

AGL RESOURCES INC
Form 10-Q
July 30, 2009

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2009

OR

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

For the transition period from to

Commission File Number 1-14174

AGL RESOURCES INC.

(Exact name of registrant as specified in its charter)

Georgia 58-2210952
(State or other jurisdiction of incorporation (I.R.S. Employer Identification No.)
or organization)

Ten Peachtree Place NE, Atlanta, Georgia 30309
(Address and zip code of principal executive offices)

404-584-4000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes " No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes " No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding as of July 24, 2009
Common Stock, \$5.00 Par Value	77,278,942

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AGL RESOURCES INC.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2009

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GLOSSARY OF KEY TERMS

AGL Capital	AGL Capital Corporation
A G Networks	LAGL Networks, LLC
Atlanta Gas	Atlanta Gas Light Company
Light	
Bcf	Billion cubic feet
Chattanooga Gas	Chattanooga Gas Company
C r e d i t Facilities	Credit agreements supporting our commercial paper program
EBIT	Earnings before interest and taxes, a non-GAAP measure that includes operating income and other income and excludes interest expense, and income tax expense; as an indicator of our operating performance, EBIT should not be considered an alternative to, or more meaningful than, operating income, net income, or net income attributable to AGL Resources Inc. as determined in accordance with GAAP
EITF	Emerging Issues Task Force
ERC	Environmental remediation costs associated with our distribution operations segment which are recoverable through rates mechanisms
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation Number
Fitch	Fitch Ratings
FSP	FASB Staff Position
GAAP	Accounting principles generally accepted in the United States of America
G e o r g i a Commission	Georgia Public Service Commission
GNG	Georgia Natural Gas, the name under which SouthStar does business in Georgia
GNGC	Georgia Natural Gas Company, our wholly-owned subsidiary that owns our current 70% interest in SouthStar
Golden Triangle Storage	Golden Triangle Storage, Inc.
H e a t i n g Degree Days	A measure of the effects of weather on our businesses, calculated when the average daily actual temperatures are less than a baseline temperature of 65 degrees Fahrenheit.
H e a t i n g Season	The period from November through March when natural gas usage and operating revenues are generally higher because more customers are connected to our distribution systems when weather is colder
J e f f e r s o n Island	Jefferson Island Storage & Hub, LLC
LOCOM	Lower of weighted average cost or current market price
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission
Moody's	Moody's Investors Service
New Jersey Commission	New Jersey Board of Public Utilities
NYMEX	New York Mercantile Exchange, Inc.

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OCI	Other comprehensive income
Operating margin	A non-GAAP measure of income, calculated as revenues minus cost of gas, that excludes operation and maintenance expense, depreciation and amortization, taxes other than income taxes, and the gain or loss on the sale of our assets; these items are included in our calculation of operating income as reflected in our condensed consolidated statements of income. Operating margin should not be considered an alternative to, or more meaningful than, operating income, net income, or net income attributable to AGL Resources Inc. as determined in accordance with GAAP
OTC	Over-the-counter
Piedmont	Piedmont Natural Gas
Pivotal Utility	Pivotal Utility Holdings, Inc., doing business as Elizabethtown Gas, Elkton Gas and Florida City Gas
PP&E	Property, plant and equipment
PRP	Pipeline replacement program for Atlanta Gas Light
S&P	Standard & Poor's Ratings Services
SEC	Securities and Exchange Commission
Sequent	Sequent Energy Management, L.P.
SFAS	Statement of Financial Accounting Standards
SouthStar	SouthStar Energy Services LLC
VaR	Value at risk is defined as the maximum potential loss in portfolio value over a specified time period that is not expected to be exceeded within a given degree of probability
Virginia Natural Gas	Virginia Natural Gas, Inc.
WACOG	Weighted average cost of gas
WNA	Weather normalization adjustment

REFERENCED ACCOUNTING STANDARDS

FIN 46 & FIN 46, "Consolidation of Variable Interest Entities"

46R

EITF 99-2	EITF 99-2, "Accounting for Weather Derivatives"
FSP EITF 03-6-1	FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"
FSP FAS 132(R)-1	FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets"
FSP FAS 133-1	FSP No. FAS 133-1, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133"
FSP FAS 140-4	FSP No. FAS 140-4, "Disclosures by Public Entities about Transfers of Financial Assets"
FSP FAS 157-3	FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active"
FSP FAS 157-4	FSP No. FAS 157-4, "Determining Whether a Market Is Not Active and a Transaction Is Not Distressed"
SFAS 71	SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS 133	SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"
SFAS 141	SFAS No. 141, "Business Combinations"
SFAS 157	SFAS No. 157, "Fair Value Measurements"
SFAS 160	SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements"
SFAS 161	SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities, an amendment of SFAS 133"

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SFAS 162	SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles"
SFAS 165	SFAS No. 165, "Subsequent Events"
SFAS 166	SFAS No. 166, "Accounting for Transfers of Financial Assets"
SFAS 167	SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"
SFAS 168	SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles"

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PART 1 – Financial Information

Item 1. Financial Statements

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

In millions, except share data	June 30, 2009	As of December 31, 2008	June 30, 2008
Current assets			
Cash and cash equivalents	\$ 12	\$ 16	\$ 19
Inventories, net (Note 1)	532	663	708
Receivables			
Energy marketing receivables (Note 1)	276	549	807
Gas, unbilled and other receivables	209	472	258
Less allowance for uncollectible accounts	(19)	(16)	(19)
Total receivables	466	1,005	1,046
Derivative financial instruments – current portion (Note 2 and Note 3)	177	207	107
Unrecovered pipeline replacement program costs – current portion (Note 1)	41	41	37
Unrecovered environmental remediation costs – current portion (Note 1)	14	18	20
Other current assets	74	92	106
Total current assets	1,316	2,042	2,043
Long-term assets and other deferred debits			
Property, plant and equipment	5,685	5,500	5,284
Less accumulated depreciation	1,729	1,684	1,621
Property, plant and equipment-net	3,956	3,816	3,663
Goodwill	418	418	420
Unrecovered pipeline replacement program costs (Note 1)	174	196	216
Unrecovered environmental remediation costs (Note 1)	146	125	130
Derivative financial instruments (Note 2 and Note 3)	37	38	25
Other	73	75	94
Total long-term assets and other deferred debits	4,804	4,668	4,548
Total assets	\$ 6,120	\$ 6,710	\$ 6,591
Current liabilities			
Short-term debt (Note 6)	\$ 418	\$ 866	\$ 513
Energy marketing trade payables (Note 1)	317	539	927
Accounts payable - trade	167	202	158
Accrued expenses	107	113	106
Deferred natural gas costs (Note 1)	52	25	20
	50	49	48

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Accrued pipeline replacement program costs – current portion (Note 1)

Customer deposits	48	50	33
Derivative financial instruments – current portion (Note 2 and Note 3)	36	50	112
Accrued environmental remediation liabilities – current portion (Note 1 and Note 7)	19	17	15
Other current liabilities	67	72	47
Total current liabilities	1,281	1,983	1,979
Long-term liabilities and other deferred credits			
Long-term debt (Note 6)	1,675	1,675	1,637
Accumulated deferred income taxes	609	571	604
Accumulated removal costs (Note 1)	199	178	175
Accrued pension obligations (Note 4)	187	199	44
Accrued environmental remediation liabilities (Note 1 and Note 7)	114	89	92
Accrued pipeline replacement program costs (Note 1)	113	140	162
Accrued postretirement benefit costs (Note 4)	44	46	21
Derivative financial instruments (Note 2 and Note 3)	3	6	13
Other long-term liabilities and other deferred credits	136	139	144
Total long-term liabilities and other deferred credits	3,080	3,043	2,892
Commitments and contingencies (Note 7)			
Equity (Note 5)			
AGL Resources Inc. common shareholders' equity, \$5 par value; 750,000,000 shares authorized	1,732	1,652	1,686
Noncontrolling interest	27	32	34
Total equity	1,759	1,684	1,720
Total liabilities and equity	\$ 6,120	\$ 6,710	\$ 6,591

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions, except per share amounts	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Operating revenues	\$ 377	\$ 444	\$ 1,372	\$ 1,456
Operating expenses				
Cost of gas	152	275	741	932
Operation and maintenance	119	114	244	233
Depreciation and amortization	39	38	78	74
Taxes other than income taxes	12	11	24	23
Total operating expenses	322	438	1,087	1,262
Operating income	55	6	285	194
Other income	3	3	5	4
Interest expense, net	(24)	(26)	(49)	(56)
Earnings (loss) before income taxes	34	(17)	241	142
Income tax expense (benefit)	13	(7)	85	47
Net income (loss)	21	(10)	156	95
Less net income attributable to the noncontrolling interest (Note 5)	1	1	17	17
Net income (loss) attributable to AGL Resources Inc.	\$ 20	\$ (11)	\$ 139	\$ 78
Per common share data (Note 1)				
Basic earnings (loss) per common share attributable to AGL Resources Inc. common shareholders	\$ 0.26	\$ (0.15)	\$ 1.81	\$ 1.02
Diluted earnings (loss) per common share attributable to AGL Resources Inc. common shareholders	\$ 0.26	\$ (0.15)	\$ 1.81	\$ 1.01
Cash dividends declared per common share	\$ 0.43	\$ 0.42	\$ 0.86	\$ 0.84
Weighted-average number of common shares outstanding (Note 1)				
Basic	76.7	76.2	76.8	76.2
Diluted	76.9	76.2	76.9	76.4

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

	AGL Resources Inc. Common Shareholders Equity							
	Common stock		Premium on common	Earnings	Accumulated other comprehensive	Treasury	Noncontrolling	
In millions, except per share amounts	Shares	Amount	stock	reinvested	loss	shares	interest	Total
Balance as of December 31, 2007	76.4	\$ 390	\$ 667	\$ 680	\$ (13)	\$ (63)	\$ 47	\$ 1,708
Net income	-	-	-	78	-	-	17	95
Other comprehensive loss	-	-	-	-	(1)	-	-	(1)
Dividends on common stock (\$0.84 per share)	-	-	-	(64)	-	-	-	(64)
Distributions to noncontrolling interest	-	-	-	-	-	-	(30)	(30)
Issuance of treasury shares	0.3	-	-	(3)	-	11	-	8
Stock-based compensation expense (net of taxes) (Note 5)	-	-	4	-	-	-	-	4
Balance as of June 30, 2008	76.7	\$ 390	\$ 671	\$ 691	\$ (14)	\$ (52)	\$ 34	\$ 1,720

	AGL Resources Inc. Common Shareholders Equity							
			Premium on common	Earnings	Accumulated other comprehensive	Treasury	Noncontrolling	
In millions, except per share amounts	Shares	Amount	stock	reinvested	loss	shares	interest	Total
Balance as of December 31, 2008	76.9	\$ 390	\$ 676	\$ 763	\$ (134)	\$ (43)	\$ 32	\$ 1,684
Net income	-	-	-	139	-	-	17	156
Other comprehensive loss	-	-	-	-	(3)	-	(2)	(5)
Dividends on common stock (\$0.86 per share)	-	-	-	(66)	-	(2)	-	(68)
Distributions to noncontrolling interest	-	-	-	-	-	-	(20)	(20)
Issuance of treasury shares	0.4	-	(6)	(3)	-	17	-	8
Stock-based compensation expense (net of taxes) (Note 5)	-	-	4	-	-	-	-	4
	77.3	\$ 390	\$ 674	\$ 833	\$ (137)	\$ (28)	\$ 27	\$ 1,759

Balance as of June 30,
2009

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Comprehensive income (loss) attributable to AGL Resources Inc. (net of tax)				
Net income (loss) attributable to AGL Resources Inc.	\$ 20	\$ (11)	\$ 139	\$ 78
Cash flow hedges:				
Derivative financial instruments unrealized (losses) gains arising during the period	(1)	2	(11)	4
Reclassification of derivative financial instruments realized losses (gains) included in net income	6	(1)	8	(5)
Other comprehensive income (loss)	5	1	(3)	(1)
Comprehensive income (loss) (Note 5)	\$ 25	\$ (10)	\$ 136	\$ 77
Comprehensive income attributable to noncontrolling interest (net of tax)				
Net income attributable to noncontrolling interest	\$ 1	\$ 1	\$ 17	\$ 17
Cash flow hedges:				
Derivative financial instruments unrealized (losses) gains arising during the period	(1)	1	(6)	2
Reclassification of derivative financial instruments realized losses (gains) included in net income	3	(1)	4	(2)
Other comprehensive income (loss)	2	-	(2)	-
Comprehensive income (Note 5)	\$ 3	\$ 1	\$ 15	\$ 17
Total comprehensive income (loss), including portion attributable to noncontrolling interest (net of tax)				
Net income (loss)	\$ 21	\$ (10)	\$ 156	\$ 95
Cash flow hedges:				
Derivative financial instruments unrealized (losses) gains arising during the period	(2)	3	(17)	6
Reclassification of derivative financial instruments realized losses (gains) included in net income	9	(2)	12	(7)
Other comprehensive income (loss)	7	1	(5)	(1)
Comprehensive income (loss) (Note 5)	\$ 28	\$ (9)	\$ 151	\$ 94

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Six months ended June 30,	2009	2008
Cash flows from operating activities			
Net income	\$	156	\$ 95
Adjustments to reconcile net income to net cash flow provided by operating activities			
Depreciation and amortization		78	74
Deferred income taxes		29	(34)
Change in derivative financial instrument assets and liabilities		14	51
Changes in certain assets and liabilities			
Gas, unbilled and other receivables		266	152
Inventories		131	(157)
Energy marketing receivables and energy marketing trade payables, net		51	140
Accrued expenses		(6)	19
Gas and trade payables		(35)	(14)
Other – net		47	33
Net cash flow provided by operating activities		731	359
Cash flows from investing activities			
Payments to acquire, property, plant and equipment		(207)	(166)
Net cash flow used in investing activities		(207)	(166)
Cash flows from financing activities			
Net payments and borrowings of short-term debt		(448)	(67)
Dividends paid on common shares		(68)	(64)
Distribution to noncontrolling interest		(20)	(30)
Issuance of treasury shares		8	8
Payments of long-term debt		-	(161)
Issuance of variable rate gas facility revenue bonds		-	122
Other		-	(1)
Net cash flow used in financing activities		(528)	(193)
Net decrease in cash and cash equivalents		(4)	-
Cash and cash equivalents at beginning of period		16	19
Cash and cash equivalents at end of period	\$	12	\$ 19
Cash paid during the period for			
Interest	\$	47	\$ 59
Income taxes	\$	35	\$ 24

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 - Accounting Policies and Methods of Application

General

AGL Resources Inc. is an energy services holding company that conducts substantially all of its operations through its subsidiaries. Unless the context requires otherwise, references to “we,” “us,” “our,” or “the company” mean consolidated AGL Resources Inc. and its subsidiaries (AGL Resources).

The year-end condensed statement of financial position data was derived from our audited financial statements, but does not include all disclosures required by GAAP. We have prepared the accompanying unaudited condensed consolidated financial statements under the rules of the SEC. Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with GAAP. However, the 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. For a glossary of key terms and referenced accounting standards, see page 3. You should read these condensed consolidated financial statements in conjunction with our recast consolidated financial statements and related notes as filed on Form 8-K with the SEC on July 13, 2009, and in our Form 10-K for the year ended December 31, 2008, filed with the SEC on February 5, 2009.

Due to the seasonal nature of our business, our results of operations for the three and six months ended June 30, 2009 and 2008, and our financial condition as of December 31, 2008, and June 30, 2009 and 2008, are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period.

Basis of Presentation

Our condensed consolidated financial statements include our accounts, the accounts of our majority-owned and controlled subsidiaries and the accounts of variable interest entities for which we are the primary beneficiary. This means that our accounts are combined with our subsidiaries’ accounts. We have eliminated any intercompany profits and transactions in consolidation; however, we have not eliminated intercompany profits when such amounts are probable of recovery under the affiliates’ rate regulation process. Certain amounts from prior periods have been reclassified and revised to conform to the current period presentation.

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 of contingent assets and liabilities. We based our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, and we evaluate our estimates on an ongoing basis. Each of our estimates involves complex situations requiring a high degree of judgment either in the application and interpretation of existing financial accounting literature or in the development of estimates that impact our financial statements. The most significant estimates include our PRP accruals, environmental liability accruals, allowance for uncollectible accounts and other allowance for contingencies, pension and postretirement obligations, derivative and hedging activities, unbilled revenues and provision for income taxes. Our actual results could differ from our estimates, and such differences could be material.

Energy Marketing Receivables and Payables

Our wholesale services segment provides services to retail and wholesale marketers and utility and industrial customers. These customers, also known as counterparties, utilize netting agreements, which enable wholesale services to net receivables and payables by counterparty. Wholesale services also nets across product lines and against cash collateral, provided the master netting and cash collateral agreements include such provisions. The amounts due from or owed to wholesale services' counterparties are netted and recorded on our condensed consolidated statements of financial position as energy marketing receivables and energy marketing payables.

Our wholesale services segment has some trade and credit contracts that have explicit minimum credit rating requirements. These credit rating requirements typically give counterparties the right to suspend or terminate credit if our credit ratings are downgraded to non-investment grade status. Under such circumstances, wholesale services would need to post collateral to continue transacting business with some of its counterparties. As of June 30, 2009, December 31, 2008 and June 30, 2008 the collateral that wholesale services would be required to post would not have a material impact to our consolidated results of operations, cash flows or financial condition. However, if such collateral were not posted, wholesale services' ability to continue transacting business with these counterparties would be impaired.

Regulatory Assets and Liabilities

We have recorded regulatory assets and liabilities in our condensed consolidated statements of financial position in accordance with SFAS 71. Our regulatory assets and liabilities, and associated liabilities for our unrecovered PRP costs, unrecovered ERC and the associated assets and liabilities for Elizabethtown Gas' derivative financial instruments, are summarized in the following table. For more information on our derivative financial instruments, see Note 3.

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In millions	June 30 2009	Dec. 31 2008	June 30 2008
Regulatory assets			
Unrecovered PRP costs	\$ 215	\$ 237	\$ 253
Unrecovered ERC	160	143	150
Unrecovered postretirement benefit costs	10	11	11
Unrecovered seasonal rates	-	11	-
Unrecovered natural gas costs	-	19	22
Elizabethtown Gas derivative financial instruments	-	-	35
Other	28	30	28
Total regulatory assets	413	451	499
Associated assets			
Elizabethtown Gas derivative financial instruments	21	23	-
Total regulatory and associated assets	\$ 434	\$ 474	\$ 499
Regulatory liabilities			
Accumulated removal costs	\$ 199	\$ 178	\$ 175
Deferred natural gas costs	52	25	20
Elizabethtown Gas derivative financial instruments	21	23	-
Deferred seasonal rates	9	-	9
Regulatory tax liability	18	19	19
Unamortized investment tax credit	14	14	15
Other	17	22	20
Total regulatory liabilities	330	281	258
Associated liabilities			
PRP costs	163	189	210
ERC	120	96	97
Elizabethtown Gas derivative financial instruments	-	-	35
Total associated liabilities	283	285	342
Total regulatory and associated liabilities	\$ 613	\$ 566	\$ 600

There have been no significant changes to our regulatory assets and liabilities as described in Note 1 to our recast consolidated financial statements as filed on Form 8-K with the SEC on July 13, 2009, and in our Form 10-K for the year ended December 31, 2008, filed with the SEC on February 5, 2009.

Inventories

For our distribution operations segment, we record natural gas stored underground at WACOG. Sequent and SouthStar evaluate the average cost of their natural gas inventories against market prices to determine whether any declines in market prices below the WACOG are other than temporary. For any declines considered to be other than temporary, we record adjustments to reduce the weighted average cost of the natural gas inventory to market price. SouthStar recorded LOCOM adjustments of \$6 million in the six months ended June 30, 2009 and did not record LOCOM adjustments in the six months ended June 30, 2008. Sequent recorded LOCOM adjustments of \$8 million in the six months ended June 30, 2009 and did not record LOCOM adjustments for the six months ended June 30, 2008.

Earnings per Common Share

We compute basic earnings per common share by dividing our net income attributable to our common shareholders by the daily weighted-average number of common shares outstanding. Diluted earnings per common share reflect the potential reduction in earnings per common share that could occur when potentially dilutive common shares are added to common shares outstanding. We adopted FSP EITF 03-6-1 on January 1, 2009, which provides guidance on the computation of earnings per share for unvested share awards outstanding that have the nonforfeitable right to receive dividends. The effects of this FSP were immaterial to our calculation of earnings per share.

We derive our potentially dilutive common shares by calculating the number of shares issuable under restricted stock, restricted stock units and stock options. The future issuance of shares underlying the restricted stock and restricted stock units depends on the satisfaction of certain performance criteria. The future issuance of shares underlying the outstanding stock options depends upon whether the exercise prices of the stock options are less than the average market price of the common shares for the respective periods. The following table shows the calculation of our diluted shares for the periods presented, assuming restricted stock and restricted stock units currently awarded under the plan ultimately vest and stock options currently exercisable at prices below the average market prices are exercised.

In millions	Three months ended June 30,	
	2009	2008
Denominator for basic earnings per share (1)	76.7	76.2
Assumed exercise of restricted stock, restricted stock units and stock options	0.2	-
Denominator for diluted earnings per share (1) Daily weighted-average shares outstanding.	76.9	76.2

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	Six months ended June 30,	
In millions	2009	2008
Denominator for basic earnings per share (1)	76.8	76.2
Assumed exercise of restricted stock, restricted stock units and stock options	0.1	0.2
Denominator for diluted earnings per share	76.9	76.4
(1) Daily weighted-average shares outstanding.		

The following table contains the weighted average shares attributable to outstanding stock options that were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive, as the exercise prices were greater than the average market price:

	June 30,	
In millions	2009	2008
Three months ended	2.3	1.7
Six months ended	2.2	1.6

The increase of 0.6 million shares for the three and six months ended June 30, 2009, which were excluded from the computation of diluted earnings per share and considered anti-dilutive, was a result of a decline in the average market value of our common shares at June 30, 2009 as compared to June 30, 2008.

Accounting Developments

Recently issued

SFAS 166 In June 2009, the FASB issued SFAS 166, which amends FAS 140-4, and requires improved disclosures about transfers of financial assets and removes the exception from applying FIN 46(R) to qualifying special purpose entities. SFAS 166 will be effective for us on January 1, 2010 and will have no effect on our consolidated results of operations, cash flows and financial position.

SFAS 167 In June 2009, the FASB issued SFAS 167, which provides new consolidation guidance for variable interest entities (VIE). SFAS 167 requires a company to assess the determination of the primary beneficiary of a VIE based on whether the company has the power to direct matters that most significantly impact the activities of the VIE, and the obligation to absorb losses or the right to receive benefits of the VIE. In addition, SFAS 167 requires ongoing reassessments of whether a company is the primary beneficiary of a VIE.

SFAS 167 will be effective for us beginning January 1, 2010. Earlier application is prohibited. We are currently evaluating the impact of this standard on our consolidated results of operations, cash flows and financial position.

SFAS 168 In June 2009, the FASB issued SFAS 168, which replaces SFAS 162. SFAS 168 creates a two-level GAAP hierarchy - authoritative and non-authoritative - and establishes the FASB's Accounting Standards Codification (Codification) as the sole source of authoritative GAAP for non-governmental entities, except for rules and releases by

the SEC.

After July 1, 2009, all non-grandfathered, non-SEC accounting guidance not included in the Codification is superseded and is deemed non-authoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 will have no impact on our consolidated results of operations, cash flows and financial position.

Note 2 - Fair Value Measurements

The carrying value of cash and cash equivalents, receivables, accounts payable, short-term debt, other current assets and liabilities, derivative financial instrument assets, derivative financial instrument liabilities and accrued interest approximate fair value. The following table shows the carrying amounts and fair values of our long-term debt including any current portions included in our condensed consolidated statements of financial position.

In millions	Carrying amount	Estimated fair value
As of June 30, 2009	\$ 1,676	\$ 1,725
As of December 31, 2008	1,676	1,647
As of June 30, 2008	1,638	1,635

We estimate the fair value of our long-term debt using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile. In determining the market interest yield curve, we considered our currently assigned ratings for unsecured debt of BBB+ by S&P, Baa1 by Moody's and A- by Fitch.

SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In December 2007, the FASB provided a one-year deferral of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually. We adopted SFAS 157 on January 1, 2008, for our financial assets and liabilities, which primarily consist of derivatives we record in accordance with SFAS 133. We adopted SFAS 157 for our nonfinancial assets and liabilities on January 1, 2009, which had no impact to our condensed consolidated results of operations, cash flows and financial condition.

FSP FAS 157-4 This FSP establishes a two-step process to determine if the market for a financial asset is inactive and a transaction is not distressed. Step 1 provides factors that include, but are not limited to: transaction frequency, varying price quotations, index correlation, liquidity risk premiums, price spread increases and availability of public information. If a company determines the market is inactive, Step 2 must be applied.

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In Step 2 an entity must presume that a quoted price is associated with a distressed transaction unless there was sufficient time before the measurement date to allow for usual and customary marketing activities, including multiple bidders. This FSP is effective for interim and annual periods ending after June 15, 2009. We adopted this FSP in the second quarter of 2009. Currently, this FSP does not effect us, as our financial assets are traded in active markets.

As defined in SFAS 157, 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 pricing 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 and endeavor 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 are able to classify fair value balances based on the observance of those inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 items consist of financial instruments with exchange-traded derivatives.

Level 2

Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial and commodity instruments that are valued using valuation methodologies. These methodologies are primarily industry-standard methodologies that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. We obtain market price data from multiple sources in order to value some of our Level 2 transactions and this data is representative of transactions that occurred in the market place. As we aggregate our disclosures by counterparty, the underlying transactions for a given counterparty may be a combination of exchange-traded derivatives and values based on other sources. Instruments in this category include shorter tenor exchange-traded and non-exchange-traded derivatives such as OTC forwards and options.

Level 3

Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. We do not have any material assets or liabilities classified as level 3.

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2009. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires

judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Our exchange-traded derivative contracts, which include futures and exchange-traded options, are generally based on unadjusted quoted prices in active markets and are classified within level 1. Some exchange-traded derivatives are valued using broker or dealer quotation services, or market transactions in either the listed or OTC markets, which are classified within level 2.

The determination of the fair values in the following table incorporates various factors required under SFAS 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the effect of our nonperformance risk on our liabilities. For more information on our derivative instruments, see Note 3.

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Recurring fair values

Natural gas derivative financial instruments

In millions	June 30, 2009		December 31, 2008		June 30, 2008	
	Assets	Liabilities	Assets (1)	Liabilities	Assets	Liabilities
Quoted prices in active markets (Level 1)	\$34	\$(105)	\$52	\$(117)	\$28	\$(84)
Significant other observable inputs (Level 2)	140	(18)	154	(28)	86	(118)
Netting of cash collateral	40	84	35	89	18	77
Total carrying value (2)	\$214	\$(39)	\$241	\$(56)	\$132	\$(125)

(1) \$4 million premium associated with weather derivatives has been excluded as they are based on intrinsic value, not fair value. For more information see Note 3.

(2) There were no significant unobservable inputs (level 3) for any of the periods presented.

Note 3 - Derivative Financial Instruments

Netting of Cash Collateral with Derivative Financial Instruments under Master Netting Arrangements

We maintain accounts with exchange brokers to facilitate financial derivative transactions in support of our energy marketing and risk management activities. Based on the value of our positions in these accounts and the associated margin requirements, we may be required to deposit cash into these broker accounts. We are required to offset this cash collateral with the associated fair value of the derivative financial instruments. Our cash collateral amounts are provided in the following table.

In millions	June 30, 2009	As of Dec. 31, 2008	June 30, 2008
Right to reclaim cash collateral	\$ 124	\$ 128	\$ 103
Obligations to return cash collateral	-	(4)	(8)
Total cash collateral	\$ 124	\$ 124	\$ 95

Derivative Financial Instruments

Our use of derivative financial instruments and physical transactions is limited to predefined risk tolerances associated with pre-existing or anticipated physical natural gas sales and purchases and system use and storage. We use the following types of derivative financial instruments and physical transactions to manage natural gas price, interest rate, weather, automobile fuel price and foreign currency risks:

- forward contracts
- futures contracts
- options contracts
- financial swaps
- treasury locks
- weather derivative contracts
- storage and transportation capacity transactions
- foreign currency forward contracts

Our derivative financial instruments do not contain any material credit-risk-related or other contingent features that could cause us to make accelerated payments over and above collateral we post in the normal course of business when our financial instruments are in net liability positions. For information on our energy marketing receivables and payables, which do have credit-risk-related or other contingent features refer to Note 1. Our risk management activities are monitored by our Risk Management Committee, which consists of members of senior management and is charged with reviewing and enforcing our risk management activities and policies.

We adopted SFAS 161 on January 1, 2009, which amends the disclosure requirements of SFAS 133 and requires specific disclosures regarding how and why we use derivative instruments; the accounting for derivative instruments and related hedged items; and how derivative instruments and related hedged items affect our financial position, results of operations and cash flows. As SFAS 161 only requires additional disclosures concerning derivatives and hedging activities, this standard did not have an impact on our financial position, results of operations or cash flows.

We adopted FSP FAS 133-1 on January 1, 2009. This FSP requires more detailed disclosures about credit derivatives, including the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of the instruments. This FSP had no financial impact to our results of operations, cash flows or financial condition.

Natural Gas Derivative Financial Instruments

Activities associated with natural gas price risk management activities and derivative financial instruments are included as a component of cash flows from operating activities in our condensed consolidated statements of cash flows. Our derivatives not designated as hedges under SFAS 133, are included within operating cash flows as a source of cash totaling \$14 million in 2009 and \$51 million in 2008.

Distribution Operations In accordance with a directive from the New Jersey Commission, Elizabethtown Gas enters into derivative financial instruments to hedge the impact of market fluctuations in natural gas prices. Pursuant to SFAS 133, such derivative transactions are accounted for at fair value each reporting period in our condensed consolidated statements of financial position. In accordance with regulatory requirements realized gains and losses related to these derivatives are reflected in natural gas costs and ultimately included in billings to customers. However, these derivative financial instruments are not designated as hedges in accordance with SFAS 133. For more information on our regulatory assets and liabilities see Note 1.

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Retail Energy Operations SouthStar uses natural gas derivative financial instruments (futures, options and swaps) to manage exposures arising from changing natural gas prices. SouthStar's objective for holding these derivatives is to utilize the most effective method to reduce or eliminate the impact of this exposure. The fair value of these derivative financial instruments 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 the derivative financial instruments we use. We have designated a portion of SouthStar's derivative financial instruments, consisting of financial swaps to manage the natural gas risk associated with forecasted purchases and sales of natural gas, as cash flow hedges under SFAS 133. We record derivative gains or losses arising from cash flow hedges in OCI and reclassify them into earnings in the same period as the settlement of the underlying hedged item.

SouthStar currently has minimal hedge ineffectiveness defined as when the gains or losses on the hedging instrument do not offset and are greater than the losses or gains on the hedged item. This cash flow hedge ineffectiveness is recorded in cost of gas in our condensed consolidated statements of income in the period in which it occurs. We have not designated the remainder of SouthStar's derivative financial instruments as hedges under SFAS 133 and, accordingly, we record changes in their fair value within cost of gas in our condensed consolidated statements of income in the period of change. For more information on SouthStar's gains and losses reported within comprehensive income that affects equity, see our condensed consolidated statements of comprehensive income. SouthStar has hedged its exposures to natural gas risk to varying degrees in the markets in which it serves retail, commercial and industrial customers. Approximately 66% of SouthStar's purchase instruments and 58% of its sales instruments are scheduled to mature in 2009 and the remaining 34% and 42%, respectively, in less than 2 years.

SouthStar also enters into both exchange and OTC derivative financial instruments to hedge natural gas price risk. Credit risk is mitigated for exchange transactions through the backing of the NYMEX member firms. For OTC transactions, SouthStar utilizes master netting arrangements to reduce overall credit risk. As of June 30, 2009, SouthStar's maximum exposure to any single OTC counterparty was \$3 million.

Wholesale Services Sequent uses derivative financial instruments to reduce our exposure to the risk of changes in the prices of natural gas. The fair value of these derivative financial instruments 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 the derivative financial instruments we use.

We purchase natural gas for storage when the difference in the current market price we pay to buy and transport natural gas plus the cost to store the natural gas is less than the market price we can receive in the future, resulting in a positive net operating margin. We use NYMEX futures contracts and other OTC derivatives to sell natural gas at that future price to substantially lock in the operating margin we will ultimately realize when the stored natural gas is actually sold. These futures contracts meet the definition of derivatives under SFAS 133 and are accounted for at fair value in our condensed consolidated statements of financial position, with changes in fair value recorded in our condensed consolidated statements of income in the period of change. However, these futures contracts are not designated as hedges in accordance with SFAS 133.

The purchase, transportation, storage and sale of natural gas are accounted for on a weighted average cost or accrual basis, as appropriate, rather than on the fair value basis we utilize for the derivatives used to mitigate the natural gas price risk associated with our storage portfolio. This difference in accounting can result in volatility in our reported earnings, even though the economic margin is essentially unchanged from the date the transactions were consummated. Approximately 96% of Sequent's purchase instruments and 97% of its sales instruments are scheduled to mature in less than 2 years and the remaining 4% and 3%, respectively, in 3 to 9 years.

The changes in fair value of Sequent's derivative instruments utilized in its energy marketing and risk management activities and contract settlements decreased the net fair value of its contracts outstanding by \$26 million during the six months ended June 30, 2009 and by \$153 million during the six months ended June 30, 2008.

Energy Investments Golden Triangle Storage uses derivative financial instruments to reduce its exposure to the risk of changes in the prices of natural gas associated with natural gas to be purchased in future periods in connection with the construction of the storage caverns for pad gas, which includes volumes of non-working natural gas used to maintain the operational integrity of the caverns. The fair value of these derivative financial instruments 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 the derivative instruments.

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We have designated all of Golden Triangle Storage's derivative financial instruments, consisting of financial swaps to manage the natural gas price risk associated with forecasted purchases of natural gas for its pad gas, as cash flow hedges under SFAS 133. We record derivative gains or losses arising from cash flow hedges in OCI and reclassify them into earnings in the same period as the pad gas is sold. Until the pad gas is sold, the gains and losses will remain in OCI since pad gas is considered to be a component of the caverns PP&E cost. Golden Triangle Storage currently has minimal hedge ineffectiveness. This cash flow hedge ineffectiveness is recorded in cost of gas in our condensed consolidated statements of income in the period in which it occurs. Golden Triangle Storage began entering into derivative transactions during the second quarter of 2009 and these amounts were immaterial at June 30, 2009.

Weather Derivative Financial Instruments

In 2009 and 2008, SouthStar entered into weather derivative contracts as economic hedges of operating margins in the event of warmer-than-normal and colder-than-normal weather in the heating season, primarily from November through March. SouthStar accounts for these contracts using the intrinsic value method under the guidelines of EITF 99-2, and accordingly these derivative financial instruments are not designated as derivatives or hedges under SFAS 133. SouthStar had no active weather derivatives at June 30, 2009 or 2008. As a result, our condensed consolidated balance sheets reflect no amounts for this hedging activity as of June 30, 2009 and at June 30, 2008; however, SouthStar did record a current asset of \$4 million at December 31, 2008. SouthStar recognized losses on its weather derivative financial instruments, of \$4 million for the six months ended June 30, 2009 and \$5 million for the six months ended June 30, 2008 which was reflected in cost of gas on our condensed consolidated statements of income.

Quantitative Disclosures Related to Derivative Financial Instruments

As of June 30, 2009, our derivative financial instruments were comprised of both long and short natural gas positions, whereby a long position is a contract to purchase natural gas, and a short position is a contract to sell natural gas. As of June 30, 2009, we had net long natural gas contracts outstanding in the following quantities:

Hedge designation under SFAS 133	Natural gas contracts (in Bcf)			
	Retail		Wholesale	
	Distribution operations	energy operations	services	Consolidated
Cash flow	-	4	-	4
Not designated	17	8	99	124
Total	17	12	99	128

Derivative Financial Instruments on the Condensed Consolidated Statements of Income

The following table presents the gain or (loss) on derivative financial instruments in our condensed consolidated statements of income for the three and six months ended June 30, 2009.

	Three months ended June 30, 2009		Six months ended June 30, 2009	
	Retail energy operations	Wholesale services	Retail energy operations	Wholesale services
In millions				
Designated as cash flow hedges under SFAS 133				
Natural gas contracts – loss reclassified from OCI into cost of gas for settlement of hedged item	\$ (12)	\$ -	\$ (16)	\$ -

Not designated as hedges under SFAS 133:

Natural gas contracts – fair value adjustments recorded in operating revenues (1)	-	16	-	52
Natural gas contracts – fair value adjustments recorded in cost of gas (2)	-	-	(1)	-
Total (losses) gains on derivative instruments	\$ (12)	\$ 16	\$ (17)	\$ 52

(1) Associated with the fair value of existing derivative instruments at June 30, 2009.

(2) Excludes \$4 million of losses recorded in cost of gas associated with weather derivatives accounted for in accordance with EITF 99-2 for the six months ended June 30, 2009.

In accordance with regulatory requirements, any realized gains and losses on derivative instruments used in our distribution operations segment are reflected in deferred natural gas costs within our condensed consolidated statements of financial position as indicated in the following table.

In millions	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Elizabethtown Gas recognized (losses) gains on its derivative instruments reclassified to deferred natural gas costs	\$ (7)	\$ 8	\$ (20)	\$ 8

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The following amounts (pre-tax) represent the expected recognition in our condensed consolidated statements of income of the deferred losses recorded in OCI associated with retail energy operations' derivative instruments, based upon the fair values of these financial instruments as of June 30, 2009:

In millions	Retail energy operations
Designated as hedges under SFAS 133	
Natural gas contracts – expected net loss reclassified from OCI into cost of gas for settlement of hedged item:	
Next twelve months	\$ (18)
Thereafter	-
Total	\$ (18)

Derivative Financial Instruments on the Statements of Financial Position

The following table presents the fair value and statements of financial position classification of our derivative financial instruments by operating segment.

In millions	Statements of financial position location (1)	Distribution operations	As of June 30, 2009 Retail energy operations	Wholesale services	Consolidated (2)
Designated as cash flow hedges under SFAS 133:					
Asset Financial Instruments					
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	\$ -	\$ 13	\$ -	\$ 13
Noncurrent natural gas contracts	Derivative financial instruments assets and liabilities	-	-	-	-
Liability Financial Instruments					
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	-	(18)	-	(18)
Noncurrent natural gas contracts	Derivative financial instruments assets and liabilities	-	-	-	-
Total		-	(5)	-	(5)
Not designated as hedges under SFAS 133:					

Asset Financial Instruments					
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	20	4	393	417
Noncurrent natural gas contracts	Derivative financial instruments assets and liabilities	1	-	63	64
Liability Financial Instruments					
Current natural gas contracts	Derivative financial instruments assets and liabilities – current portion	(20)	(4)	(368)	(392)
Noncurrent natural gas contracts	Derivative financial instruments assets and liabilities	(1)	-	(32)	(33)
Total		-	-	56	56
Total derivative financial instruments		\$ -	\$ (5)	\$ 56	\$ 51

- (1) These amounts are netted within our condensed consolidated statements of financial position. Some of our derivative financial instruments have asset positions which are presented as a liability in our condensed consolidated statements of financial position, and we have derivative instruments that have liability positions which are presented as an asset in our condensed consolidated statements of financial position.
- (2) As required by SFAS 161, the fair value amounts above are presented on a gross basis. Additionally, the amounts above do not include \$124 million of cash collateral held on deposit in broker margin accounts as of June 30, 2009. As a result, the amounts above will differ from the amounts presented on our condensed consolidated statements of financial position, and the fair value information presented for our financial instruments in Note 2.

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Note 4 - Employee Benefit Plans

FSP FAS 132(R)-1

This FSP requires additional disclosures relating to postretirement benefit plan assets to provide transparency regarding the types of assets and the associated risks within the types of plan assets. The required disclosures include:

- How investment allocation decisions are made, including information that provides an understanding of investment policies and strategies,
- The major categories of plan assets,
- Inputs and valuation techniques used to measure the fair value of plan assets, including those measurements using significant unobservable inputs, on changes in plan assets for the period, and
- Significant concentrations of risk within plan assets.

This FSP is effective for fiscal years ending after December 15, 2009 and requires additional disclosures in our notes to condensed consolidated financial statements, but will not have a material impact on our financial position, results of operations or cash flows.

Pension Benefits

We sponsor two tax-qualified defined benefit retirement plans for our eligible employees, the AGL Resources Inc. Retirement Plan and the Employees' Retirement Plan of NUI Corporation. A defined benefit plan specifies the amount of benefits an eligible participant eventually will receive using information about the participant. Following are the combined cost components of our two defined pension plans for the periods indicated.

	Three months ended June 30,	
In millions	2009	2008
Service cost	\$ 2	\$ 2
Interest cost	6	6
Expected return on plan assets	(8)	(8)
Amortization of prior service cost	-	-
Recognized actuarial loss	3	1
Net pension benefit cost	\$ 3	\$ 1

	Six months ended June 30,	
In millions	2009	2008
Service cost	\$ 4	\$ 4
Interest cost	13	13
Expected return on	(15)	(16)

plan assets		
Amortization		
of prior		
service cost	(1)	(1)
Recognized		
actuarial loss	5	2
Net pension		
benefit cost	\$ 6	\$ 2

Our employees do not contribute to these retirement plans. We fund the plans by contributing at least the minimum amount required by applicable regulations and as recommended by our actuary. However, we may also contribute in excess of the minimum required amount. We calculate the minimum amount of funding using the projected unit credit cost method. The Pension Protection Act (the Act) of 2006 contained new funding requirements for single employer defined benefit pension plans. The Act establishes a 100% funding target for plan years beginning after December 31, 2007. However, a delayed effective date of 2011 may apply if the pension plan meets the following targets: 92% funded in 2008; 94% funded in 2009; and 96% funded in 2010. In December 2008, the Worker, Retiree and Employer Recovery Act of 2008 allowed us to measure our 2008 and 2009 funding target at 92%. During the first six months of 2009, we made \$17 million in contributions to our qualified plans. We expect to make additional contributions to our pension plans of \$15 million during the remainder of 2009. In 2008, we did not make a contribution, as one was not required for our pension plans.

Postretirement Benefits

The Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Postretirement Plan) covers all eligible AGL Resources employees who were employed as of June 30, 2002, if they reach retirement age while working for us. Eligibility for benefits under the AGL Postretirement Plan is based on age and years of service. The state regulatory commissions have approved phase-ins that defer a portion of other postretirement benefits expense for future recovery. Effective December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. This act provides for a prescription drug benefit under Medicare (Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Effective January 1, 2006, benefits for prescription drugs were not provided under the plan to individuals who are eligible to receive prescription drug benefits under Medicare Part D. Medicare-eligible participants in the AGL Postretirement Plan receive prescription drug benefits through a Medicare Part D plan offered by a third party and to which we subsidize participant premiums. Medicare-eligible retirees who opt out of the AGL Postretirement Plan are eligible to receive a cash subsidy which may be used towards eligible prescription drug expenses. Following are the cost components of the AGL Postretirement Plan for the periods indicated.

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	Three months ended June 30,	
In millions	2009	2008
Service cost	\$ -	\$ 1
Interest cost	2	2
Expected return on plan assets	(1)	(2)
Amortization of prior service cost	(1)	(1)
Recognized actuarial loss	-	-
Net postretirement benefit cost	\$ -	\$ -

	Six months ended June 30,	
In millions	2009	2008
Service cost	\$ -	\$ 1
Interest cost	3	3
Expected return on plan assets	(2)	(3)
Amortization of prior service cost	(2)	(2)
Recognized actuarial loss	1	-
Net postretirement benefit cost	\$ -	\$ (1)

Employee Savings Plan Benefits

We sponsor the Retirement Savings Plus Plan (RSP Plan), a defined contribution benefit plan that allows eligible participants to make contributions to their accounts up to specified limits. Under the RSP Plan, we made \$4 million in matching contributions to participant accounts in the first six months of 2009 and \$3 million in the same period last year.

Note 5 - Equity

Noncontrolling Interests

We currently own a noncontrolling 70% financial interest in SouthStar, a joint venture with Piedmont who owns the remaining 30%. Our 70% interest is noncontrolling because all significant management decisions require approval by both owners. Although our ownership interest in the SouthStar partnership is 70%, under an amended and restated

joint venture agreement executed in March 2004, SouthStar's earnings are currently allocated 75% to us and 25% to Piedmont except for earnings related to customers in Ohio and Florida, which are currently allocated 70% to us and 30% to Piedmont.

We are the primary beneficiary of SouthStar's activities and have determined that SouthStar is a variable interest entity as defined by FIN 46R, which requires us to consolidate the variable interest entity. The assets, liabilities, and noncontrolling interests of a consolidated variable interest entity are accounted for in our condensed consolidated financial statements as if the entity were consolidated based on voting interests.

The Company determined that SouthStar was a variable interest entity because its equal voting rights with Piedmont are not proportional to its economic obligation to absorb 75% of any losses or residual returns from SouthStar, except those losses and returns related to customers in Ohio and Florida. In addition, SouthStar obtains substantially all its transportation capacity for delivery of natural gas through our wholly-owned subsidiary, Atlanta Gas Light.

On January 1, 2009, we adopted SFAS 160, and applied the presentation and disclosure requirements retrospectively for all periods presented. SFAS 160 does not change the requirements of FIN 46R and provides that the noncontrolling interest should be reported as a separate component of equity on our condensed consolidated statements of financial position.

Additionally, prior to adoption of SFAS 160, we recorded our earnings allocated to Piedmont as a component of earnings before income taxes in our condensed consolidated statements of income. SFAS 160 requires that any net income attributable to the noncontrolling interest be presented separately in our condensed consolidated statements of income. As a result, net income from noncontrolling interest is reported after net income in order to report net income attributable to the parent and the noncontrolling interest. The adoption of SFAS 160 has no effect on our calculation of basic or diluted earnings per share amounts, which will continue to be based upon amounts attributable to AGL Resources.

Stock-Based Compensation

In the first six months of 2009, we issued grants of approximately 250,000 stock options and 211,000 restricted stock units, which will result in the recognition of approximately \$2 million of stock-based compensation expense in 2009. No material share awards have been granted to employees whose compensation is subject to capitalization. We use the Black-Scholes pricing model to determine the fair value of the options granted. On an annual basis, we evaluate the assumptions and estimates used to calculate our stock-based compensation expense.

There have been no significant changes to our stock-based compensation, as described in Note 4 to our recast consolidated financial statements and related notes as filed on Form 8-K with the SEC on July 13, 2009, and in our Form 10-K for the year ended December 31, 2008, filed with the SEC on February 5, 2009.

Comprehensive Income

Our comprehensive income or loss includes net income plus OCI, which includes other gains and losses affecting equity that GAAP excludes from net income. Such items consist primarily of gains and losses on certain derivatives designated as cash flow hedges and unfunded or overfunded pension and postretirement obligation adjustments. Our cumulative comprehensive income or loss that has been excluded from net income is reported as accumulated other comprehensive loss within our condensed consolidated statement of equity.

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Note 6 - Debt

Our issuance of various securities, including long-term and short-term debt, is subject to customary approval or authorization by, or filings with, state and federal regulatory bodies, including state public service commissions, the SEC and the FERC pursuant to the Energy Policy Act of 2005. The following table provides information on our various debt securities. For more information on our debt, see Note 6 in our recast consolidated financial statements and related notes as filed on Form 8-K with the SEC on July 13, 2009, and in our Form 10-K for the year ended December 31, 2008, filed with the SEC on February 5, 2009.

In millions	Year(s) due	Interest rate (1)		Weighted average interest rate(2)		Outstanding as of		
						June 30, 2009	Dec. 31, 2008	June 30, 2008
Short-term debt								
Commercial paper	2009	0.6	%	0.9	%	\$ 417	\$ 273	\$ 465
Credit Facilities	-	-		-		-	500	-
SouthStar line of credit	-	-		-		-	75	-
Sequent lines of credit (3)	-	-		-		-	17	38
Pivotal Utility line of credit	-	-		-		-	-	9
Capital leases	2009	4.9		4.9		1	1	1
Total short-term debt		0.6	%	1.0	%	\$ 418	\$ 866	\$ 513
Long-term debt - net of current portion								
Senior notes	2011-2034	4.5-7.1	%	5.9	%	\$ 1,275	\$ 1,275	\$ 1,275
Gas facility revenue bonds	2022-2033	0.1-5.3		1.3		200	200	161
Medium-term notes	2012-2027	6.6-9.1		7.8		196	196	196
Capital leases	2013	4.9		4.9		4	4	5
Total long-term debt		5.5	%	5.5	%	\$ 1,675	\$ 1,675	\$ 1,637
Total debt		4.5	%	4.5	%	\$ 2,093	\$ 2,541	\$ 2,150

(1) As of June 30, 2009.

(2) For the six months ended June 30, 2009.

(3) In June 2009, Sequent's \$25 million unsecured line of credit expired.

Note 7 - Commitments and Contingencies

Contractual Obligations and Commitments

We have incurred various contractual obligations and financial commitments in the normal course of our operating and financing activities that are reasonably likely to have a material effect on liquidity or the availability of capital resources. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. As we do for other subsidiaries, we provide guarantees to certain gas suppliers for SouthStar in support of payment obligations. There were no significant changes to our contractual obligations described in Note 7 to our recast consolidated financial

statements as filed on Form 8-K with the SEC on July 13, 2009, and in our Form 10-K for the year ended December 31, 2008, filed with the SEC on February 5, 2009.

Contingent financial commitments, such as financial guarantees, represent obligations that become payable only if certain predefined events occur and include the nature of the guarantee and the maximum potential amount of future payments that could be required of us as the guarantor. The following table illustrates our contingent financial commitments as of June 30, 2009.

In millions	Commitments due before December 31,		
	Total	2009	2010 & thereafter
Standby letters of credit and performance and surety bonds	\$ 23	\$ 15	\$ 8

Litigation

We are involved in litigation arising in the normal course of business. The ultimate resolution of such litigation is not expected to have a material adverse effect on our condensed consolidated financial position, results of operations or cash flows.

Information on the Jefferson Island Storage & Hub, LLC vs. State of Louisiana litigation is described in Note 7 to our recast consolidated financial statements as filed on Form 8-K with the SEC on July 13, 2009, and in our Form 10-K for the year ended December 31, 2008, filed with the SEC on February 5, 2009. In April 2009, the trial court ruled that the legislation that restricted Jefferson Island's ability to use water from the Chicot aquifer to expand its existing storage facility is unconstitutional and invalid. In addition, the court scheduled a trial in September 2009 on Jefferson Island's claim that it is authorized to expand the facility under its mineral lease. The ultimate resolution of such litigation cannot be determined, but it is not expected to have a material adverse effect on our condensed consolidated financial position, results of operations or cash flows.

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In February 2008, the consumer affairs staff of the Georgia Commission alleged that GNG charged its customers on variable rate plans prices for natural gas that were in excess of the published price, that it failed to give proper notice regarding the availability of potentially lower price plans and that it changed its methodology for computing variable rates. GNG asserted that it fully complied with all applicable rules and regulations, that it properly charged its customers on variable rate plans the rates on file with the Georgia Commission, and that, consistent with its terms and conditions of service, it routinely switched customers who requested to move to another price plan for which they qualified. In order to resolve this matter GNG agreed to pay \$2.5 million in the form of credits to customers, or as directed by the Georgia Commission, which was recorded in our statements of consolidated income for the year ended December 31, 2008.

In February 2008, a class action lawsuit was filed in the Superior Court of Fulton County in the State of Georgia against GNG containing similar allegations to those asserted by the Georgia Commission staff and seeking damages on behalf of a class of GNG customers. This lawsuit was dismissed in September 2008. The plaintiffs appealed the dismissal of the lawsuit and, in May 2009, the Georgia Court of Appeals reversed the lower court's order. In June 2009, GNG filed a petition for reconsideration with the Georgia Supreme Court and GNG is waiting to hear whether it will review the Court of Appeals' decision. If the Court of Appeals' decision is not reversed, the parties will proceed with the litigation at the trial court.

In March 2008, a second class action suit was filed against GNG in the State Court of Fulton County in the State of Georgia, regarding monthly service charges. This lawsuit alleges that GNG arbitrarily assigned customer service charges rather than basing each customer service charge on a specific credit score. GNG asserts that no violation of law or Georgia Commission rules has occurred, that this lawsuit is without merit and has filed motions to dismiss this class action suit on various grounds. This lawsuit was dismissed with prejudice in March 2009. In April 2009, the plaintiffs appealed the decision but in June 2009, the plaintiffs withdrew their appeal of the courts dismissal order in exchange for GNG withdrawing and dropping all claims for attorney's fees and costs in connection with the trial and appellate proceedings.

In May 2009, Pivotal Utility Holdings Inc., through its operating entity Elizabethtown Gas, was served as a responsible party, along with several hundred other entities, in litigation associated with the investigation and cleanup of the Passaic River and Newark Bay in New Jersey. The Plaintiffs, Maxus Energy Corporation and Tierra Solutions, Inc., who are among parties who have been ordered to address contamination in those water bodies, assert that historical operations of Elizabethtown Gas' former manufactured gas plants contributed to contamination at issue. We have not evaluated Plaintiffs' claims but do not believe that Elizabethtown Gas' historical operations would have had any significant impact in either the Passaic River or Newark Bay. At the present time, the Company cannot estimate the amount of any loss, if any, associated with this claim. In addition, we believe that any amounts associated with this claim would be subject to our Remediation Adjustment Clause that covers, subject to stated limitations, costs associated with environmental remediation cost investigation and cleanup.

Environmental Remediation Costs

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites.

Atlanta Gas Light We have identified ten former operating sites in Georgia and three sites of predecessor companies in Florida where the Company owned or operated all or part of these sites. We are required to investigate possible environmental contamination at those sites and, if necessary, clean up any contamination. As of December 31, 2008, the soil and sediment remediation program was complete for all Georgia sites, although groundwater cleanup continues. For elements of the program where we still cannot provide engineering cost estimates, considerable

variability remains in future cost estimates. As of June 30, 2009 we have recorded a liability equal to the low end of the range of \$56 million, an \$18 million increase from December 31, 2008. Atlanta Gas Light expects \$10 million to be incurred over the next 12 months.

Elizabethtown Gas We are associated with former sites in New Jersey, North Carolina and other states. Material cleanups of these sites have not been completed nor are precise estimates available for future cleanup costs and therefore considerable variability remains in future cost estimates. For the New Jersey sites, cleanup cost estimates range from \$65 million to \$110 million. As of June 30, 2009, we have recorded a liability equal to the low end of the range of \$65 million, a \$7 million increase from December 31, 2008. Elizabethtown Gas expects \$7 million to be incurred over the next 12 months.

We also own a site in Elizabeth City, North Carolina that is subject to a remediation order by the North Carolina Department of Energy and Natural Resources. Cleanup cost estimates range from \$12 million to \$21 million. As of June 30, 2009, we had recorded a liability equal to the low end of the range of \$12 million, a \$2 million increase from December 31, 2008. We expect \$2 million to be incurred over the next 12 months. There are currently no cost recovery mechanisms for the environmental remediation sites in North Carolina.

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Review of Compliance with FERC Regulations

In 2008 we conducted an internal review of our compliance with FERC interstate natural gas pipeline capacity release rules and regulations. Independent of our internal review, we also received data requests from FERC's Office of Enforcement relating specifically to compliance with the FERC's capacity release posting and bidding requirements. In June 2009, we reached a settlement agreement with the FERC. This settlement agreement did not have a material financial impact to our condensed consolidated results of operations, cash flows or financial position.

Note 8 - Segment Information

We are an energy services holding company whose principal business is the distribution of natural gas in six states - Florida, Georgia, Maryland, New Jersey, Tennessee and Virginia. We generate nearly all our operating revenues through the sale, distribution, transportation and storage of natural gas. We are involved in several related and complementary businesses, including retail natural gas marketing to end-use customers primarily in Georgia; natural gas asset management and related logistics activities for each of our utilities as well as for nonaffiliated companies; natural gas storage arbitrage and related activities; and the development and operation of high-deliverability natural gas storage assets. We manage these businesses through four operating segments – distribution operations, retail energy operations, wholesale services and energy investments and a nonoperating corporate segment which includes intercompany eliminations.

We evaluate segment performance based primarily on the non-GAAP measure of EBIT, which includes the effects of corporate expense allocations. EBIT is a non-GAAP measure that includes operating income and other income and expenses. Items we do not include in EBIT are financing costs, including interest and debt expense and income taxes, each of which we evaluate on a consolidated level. We believe EBIT is a useful measurement of our performance because it provides information that can be used to evaluate the effectiveness of our businesses from an operational perspective, exclusive of the costs to finance those activities and exclusive of income taxes, neither of which is directly relevant to the efficiency of those operations.

You should not consider EBIT an alternative to, or a more meaningful indicator of, our operating performance than operating income or net income attributable to AGL Resources Inc. as determined in accordance with GAAP. In addition, our EBIT may not be comparable to a similarly titled measure of another company. The following table contains the reconciliations of EBIT to operating income, earnings (loss) before income taxes and net income (loss) attributable to AGL Resources Inc. for the three and six months ended June 30, 2009 and 2008.

	Three months ended June 30,	
In millions	2009	2008
Operating revenues	\$ 377	\$ 444
Operating expenses	322	438
Operating income	55	6
Other income	3	3
EBIT	58	9
Interest expense, net	(24)	(26)
Earnings (loss) before income taxes	34	(17)
Income tax expense (benefit)	13	(7)
Net income (loss)	21	(10)

Net income attributable to the noncontrolling interest	1	1
Net income (loss) attributable to AGL Resources Inc.	\$ 20	\$ (11)

	Six months ended June 30,	
In millions	2009	2008
Operating revenues	\$ 1,372	\$ 1,456
Operating expenses	1,087	1,262
Operating income	285	194
Other income	5	4
EBIT	290	198
Interest expense, net	(49)	(56)
Earnings before income taxes	241	142
Income tax expense	85	47
Net income	156	95
Net income attributable to the noncontrolling interest	17	17
Net income attributable to AGL Resources Inc.	\$ 139	\$ 78

Information by segment on our statement of financial position at December 31, 2008, is as follows:

In millions	Identifiable and total assets (1)	Goodwill
Distribution operations	\$ 5,138	\$ 404
Retail energy operations	315	-
Wholesale services	970	-
Energy investments	353	14
Corporate and intercompany eliminations (2)	(66)	-
Consolidated AGL Resources Inc.	\$ 6,710	\$ 418

(1) Identifiable assets are those assets used in each segment's operations.

(2) Our corporate segment's assets consist primarily of cash and cash equivalents and property, plant and equipment and reflect the effect of intercompany eliminations.

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Summarized income statement information, identifiable and total assets, goodwill and property, plant and equipment expenditures as of and for the three and six months ended June 30, 2009 and 2008, by segment, are shown in the following tables.

Three months ended June 30, 2009

In millions	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (3)	Consolidated AGL Resources
Operating revenues from external parties	\$ 240	\$ 125	\$ 2	\$ 10	\$ -	\$ 377
Intercompany revenues (1)	35	-	-	-	(35)	-
Total operating revenues	275	125	2	10	(35)	377
Operating expenses						
Cost of gas	85	102	-	-	(35)	152
Operation and maintenance	88	16	11	7	(3)	119
Depreciation and amortization	33	1	1	1	3	39
Taxes other than income taxes	9	1	1	-	1	12
Total operating expenses	215	120	13	8	(34)	322
Operating income (loss)	60	5	(11)	2	(1)	55
Other income	3	-	-	-	-	3
EBIT	\$ 63	\$ 5	\$ (11)	\$ 2	\$ (1)	\$ 58
Capital expenditures for property, plant and equipment	\$ 89	\$ 1	\$ -	\$ 17	\$ 3	\$ 110

Three months ended June 30, 2008

In millions	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (3)	Consolidated AGL Resources
Operating revenues from external parties	\$ 299	\$ 177	\$ (51)	\$ 19	\$ -	\$ 444
Intercompany revenues (1)	46	-	-	-	(46)	-
Total operating revenues	345	177	(51)	19	(46)	444
Operating expenses						
Cost of gas	165	153	2	1	(46)	160