AGL RESOURCES INC
Form 10-Q
April 29, 2009

Glossary of Key Terms

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

FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2009

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 | 58-2210952 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer þ Accelerated filer ¨

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

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

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

| Class | Outstanding as of April 23, 2009 |
|---|---|
| Common Stock, $5.00 Par Value | 77,170,946 |

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AGL RESOURCES INC.

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2009

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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 |
| Chattanooga Gas | Chattanooga Gas Company |
| Credit Facilities | Credit agreements supporting our commercial paper program |
| EBIT | Earnings before interest and taxes, a non-GAAP measure that includes operating income, other income and gain on sales of assets and excludes interest expense, and income tax expense; as an indicator of our operating performance, EBIT should not be considered an alternative to, or more meaningful than, operating income, net income, or net income attributable to AGL Resources Inc. as determined in accordance with GAAP |
| EITF | Emerging Issues Task Force |
| ERC | Environmental remediation costs associated with our distribution operations segment which are recoverable through rates mechanisms |
| FASB | Financial Accounting Standards Board |
| FERC | Federal Energy Regulatory Commission |
| FIN | FASB Interpretation Number |
| Fitch | Fitch Ratings |
| FSP | FASB Staff Position |
| GAAP | Accounting principles generally accepted in the United States of America |
| Georgia Commission | Georgia Public Service Commission |
| GNG | Georgia Natural Gas, the name under which SouthStar does business in Georgia |
| GNGC | Georgia Natural Gas Company, our wholly-owned subsidiary |
| Golden Triangle Storage | Golden Triangle Storage, Inc. |
| Heating Degree Days | A measure of the effects of weather on our businesses, calculated when the average daily actual temperatures are less than a baseline temperature of 65 degrees Fahrenheit. |
| Heating Season | The period from November through March when natural gas usage and operating revenues are generally higher because more customers are connected to our distribution systems when weather is colder |
| Jefferson Island | Jefferson Island Storage & Hub, LLC |
| LOCOM | Lower of weighted average cost or current market price |
| Maryland Commission | Maryland Public Service Commission |
| Marketers | Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission |
| Moody’s | Moody’s Investors Service |
| New Jersey Commission | New Jersey Board of Public Utilities |
| NYMEX | New York Mercantile Exchange, Inc. |
| OCI | Other comprehensive income |
| Operating margin | A non-GAAP measure of income, calculated as revenues minus cost of gas, that excludes operation and maintenance expense, depreciation and amortization, taxes other than income taxes, and the gain or loss on the sale of our assets; these items are included in our calculation of operating income as reflected in our condensed consolidated statements of income. Operating margin should not be |

| | |
|---|---|
| | considered an alternative to, or more meaningful than, operating income, net income, or net income attributable to AGL Resources Inc. as determined in accordance with GAAP |
| OTC | Over-the-counter |
| Piedmont | Piedmont Natural Gas |
| Pivotal Utility | Pivotal Utility Holdings, Inc., doing business as Elizabethtown Gas, Elkton Gas and Florida City Gas |
| PP&E | Property, plant and equipment |
| PRP | Pipeline replacement program for Atlanta Gas Light |
| S&P | Standard & Poor’s Ratings Services |
| SEC | Securities and Exchange Commission |
| Sequent | Sequent Energy Management, L.P. |
| SFAS | Statement of Financial Accounting Standards |
| SouthStar | SouthStar Energy Services LLC |
| VaR | Value at risk is defined as the maximum potential loss in portfolio value over a specified time period that is not expected to be exceeded within a given degree of probability |
| Virginia Natural Gas | Virginia Natural Gas, Inc. |
| WACOG | Weighted average cost of gas |
| WNA | Weather normalization adjustment |

REFERENCED ACCOUNTING STANDARDS

| | |
|---|---|
| FIN 46 & FIN 46R | FIN 46, “Consolidation of Variable Interest Entities” |
| FIN 48 | FIN 48, “Accounting for Uncertainty in Income Taxes, an interpretation of SFAS Statement No. 109” |
| FSP EITF 03-6-1 | FSP EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities” |
| FSP EITF 06-3 | FSP EITF 06-3, “How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That Is, Gross versus Net Presentation)” |
| FSP FAS 132(R)-1 | FSP No. FAS 132(R)-1,"Employers' Disclosures about Postretirement Benefit Plan Assets" |
| FSP FAS 133-1 | FSP No. FAS 133-1, “Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133” |
| FSP FAS 157-3 | FSP No. FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” |
| SFAS 71 | SFAS No. 71, “Accounting for the Effects of Certain Types of Regulation” |
| SFAS 133 | SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” |
| SFAS 141 | SFAS No. 141, “Business Combinations” |
| SFAS 157 | SFAS No. 157, “Fair Value Measurements” |
| SFAS 160 | SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements” |
| SFAS 161 | SFAS No. 161, “Disclosure about Derivative Instruments and Hedging Activities, an amendment of SFAS 133” |

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PART 1 – Financial Information
Item 1. Financial Statements

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

| In millions, except share data | March 31, 2009 | As of December 31, 2008 | March 31, 2008 |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | $ 21 | $ 16 | $ 20 |
| Receivables | | | |
| Gas, unbilled and other receivables | 458 | 472 | 480 |
| Energy marketing receivables | 326 | 549 | 624 |
| Less allowance for uncollectible accounts | (20) | (16) | (18) |
| Total receivables | 764 | 1,005 | 1,086 |
| Inventory, net (Note 1) | 348 | 663 | 356 |
| Derivative financial instruments – current portion (Note 2 and Note 3) | 202 | 207 | 56 |
| Unrecovered pipeline replacement program costs – current portion (Note 1) | 42 | 41 | 35 |
| Unrecovered environmental remediation costs – current portion (Note 1) | 16 | 18 | 21 |
| Other current assets | 38 | 92 | 52 |
| Total current assets | 1,431 | 2,042 | 1,626 |
| Long-term assets and other deferred debits | | | |
| Property, plant and equipment | 5,592 | 5,500 | 5,222 |
| Less accumulated depreciation | 1,706 | 1,684 | 1,612 |
| Property, plant and equipment-net | 3,886 | 3,816 | 3,610 |
| Goodwill | 418 | 418 | 420 |
| Unrecovered pipeline replacement program costs (Note 1) | 177 | 196 | 236 |
| Unrecovered environmental remediation costs (Note 1) | 121 | 125 | 130 |
| Derivative financial instruments (Note 2 and Note 3) | 48 | 38 | 11 |
| Other | 76 | 75 | 73 |
| Total long-term assets and other deferred debits | 4,726 | 4,668 | 4,480 |

| | | | |
|---|---|---|---|
| Total assets | $ 6,157 | $ 6,710 | $ 6,106 |
| Current liabilities | | | |
| Short-term debt (Note 6) | $ 403 | $ 866 | $ 369 |
| Energy marketing trade payables | 342 | 539 | 711 |
| Accounts payable - trade | 193 | 202 | 166 |
| Accrued expenses | 151 | 113 | 125 |
| Customer deposits | 58 | 50 | 34 |
| Derivative financial instruments – current portion (Note 2 and Note 3) | 43 | 50 | 37 |
| Accrued pipeline replacement program costs – current portion (Note 1) | 43 | 49 | 55 |
| Deferred natural gas costs | 33 | 25 | 38 |
| Accrued environmental remediation liabilities – current portion (Note 1) | 20 | 17 | 13 |
| Other current liabilities | 62 | 72 | 58 |
| Total current liabilities | 1,348 | 1,983 | 1,606 |
| Long-term liabilities and other deferred credits | | | |
| Long-term debt (Note 6) | 1,675 | 1,675 | 1,516 |
| Accumulated deferred income taxes | 586 | 571 | 570 |
| Accumulated removal costs | 194 | 178 | 173 |
| Accrued pension obligations (Note 4) | 188 | 199 | 43 |
| Accrued pipeline replacement program costs (Note 1) | 126 | 140 | 176 |
| Accrued environmental remediation liabilities (Note 1) | 85 | 89 | 92 |
| Accrued postretirement benefit costs (Note 4) | 45 | 46 | 22 |
| Derivative financial instruments (Note 2 and Note 3) | 8 | 6 | 5 |
| Other long-term liabilities and other deferred credits | 139 | 139 | 149 |
| Total long-term liabilities and other deferred credits | 3,046 | 3,043 | 2,746 |
| Commitments and contingencies (Note 7) | | | |
| Equity (Note 5) | | | |
| AGL Resources Inc. common shareholders' equity, $5 par value; 750,000,000 shares authorized | 1,734 | 1,652 | 1,722 |
| Noncontrolling interest | 29 | 32 | 32 |
| Total equity | 1,763 | 1,684 | 1,754 |
| Total liabilities and equity | $ 6,157 | $ 6,710 | $ 6,106 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| | Three months ended March 31, | |
|---|---|---|
| In millions, except per share amounts | 2009 | 2008 |
| Operating revenues | $ 995 | $ 1,012 |
| Operating expenses | | |
| Cost of gas | 589 | 657 |
| Operation and maintenance | 125 | 119 |
| Depreciation and amortization | 39 | 36 |
| Taxes other than income taxes | 12 | 12 |
| Total operating expenses | 765 | 824 |
| Operating income | 230 | 188 |
| Other income | 2 | 1 |
| Interest expense, net | (25) | (30) |
| Earnings before income taxes | 207 | 159 |
| Income tax expense | 72 | 54 |
| Net income | 135 | 105 |
| Less net income attributable to the noncontrolling interest (Note 5) | 16 | 16 |
| Net income attributable to AGL Resources Inc. | $ 119 | $ 89 |
| Per common share data (Note 1) | | |
| Basic earnings per common share attributable to AGL Resources Inc. common shareholders | $ 1.55 | $ 1.17 |
| Diluted earnings per common share attributable to AGL Resources Inc. common shareholders | $ 1.55 | $ 1.16 |
| Cash dividends declared per common share | $ 0.43 | $ 0.42 |
| Weighted average number of common shares outstanding (Note 1) | | |
| Basic | 76.7 | 76.0 |
| Diluted | 76.8 | 76.3 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| | AGL Resources Inc. Shareholders | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common stock | | Premium on common | Earnings | Accumulated other comprehensive | Shares held in treasury and | Noncontrolling | |
| In millions, except per share amount | Shares | Amount | stock | reinvested | loss | trust | interest | Total |
| Balance as of December 31, 2008 | 76.9 | $ 390 | $ 676 | $ 763 | $ (134) | $ (43) | $ 32 | $ 1,684 |
| Net income | - | - | - | 119 | - | - | 16 | 135 |
| Other comprehensive loss | - | - | - | - | (7) | - | (4) | (11) |
| Dividends on common stock ($0.43 per share) | - | - | - | (33) | - | 1 | - | (32) |
| Distributions to noncontrolling interest | - | - | - | - | - | - | (15) | (15) |
| Issuance of treasury shares | 0.3 | - | (6) | (2) | - | 9 | - | 1 |
| Stock-based compensation expense (net of taxes) (Note 5) | - | - | 1 | - | - | - | - | 1 |
| Balance as of March 31, 2009 | 77.2 | $ 390 | $ 671 | $ 847 | $ (141) | $ (33) | $ 29 | $ 1,763 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| | | Components of other comprehensive loss (net of taxes) Cash flow hedges | | | |
|---|---|---|---|---|---|
| In millions | Net income | Derivative financial instruments unrealized (losses) gains arising during the period | Reclassification of derivative financial instruments realized losses (gains) included in net income | Other comprehensive loss | Comprehensive income (Note 5) |
| Three months ended March 31, 2009: | | | | | |
| AGL Resources | $ 119 | $ (9) | $ 2 | $ (7) | $ 112 |
| Noncontrolling interest | 16 | (5) | 1 | (4) | 12 |
| Consolidated | $ 135 | $ (14) | $ 3 | $ (11) | $ 124 |
| Three months ended March 31, 2008: | | | | | |
| AGL Resources | $ 89 | $ 2 | $ (4) | $ (2) | $ 87 |
| Noncontrolling interest | 16 | 1 | (2) | (1) | 15 |
| Consolidated | $ 105 | $ 3 | $ (6) | $ (3) | $ 102 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| In millions | 2009 | | 2008 | |
| Cash flows from operating activities | | | | |
| Net income | $ | 135 | $ | 105 |
| Adjustments to reconcile net income to net cash flow provided by operating activities | | | | |
| Depreciation and amortization | | 39 | | 36 |
| Change in derivative financial instrument assets and liabilities | | (10) | | 36 |
| Deferred income taxes | | (10) | | (18) |
| Changes in certain assets and liabilities | | | | |
| Inventories | | 315 | | 195 |
| Accrued expenses | | 38 | | 38 |
| Energy marketing receivables and energy marketing trade payables, net | | 26 | | 107 |
| Gas, unbilled and other receivables | | 18 | | (71) |
| Gas and trade payables | | (9) | | (6) |
| Other – net | | 69 | | 89 |
| Net cash flow provided by operating activities | | 611 | | 511 |
| Cash flows from investing activities | | | | |
| Payments to acquire, property, plant and equipment | | (97) | | (80) |
| Net cash flow used in investing activities | | (97) | | (80) |
| Cash flows from financing activities | | | | |
| Net payments and borrowings of short-term debt | | (463) | | (324) |
| Dividends paid on common shares | | (32) | | (31) |
| Distribution to noncontrolling interest | | (15) | | (30) |
| Payments of long-term debt | | - | | (47) |
| Issuance of treasury shares | | 1 | | 2 |
| Net cash flow used in financing activities | | (509) | | (430) |
| Net increase in cash and cash equivalents | | 5 | | 1 |
| Cash and cash equivalents at beginning of period | | 16 | | 19 |
| Cash and cash equivalents at end of period | $ | 21 | $ | 20 |
| Cash paid during the period for | | | | |

| | | | | |
|---|---|---|---|---|
| Interest | $ | 29 | $ | 34 |
| Income taxes | $ | 16 | $ | 2 |

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

Note 1 - Accounting Policies and Methods of Application

General

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

The year-end condensed statement of financial position data was derived from our audited financial statements, but does not include all disclosures required by GAAP. We have prepared the accompanying unaudited condensed consolidated financial statements under the rules of the SEC. Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with GAAP. However, the condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair presentation of our financial results for the interim periods. For a glossary of key terms and referenced accounting standards, see page 3. You should read these condensed consolidated financial statements in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on February 5, 2009.

Due to the seasonal nature of our business, our results of operations for the three months ended March 31, 2009 and 2008, and our financial condition as of December 31, 2008, and March 31, 2009 and 2008, are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period.

Basis of Presentation

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

Use of Accounting Estimates

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

Energy Marketing Receivables and Payables

Our wholesale services segment provides services to retail marketers and utility and industrial customers. These customers, also known as counterparties, utilize netting agreements, which enable wholesale services to net receivables and payables by counterparty. Wholesale services also nets across product lines and against cash collateral, provided the master netting and cash collateral agreements include such provisions. The amounts due from or owed to wholesale services' counterparties are netted and recorded on our condensed consolidated statements of financial position as energy marketing receivables and energy marketing payables.

Wholesale services has some trade and credit contracts that have explicit minimum credit rating requirements. These credit rating requirements typically give counterparties the right to suspend or terminate credit if our credit ratings are downgraded to non-investment grade status. Under such circumstances, wholesale services would need to post collateral to continue transacting business with some of its counterparties. Posting collateral would have a negative effect on our liquidity. If such collateral were not posted, wholesale services ability to continue transacting business with these counterparties would be impaired.

Inventories

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

Sequent and SouthStar evaluate the average cost of their natural gas inventories against market prices to determine whether any declines in market prices below the WACOG are other than temporary. For any declines considered to be other than temporary, we record adjustments to reduce the weighted average cost of the natural gas inventory to market price. SouthStar recorded LOCOM adjustments of $6 million in the three months ended March 31, 2009 and did not record LOCOM adjustments in the three months ended March 31, 2008. Sequent recorded LOCOM adjustments of $8 million in the three months ended March 31, 2009 and did not record LOCOM adjustments for the three months ended March 31, 2008.

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Regulatory Assets and Liabilities

We have recorded regulatory assets and liabilities in our condensed consolidated statements of financial position in accordance with SFAS 71. Our regulatory assets and liabilities, and associated liabilities for our unrecovered PRP costs, unrecovered ERC and the associated assets and liabilities for our Elizabethtown Gas derivative financial instruments, are summarized in the following table.

| In millions | Mar. 31 2009 | Dec. 31 2008 | Mar. 31 2008 |
|---|---|---|---|
| Regulatory assets | | | |
| Unrecovered PRP costs | $ 219 | $ 237 | $ 271 |
| Unrecovered ERC | 137 | 143 | 151 |
| Unrecovered postretirement benefit costs | 11 | 11 | 12 |
| Unrecovered seasonal rates | - | 11 | - |
| Unrecovered natural gas costs | - | 19 | 18 |
| Elizabethtown Gas derivative financial instruments | - | - | 16 |
| Other | 28 | 30 | 24 |
| Total regulatory assets | 395 | 451 | 492 |
| Associated assets | | | |
| Elizabethtown Gas derivative financial instruments | 29 | 23 | - |
| Total regulatory and associated assets | $ 424 | $ 474 | $ 492 |
| Regulatory liabilities | | | |
| Accumulated removal costs | $ 194 | $ 178 | $ 173 |
| Deferred natural gas costs | 33 | 25 | 38 |
| Elizabethtown Gas derivative financial instruments | 29 | 23 | - |
| Deferred seasonal rates | 22 | - | 22 |
| Regulatory tax liability | 18 | 19 | 20 |
| Unamortized investment tax credit | 14 | 14 | 15 |
| Other | 19 | 22 | 20 |
| | 329 | 281 | 288 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total regulatory liabilities | | | | | | |
| Associated liabilities | | | | | | |
| PRP costs | | 169 | | 189 | | 231 |
| ERC | | 95 | | 96 | | 95 |
| Elizabethtown Gas derivative financial instruments | | - | | - | | 16 |
| Total associated liabilities | | 264 | | 285 | | 342 |
| Total regulatory and associated liabilities | $ | 593 | $ | 566 | $ | 630 |

There have been no significant changes to our regulatory assets and liabilities as described in Note 1 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

Income Taxes

As a result of our adoption of SFAS 160, income tax expense and our effective tax rate are determined from earnings before income tax less net income attributable to the noncontrolling interest. For more information on our adoption of SFAS 160, see Note 5.

There have been no significant changes to our income taxes as described in Note 8 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

Earnings per Common Share

We compute basic earnings per common share by dividing our net income attributable to our common shareholders by the daily weighted-average number of common shares outstanding. Diluted earnings per common share reflect the potential reduction in earnings per common share that could occur when potentially dilutive common shares are added to common shares outstanding.  We adopted FSP EITF 03-6-1 on January 1, 2009, which provides guidance on the computation of earnings per share when a company has unvested share awards outstanding that have the nonforfeitable right to receive dividends. The effects of this FSP were immaterial to our calculation of earnings per share.

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

| | Three months ended March 31, | |
|---|---|---|
| In millions | 2009 | 2008 |
| Denominator for basic earnings per share (1) | 76.7 | 76.0 |
| Assumed exercise of restricted stock, restricted stock units and stock options | 0.1 | 0.3 |

| | | |
|---|---|---|
| Denominator for diluted earnings per share | 76.8 | 76.3 |

(1) Daily weighted-average shares outstanding.

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The following table contains the weighted average shares attributable to outstanding stock options that were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive, as the exercise prices were greater than the average market price:

| | March 31, | |
|---|---|---|
| In millions | 2009 | 2008 |
| Three months ended | 2.2 | 1.6 |

The increase of 0.6 million shares which were excluded from the computation of diluted earnings per share and considered anti-dilutive was a result of a decline in the average market value of our common shares at March 31, 2009 as compared to March 31, 2008.

Note 2 - Fair Value Measurements

The carrying value of cash and cash equivalents, receivables, accounts payable, short-term debt, other current liabilities, derivative financial instrument assets, derivative financial instrument liabilities and accrued interest approximate fair value. The following table shows the carrying amounts and fair values of our long-term debt including any current portions included in our condensed consolidated statements of financial position.

| In millions | Carrying amount | Estimated fair value |
|---|---|---|
| As of March 31, 2009 | $ 1,676 | $ 1,633 |
| As of December 31, 2008 | 1,676 | 1,647 |
| As of March 31, 2008 (1) | 1,678 | 1,734 |

(1) Includes $161 million of gas facility revenue bonds which we repurchased with proceeds from our commercial paper program in March and April 2008.

We estimate the fair value of our long-term debt using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile. In determining the market interest yield curve, we considered our currently assigned ratings for unsecured debt of BBB+ by S&P, Baa1 by Moody’s and A- by Fitch.

SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In December 2007, the FASB provided a one-year deferral of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually. We adopted SFAS 157 on January 1, 2008, for our financial assets and liabilities, which primarily consist of derivatives we record in accordance with SFAS 133. We adopted SFAS 157 for our nonfinancial assets and liabilities on January 1, 2009, which had no impact to our condensed consolidated results of operations, cash flows and financial condition.

As defined in SFAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We utilize market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. We primarily apply the market approach for recurring fair value measurements and endeavor to utilize the best available information. Accordingly, we use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. We are able to classify fair value balances based on the observance of those inputs. SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2009. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Our exchange-traded derivative contracts, which include futures and exchange-traded options, are generally based on unadjusted quoted prices in active markets and are classified within level 1. Some exchange-traded derivatives are valued using broker or dealer quotation services, or market transactions in either the listed or OTC markets, which are classified within level 2.

The determination of the fair values in the following table incorporates various factors required under SFAS 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the effect of our nonperformance risk on our liabilities. For more information on our derivative financial instruments, see Note 3.

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| | Recurring fair values<br>Commodity derivative financial instruments | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2009 | | December 31, 2008 | | March 31, 2008 | |
| In millions | Assets | Liabilities | Assets (1) | Liabilities | Assets | Liabilities |
| Quoted prices in active markets (Level 1) | $ 39 | $ (198) | $ 52 | $ (117) | $ 28 | $ (34) |
| Significant other observable inputs (Level 2) | 163 | (19) | 154 | (28) | 39 | (44) |
| Netting of cash collateral | 48 | 166 | 35 | 89 | - | 36 |
| Total carrying value (2) | $ 250 | $ (51) | $ 241 | $ (56) | $ 67 | $ (42) |

(1) $4 million premium associated with weather derivatives has been excluded as they are based on intrinsic value, not fair value. For more information see Note 3.
(2) There were no significant unobservable inputs (level 3) for any of the periods presented.

Note 3 - Derivative Financial Instruments

Netting of Cash Collateral with Derivative Assets and Liabilities under Master Netting Arrangements

We maintain accounts with exchange brokers to facilitate financial derivative transactions in support of our energy marketing and risk management activities. Based on the value of our positions in these accounts and the associated margin requirements, we may be required to deposit cash into these broker accounts. We are required to offset this cash collateral with the associated fair value of the derivative financial instruments. Our cash collateral amounts are provided in the following table.

| | As of | | |
|---|---|---|---|
| In millions | Mar. 31, 2009 | Dec. 31, 2008 | Mar. 31, 2008 |
| Right to reclaim cash collateral | $ 214 | $ 128 | $ 37 |
| Obligations to return cash collateral | - | (4) | (1) |
| Total cash collateral | $ 214 | $ 124 | $ 36 |

Derivative Financial Instruments

Our use of derivative financial instruments and physical transactions is limited to predefined risk tolerances associated with pre-existing or anticipated physical natural gas sales and purchases and system use and storage. We use the following derivative financial instruments and physical transactions to manage commodity price, interest rate, weather, automobile fuel price and foreign currency risks:

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

Our derivative financial instruments do not contain any material credit-risk-related or other contingent features that could cause us to make accelerated payments over and above collateral we post in the normal course of business when our financial instruments are in net liability positions. For information on our energy marketing receivables and payables, which do have credit-risk-related or other contingent features refer to Note 1. Our risk management activities are monitored by our Risk Management Committee (RMC), which consists of members of senior management. The RMC is charged with reviewing and enforcing our risk management activities and policies.

We adopted SFAS 161 on January 1, 2009, which amends the disclosure requirements of SFAS 133 and requires specific disclosures regarding how and why we use derivative instruments; the accounting for derivative instruments and related hedged items; and how derivative instruments and related hedged items affect our financial position, results of operations and cash flows. As SFAS 161 only requires additional disclosures concerning derivatives and hedging activities, this standard did not have an impact on our financial position, results of operations or cash flows.

We adopted FSP FAS 133-1 on January 1, 2009. This FSP requires more detailed disclosures about credit derivatives, including the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of the instruments. This FSP had no financial impact to our results of operations, cash flows or financial condition.

Interest Rate Derivative Financial Instruments

To maintain an effective capital structure, our policy is to borrow funds using a mix of fixed-rate and variable-rate debt. We have previously entered into interest rate swap agreements for the purpose of managing the appropriate mix of risk associated with our fixed-rate and variable-rate debt obligations. We designated these interest rate swaps as fair value hedges in accordance with SFAS 133 and recorded the gain or loss on fair value hedges in earnings in the period of change, together with the offsetting loss or gain on the hedged item attributable to the interest rate risk being hedged. As of March 31, 2009, December 31, 2008 and March 31, 2008, we did not have any interest rate swap agreements.

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Commodity Derivative Financial Instruments

All activities associated with commodity price risk management activities and derivative instruments are included as a component of cash flows from operating activities in our condensed consolidated statements of cash flows. Our derivatives not designated as hedges under SFAS 133, are included within operating cash flows as a source (use) of cash totaling $(10) million in 2009 and $36 million in 2008.

Distribution Operations In accordance with a directive from the New Jersey Commission, Elizabethtown Gas enters into derivative financial instruments to hedge the impact of market fluctuations in natural gas prices. Pursuant to SFAS 133, such derivative transactions are accounted for at fair value each reporting period in our condensed consolidated statements of financial position. In accordance with regulatory requirements realized gains and losses related to these derivatives are reflected in natural gas costs and ultimately included in billings to customers. However, these derivative financial instruments are not designated as hedges in accordance with SFAS 133. For more information on our regulatory assets and liabilities see Note 1.

Retail Energy Operations SouthStar uses commodity-related derivative financial instruments (futures, options and swaps) to manage exposures arising from changing commodity prices. SouthStar's objective for holding these derivatives is to utilize the most effective method to reduce or eliminate the impact of this exposure. We have designated a portion of SouthStar's derivative transactions, consisting of financial swaps to manage the commodity risk associated with forecasted purchases and sales of natural gas, as cash flow hedges under SFAS 133. We record derivative gains or losses arising from cash flow hedges in OCI and reclassify them into earnings in the same period as the settlement of the underlying hedged item. SouthStar currently has minimal hedge ineffectiveness, defined as when the gains or losses on the hedging instrument do not offset and are greater than the losses or gains on the hedged item. This cash flow hedge ineffectiveness is recorded in cost of gas in our condensed consolidated statements of income in the period in which it occurs. We have not designated the remainder of SouthStar's derivative instruments as hedges under SFAS 133 and, accordingly, we record changes in their fair value within cost of gas in our condensed consolidated statements of income in the period of change. For more information on SouthStar's gains and losses reported within comprehensive income that affects equity, see our condensed consolidated statements of comprehensive income. SouthStar has hedged its exposures to commodity risk to varying degrees in the markets in which it serves retail, commercial and industrial customers. Approximately 80% of SouthStar's purchase instruments and 56% of its sales instruments are scheduled to mature in 2009 and the remaining 20% and 44%, respectively, in less than 2 years.

SouthStar also enters into both exchange and OTC derivative transactions to hedge commodity price risk. Credit risk is mitigated for exchange transactions through the backing of the NYMEX member firms. For OTC transactions, SouthStar utilizes master netting arrangements to reduce overall credit risk. As of March 31, 2009, SouthStar's maximum exposure to any single OTC counterparty was $6 million.

Wholesale Services Sequent uses derivative financial instruments to reduce our exposure to the risk of changes in the prices of natural gas. The fair value of these derivative financial instruments reflects the estimated amounts that we would receive or pay to terminate or close the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts. We use external market quotes and indices to value substantially all the derivative financial instruments we use.

We mitigate substantially all the commodity price risk associated with Sequent's natural gas portfolio by locking in the economic margin at the time we enter into natural gas purchase transactions for our stored natural gas. We purchase natural gas for storage when the difference in the current market price we pay to buy and transport natural gas plus the cost to store the natural gas is less than the market price we can receive in the future, resulting in a positive net operating margin. We use NYMEX futures contracts and other OTC derivatives to sell natural gas at that future price to substantially lock in the operating margin we will ultimately realize when the stored natural gas is actually sold. These futures contracts meet the definition of derivatives under SFAS 133 and are accounted for at fair value in our condensed consolidated statements of financial position, with changes in fair value recorded in our condensed consolidated statements of income in the period of change. However, these futures contracts are not designated as hedges in accordance with SFAS 133.

The purchase, transportation, storage and sale of natural gas are accounted for on a weighted average cost or accrual basis, as appropriate rather than on the fair value basis we utilize for the derivatives used to mitigate the commodity price risk associated with our storage portfolio. This difference in accounting can result in volatility in our reported earnings, even though the economic margin is essentially unchanged from the date the transactions were consummated. Approximately 95% of Sequent's purchase instruments and 96% of its sales instruments are scheduled to mature in less than 2 years and the remaining 5% and 4%, respectively, in 3 to 9 years.

The changes in fair value of Sequent's derivative instruments utilized in its energy marketing and risk management activities and contract settlements decreased the net fair value of its contracts outstanding by $75 million during both the three months ended March 31, 2009 and the three months ended March 31, 2008.

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Weather Derivative Financial Instruments

In 2009 and 2008, SouthStar entered into weather derivative contracts as economic hedges of operating margins in the event of warmer-than-normal and colder-than-normal weather in the heating season, primarily from November through March. SouthStar accounts for these contracts using the intrinsic value method under the guidelines of EITF 99-02, and accordingly these derivative financial instruments are not designated as derivatives or hedges under SFAS 133. SouthStar recorded a net payable for this hedging activity of less than $1 million at March 31, 2009 and at March 31, 2008 and a current asset of $4 million at December 31, 2008. In the three months ended March 31, 2009 and 2008, SouthStar recognized $4 million and $5 million of losses on its weather derivative financial instruments, which were reflected in cost of gas on our condensed consolidated statements of income.

Quantitative Disclosures Related to Derivative Financial Instruments

As of March 31, 2009, our derivative financial instruments were comprised of both long and short commodity positions, whereby a long position is a contract to purchase the commodity, and a short position is a contract to sell the commodity. As of March 31, 2009, we had net long commodity contracts outstanding in the following quantities:

| | Commodity contracts (in Bcf) | | | |
|---|---|---|---|---|
| Hedge designation under SFAS 133 | Distribution operations | Retail energy operations | Wholesale services | Consolidated |
| Cash flow | - | 9 | - | 9 |
| Not designated | 11 | 13 | 199 | 223 |
| Total | 11 | 22 | 199 | 232 |

Derivative Financial Instruments on the Condensed Consolidated Statements of Income

The following table presents the gain or (loss) on derivative financial instruments in our condensed consolidated statements of income for the three months ended March 31, 2009.

| | Three months ended March 31, 2009 | |
|---|---|---|
| In millions | Retail energy operations | Wholesale services |
| Designated as cash flow hedges under SFAS 133 | | |
| Commodity contracts – loss reclassified from OCI into cost of gas for settlement of hedged item | $ (4) | $ - |
| | | |
| Not designated as hedges under SFAS 133: | | |
| Commodity contracts – fair value adjustments recorded in operating revenues (1) | - | 20 |
| Commodity contracts – fair value adjustments recorded in cost of gas (2) | (1) | - |
| Total (losses) gains on derivative financial instruments | $ (5) | $ 20 |

(1) Associated with the fair value of existing derivative financial instruments at March 31, 2009.

(2) Excludes $4 million of losses recorded in cost of gas associated with weather derivatives accounted for in accordance with EITF 99-02.

In accordance with regulatory requirements, any realized gains and losses on derivative financial instruments used in our distribution operations segment are reflected in deferred natural gas costs within our condensed consolidated statements of financial position. In the three months ended March 31, 2009, Elizabethtown Gas recognized $13 million of losses on its derivative financial instruments and less than $1 million in gains for the same period in 2008.

The following amounts (pre-tax) represent the expected recognition in our condensed consolidated statements of income of the deferred losses recorded in OCI associated with retail energy operations' derivative financial instruments, based upon the fair values of these financial instruments as of March 31, 2009:

| In millions | Retail energy operations |
|---|---|
| Designated as hedges under SFAS 133 | |
| Commodity contracts – expected net loss reclassified from OCI into cost of gas for settlement of hedged item: | |
| Next twelve months | $ (27) |
| Thereafter | - |
| Total | $ (27) |

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Derivative Financial Instruments on the Statements of Financial Position

The following table presents the fair value and statements of financial position classification of our derivative financial instruments by operating segment as of March 31, 2009.

| | | As of March 31, 2009 | | | |
|---|---|---|---|---|---|
| In millions | Statements of financial position location (1) | Distribution operations | Retail energy operations | Wholesale services | Consolidated (2) |
| Designated as cash flow hedges under SFAS 133: | | | | | |
| Asset Financial Instruments | | | | | |
| Current commodity contracts | Derivative financial instruments assets and liabilities – current portion | $ - | $ 12 | $ - | $ 12 |
| Noncurrent commodity contracts | Derivative financial instruments assets and liabilities | - | - | | - |
| Liability Financial Instruments | | | | | |
| Current commodity contracts | Derivative financial instruments assets and liabilities – current portion | - | (32) | - | (32) |
| Noncurrent commodity contracts | Derivative financial instruments assets and liabilities | - | - | - | - |
| Total | | - | (20) | - | (20) |
| | | | | | |
| Not designated as hedges under SFAS 133: | | | | | |
| Asset Financial Instruments | | | | | |
| Current commodity contracts | Derivative financial instruments assets and liabilities – current portion | 23 | 3 | 520 | 546 |
| Noncurrent commodity contracts | Derivative financial instruments assets and liabilities | 6 | - | 85 | 91 |
| Liability Financial Instruments | | | | | |
| Current commodity contracts | Derivative financial instruments assets and liabilities – current portion | (23) | (5) | (535) | (563) |
| | | (6) | - | (63) | (69) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Noncurrent commodity contracts | Derivative financial instruments assets and liabilities | | | | | | | | |
| Total | | | - | | (2) | | 7 | | 5 |
| Total derivative financial instruments | | $ | - | $ | (22) | $ | 7 | $ | (15) |

(1) These amounts are netted within our condensed consolidated statements of financial position. Some of our derivative financial instruments have asset positions which are presented as a liability in our condensed consolidated statements of financial position, and we have derivative instruments that have liability positions which are presented as an asset in our condensed consolidated statements of financial position.

(2) As required by SFAS 161, the fair value amounts above are presented on a gross basis. Additionally, the amounts above do not include $214 million of cash collateral held on deposit in broker margin accounts as of March 31, 2009. As a result, the amounts above will differ from the amounts presented on our condensed consolidated statements of financial position, and the fair value information presented for our financial instruments in Note 2.

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Note 4 - Employee Benefit Plans

FSP FAS 132(R)-1

This FSP requires additional disclosures relating to postretirement benefit plan assets to provide transparency regarding the types of assets and the associated risks within the types of plan assets. The required disclosures include:

- How investment allocation decisions are made, including information that provides an understanding of investment policies and strategies,
- The major categories of plan assets,
- Inputs and valuation techniques used to measure the fair value of plan assets, including those measurements using significant unobservable inputs, on changes in plan assets for the period, and
- Significant concentrations of risk within plan assets.

This FSP is effective for fiscal years ending after December 15, 2009 and requires additional disclosures in our notes to condensed consolidated financial statements, but will not have a material impact on our financial position, results of operations or cash flows.

Pension Benefits

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

| | Three months ended March 31, | |
|---|---|---|
| In millions | 2009 | 2008 |
| Service cost | $ 2 | $ 2 |
| Interest cost | 7 | 7 |
| Expected return on plan assets | (7) | (8) |
| Amortization of prior service cost | (1) | (1) |
| Recognized actuarial loss | 2 | 1 |
| Net pension benefit cost | $ 3 | $ 1 |

Our employees do not contribute to these retirement plans. We fund the plans by contributing at least the minimum amount required by applicable regulations and as recommended by our actuary. However, we may also contribute in excess of the minimum required amount. We calculate the minimum amount of funding using the projected unit credit cost method. The Pension Protection Act (the Act) of 2006 contained new funding requirements for single employer defined benefit pension plans. The Act establishes a 100% funding target for plan years beginning after December 31,

2007. However, a delayed effective date of 2011 may apply if the pension plan meets the following targets: 92% funded in 2008; 94% funded in 2009; and 96% funded in 2010. In December 2008, the Worker, Retiree and Employer Recovery Act of 2008 allowed us to measure our 2008 and 2009 funding target at 92%. During the first three months of 2009, we made a $14 million contribution to our qualified plans. We expect to make additional contributions to our pension plans of $18 million during the remainder of 2009. In 2008, we did not make a contribution, as one was not required for our pension plans.

Postretirement Benefits

The Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Postretirement Plan) covers all eligible AGL Resources employees who were employed as of September 30, 2002, if they reach retirement age while working for us. Eligibility for benefits under the AGL Postretirement Plan is based on age and years of service. The state regulatory commissions have approved phase-ins that defer a portion of other postretirement benefits expense for future recovery. Effective December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. This act provides for a prescription drug benefit under Medicare (Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Medicare-eligible participants in the AGL Postretirement Plan receive prescription drug benefits through a Medicare Part D plan offered by a third party and to which we subsidize participant premiums. Medicare-eligible retirees who opt out of the AGL Postretirement Plan are eligible to receive a cash subsidy which may be used towards eligible prescription drug expenses.

Following are the cost components of the AGL Postretirement Plan for the periods indicated.

| | Three months ended March 31, | |
|---|---|---|
| In millions | 2009 | 2008 |
| Service cost | $ - | $ - |
| Interest cost | 1 | 1 |
| Expected return on plan assets | (1) | (1) |
| Amortization of prior service cost | (1) | (1) |
| Recognized actuarial loss | 1 | - |
| Net postretirement benefit cost | $ - | $ (1) |

Employee Savings Plan Benefits

We sponsor the Retirement Savings Plus Plan (RSP Plan), a defined contribution benefit plan that allows eligible participants to make contributions to their accounts up to specified limits. Under the RSP Plan, we made $2 million in matching contributions to participant accounts in the first three months of 2009 and $2 million in the same period last year.

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Note 5 - Equity

Noncontrolling Interests

We currently own a noncontrolling 70% financial interest in SouthStar, a joint venture with Piedmont who owns the remaining 30%. Our 70% interest is noncontrolling because all significant management decisions require approval by both owners. Although our ownership interest in the SouthStar partnership is 70%, under an amended and restated joint venture agreement executed in March 2004, SouthStar's earnings are allocated 75% to us and 25% to Piedmont except for earnings related to customers in Ohio and Florida, which are allocated 70% to us and 30% to Piedmont.

We are the primary beneficiary of SouthStar’s activities and have determined that SouthStar is a variable interest entity as defined by FIN 46R which requires us to consolidate the variable interest entity. The assets, liabilities, and noncontrolling interests of a consolidated variable interest entity are accounted for in our condensed consolidated financial statements as if the entity were consolidated based on voting interests.

The Company determined that SouthStar was a variable interest entity because its equal voting rights with Piedmont are not proportional to its economic obligation to absorb 75% of any losses or residual returns from SouthStar, except those losses and returns related to customers in Ohio and Florida. In addition, SouthStar obtains substantially all its transportation capacity for delivery of natural gas through our wholly-owned subsidiary, Atlanta Gas Light.

On January 1, 2009, we adopted SFAS 160, and applied the presentation and disclosure requirements retrospectively for all periods presented. SFAS 160 does not change the requirements of FIN 46R and provides that the noncontrolling interest should be reported as a separate component of equity on our condensed consolidated statements of financial position. Additionally, prior to adoption of SFAS 160, we recorded our earnings allocated to Piedmont as a component of earnings before income taxes in our condensed consolidated statements of income. SFAS 160 requires that any net income attributable to the noncontrolling interest be presented separately in our condensed consolidated statements of income. As a result, net income from noncontrolling interest is reported after net income in order to report net income attributable to the parent and the noncontrolling interest. The adoption of SFAS 160 has no effect on our calculation of basic or diluted earnings per share amounts, which will continue to be based upon amounts attributable to AGL Resources.

The March 2004 amended and restated joint venture agreement includes a series of options granting us the evergreen opportunity to purchase all or a portion of Piedmont’s ownership interest in SouthStar. We have the right to exercise an option to purchase on or before November of each year, with the purchase being effective as of January 1, of the following year. We currently have two vested options to purchase a portion of Piedmont’s ownership interest (33 1/3% and 50%, respectively). Effective January 1, 2010, our option vests to purchase up to 100% of Piedmont’s ownership interest. If we were to exercise any option to purchase less than 100% of Piedmont’s ownership interest in SouthStar, Piedmont, at its discretion, could require us to purchase their entire ownership interest. The purchase price, in any exercise of our option, would be based on the then current fair market value of SouthStar. SFAS 160 requires that increases in our ownership interest are recorded as equity transactions, with no adjustment to the carrying amounts of the assets and liabilities. Piedmont has challenged our interpretation of the duration of the various options in the amended and restated agreement as described in Note 7.

Stock-Based Compensation

In the first three months of 2009, we issued grants of approximately 250,000 stock options and 211,000 restricted stock units, which will result in the recognition of approximately $2 million of stock-based compensation expense in 2009. No material share awards have been granted to employees whose compensation is subject to capitalization. We use the Black-Scholes pricing model to determine the fair value of the options granted. On an annual basis, we evaluate the assumptions and estimates used to calculate our stock-based compensation expense.

There have been no significant changes to our stock-based compensation, as described in Note 4 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

Comprehensive Income

Our comprehensive income includes net income plus OCI, which includes other gains and losses affecting equity that GAAP excludes from net income. Such items consist primarily of gains and losses on certain derivatives designated as cash flow hedges and unfunded or overfunded pension and postretirement obligation adjustments.

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Note 6 - Debt

Our issuance of various securities, including long-term and short-term debt, is subject to customary approval or authorization by, or filings with, state and federal regulatory bodies, including state public service commissions, the SEC and the FERC pursuant to the Energy Policy Act of 2005. The following table provides more information on our various debt securities. For more information on our debt, see Note 6 in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

| In millions | Year(s) due | Interest rate (1) | Weighted average interest rate(2) | Outstanding as of Mar. 31, 2009 | Dec. 31, 2008 | Mar.31, 2008 |
|---|---|---|---|---|---|---|
| Short-term debt | | | | | | |
| Commercial paper & Credit Facilities | 2009 | 0.9% | 1.2% | $ 335 | $ 773 | $ 213 |
| SouthStar line of credit | 2009 | 1.1 | 1.1 | 45 | 75 | - |
| Sequent lines of credit | 2009 | 0.9 | 0.9 | 22 | 17 | 31 |
| Pivotal Utility line of credit | - | - | - | - | - | 10 |
| Current portion of long-term debt | - | - | - | - | - | 114 |
| Capital leases | 2009 | 4.9 | 4.9 | 1 | 1 | 1 |
| Total short-term debt | | 1.0% | 1.1% | $ 403 | $ 866 | $ 369 |
| Long-term debt - net of current portion | | | | | | |
| Senior notes | 2011-2034 | 4.5-7.1% | 5.9% | $ 1,275 | $ 1,275 | $ 1,275 |
| Gas facility revenue bonds | 2022-2033 | 0.2-5.3 | 1.3 | 200 | 200 | 40 |
| Medium-term notes | 2012-2027 | 6.6-9.1 | 7.8 | 196 | 196 | 196 |
| Capital leases | 2013 | 4.9 | 4.9 | 4 | 4 | 5 |
| Total long-term debt | | 5.5% | 5.5% | $ 1,675 | $ 1,675 | $ 1,516 |
| | | | | | | |
| Total debt | | 4.6% | 4.3% | $ 2,078 | $ 2,541 | $ 1,885 |

(1) As of March 31, 2009

(2) For the three months ended March 31, 2009.

Note 7 - Commitments and Contingencies

Contractual Obligations and Commitments

We have incurred various contractual obligations and financial commitments in the normal course of our operating and financing activities that are reasonably likely to have a material effect on liquidity or the availability of capital resources. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. As we do for other subsidiaries, we provide guarantees to certain gas suppliers for SouthStar in support of payment obligations. There were no significant changes to our contractual obligations described in Note 7 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008.

Contingent financial commitments, such as financial guarantees, represent obligations that become payable only if certain predefined events occur and include the nature of the guarantee and the maximum potential amount of future payments that could be required of us as the guarantor. The following table illustrates our contingent financial commitments as of March 31, 2009.

| | | Commitments due before Dec. 31, | |
|---|---|---|---|
| In millions | Total | 2009 | 2010 & thereafter |
| Standby letters of credit and performance and surety bonds | $ 51 | $ 45 | $ 6 |

Litigation

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

Information on the Jefferson Island Storage & Hub, LLC vs. State of Louisiana litigation is described in Note 7 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2008. In April 2009, the trial court ruled that the legislation that restricted Jefferson Island's ability to use water from the Chicot aquifer to expand its existing storage facility is unconstitutional and invalid. In addition, the court scheduled a trial in September 2009 on Jefferson Island's claim that it is authorized to expand the facility under its mineral lease. The ultimate resolution of such litigation cannot be determined, but it is not expected to have a material adverse effect on our condensed consolidated financial position, results of operations or cash flows.

In March 2009, Piedmont filed a lawsuit in the Court of Chancery of the State of Delaware against GNGC, asking the court to enter a judgment declaring that GNGC’s right to purchase Piedmont’s ownership interest in SouthStar expires on November 1, 2009. We believe that, under the March 2004 amended and restated joint venture agreement, GNGC has the evergreen opportunity, throughout the term of the joint venture, to exercise its options to purchase a portion of, or all of, Piedmont’s interest in SouthStar by notifying Piedmont on or before November 1, of each year, with the purchase being effective as of January 1 of the following year. The ultimate resolution of this litigation cannot be determined, but we believe that the dispute will be resolved before our next option exercise notification date on November 1, 2009.

In February 2008, the consumer affairs staff of the Georgia Commission alleged that GNG charged its customers on variable rate plans prices for natural gas that were in excess of the published price, that it failed to give proper notice regarding the availability of potentially lower price plans and that it changed its methodology for computing variable rates. GNG asserted that it fully complied with all applicable rules and regulations, that it properly charged its customers on variable rate plans the rates on file with the Georgia Commission, and that, consistent with its terms and conditions of service, it routinely switched customers who requested to move to another price plan for which they qualified. In order to resolve this matter GNG agreed to pay $2.5 million in the form of credits to customers, or as directed by the Georgia Commission, which was recorded in our statements of consolidated income for the year ended December 31, 2008.

In February 2008, a class action lawsuit was filed in the Superior Court of Fulton County in the State of Georgia against GNG containing similar allegations to those asserted by the Georgia Commission staff and seeking damages on behalf of a class of GNG customers. This lawsuit was dismissed in September 2008. In October 2008, the plaintiffs appealed the dismissal of the lawsuit and the Georgia Court of Appeals heard oral arguments in 2009. GNG is awaiting the Georgia Court of Appeal's ruling on the lawsuit.

In March 2008, a second class action suit was filed against GNG in the State Court of Fulton County in the State of Georgia, regarding monthly service charges. This lawsuit alleges that GNG arbitrarily assigned customer service charges rather than basing each customer service charge on a specific credit score. GNG asserts that no violation of law or Georgia Commission rules has occurred, that this lawsuit is without merit and has filed motions to dismiss this class action suit on various grounds. This lawsuit was dismissed with prejudice in March 2009. In April 2009, plaintiffs appealed the dismissal of the lawsuit.

Review of Compliance with FERC Regulations

In 2008 we conducted an internal review of our compliance with FERC interstate natural gas pipeline capacity release rules and regulations. Independent of our internal review, we also received data requests from FERC's Office of Enforcement relating specifically to compliance with FERC's capacity release posting and bidding requirements. We have responded to FERC's data requests and are fully cooperating with FERC in its investigation. As a result of this process, we have identified certain instances of possible non-compliance. We are committed to full regulatory compliance and we have met and continue to meet with the FERC Enforcement staff to discuss with them these instances of possible non-compliance. Accordingly we have accrued an appropriate estimate of possible penalties assessed by the FERC. While we continue to adjust this estimate as more information becomes available, the estimate does not have, and management does not believe the ultimate resolution will have, a material financial impact to our condensed consolidated results of operations, cash flows or financial position.

Glossary of Key Terms

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Note 8 - Segment Information

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. We generate nearly all our operating revenues through the sale, distribution, transportation and storage of natural gas. We are involved in several related and complementary businesses, including retail natural gas marketing to end-use customers primarily in Georgia; natural gas asset management and related logistics activities for each of our utilities as well as for nonaffiliated 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 nonoperating corporate segment which includes intercompany eliminations.

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

You should not consider EBIT an alternative to, or a more meaningful indicator of our operating performance than, operating income or net income attributable to AGL Resources Inc. as determined in accordance with GAAP. In addition, our EBIT may not be comparable to a similarly titled measure of another company. The following table contains the reconciliations of EBIT to operating income, earnings before income taxes and net income attributable to AGL Resources Inc. for the three months ended March 31, 2009 and 2008.

| | Three months ended March 31, | |
|---|---|---|
| In millions | 2009 | 2008 |
| Operating revenues | $ 995 | $ 1,012 |
| Operating expenses | 765 | 824 |
| Operating income | 230 | 188 |
| Other income | 2 | 1 |
| EBIT | 232 | 189 |
| Interest expense, net | (25) | (30) |
| Earnings before income taxes | 207 | 159 |
| Income tax expense | 72 | 54 |
| Net income | 135 | 105 |
| Net income attributable to the noncontrolling | 16 | 16 |

| | | |
|---|---|---|
| interest | | |
| Net income attributable to AGL Resources Inc. | $ 119 | $ 89 |

Statements of financial position information at December 31, 2008, is as follows:

| In millions | Identifiable and total assets (1) | Goodwill |
|---|---|---|
| Distribution operations | $ 5,138 | $ 404 |
| Retail energy operations | 315 | - |
| Wholesale services | 970 | - |
| Energy investments | 353 | 14 |
| Corporate and intercompany eliminations (2) | (66) | - |
| Consolidated AGL Resources Inc. | $ 6,710 | $ 418 |

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

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

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Summarized income statement information, identifiable and total assets, goodwill and property, plant and equipment expenditures as of and for the three months ended March 31, 2009 and 2008, by segment, are shown in the following tables.

Three months ended March 31, 2009

| In millions | Distribution operations | Retail energy operations | Wholesale services | Energy investments | Corporate and intercompany eliminations (3) | Consolidated AGL Resources |
|---|---|---|---|---|---|---|
| Operating revenues from external parties | $ 572 | $ 343 | $ 68 | $ 10 | $ 2 | $ 995 |
| Intercompany revenues (1) | 35 | - | - | - | (35) | - |
| Total operating revenues | 607 | 343 | 68 | 10 | (33) | 995 |
| Operating expenses | | | | | | |
| Cost of gas | 355 | 259 | 9 | - | (34) | 589 |
| Operation and maintenance | 83 | 20 | 19 | 5 | (2) | 125 |
| Depreciation and amortization | 32 | 1 | 1 | 2 | 3 | 39 |
| Taxes other than income taxes | 9 | - | 1 | 1 | 1 | 12 |
| Total operating expenses | 479 | 280 | 30 | 8 | (32) | 765 |
| Operating income (loss) | 128 | 63 | 38 | 2 | (1) | 230 |
| Other income | 2 | - | - | - | - | 2 |
| EBIT | $ 130 | $ 63 | $ 38 | $ 2 | $ (1) | $ 232 |
| | | | | | | |
| Identifiable and total assets (2) | $ 5,095 | $ 261 | $ 653 | $ 373 | $ (225) | $ 6,157 |
| Goodwill | $ 404 | $ - | $ - | $ 14 | $ - | $ 418 |
| Capital expenditures for property, plant and equipment | $ 69 | $ - | $ - | $ 23 | $ 5 | $ 97 |

Three months ended March 31, 2008

| In millions | Distribution operations | Retail energy operations | Wholesale services | Energy investments | Corporate and intercompany eliminations (3) | Consolidated AGL Resources |
|---|---|---|---|---|---|---|
| Operating revenues from external parties | $ 610 | $ 375 | $ 17 | $ 11 | $ (1) | $ 1,012 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Intercompany revenues (1) | 66 | - | - | - | (66) | - |
| Total operating revenues | 676 | 375 | 17 | 11 | (67) | 1,012 |
| Operating expenses | | | | | | |
| Cost of gas | 428 | 293 | 2 | - | (66) | 657 |
| Operation and maintenance | 86 | 19 | 12 | 4 | (2) | 119 |
| Depreciation and amortization | 31 | 1 | 1 | 1 | 2 | 36 |
| Taxes other than income taxes | 9 | - | 1 | 1 | 1 | 12 |
| Total operating expenses | 554 | 313 | 16 | 6 | (65) | 824 |
| Operating income (loss) | 122 | 62 | 1 | 5 | (2) | 188 |
| Other income | 1 | - | - | - | - | 1 |
| EBIT | $ 123 | $ 62 | $ 1 | $ 5 | $ (2) | $ 189 |
| | | | | | | |
| Identifiable and total assets (2) | $ 4,769 | $ 296 | $ 968 | $ 287 | $ (214) | $ 6,106 |
| Goodwill | $ 406 | $ - | $ - | $ 14 | | |