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

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

FORM 10-Q/A
Amendment No. 1

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

For the Quarterly Period Ended March 31, 2014

Commission File Number 1-14174

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

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

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

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

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

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

TABLE OF CONTENTS

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

2

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

Explanatory Note:

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

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

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

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

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

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

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

GLOSSARY OF KEY TERMS

2013 Form 10-K	Our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 6, 2014
2013 Form 10-K/A	Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on November 7, 2014
AFUDC	Allowance for funds used during construction, which represents the estimated cost of funds, from both debt and equity sources, used to finance the construction of major projects and is capitalized in PP&E and considered rate base for ratemaking purposes
AGL Capital	AGL Capital Corporation
AGL Credit Facility	$1.3 billion credit agreement entered into by AGL Capital to support its commercial paper program
AGL Resources	AGL Resources Inc., together with its consolidated subsidiaries
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Central Valley	Central Valley Gas Storage, LLC
EBIT	Earnings before interest and taxes, the primary measure of our operating segments' profit or loss, which includes operating income and other income and excludes financing costs, including interest on debt and income tax expense
ERC	Environmental remediation costs
FASB	Financial Accounting Standards Board
Fitch	Fitch Ratings
GAAP	Accounting principles generally accepted in the United States of America
Georgia Commission	Georgia Public Service Commission, the state regulatory agency for Atlanta Gas Light
Golden Triangle	Golden Triangle Storage, Inc.
Heating Degree Days	A measure of the effects of weather on our businesses, calculated when the average daily temperatures are less than 65 degrees Fahrenheit
Heating Season	The period from November through March when natural gas usage and operating revenues are generally higher
Horizon Pipeline	Horizon Pipeline Company, LLC
Illinois Commission	Illinois Commerce Commission, the state regulatory agency for Nicor Gas
Jefferson Island	Jefferson Island Storage & Hub, LLC
LIFO	Last-in, first-out
LNG	Liquefied natural gas
LOCOM	Lower of weighted average cost or current market price
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission
Moody's	Moody's Investors Service
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
Nicor	Nicor Inc.
Nicor Gas	Northern Illinois Gas Company, doing business as Nicor Gas Company
Nicor Gas Credit Facility	$700 million credit facility entered into by Nicor Gas to support its commercial paper program
NYMEX	New York Mercantile Exchange, Inc.
OCI	Other comprehensive income
Operating margin	

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

Table of Contents

PART I – FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

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

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

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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

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

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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

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

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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

	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	-	-	-	150	-	-	10	160
Other comprehensive income	-	-	-	-	7	-	-	7
Dividends on common stock ($0.47 per share)	-	-	-	(55)	-	-	-	(55)
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)
Stock granted, share-based compensation, net of forfeitures	-	-	(6)	-	-	-	-	(6)
Stock issued, dividend reinvestment plan	-	1	2	-	-	-	-	3
Stock issued, share-based compensation, net of forfeitures	0.2	1	6	-	-	-	-	7
Stock-based compensation expense, net of tax	-	-	3	-	-	-	-	3
Balance as of March 31, 2013	118.1	$592	$ 2,020	$1,085	$ (211)	$(8)	$ 15	$3,493

	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	-	-	-	284	-	-	12	296

Other comprehensive income	-	-	-	-	1	-	-	1
Dividends on common stock ($0.49 per share)	-	-	-	(58)	-	-	-	(58)
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)
Stock granted, share-based compensation, net of forfeitures	-	-	(11)	-	-	-	-	(11)
Stock issued, dividend reinvestment plan	-	-	2	-	-	-	-	2
Stock issued, share-based compensation, net of forfeitures	0.3	2	12	-	-	-	-	14
Stock-based compensation expense, net of tax	-	-	3	-	-	-	-	3
Balance as of March 31, 2014	119.2	$597	$ 2,060	$1,289	$ (135)	$(8)	$ 40	$3,843

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

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

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

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

Refinancing of gas facility revenue bonds	$-	$200

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 financial statements filed on November 7, 2014 but does not include all disclosures required by GAAP. We have prepared the accompanying unaudited Condensed Consolidated Financial Statements under the rules and regulations of the SEC. In accordance with such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with GAAP. Our unaudited Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of our financial results for the interim periods. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A filed on November 7, 2014.

Due to the seasonal nature of our business and other factors, our results of operations and our financial condition for the periods presented are not necessarily indicative of the results of operations and financial condition to be expected for or as of any other period.

Basis of Presentation

Our unaudited Condensed Consolidated Financial Statements include our accounts, the accounts of our wholly owned subsidiaries, the accounts of our majority owned or otherwise controlled subsidiaries and the accounts of our consolidated VIE for which we are the primary beneficiary. For unconsolidated entities that we do not control, but exercise significant influence over, we use the equity method of accounting and our proportionate share of income or loss is recorded on the unaudited Condensed Consolidated Statements of Income. See Note 9 for additional information. We have eliminated intercompany profits and transactions in consolidation except for intercompany profits where recovery of such amounts is probable under the affiliates' rate regulation process.

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

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

Discontinued Operations On April 4, 2014 we entered into a definitive agreement to sell Tropical Shipping, which historically operated within our cargo shipping segment. We closed on the sale of Tropical Shipping in September 2014. The assets and liabilities of these businesses are classified as held for sale on the unaudited Condensed Consolidated Statements of Financial Position, and the financial results of these businesses are reflected as discontinued operations on the unaudited Condensed Consolidated Statements of Income. Amounts shown in the following notes, unless otherwise indicated, exclude assets held for sale and discontinued operations. Cargo shipping also included our investment in Triton, which was not a part of the sale and has been reclassified into our "other" segment. See Note 12 for additional information.

Note 2 - Significant Accounting Policies and Methods of Application

Our accounting policies are described in Note 2 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. Other than as described in Note 13, there were no significant changes to our accounting policies during the three months ended March 31, 2014.

Use of Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our estimates may involve complex situations requiring a high degree of judgment either in the application and interpretation of existing literature or in the development of estimates that impact our financial statements. The most significant estimates relate to our rate-regulated subsidiaries, uncollectible accounts and other allowances for contingent losses, goodwill and other intangible assets, retirement plan benefit obligations, derivative and hedging activities and provisions for income taxes. We evaluate our estimates on an ongoing basis and our actual results could differ from our estimates.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash on deposit, money market accounts and certificates of deposit held by domestic subsidiaries with original maturities of three months or less. At March 31, 2014 and 2013, and December 31, 2013, there were $26 million, $27 million and $24 million, respectively, of cash and cash equivalents held by Tropical Shipping that were excluded from cash and cash equivalents within our unaudited Condensed Consolidated Statements of Financial Position and included in assets held for sale. For more information on the sale of Tropical Shipping, see Note 12.

Energy Marketing Receivables and Payables

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

Our wholesale services segment has trade and credit contracts that contain minimum credit rating requirements. These credit rating requirements typically give counterparties the right to suspend or terminate credit if our credit ratings are downgraded to non-investment grade status. Under such circumstances, wholesale services would need to post collateral to continue transacting business with some of its counterparties. To date, our credit ratings have exceeded the minimum requirements. As of March 31, 2014 and 2013, and December 31, 2013, the collateral that wholesale services would have been required to post if our credit ratings had been downgraded to non-investment grade status would not have had a material impact to our consolidated results of operations, cash flows or financial condition. If such collateral were not posted, wholesale services' ability to continue transacting business with these counterparties would be negatively impacted.

Inventories

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

Nicor Gas' inventory is carried at cost on a LIFO basis. Inventory decrements occurring during interim periods that are expected to be restored prior to year end are charged to cost of goods sold at the estimated annual replacement cost, and the difference between this cost and the actual liquidated LIFO layer cost is recorded as a temporary LIFO inventory liquidation. Any temporary LIFO liquidation is included as a current liability in our unaudited Condensed Consolidated Statements of Financial Position. Interim inventory decrements that are not expected to be restored prior to year end are charged to cost of goods sold at the actual LIFO cost of the layers liquidated. The inventory decrement as of March 31, 2014 is expected to be restored prior to year end. The inventory decrement as of March 31, 2013 was restored prior to December 31, 2013.

Our retail operations, wholesale services and midstream operations segments carry inventory at the lower of cost or market value, where cost is determined on a WACOG basis. For these segments, we evaluate the weighted average cost of their natural gas inventories against market prices to determine whether any declines in market prices below the WACOG are other than temporary. For any declines considered to be other than temporary, we record adjustments to reduce the weighted average cost of the natural gas inventory to market value. For the three months ended March 31, 2014, wholesale services recorded a $2 million LOCOM adjustment to reduce the value of our inventories to market value. We recorded no LOCOM adjustment for the three months ended March 31, 2013.

Fair Value Measurements

We have financial and nonfinancial assets and liabilities subject to fair value measurement. The financial assets and liabilities measured and carried at fair value include cash and cash equivalents, and derivative assets and liabilities. The carrying values of receivables, short and long-term investments, accounts payable, short-term debt, other current assets and liabilities, and accrued interest approximate fair value. Our nonfinancial assets and liabilities include pension and other retirement benefits, which are presented in Note 4 to our Consolidated Financial Statements and in related notes included in Item 8 of our 2013 Form 10-K/A.

As defined in the authoritative guidance related to fair value measurements and disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in valuing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. We primarily apply the market approach for recurring fair value measurements to utilize the best available information. Accordingly, we use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We classify fair value balances based on the observance of those inputs in accordance with the fair value hierarchy.

Derivative Instruments

The fair value of the natural gas and weather derivative instruments that we use to manage exposures arising from changing natural gas prices and weather risk reflects the estimated amounts that we would receive or pay to terminate or close the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts. We use external market quotes and indices to value substantially all of our derivative instruments. See Note 4 and Note 5 for additional derivative disclosures.

Goodwill

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

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

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

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

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

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

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

Other Income

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

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

Earnings Per Common Share

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

We derive our potentially dilutive common shares by calculating the number of shares issuable under restricted stock, restricted stock units and stock options. The vesting of certain shares of the restricted stock and restricted stock units depends on the satisfaction of defined performance and/or time based criteria. The future issuance of shares underlying the outstanding stock options depends on whether the market price of the common shares underlying the options exceeds the respective exercise prices of the stock options.

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

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

(1) Amounts revised and or include prior period adjustments. See Note 13 for additional information.
(2) Excludes net income attributable to the noncontrolling interest.
(3) For additional information on our discontinued operations, see Note 12.
(4) Daily weighted average shares outstanding.

13

Table of Contents

Accounting Developments

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

Note 3 - Regulated Operations

We account for the financial effects of regulation in accordance with authoritative guidance related to regulated entities whose rates are designed to recover the costs of providing service. In accordance with this guidance, incurred costs and estimated future expenditures that would otherwise be charged to expense in the current period are capitalized as regulatory assets when it is probable that such costs or expenditures will be recovered in rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for estimated expenditures that have not yet been incurred. Generally, regulatory assets are amortized into expense and regulatory liabilities are amortized into income over the period authorized by the regulatory commissions. The following table summarizes our regulatory assets and liabilities as of the dates presented.

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

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

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

Base rates are designed to provide the opportunity for both a recovery of cost and a return on investment during the period rates are in effect. As such, all of our regulatory assets recoverable through base rates are subject to review by the respective state regulatory commission during future rate proceedings. We believe that we will be able to recover such costs consistent with our historical recoveries.

Unrecognized Ratemaking Amounts We have authorized unrecognized ratemaking amounts that are not reflected within our unaudited Condensed Consolidated Statements of Financial Position as indicated in the following table. These amounts are primarily composed of an allowed equity rate of return on assets associated with certain of our regulatory infrastructure programs. These amounts will be recognized as revenues in our financial statements in the periods they are collected in rates from our customers. For additional information, see Note 13.

In millions	
March 31, 2014	$102
December 31, 2013	$93
March 31, 2013	$71

14

Natural Gas Costs We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms set by the state regulatory agencies. Under these mechanisms, all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. We defer or accrue the difference between the actual cost of gas and the amount of commodity revenue earned in a given period, such that no operating margin is recognized related to these costs. The deferred or accrued amount is either billed or refunded to our customers prospectively through adjustments to the commodity rate. Deferred natural gas costs are reflected as regulatory assets and accrued natural gas costs are reflected as regulatory liabilities. The following table illustrates the change in net position of these costs from March 31, 2013 to March 31, 2014.

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

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

Environmental Remediation Costs We are subject to federal, state and local laws and regulations governing environmental quality and pollution control that require us to remove or remedy the effect on the environment of the disposal or release of specified substances at our current and former operating sites. The ERC assets and liabilities are associated with our distribution operations segment and are generally recoverable through rate mechanisms.

Our ERC liabilities are estimates of future remediation costs for investigation and cleanup of our current and former operating sites that are contaminated. These estimates are based on conventional engineering estimates and the use of probabilistic models of potential costs when such estimates cannot be made, on an undiscounted basis. As cleanup options and plans mature and cleanup contracts are entered into, we are increasingly able to provide conventional engineering estimates of the likely costs of many elements of the remediation program. These estimates contain various engineering assumptions, which we refine and update on an ongoing basis. These liabilities do not include other potential expenses, such as unasserted property damage claims, personal injury or natural resource damage claims, legal expenses or other costs for which we may be held liable but for which we cannot reasonably estimate an amount. The following table provides additional information on the costs related to remediation of our current and former operating sites as of March 31, 2014 and reflects minor changes in estimates since December 31, 2013.

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

Note 4 - Fair Value Measurements

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

Derivative Instruments

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

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

(1) Balances of $1 million at March 31, 2014, $3 million at December 31, 2013 and $2 million at March 31, 2013 associated with certain weather derivatives have been excluded, as they are accounted for based on intrinsic value rather than fair value.

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

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

Debt

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

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

(1) Fair value determined using Level 2 inputs.

Table of Contents

Note 5 - Derivative Instruments

A description of our objectives and strategies for using derivative instruments, related accounting policies and methods used to determine their fair values are described in Note 2 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. See Note 4 for additional fair value disclosures.

Certain of our derivative instruments contain credit-risk-related or other contingent features that could require us to post collateral in the normal course of business when our financial instruments are in net liability positions. As of March 31, 2014, for agreements with such features, derivative instruments with liability fair values totaled $82 million, for which we had posted no collateral to our counterparties. The maximum collateral that could be required with these features is $15 million. For more information, see “Energy Marketing Receivables and Payables” in Note 2, which also have credit-risk-related or other contingent features. Our derivative instrument activities are included within operating cash flows as an adjustment to net income of ($17) million and $18 million for the three months ended March 31, 2014 and 2013, respectively. See Note 4 for additional derivative instrument information. The following table summarizes the various ways in which we account for our derivative instruments and the impact on our unaudited Condensed Consolidated Financial Statements.

Accounting Treatment	Recognition and Measurement	
	Statements of Financial Position	Statements of Income
Cash flow hedge	Derivative carried at fair value	Ineffective portion of the gain or loss on the derivative instrument is recognized in earnings
	Effective portion of the gain or loss on the derivative instrument is reported initially as a component of accumulated OCI (loss)	Effective portion of the gain or loss on the derivative instrument is reclassified out of accumulated OCI (loss) and into earnings when the hedged transaction affects earnings
Fair value hedge	Derivative carried at fair value	Gains or losses on the derivative instrument and the hedged item are recognized in earnings. As a result, to the extent the hedge is effective, the gains or losses will offset and there is no impact on earnings. Any hedge ineffectiveness will impact earnings
	Changes in fair value of the hedged item are recorded as adjustments to the carrying amount of the hedged item	
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)	March 31, 2014 (2)	December 31, 2013	March 31, 2013
Hedge designation			
Cash flow hedges	6	6	6
Not designated as hedges	277	183	304
Total hedges	283	189	310

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

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

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

Derivative Instruments in our Unaudited Condensed Consolidated Statements of Financial Position

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

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

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

		March 31, 2014		December 31, 2013		March 31, 2013	
In millions	Classification	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Designated as cash flow hedges and fair value hedges							
Natural gas contracts	Current	$2	$-	$3	$(1)	$3	$(1)
Interest rate swap agreements	Current	-	-	-	-	5	-
Total		2	-	3	(1)	8	(1)
Not designated as cash flow hedges							
Natural gas contracts	Current	675	(703)	691	(761)	332	(327)
Natural gas contracts	Long-term	80	(98)	206	(220)	46	(48)
Total		755	(801)	897	(981)	378	(375)
Gross amount of recognized assets and liabilities (1)		757	(801)	900	(982)	386	(376)
Gross amounts offset in our unaudited Condensed Consolidated Statements of Financial Position (2)		(619)	719	(781)	902	(275)	352
Net amounts of assets and liabilities presented in our unaudited Condensed Consolidated Statements of Financial Position (3)		$138	$(82)	$119	$(80)	$111	$(24)

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

(2)

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

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

Derivative Instruments in the Unaudited Condensed Consolidated Statements of Income

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

	Three months ended March 31,	
In millions	2014	2013
Designated as cash flow hedges		
Natural gas contracts - net gain reclassified from OCI to cost of goods sold	$3	$-
Natural gas contracts - net gain reclassified from OCI to operation and maintenance expense	1	-
Interest rate swaps - loss reclassified from OCI to interest expense	-	(3)
Income tax benefit	-	1
Net of tax	4	(2)
Not designated as hedges (1)		
Natural gas contracts - net fair value adjustments recorded in operating revenues	(30)	(24)
Natural gas contracts - net fair value adjustments recorded in cost of goods sold (2)	2	-
Income tax benefit	11	8
Net of tax	(17)	(16)
Total losses on derivative instruments, net of tax	$(13)	$(18)

(1) Associated with the fair value of derivative instruments held at March 31, 2014 and 2013.

(2) Excludes losses recorded in cost of goods sold associated with weather derivatives of $5 million for the three months ended March 31, 2014 and $2 million for the three months ended March 31, 2013.

Any amounts recognized in operating income, related to ineffectiveness or due to a forecasted transaction that is no longer expected to occur were immaterial for the three months ended March 31, 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 $3 million. These deferred gains and losses are related to natural gas derivative contracts associated with retail operations and Nicor Gas' system use. The expected gains are based upon the fair values of these financial instruments at March 31, 2014.

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 March 31,	
In millions	2014	2013
Service cost	$6	$8
Interest cost	12	10
Expected return on plan assets	(16)	(16)
Recognized actuarial loss	5	8
Net periodic pension benefit cost	$7	$10

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 March 31,	
In millions	2014	2013
Service cost	$1	$1
Interest cost	4	3
Expected return on plan assets	(2)	(1)
Net amortization of prior service cost	(1)	(1)
Recognized actuarial loss	1	2
Net periodic welfare benefit cost	$3	$4

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.

		March 31, 2014		Outstanding at December 31, 2013	March 31, 2013	
Dollars in millions	Year(s) due	Weighted average interest rate (1)	Outstanding		Weighted average interest rate (1)	Outstanding
Short-term debt						
Commercial paper - AGL Capital (2)	2014	0.3 %	$440	$857	0.5 %	$868
Commercial paper - Nicor Gas (2)	2014	0.2	301	314	0.4	-
Total short-term debt		0.3	741	1,171	0.5	868
Current portion of long-term debt and capital leases						
Current portion of long-term debt	2015	5.0	200	-	4.5	225
Current portion of capital leases	n/a	-	-	-	5.0	1
Total current portion of long-term debt and capital leases		5.0 %	$200	$-	4.5 %	$226
Long-term debt - excluding current portion						
Senior notes	2016-2043	5.0 %	$2,625	$2,825	5.1 %	$2,325
First mortgage bonds	2016-2038	5.6	500	500	5.6	500
Gas facility revenue bonds	2022-2033	0.9	200	200	1.2	200
Medium-term notes	2017-2027	7.8	181	181	7.8	181
Total principal long-term debt		4.9 %	3,506	3,706	5.0 %	3,206
Fair value adjustment of long-term debt (3)	2016-2038	n/a	88	91	n/a	100
Unamortized debt premium, net	n/a	n/a	16	16	n/a	18
Total non-principal long-term debt		n/a	104	107	n/a	118
Total long-term debt			$3,610	$3,813		$3,324
Total debt			$4,551	$4,984		$4,418

(1) Interest rates are calculated based on the daily weighted average balance outstanding for the three months ended March 31.

(2) As of March 31, 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 quarter of 2014, our commercial paper maturities ranged from 1 to 108 days, and at March 31, 2014, remaining terms to maturity ranged from 1 to 35 days. Total borrowings and repayments netted to a payment of $430 million during the first quarter of 2014. For commercial paper issuances with original maturities over 3 months, borrowings and repayments were $50 million and $145 million, respectively, during the first quarter 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.

	March 31, 2014	December 31, 2013	March 31, 2013
AGL Credit Facility	54 %	57 %	55 %
Nicor Gas Credit Facility	54 %	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.

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:

- 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.

In millions (1)	Cash flow hedges	Retirement benefit plans	Total
As of December 31, 2012	$ (3)	$ (215)	$ (218)
OCI, before reclassifications	2	-	2
Amounts reclassified from accumulated OCI	2	3	5
As of March 31, 2013	1	(212)	(211)
As of December 31, 2013	1	(137)	(136)
OCI, before reclassifications	4	-	4
Amounts reclassified from accumulated OCI	(4)	1	(3)
As of March 31, 2014	$ 1	$ (136)	$ (135)

(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 March 31, 2014	2013
Cash flow hedges		
Natural gas contracts (2)	$4	$-
Interest rate contracts (3)	-	(3)
Total before income tax	4	(3)
Income tax benefit	-	1
Total cash flow hedges	4	(2)
Retirement benefit plan amortization of		

Actuarial losses (4)	(2)	(6)
Prior service credits (4)	-	1
Total before income tax	(2)	(5)
Income tax benefit	1	2
Total retirement benefit plans	(1)	(3)
Total reclassification for the period	$3	$(5)

(1) Amounts in parentheses indicate debits, or reductions, to profit/loss and credits to accumulated other comprehensive loss. Except for retirement benefit plan amounts, the profit/loss impacts are immediate.
(2) Amounts included within cost of goods sold.
(3) Amounts included within interest expense, net.
(4) Amortization of these accumulated other comprehensive loss components is included in the computation of net periodic benefit cost. See Note 6 for additional details about net periodic benefit cost.

Note 9 - Non-Wholly Owned Entities

Variable Interest Entities

SouthStar, a joint venture owned by us and Piedmont, is our only VIE for which we are the primary beneficiary, which requires us to consolidate its assets, liabilities and statements of income. 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 $2 million for the three months ended March 31, 2014 and $1 million for the three months ended March 31, 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 three months ended March 31, 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.

	March 31, 2014 (1) (2)			December 31, 2013 (1) (2)			March 31, 2013 (1) (2)		
In millions	Consolidated	SouthStar (3)	% (4)	Consolidated	SouthStar (3)	% (4)	Consolidated	SouthStar (3)	% (4)
Current assets	$ 3,589	$ 235	7 %	$ 2,895	$ 264	9 %	$ 2,530	$ 143	6 %
Goodwill and other intangible assets	1,967	131	7	1,972	133	7	1,953	-	-
Long-term assets and other deferred debits	9,708	16	-	9,683	13	-	9,379	10	-
Total assets	$ 15,264	$ 382	3 %	$ 14,550	$ 410	3 %	$ 13,862	$ 153	1 %
Current liabilities	$ 3,754	$ 106	3 %	$ 3,118	$ 95	3 %	$ 3,059	$ 51	2 %
Long-term liabilities and other deferred credits	7,667	-	-	7,819	-	-	7,310	-	-
Total Liabilities	11,421	106	1	10,937	95	1	10,369	51	-
Equity	3,843	276	7	3,613	315	9	3,493	102	3
Total liabilities and equity	$ 15,264	$ 382	3 %	$ 14,550	$ 410	3 %	$ 13,862	$ 153	1 %

(1) Amounts revised to include prior period adjustments. See Note 13 for additional information.
(2) Reflects the reclassification of the Tropical Shipping amounts as held for sale. See Note 12 for additional information.
(3) These amounts reflect information for SouthStar and exclude intercompany eliminations and the balances of our wholly owned subsidiary with an 85% ownership interest in SouthStar.
(4) SouthStar's percentage of the amount on our Statements of Financial Position.

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

	Three months ended March 31,	
In millions	2014 (1)	2013 (1)
Operating revenues	$ 374	$ 250
Operating expenses		
Cost of goods sold	270	164
Operation and maintenance	23	18
Depreciation and amortization	3	1

Total operating expenses		296		183
Operating income	$	78	$	67

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

Equity Method Investments

Income from our equity method investments is classified as other income in our unaudited Condensed Consolidated Statements of Income. For more information about our equity method investments, see Note 10 to our Consolidated Financial Statements and related notes in Item 8 of our 2013 Form 10-K/A.

The carrying amounts of our investments that are accounted for under the equity method at March 31 were as follows:

In millions	2014	2013
Triton	$67	$72
Horizon Pipeline	15	16
Other (1)	1	9
Total	$83	$97

(1) Includes our investment in Sawgrass Storage. In December 2013, the joint venture decided to terminate the development of the Sawgrass storage facility and reduced the carrying amount of the joint venture's long-lived assets to fair value.

The following table provides the income from our equity method investments for the three months ended March 31.

In millions	2014	2013
Triton	$2	$2
Horizon Pipeline	1	1
Total	$3	$3

Note 10 - Commitments, Guarantees and Contingencies

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.

We also are involved in legal or administrative proceedings before various courts and agencies with respect to general claims, taxes, environmental, gas cost prudence reviews and other matters. Although we are unable to determine the ultimate outcomes of these other contingencies, we believe that our financial statements appropriately reflect these amounts, including the recording of liabilities when a loss is probable and reasonably estimable. For more information on these matters, see Note 11 in our Consolidated Financial Statements and related notes in Item 8 of our 2013 Form 10-K/A.

Contingencies and Guarantees

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

Regulatory Matters

On December 21, 2012 Atlanta Gas Light filed a petition with the Georgia Commission for approval to resolve an imbalance of approximately 4.8 Bcf of natural gas related to Atlanta Gas Light's use of retained storage assets to operationally balance the system for the benefit of the natural gas market. We believe that any costs associated with resolving the imbalance are recoverable from Marketers. We are currently working with the Marketers to settle this matter, and the resolution of this imbalance will ultimately be decided by the Georgia Commission. We are currently unable to predict the ultimate outcome and recovery.

Environmental Matters

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

Litigation

We are involved in litigation arising in the normal course of business. Although in some cases the company is unable to estimate the amount of loss reasonably possible in addition to any amounts already recognized, it is possible that the resolution of these contingencies, either individually or in aggregate, will require us to take charges against, or will result in reductions in, future earnings. Management believes that while the resolution of these contingencies, whether individually or in aggregate, could be material to earnings in a particular period, they will not have a material adverse effect on our consolidated financial position or cash flows. For additional litigation information, see Note 11 in our Consolidated Financial Statements and related notes in Item 8 of our 2013 Form 10-K/A.

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

In February 2012 we committed to a stipulation with the staff of the Illinois Commission for a resolution of the dispute through the crediting to Nicor Gas customers of $64 million. On November 5, 2012 the Administrative Law Judges issued a proposed order for a refund of $72 million to ratepayers. In the fourth quarter of 2012, we increased our accrual for this dispute by $8 million for a total of $72 million as a result of these developments and their effect on the estimated liability.

On June 7, 2013 the Illinois Commission issued an order requiring us to refund $72 million to current Nicor Gas customers over a 12-month period. On July 1, 2013 we began refunding customers the full $72 million through our purchased gas adjustment mechanism based on natural gas throughput. Of this amount, $35 million was refunded during the first quarter of 2014 and $29 million was refunded in 2013.

CUB appealed the Illinois Commission's order to the appellate court in Illinois. On February 28, 2014 CUB filed its initial brief with the appellate court requesting refunds consistent with its 2009 request. Nicor Gas' reply is due May 16, 2014.

Note 11 - Segment Information

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

On April 4, 2014 we entered into a definitive agreement to sell Tropical Shipping, which historically operated within our cargo shipping segment. The assets and liabilities of these businesses are classified as held for sale on the Consolidated Statements of Financial Position, and the financial results of these businesses are reflected as discontinued operations on the Consolidated Statements of Income. Amounts shown in this note, unless otherwise indicated, exclude assets held for sale and discontinued operations. Cargo shipping also included our investment in Triton, which was not part of the sale and has been reclassified into our "other" segment. See Note 12 for additional information. Our "other" segment includes aggregated subsidiaries that are not significant on a stand-alone basis and that do not fit into one of our other four operating segments.

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

We are also involved in several related and complementary businesses. Our retail operations segment includes retail natural gas marketing to end-use customers primarily in Georgia, as well as various businesses that market retail energy-related products and services to residential and small business customers in Illinois. Additionally, retail operations provide home protection products and services. Our wholesale services segment engages in natural gas storage and gas pipeline arbitrage and related activities. Additionally, they provide natural gas asset management and/or related logistics services for each of our utilities except Nicor Gas, as well as for nonaffiliated companies. Our midstream operations segment includes our non-utility storage and pipeline operations, including the operation of high-deliverability natural gas storage assets.

The chief operating decision maker of the company is the Chairman, President and Chief Executive Officer who utilizes EBIT as the primary measure of profit and loss in assessing the results of our segments and operations. EBIT includes operating income and other income and expenses. Items we do not include in EBIT are income taxes and financing costs, including interest expense, each of which we evaluate on a consolidated basis.

Information by segment on our Statements of Financial Position as of December 31, 2013 is as follows:

In millions	Identifiable and total assets (1) (2)	Goodwill

Distribution operations	$11,634	$1,640
Retail operations	685	173
Wholesale services	1,163	-
Midstream operations	713	14
Other (3)	10,160	-
Intercompany eliminations	(10,088)	-
Consolidated	$14,267	$1,827

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

(2) Identifiable assets are those assets used in each segment's operations and exclude assets held for sale.

(3) Includes our investment in Triton, which was part of our cargo shipping segment that is classified as discontinued operations. For more information see Note 12.

Table of Contents

Summarized Statements of Income, Statements of Financial Position and capital expenditure information by segment as of and for the periods presented are shown in the following tables.

Three months ended March 31, 2014 (1)

In millions	Distribution operations	Retail operations	Wholesale services (2)	Midstream operations	Other (4)	Intercompany eliminations	Consolidated
Operating revenues from external parties	$1,726	$406	$331	$44	$3	$ (48)	$ 2,462
Intercompany revenues	75	-	-	-	-	(75)	-
Total operating revenues	1,801	406	331	44	3	(123)	2,462
Operating expenses							
Cost of goods sold	1,202	280	3	36	-	(121)	1,400
Operation and maintenance	211	37	36	6	1	(2)	289
Depreciation and amortization	78	8	-	5	2	-	93
Taxes other than income taxes	82	1	1	1	3	-	88
Total operating expenses	1,573	326	40	48	6	(123)	1,870
Operating income (loss)	228	80	291	(4)	(3)	-	592
Other income	1	-	-	1	1	-	3
EBIT	$229	$80	$291	$(3)	$(2)	$ -	$ 595
Identifiable and total assets (3)	$11,823	$738	$1,782	$698	$9,844	$ (9,885)	$ 15,000
Capital expenditures	$150	$3	$1	$-	$7	$ -	$ 161

Three months ended March 31, 2013 (1)

In millions	Distribution operations	Retail operations	Wholesale services (2)	Midstream operations	Other (4)	Intercompany eliminations	Consolidated
Operating revenues from external parties	$1,255	$302	$39	$24	$1	$ (9)	$ 1,612
Intercompany revenues	55	-	-	-	-	(55)	-
Total operating revenues	1,310	302	39	24	1	(64)	1,612

Operating expenses							
Cost of goods sold	765	195	10	12	-	(62)	920
Operation and maintenance	185	31	13	6	(2)	(2)	231
Depreciation and amortization	88	6	-	4	4	-	102
Taxes other than income taxes	64	1	1	1	2	-	69
Total operating expenses	1,102	233	24	23	4	(64)	1,322
Operating income (loss)	208	69	15	1	(3)	-	290
Other income	3	-	-	1	1	-	5
EBIT	$211	$69	$15	$2	$(2)	$ -	$ 295
Identifiable and total assets (3)	$11,188	$663	$1,005	$714	$9,732	$ (9,731)	$ 13,571
Capital expenditures	$137	$1	$-	$4	$5	$ -	$ 147

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

(2) Wholesale services records its energy marketing and risk management revenues on a net basis. A reconciliation of our operating revenues and our intercompany revenues is shown in the following table.

In millions	Third party gross revenues	Intercompany revenues	Total gross revenues	Less gross gas costs	Operating revenues
Three months ending March 31, 2014	$4,049	$ 298	$4,347	$4,016	$331
Three months ending March 31, 2013	2,094	140	2,234	2,195	39

(3) Identifiable assets are those used in each segment's operations and exclude assets held for sale.

(4) Our "other" segment now also includes our investment in Triton, which was part of our cargo shipping segment that is classified as discontinued operations. For more information see Note 12.

Note 12 - Discontinued Operations

On September 1, 2014, we closed on the sale of Tropical Shipping to an unrelated third party. The after-tax cash proceeds and distributions from the transaction were $225 million. We determined that the cumulative foreign earnings of Tropical Shipping would no longer be indefinitely reinvested offshore. Accordingly, we recognized income tax expense of $60 million, of which $31 million was recorded in the first quarter of 2014, and the remaining $29 million was recorded in the third quarter of 2014 related to the cumulative foreign earnings for which no tax liabilities had been previously recorded, resulting in our repatriation of $86 million in cash.

During the first quarter of 2014, based upon the negotiated sales price, we also recorded a goodwill impairment charge of $19 million, for which there is no income tax benefit.

Table of Contents

Our financial statements, including footnotes 1, 2, 4, 9 and 11 have been updated to recast our segment information and to give effect to the classification of Tropical Shipping as discontinued operations for all periods presented. The assets and liabilities of Tropical Shipping classified as held for sale on the unaudited Condensed Consolidated Statements of Financial Position are as follows:

In millions	March 31, 2014	December 31, 2013	March 31, 2013
Current assets			
Cash and cash equivalents	$26	$24	$27
Short-term investments	3	1	2
Receivables	34	36	35
Inventories	9	9	9
Other	2	1	2
Total current assets	74	71	75
Long-term assets and other deferred debits			
Property, plant and equipment, net	123	124	127
Goodwill	42	61	61
Intangible assets	19	19	20
Other	6	8	8
Total long-term assets and other deferred debits	190	212	216
Total assets held for sale	$264	$283	$291
Current liabilities			
Other accounts payable - trade	$9	$11	$8
Accrued expenses	4	7	4
Other	23	22	22
Total current liabilities	36	40	34
Total liabilities held for sale	$36	$40	$34

The financial results of these businesses are reflected as discontinued operations, and all prior periods presented have been recast to reflect the discontinued operations. The components of discontinued operations recorded on the unaudited Condensed Consolidated Statements of Income are as follows:

In millions	Three months ended March 31, 2014	2013
Operating revenues	$89	$87
Operating expenses		
Cost of goods sold	54	53
Operation and maintenance	28	26
Depreciation and amortization	5	4
Taxes other than income taxes	1	3
Loss on sale and goodwill impairment (1)	19	-
Total operating expenses	107	86
Operating (loss) income	(18)	1
(Loss) income before income taxes	(18)	1
Income tax expense (2)	(32)	-
(Loss) Income from discontinued operations, net of tax	$(50)	$1

(1)

Relates to $19 million of goodwill attributable to Tropical Shipping that was impaired as of March 31, 2014, based on the negotiated sales price.

(2) Includes $31 million that was recorded in the first quarter of 2014 related to the cumulative foreign earnings for which no tax liabilities had been previously recorded.

Note 13 - Revision to Prior Period Financial Statements

In October 2014, we identified an accounting issue related to our revenue recognition for certain of our regulatory infrastructure programs. Historically, our regulatory accounting models used to record revenues under these programs did not differentiate between allowable costs based on what the regulator has approved compared to an incurred cost that would otherwise be charged to expense under the accounting literature. Specifically, Accounting Standards Codification (ASC) 980 - Regulated Operations prohibits capitalizing allowed, but not incurred, costs such as shareholder return, even if allowed by a respective state regulatory body. Shareholder returns and other allowed, but not incurred, costs can generally only be recognized in earnings when they are collected through rates. This change is only applicable to our distribution operations segment and primarily affects our operating revenues, operation and maintenance expense, depreciation and amortization, interest expense and income tax expense amounts.

The adjustments impacted each year since 1998.The cumulative decrease to January 1, 2013 retained earnings as a result of the adjustments was $45 million. The cumulative decrease through March 31, 2014 results in a decrease of $87 million to regulatory assets and $14 million to plant, property, and equipment. This adjustment resulted in a decrease to net income of $4 million and $4 million for the three months ended March 31, 2014 and 2013, respectively. These amounts will be recognized in future periods, when collected through rates from customers.

Additionally, we recorded other adjustments that we identified for prior periods that were included for completeness. The most significant of these includes the intangible asset amortization. We have determined that our use of the straight-line method of amortizing our customer relationships and trade names was not applied consistent with the requirements of ASC 350 Intangibles-Goodwill and Other (ASC 350). ASC 350 requires that an intangible asset be amortized over its useful life in a manner to reflect the pattern in which the economic benefits of the intangible assets are consumed. We have determined that we should be utilizing the undiscounted cash flows as a basis to amortize these assets. The impact for this adjustment was an increase to depreciation and amortization expense of $1 million each for the three months ended March 31, 2014 and 2013. These amounts were generally offset within our unaudited Condensed Consolidated Statements of Income by the previously discussed adjustments related to our regulatory infrastructure programs for the deferral of depreciation expenses. Additionally, these adjustments resulted in a decrease to intangible assets, net of $11 million and $5 million as of March 31, 2014 and 2013, respectively. Other previously identified immaterial uncorrected amounts are reflected in the revised amounts.

We assessed the materiality of these issues on our prior period financial statements and concluded they were not material to any prior annual or interim periods; however, the cumulative impact would have been material to the interim period ended September 30, 2014, if adjusted in 2014. As a result, in accordance with accounting standards, we revised our prior period financial statements as described below to correct for these adjustments. The revision had no effect on reported cash flows. The following tables present the effects of the revisions to our unaudited Condensed Consolidated Statements of Income, unaudited Condensed Consolidated Statements of Financial Position and unaudited Condensed Consolidated Statements of Cash Flows for the following interim periods:

	For the three months ended					
	March 31, 2014			March 31, 2013		
In millions, except per share amounts	As filed (1)	Adjustment	Revised	As filed (1)	Adjustment	Revised
Operating revenues	$2,474	$(12)	$2,462	$1,622	$(10)	$1,612
Operating expenses						
Cost of goods sold	1,400	-	1,400	920	-	920
Operation and maintenance	289	-	289	232	(1)	231
Depreciation and amortization	93	-	93	102	-	102
Taxes other than income taxes	88	-	88	70	(1)	69
Total operating expenses	1,870	-	1,870	1,324	(2)	1,322
Operating income	604	(12)	592	298	(8)	290
Other income	3	-	3	5	-	5
Interest expense, net	(48)	2	(46)	(46)	1	(45)
Income before income taxes	559	(10)	549	257	(7)	250
Income tax expense	207	(4)	203	94	(3)	91
Income from continuing operations	352	(6)	346	163	(4)	159
(Loss) income from discontinued operations	(50)	-	(50)	1	-	1
Net income	302	(6)	296	164	(4)	160
Less net income attributable to the noncontrolling interest	12	-	12	10	-	10
Net income attributable to AGL Resources Inc.	$290	$(6)	$284	$154	$(4)	$150
Per common share information						

Basic earnings (loss) per common share (2)						
Continuing operations	$2.87	$(0.05)	$2.82	$1.30	$(0.03)	$1.27
Discontinued operations	(0.43)	-	(0.43)	0.01	-	0.01
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	$2.44	$(0.05)	$2.39	$1.31	$(0.03)	$1.28
Diluted earnings (loss) per common share (2)						
Continuing operations	$2.87	$(0.06)	$2.81	$1.30	$(0.04)	$1.26
Discontinued operations	(0.43)	-	(0.43)	0.01	-	0.01
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	$2.44	$(0.06)	$2.38	$1.31	$(0.04)	$1.27

(1) Reflects the reclassification of the Tropical Shipping amounts as discontinued operations.

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

Table of Contents

In millions	As of March 31, 2014 As filed (1)	As of March 31, 2014 Revised	As of March 31, 2013 As filed (1)	As of March 31, 2013 Revised
Current assets				
Regulatory assets	$297	$250	$119	$72
Other	127	127	95	93
Total current assets	3,637	3,589	2,577	2,530
Long-term assets and other deferred debits				
Property, plant and equipment	11,068	11,054	10,463	10,450
Less accumulated depreciation	2,368	2,367	2,181	2,181
Property, plant and equipment, net	8,700	8,687	8,282	8,269
Regulatory assets	736	696	878	868
Intangible assets	151	140	136	131
Other	319	314	245	231
Total long-term assets and other deferred debits	11,739	11,675	11,363	11,332
Total assets	$15,376	$15,264	$13,940	$13,862
Current liabilities				
Accrued expenses	$390	$385	$162	$161
Total current liabilities	3,753	3,754	3,060	3,059
Long-term liabilities and other deferred credits				
Accumulated deferred income taxes	1,699	1,655	1,568	1,539
Total long-term liabilities and other deferred credits	7,711	7,667	7,339	7,310
Total liabilities and other deferred credits	$11,465	$11,421	$10,399	$10,369
Equity				
Additional paid-in capital	$2,059	$2,060	$2,019	$2,020
Retained earnings	1,358	1,289	1,134	1,085
Total equity	3,911	3,843	3,541	3,493
Total liabilities and equity	$15,376	$15,264	$13,940	$13,862

(1) Reflects the reclassification of the Tropical Shipping amounts as held for sale.

In millions	For the three months ended March 31, 2014 As filed (1)	Adjustment	Revised	For the three months ended March 31, 2013 As filed (1)	Adjustment	Revised
Cash flows from operating activities						
Net income	$302	$(6)	$296	$164	$(4)	$160
Adjustments to reconcile net income to net cash flow provided by operating activities						
Depreciation and amortization	93	-	93	102	-	102
Deferred income taxes	42	(34)	8	(24)	(1)	(25)
Changes to certain assets and liabilities						
Other, net	23	40	63	28	5	33
	$853	-	$853	$850	-	$850

Net cash flow provided by operating activities

(1) Reflects the reclassification of the Tropical Shipping amounts as discontinued operations.

Revision to Previously Reported Intangible Assets Disclosures As discussed above, the adjustment of our intangible asset amortization affects our customer relationships and trade names. The revisions to our previously reported intangible assets and accumulated amortization in our Original Filing within the unaudited Condensed Consolidated Statements of Financial Position are presented in the following table.

	March 31, 2014			March 31, 2013		
In millions	Gross	Accumulated amortization	Net	Gross	Accumulated amortization	Net
Customer relationships						
Retail operations as reported	$130	$ (18)	$112	$99	$ (7)	$92
Adjustments	-	(12)	(12)	-	(6)	(6)
Revised total	$130	$ (30)	$100	$99	$ (13)	$86
Trade names						
Retail operations as reported	$45	$ (6)	$39	$46	$ (3)	$43
Adjustments	-	1	1	1	1	2
Revised total	$45	$ (5)	$40	$47	$ (2)	$45

27

Table of Contents

Note 14 - Subsequent Events

Dalton Lateral Pipeline On April 11, 2014 we entered into two arrangements associated with the Dalton Lateral pipeline. The first was a construction and ownership agreement through which we will have a 50% undivided ownership interest in the 106 mile Dalton Lateral pipeline that will be constructed in Georgia and serve as an extension of the Transco natural gas pipeline system into northwest Georgia. Our 50% undivided ownership interest is expected to cost approximately $210 million. We also entered into an agreement to lease our 50% undivided ownership in the Dalton Lateral pipeline once it is placed in-service. The annual lease payments to be received are $26 million for an initial term of 25 years. The lessee will be responsible for maintaining the pipeline during the lease term and for providing service to transportation customers under its FERC regulated tariff. Engineering design work has commenced and construction is expected to begin in the second quarter of 2016 with a targeted completion date in the second quarter of 2017. On April 14, 2014, Atlanta Gas Light entered into an agreement with the lessee to acquire firm transportation capacity of 240,000 dekatherms per day associated with the Dalton Lateral pipeline. This capacity will be allocated to the Marketers and will further enhance system reliability as well as provide access to a more diverse supply of natural gas.

Table of Contents

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our unaudited Condensed Consolidated Financial Statements and the related notes in this quarterly filing, as well as our 2013 Form 10-K/A. Results for the interim periods presented are not necessarily indicative of the results to be expected for the full fiscal period due to seasonal and other factors.

Forward-Looking Statements

Certain expectations and projections regarding our future performance referenced in this section and elsewhere in this report, as well as in other reports and proxy statements we file with the SEC or otherwise release to the public and on our website are forward-looking statements and are subject to uncertainties and risks. Senior officers and other employees may also make verbal statements to analysts, investors, regulators, the media and others that are forward-looking.

Forward-looking statements often include words such as "anticipate," "assume," “believe,” "can," "could," "estimate," "expect," "forecast," "future," “goal,” "indicate," "intend," "may," “outlook,” "plan," “potential,” "predict," "project," “proposed,” "seek," "should," "target," "would," or similar expressions. You are cautioned not to place undue reliance on our forward-looking statements. While we believe that our expectations are reasonable in view of the available information that we currently have, our expectations are subject to future events, risks and uncertainties, and there are numerous factors - many beyond our control - that could cause our actual results to differ materially from our expectations.

Such events, risks and uncertainties include, but are not limited to, changes in price, supply and demand for natural gas and related products; the impact of changes in state and federal legislation and regulation including any changes related to climate change; actions taken by government agencies on rates and other matters; concentration of credit risk; utility and energy industry consolidation; the impact on cost and timeliness of construction projects by government and other approvals, development project delays, adequacy of supply of diversified vendors, unexpected change in project costs, including the cost of funds to finance these projects and our ability to recover our project costs from our customers; limits on pipeline capacity; the impact of acquisitions and divestitures; our ability to successfully integrate operations that we have or may acquire or develop in the future; direct or indirect effects on our business, financial condition or liquidity resulting from any change in our credit ratings, or any change in the credit ratings of our counterparties or competitors; interest rate fluctuations; financial market conditions, including disruptions in the capital markets and lending environment; general economic conditions; uncertainties about environmental issues and the related impact of such issues, including our environmental remediation plans; the impact of our depreciation study for Nicor Gas and related legislation; the capacity of our gas storage caverns, which are subject to natural settling and other occurrences; the impact of our construction projects and related capital expenditures; the impact of changes in weather, including climate change, on the temperature-sensitive portions of our business; the impact of natural disasters, such as hurricanes, on the supply and price of natural gas and on our cargo shipping business; acts of war or terrorism; the outcome of litigation; and other factors discussed elsewhere herein and in our other filings with the SEC. There also may be other factors that we do not anticipate or that we do not recognize as material that are not described in this report that could cause our actual results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made. We expressly disclaim any obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise, except as required by law.

Executive Summary

We are an energy services holding company whose principal business is the distribution of natural gas in seven states - Illinois, Georgia, Virginia, New Jersey, Florida, Tennessee and Maryland - through our seven natural gas distribution utilities. We are also involved in several other businesses that are primarily related and complementary to the distribution of natural gas. Our operating segments consist of four operating and reporting segments - distribution operations, retail operations, wholesale services and midstream operations, and one non-operating segment - other. These segments are consistent with how management views and operates our business. For additional information on our operating segments, see Note 10 to our unaudited Condensed Consolidated Financial Statements herein and Item 1, “Business” of our 2013 Form 10-K.

In the third quarter of 2014, we adjusted the accounting treatment for our previously-reported non-cash revenue recognition associated with our regulatory infrastructure programs. The adjustments did not affect previously-reported operating cash flows, nor are they expected to affect capital expenditure plans or dividend payments. The infrastructure replacement programs are expected to generate the same levels of return as previously communicated, as all amounts will be recovered in accordance with allowed recovery mechanisms. The adjustment relates only to the timing of recognition and does not impact rates charged to customers. These adjustments impacted our distribution operations segment. Additionally, we adjusted the amortization of intangible assets for customer relationships and trade names in our retail operations segment to reflect the amortization expense on a basis consistent with the pattern of undiscounted cash flows used to determine their fair values. See Note 13 to our unaudited Condensed Consolidated Financial Statements under Part I, Item 1 herein for additional information on these adjustments.

On April 4, 2014 we entered into a definitive agreement to sell Tropical Shipping, which historically operated within our cargo shipping segment. We closed the sale of Tropical Shipping in September 2014. The operations of Tropical Shipping have been classified as discontinued operations in our consolidated financial statements, and the business is no longer treated as a separate segment for financial reporting purposes. Accordingly, in this Management's Discussion and Analysis of Financial Condition and Results of Operations, all references to continuing operations 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. The sale of Tropical Shipping will allow us to focus on growing our core business of operating regulated utilities and complementary non-regulated energy businesses and provide us with flexibility around our long-term financing plans. Our loss from discontinued operations included income tax expenses of $31 million as a result of the cumulative foreign earnings for which no tax liabilities had been previously recorded. For additional information on our discontinued operations, see Note 12 to our unaudited Condensed Consolidated Financial Statements under Part I, Item 1 herein.

In the first three months of 2014, our income from continuing operations was $346 million, an increase of $187 million compared to the same period in 2013, as we benefited from significantly colder-than-normal weather in most of our businesses as compared to slightly colder-than-normal weather in the first quarter of 2013. This cold weather contributed an additional $11 million of operating margin for distribution operations compared to the first quarter of 2013, particularly in Illinois due to the near-record cold. This cold weather also increased the operating margin for retail operations by $11 million, primarily related to Georgia and Illinois, compared to the first quarter of 2013. Additionally, we experienced increased natural gas price volatility that enabled us to capture value in wholesale services. As a result, our operating margin for wholesale services was $299 million higher than the same period in 2013. Wholesale services operating margin for the first quarter 2014 also includes $45 million related to 2013 year-to-date transportation and forward commodity derivative losses associated with 2014 transportation capacity. This is compared to $2 million of similar transportation derivative losses in the first quarter of 2013 related to 2012 year-to-date transportation and forward commodity derivative losses associated with 2013 transportation capacity. Excluding the favorable weather impacts at distribution operations and retail operations, we also achieved growth in our operating margins of $12 million during the first three months of 2014 primarily as a result of our 2013 acquisitions at retail operations.

Our operating expenses in the first quarter of 2014 were higher compared to the same period last year as a result of an increase in incentive compensation, as we experienced a higher concentration of our annual forecasted earnings in the first quarter as compared to last year. Additionally, our operation and maintenance expense increased at Nicor Gas associated with the cold weather. During this significantly colder-than-normal weather, our employees worked extensive hours to ensure the safe and reliable delivery of natural gas to our customers.

Several of our specific business objectives are as follows:

- Distribution Operations: Invest necessary capital to enhance and maintain safety and reliability; remain a low-cost leader within the industry; opportunistically expand the system and capitalize on potential customer conversions. We intend to continue investing in our regulatory infrastructure programs in Georgia, Virginia, New Jersey and Tennessee to minimize regulatory lag and the recovery cycle.

Nicor Gas In 2013 Illinois enacted legislation that will allow Nicor Gas to provide more widespread safety and reliability enhancements to its distribution system. The legislation stipulates that rate increases to customer bills as a result of any infrastructure investments shall not exceed an annual average 4.0% of base rate revenues. In April 2014 we filed for an infrastructure program under this legislation that would allow us to implement rates under the program effective in January 2015. Our filing included qualified infrastructure cost estimates for three years of $171 million in 2015, $173 million in 2016 and $171 million in 2017. We continue to effectively manage costs and leverage our shared services model across our businesses to largely overcome inflationary effects.

Nicor Gas' collective bargaining agreement expired in February 2014, and a new agreement was ratified in April 2014. During the interim period we operated under a continuity agreement. The new collective bargaining agreement provides for additional operational enhancements and changes to certain benefits, but is not expected to have a material effect on our consolidated financial statements.

In September 2013 Nicor Gas filed its second Energy Efficiency Plan, which outlines program offerings and therm reduction goals with spending of $93 million over a three-year period beginning in June 2014. Nicor Gas' first Energy Efficiency Program is currently in its third year and will end in May 2014. The new plan must be implemented by June 1, 2014. All testimony in the case has been filed with the Illinois Commission, and evidentiary hearings were held in March 2014. We expect to receive a final ruling by the Illinois Commission in mid-May 2014, to be effective in June 2014.

Table of Contents

Atlanta Gas Light In accordance with an order issued by the Georgia Commission, where AGL Resources makes a business acquisition that reduces the costs allocated or charged to Atlanta Gas Light for shared services, the net savings to Atlanta Gas Light will be shared equally between the firm customers of Atlanta Gas Light and our shareholders for a ten-year period. In December 2013 we filed a Report of Synergy Savings with the Georgia Commission in connection with the Nicor acquisition. If and when approved, the net savings are expected to result in annual rate reductions to the firm customers of Atlanta Gas Light of $5 million. We expect the Georgia Commission to rule on the report in the second or third quarter of 2014.

Virginia Natural Gas In April 2014 the Governor of Virginia signed into law legislation that enables the state's natural gas utilities, including Virginia Natural Gas, to acquire long-term supplies of natural gas and make capital investments to facilitate the delivery of low-cost shale and coal-bed methane gas to Virginia homeowners and businesses. Under the terms of the new statute, Virginia Natural Gas could enter into commercial agreements to obtain up to 25% of its annual firm sales demand for natural gas through long-term contracts or investments such as purchases of reserves. Recovery on investments would be based upon the utility's authorized return on rate base, which would flow through the purchased gas adjustment mechanism or similar mechanism, and approval in advance by the Virginia Commission. The new statute will also allow us to build pipelines and other infrastructure that deliver shale and coal-bed methane gas into the state's markets that seek to reduce natural gas supply costs or reduce price volatility for consumers, if approved by the Virginia Commission.

Elizabethtown Gas In March 2013, the New Jersey BPU issued an order inviting the submission of proposals from utilities in New Jersey for infrastructure upgrades designed to protect utility infrastructure from future major storm events. In September 2013, in response to this request, Elizabethtown Gas filed for a Natural Gas Distribution Utility Reinforcement Effort (ENDURE), a program that will improve our distribution system’s resiliency against coastal storms and floods. Under the proposed plan, Elizabethtown Gas will invest $15 million in infrastructure and related facilities and communication planning over a one-year period beginning January 2014. Elizabethtown Gas is proposing to accrue and defer carrying charges on the investment until its next rate case proceeding. According to the procedural order in the case, a ruling by the New Jersey BPU is expected in the third quarter of 2014.

- Retail Operations: Maintain operating margin in Georgia and Illinois while continuing to expand into other profitable retail markets; integrate our warranty businesses and expand our overall market reach through partnership opportunities with our affiliates. With the continued adoption of fixed-price plans, we expect the Georgia retail market to remain highly competitive; however, our operating margins are forecasted to remain stable with modest growth from the acquisitions completed in 2013 and expansion into new markets.

- Wholesale Services: Maximize strong storage and transportation positions, including the creation of additional economic value in 2014; effectively perform on existing asset management agreements and expand customer base and maintain cost structure in line with market fundamentals. We anticipate low volatility in certain areas of our portfolio; however, we expect a continuation of volatility in the supply-constrained Northeast corridor in the near-term. We continue to position our business model to secure sufficient supplies of natural gas to meet the needs of our utility customers and to hedge gas prices to effectively manage costs, reduce price volatility and maintain a competitive advantage.

- Midstream Operations: Optimize storage portfolio, including contracts that have expired or will expire, pursue LNG transportation and natural gas pipeline opportunities and evaluate alternate uses for our storage facilities. In April 2014 we entered into a collaborative arrangement to construct a lateral pipeline in Georgia that will connect with the Transco pipeline system. Also in April 2014 we entered into an agreement to lease our 50% ownership in this lateral pipeline extension once it is placed in-service. For more information on the transactions, see Note 12 to the unaudited Condensed Consolidated Financial Statements under Part I, Item 1 herein.

We will continue to identify opportunities that arise as a result of attractive natural gas pricing relative to other fuel sources. Additionally, the sale of Tropical Shipping allows us to focus on growing our core business of operating regulated utilities and complementary non-regulated businesses. We will also continue to maintain our strong balance sheet and liquidity profile, solid investment grade ratings and our commitment to sustainable annual dividend growth.

Natural Gas Market Fundamentals Volatility in the natural gas market arises from a number of factors, such as weather fluctuations or changes in supply or demand for natural gas in different regions of the country. The volatility of natural gas commodity prices has a significant impact on our customer rates, our long-term competitive position against other energy sources and the ability of retail operations and wholesale services to capture value from location and seasonal spreads. Additionally, changes in commodity prices subject a significant portion of our operations to earnings variability.

While natural gas supply increased during the 2013/2014 Heating Season in the U.S., it was not enough to meet the increased demand, resulting in the lowest storage levels in over a decade. Assuming normal weather during the next year, we expect this will result in higher natural gas prices as storage levels are restored.

Our non-utility businesses principally use physical and financial arrangements to reduce the risks associated with both weather-related seasonal fluctuations in market conditions and changing commodity prices. Additionally, our hedging strategies and physical natural gas supplies in storage enable us to reduce earnings risk exposure due to higher gas costs. These economic hedges may not qualify, or may not be designated, for hedge accounting treatment. As a result, our reported earnings for the wholesale services, retail operations and midstream operations segments reflect changes in the fair values of certain derivatives. Accordingly, a decline in natural gas prices or decreases in transportation spreads generally results in derivative gains and corresponding increases in EBIT, while an increase in natural gas prices or a widening of transportation spreads generally results in derivative losses and corresponding decreases in EBIT. These values may change significantly from period to period and are reflected as gains or losses within our operating revenues or our OCI for those derivative instruments that qualify and are designated as accounting hedges.

Results of Operations

We generate the majority of our operating revenues through the sale, distribution and storage of natural gas. We include in our consolidated revenues an estimate of revenues from natural gas distributed, but not yet billed to residential, commercial and industrial customers from the date of the last bill to the end of the reporting period. No individual customer or industry accounts for a significant portion of our revenues.

The operating revenues and EBIT of distribution operations and retail operations are seasonal. During the Heating Season, natural gas usage and operating revenues are generally higher as more customers are connected to our distribution systems and natural gas usage is higher in periods of colder weather. Our base operating expenses, excluding cost of gas, revenue taxes, interest expense and certain incentive compensation costs, are generally incurred relatively evenly over any given year. Thus, our operating results vary significantly from quarter to quarter as a result of seasonality.

We evaluate segment performance using the measures of EBIT and operating margin. EBIT includes operating income and other income and expenses. Items that we do not include in EBIT are financing costs (including interest) and income taxes, each of which we evaluate on a consolidated basis. Operating margin is a non-GAAP measure that is calculated as operating revenues minus cost of goods sold and revenue tax expense in distribution operations. Operating margin excludes operation and maintenance expense, depreciation and amortization, certain taxes other than income taxes, and the gain or loss on the sale of our assets, if any. These items are included in our calculation of operating income as reflected in our unaudited Condensed Consolidated Statements of Income.

We believe operating margin is a better indicator than operating revenues of the contribution resulting from customer growth in distribution operations, since the cost of goods sold and revenue tax expenses can vary significantly and are generally billed directly to our customers. We also consider operating margin to be a better indicator in retail operations, wholesale services and midstream operations, since it is a direct measure of operating margin generated before overhead costs. You should not consider operating margin 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 operating margin may not be comparable to similarly titled measures of other companies.

Table of Contents

The following table reconciles operating revenue and operating margin to operating income, and EBIT to income before income taxes and net income, together with other consolidated financial information for the periods presented.

	Three months ended March 31, (1)		
In millions, except per share amounts	2014	2013	Change
Operating revenues	$2,462	$1,612	$850
Cost of goods sold	(1,400)	(920)	(480)
Revenue tax expense (2)	(67)	(49)	(18)
Operating margin	995	643	352
Operating expenses	(470)		