AGL RESOURCES INC
Form 10-K
February 09, 2011

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $5 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 under the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act. Yes ¨ No þ

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, and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

(Do not check if smaller reporting company)

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the registrant's common stock was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, was $2,792,228,461.

The number of shares of the registrant's common stock outstanding as of January 31, 2011 was 77,999,557.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the 2011 Annual Meeting of Shareholders ("Proxy Statement") to be held May 3, 2011, are incorporated by reference in Part III.

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GLOSSARY OF KEY TERMS

AGL Capital	AGL Capital Corporation
AGL Networks	AGL Networks, LLC
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Bridge Facility	$1.05 billion credit agreement entered into by AGL Capital to help finance a portion of the proposed merger with Nicor.
Chattanooga Gas	Chattanooga Gas Company
Credit Facility	$1 billion credit agreement entered into by 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 rate mechanisms
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings
Florida Commission	Florida Public Service Commission, the state regulatory agency for Florida City Gas
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.
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 to March when natural gas usage and operating revenues are generally higher because more customers are connected to our distribution systems when weather is colder
Henry Hub	A major interconnection point of natural gas pipelines in Erath, Louisiana where NYMEX natural gas future contracts are priced
Jefferson Island	Jefferson Island Storage & Hub, LLC
LNG	Liquefied natural gas
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
Mcf	Million cubic feet
MGP	Manufactured gas plant
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

NUI	NUI Corporation – an acquisition completed in November 2004
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 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 Company, Inc.
Pivotal Utility	Pivotal Utility Holdings, Inc., doing business as Elizabethtown Gas, Elkton Gas and Florida City Gas
PP&E	Property, plant and equipment
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
Tennessee Authority	Tennessee Regulatory Authority, the state regulatory agency for Chattanooga Gas.
Term Loan Facility	$300 million credit agreement entered into by AGL Capital to repay the $300 million senior notes due in 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.
Virginia Commission	Virginia State Corporation Commission, the state regulatory agency for Virginia Natural Gas
WACOG	Weighted average cost of gas
WNA	Weather normalization adjustment

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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 within the meaning of the U.S. federal securities laws and are subject to uncertainties and risks, as itemized in Item 1A “Risk Factors”, in this Form 10-K. 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 involve matters that are not historical facts, and because these statements involve anticipated events or conditions, 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. Our expectations are not guarantees and are based on currently available competitive, financial and economic data along with our operating plans. While we believe that our expectations are reasonable in view of currently available information, 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 vary significantly 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; the impact of acquisitions and divestitures; direct or indirect effects on our business, financial condition or liquidity resulting from a change in our credit ratings or the credit ratings of our counterparties or competitors; interest rate fluctuations; financial market conditions, including recent disruptions in the capital markets and lending environment and the current economic downturn; and general economic conditions; uncertainties about environmental issues and the related impact of such issues; 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; acts of war or terrorism; and other factors described in detail in our filings with the SEC.

In addition, actual results may differ materially due to the expected timing and likelihood of completion of the proposed merger with Nicor, including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the proposed merger that could reduce anticipated benefits or cause the parties to abandon the merger, the diversion of management's time and attention from our ongoing business during this time period, the ability to maintain relationships with customers, employees or suppliers as well as the ability to successfully integrate the businesses and realize cost savings and any other synergies and the risk that the credit ratings of the combined company or its subsidiaries may be different from what the companies expect.

We caution readers that the important factors described elsewhere in this report, among others, could cause our business, results of operations or financial condition to differ significantly from those expressed in any forward-looking statements. There also may be other factors that we cannot anticipate or that are not described in this report that could cause results to differ significantly from our expectations.

Forward-looking statements are only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise, except as required under U.S. federal securities law.

PART I

ITEM 1. BUSINESS

Nature of Our Business

Unless the context requires otherwise, references to “we,” “us,” “our,” the “company” and “AGL Resources” are intended to mean consolidated AGL Resources Inc. and its subsidiaries. We are an energy services holding company whose principal business is the distribution of natural gas in six states - Florida, Georgia, Maryland, New Jersey, Tennessee and Virginia. Our six utilities serve approximately 2.3 million end-use customers.

We are also involved in several related and complementary businesses, including retail natural gas marketing to end-use customers in Georgia, Ohio and Florida; natural gas asset management and related logistics activities for each of our utilities as well as for non-affiliated companies; natural gas storage arbitrage and related activities; and the development and operation of high-deliverability natural gas storage assets. We manage these businesses through four operating segments — distribution operations, retail energy operations, wholesale services and energy investments — and a non-operating corporate segment.

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Proposed Merger with Nicor

In December 2010, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Nicor. In accordance with the Merger Agreement, each share of Nicor common stock outstanding at the Effective Time (as defined in the Merger Agreement), other than shares to be cancelled, and Dissenting Shares (as defined in the Merger Agreement), will be converted into the right to receive consideration consisting of (i) $21.20 in cash and (ii) 0.8382 shares of our common stock, subject to adjustment in certain circumstances.

The completion of the proposed merger is subject to various customary conditions, including, among others (i) shareholder approval by both companies, (ii) expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, (iii) the SEC's clearance of a registration statement registering our common stock to be issued in connection with the proposed merger and (iv) receipt of all required regulatory approvals from, among others, the Illinois Commerce Commission.

The Merger Agreement contains certain termination rights for both us and Nicor, and further provides for the payment of fees and expenses upon termination under specified circumstances. The proposed merger is expected to be completed in the second half of 2011. Except for specific references to the proposed merger, the disclosures contained in this report on Form 10-K relate solely to AGL Resources.

In January 2011, we filed a joint application with Nicor to the Illinois Commerce Commission for approval of the proposed merger. The application did not request a rate increase, but did include a commitment to maintain the number of full-time equivalent employees at Nicor's natural gas utility for a period of three years following merger completion. The Illinois Commerce Commission has eleven months to act upon the application; however, we and Nicor have asked for approval of the merger by October 1, 2011.

For additional information relating to the proposed merger please see our Form 8-K filed on December 7, 2010 and the joint proxy statement / prospectus contained in the registration statement on Form S-4 filed on February 4, 2011.

Distribution Operations

Our distribution operations segment is the largest component of our business and includes six natural gas local distribution utilities. These utilities construct, manage and maintain intrastate natural gas pipelines and distribution facilities and include:

- Atlanta Gas Light in Georgia
- Chattanooga Gas in Tennessee
- Elizabethtown Gas in New Jersey
- Elkton Gas in Maryland
- Florida City Gas in Florida
- Virginia Natural Gas in Virginia

Utility Regulation and Rate Design

Rate Structures Each utility operates subject to regulations and oversight of the state regulatory agencies in each of the six states that we serve with respect to rates charged to our customers, maintenance of accounting records and various service and safety matters. Rates charged to our customers vary according to customer class (residential, commercial or industrial) and rate jurisdiction. These agencies approve rates designed to provide us the opportunity to generate revenues to recover all prudently incurred costs, including a return on rate base sufficient to pay interest on debt and provide a reasonable return for our shareholders. Rate base generally consists of the original cost of utility plant in service, working capital and certain other assets; less accumulated depreciation on utility plant in service and net deferred income tax liabilities, and may include certain other additions or deductions.

For our largest utility, Atlanta Gas Light, the natural gas market was deregulated in 1997. Accordingly, Marketers, rather than a traditional utility, sell natural gas to end-use customers in Georgia and handle customer billing functions. The Marketers file their rates monthly with the Georgia Commission. As a result of operating in a deregulated environment, Atlanta Gas Light's role includes:

- distributing natural gas for Marketers
- constructing, operating and maintaining the gas system infrastructure, including responding to customer service calls and leaks
- reading meters and maintaining underlying customer premise information for Marketers
- planning and contracting for capacity on interstate transportation and storage systems

Atlanta Gas Light earns revenue by charging rates to its customers based primarily on monthly fixed charges that are periodically adjusted. The Marketers add these fixed charges to customer bills. This mechanism, called a straight-fixed-variable rate design minimizes the seasonality of Atlanta Gas Light’s revenues since the monthly fixed charge is not volumetric or directly weather dependent.

With the exception of Atlanta Gas Light, the earnings of our regulated utilities can be affected by customer consumption patterns that are a function of weather conditions and price levels for natural gas. Specifically, customer demand substantially increases during the Heating Season when natural gas is used for heating purposes. Various mechanisms such as weather normalization mechanisms exist at most of our utilities that limit our exposure to weather changes within typical ranges in all of our jurisdictions.

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All of our utilities, excluding Atlanta Gas Light, are authorized to use natural gas cost recovery mechanisms that allow them to adjust their rates to reflect changes in the wholesale cost of natural gas and to ensure they recover 100% of the costs incurred in purchasing gas for their customers. Since Atlanta Gas Light does not sell natural gas directly to its end-use customers, it does not need or utilize a natural gas cost recovery mechanism.

In traditional rate designs, utilities recover a significant portion of their fixed customer service and pipeline infrastructure costs based on assumed natural gas volumes used by our customers. Four of our utilities have “decoupled” regulatory mechanisms in place that encourage conservation. We believe that separating, or decoupling, the recoverable amount of these fixed costs from the customer throughput volumes, or amounts of natural gas used by our customers, allows us to encourage our customers’ energy conservation and ensures a more stable recovery of our fixed costs.

Recent Regulatory Actions In May 2010, the Tennessee Authority approved new base rates for Chattanooga Gas, which went into effect in June 2010. These new rates include energy-efficiency and conservation programs, as well as a mechanism to recover lost revenue resulting from these programs, updated depreciation rates that resulted in decreased depreciation expense of $2 million annually, and the recovery of approximately $1 million in prior legal expenses. The approved rate adjustment includes a reduction in the authorized return on equity from 10.3% to 10.05%. This decoupled rate design is the first such program for a utility in Tennessee.

In October 2010, the Georgia Commission voted and approved an annual increase of $27 million in base rate revenues for Atlanta Gas Light which became effective in November 2010. These new rates are reflected in Atlanta Gas Light’s base rate charges assessed to customers by their Marketer.

The Georgia Commission also adopted a new acquisition synergy sharing policy that allows Atlanta Gas Light to recover 50% of net synergy savings achieved on future acquisitions for a period of ten years. The policy also allows Atlanta Gas Light to recover, through December 2015, 25%, or $4 million annually, in acquisition synergy savings it continues to achieve from the 2004 NUI acquisition.

The annual rate increase also includes approximately $10 million in new customer service and safety oriented programs which Atlanta Gas Light will invest in technology and hire additional employees to support the programs. The decision also restores a standard depreciation methodology used to calculate net salvage value of utility assets, resulting in an increase in depreciation expenses of approximately $2 million.

In February 2011, Virginia Natural Gas filed a rate case with the Virginia Commission, seeking a net increase in revenues of $25 million. This requested rate increase is primarily the result of our infrastructure investments over the past ten years, including the Hampton Roads pipeline project and operational cost increases. The rate case requested a 10.95% return on equity and an authorized equity to total capitalization ratio of 51%. In order to mitigate the impact of the proposed rate increase on customer bills, we are proposing an alternative rate schedule that would phase in the Hampton Roads pipeline project capital recovery into base rates over a three year period. We expect the Virginia Commission to make a decision on this rate case within 12-18 months of our filing. New rates could go into effect, subject to refund, on August 1, 2011.

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The following table provides regulatory information for our largest utilities.

	Atlanta Gas Light		Elizabethtown Gas		Virginia Natural Gas		Florida City Gas		Chattanooga Gas	
Authorized return on rate base (1)	8.10	%	7.64	%	9.24	%	7.36	%	7.41	%
Estimated 2010 return on rate base (2)	7.26	%	7.87	%	8.24	%	5.04	%	8.98	%
Authorized return on equity (1)	10.75	%	10.30	%	10.90	%	11.25	%	10.05	%
Estimated 2010 return on equity (2)	9.10	%	10.76	%	9.62	%	6.22	%	13.45	%
Authorized rate base % of equity (1)	51.0	%	47.9	%	52.4	%	36.8	%	46.06	%
Rate base included in 2010 return on equity (in millions) (3)	$ 1,312		$ 435		$ 502		$ 164		$ 91	
Performance based rates (4)					ü					
Weather normalization (5)			ü		ü				ü	
Decoupled or straight-fixed-variable rates (6)	ü				ü				ü	
Regulatory infrastructure program rates (7)	ü		ü							
Synergy sharing policy (8)	ü									
Last decision on change in rates	Oct 2010		Dec 2009		July 2006		N/A		May 2010	

(1) The authorized return on rate base, return on equity, and percentage of equity were those authorized as of December 31, 2010.

(2) Estimates based on principles consistent with utility ratemaking in each jurisdiction.

(3) Estimated based on 13-month average.

(4) Involves frozen rates.

(5) Involves regulatory mechanisms that allow us to recover our costs in the event of unseasonal weather, but are not direct offsets to the potential impacts of weather and customer consumption on earnings. These mechanisms are designed to help stabilize operating results by increasing base rate amounts charged to customers when weather is warmer than normal and decreasing amounts charged when weather is colder than normal.

(6) Decoupled and straight-fixed-variable rate designs allow for the recovery of fixed customer service costs separately from assumed natural gas volumes used by our customers.

(7) Includes programs that update or expand our distribution systems and liquefied natural gas facilities. These programs include the program at Atlanta Gas Light and the utility infrastructure program at Elizabethtown Gas.

(8) Involves the recovery of a portion of net synergy savings achieved on future acquisitions.

Environmental Remediation Costs

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require us to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites. The following table provides more information on the costs related to remediation of our former operating sites.

In millions	Cost estimate range	Amount recorded	Expected costs over next twelve months
Georgia and Florida	$ 57 - $105	$ 57	$ 3
New Jersey		75	10

		75 - 138				
North Carolina		11 - 16		11		1
Total	$	143 - $259	$	143	$	14

We report these estimates on an undiscounted basis. As we continue to conduct the actual remediation and enter into cleanup contracts, 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 uncertainties, and we regularly attempt to refine and update these engineering estimates. We primarily recover these costs through rate riders.

See item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Critical Accounting Estimates", for additional information about our environmental remediation liabilities. Also see Item 8, "Financial Statements and Supplementary Data", and Note 10, "Commitment and Contingencies", for information on our environmental remediation efforts.

Competition and Customer Demand

All of our utilities face competition from other energy products. Our principal competition is from electric utilities and oil and propane providers serving the residential and commercial markets throughout our service areas. Additionally, the potential displacement or replacement of natural gas appliances with electric appliances is a competitive factor.

Competition for space heating and general household and small commercial energy needs generally occurs at the initial installation phase when the customer or builder makes decisions as to which types of equipment to install. Customers generally continue to use the chosen energy source for the life of the equipment. Customer demand for natural gas could be affected by numerous factors, including:

- changes in the availability or price of natural gas and other forms of energy
- general economic conditions
- energy conservation
- legislation and regulations
- the capability to convert from natural gas to alternative fuels
- weather
- new commercial construction and
- new housing starts.

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While there has been some improvement in the economic conditions within the areas we serve, there continue to be high rates of unemployment and depressed housing markets with high inventories, significantly reduced new home construction and a slow-down in new commercial development. As a result, we have experienced slight customer losses in our distribution operations segment.

Our year-over-year consolidated utility customer loss rate was (0.1)% in 2010, compared to (0.3)% for 2009. We anticipate overall competition and customer trends in 2011 to be similar to our 2010 results.

We continue to mitigate the effects of the current economic conditions on our business through our use of a variety of targeted marketing programs designed to attract new customers and to retain existing customers. These efforts include working to add residential customers, multifamily complexes and commercial customers who use natural gas for purposes other than space heating, as well as evaluating and launching new natural gas related programs, products and services to enhance customer growth, mitigate customer attrition and increase operating revenues.

These programs generally emphasize natural gas as the fuel of choice for customers and seek to expand the use of natural gas through a variety of promotional activities. In addition, we partner with numerous third-party entities such as builders, realtors, plumbers, mechanical contractors, architects and engineers to market the benefits of natural gas appliances and to identify potential retention options early in the process for those customers who might consider converting to alternative fuels.

We work with regulators and state agencies in each of our jurisdictions to educate customers throughout the year about energy costs in advance of the Heating Season, and to ensure that those customers qualifying for the Low Income Home Energy Assistance Program and other similar programs receive any needed assistance and we expect to continue this focus for the foreseeable future. We have also worked with the Virginia Commission and the New Jersey BPU to educate our customers about energy efficiency and conservation and to provide rebates and other incentives for the purchase of high-efficiency natural gas-fueled equipment.

Capital Projects

We continue to focus on capital discipline and cost control, while moving ahead with projects and initiatives that we expect will have current and future benefits, provide an appropriate return on invested capital and ensure the safety, reliability and integrity of our utility infrastructure. The table below and the following discussions provide updates on some of our larger capital projects at our distribution operations segment. Our anticipated expenditures for these programs in 2011 are discussed in 'Liquidity and Capital Resources' under the caption 'Cash Flows from Financing Activities'.

In millions	Expenditures in 2010	Anticipated completion
Pipeline replacement program	$ 81	2013
Integrated System Reinforcement Program	54	2012
Integrated Customer Growth Program	5	2012
Enhanced infrastructure program	46	2011
Total	$ 186	

Atlanta Gas Light In October 2009, the Georgia Commission approved Atlanta Gas Light's STRIDE program. As approved, STRIDE is comprised of the ongoing pipeline replacement program, which was started in 1998 and the new Integrated System Reinforcement Program (i-SRP).

The purpose of the i-SRP program under STRIDE is to upgrade Atlanta Gas Light's distribution system and liquefied natural gas facilities in Georgia, improve its system reliability and operational flexibility, and create a platform to meet long-term forecasted growth. Under STRIDE, Atlanta Gas Light is required to file an updated ten-year forecast of infrastructure requirements under i-SRP along with a new three-year construction plan every three years for review and approval by the Georgia Commission.

In January 2010, the Georgia Commission also approved the Integrated Customer Growth Program (i-CGP) under STRIDE which authorized Atlanta Gas Light to extend Atlanta Gas Light's pipeline facilities to serve customers without pipeline access and create new economic development opportunities in Georgia.

Elizabethtown Gas In 2009, the New Jersey BPU approved an accelerated enhanced infrastructure program, which was created in response to the New Jersey Governor's request for utilities to assist in the economic recovery by increasing infrastructure investments. A regulatory cost recovery mechanism has been established whereby estimated rates go into effect at the beginning of each year. At the end of the program the regulatory cost recovery mechanism will be trued-up and any remaining costs not previously collected will be included in base rates. In December 2010, Elizabethtown Gas made a request to the New Jersey BPU to spend an additional $40 million under this program to be spent in 2011 and 2012. The outcome of this request is still pending.

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Collective Bargaining Agreements

The following table provides information about our natural gas utilities' collective bargaining agreements.

	# of Employees	Contract Expiration Date
Virginia Natural Gas		
International Brotherhood of Electrical Workers (Local No. 50)	125	May 2012
Elizabethtown Gas		
Utility Workers Union of America (Local No. 424)	167	Nov 2011
Total	292	

Our current collective bargaining agreements do not require our participation in multiemployer retirement plans and we have no obligation to contribute to any such plans. These agreements represent approximately 11% of our total employees and we believe that our relations with them are good.

Retail Energy Operations

Our retail energy operations segment consists of SouthStar, a joint venture currently owned 85% by our subsidiary, Georgia Natural Gas Company, and 15% by Piedmont. SouthStar markets natural gas and related services under the trade name Georgia Natural Gas to retail customers on an unregulated basis, primarily in Georgia. SouthStar also serves retail customers in Ohio and Florida and markets natural gas to larger commercial and industrial customers in Alabama, Tennessee, North Carolina, South Carolina, Florida and Georgia.

SouthStar expanded into the Ohio market in 2006, principally through being awarded supply agreements using retail choice programs. We continue to monitor and evaluate other states where natural gas choice programs may offer potential future markets and sources for growth.

Prior to January 1, 2010, we owned a 70% interest in SouthStar and Piedmont owned 30%. However, in July 2009, we entered into an amended joint venture agreement with Piedmont pursuant to which we purchased an additional 15% ownership interest for $58 million, effective January 1, 2010, thus increasing our interest to 85%. Prior to the effectiveness of our ownership increase, SouthStar's earnings for customers in Georgia were allocated 75% to us and 25% to Piedmont, while its earnings for customers in Ohio and Florida were allocated 70% to us and 30% to Piedmont. Earnings are now allocated entirely in accordance with the ownership interests. We have no contractual rights to acquire Piedmont's remaining 15% ownership interests.

SouthStar is governed by an executive committee, which is comprised of six members, three representatives from AGL Resources and three from Piedmont. Under the joint venture agreement, all significant management decisions require the unanimous approval of the SouthStar executive committee; accordingly, our 85% financial interest is considered to be noncontrolling. We record the earnings allocated to Piedmont as a noncontrolling interest in our Consolidated Statements of Income, and we record Piedmont's portion of SouthStar's capital as a noncontrolling interest in our Consolidated Statements of Financial Position.

SouthStar's operations are sensitive to seasonal weather, natural gas prices, customer growth and consumption patterns similar to those affecting our utility operations. SouthStar's retail pricing strategies and the use of a variety of hedging strategies, such as the use of futures, options, swaps, weather derivative instruments and other risk management tools, help to ensure retail customer costs are covered to mitigate the potential effect of these issues and commodity price risk on its operations. For more information on SouthStar's energy marketing and risk management activities, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk - Commodity Price Risk."

Competition SouthStar competes with other energy Marketers to provide natural gas and related services to customers in Georgia and the Southeast. In the Georgia market, SouthStar is the largest of eleven Marketers, with average customers of approximately 500,000 over the last three years and market share of 33%.

In recent years, increased competition and the heavy promotion of fixed price plans by SouthStar’s competitors has resulted in increased pressure on retail natural gas margins. In response to these market conditions SouthStar’s residential and commercial customers have been migrating to fixed price plans, which, combined with increased competition from other Marketers, has impacted SouthStar’s customer growth as well as margins.

In addition, similar to our natural gas utilities, SouthStar faces competition based on customer preferences for natural gas compared to other energy products and the comparative prices of those products. Natural gas price volatility in the wholesale natural gas commodity market has also contributed to an increase in competition for residential and commercial customers. SouthStar continues to use a variety of targeted marketing programs to attract new customers and to retain existing customers.

Operations SouthStar generates revenues primarily in three ways. The first is through the sale of natural gas to residential, commercial and industrial customers, primarily in Georgia where SouthStar captures a spread between wholesale and retail natural gas prices.

The second way SouthStar generates revenues is through the collection of monthly service fees and customer late payment fees. SouthStar evaluates the combination of these two retail price components to ensure such pricing is structured to cover related retail customer costs, such as bad debt expense, customer service and billing, and lost and unaccounted-for gas, and to provide a reasonable profit, as well as being competitive to attract new customers and maintain market share.

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The third way SouthStar generates revenues is through its commercial operations of optimizing storage and transportation assets and effectively managing commodity risk, which enables SouthStar to maintain competitive retail prices and operating margin. SouthStar is allocated storage and pipeline capacity from Atlanta Gas Light that is used to supply natural gas to its customers in Georgia. Through hedging transactions, SouthStar manages exposures arising from changing commodity prices by using natural gas storage transactions to capture operating margin from natural gas pricing differences that occur over time. SouthStar's risk management policies allow the use of derivative instruments for hedging and risk management purposes but prohibit the use of derivative instruments for speculative purposes.

Wholesale Services

Our wholesale services segment consists primarily of Sequent, our wholly-owned subsidiary involved in asset management and optimization, storage, transportation, producer and peaking services and wholesale marketing. The wholesale services segment also includes our wholly-owned subsidiary Compass Energy (Compass), which we acquired in 2007. Compass provides natural gas supply and services to commercial, industrial and governmental customers primarily in Kentucky, Ohio, Pennsylvania, Virginia and West Virginia. Compass contributed $2 million of EBIT in 2010 and zero in 2009.

Sequent utilizes a portfolio of natural gas storage assets, contracted supply from all of the major producing regions, as well as contracted storage and transportation capacity across the Gulf Coast, Eastern, Midwestern and Western sections of the United States and Canada to provide these services to its customers, consisting primarily of electric and natural gas utilities, power generators and large industrial customers. Sequent's logistical expertise enables it to provide its customers with natural gas from the major producing regions and market hubs in the United States and Canada and meet its delivery requirements and customer obligations at competitive prices by leveraging its portfolio of natural gas storage assets and contracted natural gas supply, transportation and storage capacity.

Sequent's portfolio of storage and transportation capacity also enables it to generate additional operating margin by optimizing the contracted assets through the application of its wholesale market knowledge and risk management skills as the opportunities arise in the Gulf Coast, Eastern, Midwestern and Western sections of the United States and Canada. These asset optimization opportunities focus on capturing the value from idle or underutilized assets, typically by participating in transactions to take advantage of volatility in pricing differences between varying geographic locations and time horizons (location and seasonal spreads) within the natural gas supply, storage and transportation markets to generate earnings. Sequent seeks to mitigate the commodity price and volatility risks and protect its operating margin through a variety of risk management and economic hedging activities.

Sequent's earnings are largely impacted by volatility in the natural gas marketplace. Volatility arises from a number of factors such as weather fluctuations or the change, supply, or demand for natural gas in different regions of the country. In December 2010, cold weather in the Northeast and Mid-Atlantic sections of the United States created not only customer demand for natural gas but also volatility, enabling Sequent to generate a large portion (approximately 25%) of its full year 2010 operating margin.

While this cold weather in December 2010 contributed to volatility in the marketplace, overall Sequent experienced reduced volatility in 2010 and continues to expect lower volatility brought on by a robust natural gas supply and ample storage in the market. This volatility is partially reflected in the year-over-year $14 million decline in economic value or operating revenues expected to be recorded in future periods associated with its existing natural gas storage inventory as discussed under energy marketing activities, as well as its transportation portfolio. Also contributing to the year-over-year decline is the impact of decreased gains on the derivative financial instruments used to hedge Sequent's storage and transportation positions.

Competition Sequent competes for asset management, long-term supply and seasonal peaking service contracts with other energy wholesalers, often through a competitive bidding process. Sequent is able to price competitively by utilizing its portfolio of contracted storage and transportation assets and by renewing and adding new contracts at prevailing lower rates. Sequent will further continue to broaden its market presence in the Pacific Northwest section of the United States and Canada, as well as pursue additional opportunities with power generation companies located in the areas of the country it operates. Sequent is also focused on building its fee based services in part to have a source of operating margin that is less impacted by volatility in the marketplace.

Asset Management Transactions Sequent's asset management customers include affiliated and nonaffiliated utilities, municipal utilities, power generators and large industrial customers. These customers, due to seasonal demand or levels of activity, may have contracts for transportation and storage capacity which exceed their actual requirements. Sequent enters into structured agreements with these customers, whereby Sequent, on behalf of the customers, optimizes the transportation and storage capacity during periods when customers do not use it for their own needs. Sequent may capture incremental operating margin through optimization, and either share margins with the customers or pay them a fixed amount.

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Sequent has entered into asset management agreements with our affiliated utilities that include profit sharing mechanisms and fixed fee payments that require Sequent to make aggregate annual minimum payments of $10 million in 2011. These agreements are scheduled to expire over the next three years. The following table provides payments made under these agreements during the last three years.

	Profit sharing / fee payments		
In millions	2010	2009	2008
Atlanta Gas Light	$ 4	$ 16	$ 9
Elizabethtown Gas	10	11	5
Chattanooga Gas	4	4	4
Virginia Natural Gas	5	7	2
Florida City Gas	1	1	1
Total	$ 24	$ 39	$ 21

Transportation Transactions Sequent contracts for natural gas transportation capacity and participates in transactions that manage the natural gas commodity and transportation costs in an attempt to achieve the lowest cost to serve its various markets. Sequent seeks to optimize this process on a daily basis as market conditions change by evaluating all the natural gas supplies, transportation alternatives and markets to which it has access and identifying the lowest-cost alternatives to serve the various markets. This enables Sequent to capture geographic pricing differences across these various markets as delivered natural gas prices change.

As Sequent executes transactions to secure transportation capacity, it often enters into forward financial contracts to hedge its positions and lock-in a margin on future transportation activities. The hedging instruments are derivatives, and Sequent reflects changes in the derivatives' fair value in its reported operating results in the period of change, which can be in periods prior to actual utilization of the transportation capacity.

Producer Services Sequent's producer services business primarily focuses on aggregating natural gas supply from various small and medium-sized producers located throughout the natural gas production areas of the United States. Sequent provides producers with certain logistical and risk management services that offer them attractive options to move their supply into the pipeline grid.

Natural Gas Storage Inventory and Transactions Sequent maintains natural gas storage balances for volumes associated with energy marketing activities and parked gas transactions and records these within natural gas stored underground inventory on our Consolidated Statement of Financial Position. Further and generally in connection with non-affiliated asset management transactions, Sequent's recorded natural gas stored underground inventory includes volumes of natural gas it manages for its customers by purchasing the natural gas inventory from and physically delivering volumes of natural gas back to its customers based on specific delivery dates. The cost at which Sequent purchases the volumes of natural gas from its customers or WACOG is also the same price at which Sequent sells the natural gas volumes to the customer. Consequently, Sequent makes no margin on the purchase and sale of the natural gas but makes operating margin through its natural gas storage optimization activities of these volumes under management. As of December 31, 2010, Sequent has recorded $283 million of natural gas stored underground inventory within our Consolidated Statement of Financial Position, representing 68 Bcf at an overall WACOG of $4.16.

Energy Marketing Activities Sequent purchases natural gas for storage when the current market price it pays plus the cost for transportation and storage is less than the market price it anticipates it could receive in the future. Sequent attempts to mitigate substantially all of the commodity price risk associated with its storage portfolio and uses derivative instruments to reduce the risk associated with future changes in the price of natural gas. Sequent sells NYMEX futures contracts or OTC derivatives in forward months to substantially lock in the operating revenue it will ultimately realize when the stored gas is actually sold.

We view Sequent’s trading margins from two perspectives. First, we base our commercial decisions on economic value, which is defined as the locked-in operating revenue to be realized at the time the physical gas is withdrawn from storage and sold and the derivative instrument used to economically hedge natural gas price risk on that physical storage is settled. Second is the GAAP reported value both in periods prior to and in the period of physical withdrawal and sale of inventory. The GAAP amount is affected by the process of accounting for the financial hedging instruments in interim periods at fair value between the period when the natural gas is injected into storage and when it is ultimately withdrawn and the derivative financial instruments are settled. The change in the fair value of the hedging instruments is recognized in earnings in the period of change and is recorded as unrealized gains or losses. The actual value, less any interim recognition of gains or losses on hedges and adjustments for LOCOM, is realized when the natural gas is delivered to its ultimate customer.

Sequent accounts for natural gas stored in inventory differently than the derivatives Sequent uses to mitigate the commodity price risk associated with its storage portfolio. The natural gas that Sequent purchases and injects into storage is accounted for at the lower of average cost or current market value. The derivatives that Sequent uses to mitigate commodity price risk are accounted for at fair value and marked to market each period. This difference in accounting treatment can result in volatility in Sequent’s reported results, even though the expected operating revenue is essentially unchanged from the date the transactions were initiated. These accounting differences also affect the comparability of Sequent’s period-over-period results, since changes in forward NYMEX prices do not increase and decrease on a consistent basis from year to year.

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Sequent's expected natural gas withdrawals from physical salt-dome and reservoir storage are presented in the following table along with the operating revenues expected at the time of withdrawal. Sequent's expected operating revenues are net of the estimated impact of profit sharing under our asset management agreements and reflect the amounts that are realizable in future periods based on the inventory withdrawal schedule and forward natural gas prices at December 31, 2010 and 2009. A portion of Sequent's storage inventory is economically hedged with futures contracts, which results in realization of a substantially fixed margin, timing notwithstanding.

	Withdrawal schedule (in Bcf)		
	Salt-dome (WACOG $3.70)	Reservoir (WACOG $3.74)	Expected operating revenues (in millions)
2011			
First quarter	2	22	$ 13
Second quarter	1	1	1
Third quarter	-	1	1
Fourth quarter	1	-	1
Total at Dec. 31, 2010	4	24	$ 16
Total at Dec. 31, 2009	-	19	$ 30

If Sequent's storage withdrawals associated with existing inventory positions are executed as planned, it expects operating revenues from storage withdrawals of approximately $16 million during the next twelve months. This will change as Sequent adjusts its daily injection and withdrawal plans in response to changes in market conditions in future months and as forward NYMEX prices fluctuate.

For more information on Sequent's energy marketing and risk management activities, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk - Commodity Price Risk."

Park and Loan Transactions Sequent routinely enters into park and loan transactions with various pipelines and storage facilities, which allow Sequent to park gas on, or borrow gas from, the pipeline in one period and reclaim gas from, or repay gas to, the pipeline in a subsequent period. For these services, Sequent charges rates which include the retention of natural gas lost and unaccounted for in-kind. The economics of these transactions are evaluated and price risks are managed in much the same way as traditional reservoir and salt-dome storage transactions are evaluated and managed.

Sequent enters into forward NYMEX contracts to hedge the natural gas price risk associated with its park and loan transactions. While the hedging instruments mitigate the price risk associated with the delivery and receipt of natural gas, they can also result in volatility in Sequent's reported results during the period before the initial delivery or receipt of natural gas. During this period, if the forward NYMEX prices in the months of delivery and receipt do not change in equal amounts, Sequent will report a net unrealized gain or loss on the hedges. Once gas is delivered under the park and loan transaction, earnings volatility is essentially eliminated since the park and loan transaction contains an embedded derivative, which is also marked to market and would substantially offset subsequent changes in value of the forward NYMEX contracts used to hedge the park and loan transaction.

Energy Investments

Our energy investments segment includes a number of businesses that are related and complementary to our primary business. The most significant of these businesses is our natural gas storage business, which develops, acquires and operates high-deliverability salt-dome caverns and other storage assets in the Gulf Coast region of the United States.

While this business can also generate additional revenue during times of peak market demand for natural gas storage services, the majority of our natural gas storage facilities are covered under a portfolio of short, medium and long-term contracts at a fixed market rate. We generally have had approximately 90% to 95% of Jefferson Island's working natural gas capacity under firm subscription. As Golden Triangle Storage begins full commercial operations during the first quarter of 2011, it will market its remaining available working natural gas capacity taking into consideration the prevailing market conditions in establishing rates and tenor of capacity contracts.

Jefferson Island This wholly-owned subsidiary operates a salt-dome storage and hub facility in Louisiana, approximately eight miles from the Henry Hub. It currently consists of two salt-dome storage caverns with 7.5 Bcf of working gas capacity, 0.7 Bcf per day of withdrawal capacity and 0.4 Bcf per day of injection capacity. The storage facility is regulated by the Louisiana Department of Natural Resources and by the FERC, which has regulatory authority over storage and transportation services. Jefferson Island provides storage and hub services through its direct connection to the Henry Hub and its interconnections with eight pipelines in the area. Jefferson Island currently has 6.9 Bcf under firm subscription, which represents approximately 92% of its working natural gas capacity. This level of firm subscription has remained consistent over the last three years.

In December 2009, the Louisiana Mineral and Energy Board approved an operating agreement between Jefferson Island and the State of Louisiana. In June 2010, Jefferson Island filed a permit application with the Louisiana Department of Natural Resources to expand its natural gas storage facility through the addition of two caverns. Despite the opposition of a local group, we anticipate receiving approval during the second half of 2011. When completed the additional two caverns would expand the total working gas capacity at Jefferson Island from 7.5 Bcf to approximately 19.5 Bcf of working gas capacity.

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Golden Triangle Storage Our wholly-owned subsidiary, Golden Triangle Storage, a new salt-dome storage facility in the Gulf Coast region of the United States, is designed for an initial 12 Bcf of working natural gas capacity and total cavern capacity of 18 Bcf. The facility potentially can be expanded to a total of five caverns with approximately 38 Bcf of working natural gas storage capacity in the future. The storage facility is regulated by the FERC. Golden Triangle Storage completed an approximately nine-mile dual 24” natural gas pipeline to connect the storage facility with three interstate and three intrastate pipelines.

The first cavern with 6 Bcf of working capacity began commercial service in September 2010. The second cavern, with an expected 6 Bcf of working capacity, is expected to be in service in mid-2012. Golden Triangle Storage currently has 2 Bcf under firm subscription, which represents approximately 33% of its current working natural gas capacity.

Our current estimate to complete both caverns, based on current prices for labor, materials and pad gas, is approximately $325 million. We have spent approximately $112 million in capital expenditures for this project in 2010. The actual project costs depend upon the facility’s configuration, materials, drilling costs, financing costs and the amount and cost of pad gas, which includes volumes of non-working natural gas used to maintain the operational integrity of the cavern facility. The costs for approximately 90% of these items have been fixed and are not subject to continued variability during construction. We are not able to predict whether these costs of construction will continue to increase, moderate or decrease from current levels, as there could be continued volatility in the construction cost estimates.

Competition Our natural gas storage facilities compete with natural gas facilities in the Gulf Coast region of the United States as the majority of the existing and proposed high deliverability salt-dome natural gas storage facilities in North America are located in the Gulf Coast region. Salt caverns have also been leached from bedded salt formations in the Northeastern and Midwestern states. Storage values have declined over the past year due to low gas prices and low volatility and we expect this to continue in 2011.

AGL Networks In July 2010, we sold AGL Networks, our telecommunication business that constructed and operated conduit fiber infrastructure within select metropolitan areas. This sale did not have a material effect on our consolidated results of operations, cash flows or financial condition.

Corporate

Our corporate segment includes our nonoperating business units. AGL Services Company is a service company we established to provide certain centralized shared services to our operating segments. We allocate substantially all of AGL Services Company’s operating expenses and interest costs to our operating segments in accordance with state regulations.

AGL Capital, our wholly-owned finance subsidiary, provides for our ongoing financing needs through a commercial paper program, the issuance of various debt and hybrid securities, and other financing arrangements. Our corporate segment also includes intercompany eliminations for transactions between our operating business segments. Our EBIT results include the impact of these allocations to the various operating segments.

Employees

As of February 1, 2011, we had 2,621 employees.

Additional Information

For additional information on our segments, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the caption “Results of Operations” and “Note 12, Segment Information,” set forth in Item 8, “Financial Statements and Supplementary Data.”

Available Information

Detailed information about us is contained in our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other reports, and amendments to those reports, that we file with, or furnish to, the SEC. These reports are available free of charge at our website, www.aglresources.com, as soon as reasonably practicable after we electronically file such reports with or furnish such reports to the SEC. However, our website and any contents thereof should not be considered to be incorporated by reference into this document. We will furnish copies of such reports free of charge upon written request to our Investor Relations department. You can contact our Investor Relations department at:

AGL Resources Inc.
Investor Relations - Dept. 1071
P.O. Box 4569
Atlanta, GA 30302-4569
404-584-4000

In Part III of this Form 10-K, we incorporate certain information by reference from our Proxy Statement for our 2011 annual meeting of shareholders. We expect to file that Proxy Statement with the SEC on or about March 14, 2011, and we will make it available on our website as soon as reasonably practicable. Please refer to the Proxy Statement when it is available.

Additionally, our corporate governance guidelines, code of ethics, code of business conduct and the charters of each committee of our Board of Directors are available on our website. We will furnish copies of such information free of charge upon written request to our Investor Relations department.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Risks related to the regulation of our businesses could affect the rates we are able to charge, our costs and our profitability.

Our businesses are subject to regulation by federal, state and local regulatory authorities. In particular, at the federal level our businesses are regulated by the FERC. At the state level, our businesses are regulated by the Georgia, Tennessee, New Jersey, Florida, Virginia and Maryland regulatory authorities.

These authorities regulate many aspects of our operations, including construction and maintenance of facilities, operations, safety, rates that we charge customers, rates of return, the authorized cost of capital, recovery of costs associated with our regulatory infrastructure projects, including our pipeline replacement programs, and environmental remediation activities, relationships with our affiliates, and carrying costs we charge Marketers selling retail natural gas in Georgia for gas held in storage for their customer accounts. Our ability to obtain rate increases and rate supplements to maintain our current rates of return and recover regulatory assets and liabilities recorded in accordance with authoritative guidance related to regulated operations depends on regulatory discretion, and there can be no assurance that we will be able to obtain rate increases or rate supplements or continue receiving our currently authorized rates of return including the recovery of our regulatory assets and liabilities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 introduced a comprehensive new regulatory framework for swaps and security-based swaps. Although the SEC and other regulators are still in the process of adopting rules to implement the new framework, it is possible that Sequent, or other aspects of AGL Resources' operations, could be subject to the new regulations, depending on the ultimate definitions of key terms in the Dodd-Frank Act such as "swap," "swap dealer" and "major swap participant."

We could incur significant compliance costs if we must adjust to new regulations. In addition, as the regulatory environment for our industry increases in complexity, the risk of inadvertent noncompliance could also increase. If we fail to comply with applicable regulations, whether existing or new ones, we could be subject to fines, penalties or other enforcement action by the authorities that regulate our operations, or otherwise be subject to material costs and liabilities. This may require increased use of working capital for Sequent.

In 1997, Georgia enacted legislation allowing deregulation of gas distribution operations. To date, Georgia is the only state in the nation that has fully deregulated gas distribution operations, which ultimately resulted in Atlanta Gas Light exiting the retail natural gas sales business while retaining its gas distribution operations. Marketers, including our majority-owned subsidiary, SouthStar, then assumed the retail gas sales responsibility at deregulated prices. The deregulation process required Atlanta Gas Light to completely reorganize its operations and personnel at significant expense. It is possible that the legislature could reverse or amend portions of the deregulation process.

Our business is subject to environmental regulation in all jurisdictions in which we operate, and our costs to comply are significant. Any changes in existing environmental regulation could affect our results of operations and financial condition.

Our operations and properties are subject to extensive environmental regulation pursuant to a variety of federal, state and municipal laws and regulations. Such environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances into the environment. Environmental legislation also requires that our facilities, sites and other properties associated with our operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Our current costs to comply with these laws and regulations are significant to our results of operations and financial condition. Failure to comply with these laws and regulations and failure to obtain any required permits and licenses may expose us to fines, penalties or interruptions in our operations that could be material to our results of operations.

In addition, claims against us under environmental laws and regulations could result in material costs and liabilities. Existing environmental regulations could also be revised or reinterpreted, new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur. With the trend toward stricter standards, greater regulation, more extensive permit requirements and an increase in the number and types of assets operated by us subject to environmental regulation, our environmental expenditures could increase in the future, particularly if those costs are not fully recoverable from our customers. Additionally, the discovery of presently unknown environmental conditions could give rise to expenditures and liabilities, including fines or penalties, which could have a material adverse effect on our business, results of operations or financial condition.

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Our infrastructure improvement and customer growth may be restricted by the capital-intensive nature of our business.

We must construct additions to our natural gas distribution system to continue the expansion of our customer base and improve system reliability, especially during peak usage. We may also need to construct expansions of our existing natural gas storage facilities or develop and construct new natural gas storage facilities. The cost of this construction may be affected by the cost of obtaining government and other approvals, development project delays, adequacy of supply of diversified vendors, or unexpected changes in project costs. Weather, general economic conditions and the cost of funds to finance our capital projects can materially alter the cost, and projected construction schedule and completion timeline of a project. Our cash flows may not be fully adequate to finance the cost of this construction. As a result, we may be required to fund a portion of our cash needs through borrowings or the issuance of common stock, or both. For our distribution operations segment, this may limit our ability to expand our infrastructure to connect new customers due to limits on the amount we can economically invest, which shifts costs to potential customers and may make it uneconomical for them to connect to our distribution systems. For our natural gas storage business, this may significantly reduce our earnings and return on investment from what would be expected for this business, or may impair our ability to complete the expansions or development projects.

We may be exposed to certain regulatory and financial risks related to climate change.

Climate change is receiving ever increasing attention from scientists and legislators alike. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions.

Presently there are no federally mandated greenhouse gas reduction requirements in the United States. However, there are a number of legislative and regulatory proposals to address greenhouse gas emissions, which are in various phases of discussion or implementation. The outcome of federal and state actions to address global climate change could result in a variety of regulatory programs including potential new regulations, additional charges to fund energy efficiency activities, or other regulatory actions. These actions could:

- result in increased costs associated with our operations
- increase other costs to our business
- affect the demand for natural gas, and
- impact the prices we charge our customers.

Because natural gas is a fossil fuel with low carbon content, it is possible that future carbon constraints could create additional demand for natural gas, both for production of electricity and direct use in homes and businesses.

Any adoption by federal or state governments mandating a substantial reduction in greenhouse gas emissions could have far-reaching and significant impacts on the energy industry. We cannot predict the potential impact of such laws or regulations on our future consolidated financial condition, results of operations or cash flows.

Transporting and storing natural gas involves numerous risks that may result in accidents and other operating risks and costs.

Our gas distribution and storage activities involve a variety of inherent hazards and operating risks, such as leaks, accidents, including third party damages, and mechanical problems, which could cause substantial financial losses. In addition, these risks could result in serious injury to employees and non-employees, loss of human life, significant damage to property, environmental pollution and impairment of our operations, which in turn could lead to substantial losses to us. In accordance with customary industry practice, we maintain insurance against some, but not all, of these risks and losses. The location of pipelines and storage facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events not fully covered by insurance could adversely affect our financial position and results of operations.

We face increasing competition, and if we are unable to compete effectively, our revenues, operating results and financial condition will be adversely affected which may limit our ability to grow our business.

The natural gas business is highly competitive, increasingly complex, and we are facing increasing competition from other companies that supply energy, including electric companies, oil and propane providers and, in some cases, energy marketing and trading companies. In particular, the success of our investment in SouthStar is affected by the competition SouthStar faces from other energy marketers providing retail natural gas services in the Southeast. Natural gas competes with other forms of energy. The primary competitive factor is price. Changes in the price or availability of natural gas relative to other forms of energy and the ability of end-users to convert to alternative fuels affect the demand for natural gas. In the case of commercial, industrial and agricultural customers, adverse economic conditions, including higher gas costs, could also cause these customers to bypass or disconnect from our systems in favor of special competitive contracts with lower per-unit costs.

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Our wholesale services segment competes with national and regional full-service energy providers, energy merchants and producers and pipelines for sales based on our ability to aggregate competitively priced commodities with transportation and storage capacity. Some of our competitors are larger and better capitalized than we are and have more national and global exposure than we do. The consolidation of this industry and the pricing to gain market share may affect our operating margin. We expect this trend to continue in the near term, and the increasing competition for asset management deals could result in downward pressure on the volume of transactions and the related operating margin available in this portion of Sequent's business.

The continuation of recent economic conditions could adversely affect our customers and negatively impact our financial results.

The slowdown in the United States economy, along with increased mortgage defaults, and significant decreases in new home construction, home values and investment assets, has adversely impacted the financial well-being of many households in the United States. We cannot predict if the administrative and legislative actions to address this situation will be successful in reducing the severity or duration of this recession. As a result, our customers may use less gas in future Heating Seasons and it may become more difficult for them to pay their natural gas bills. This may slow collections and lead to higher than normal levels of accounts receivables, bad debt and financing requirements.

A significant portion of our accounts receivable is subject to collection risks, due in part to a concentration of credit risk in Georgia and at Sequent.

We have accounts receivable collection risk in Georgia due to a concentration of credit risk related to the provision of natural gas services to Marketers. At December 31, 2010, Atlanta Gas Light had eleven certificated and active Marketers in Georgia , four of which (based on customer count and including SouthStar) accounted for approximately 31% of our consolidated operating margin for 2010. As a result, Atlanta Gas Light depends on a concentrated number of customers for revenues. The provisions of Atlanta Gas Light's tariff allow it to obtain security support in an amount equal to no less than two times a Marketer's highest month's estimated bill in the form of cash deposits, letters of credit, surety bonds or guaranties. The failure of these Marketers to pay Atlanta Gas Light could adversely affect Atlanta Gas Light's business and results of operations and expose it to difficulties in collecting Atlanta Gas Light's accounts receivable. AGL Resources provides a guarantee to Atlanta Gas Light as security support for SouthStar. Additionally, SouthStar markets directly to end-use customers and has periodically experienced credit losses as a result of severe cold weather or high prices for natural gas that increase customers' bills and, consequently, impair customers' ability to pay.

Sequent often extends credit to its counterparties. Despite performing credit analyses prior to extending credit and seeking to effectuate netting agreements, Sequent is exposed to the risk that it may not be able to collect amounts owed to it. If the counterparty to such a transaction fails to perform and any collateral Sequent has secured is inadequate, Sequent could experience material financial losses. Further, Sequent has a concentration of credit risk, which could subject a significant portion of its credit exposure to collection risks. Approximately 56% of Sequent's credit exposure, excluding $61 million of customer deposits, is concentrated in its top 20 counterparties. Most of this concentration is with counterparties that are either load-serving utilities or end-use customers that have supplied some level of credit support. Default by any of these counterparties in their obligations to pay amounts due Sequent could result in credit losses that would negatively impact our wholesale services segment.

The asset management arrangements between Sequent and our local distribution companies, and between Sequent and its nonaffiliated customers, may not be renewed or may be renewed at lower levels, which could have a significant impact on Sequent's business.

Sequent currently manages the storage and transportation assets of our affiliates Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas, Elkton Gas, Florida City Gas, and Virginia Natural Gas and shares profits it earns from the management of those assets with those customers and their respective customers, except at Elkton Gas where Sequent is assessed annual fixed-fees payable in monthly installments. Entry into and renewal of these agreements are subject to regulatory approval. The asset management agreement for Elizabethtown Gas expires in March 2011 and we are currently working with the New Jersey BPU to extend this agreement for an additional three years. The agreements for Atlanta Gas Light and Virginia Natural Gas are subject to renewal in March 2012. Additionally, the agreement with Florida City Gas expires in March 2013 and the agreement with Chattanooga Gas expires in March 2014.

Sequent also has asset management agreements with certain nonaffiliated customers. Sequent's results could be significantly impacted if these agreements are not renewed or are amended or renewed with less favorable terms.

We are exposed to market risk and may incur losses in wholesale services and retail energy operations.

The commodity, storage and transportation portfolios at Sequent and the commodity and storage portfolios at SouthStar consist of contracts to buy and sell natural gas commodities, including contracts that are settled by the delivery of the commodity or cash. If the values of these contracts change in a direction or manner that we do not anticipate, we could experience financial losses from our trading activities. Based on a 95% confidence interval and employing a 1-day holding period for all positions, Sequent's and SouthStar's portfolio of positions as of December 31, 2010 had a 1-day holding period VaR of $1.6 million and less than $0.1 million, respectively.

Our accounting results may not be indicative of the risks we are taking or the economic results we expect for wholesale services.

Although Sequent enters into various contracts to hedge the value of our energy assets and operations, the timing of the recognition of profits or losses on the hedges does not always correspond to the profits or losses on the item being hedged. The difference in accounting can result in volatility in Sequent's reported results, even though the expected operating margin is essentially unchanged from the date the transactions were initiated.

Changes in weather conditions may affect our earnings.

Weather conditions and other natural phenomena can have a large impact on our earnings. Severe weather conditions can impact our suppliers and the pipelines that deliver gas to our distribution system. Extended mild weather, during either the winter or summer period, can have a significant impact on demand for and cost of natural gas.

We have a WNA mechanism for Elizabethtown Gas and Chattanooga Gas that partially offsets the impact of unusually cold or warm weather on residential and commercial customer billings and our operating margin. At Elizabethtown Gas we could be required to return a portion of any WNA surcharge to its customers if Elizabethtown Gas' return on equity exceeds its authorized return on equity of 10.3%.

Additionally, Virginia Natural Gas has a WNA mechanism for its residential customers that partially offsets the impacts of unusually cold or warm weather. In September 2007, the Virginia Commission approved Virginia Natural Gas' application for an Experimental Weather Normalization Adjustment Rider (the Rider) for its commercial customers. The Rider applied to the 2007 and 2008 Heating Seasons. In September 2009 the Rider was extended to September 2011.

These WNA regulatory mechanisms are most effective in a reasonable temperature range relative to normal weather using historical averages. The protection afforded by the WNA depends on continued regulatory approval. The loss of this continued regulatory approval could make us more susceptible to weather-related earnings fluctuations.

Changes in weather conditions may also impact SouthStar's earnings. As a result, SouthStar uses a variety of weather derivative instruments to stabilize the impact on its operating margin in the event of warmer or colder than normal weather in the winter months. However, these instruments do not fully protect SouthStar's earnings from the effects of unusually warm or cold weather.

A decrease in the availability of adequate pipeline transportation capacity could reduce our revenues and profits.

Our gas supply depends on the availability of adequate pipeline transportation and storage capacity. We purchase a substantial portion of our gas supply from interstate sources. Interstate pipeline companies transport the gas to our system. A decrease in interstate pipeline capacity available to us or an increase in competition for interstate pipeline transportation and storage service could reduce our normal interstate supply of gas.

Our profitability may decline if the counterparties to Sequent's asset management transactions fail to perform in accordance with Sequent's agreements.

Sequent focuses on capturing the value from idle or underutilized energy assets, typically by executing transactions that balance the needs of various markets and time horizons. Sequent is exposed to the risk that counterparties to our transactions will not perform their obligations. Should the counterparties to these arrangements fail to perform, we may be forced to enter into alternative hedging arrangements, honor the underlying commitment at then-current market prices or return a significant portion of the consideration received for gas. In such events, we may incur additional losses to the extent of amounts, if any, already paid to or received from counterparties.

We could incur additional material costs for the environmental condition of some of our assets, including former manufactured gas plants.

We are generally responsible for all on-site and certain off-site liabilities associated with the environmental condition of the natural gas assets that we have operated, acquired or developed, regardless of when the liabilities arose and whether they are or were known or unknown. In addition, in connection with certain acquisitions and sales of assets, we may obtain, or be required to provide, indemnification against certain environmental liabilities. Before natural gas was widely available, we manufactured gas from coal and other fuels. Those manufacturing operations were known as MGPs, which we ceased operating in the 1950s.

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We have confirmed ten sites in Georgia and three in Florida where we own all or part of an MGP site. One additional former MGP site has been recently identified adjacent to an existing MGP remediation site. Precise engineering soil and groundwater clean up estimates are not available and considerable variability exists with this potential new site. We are required to investigate possible environmental contamination at those MGP sites and, if necessary, clean up any contamination. As of December 31, 2010, the soil and sediment remediation program was substantially complete for all Georgia sites, except for a few remaining areas of recently discovered impact, although groundwater cleanup continues. As of December 31, 2010, projected costs associated with the MGP sites associated with Atlanta Gas Light range from $57 million to $105 million. For elements of the MGP program where we still cannot provide engineering cost estimates, considerable variability remains in future cost estimates.

In addition, we are associated with former sites in New Jersey and North Carolina. Material cleanups of these sites have not been completed nor are precise estimates available for future cleanup costs and therefore considerable variability remains in future cost estimates. For the New Jersey sites, cleanup cost estimates range from $75 million to $138 million. Costs have been estimated for one site in North Carolina and range from $11 million to $16 million.

Inflation and increased gas costs could adversely impact our ability to control operating expenses, increase our level of indebtedness and adversely impact our customer base.

Inflation has caused increases in certain operating expenses that have required us to replace assets at higher costs. We attempt to control costs in part through implementation of best practices and business process improvements, many of which are facilitated through investments in information systems and technology. We have a process in place to continually review the adequacy of our utility gas rates in relation to the increasing cost of providing service and the inherent regulatory lag in adjusting those gas rates. Historically, we have been able to control operating expenses and investments within the amounts authorized to be collected in rates, and we intend to continue to do so. However, any inability by us to control our expenses in a reasonable manner would adversely influence our future results.

Rapid increases in the price of purchased gas cause us to experience a significant increase in short-term debt because we must pay suppliers for gas when it is purchased, which can be significantly in advance of when these costs may be recovered through the collection of monthly customer bills for gas delivered. Increases in purchased gas costs also slow our utility collection efforts as customers are more likely to delay the payment of their gas bills, leading to higher-than-normal accounts receivable. This situation results in higher short-term debt levels and increased bad debt expense. Should the price of purchased gas increase significantly during the upcoming Heating Season, we would expect increases in our short-term debt, accounts receivable and bad debt expense during 2011.

Finally, higher costs of natural gas in recent years have already caused many of our utility customers to conserve in the use of our gas services and could lead to even more customers utilizing such conservation methods or switching to other competing products. The higher costs have also allowed competition from products utilizing alternative energy sources for applications that have traditionally used natural gas, encouraging some customers to move away from natural gas fired equipment to equipment fueled by other energy sources. However, natural gas prices are expected to remain lower than they have been for the last few years as a result of a robust natural gas supply, the weak economy and ample storage.

The cost of providing pension and postretirement health care benefits to eligible employees and qualified retirees is subject to changes in pension fund values and changing demographics and may have a material adverse effect on our financial results.

We have defined benefit pension and postretirement health care plans for the benefit of substantially all full-time employees and qualified retirees. The cost of providing these benefits to eligible current and former employees is subject to changes in the market value of our pension fund assets, changing demographics, including longer life expectancy of beneficiaries and changes in health care cost trends.

Any sustained declines in equity markets and reductions in bond yields may have a material adverse effect on the value of our pension funds. In these circumstances, we may be required to recognize an increased pension expense or a charge to our other comprehensive income to the extent that the pension fund values are less than the total anticipated liability under the plans. Market declines in the second half of 2008 resulted in significant losses in the value of our pension fund assets. Although the market made a recovery in 2009 and 2010 our pension fund assets are not at the levels they were prior to the market decline in 2008. As a result, based on the current funding status of the plans, we would be required to make a minimum contribution to the plans of approximately $23 million in 2011. We are planning to make additional contributions in 2011 up to $38 million, for a total of up to $61 million, in order to preserve the current level of benefits under the plans and in accordance with the funding requirements of The Pension Protection Act of 2006 (Pension Protection Act). As of December 31, 2010 our pension plans assets represented 65% of our total pension plan obligations.

For more information regarding some of these obligations, see Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations” under the caption “Contractual Obligations and Commitments” and the subheading “Pension and Postretirement Obligations” and Note 5 “Employee Benefit Plans,” set forth in Item 8, “Financial Statements and Supplementary Data.”

Natural disasters, terrorist activities and the potential for military and other actions could adversely affect our businesses.

Natural disasters may damage our assets. The threat of terrorism and the impact of retaliatory military and other action by the United States and its allies may lead to increased political, economic and financial market instability and volatility in the price of natural gas that could affect our operations. In addition, future acts of terrorism could be directed against companies operating in the United States, and companies in the energy industry may face a heightened risk of exposure to acts of terrorism. These developments have subjected our operations to increased risks. The insurance industry has also been disrupted by these events. As a result, the availability of insurance covering risks against which we and our competitors typically insure may be limited. In addition, the insurance we are able to obtain may have higher deductibles, higher premiums and more restrictive policy terms.

Risks Related to Our Corporate and Financial Structure

We depend on our ability to successfully access the capital and financial markets. Any inability to access the capital or financial markets may limit our ability to execute our business plan or pursue improvements that we may rely on for future growth.

We rely on access to both short-term money markets (in the form of commercial paper and lines of credit) and long-term capital markets as a source of liquidity for capital and operating requirements not satisfied by the cash flow from our operations. If we are not able to access financial markets at competitive rates, our ability to implement our business plan and strategy will be negatively affected, and we may be forced to postpone, modify or cancel capital projects. Certain market disruptions may increase our cost of borrowing or affect our ability to access one or more financial markets. Such market disruptions could result from:

- adverse economic conditions
- adverse general capital market conditions
- poor performance and health of the utility industry in general
- bankruptcy or financial distress of unrelated energy companies or Marketers
- significant decrease in the demand for natural gas
- adverse regulatory actions that affect our local gas distribution companies and our natural gas storage business
- terrorist attacks on our facilities or our suppliers, or
- extreme weather conditions.

The global credit markets have experienced significant disruption and volatility in recent years. While the commercial paper market has stabilized it has not returned to its pre-recession state. As of December 31, 2010, we had $732 million in commercial paper outstanding and no outstanding borrowings under our Credit Facility, Bridge Facility or Term Loan Facility. Subsequent to December 31, 2010, we drew a portion of the Term Loan Facility to help repay our senior notes that matured in January 2011.

During 2010, our borrowings under our Credit Facility along with our commercial paper were primarily used to purchase natural gas inventories for the current Heating Season. The amount of our working capital requirements in the near-term will primarily depend on the market price of natural gas and weather. Higher natural gas prices may adversely impact our accounts receivable collections and may require us to increase borrowings under our credit facility to fund our operations.

While we believe we can meet our capital requirements from our operations and our available sources of financing, we can provide no assurance that we will continue to be able to do so in the future, especially if the market price of natural gas increases significantly in the near-term. The future effects on our business, liquidity and financial results due to market disruptions could be material and adverse to us, both in the ways described above, or in ways that we do not currently anticipate.

If we breach any of the financial covenants under our various credit facilities, our debt service obligations could be accelerated.

Our existing Credit Facility, Bridge Facility, Term Loan Facility and the SouthStar line of credit contain financial covenants. If we breach any of the financial covenants under these agreements, our debt repayment obligations under them could be accelerated. In such event, we may not be able to refinance or repay all our indebtedness, which would result in a material adverse effect on our business, results of operations and financial condition.

A downgrade in our credit rating could negatively affect our ability to access capital.

Our senior unsecured debt is currently assigned investment grade credit ratings. If the rating agencies downgrade our ratings, particularly below investment grade, it may significantly limit our access to the commercial paper market and our borrowing costs would increase. In addition, we would likely be required to pay a higher interest rate in future financings and our potential pool of investors and funding sources would likely decrease.

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Additionally, if our credit rating by either S&P or Moody’s falls to non-investment grade status, we will be required to provide additional support for certain customers of our wholesale business. In December 2010, after we announced the proposed merger with Nicor, S&P lowered our outlook from stable to negative watch, but S&P did not change our credit rating. As of December 31, 2010, if our credit rating had fallen below investment grade, we would have been required to provide collateral of approximately $39 million to continue conducting our wholesale services business with certain counterparties.

We are vulnerable to interest rate risk with respect to our debt, which could lead to changes in interest expense and adversely affect our earnings.

We are subject to interest rate risk in connection with the issuance of fixed-rate and variable-rate debt. In order to maintain our desired mix of fixed-rate and variable-rate debt, we may use interest rate swap agreements and exchange fixed-rate and variable-rate interest payment obligations over the life of the arrangements, without exchange of the underlying principal amounts. For additional information, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk.” We cannot ensure that we will be successful in structuring such swap agreements to manage our risks effectively. If we are unable to do so, our earnings may be reduced. In addition, higher interest rates, all other things equal, reduce the earnings that we derive from transactions where we capture the difference between authorized returns and short-term borrowings.

We are a holding company and are dependent on cash flow from our subsidiaries, which may not be available in the amounts and at the times we need.

A portion of our outstanding debt was issued by our wholly-owned subsidiary, AGL Capital, which we fully and unconditionally guarantee. Since we are a holding company and have no operations separate from our investment in our subsidiaries, we are dependent on cash in the form of dividends or other distributions from our subsidiaries to meet our cash requirements. The ability of our subsidiaries to pay dividends and make other distributions is subject to applicable state law. Refer to Item 5, “Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” for additional dividend restriction information.

The use of derivative contracts in the normal course of our business could result in financial losses that negatively impact our results of operations.

We use derivatives, including futures, forwards and swaps, to manage our commodity and financial market risks. We could recognize financial losses on these contracts as a result of volatility in the market values of the underlying commodities or if a counterparty fails to perform under a contract. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these derivative financial instruments can involve management’s judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could adversely affect the value of the reported fair value of these contracts.

As a result of cross-default provisions in our borrowing arrangements, we may be unable to satisfy all our outstanding obligations in the event of a default on our part.

Our Credit Facility, Bridge Facility and Term Loan Facility contain cross-default provisions. Should an event of default occur under some of our debt agreements, we face the prospect of being in default under other of our debt agreements, obligated in such instance to satisfy a large portion of our outstanding indebtedness and unable to satisfy all our outstanding obligations simultaneously.

Risks Related to Our Proposed Merger with Nicor

The merger may not be completed, which could adversely affect our business operations and stock price.

To complete the merger, our shareholders must approve the issuance of shares of our common stock as contemplated by the Merger Agreement and the amendment to our Amended and Restated Articles of Incorporation to increase the number of directors that may serve on our Board of Directors, and Nicor shareholders must approve the Merger Agreement. In addition, we and Nicor must also make certain filings with, and obtain certain other approvals and consents from, various United States federal and state governmental and regulatory authorities.

We have not yet obtained all regulatory clearances, consents and approvals required to complete the merger. Governmental or regulatory agencies could still seek to block or challenge the merger or could impose restrictions they deem necessary or desirable in the public interest as a condition to approving the merger. If these approvals are not received, or they are not received on terms that satisfy the conditions set forth in the Merger Agreement, then we will not be obligated to complete the merger.

In addition, the Merger Agreement contains other customary closing conditions which may not be satisfied or waived. If we are unable to complete the merger, we would be subject to a number of risks, including the following:

- we would not realize the anticipated benefits of the merger, including, among other things increased operating efficiencies
- the attention of our management may have been diverted to the merger rather than to our operations and the pursuit of other opportunities that could have been beneficial to us
- the potential loss of key personnel during the pendency of the merger as employees may experience uncertainty about their future roles with the combined company
- we will have been subject to certain restrictions on the conduct of our business, which may prevent us from making certain acquisitions or dispositions or pursuing certain business opportunities while the merger is pending
    - the trading price of our common stock may decline to the extent that the current market price reflects a market assumption that the merger will be completed.

We are required to pay Nicor a termination fee and the reimbursement of merger-related out-of-pocket expenses if we terminate the merger under certain circumstances specified in the Merger Agreement.

The occurrence of any of these events individually or in combination could have a material adverse effect on our results of operations or the trading price of our common stock.

The market price of our common stock after the merger may be affected by factors different from those affecting the shares of AGL Resources or Nicor currently.

Our businesses differ from those of Nicor in important respects and, accordingly, the results of operations of the combined company and the market price of our shares of common stock following the merger may be affected by factors different from those currently affecting the results of our operations.

The merger is subject to receipt of consent or approval from governmental entities that could delay or prevent the completion of the merger or impose conditions that could have a material adverse effect on the combined company or that could cause abandonment of the merger.

To complete the merger, we and Nicor need to obtain approvals or consents from, or make filings with, a number of United States federal and state public utility, antitrust and other regulatory authorities.

While we believe that we will receive the required statutory approvals and other clearances for the merger, there can be no assurance as to the receipt or timing of receipt of these approvals and clearances. If such approvals and clearances are received, they may impose terms (i) that do not satisfy the conditions set forth in the Merger Agreement, which could permit us or Nicor to terminate the Merger Agreement or (ii) that could reasonably be expected to have a detrimental impact on the combined company following completion of the merger. A substantial delay in obtaining the required authorizations, approvals or consents or the imposition of unfavorable terms, conditions or restrictions contained in such authorizations, approvals or consents could prevent the completion of the merger or have an adverse effect on the anticipated benefits of the merger, thereby impacting the business, financial condition or results of operations of the combined company.

Even after the statutory antitrust law waiting period has expired, governmental authorities could seek to block or challenge the merger as they deem necessary or desirable in the public interest.

We are subject to contractual restrictions in the Merger Agreement that may hinder operations pending the merger.

The Merger Agreement restricts each company, without the other’s consent, from making certain acquisitions and taking other specified actions until the merger occurs or the Merger Agreement terminates. These restrictions may prevent us from pursuing otherwise attractive business opportunities and making other changes to our business prior to completion of the merger or termination of the Merger Agreement.

We will be subject to various uncertainties while the merger is pending that may cause disruption and may make it more difficult to maintain relationships with employees, suppliers, or customers.

Uncertainty about the effect of the merger on employees, suppliers and customers may have an adverse effect on us. Although we intend to take steps designed to reduce any adverse effects, these uncertainties may impair our abilities to attract, retain and motivate key personnel until the merger is completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with us to seek to change or terminate existing business relationships with us or not enter into new relationships or transactions.

Employee retention and recruitment may be particularly challenging prior to the completion of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company. If, despite our retention and recruiting efforts, key employees depart or fail to continue employment with us because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company, our financial results could be adversely affected. Furthermore, the combined company's operational and financial performance following the merger could be adversely affected if it is unable to retain key employees and skilled workers. The loss of the services of key employees and skilled workers and their experience and knowledge regarding our business could adversely affect the combined company's future operating results and the successful ongoing operation of its businesses.

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Pending shareholder suits could delay or prevent the closing of the merger or otherwise adversely impact our business and operations.

Several class action lawsuits have been brought by purported Nicor shareholders challenging Nicor's proposed merger with us. The complaints allege that we aided and abetted alleged breaches of fiduciary duty by Nicor's Board of Directors. The shareholder actions seek, among other things, declaratory and injunctive relief, including orders enjoining the defendants from completing the proposed merger and, in certain circumstances, damages. No assurances can be given as to the outcome of these lawsuits, including the costs associated with defending these lawsuits or any other liabilities or costs the parties may incur in connection with the litigation or settlement of these lawsuits. Furthermore, one of the conditions to closing the merger is that there are no injunctions issued by any court preventing the completion of the transactions. No assurance can be given that these lawsuits will not result in such an injunction being issued which could prevent or delay the closing of the Merger Agreement.

The merger may not be accretive to our earnings and may cause dilution to our earnings per share, which may negatively affect the market price of our common shares.

We currently anticipate that the merger will be neutral to our earnings per share in the first full year following the completion of the merger and accretive thereafter. This expectation is based on preliminary estimates which may materially change. We may encounter additional transaction and integration-related costs, may fail to realize all of the benefits anticipated in the merger or be subject to other factors that affect preliminary estimates. Any of these factors could cause a decrease in our earnings per share or decrease or delay the expected accretive effect of the merger and contribute to a decrease in the price of our common shares.

If the merger is completed, the anticipated benefits of combining Nicor with us may not be realized.

We entered into the Merger Agreement with the expectation that the merger would result in various benefits, including, among other things, increased operating efficiencies and reduced costs.

Although we expect to achieve the anticipated benefits of the merger, achieving them is subject to a number of uncertainties, including:

- whether United States federal and state public utility, antitrust and other regulatory authorities whose approval is required to complete the merger impose conditions on the merger, which may have an adverse effect on the combined company, including its ability to achieve the anticipated benefits of the merger
- the ability of the two companies to combine certain of their operations or take advantage of expected growth opportunities
- general market and economic conditions
- general competitive factors in the marketplace
- higher than expected costs required to achieve the anticipated benefits of the merger.

No assurance can be given that these benefits will be achieved or, if achieved, the timing of their achievement. Failure to achieve these anticipated benefits could result in increased costs and decreases in the amount of expected revenues or net income of the combined company.

The integration of AGL Resources and Nicor following the merger will present significant challenges that may result in a decline in the anticipated potential benefits of the merger.

The merger involves the combination of two companies that previously operated independently. The difficulties of combining the companies' operations include:

- combining the best practices of two companies, including utility operations, non-regulated energy marketing operations and staff functions
- coordinating geographically separated organizations, systems and facilities
- integrating personnel with diverse business backgrounds and organizational cultures
- moving our operating headquarters for our gas distribution business to Naperville, Illinois
- reducing the costs associated with each company's operations
- preserving important relationships of both AGL Resources and Nicor and resolving potential conflicts that may arise.

The process of combining operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses and the possible loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could have an adverse effect on the business, results of operations, financial condition or prospects of the combined company after the merger.

We will incur significant transaction, merger-related and restructuring costs in connection with the merger.

We expect to incur costs associated with combining the operations of the two companies, as well as transaction fees and other costs related to the merger. The combined company also will incur restructuring and integration costs in connection with the merger. We are in the early stages of assessing the magnitude of these costs and additional unanticipated costs may be incurred in the integration of the businesses. The costs related to restructuring will be expensed as a cost of the ongoing results of operations of either AGL Resources or Nicor or the combined company. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction, merger-related and restructuring costs over time, any net benefit may not be achieved in the near term, or at all.

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Current shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management of the combined company.

Upon completion of the merger we expect to issue up to approximately 38.6 million shares of common stock to Nicor shareholders in connection with the Merger Agreement. As a result, our current shareholders are expected to hold approximately 67% of the total shares of our common stock outstanding immediately following the completion of the proposed merger.

If the merger occurs, each of our shareholders will remain a shareholder of AGL Resources with a percentage ownership of the combined company that is significantly smaller than the shareholder's percentage ownership of AGL Resources prior to the merger. As a result of these reduced ownership percentages, our shareholders will have less influence on the management and policies of the combined company than they now have with respect to us.

The combined company will record goodwill that could become impaired and adversely affect the combined company's operating results.

We will account for the merger as a purchase in accordance with GAAP. Under the purchase method of accounting, the assets and liabilities of Nicor will be recorded, as of the date of completion of the merger, at their respective fair values and added to our assets and liabilities. Our reported financial condition and results of operations issued after completion of the merger will reflect Nicor balances and results after completion of the merger, but will not be restated retroactively to reflect the historical financial position or results of operations of Nicor for periods prior to the merger. Following completion of the merger, the earnings of the combined company will reflect purchase accounting adjustments.

Under the purchase method of accounting, the total purchase price will be allocated to Nicor's tangible assets and liabilities and identifiable intangible assets based on their fair values as of the date of completion of the merger. The fair value of Nicor's tangible and intangible assets and liabilities subject to the rate setting practices of their regulators approximate their carrying value. The excess of the purchase price over those fair values will be recorded as goodwill. We expect that the merger will result in the creation of goodwill based upon the application of purchase accounting. To the extent the value of goodwill or intangibles becomes impaired, the combined company may be required to incur material charges relating to such impairment. Such a potential impairment charge could have a material impact on the combined company's operating results.

Our inability to obtain the financing necessary to complete the transaction could delay or prevent the completion of the merger.

We intend to finance the cash portion of the merger consideration with debt financing. AGL Capital (as borrower) and AGL Resources (as guarantor), entered into the Bridge Facility in December 2010, which may be used to partially finance the cash portion of the merger and pay related fees and expenses in the event that permanent financing is not available at the time of the closing of the merger. AGL Resources and/or AGL Capital may issue debt securities, preferred stock, common equity, or other securities, bank loans, or other debt financings in lieu of all or a portion of the drawing under the Bridge Facility.

Under the terms of the Merger Agreement, if all of the conditions to closing are satisfied and the proceeds of the financing or alternative financing necessary to complete the transaction are not available, the Merger Agreement may be terminated by either party. However, such party is not in material breach of its representations, warranties, or covenants in the Merger Agreement. In such event, we may be required to pay Nicor a financing failure fee of $115 million.

Although we have entered into the Bridge Facility, the availability of funds under the Bridge Facility is subject to certain conditions including, among others, the absence of a material adverse effect on AGL Resources or Nicor, pro forma compliance with a consolidated total debt to total capitalization ratio of 70%, the ability of the borrower to achieve certain minimum credit ratings and the ability of the borrower to achieve a certain liquidity level at closing. Although we expect to obtain in a timely manner the financing necessary to complete the pending merger, if we are unable to timely obtain the financing because one of the conditions to the financing fails to be satisfied, the closing of the merger could be significantly delayed or may not occur at all, and we could be obligated to pay Nicor the financial failure fee.

Our indebtedness following the merger will be higher than our existing indebtedness, which could limit our operations and opportunities, make it more difficult for us to pay or refinance our debts and may cause us to issue additional equity in the future, which would increase the dilution of our shareholders or reduce earnings.

In connection with the merger, we will assume Nicor's outstanding debt and incur additional debt to pay the merger consideration and transactions expenses. Our total indebtedness as of September 30, 2010 was approximately $2.5 billion. Our pro forma total indebtedness as of September 30, 2010, after giving effect to the merger, would have been approximately $4.4 billion (including approximately $0.4 billion of currently payable long-term debt, approximately $1.0 billion of short-term borrowings and approximately $3.0 billion of long-term debt and other long-term obligations).

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Our debt service obligations with respect to this increased indebtedness could have an adverse impact on our earnings and cash flows (which after the merger would include the earnings and cash flows of Nicor) for as long as the indebtedness is outstanding.

This increased indebtedness could also have important consequences to shareholders. For example, it could:

- make it more difficult for us to pay or refinance our debts as they become due during adverse economic and industry conditions because any decrease in revenues could cause us to not have sufficient cash flows from operations to make our scheduled debt payments
- limit our flexibility to pursue other strategic opportunities or react to changes in our business and the industry in which we operate and, consequently, place us at a competitive disadvantage to competitors with less debt
- require a substantial portion of our cash flows from operations to be used for debt service payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, dividend payments and other general corporate purposes
- result in a downgrade in the credit rating of our indebtedness, which could limit our ability to borrow additional funds or increase the interest rates applicable to our indebtedness (after the announcement of the merger, Standard & Poor's Ratings Services placed its long-term ratings on AGL Resources on negative watch)
- reduce the amount of credit available to us to support hedging activities
- result in higher interest expense in the event of increases in interest rates since some of our borrowings are, and will continue to be, at variable rates.

Based upon current levels of operations, we expect to be able to generate sufficient cash on a consolidated basis to make all of the principal and interest payments when such payments are due under our existing credit agreements, indentures and other instruments governing our outstanding indebtedness, and under the indebtedness of Nicor and its subsidiaries that may remain outstanding after the merger; but there can be no assurance that we will be able to repay or refinance such borrowings and obligations.

We are committed to maintaining and improving our credit ratings. In order to maintain and improve these credit ratings, we may consider it appropriate to reduce the amount of indebtedness outstanding following the merger. This may be accomplished in several ways, including issuing additional shares of common stock or securities convertible into shares of common stock, reducing discretionary uses of cash or a combination of these and other measures. Issuances of additional shares of common stock or securities convertible into shares of common stock would have the effect of diluting the ownership percentage that shareholders will hold in the combined company and might reduce the reported earnings per share. The specific measures that we may ultimately decide to use to maintain or improve our credit ratings and their timing, will depend upon a number of factors, including market conditions and forecasts at the time those decisions are made.

Following the merger, shareholders will own equity interests in a company that owns and operates a carrier shipping business, which can present unique risks.

Nicor’s ownership and operation of Tropical Shipping, a carrier of containerized freight in the Bahamas and the Caribbean region, which we anticipate will make up approximately 4% of the combined company's earnings before interest and taxes, or EBIT, will subject the combined company to various risks to which we are not currently subject. These include the costs associated with compliance with the International Ship and Port-facility Security Code and the United States Maritime Transportation Security Act, both of which require extensive security assessments, plans and procedures, regulatory oversight by the Federal Maritime Commission and the Surface Transportation Board, the effect of general economic conditions in the United States, the Bahamas, the Caribbean region and Canada on the results of operations, cash flows and financial conditions of Tropical Shipping, and the effect of weather conditions in Florida, Canada, the Bahamas and the Caribbean region on the results of operations, cash flows and financial conditions of Tropical Shipping. As shareholders of the combined company following the merger, our shareholders may be adversely affected by these risks.

ITEM 1B.UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the SEC staff regarding our periodic or current reports under the Securities Exchange Act of 1934, as amended.

ITEM 2. PROPERTIES

We consider our properties to be well maintained, in good operating condition and suitable for their intended purpose. The following provides the location and general character of the materially important properties that are used by our segments.

Distribution and transmission assets

At December 31, 2010, our distribution operations and energy investment segments owned approximately 46,000 miles of underground distribution and transmission mains. Our distribution networks transport natural gas from our pipeline suppliers to our customers in our service areas. The distribution and transmission mains are located on easements or rights-of-way which generally provide for perpetual use.

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Storage assets

We have approximately 7.5 Bcf of LNG storage capacity in five LNG plants located in Georgia, New Jersey and Tennessee. In addition, we own two propane storage facilities in Virginia that have a combined storage capacity of approximately 0.5 Bcf. The LNG plants and propane storage facilities are used by distribution operations to supplement natural gas supply during peak usage periods.

We currently own two high-deliverability natural gas storage and hub facilities which are operated by our energy investments segment. Our wholly-owned subsidiary, Jefferson Island, is located in Louisiana and contains two salt dome gas storage caverns with approximately 10 Bcf of total capacity and about 8 Bcf of working gas capacity. Our wholly-owned subsidiary, Golden Triangle Storage, is located in Texas and is designed for 12 Bcf of working natural gas capacity and total cavern capacity of 18 Bcf. The first cavern with 6 Bcf of working capacity was completed and began commercial service in September 2010. The second cavern with an expected 6 Bcf of working capacity is expected to be placed into commercial service in mid 2012. Our energy investments segment also owns a propane storage facility in Virginia with approximately 0.3 Bcf of storage capacity. This facility supplements the natural gas supply to our Virginia utility during peak usage periods.

Offices

All of our segments own or lease office, warehouse and other facilities throughout our operating areas. We expect additional or substitute space to be available as needed to accommodate expansion of our operations.

ITEM 3. LEGAL PROCEEDINGS

The nature of our business ordinarily results in periodic regulatory proceedings before various state and federal authorities. In addition, we are party, as both plaintiff and defendant, to a number of lawsuits related to our business on an ongoing basis. Management believes that the outcome of all regulatory proceedings and litigation in which we are currently involved will not have a material adverse effect on our consolidated financial condition or results of operations.

We have been named as a defendant in several class action lawsuits brought by purported Nicor shareholders challenging Nicor’s proposed merger with us. The complaints allege that we aided and abetted alleged breaches of fiduciary duty by Nicor’s Board of Directors. The shareholder actions seek, among other things, declaratory and injunctive relief, including orders enjoining the defendants from completing the proposed merger and, in certain circumstances, damages. We believe the claims asserted in each lawsuit to be without merit and intend to vigorously defend against them.

For more information regarding some of these proceedings, see Note 10 to our consolidated financial statements under the caption “Litigation.”

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Holders of Common Stock, Stock Price and Dividend Information

Our common stock is listed on the New York Stock Exchange under the symbol AGL. At February 7, 2011, there were 9,277 record holders of our common stock. Quarterly information concerning our high and low stock prices and cash dividends paid in 2010 and 2009 is as follows:

	Sales price of common stock		Cash dividend per common		Sales price of common stock		Cash dividend per common
Quarter ended:	High	Low	share	Quarter ended:	High	Low	share
March 31, 2010	$ 38.83	$ 34.26	$ 0.44	March 31, 2009	$ 34.93	$ 24.02	$ 0.43
June 30, 2010	40.08	34.72	0.44	June 30, 2009	32.38	26.00	0.43
September 30, 2010	40.00	35.29	0.44	September 30, 2009	35.79	30.05	0.43
December 31, 2010	39.66	34.21	0.44	December 31, 2009	37.52	33.50	0.43
			$ 1.76				$ 1.72

We have historically paid dividends to common shareholders four times a year: March 1, June 1, September 1 and December 1. We have paid 252 consecutive quarterly dividends beginning in 1948. Our common shareholders may receive dividends when declared at the discretion of our Board of Directors. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Cash Flow from Financing Activities – Dividends on Common Stock." Dividends may be paid in cash, stock or other form of payment, and payment of future dividends will depend on our future earnings, cash flow, financial requirements and other factors, some of which are noted below. In certain cases, our ability to pay dividends to our common shareholders is limited by the following:

- our ability to satisfy our obligations under certain financing agreements, including debt-to-capitalization covenants
- our ability to satisfy our obligations to any future preferred shareholders

Under Georgia law, the payment of cash dividends to the holders of our common stock is limited to our legally available assets and subject to the prior payment of dividends on any outstanding shares of preferred stock. Our assets are not legally available for paying cash dividends if, after payment of the dividend:

- we could not pay our debts as they become due in the usual course of business, or
- our total assets would be less than our total liabilities plus, subject to some exceptions, any amounts necessary to satisfy (upon dissolution) the preferential rights of shareholders whose preferential rights are superior to those of the shareholders receiving the dividends

Issuer Purchases of Equity Securities

The following table sets forth information regarding purchases of our common stock by us and any affiliated purchasers during the three months ended December 31, 2010. Stock repurchases may be made in the open market or in private transactions at times and in amounts that we deem appropriate. However, there is no guarantee as to the exact number of additional shares that may be repurchased, and we may terminate or limit the stock repurchase program at any time. We currently anticipate holding the repurchased shares as treasury shares.

Period	Total number of shares purchased (1) (2)	Average price paid per common share	Total number of shares purchased as part of publicly announced plans or programs (2)	Maximum number of shares that may yet be purchased under the publicly announced plans or programs (2)
October 2010	-	$ -	-	4,825,251
November 2010	5,000	27.41	-	4,825,251
December 2010	63,750	35.77	63,750	4,761,501
Total fourth quarter	68,750	$ 35.16	63,750	

(1) On March 20, 2001, our Board of Directors approved the purchase of up to 600,000 shares of our common stock in the open market to be used for issuances under the Officer Incentive Plan (Officer Plan). We purchased 5,000 shares for such purposes in the fourth quarter of 2010. As of December 31, 2010, we had purchased a total 347,153 of the 600,000 shares authorized for purchase, leaving 252,847 shares available for purchase under this program.

(2) On February 3, 2006, we announced that our Board of Directors had authorized a plan to repurchase up to a total of 8 million shares of our common stock, excluding the shares remaining available for purchase in connection with the Officer Plan as described in note (1) above, over a five-year period. This repurchase plan expired January 31, 2011. However, we may request that our Board of Directors extend this plan.

Glossary of Key Terms

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ITEM 6. SELECTED FINANCIAL DATA

Selected financial data about AGL Resources for the last five years is set forth in the table below. You should read the data in the table in conjunction with the consolidated financial statements and related notes set forth in Item 8, "Financial Statements and Supplementary Data."

Dollars and shares in millions, except per share amounts	2010	2009	2008	2007	2006
Income statement data					
Operating revenues	$ 2,373	$ 2,317	$ 2,800	$ 2,494	$ 2,621
Cost of gas	1,164	1,142	1,654	1,369	1,482
Operating margin (1)	1,209	1,175	1,146	1,125	1,139
Operating expenses					
Operation and maintenance	503	497	472	451	473
Depreciation and amortization	160	158	152	144	138
Taxes other than income taxes	46	44	44	41	40
Total operating expenses	709	699	668	636	651
Operating income	500	476	478	489	488
Other (expense) income	(1)	9	6	4	(1)
Earnings before interest and taxes (EBIT) (1)	499	485	484	493	487
Interest expenses	109	101	115	125	123
Earnings before income taxes	390	384	369	368	364
Income taxes	140	135	132	127	129
Net income	250	249	237	241	235
Less net income attributable to the noncontrolling interest	16	27	20	30	23
Net income attributable to AGL Resources Inc.	$ 234	$ 222	$ 217	$ 211	$ 212
Common stock data					
Weighted average common shares outstanding basic	77.4	76.8	76.3	77.1	77.6
Weighted average common shares outstanding diluted	77.8	77.1	76.6	77.4	78.0
Total shares outstanding (2)	78.1	77.5	76.9	76.4	77.7
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	$ 3.02	$ 2.89	$ 2.85	$ 2.74	$ 2.73
Diluted earnings per common share – attributable to AGL Resources Inc. common shareholders	$ 3.00	$ 2.88	$ 2.84	$ 2.72	$ 2.72
Dividends declared per common share	$ 1.76	$ 1.72	$ 1.68	$ 1.64	$ 1.48
Dividend payout ratio	58 %	60 %	59 %	60 %	54 %
Dividend yield (3)	4.9 %	4.7 %	5.4 %	4.4 %	3.8 %
Price range:					
High	$ 40.08	$ 37.52	$ 39.13	$ 44.67	$ 40.09
Low	$ 34.21	$ 24.02	$ 24.02	$ 35.24	$ 34.40
Close (2)	$ 35.85	$ 36.47	$ 31.35	$ 37.64	$ 38.91
Market value (2)	$ 2,800	$ 2,826	$ 2,411	$ 2,876	$ 3,023

Statements of Financial Position data (2)					
Total assets	$ 7,518	$ 7,074	$ 6,710	$ 6,258	$ 6,123
Property, plant and equipment – net	4,405	4,146	3,816	3,566	3,436
Total debt	2,706	2,576	2,541	2,255	2,161
Total equity	1,836	1,819	1,684	1,708	1,651
Cash flow data					
Net cash flow provided by operating activities	$ 526				