

AGL RESOURCES INC  
Form 10-Q  
May 03, 2011

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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, 2011

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

Accelerated filer   
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 28, 2011
Common Stock, \$5.00 Par Value	78,258,498

## AGL RESOURCES INC.

## Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2011

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Glossary of Key Terms

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## GLOSSARY OF KEY TERMS

Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Bridge Facility	Credit agreement entered into by AGL Capital Corporation to finance a portion of the proposed merger with Nicor that was originally \$1.05 billion, but per the terms of the agreement was reduced to \$852 million in March 2011
Chattanooga Gas	Chattanooga Gas Company
Credit Facility	\$1.0 billion credit agreement entered into by AGL Capital Corporation
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 rate 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
Golden Triangle Storage	Golden Triangle Storage, Inc.
Hampton Roads	Virginia Natural Gas' pipeline project which connects its northern and southern pipelines
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 because more customers are connected to our distribution systems when weather is colder
Jefferson Island	Jefferson Island Storage & Hub, LLC
LOCOM	Lower of weighted-average cost or current market price
Magnolia	Magnolia Enterprise Holdings, Inc.
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., an Illinois corporation
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
Piedmont	Piedmont Natural Gas Company, Inc.
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

Infrastructure Program	the pipeline replacement program and the STRIDE program at Atlanta Gas Light and Elizabethtown Gas' utility 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
STRIDE	Atlanta Gas Light's Strategic Infrastructure Development and Enhancement program
Term Loan Facility	\$300 million credit agreement entered into by AGL Capital Corporation of which \$150 million was drawn in January 2011 and subsequently repaid and the agreement terminated in February 2011
VaR	Value at risk is defined as the maximum potential loss in portfolio value over a specified time period that is not expected to be exceeded within a given degree of probability
Virginia Natural Gas	Virginia Natural Gas, Inc.
WACOG	Weighted-average cost of gas

Glossary of Key Terms

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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, 2011	As of Dec. 31, 2010	Mar. 31, 2010
Current assets			
Cash and cash equivalents	\$ 85	\$ 24	\$ 19
Receivables			
Energy marketing receivables (Note 2)	565	788	563
Gas, unbilled and other receivables	367	390	417
Less: allowance for uncollectible accounts	21	16	21
Total receivables	911	1,162	959
Inventories, net (Note 2)	361	639	370
Derivative financial instruments – current portion (Note 2, Note 4 and Note 5)	124	182	205
Recoverable regulatory infrastructure program costs – current portion (Note 2)	49	48	45
Recoverable environmental remediation costs – current portion (Note 2 and Note 9)	7	7	10
Other current assets	50	104	46
Total current assets	1,587	2,166	1,654
Long-term assets and other deferred debits			
Property, plant and equipment	6,348	6,266	6,025
Less: accumulated depreciation	1,830	1,861	1,814
Property, plant and equipment-net	4,518	4,405	4,211
Goodwill	418	418	418
Recoverable regulatory infrastructure program costs (Note 2)	231	244	258
Recoverable environmental remediation costs (Note 2)	162	164	159
Derivative financial instruments (Note 2, Note 4 and Note 5)	29	46	56
Other	81	79	74
Total long-term assets and other deferred debits	5,439	5,356	5,176
Total assets	\$ 7,026	\$ 7,522	\$ 6,830
Current liabilities			
Energy marketing trade payable (Note 2)	\$ 628	\$ 744	\$ 620
Accounts payable – trade	161	184	156
Accrued expenses	141	139	137
Accrued regulatory infrastructure program costs – current portion (Note 2)	69	62	75
Short-term debt (Note 4 and Note 7)	26	733	154
Derivative financial instruments – current portion (Note 2, Note 4 and Note 5)	25	44	74
Accrued environmental remediation liabilities – current portion (Note 2 and Note 9)	15	14	31

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Current portion of long-term debt	-	300	300
Other current liabilities	248	212	241
Total current liabilities	1,313	2,432	1,788
<b>Long-term liabilities and other deferred credits</b>			
Long-term debt (Note 4 and Note 7)	2,173	1,673	1,674
Accumulated deferred income taxes	803	768	711
Accumulated removal costs	250	182	186
Accrued pension obligations (Note 6)	153	186	146
Accrued regulatory infrastructure program costs (Note 2)	143	166	169
Accrued environmental remediation liabilities (Note 2 and Note 9)	126	129	113
Accrued postretirement benefit costs (Note 6)	34	36	36
Derivative financial instruments (Note 2, Note 4 and Note 5)	3	4	8
Other long-term liabilities and other deferred credits	108	110	148
Total long-term liabilities and other deferred credits	3,793	3,254	3,191
Total liabilities and other deferred credits	5,106	5,686	4,979
<b>Commitments and contingencies (Note 9)</b>			
<b>Equity</b>			
AGL Resources Inc. common shareholders' equity, \$5 par value; 750,000,000 shares authorized	1,903	1,813	1,834
Noncontrolling interest (Note 8)	17	23	17
Total equity	1,920	1,836	1,851
Total liabilities and equity	\$ 7,026	\$ 7,522	\$ 6,830
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 INCOME  
 (UNAUDITED)

In millions, except per share amounts	Three months ended March 31,	
	2011	2010
Operating revenues	\$ 878	\$ 1,003
Operating expenses		
Cost of gas	455	571
Operation and maintenance	131	125
Depreciation and amortization	41	40
Taxes other than income taxes	13	14
Total operating expenses	640	750
Operating income	238	253
Other income	1	2
Interest expense, net	(29 )	(28 )
Earnings before income taxes	210	227
Income tax expense	76	82
Net income	134	145
Less net income attributable to the noncontrolling interest (Note 8)	10	11
Net income attributable to AGL Resources Inc.	\$ 124	\$ 134
Per common share data (Note 2)		
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	\$ 1.60	\$ 1.74
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	\$ 1.59	\$ 1.73
Cash dividends declared per common share	\$ 0.45	\$ 0.44
Weighted-average number of common shares outstanding (Note 2)		
Basic	77.7	77.2
Diluted	78.0	77.6

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

AGL Resources Inc. Shareholders

In millions, except per share amounts	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 (Note 8)	-	-	-	-	-	-	(27 )	(27 )
Issuance of treasury shares	0.3	-	(9 )	-	-	12	-	3
Stock-based compensation expense (net of tax)	-	-	4	-	-	-	-	4
Balance as of Mar. 31, 2010	77.8	\$ 390	\$ 622	\$ 948	\$ (119 )	\$ (7 )	\$ 17	\$ 1,851

AGL Resources Inc. Shareholders

In millions, except per share amounts	Common stock		Premium on common stock	Earnings reinvested	Accumulated other comprehensive loss	Treasury shares	Noncontrolling interest	Total
	Shares	Amount						
Balance as of Dec. 31, 2010	78.0	\$ 391	\$ 631	\$ 943	\$ (150 )	\$ (2 )	\$ 23	\$ 1,836
Net income	-	-	-	124	-	-	10	134
Other comprehensive loss	-	-	-	-	(1 )	-	-	(1 )
Dividends on common stock (\$0.45 per share)	-	-	1	(35 )	-	-	-	(34 )
Distributions to noncontrolling interest (Note 8)	-	-	-	-	-	-	(16 )	(16 )
	0.2	1	2	-	-	(2 )	-	1

Benefit, dividend reinvestment and stock purchase plans									
Purchase of treasury shares	-	-	-	-	-	(2 )	-	(2 )	
Stock-based compensation expense (net of tax)	-	-	2	-	-	-	-	2	
Balance as of Mar. 31, 2011	78.2	\$ 392	\$ 636	\$ 1,032	\$ (151 )	\$ (6 )	\$ 17	\$ 1,920	

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Three months ended March 31,	
	2011	2010
Comprehensive income attributable to AGL Resources Inc. (net of tax)		
Net income attributable to AGL Resources Inc.	\$124	\$134
Cash flow hedges:		
Derivative financial instruments unrealized losses arising during the period	(1 )	(6 )
Reclassification of derivative financial instruments realized losses included in net income	-	4
Other comprehensive loss	(1 )	(2 )
Comprehensive income	\$123	\$132
Comprehensive income attributable to noncontrolling interest (net of tax)		
Net income attributable to noncontrolling interest (Note 8)	\$10	\$11
Cash flow hedges:		
Derivative financial instruments unrealized losses arising during the period	-	(1 )
Reclassification of derivative financial instruments realized losses included in net income	-	1
Other comprehensive income	-	-
Comprehensive income	\$10	\$11
Total comprehensive income, including portion attributable to noncontrolling interest (net of tax)		
Net income	\$134	\$145
Cash flow hedges:		
Derivative financial instruments unrealized losses arising during the period	(1 )	(7 )
Reclassification of derivative financial instruments realized losses included in net income	-	5
Other comprehensive loss	(1 )	(2 )
Comprehensive income	\$133	\$143

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Three months ended	
	March 31,	
	2011	2010
Cash flows from operating activities		
Net income	\$134	\$145
Adjustments to reconcile net income to net cash flow provided by operating activities		
Change in derivative financial instrument assets and liabilities	55	(1 )
Depreciation and amortization	41	40
Deferred income taxes	23	14
Changes in certain assets and liabilities		
Inventories	278	302
Energy marketing receivables and energy marketing trade payables, net (Note 2)	107	148
Deferred natural gas costs	29	6
Gas, unbilled and other receivables	28	(48 )
Gas and trade payables	(23 )	(40 )
Other – net	46	107
Net cash flow provided by operating activities	718	673
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(94 )	(114 )
Other	-	(3 )
Net cash flow used in investing activities	(94 )	(117 )
Cash flows from financing activities		
Net payments and borrowings of short-term debt	(707 )	(448 )
Payment of senior notes	(300 )	-
Dividends paid on common shares	(34 )	(33 )
Distribution to noncontrolling interest (Note 8)	(16 )	(27 )
Purchase of treasury shares	(2 )	-
Issuance of senior notes	495	-
Purchase of additional 15% ownership interest in SouthStar	-	(58 )
Benefit, dividend reinvestment and stock purchase plans	1	3
Net cash flow used in financing activities	(563 )	(563 )
Net increase (decrease) in cash and cash equivalents	61	(7 )
Cash and cash equivalents at beginning of period	24	26
Cash and cash equivalents at end of period	\$85	\$19
Cash paid during the period for		
Interest	\$36	\$34
Income taxes	\$1	\$1

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

Note 1 - Organization and Basis of Presentation

General

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

In December 2010, we entered into an Agreement and Plan of Merger (Merger Agreement) with Nicor, which we anticipate completing during the second half of 2011. See Note 3 for additional discussion of the proposed merger.

The December 31, 2010 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 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 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, 2010, filed with the SEC on February 9, 2011.

Due to the seasonal nature of our business, our results of operations for the three months ended March 31, 2011 and 2010, and our financial condition as of December 31, 2010, and March 31, 2011 and 2010, 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 our variable interest entity for which we are the primary beneficiary. This means that our accounts are combined with our subsidiaries’ accounts. We have eliminated any intercompany profits and transactions in consolidation; however, we have not eliminated intercompany profits when such amounts are probable of recovery under the affiliates’ rate regulation process.

Certain amounts from prior periods have been reclassified and revised to conform to the current period presentation. The reclassifications and revisions had no material impact on our prior period balances.

Note 2 – Significant Accounting Policies and Methods of Application

Use of Accounting Estimates

Our accounting policies are described in Note 2 to 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, 2010. There were no significant changes to our accounting policies during the three months ended March 31, 2011.

The preparation of our financial statements in conformity with GAAP requires us to make estimates and assumptions 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, where applicable, and various other

assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis and make adjustments in subsequent periods to reflect more current information if we determine that updated assumptions and estimates are warranted. Our estimates may involve 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 those 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, 2011, December 31, 2010 and March 31, 2010, 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. However, if such collateral were not posted, wholesale services' ability to continue transacting business with these counterparties would be negatively impacted.

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## Inventories

For our distribution operations segment, we record natural gas stored underground at the WACOG. For Sequent, SouthStar and Jefferson Island, we account for natural gas inventory at the lower of WACOG or market price.

SouthStar and Sequent 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 price. SouthStar recorded no LOCOM adjustments in the three months ended March 31, 2011 or March 31, 2010. Sequent recorded LOCOM adjustments of less than \$1 million for the three months ended March 31, 2011 and \$4 million for the three months ended March 31, 2010.

## Regulatory Assets and Liabilities

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 are capitalized and recorded as regulatory assets when it is probable that the incurred costs or estimated future 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 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. Further, we are not aware of any evidence that these costs will not be recoverable through either rate riders or base rates, and believe that we will be able to recover these costs, consistent with our historical recoveries.

Our regulatory assets and liabilities and the associated assets and liabilities are summarized in the following table.

In millions	Mar. 31, 2011	Dec. 31, 2010	Mar. 31, 2010
Regulatory assets			
Recoverable regulatory infrastructure program costs	\$ 280	\$ 292	\$ 303
Recoverable ERC	169	171	169
Recoverable seasonal rates	-	11	-
Recoverable postretirement benefit costs	9	9	10
Other	36	42	34
Total regulatory assets	494	525	516
Associated assets			
Derivative financial instruments			