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

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

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

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

The number of shares of AGL Resources Inc.'s common stock, $5.00 Par Value, outstanding as of 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

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.

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	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

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, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 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, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 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

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

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

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).

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.

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.

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.

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
Goodwill - December 31, 2013	$1,640	$173	$14	$ 1,827
Goodwill - June 30, 2014	$1,640	$173	$14	$ 1,827

(1) Excludes goodwill at Tropical Shipping now 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 method investment income, see Note 9.

	Three months ended June 30,		Six months ended June 30,	
In millions	2014	2013	2014	2013
Equity method investment income	$1	$2	$4	$5
AFUDC - equity	1	2	2	5
Other, net	-	2	(1)	1
Total other income	$2	$6	$5	$11

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. The following table shows the calculation of our diluted shares attributable to AGL Resources Inc. common shareholders for the periods presented, as if performance units currently earned under the plan ultimately vest and as if stock options currently exercisable at prices below the average market prices are exercised.

	Three months ended June 30, (1)		Six months ended June 30, (1)	
In millions (except per share amounts)	2014	2013	2014	2013

Income from continuing operations (2)	$57	$44	$391	$193
Income (loss) from discontinued operations, net of tax (3)	1	(1)	(49)	-
Net income attributable to AGL Resources Inc.	$58	$43	$342	$193
Denominator:				
Basic weighted average number of shares outstanding (4)	118.8	117.8	118.7	117.6
Effect of dilutive securities	0.4	0.4	0.4	0.3
Diluted weighted average number of shares outstanding	119.2	118.2	119.1	117.9
Basic earnings (loss) per share				
From continuing operations	$0.48	$0.38	$3.30	$1.65
From 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 share				
From continuing operations	$0.48	$0.38	$3.29	$1.64
From 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

(1) Amounts revised to 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.

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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. It is not expected to have a material impact on our consolidated financial statements, and it will have no impact on our accounting for the sale of Tropical Shipping.

On May 28, 2014, the FASB issued an update to authoritative guidance related to revenue from contracts with customers. The update replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. The guidance will be effective for us beginning January 1, 2017. Early adoption is not permitted. The new guidance must be applied retrospectively to each prior period presented or via a cumulative effect upon the date of initial application. We have not yet determined the impact of this new guidance, nor have we selected a transition method.

On June 19, 2014, the FASB issued an update to authoritative guidance related to accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The guidance will be effective for us beginning January 1, 2016 and it is not expected to have a material impact on our consolidated financial statements.

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 addition, see Note 13 for a subsequent event that impacts our regulatory assets.

In millions	June 30, 2014 (1)	December 31, 2013 (1)	June 30, 2013 (1)
Regulatory assets			
Deferred natural gas costs	$79	$1	$-
Recoverable ERC	33	45	27
Recoverable pension and retiree welfare benefit costs	9	9	19
Other	44	59	28
Total regulatory assets - current	165	114	74
Recoverable ERC	454	433	458
Recoverable regulatory infrastructure program costs	58	55	98
Recoverable pension and retiree welfare benefit costs	94	99	188
Long-term debt fair value adjustment	78	82	86
Other	42	36	50
Total regulatory assets - long-term	726	705	880
Total regulatory assets	$891	$819	$954

Regulatory liabilities			
Accrued natural gas costs	$41	$92	$130
Bad debt over collection	39	41	39
Accumulated removal costs	27	27	17
Deferred seasonal rates	8	-	8
Other	34	23	22
Total regulatory liabilities - current	149	183	216
Accumulated removal costs	1,478	1,445	1,431
Regulatory income tax liability	27	27	26
Unamortized investment tax credit	24	26	27
Bad debt over collection	9	17	20
Other	27	3	6
Total regulatory liabilities - long-term	1,565	1,518	1,510
Total regulatory liabilities	$1,714	$1,701	$1,726

(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	
June 30, 2014	$109
December 31, 2013	$93
June 30, 2013	$79

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 June 30, 2013 to June 30, 2014.

In millions	June 30, 2014	June 30, 2013	Change
Deferred natural gas costs	$79	$-	$79
Accrued natural gas costs	(41)	(130)	89
Total (1)	$38	$(130)	$168

(1) The $168 million change resulted from increased natural gas prices during the first half of 2014 compared to the first half of 2013, primarily driven by colder weather experienced in 2014. 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, substantially all of which is related to our MGP sites. The ERC assets and liabilities are associated with our distribution operations segment and remediation costs are generally recoverable from customers through rate mechanisms approved by regulators. Accordingly, both costs incurred to remediate the former MGP sites, plus the future estimated cost recorded as liabilities, net of amounts previously collected, are recognized as a regulatory asset until recovered from customers.

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 June 30, 2014 and reflects changes in estimates since December 31, 2013.

In millions

	Probabilistic model cost estimates	Engineering estimates	Amount recorded		Expected costs over next 12 months
Illinois	$205 - $462	$46	$251		$37
New Jersey	126 - 196	3	129		32
Georgia and Florida	66 - 106	9	78		14
North Carolina (1)	n/a	11	11		7
Total	$397 - $764	$69	$469	(2)	$90

(1) We have no regulatory recovery mechanisms for the site in North Carolina. Therefore, this amount is not included in our regulatory assets and changes in estimated costs are recognized in income in the period of change.

(2) Increase of $22 million from December 31, 2013 primarily relates to a scope increase required by the Georgia Environmental Protection Division for a site in Georgia and an adjustment for a site in Florida. This was partially offset by a decrease for a site in New Jersey where remediation is almost complete.

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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.

	June 30, 2014		December 31, 2013		June 30, 2013	
In millions	Assets (1)	Liabilities	Assets (1)	Liabilities	Assets (1)	Liabilities
Natural gas derivatives						
Quoted prices in active markets (Level 1)	$8	$(38)	$6	$(79)	$4	$(51)
Significant other observable inputs (Level 2)	57	(60)	67	(79)	78	(35)
Netting of cash collateral	46	36	43	78	47	47
Total carrying value (2) (3)	$111	$(62)	$116	$(80)	$129	$(39)

(1) Balances of $3 million at June 30, 2014, $3 million at December 31, 2013 and $1 million at June 30, 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 lists the carrying amount and fair value of our long-term debt as of the dates presented.

In millions	June 30, 2014	December 31, 2013	June 30, 2013
Long-term debt carrying amount	$3,807	$3,813	$3,819
Long-term debt fair value (1)	4,191	3,956	4,070

(1) Fair value determined using Level 2 inputs.

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 June 30, 2014, for agreements with such features, derivative instruments with liability fair values for which we had posted no collateral to our counterparties totaled $62 million. The maximum collateral that could be required with these features is $11 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 $(13) million and $14 million for the six months ended June 30, 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	
Not designated as hedges	Derivative carried at fair value	Realized and unrealized gains or losses on the derivative instrument are recognized in earnings
	Distribution operations' gains and losses on derivative instruments are deferred as regulatory assets or liabilities until included in cost of goods sold	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

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)	June 30, 2014 (2)	December 31, 2013	June 30, 2013
Cash flow hedges	6	6	3
Not designated as hedges	140	183	221
Total volumes	146	189	224
Short position	(2,530)	(2,622)	(2,311)
Long position	2,676	2,811	2,535
Net long position	146	189	224

(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 98% of these contracts have durations of 2 years or less and the remaining 2% expire between 2 and 5 years.

Derivative Instruments in our Unaudited Condensed Consolidated Statements of Financial Position

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

	Three months ended June 30,		Six months ended June 30,	
In millions	2014	2013	2014	2013
Nicor Gas	$10	$9	$12	$8
Elizabethtown Gas	2	(1)	5	(4)

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.

		June 30, 2014		December 31, 2013		June 30, 2013	
In millions	Classification	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Designated as cash flow or fair value hedges							
Natural gas contracts	Current	$ 2	$ (1)	$ 3	$ (1)	$ 2	$ (1)
Not designated as hedges							
Natural gas contracts	Current	702	(721)	691	(761)	456	(445)
Natural gas contracts	Long-term	77	(89)	206	(220)	124	(139)
Total		779	(810)	897	(981)	580	(584)

Gross amount of recognized assets and liabilities (1) (2)	781	(811)	900	(982)	582	(585)
Gross amounts offset in our unaudited Condensed Consolidated Statements of Financial Position (2)	(667)	749	(781)	902	(452)	546
Net amounts of assets and liabilities presented in our unaudited Condensed Consolidated Statements of Financial Position (3)	$ 114	$ (62)	$ 119	$ (80)	$ 130	$ (39)

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

(2) As required by the authoritative guidance related to derivatives and hedging, the gross amounts of recognized assets and liabilities above do not include cash collateral held on deposit in broker margin accounts of $82 million as of June 30, 2014, $121 million as of December 31, 2013 and $94 million as of June 30, 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 June 30, 2014, December 31, 2013 and June 30, 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.

	Three months ended June 30,		Six months ended June 30,	
In millions	2014	2013	2014	2013
Designated as cash flow or fair value hedges				
Natural gas contracts - net gain reclassified from OCI into cost of goods sold	$2	$1	$5	$1
Natural gas contracts - net gain reclassified from OCI into operation and maintenance expense	-	-	1	-
Interest rate swaps - net loss reclassified from OCI into interest expense	-	-	-	(3)
Income tax benefit	(1)	-	(1)	1
Net of tax	1	1	5	(1)
Not designated as hedges (1)				
Natural gas contracts - net fair value adjustments recorded in operating revenues	30	22	-	(2)
Natural gas contracts - net fair value adjustments recorded in cost of goods sold (2)	(1)	(1)	1	(1)
Income tax benefit	(11)	(8)	-	1
Net of tax	18	13	1	(2)
Total gains (losses) on derivative instruments	$19	$14	$6	$(3)

(1) Associated with the fair value of derivative instruments held at June 30, 2014 and 2013.

(2) Excludes losses recorded in cost of goods sold associated with weather derivatives of $6 million and $3 million for the six months ended June 30, 2014 and 2013, respectively.

Any amounts recognized in operating income, related to ineffectiveness or due to a forecasted transaction that is no longer expected to occur, were immaterial for the three and six months ended June 30, 2014 and 2013. Our expected gains to be reclassified from OCI into cost of goods sold, operation and maintenance expense, interest expense and operating revenues and recognized in our unaudited Condensed Consolidated Statements of Income over the next 12 months are $1 million. These deferred gains and losses are related to natural gas derivative contracts associated with retail operations and Nicor Gas' system use. The expected gains are based upon the fair values of these financial instruments at June 30, 2014. The effective portion of gains and losses on derivative instruments qualifying as cash flow hedges that was recognized in OCI during the periods is presented on our Condensed Consolidated Statements of income. See Note 8 for these amounts.

There have been no other significant changes to our derivative instruments, as described in Note 2, Note 4 and Note 5 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A.

Note 6 - Employee Benefit Plans

Pension Benefits

We sponsor the AGL Resources Inc. Retirement Plan, a tax-qualified defined benefit retirement plan for our eligible employees, which is described in Note 6 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. Following are the components of our pension costs for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
In millions	2014	2013	2014	2013
Service cost	$6	$7	$12	$15
Interest cost	11	11	23	21
Expected return on plan assets	(16)	(15)	(32)	(31)
Net amortization of prior service cost	(1)	(1)	(1)	(1)
Recognized actuarial loss	6	9	11	17
Net periodic pension benefit cost	$6	$11	$13	$21

Welfare Benefits

The benefits of our Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Welfare Plan) are described in Note 6 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. Following are the components of our welfare costs for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
In millions	2014	2013	2014	2013
Service cost	$-	$-	$1	$1
Interest cost	3	4	7	7
Expected return on plan assets	(1)	(2)	(3)	(3)
Net amortization of prior service cost	-	(1)	(1)	(2)
Recognized actuarial loss	2	2	3	4
Net periodic welfare benefit cost	$4	$3	$7	$7

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Note 7 - Debt and Credit Facilities

The following table provides maturity dates, year-to-date weighted average interest rates and amounts outstanding for our various debt securities and facilities for the periods presented. We fully and unconditionally guarantee all debt issued by AGL Capital. For additional information on our debt, see Note 8 in our Consolidated Financial Statements and related notes in Item 8 of our 2013 Form 10-K/A.

		June 30, 2014				June 30, 2013		
Dollars in millions	Year(s) due	Weighted average interest rate (1)		Outstanding	Outstanding at December 31, 2013	Weighted average interest rate (1)		Outstanding
Short-term debt								
Commercial paper - AGL Capital (2)	2014	0.3	%	$ 236	$ 857	0.5	%	$ 521
Commercial paper - Nicor Gas (2)	2014	0.2		212	314	0.4		-
Total short-term debt		0.3	%	$ 448	$ 1,171	0.5	%	$ 521
Current portion of long-term debt	2015	5.0	%	$ 200	$ -	4.5	%	$ -
Long-term debt - excluding current portion								
Senior notes	2016-2043	5.0	%	$ 2,625	$ 2,825	5.1	%	$ 2,825
First mortgage bonds	2016-2038	5.6		500	500	5.6		500
Gas facility revenue bonds	2022-2033	0.9		200	200	0.5		200
Medium-term notes	2017-2027	7.8		181	181	7.8		181
Total principal long-term debt		4.9	%	3,506	3,706	4.9	%	3,706
Fair value adjustment of long-term debt (3)	2016-2038	n/a		85	91	n/a		97
Unamortized debt premium, net	n/a	n/a		16	16	n/a		16
Total non-principal long-term debt		n/a		101	107	n/a		113
Total long-term debt				$ 3,607	$ 3,813			$ 3,819
Total debt				$ 4,255	$ 4,984			$ 4,340

(1) Interest rates are calculated based on the daily weighted average balance outstanding for the six months ended June 30.
(2) As of June 30, 2014, the effective interest rates on our commercial paper borrowings were 0.3% for AGL Capital and 0.2% for Nicor Gas.
(3) See Note 4 for additional information on our fair value measurements.

Commercial Paper Programs

We maintain commercial paper programs at AGL Capital and Nicor Gas that consist of short-term, unsecured promissory notes used in conjunction with cash from operations to fund our seasonal working capital requirements. Working capital needs fluctuate during the year and are highest during the injection period in advance of the Heating Season. The Nicor Gas commercial paper program supports working capital needs at Nicor Gas, while all of our other subsidiaries and SouthStar participate in the AGL Capital commercial paper program. During the first six months of 2014, our commercial paper maturities ranged from 1 to 108 days, and at June 30, 2014, remaining terms to maturity ranged from 1 to 10 days. Total borrowings and repayments netted to a payment of $723 million during the first six months of 2014. For commercial paper issuances with original maturities over three months, borrowings and repayments were $50 million and $145 million, respectively, during the first six months of 2014.

Financial and Non-Financial Covenants

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

	June 30, 2014	December 31, 2013	June 30, 2013
AGL Credit Facility	52 %	57 %	54 %
Nicor Gas Credit Facility	52 %	55 %	43 %

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

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Default Provisions

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

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

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

Note 8 - Equity

Our OCI amounts are aggregated within our accumulated other comprehensive loss. The following table provides changes in the components of our accumulated other comprehensive loss balance, net of the related income tax effects.

	2014			2013		
In millions (1)	Cash flow hedges	Retirement benefit plans	Total	Cash flow hedges	Retirement benefit plans	Total
For the three months ended June 30						
As of beginning of period	$1	$(136)	$(135)	$1	$(212)	$(211)
OCI, before reclassifications	-	-	-	(1)	-	(1)
Amounts reclassified from accumulated OCI	(1)	3	2	(1)	4	3
Net current-period other comprehensive (loss) income	(1)	3	2	(2)	4	2
As of end of period	$-	$(133)	$(133)	$(1)	$(208)	$(209)
For the six months ended June 30						
As of beginning of period	$1	$(137)	$(136)	$(3)	$(215)	$(218)
OCI, before reclassifications	4	-	4	1	-	1
Amounts reclassified from accumulated OCI	(5)	4	(1)	1	7	8
Net current-period other comprehensive income	(1)	4	3	2	7	9
As of end of period	$-	$(133)	$(133)	$(1)	$(208)	$(209)

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

The following table provides details of the reclassifications out of accumulated other comprehensive loss and the impact on net income.

In millions (1)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flow hedges				
Cost of goods sold (natural gas contracts)	$2	$1	$5	$1
Operation and maintenance expense (natural gas contracts)	-	-	1	-
Interest expense (interest rate contracts)	-	-	-	(3)
Total before income tax	2	1	6	(2)
Income tax benefit	(1)	-	(1)	1
Total cash flow hedges	1	1	5	(1)
Retirement benefit plans				
Operation and maintenance expense (actuarial losses) (2)	(6)	(7)	(8)	(13)
Operation and maintenance expense (prior service credits) (2)	1	-	1	2
Total before income tax	(5)	(7)	(7)	(11)
Income tax benefit	2	3	3	4
Total retirement benefit plans	(3)	(4)	(4)	(7)
Total reclassification for the period	$(2)	$(3)	$1	$(8)

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

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

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Note 9 - Non-Wholly Owned Entities

Variable Interest Entities

SouthStar, a joint venture owned by us and Piedmont, is our only significant VIE for which we are the primary beneficiary, which requires us to consolidate its assets, liabilities and statements of income. For additional information on SouthStar, see Note 10 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. Earnings from SouthStar in 2014 and 2013 were allocated entirely in accordance with the ownership interests.

Cash flows used in our investing activities include capital expenditures for SouthStar of $4 million for the six months ended June 30, 2014 and $1 million for the six months ended June 30, 2013. Cash flows used in our financing activities include SouthStar's distribution to Piedmont for its portion of SouthStar's annual earnings from the previous year. Generally, this distribution occurs in the first quarter of each fiscal year. For each of the six months ended June 30, 2014 and 2013, SouthStar distributed $17 million to Piedmont. The following table provides additional information about SouthStar's assets and liabilities as of the dates presented, which are consolidated within our unaudited Condensed Consolidated Statements of Financial Position.

	June 30, 2014 (1)			December 31, 2013 (1)			June 30, 2013 (1)		
In millions	Consolidated	SouthStar (2)	% (3)	Consolidated	SouthStar (2)	% (3)	Consolidated	SouthStar (2)	% (3)
Current assets	$ 2,384	$ 195	8 %	$ 2,895	$ 264	9 %	$ 2,231	$ 135	6 %
Goodwill and intangible assets	1,962	129	7	1,972	133	7	1,980	-	-
Long-term assets and other deferred debits	9,835	17	-	9,683	13	-	9,497	10	-
Total assets	$ 14,181	$ 341	2 %	$ 14,550	$ 410				