
Income taxes	\$207	\$60
Non cash financing transaction		
Refinancing of gas facility revenue bonds	\$-	\$200

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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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 consolidated 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 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 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.

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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 six months ended June 30, 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. As of June 30, 2014 and 2013, and December 31, 2013, \$15 million, \$31 million and \$24 million, respectively, of cash and short and long-term investments held by Tropical Shipping are excluded from cash and cash equivalents and are 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 June 30, 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 June 30, 2014 is expected to be restored prior to year-end. The inventory decrement as of June 30, 2013 was restored prior to December 31, 2013.

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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 and six months ended June 30, 2014, we recorded \$4 million and \$6 million, respectively, total LOCOM adjustment to reduce the value of our inventories to market value and \$8 million for the three and six months ended June 30, 2013.

Midstream operations' primary activity is operating non-utility storage and pipeline facilities. Mechanical integrity tests and engineering studies are periodically performed on these storage facilities in accordance with certain state regulatory requirements. However, such tests may be performed in advance of such state requirements for operational purposes. During the first half of 2014, an engineering study and mechanical integrity tests were performed at one of our storage facilities, identifying a lower amount of working gas capacity that is the result of naturally occurring shrinkage of the storage caverns. Further, based on the lower capacity and an analysis of the volume of natural gas stored in the facility, we recorded additional gas costs to true-up the amount of retained fuel at this facility in the amount of \$2 million and \$9 million for the three and six months ended June 30, 2014, respectively.

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 midstream operations storage facilities that 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 in the valuation model. 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.

Our interim goodwill impairment test, which utilized cash flow forecasts providing for growth over the next eight years, indicated that the estimated fair value of this reporting unit continues to exceed its carrying amount with a cushion of less than 10%. However, continued declines in capacity or subscription rates, reductions to our cash flow forecasts, 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 and require us to proceed to step two of the goodwill impairment test in a future period.

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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. Changes in the amount of goodwill for the six months ended June 30, 2014 and 2013 are provided in the following table.

In millions	Distribution Operations	Retail Operations	Midstream Operations	Consolidated (1)
Goodwill - December 31, 2012	\$ 1,640	\$ 122	\$ 14	\$ 1,776
2013 activity	-	46	-	46
Goodwill - June 30, 2013	\$ 1,640	\$ 168	\$ 14	\$ 1,822