

AGL RESOURCES INC  
Form 10-Q  
May 02, 2007

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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, 2007

**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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐

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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.

<b>Class</b>	<b>Outstanding as of April 25, 2007</b>
Common Stock, \$5.00 Par Value	77,794,028

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**AGL RESOURCES INC.**

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2007

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**SIGNATURE**

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**PART I - Financial Information****Item 1. Financial Statements**

**AGL RESOURCES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

<i>In millions, except share data</i>	March 31, 2007	As of December 31, 2006	March 31, 2006
<b>Current assets</b>			
Cash and cash equivalents	\$ 29	\$ 20	\$ 18
Energy marketing receivables	437	505	405
Receivables (less allowance for uncollectible accounts of \$19 at March 31, 2007, \$15 at Dec. 31, 2006 and \$21 at March 31, 2006)	389	375	408
Inventories	382	597	432
Energy marketing and risk management assets	33	159	61
Unrecovered pipeline replacement program costs	27	27	26
Unrecovered environmental remediation costs	26	27	31
Other	71	112	77
Total current assets	1,394	1,822	1,458
<b>Property, plant and equipment</b>			
Property, plant and equipment	5,041	4,976	4,831
Less accumulated depreciation	1,571	1,540	1,484
Property, plant and equipment-net	3,470	3,436	3,347
<b>Deferred debits and other assets</b>			
Goodwill	420	420	422
Unrecovered pipeline replacement program costs	239	247	273
Unrecovered environmental remediation costs	137	143	157
Other	64	79	79
Total deferred debits and other assets	860	889	931
<b>Total assets</b>	\$ 5,724	\$ 6,147	\$ 5,736
<b>Current liabilities</b>			
Energy marketing trade payables	\$ 509	\$ 510	\$ 476
Payables	160	213	148
Accrued expenses	118	120	126
Short-term debt	111	539	472
Customer deposits	42	42	36
Accrued pipeline replacement program costs	37	35	35
Energy marketing and risk management liabilities	28	41	46

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Deferred purchased gas adjustment	25	24	24
Accrued environmental remediation costs	11	13	12
Other	60	90	86
Total current liabilities	1,101	1,627	1,461
<b>Accumulated deferred income taxes</b>	580	544	427
<b>Long-term liabilities</b>			
Accrued pipeline replacement program costs	193	202	226
Accumulated removal costs	164	162	156
Accrued environmental remediation costs	84	83	84
Accrued pension obligations	81	78	90
Accrued postretirement benefit costs	29	32	54
Other	154	146	162
Total long-term liabilities	705	703	772
<b>Commitments and contingencies (Note 7)</b>			
<b>Minority interest</b>	37	42	33
<b>Capitalization</b>			
Long-term debt	1,623	1,622	1,458
Common shareholders' equity, \$5 par value; 750,000,000 shares authorized	1,678	1,609	1,585
Total capitalization	3,301	3,231	3,043
<b>Total liabilities and capitalization</b>	\$ 5,724	\$ 6,147	\$ 5,736

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

<i>In millions, except per share amounts</i>	2007	Three months ended March 31,	2006
Operating revenues	\$ 973	\$	1,044
Operating expenses			
Cost of gas	595		655
Operation and maintenance	116		117
Depreciation and amortization	35		34
Taxes other than income	11		10
Total operating expenses	757		816
Operating income	216		228
Other income (expense)	1		(2)
Interest expense, net	(31)		(30)
Minority interest	(22)		(19)
Earnings before income taxes	164		177
Income taxes	62		67
Net income	\$ 102	\$	110
Basic earnings per common share	\$ 1.31	\$	1.42
Diluted earnings per common share	\$ 1.30	\$	1.41
Cash dividends accrued per common share	\$ 0.41	\$	0.37
Weighted-average number of common shares outstanding			
Basic	77.5		77.9
Diluted	77.9		78.2

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**AGL RESOURCES INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

	Common Stock		Premium on common stock	Earnings reinvested	Other comprehensive loss	Shares Held in Treasury	Total
<i>In millions, except per share amount</i>	Shares	Amount					
Balance as of December 31, 2006	77.7	\$ 390	\$ 664	\$ 601	\$ (32)	\$ (14)	\$ 1,609
Comprehensive income:							
Net income	-	-	-	102	-	-	102
Unrealized loss from hedging activities (net of tax benefit of \$3)	-	-	-	-	(5)	-	(5)
Total comprehensive income							97
Dividends on common shares (\$0.41 per share)	-	-	-	(32)	-	-	(32)
Issuance of treasury shares	0.4	-	(2)	(3)	-	13	8
Purchase of treasury shares	(0.2)	-	-	-	-	(7)	(7)
Stock-based compensation expense (net of tax benefit of \$1)	-	-	3	-	-	-	3
Balance as of March 31, 2007	77.9	\$ 390	\$ 665	\$ 668	\$ (37)	\$ (8)	\$ 1,678

See Notes to Condensed Consolidated Financial Statements (Unaudited).



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

<i>In millions</i>	2007	Three months ended March 31,	2006
<b>Cash flows from operating activities</b>			
Net income	\$	102	\$ 110
Adjustments to reconcile net income to net cash flow provided by operating activities			
Change in risk management assets and liabilities		113	(12)
Deferred income taxes		40	6
Depreciation and amortization		35	34
Minority interest		22	19
Changes in certain assets and liabilities			
Inventories		215	111
Receivables		54	407
Payables		(54)	(415)
Other - net		15	24
Net cash flow provided by operating activities		542	284
<b>Cash flows from investing activities</b>			
Property, plant and equipment expenditures		(53)	(47)
Other		-	5
Net cash flow used in investing activities		(53)	(42)
<b>Cash flows from financing activities</b>			
Net payments and borrowings of short-term debt		(417)	(205)
Dividends paid on common shares		(32)	(29)
Distribution to minority interest		(23)	(22)
Payments of long-term debt		(11)	-
Purchase of treasury shares		(7)	(4)
Issuance of treasury shares		8	-
Sale of common stock		-	4
Other		2	-
Net cash flow used in financing activities		(480)	(256)
Net increase (decrease) in cash and cash equivalents		9	(14)
Cash and cash equivalents at beginning of period		20	32
Cash and cash equivalents at end of period	\$	29	\$ 18
<b>Cash paid during the period for</b>			
Interest	\$	32	\$ 23
Income taxes	\$	1	\$ 12

See Notes to Condensed Consolidated Financial Statements (Unaudited).

## **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,” or the “company” mean consolidated AGL Resources Inc. and its subsidiaries (AGL Resources).

The year-end condensed balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP). We have prepared the accompanying unaudited condensed consolidated financial statements under the rules of the Securities and Exchange Commission (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 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 our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on February 7, 2007.

Due to the seasonal nature of our business, our results of operations for the three months ended March 31, 2007 and 2006 and our financial position as of December 31, 2006 and March 31, 2007 and 2006 are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period.

#### **Basis of Presentation**

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

We currently own a noncontrolling 70% financial interest in SouthStar Energy Services, LLC (SouthStar), and Piedmont Natural Gas Company (Piedmont) owns the remaining 30%. Our 70% interest is noncontrolling because all significant management decisions require approval by both owners. We record the earnings allocated to Piedmont as a minority interest in our consolidated statements of income and we record Piedmont's portion of SouthStar's capital as a minority interest in our consolidated balance sheets.

We are the primary beneficiary of SouthStar's activities and have determined that SouthStar is a variable interest entity as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities," as revised in December 2003 (FIN 46R). We determined that SouthStar is a variable interest entity because our equal voting rights with Piedmont are not proportional to our economic obligation to absorb 75% of any losses or residual returns from SouthStar (except those losses and returns related to customers in Ohio and Florida). Earnings related to customers in Ohio and Florida are allocated 70% to us and 30% to Piedmont. In addition, SouthStar obtains substantially all its transportation capacity for delivery of natural gas through our wholly owned subsidiary, Atlanta Gas Light Company (Atlanta Gas Light).

## **Inventories**

For our distribution operations subsidiaries, we record natural gas stored underground at weighted-average cost. For Sequent Energy Management, L.P. (Sequent), SouthStar and Jefferson Island Storage & Hub, LLC (Jefferson Island), we account for natural gas inventory at the lower of weighted-average cost or market (LOCOM).

Sequent, SouthStar and Jefferson Island evaluate the average cost of their natural gas inventories against market prices to determine whether any declines in market prices below the average cost 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. Sequent, SouthStar and Jefferson Island did not record adjustments in the first quarter of 2007. Sequent recorded a \$5 million net adjustment in the first quarter of 2006. SouthStar did not record an adjustment in the first quarter of 2006 and Jefferson Island's adjustment was immaterial.

## **Stock-Based Compensation**

Effective January 1, 2006, we adopted SFAS 123(R), "Share Based Payment" (SFAS 123R). On January 30, 2007, we issued grants of approximately 664,000 stock options and 124,000 restricted stock units, which will result in the recognition of approximately \$2 million of stock-based compensation expense in 2007. We use the Black-Scholes pricing model to determine the fair value of the options granted. On an annual basis, we evaluate the assumptions and estimates used to calculate our stock-based compensation expense.

There have been no significant changes to our stock-based compensation, as described in Note 5 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

## Comprehensive Income

Our comprehensive income includes net income plus other comprehensive income (OCI), which includes other gains and losses affecting shareholders' equity that GAAP excludes from net income. Such items consist primarily of unrealized gains and losses on certain derivatives designated as cash flow hedges and unfunded pension and postretirement obligations. The following table illustrates our OCI activity.

		Three months ended	
March 31,			
<i>In millions</i>	2007	2006	
Cash flow hedges:			
Net derivative unrealized gains arising during the period (net of \$- and \$5 in taxes)	\$ 1	\$ 7	
Less reclassification of realized gains included in income (net of \$3 and \$3 in taxes)	(6)	(5)	
Total	\$ (5)	\$ 2	

## Earnings per Common Share

We compute basic earnings per common share by dividing our income available to common shareholders by the weighted-average number of common shares outstanding daily. Diluted earnings per common share reflect the potential reduction in earnings per common share that could occur when potential dilutive common shares are added to common shares outstanding.

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

<i>In millions</i>	Three months ended March 31,	
	2007	2006
Denominator for basic earnings per share (1)	77.5	77.9
Assumed exercise of restricted stock, restricted stock units and stock options	0.4	0.3
Denominator for diluted earnings per share	77.9	78.2

(1) Daily weighted-average shares outstanding.

## 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 literature or in the development of estimates that impact our financial statements. The most significant estimates include our regulatory accounting, pipeline replacement program (PRP) accruals, environmental liability accruals, allowance for contingencies, pension and postretirement obligations, derivative and hedging activities and provision for income taxes. Our actual results could differ from our estimates.



## Accounting Developments

**SFAS 157** In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements. However, it eliminates inconsistencies in the guidance provided in previous accounting pronouncements.

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. All valuation adjustments will be recognized as cumulative-effect adjustments to the opening balance of retained earnings for the fiscal year in which SFAS 157 is initially applied. We are currently evaluating the impact that SFAS 157 will have on our consolidated results of operations, cash flows and financial position.

**SFAS 159** In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities" (SFAS 159), which is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. SFAS 159 establishes a framework to measure fair value for eligible financial assets and liabilities and is intended to reduce earnings volatility. Adoption of SFAS 159 is not required and we currently have no financial assets or liabilities that are eligible for this treatment.

## Note 2 - Risk Management

Our risk management activities are monitored by our Risk Management Committee (RMC). The RMC consists of members of senior management and is charged with reviewing and enforcing our risk management activities. Our risk management policies limit the use of derivative financial instruments and physical hedges within pre-defined risk tolerances associated with pre-existing or anticipated physical natural gas sales and purchases and system use and storage. We use the following derivative financial instruments and physical hedges to manage commodity price, interest rate and weather risks:

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

There have been no significant changes to our risk management activities, as described in Note 2 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

**Note 3 - Regulatory Assets and Liabilities**

We have recorded regulatory assets and liabilities in our condensed consolidated balance sheets in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). Our regulatory assets and liabilities, and associated liabilities for our unrecovered PRP costs, unrecovered environmental remediation costs (ERC) and the associated assets and liabilities of our Elizabethtown Gas hedging program are summarized in the table below.

<i>In millions</i>	March 31, 2007	Dec. 31, 2006	March 31, 2006
<b>Regulatory assets</b>			
Unrecovered PRP costs	\$ 266	\$ 274	\$ 299
Unrecovered ERC	163	170	188
Unrecovered postretirement benefit costs	12	13	13
Elizabethtown Gas hedging program	-	16	-
Unrecovered seasonal rates	-	11	-
Unrecovered purchased gas adjustment	-	14	-
Other	14	13	8
<b>Total regulatory assets</b>	<b>455</b>	<b>511</b>	<b>508</b>
<b>Associated assets</b>			
Elizabethtown Gas hedging program	1	-	3
<b>Total regulatory and associated assets</b>	<b>\$ 456</b>	<b>\$ 511</b>	<b>\$ 511</b>
<b>Regulatory liabilities</b>			
Accumulated removal costs	\$ 164	\$ 162	\$ 156
Deferred purchased gas adjustment	25	24	24
Deferred seasonal rates	22	-	23
Regulatory tax liability	22	22	15
Unamortized investment tax credit	17	18	19
Elizabethtown Gas hedging program	1	-	3
Other	14	10	6
<b>Total regulatory liabilities</b>	<b>265</b>	<b>236</b>	<b>246</b>
<b>Associated liabilities</b>			
PRP costs	230	237	261
ERC	86	87	87
Elizabethtown Gas hedging program	-	16	-
<b>Total associated liabilities</b>	<b>316</b>	<b>340</b>	<b>348</b>
<b>Total regulatory and associated liabilities</b>	<b>\$ 581</b>	<b>\$ 576</b>	<b>\$ 594</b>

There have been no significant changes to our regulatory assets and liabilities as described in Note 3 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

**Note 4 - Employee Benefit Plans**

**SFAS 158** In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS 158). We adopted SFAS 158 prospectively on December 31, 2006. SFAS 158 requires that we recognize all obligations related to defined benefit pensions and other postretirement benefits. This statement requires that we quantify the plans' funding status as an asset or a liability on our consolidated balance sheets.

SFAS 158 requires that we measure the plans' assets and obligations that determine our funded status as of the end of the fiscal year. We are also required to recognize as a component of OCI the changes in funded status that occurred during the year that are not recognized as part of net periodic benefit cost as explained in SFAS No. 87, "Employers' Accounting for Pensions," or SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

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

<i>In millions</i>	Three months ended	
	March 31,	
	2007	2006
Service cost	\$ 2	\$ 2
Interest cost	6	6
Expected return on plan assets	(8)	(8)
Amortization of prior service cost	(1)	-
Recognized actuarial loss	2	2
Net cost	\$ 1	\$ 2



Our employees do not contribute to these retirement plans. We fund the plans by contributing at least the minimum amount required by applicable regulations and as recommended by our actuary. However, we may also contribute in excess of the minimum required amount. We calculate the minimum amount of funding using the projected unit credit cost method. The Pension Protection Act (the Act) of 2006 contains new funding requirements for single employer defined benefit pension plans. The Act establishes a 100% funding target for plan years beginning after December 31, 2007. However, a delayed effective date of 2011 may apply if the pension plan meets the following targets: 92% funded in 2008; 94% funded in 2009; and 96% funded in 2010. No contribution is required for the qualified plans in 2007.

**Postretirement Benefits** The AGL Postretirement Plan covers all eligible AGL Resources employees who were employed as of June 30, 2002, if they reach retirement age while working for us. The state regulatory commissions have approved phase-ins that defer a portion of other postretirement benefits expense for future recovery. Effective December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. This act provides for a prescription drug benefit under Medicare (Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D.

On July 1, 2004, the AGL Postretirement Plan was amended to remove prescription drug coverage for Medicare-eligible retirees effective January 1, 2006.

We sponsor two defined benefit postretirement health care plans for our eligible employees: the AGL Resources Inc. Postretirement Health Care Plan and the NUI Corporation Postretirement Health Care Plan. Eligibility for these benefits is based on age and years of service. The following are the combined cost components of these two postretirement benefit plans for the periods indicated:

<i>In millions</i>	Three months ended	
	March 31, 2007	2006
Service cost	\$ -	\$ -
Interest cost	1	2
Expected return on plan assets	(1)	(1)
Amortization of prior service cost	(1)	(1)
Net cost	\$ (1)	\$ -

### Employee Savings Plan Benefits

We sponsor the Retirement Savings Plus Plan (RSP), a defined contribution benefit plan that allows eligible participants to make contributions to their accounts up to specified limits. Under the RSP, we made matching contributions to participant accounts of \$2 million and \$2 million in the first quarter of 2007 and 2006, respectively.

We also sponsor the Nonqualified Savings Plan (NSP), an unfunded, nonqualified plan similar to the RSP. The NSP provides an opportunity for eligible employees who could reach the maximum contribution amount in the RSP to contribute additional amounts for retirement savings. Our contributions to the NSP have not been significant in any year.

### Note 5 - Common Shareholders' Equity

#### Share Repurchase Program

In March 2001, our Board of Directors approved the purchase of up to 600,000 shares of our common stock to be used for issuances under the Officer Incentive Plan. In the quarter ended March 31, 2007, we purchased 7,667 shares. As of March 31, 2007, we had purchased a total of 294,234 shares, leaving 305,766 shares authorized for purchase.

In February 2006, our Board of Directors authorized a plan to purchase up to 8 million shares of our outstanding common stock over a five-year period. These purchases are intended to offset share issuances under our employee and non-employee director incentive compensation plans and our dividend reinvestment and stock purchase plans. Stock purchases under this program may be made in the open market or in private transactions at times and in amounts that we deem appropriate. There is no guarantee as to the exact number of shares that we will purchase, and we can terminate or limit the program at any time. We will hold the purchased shares as treasury shares. As of March 31, 2007, we had repurchased a total of 1,207,800 shares at a weighted-average price of \$37.32. During the quarter ended March 31, 2007, we repurchased 180,300 shares at a weighted-average price of \$41.06.

**Note 6 - Debt**

Our issuance of various securities, including long-term and short-term debt, is subject to customary approval or authorization by state and federal regulatory bodies, including state public service commissions, the SEC and the Federal Energy Regulatory Commission (FERC). The following table provides more information on our various securities. Our financing consists of the short and long-term debt indicated in the following table. There have been no significant changes to our debt since December 31, 2006, which was described in Note 7 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

<i>In millions</i>	Year(s) due	Int. rate (1)	Outstanding as of:		
			Mar. 31, 2007	Dec. 31, 2006	Mar. 31, 2006
<b>Short-term debt</b>					
Commercial paper (2)	2007	5.4%	\$ 96	\$ 508	\$ 291
Sequent lines of credit (3)	2007	5.7	7	2	25
Pivotal Utility Holdings, Inc. line of credit (4)	2007	5.7	7	17	-
Capital leases	2007	4.9	1	1	1
Current portion of long-term debt	2007	7.0	-	11	-
Notes payable to Trusts	2006	8.0	-	-	155
<b>Total short-term debt (5)</b>		<b>5.4%</b>	<b>\$ 111</b>	<b>\$ 539</b>	<b>\$ 472</b>
<b>Long-term debt - net of current portion</b>					
Senior notes	2011-2034	4.5-7.1%	\$ 1,150	\$ 1,150	\$ 975
Gas facility revenue bonds, net of unamortized issuance costs	2022-2033	3.6-5.7	199	199	199
Medium-term notes	2012-2027	6.6-9.1	196	196	208
Notes payable to Trusts	2037	8.2	77	77	77
Capital leases	2013	4.9	6	6	6
AGL Capital interest rate swaps	2011	9.0	(5)	(6)	(7)
<b>Total long-term debt (5)</b>		<b>6.1%</b>	<b>\$ 1,623</b>	<b>\$ 1,622</b>	<b>\$ 1,458</b>
<b>Total debt (5)</b>		<b>6.0%</b>	<b>\$ 1,734</b>	<b>\$ 2,161</b>	<b>\$ 1,930</b>

(1) As of March 31, 2007.

(2) The daily weighted-average interest rates were 5.4% and 4.6% for the three months ended March 31, 2007 and 2006, respectively.

(3) The daily weighted-average interest rates were 5.7% and 5.1% for the three months ended March 31, 2007 and 2006, respectively.

(4) The daily weighted-average interest rate was 5.7% for the three months ended March 31, 2007.

(5) Weighted-average interest rate, including interest rate swaps if applicable and excluding debt issuance and other financing-related costs.

**Note 7 - Commitments and Contingencies**

**Contractual Obligations and Commitments** We have incurred various contractual obligations and financial commitments in the normal course of our operations and financing activities. 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. There were no significant changes to our contractual obligations which were described in Note 8 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

Contingent financial commitments represent obligations that become payable only if certain predefined events occur, such as financial guarantees, and include the nature of the guarantee and the maximum potential amount of future payments that could be required of us as the guarantor. The following table illustrates our expected contingent financial commitments as of March 31, 2007.

<i>In millions</i>	Commitments due before Dec. 31,			2008 & thereafter
	Total	2007		
Standby letters of credit and performance and surety bonds	\$ 14	\$ 7	\$	7

**Litigation**

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

There have been no significant changes in the Jefferson Island litigation or the estimate of \$8 million in incurred unusable costs if the Louisiana Department of Natural Resources was successful in terminating our lease and causing us to cease Jefferson Island's expansion project, which was described in Note 8 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006. We believe the ultimate resolution of such litigation will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

**Note 8 - Income Taxes**

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. The Interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. We adopted the provisions of FIN 48 on January 1, 2007. At the date of adoption, and as of March 31, 2007, we do not have a liability for unrecognized tax benefits.

We recognize accrued interest and penalties related to unrecognized tax benefits in operating expenses in the condensed consolidated statements of income, which is consistent with the recognition of these items in prior reporting periods. As of January 1, 2007, the company did not have a liability recorded for payment of interest and

penalties associated with uncertain tax positions.

We file a U.S. federal consolidated income tax return and various state income tax returns. We are no longer subject to income tax examinations by the Internal Revenue Service or any state for years before 2002.

As of March 31, 2007, there are no unrecognized tax benefits and we do not currently anticipate that the total amount of unrecognized tax benefits will significantly increase or decrease by the end of 2007.

**Note 9 - Segment Information**

Our four operating segments are as follows:

- Distribution operations consists primarily of:
  - o Atlanta Gas Light
- o Chattanooga Gas Company (Chattanooga Gas)
  - o Elizabethtown Gas
  - o Elkton Gas
  - o Florida City Gas
- o Virginia Natural Gas, Inc. (Virginia Natural Gas)
  - Retail energy operations consists of SouthStar
    - Wholesale services consists of Sequent
  - Energy investments consists primarily of:
    - o AGL Networks, LLC
    - o Jefferson Island
- o Pivotal Propane of Virginia (Pivotal Propane)
  - o Golden Triangle Storage, Inc.

We treat corporate, our fifth segment, as a non-operating business segment, and it currently includes AGL Resources, AGL Services Company and the effect of intercompany eliminations. We eliminated intercompany sales for the three months ended March 31, 2007 and 2006 from our condensed consolidated statements of income.

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

You should not consider EBIT an alternative to, or a more meaningful indicator of our operating performance than, operating income or net income as determined in accordance with GAAP. In addition, our EBIT may not be comparable to a similarly titled measure of another company. The reconciliations of EBIT to operating income and net income for the three months ended March 31, 2007 and 2006 are presented in the following table.

	Three months ended March 31,	
<i>In millions</i>	2007	2006
Operating revenues	\$ 973	\$ 1,044
Operating expenses	757	816
Operating income	216	228
Other income		
(expense)	1	(2)
Minority interest	(22)	(19)

EBIT	195	207
Interest expense	(31)	(30)
Earnings before income taxes	164	177
Income taxes	62	67
Net income	\$ 102	\$ 110

Balance sheet information at December 31, 2006, is as follows:

<i>In millions</i>	Identifiable and total assets (1)	Goodwill
Distribution operations	\$ 4,565	\$ 406
Retail energy operations	298	-
Wholesale services	849	-
Energy investments	373	14
Corporate and intercompany eliminations (2)	62	-
Consolidated AGL Resources	\$ 6,147	\$ 420

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

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

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Summarized income statement information, identifiable and total assets, goodwill and property, plant and equipment expenditures as of and for the three months ended March 31, 2007 and 2006 by segment are shown in the following tables.

Three months ended March 31, 2007

<i>In millions</i>	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (3)	Consolidated AGL Resources
Operating revenues from external parties	\$ 592	\$ 354	\$ 19	\$ 9	\$ (1)	\$ 973
Intercompany revenues (1)	59	-	-	-	(59)	-
Total operating revenues	651	354	19	9	(60)	973
Operating expenses						
Cost of gas	403	251	-	-	(59)	595
Operation and maintenance	88	17	9	5	(3)	116
Depreciation and amortization	29	1	1	1	3	35
Taxes other than income taxes	9	-	-	1	1	11
Total operating expenses	529	269	10	7	(58)	757
Operating income (loss)	122	85	9	2	(2)	216
Other income	1	-	-	-	-	1
Minority interest	-	(22)	-	-	-	(22)
EBIT	\$ 123	\$ 63	\$ 9	\$ 2	\$ (2)	\$ 195
Identifiable and total assets (2)	\$ 4,524	\$ 284	\$ 730	\$ 375	\$ (189)	\$ 5,724
Goodwill	\$ 406	\$ -	\$ -	\$ 14	\$ -	\$ 420
Capital expenditures for property, plant and equipment	\$ 41	\$ -	\$ 1	\$ 4	\$ 7	\$ 53

Three months ended March 31, 2006

<i>In millions</i>	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (3)	Consolidated AGL Resources
Operating revenues from external parties	\$ 596	\$ 390	\$ 48	\$ 10	\$ -	\$ 1,044
Intercompany revenues (1)	44	-	-	-	(44)	-
Total operating revenues	640	390	48	10	(44)	1,044
Operating expenses						
Cost of gas	395	296	5	2	(43)	655
Operation and maintenance	85	18	11	5	(2)	117
	29	1	-	1	3	34



Depreciation and amortization						
Taxes other than income taxes	8	-	-	-	2	10
Total operating expenses	517	315	16	8	(40)	816
Operating income (loss)	123	75	32	2	(4)	228
Other income	-	(2)	-	-	-	(2)
Minority interest	-	(19)	-	-	-	(19)
EBIT	\$ 123	\$ 54	\$ 32	\$ 2	(4)\$	207

Identifiable and total assets						
(2)	\$ 4,547	\$ 308	\$ 693	\$ 329	(141)\$	5,736
Goodwill	\$ 408	- \$	- \$	14 \$	- \$	422
Capital expenditures for property, plant and equipment	\$ 33	\$ 1	\$ 1			