

AGL RESOURCES INC
Form 10-Q
April 27, 2010

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2010

OR

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

For the transition period from to

Commission File Number 1-14174

AGL RESOURCES INC.
(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of incorporation or
organization)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

Class	Outstanding as of April 20, 2010
Common Stock, \$5.00 Par Value	77,849,493

Glossary of Key Terms

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AGL RESOURCES INC.

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2010

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AGL Capital	AGL Capital Corporation
AGL Networks	AGL Networks, LLC
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Chattanooga Gas	Chattanooga Gas Company
Credit Facility	\$1.0 billion credit agreement of AGL Capital
EBIT	Earnings before interest and taxes, a non-GAAP measure that includes operating income and other income and excludes financing costs, including interest and debt and income tax expense each of which we evaluate on a consolidated level; as an indicator of our operating performance, EBIT should not be considered an alternative to, or more meaningful than, earnings before income taxes, or net income attributable to AGL Resources Inc. as determined in accordance with GAAP
ERC	Environmental remediation costs associated with our distribution operations segment which are generally recoverable through rates mechanisms
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
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
GNG	Georgia Natural Gas, the name under which SouthStar does business in Georgia
Golden Triangle Storage	Golden Triangle Storage, Inc.
Heating Degree Days	A measure of the effects of weather on our businesses, calculated when the average daily actual temperatures are less than a baseline temperature of 65 degrees Fahrenheit
Heating Season	The period from November through March when natural gas usage and operating revenues are generally higher because more customers are connected to our distribution systems when weather is colder
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
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 gas, that excludes operation and maintenance expense, depreciation and amortization, taxes other than income taxes, and the gain or loss on the sale of our assets; these items are included in our calculation of operating income as reflected in our condensed consolidated statements of income. Operating margin should not be considered an alternative to, or more meaningful than, operating income as determined in accordance with GAAP
OTC	Over-the-counter
Piedmont	Piedmont Natural Gas
PP&E	Property, plant and equipment
Regulatory	Programs that update or expand our distribution systems and liquefied natural gas facilities to improve system reliability and meet operational flexibility and growth. These programs include the

Infrastructure pipeline replacement program and STRIDE at Atlanta Gas Light and Elizabethtown Gas' utility Program	infrastructure enhancements program.
S&P	Standard & Poor's Ratings Services
SEC	Securities and Exchange Commission
Sequent	Sequent Energy Management, L.P.
SouthStar	SouthStar Energy Services LLC
T e n n e s s e e Authority	Tennessee Regulatory Authority, the state regulatory agency for Chattanooga Gas
VaR	Value at risk is defined as the maximum potential loss in portfolio value over a specified time period that is not expected to be exceeded within a given degree of probability
Virginia Natural Gas	Virginia Natural Gas, Inc.
WACOG	Weighted average cost of goods

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PART 1 – Financial Information

Item 1. Financial Statements

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

In millions	Mar. 31, 2010	As of Dec. 31, 2009	Mar. 31, 2009
Current assets			
Cash and cash equivalents	\$ 19	\$ 26	\$ 21
Receivables			
Energy marketing receivables (Note 1)	563	615	326
Gas, unbilled and other receivables	417	362	458
Less allowance for uncollectible accounts	21	14	20
Total receivables	959	963	764
Inventories, net (Note 1)	370	672	348
Derivative financial instruments – current portion (Note 1 and Note 2)	205	188	202
Unrecovered regulatory infrastructure program costs – current portion (Note 1)	45	43	42
Unrecovered environmental remediation costs – current portion (Note 1)	10	11	16
Other current assets	41	97	38
Total current assets	1,649	2,000	1,431
Long-term assets and other deferred debits			
Property, plant and equipment	6,025	5,939	5,592
Less accumulated depreciation	1,814	1,793	1,706
Property, plant and equipment-net	4,211	4,146	3,886
Goodwill	418	418	418
Unrecovered regulatory infrastructure program costs (Note 1)	258	223	177
Unrecovered environmental remediation costs (Note 1)	159	161	121
Derivative financial instruments (Note 1 and Note 2)	56	52	48
Other	74	74	76
Total long-term assets and other deferred debits	5,176	5,074	4,726
Total assets	\$ 6,825	\$ 7,074	\$ 6,157
Current liabilities			
Energy marketing trade payable (Note 1)	\$ 620	\$ 524	\$ 342
Current portion of long-term debt (Note 5)	301	1	1
Accounts payable – trade	219	237	193
Short-term debt (Note 5)	153	601	402
Accrued expenses	137	132	151
Accrued regulatory infrastructure program costs – current portion (Note 1)	75	55	43
	74	52	43

Derivative financial instruments – current portion (Note 1 and Note 2)			
Customer deposits	52	41	58
Accrued environmental remediation liabilities – current portion (Note 1 and Note 6)			
	31	25	20
Other current liabilities	121	104	95
Total current liabilities	1,783	1,772	1,348
Long-term liabilities and other deferred credits			
Long-term debt (Note 5)	1,674	1,974	1,675
Accumulated deferred income taxes	711	695	586
Accumulated removal costs (Note 1)	186	183	194
Accrued regulatory infrastructure program costs (Note 1)	169	155	126
Accrued pension obligations (Note 3)	146	159	188
Accrued environmental remediation liabilities (Note 1 and Note 6)	113	119	85
Accrued postretirement benefit costs (Note 3)	36	38	45
Derivative financial instruments (Note 1 and Note 2)	8	10	8
Other long-term liabilities and other deferred credits	148	150	139
Total long-term liabilities and other deferred credits	3,191	3,483	3,046
Total liabilities and other deferred credits	4,974	5,255	4,394
Commitments and contingencies (Note 6)			
Equity			
AGL Resources Inc. common shareholders' equity, \$5 par value; 750,000,000 shares authorized	1,834	1,780	1,734
Noncontrolling interest (Note 4)	17	39	29
Total equity	1,851	1,819	1,763
Total liabilities and equity	\$ 6,825	\$ 7,074	\$ 6,157

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions, except per share amounts	Three months ended March 31,	
	2010	2009
Operating revenues	\$ 1,003	\$ 995
Operating expenses		
Cost of gas	571	589
Operation and maintenance	125	125
Depreciation and amortization	40	39
Taxes other than income taxes	14	12
Total operating expenses	750	765
Operating income	253	230
Other income	2	2
Interest expense, net	(28)	(25)
Earnings before income taxes	227	207
Income tax expense	82	72
Net income	145	135
Less net income attributable to the noncontrolling interest (Note 4)	11	16
Net income attributable to AGL Resources Inc.	\$ 134	\$ 119
Per common share data (Note 1)		
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	\$ 1.74	\$ 1.55
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	\$ 1.73	\$ 1.55
Cash dividends declared per common share	\$ 0.44	\$ 0.43
Weighted-average number of common shares outstanding (Note 1)		
Basic	77.2	76.7
Diluted	77.6	76.8

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions, except per share amounts	AGL Resources Inc. Shareholders							
	Common stock		Premium on common stock	Earnings reinvested	Accumulated other comprehensive loss	Treasury shares	Noncontrolling interest	Total
	Shares	Amount						
Balance as of Dec. 31, 2008	76.9	\$ 390	\$ 676	\$ 763	\$ (134)	\$ (43)	\$ 32	\$ 1,684
Net income	-	-	-	119	-	-	16	135
Other comprehensive loss	-	-	-	-	(7)	-	(4)	(11)
Dividends on common stock (\$0.43 per share)	-	-	-	(33)	-	1	-	(32)
Distributions to noncontrolling interest	-	-	-	-	-	-	(15)	(15)
Issuance of treasury shares	0.3	-	(6)	(2)	-	9	-	1
Stock-based compensation expense (net of tax) (Note 1)	-	-	1	-	-	-	-	1
Balance as of March 31, 2009	77.2	\$ 390	\$ 671	\$ 847	\$ (141)	\$ (33)	\$ 29	\$ 1,763

In millions, except per share amounts	AGL Resources Inc. Shareholders							
	Common stock		Premium on common stock	Earnings reinvested	Accumulated other comprehensive loss	Treasury shares	Noncontrolling interest	Total
	Shares	Amount						
Balance as of Dec. 31, 2009	77.5	\$ 390	\$ 679	\$ 848	\$ (116)	\$ (21)	\$ 39	\$ 1,819
Net income	-	-	-	134	-	-	11	145
Other comprehensive loss	-	-	-	-	(2)	-	-	(2)
Dividends on common stock (\$0.44 per share)	-	-	(1)	(34)	-	2	-	(33)
Purchase of additional 15% ownership interest in SouthStar	-	-	(51)	-	(1)	-	(6)	(58)
Distributions to noncontrolling interest	-	-	-	-	-	-	(27)	(27)
Issuance of treasury shares	0.3	-	(9)	-	-	12	-	3
	-	-	4	-	-	-	-	4

Stock-based
 compensation expense
 (net of tax) (Note 1)

Balance as of March 31, 2010	77.8	\$ 390	\$ 622	\$ 948	\$ (119)	\$ (7)	\$ 17	\$ 1,851
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See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Three months ended March 31,	
	2010	2009
Comprehensive income attributable to AGL Resources Inc. (net of tax)		
Net income attributable to AGL Resources Inc.	\$ 134	\$ 119
Cash flow hedges:		
Derivative financial instruments unrealized losses arising during the period	(6)	(9)
Reclassification of derivative financial instruments realized losses included in net income	4	2
Other comprehensive loss	(2)	(7)
Comprehensive income (Note 1)	\$ 132	\$ 112
Comprehensive income attributable to noncontrolling interest (net of tax)		
Net income attributable to noncontrolling interest	\$ 11	\$ 16
Cash flow hedges:		
Derivative financial instruments unrealized losses arising during the period	(1)	(5)
Reclassification of derivative financial instruments realized losses included in net income	1	1
Other comprehensive loss	-	(4)
Comprehensive income (Note 1)	\$ 11	\$ 12
Total comprehensive income (net of tax)		
Net income	\$ 145	\$ 135
Cash flow hedges:		
Derivative financial instruments unrealized losses arising during the period	(7)	(14)
Reclassification of derivative financial instruments realized losses included in net income	5	3
Other comprehensive loss	(2)	(11)
Comprehensive income (Note 1)	\$ 143	\$ 124

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Key Terms

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

In millions	Three months ended March 31,	
	2010	2009
Cash flows from operating activities		
Net income	\$ 145	\$ 135
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	40	39
Deferred income taxes	14	(10)
Change in derivative financial instrument assets and liabilities	(1)	(10)
Changes in certain assets and liabilities		
Inventories	302	315
Energy marketing receivables and energy marketing trade payables, net	148	26
Accrued expenses	5	38
Gas and trade payables	(18)	(9)
Gas, unbilled and other receivables	(48)	18
Other – net	83	69
Net cash flow provided by operating activities	670	611
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(114)	(97)
Net cash flow used in investing activities	(114)	(97)
Cash flows from financing activities		
Net payments and borrowings of short-term debt	(448)	(463)
Purchase of additional 15% ownership interest in SouthStar	(58)	-
Dividends paid on common shares	(33)	(32)
Distribution to noncontrolling interest	(27)	(15)
Issuance of treasury shares and other	3	1
Net cash flow used in financing activities	(563)	(509)
Net (decrease) increase in cash and cash equivalents	(7)	5
Cash and cash equivalents at beginning of period	26	16
Cash and cash equivalents at end of period	\$ 19	\$ 21
Cash paid during the period for		
Interest	\$ 34	\$ 29
Income taxes	\$ 1	\$ 16

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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AGL RESOURCES INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Accounting Policies and Methods of Application

General

AGL Resources Inc. is an energy services holding company that conducts substantially all 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 year-end condensed statement of financial position data was derived from our audited financial statements, but does not include all disclosures required by GAAP. We have prepared the accompanying unaudited condensed consolidated financial statements under the rules of the SEC. Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with GAAP. However, the condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of our financial results for the interim periods. You should read these condensed consolidated financial statements in conjunction with our consolidated financial statements and related notes included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2009, filed with the SEC on February 4, 2010.

Due to the seasonal nature of our business, our results of operations for the three months ended March 31, 2010 and 2009, and our financial condition as of December 31, 2009, and March 31, 2010 and 2009, are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period.

Basis of Presentation

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

Use of Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. We based our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances, and we evaluate our estimates on an ongoing basis. Each of our estimates involves complex situations requiring a high degree of judgment either in the application and interpretation of existing financial accounting literature or in the development of estimates that impact our financial statements. The most significant estimates include our regulatory infrastructure program accruals, ERC liability accruals, allowance for uncollectible accounts, contingencies, pension and postretirement obligations, derivative and hedging activities and provision for income taxes. Our actual results could differ from our estimates, and such differences could be material.

Energy Marketing Receivables and Payables

Our wholesale services segment provides services to retail and wholesale marketers and utility and industrial customers. These customers, also known as counterparties, utilize netting agreements, which enable wholesale services to net receivables and payables by counterparty. Wholesale services also nets across product lines and against

cash collateral, provided the master netting and cash collateral agreements include such provisions. The amounts due from or owed to wholesale services' counterparties are netted and recorded on our condensed consolidated statements of financial position as energy marketing receivables and energy marketing payables.

Our wholesale services segment has some trade and credit contracts that have explicit minimum credit rating requirements. These credit rating requirements typically give counterparties the right to suspend or terminate credit if our credit ratings are downgraded to non-investment grade status. Under such circumstances, wholesale services would need to post collateral to continue transacting business with some of its counterparties. No collateral has been posted under such provisions since our credit ratings have always exceeded the minimum requirements. As of March 31, 2010, December 31, 2009 and March 31, 2009, the collateral that wholesale services would have been required to post would not have had a material impact to our consolidated results of operations, cash flows or financial condition. However, if such collateral were not posted, wholesale services' ability to continue transacting business with these counterparties would be impaired.

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Regulatory Assets and Liabilities

We have recorded regulatory assets and liabilities in our condensed consolidated statements of financial position in accordance with authoritative guidance related to regulated operations. Our regulatory assets and liabilities, and associated liabilities for our unrecovered regulatory infrastructure program costs, unrecovered ERC and the derivative financial instrument assets and liabilities for Elizabethtown Gas' hedging program, are summarized in the following table.

In millions	Mar. 31, 2010	Dec. 31, 2009	Mar. 31, 2009
Regulatory assets			
Unrecovered regulatory infrastructure program costs	\$ 303	\$ 266	\$ 219
Unrecovered ERC	169	172	137
Unrecovered postretirement benefit costs	10	10	11
Unrecovered seasonal rates	-	11	-
Other	29	27	28
Total regulatory assets	511	486	395
Associated assets			
Derivative financial instruments	32	11	29
Total regulatory and associated assets	\$ 543	\$ 497	\$ 424
Regulatory liabilities			
Accumulated removal costs	\$ 186	\$ 183	\$ 194
Deferred natural gas costs	36	30	33
Derivative financial instruments	32	11	29
Regulatory tax liability			