AGL RESOURCES INC
Form 10-Q
April 29, 2014

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2014

Commission File Number 1-14174

AGL RESOURCES INC.
Ten Peachtree Place NE, Atlanta, Georgia 30309
404-584-4000

Georgia	58-2210952
(State of incorporation)	(I.R.S. Employer Identification No.)

AGL Resources Inc.: (1) has filed all reports required to be filed by Section 13 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.

AGL Resources Inc. has submitted electronically and posted on its corporate website every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months.

AGL Resources Inc. is a large accelerated filer and is not a shell company.

The number of shares of AGL Resources Inc.'s common stock, $5.00 Par Value, outstanding as of April 22, 2014 was 119,257,873.

AGL RESOURCES INC.
Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2014

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GLOSSARY OF KEY TERMS

2013 Form 10-K	Our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 6, 2014
AFUDC	Allowance for funds used during construction, which represents the estimated cost of funds, from both debt and equity sources, used to finance the construction of major projects and is capitalized in PP&E and considered rate base for ratemaking purposes
AGL Capital	AGL Capital Corporation
AGL Credit Facility	$1.3 billion credit agreement entered into by AGL Capital to support its commercial paper program
AGL Resources	AGL Resources Inc., together with its consolidated subsidiaries
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Central Valley	Central Valley Gas Storage, LLC
EBIT	Earnings before interest and taxes, the primary measure of our operating segments' profit or loss, which includes operating income and other income and excludes financing costs, including interest on debt and income tax expense
ERC	Environmental remediation costs
FASB	Financial Accounting Standards Board
Fitch	Fitch Ratings
GAAP	Accounting principles generally accepted in the United States of America
Georgia Commission	Georgia Public Service Commission, the state regulatory agency for Atlanta Gas Light
Golden Triangle	Golden Triangle Storage, Inc.
Heating Degree Days	A measure of the effects of weather on our businesses, calculated when the average daily temperatures are less than 65 degrees Fahrenheit
Heating Season	The period from November through March when natural gas usage and operating revenues are generally higher
Horizon Pipeline	Horizon Pipeline Company, LLC
Illinois Commission	Illinois Commerce Commission, the state regulatory agency for Nicor Gas
Jefferson Island	Jefferson Island Storage & Hub, LLC
LIFO	Last-in, first-out
LNG	Liquefied natural gas
LOCOM	Lower of weighted average cost or current market price
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission
Moody's	Moody's Investors Service
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
Nicor	Nicor Inc.
Nicor Gas	Northern Illinois Gas Company, doing business as Nicor Gas Company
Nicor Gas Credit Facility	$700 million credit facility entered into by Nicor Gas to support its commercial paper program
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 goods sold and revenue tax expense
OTC	Over-the-counter
PBR	Performance-based rate
Piedmont	Piedmont Natural Gas Company, Inc.
	Nicor Energy Services Company, doing business as Pivotal Home Solutions

Pivotal Home Solutions	
PP&E	Property, plant and equipment
S&P	Standard & Poor’s Ratings Services
Sawgrass Storage	Sawgrass Storage, LLC
SEC	Securities and Exchange Commission
Sequent	Sequent Energy Management, L.P.
Seven Seas	Seven Seas Insurance Company, Inc.
SouthStar	SouthStar Energy Services, LLC
STRIDE	Atlanta Gas Light’s Strategic Infrastructure Development and Enhancement program
TEU	Twenty-foot equivalent unit, a measure of volume in containerized shipping equal to one 20-foot-long container
Triton	Triton Container Investments, LLC
Tropical Shipping	Tropical Shipping and Construction Company Limited
U.S.	United States
VaR	Value-at-risk is 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.
VIE	Variable interest entity
Virginia Commission	Virginia State Corporation Commission, the state regulatory agency for Virginia Natural Gas
Virginia Natural Gas	Virginia Natural Gas, Inc.
WACOG	Weighted average cost of gas

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PART I – FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	As of		
In millions, except share amounts	March 31, 2014	December 31, 2013	March 31, 2013
Current assets			
Cash and cash equivalents	$ 293	$ 105	$ 149
Short-term investments	52	50	43
Receivables			
Energy marketing	1,226	786	627
Gas, unbilled and other	1,109	772	874
Less allowance for uncollectible accounts	49	29	39
Total receivables, net	2,286	1,529	1,462
Regulatory assets	297	162	119
Inventories, net	263	667	393
Derivative instruments	127	99	100
Other	130	121	95
Total current assets	3,448	2,733	2,361
Long-term assets and other deferred debits			
Property, plant and equipment	11,220	11,104	10,610
Less accumulated depreciation	2,397	2,323	2,202
Property, plant and equipment, net	8,823	8,781	8,408
Goodwill	1,869	1,888	1,883
Regulatory assets	736	737	878
Intangible assets	170	173	156
Derivative instruments	11	20	11
Other	319	324	243
Total long-term assets and other deferred debits	11,928	11,923	11,579
Total assets	$ 15,376	$ 14,656	$ 13,940
Current liabilities			
Energy marketing trade payables	$ 1,119	$ 671	$ 653
Short-term debt	741	1,171	868
Other accounts payable - trade	444	432	314
Accrued expenses	390	210	166
Temporary LIFO liquidation	252	-	179
Current portion of long-term debt and capital leases	200	-	226
Regulatory liabilities	161	183	238
Customer deposits and credit balances	104	136	115
Accrued environmental remediation liabilities	82	70	63

Derivative instruments	63	75	20
Other	197	174	218
Total current liabilities	3,753	3,122	3,060
Long-term liabilities and other deferred credits			
Long-term debt	3,610	3,813	3,324
Accumulated deferred income taxes	1,699	1,667	1,568
Regulatory liabilities	1,550	1,518	1,498
Accrued pension and retiree welfare benefits	405	404	509
Accrued environmental remediation liabilities	358	377	362
Derivative instruments	19	5	4
Other	71	74	74
Total long-term liabilities and other deferred credits	7,712	7,858	7,339
Total liabilities and other deferred credits	11,465	10,980	10,399
Commitments, guarantees and contingencies (see Note 10)			
Equity			
Common stock, $5 par value; 750,000,000 shares authorized: outstanding: 119,247,421 shares at March 31, 2014, 118,888,876 shares at December 31, 2013 and 118,123,770 shares at March 31, 2013	597	595	592
Additional paid-in capital	2,059	2,054	2,019
Retained earnings	1,358	1,126	1,134
Accumulated other comprehensive loss	(135)	(136)	(211)
Treasury shares, at cost: 216,523 shares at March 31, 2014 and December 31, 2013 and March 31, 2013	(8)	(8)	(8)
Total common shareholders' equity	3,871	3,631	3,526
Noncontrolling interest	40	45	15
Total equity	3,911	3,676	3,541
Total liabilities and equity	$ 15,376	$ 14,656	$ 13,940

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions, except per share amounts	Three months ended March 31, 2014	2013
Operating revenues (includes revenue taxes of $68 for the three months in 2014 and $50 for the three months in 2013)	$ 2,563	$ 1,709
Operating expenses		
Cost of goods sold	1,454	973
Operation and maintenance	317	259
Depreciation and amortization	98	107
Taxes other than income taxes	89	71
Goodwill impairment loss	19	-
Total operating expenses	1,977	1,410
Operating income	586	299
Other income	3	5
Interest expense, net	(48)	(46)
Income before income taxes	541	258
Income tax expense	239	94
Net income	302	164
Less net income attributable to the noncontrolling interest	12	10
Net income attributable to AGL Resources Inc.	$ 290	$ 154
Per common share data		
Basic earnings per common share attributable to AGL Resources Inc. common shareholders	$ 2.44	$ 1.31
Diluted earnings per common share attributable to AGL Resources Inc. common shareholders	$ 2.44	$ 1.31
Cash dividends declared per common share	$ 0.49	$ 0.47
Weighted average number of common shares outstanding		
Basic	118.5	117.4
Diluted	118.9	117.7

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Three months ended March 31, 2014	2013
Net income	$302	$164
Other comprehensive income, net of tax		
Retirement benefit plans		
Reclassification of actuarial losses to net benefit cost (net of income tax of $1 for the three months ended March 31, 2014, and $2 for the three months ended March 31, 2013)	1	4
Reclassification of prior service credits to net benefit cost	-	(1)
Retirement benefit plans	1	3
Cash flow hedges, net of tax		
Net derivative instrument gains arising during the period (net of income tax of $1 for the three months ended March 31, 2013)	4	2
Reclassification of realized derivative (gains) losses to net income (net of income tax of $1 for the three months ended March 31, 2013)	(4)	2
Cash flow hedges, net	-	4
Other comprehensive income, net of tax	1	7
Comprehensive income	303	171
Less comprehensive income attributable to noncontrolling interest	12	10
Comprehensive income attributable to AGL Resources Inc.	$291	$161

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		Additional paid-in	Retained	Accumulated other comprehensive	Treasury	Noncontrolling	
In millions, except per share amounts	Shares	Amount	capital	earnings	loss	shares	interest	Total
Balance as of December 31, 2012	117.9	$ 590	$ 2,014	$ 1,035	$ (218)	$ (8)	$ 22	$ 3,435
Net income	-	-	-	154	-	-	10	164
Other comprehensive income	-	-	-	-	7	-	-	7
Dividends on common stock ($0.47 per share)	-	-	-	(55)	-	-	-	(55)
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)
Stock granted, share-based compensation, net of forfeitures	-	-	(6)	-	-	-	-	(6)
Stock issued, dividend reinvestment plan	-	1	2	-	-	-	-	3
Stock issued, share-based compensation, net of forfeitures	0.2	1	6	-	-	-	-	7
Stock-based compensation expense, net of tax	-	-	3	-	-	-	-	3
Balance as of March 31, 2013	118.1	$ 592	$ 2,019	$ 1,134	$ (211)	$ (8)	$ 15	$ 3,541

	AGL Resources Inc. Shareholders							
	Common stock		Additional paid-in	Retained	Accumulated other comprehensive	Treasury	Noncontrolling	
In millions, except per share amounts	Shares	Amount	capital	earnings	loss	shares	interest	Total
Balance as of December 31, 2013	118.9	$ 595	$ 2,054	$ 1,126	$ (136)	$ (8)	$ 45	$ 3,676
Net income	-	-	-	290	-	-	12	302
	-	-	-	-	1	-	-	1

Other comprehensive income								
Dividends on common stock ($0.49 per share)	-	-	-	(58)	-	-	-	(58)
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)
Stock granted, share-based compensation, net of forfeitures	-	-	(12)	-	-	-	-	(12)
Stock issued, dividend reinvestment plan	-	-	2	-	-	-	-	2
Stock issued, share-based compensation, net of forfeitures	0.3	2	12	-	-	-	-	14
Stock-based compensation expense, net of tax	-	-	3	-	-	-	-	3
Balance as of March 31, 2014	119.2	$ 597	$ 2,059	$ 1,358	$ (135)	$ (8)	$ 40	$ 3,911

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Three months ended March 31, 2014	2013
Cash flows from operating activities		
Net income	$ 302	$ 164
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	98	107
Deferred income taxes	42	(24)
Goodwill impairment loss	19	-
Change in derivative instrument assets and liabilities	(17)	18
Changes in certain assets and liabilities		
Inventories, net of temporary LIFO liquidation	656	494
Accrued expenses	180	26
Trade payables, other than energy marketing	51	(6)
Energy marketing receivables and trade payables, net	8	92
Prepaid taxes	2	76
Receivables, other than energy marketing	(317)	(172)
Deferred/accrued natural gas costs	(228)	43
Other, net	57	32
Net cash flow provided by operating activities	853	850
Cash flows from investing activities		
Expenditures for property, plant and equipment	(164)	(148)
Acquisitions of assets	-	(122)
Other, net	-	14
Net cash flow used in investing activities	(164)	(256)
Cash flows from financing activities		
Net repayments of commercial paper	(430)	(509)
Dividends paid on common shares	(58)	(55)
Distribution to noncontrolling interest	(17)	(17)
Other, net	4	5
Net cash flow used in financing activities	(501)	(576)
Net increase in cash and cash equivalents	188	18
Cash and cash equivalents at beginning of period	105	131
Cash and cash equivalents at end of period	$ 293	$ 149
Cash paid during the period for		
Interest	$ 58	$ 58
Income taxes	$ 14	$ 26
Non cash financing transaction		
Refinancing of gas facility revenue bonds	$ -	$ 200

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

Note 1 - Organization and Basis of Presentation

General

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

The December 31, 2013 Condensed Consolidated Statement of Financial Position data was derived from our audited financial statements, but does not include all disclosures required by GAAP. We have prepared the accompanying unaudited Condensed Consolidated Financial Statements under the rules and regulations of the SEC. In accordance with such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with GAAP. Our unaudited 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. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K.

Due to the seasonal nature of our business and other factors, our results of operations and our financial condition for the periods presented are not necessarily indicative of the results of operations and financial condition to be expected for or as of any other period.

Basis of Presentation

Our unaudited Condensed Consolidated Financial Statements include our accounts, the accounts of our wholly owned subsidiaries, the accounts of our majority owned or otherwise controlled subsidiaries and the accounts of our consolidated VIE for which we are the primary beneficiary. For unconsolidated entities that we do not control, but exercise significant influence over, we use the equity method of accounting and our proportionate share of income or loss is recorded on the unaudited Condensed Consolidated Statements of Income. See Note 9 for additional information. We have eliminated intercompany profits and transactions in consolidation except for intercompany profits where recovery of such amounts is probable under the affiliates’ rate regulation process.

Note 2 - Significant Accounting Policies and Methods of Application

Our accounting policies are described in Note 2 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K. There were no significant changes to our accounting policies during the three months ended March 31, 2014.

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. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our estimates may involve complex situations requiring a high degree of judgment either in the application and interpretation of existing literature or in the development of estimates that impact our financial statements. The most significant estimates relate to our rate-regulated subsidiaries, uncollectible accounts and other allowances for contingent losses, goodwill and other intangible assets, retirement plan benefit obligations, derivative and hedging activities and provisions for income taxes. We evaluate our estimates on an ongoing basis and our actual results could differ from our estimates.

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of cash on deposit, money market accounts and certificates of deposit held by domestic subsidiaries with original maturities of three months or less. As of March 31, 2014 and 2013, and December 31, 2013, $75 million, $76 million and $80 million, respectively, of cash and short and long-term investments was held by Tropical Shipping. As of March 31, 2014, in conjunction with negotiating the agreement to sell Tropical Shipping and Seven Seas, we determined that we no longer have the intent to indefinitely reinvest Tropical Shipping’s cash and short and long-term investments offshore. For more information on the sale of Tropical Shipping and Seven Seas, see Income Tax Expense and Goodwill within this note and Note 12.

Energy Marketing Receivables and Payables

Our wholesale services segment provides services to retail and wholesale marketers and utility and industrial customers. These customers, also known as counterparties, utilize netting agreements that enable our wholesale services segment to net receivables and payables by counterparty upon settlement. Wholesale services also nets across product lines and against cash collateral, provided the master netting and cash collateral agreements include such provisions. While the amounts due from, or owed to, wholesale services’ counterparties are settled net, they are recorded on a gross basis in our unaudited Condensed Consolidated Statements of Financial Position as energy marketing receivables and energy marketing payables.

Our wholesale services segment has trade and credit contracts that contain 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. To date, our credit ratings have exceeded the minimum requirements. As of March 31, 2014 and 2013, and December 31, 2013, the collateral that wholesale services would have been required to post if our credit ratings had been downgraded to non-investment grade status would not have had a material impact to our consolidated results of operations, cash flows or financial condition. If such collateral were not posted, wholesale services' ability to continue transacting business with these counterparties would be negatively impacted.

Inventories

For our regulated utilities, except Nicor Gas, our natural gas inventories and the inventories we hold for Marketers in Georgia are carried at cost on a WACOG basis. In Georgia's competitive environment, Marketers sell natural gas to firm end-use customers at market-based prices. Part of the unbundling process, which resulted from deregulation and provides this competitive environment, is the assignment to Marketers of certain pipeline services that Atlanta Gas Light has under contract. On a monthly basis, Atlanta Gas Light assigns the majority of the pipeline storage services that it has under contract to Marketers, along with a corresponding amount of inventory. Atlanta Gas Light also retains and manages a portion of its pipeline storage assets and related natural gas inventories for system balancing and to serve system demand. See Note 10 for information regarding a regulatory filing by Atlanta Gas Light related to natural gas inventory.

Nicor Gas' inventory is carried at cost on a LIFO basis. Inventory decrements occurring during interim periods that are expected to be restored prior to year end are charged to cost of goods sold at the estimated annual replacement cost, and the difference between this cost and the actual liquidated LIFO layer cost is recorded as a temporary LIFO inventory liquidation. Any temporary LIFO liquidation is included as a current liability in our unaudited Condensed Consolidated Statements of Financial Position. Interim inventory decrements that are not expected to be restored prior to year end are charged to cost of goods sold at the actual LIFO cost of the layers liquidated. The inventory decrement as of March 31, 2014 is expected to be restored prior to year end. The inventory decrement as of March 31, 2013 was restored prior to December 31, 2013.

Our retail operations, wholesale services and midstream operations segments carry inventory at the lower of cost or market value, where cost is determined on a WACOG basis. For these segments, we evaluate the weighted average cost of their natural gas inventories against market prices to determine whether any declines in market prices below the WACOG are other than temporary. For any declines considered to be other than temporary, we record adjustments to reduce the weighted average cost of the natural gas inventory to market value. For the three months ended March 31, 2014, wholesale services recorded a $2 million LOCOM adjustment to reduce the value of our inventories to market value. We recorded no LOCOM adjustment for the three months ended March 31, 2013.

Fair Value Measurements

We have financial and nonfinancial assets and liabilities subject to fair value measurement. The financial assets and liabilities measured and carried at fair value include cash and cash equivalents, and derivative assets and liabilities. The carrying values of receivables, short and long-term investments, accounts payable, short-term debt, other current assets and liabilities, and accrued interest approximate fair value. Our nonfinancial assets and liabilities include pension and other retirement benefits, which are presented in Note 4 to our Consolidated Financial Statements and in related notes included in Item 8 of our 2013 Form 10-K.

As defined in the authoritative guidance related to fair value measurements and disclosures, 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 valuing 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 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 classify fair value balances based on the observance of those inputs in accordance with the fair value hierarchy.

Derivative Instruments

The fair value of the natural gas and weather derivative instruments that we use to manage exposures arising from changing natural gas prices and weather risk 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 of our derivative instruments. See Note 4 and Note 5 for additional derivative disclosures.

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Goodwill

During the first quarter of 2014, we completed an engineering study at our storage and fuels reporting unit within midstream operations, which indicated a reduced forecast of working gas capacity from what was projected when our 2013 annual goodwill impairment analysis was performed during the fourth quarter of 2013. Given that the 2013 annual goodwill impairment test indicated that the estimated fair value of this reporting unit exceeded its carrying amount by less than 5%, we considered this reduced storage capacity as an indicator of potential impairment and, accordingly, conducted an interim goodwill impairment analysis during the first quarter of 2014.

The estimated fair value of this reporting unit was determined utilizing the income approach, which estimated the fair value based upon the present value of estimated future cash flows. The forecasts used in the income approach, which were updated during the first quarter of 2014 to reflect the contracting activity that occurred during the quarter, assume discrete period revenue growth through fiscal 2022 to reflect the recovery of subscription rates, stabilization of earnings and establishment of a reasonable base year that was used to estimate the terminal value. Consistent with our 2013 annual goodwill impairment testing, we assumed a long-term earnings growth rate in the terminal year of 2.5%, which we believe is appropriate given the current economic and industry specific expectations. As of the valuation date, we utilized a discount rate of 7.0%, which we believe is appropriate as it reflects the relative risk and the time value of money, and is consistent with the peer group of this reporting unit as well as the discount rates that were utilized in our 2013 annual goodwill impairment tests.

The cash flow forecasts for this reporting unit assumed earnings growth over the next eight years. Should this growth not occur, this reporting unit may fail step one during a future goodwill impairment test. Along with any reductions to our cash flow forecasts, changes in other assumptions used in our impairment analysis may require us to proceed to step two of the goodwill impairment test in a future period.

Our interim goodwill impairment test indicated that the estimated fair value of this reporting unit continues to exceed its carrying amount with a cushion of less than 10%. Continued declines in capacity or subscription rates, a sustained period at the current subscription rates or other changes to the assumptions and factors used in this analysis may result in a future failure of step one of the goodwill impairment test. The risk of impairment of the underlying long-lived assets is not estimated to be significant as the assets have long remaining useful lives and authoritative guidance requires such assets to be tested for impairment on the basis of undiscounted cash flows over their remaining useful lives. We will continue to monitor this reporting unit for potential impairment.

In April 2014 we entered into a definitive agreement to sell Tropical Shipping and Seven Seas. We have determined, based on the agreed-upon sale price, that $19 million of goodwill attributable to cargo shipping was impaired as of March 31, 2014. Accordingly, this impairment expense was recorded as a separate line item in our unaudited Condensed Consolidated Statements of Income. Changes in the amount of goodwill for the three months ended March 31, 2014 and 2013 are provided in the following table.

In millions	Distribution Operations	Retail Operations	Wholesale Services	Midstream Operations	Cargo Shipping	Other	Consolidated
Goodwill - December 31, 2012	$ 1,640	$ 122	$ -	$ 14	$ 61	$ -	$ 1,837
2013 activity	-	46	-	-	-	-	46
Goodwill - March 31, 2013	$ 1,640	$ 168	$ -	$ 14	$ 61	$ -	$ 1,883
Goodwill - December 31,	$ 1,640	$ 173	$ -	$ 14	$ 61	$ -	$ 1,888

2013							
Cargo shipping impairment	-	-	-	-	(19)	-	(19)
Goodwill - March 31, 2014	$ 1,640	$ 173	$ -	$ 14	$ 42	$ -	$ 1,869

See Note 2 to our Consolidated Financial Statements included in Item 8 of our 2013 Form 10-K for additional information on impairment of assets.

Other Income

Our other income is detailed in the following table. For more information on our equity investment income, see Note 9.

	Three months ended March 31,	
In millions	2014	2013
Equity investment income	$ 3	$ 3
AFUDC - equity	1	3
Other, net	(1)	(1)
Total other income	$ 3	$ 5

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Income Tax Expense

As a result of our agreement to sell Tropical Shipping and Seven Seas, we have determined that the cumulative foreign earnings of cargo shipping will no longer be indefinitely reinvested offshore, and we recognized tax expense of $31 million in the three months ended March 31, 2014 related to the cumulative earnings for which no tax liabilities previously had been recorded. This resulted in an effective tax rate of 45.2% for the three months ended March 31, 2014 compared to 37.9% for the same period last year. As of March 31, 2014, we have $57 million of deferred income tax liabilities on our unaudited Condensed Consolidated Statements of Financial Position related to the cumulative earnings of our foreign subsidiaries that have not been repatriated.

Earnings Per Common Share

We compute basic earnings per common share attributable to AGL Resources Inc. common shareholders by dividing our net income attributable to AGL Resources Inc. by the daily weighted average number of common shares outstanding. Diluted earnings per common share attributable to AGL Resources Inc. common shareholders reflect the potential reduction in earnings per common share attributable to AGL Resources Inc. common shareholders that occurs when potentially dilutive common shares are added to common shares outstanding.

We derive our potentially dilutive common shares by calculating the number of shares issuable under restricted stock, restricted stock units and stock options. The vesting of certain shares of the restricted stock and restricted stock units depends on the satisfaction of defined performance and/or time based criteria. The future issuance of shares underlying the outstanding stock options depends on whether the market price of the common shares underlying the options exceeds the respective exercise prices of the stock options.

The following table shows the calculation of our diluted shares attributable to AGL Resources Inc. common shareholders for the periods presented, if performance units currently earned under the plan ultimately vest and if stock options currently exercisable at prices below the average market prices are exercised.

	Three months ended March 31,	
In millions (except per share amounts)	2014	2013
Net income attributable to AGL Resources Inc.	$ 290	$ 154
Denominator:		
Basic weighted average number of shares outstanding (1)	118.5	117.4
Effect of dilutive securities	0.4	0.3
Diluted weighted average number of shares outstanding	118.9	117.7
Earnings per share:		
Basic	$ 2.44	$ 1.31
Diluted	$ 2.44	$ 1.31

(1) Daily weighted average shares outstanding.

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Note 3 - Regulated Operations

We account for the financial effects of regulation in accordance with authoritative guidance related to regulated entities whose rates are designed to recover the costs of providing service. In accordance with this guidance, incurred costs and estimated future expenditures that would otherwise be charged to expense in the current period are capitalized as regulatory assets when it is probable that such costs or expenditures will be recovered in rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for estimated expenditures that have not yet been incurred. Generally, regulatory assets are amortized into expense and regulatory liabilities are amortized into income over the period authorized by the regulatory commissions. The following table summarizes our regulatory assets and liabilities as of the dates presented.

In millions	March 31, 2014	December 31, 2013	March 31, 2013
Regulatory assets			
Deferred natural gas costs	$ 161	$ 1	$ -
Recoverable regulatory infrastructure program costs	48	48	47
Recoverable ERC	38	45	28
Recoverable pension and retiree welfare benefit costs	9	9	19
Other	41	59	25
Total regulatory assets - current	297	162	119
Recoverable ERC	419	433	415
Recoverable pension and retiree welfare benefit costs	97	99	192
Recoverable regulatory infrastructure program costs	96	87	135
Long-term debt fair value adjustment	80	82	88
Other	44	36	48
Total regulatory assets - long-term	736	737	878
Total regulatory assets	$ 1,033	$ 899	$ 997
Regulatory liabilities			
Bad debt over collection	$ 41	$ 41	$ 39
Accumulated removal costs	27	27	17
Accrued natural gas costs	24	92	133
Deferred seasonal rates	20	-	20
Other	49	23	29
Total regulatory liabilities - current	161	183	238
Accumulated removal costs	1,456	1,445	1,413
Regulatory income tax liability	27	27	26
Unamortized investment tax credit	25	26	28
Bad debt over collection	14	17	20
Other	28	3	11
Total regulatory liabilities - long-term	1,550	1,518	1,498
Total regulatory liabilities	$ 1,711	$ 1,701	$ 1,736

Base rates are designed to provide the opportunity for both a recovery of cost and a return on investment during the period rates are in effect. As such, all of our regulatory assets recoverable through base rates are subject to review by the respective state regulatory commission during future rate proceedings. We believe that we will be able to recover such costs consistent with our historical recoveries.

In the event the provisions of authoritative guidance related to regulated operations were no longer applicable, we would recognize a write-off of regulatory assets that would result in a charge to net income and be classified as an extraordinary item. Additionally, while some regulatory liabilities would be written off, others would continue to be recorded as liabilities, but not as regulatory liabilities.

Natural Gas Costs We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms set by the state regulatory agencies. Under these mechanisms, all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. We defer or accrue the difference between the actual cost of gas and the amount of commodity revenue earned in a given period, such that no operating margin is recognized related to these costs. The deferred or accrued amount is either billed or refunded to our customers prospectively through adjustments to the commodity rate. Deferred natural gas costs are reflected as regulatory assets and accrued natural gas costs are reflected as regulatory liabilities. The following table illustrates the change in net position of these costs from March 31, 2013 to March 31, 2014.

In millions	March 31, 2014	March 31, 2013	Change
Deferred natural gas costs	$ 161	$ -	$ 161
Accrued natural gas costs	(24)	(133)	109
Total (1)	$ 137	$ (133)	$ 270

(1) The $270 million change resulted from increased natural gas prices during the first quarter of 2014 compared to the first quarter of 2013, primarily driven by colder weather experienced in the current quarter. These costs will be fully recovered in future periods.

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Environmental Remediation Costs We are subject to federal, state and local laws and regulations governing environmental quality and pollution control that require us to remove or remedy the effect on the environment of the disposal or release of specified substances at our current and former operating sites. The ERC assets and liabilities are associated with our distribution operations segment and are generally recoverable through rate mechanisms.

Our ERC liabilities are estimates of future remediation costs for investigation and cleanup of our current and former operating sites that are contaminated. These estimates are based on conventional engineering estimates and the use of probabilistic models of potential costs when such estimates cannot be made, on an undiscounted basis. As cleanup options and plans mature and cleanup contracts are entered into, 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 assumptions, which we refine and update on an ongoing basis. These liabilities do not include other potential expenses, such as unasserted property damage claims, personal injury or natural resource damage claims, legal expenses or other costs for which we may be held liable but for which we cannot reasonably estimate an amount. The following table provides additional information on the costs related to remediation of our current and former operating sites as of March 31, 2014 and reflects minor changes in estimates since we filed our 2013 Form 10-K.

In millions	Probabilistic model cost estimates	Engineering estimates	Amount recorded	Expected costs over next 12 months
Illinois	$ 211 - $461	$ 42	$ 246	$ 39
New Jersey	139 - 233	6	144	25
Georgia and Florida	28 - 112	8	39	10
North Carolina	n/a	11	11	8
Total	$ 378 - $806	$ 67	$ 440	$ 82

Note 4 - Fair Value Measurements

The methods used to determine the fair values of our assets and liabilities are described within Note 2.

Derivative Instruments

The following table summarizes, by level within the fair value hierarchy, our derivative assets and liabilities that were carried at fair value on a recurring basis in our unaudited Consolidated Statements of Financial Position as of the dates presented. See Note 5 for additional derivative instrument information.

	March 31, 2014		December 31, 2013		March 31, 2013	
In millions	Assets (1)	Liabilities	Assets (1)	Liabilities	Assets (1)	Liabilities
Natural gas derivatives						
Quoted prices in active markets (Level 1)	$18	$(38)	$6	$(79)	$14	$(38)
Significant other observable inputs (Level 2)	50	(75)	67	(79)	49	(23)
Netting of cash collateral	69	31	43	78	40	37
Total carrying value (2) (3)	$137	$(82)	$116	$(80)	$103	$(24)
Interest rate derivatives						
Significant other observable inputs (Level 2)	$-	$-	$-	$-	$6	$-

(1) Balances of $1 million at March 31, 2014, $3 million at December 31, 2013 and $2 million at March 31, 2013 associated with certain weather derivatives have been excluded, as they are accounted for based on intrinsic value

rather than fair value.

(2) There were no significant unobservable inputs (Level 3) for any of the dates presented.

(3) There were no significant transfers between Level 1, Level 2 or Level 3 for any of the dates presented.

Money Market Funds

The fair values of our money market funds were recorded within short-term investments as of the following dates.

In millions	March 31, 2014	December 31, 2013	March 31, 2013
Money market funds (1)	$ 48	$ 48	$ 48

(1) Carried at fair value and classified as Level 1 within the fair value hierarchy.

Debt

Our long-term debt is recorded at amortized cost, with the exception of Nicor Gas' first mortgage bonds, which are recorded at their acquisition date fair value. The fair value adjustment of Nicor Gas' first mortgage bonds is being amortized over the lives of the bonds. The following table presents the carrying amount and fair value of our long-term debt as of the following dates.

In millions	March 31, 2014	December 31, 2013	March 31, 2013
Long-term debt carrying amount	$ 3,810	$ 3,813	$ 3,550
Long-term debt fair value (1)	4,095	3,956	4,006

(1) Fair value determined using Level 2 inputs.

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Note 5 - Derivative Instruments

A description of our objectives and strategies for using derivative instruments, related accounting policies and methods used to determine their fair values are described in Note 2. See Note 4 for additional fair value disclosures.

Certain of our derivative instruments contain credit-risk-related or other contingent features that could require us to post collateral in the normal course of business when our financial instruments are in net liability positions. As of March 31, 2014, for agreements with such features, derivative instruments with liability fair values totaled $82 million, for which we had posted no collateral to our counterparties. The maximum collateral that could be required with these features is $15 million. For more information, see "Energy Marketing Receivables and Payables" in Note 2, which also have credit-risk-related or other contingent features. Our derivative instrument activities are included within operating cash flows as an adjustment to net income of ($17) million and $18 million for the three months ended March 31, 2014 and 2013, respectively. See Note 4 for additional derivative instrument information. The following table summarizes the various ways in which we account for our derivative instruments and the impact on our unaudited Condensed Consolidated Financial Statements.

	Recognition and Measurement	
Accounting Treatment	Statements of Financial Position	Statements of Income
Cash flow hedge	Derivative carried at fair value	Ineffective portion of the gain or loss on the derivative instrument is recognized in earnings
	Effective portion of the gain or loss on the derivative instrument is reported initially as a component of accumulated OCI (loss)	Effective portion of the gain or loss on the derivative instrument is reclassified out of accumulated OCI (loss) and into earnings when the hedged transaction affects earnings
Fair value hedge	Derivative carried at fair value Changes in fair value of the hedged item are recorded as adjustments to the carrying amount of the hedged item	Gains or losses on the derivative instrument and the hedged item are recognized in earnings. As a result, to the extent the hedge is effective, the gains or losses will offset and there is no impact on earnings. Any hedge ineffectiveness will impact earnings
Not designated as hedges	Derivative carried at fair value	Realized and unrealized gains or losses on the derivative instrument are recognized in earnings
	Distribution operations' gains and losses on derivative instruments are deferred as regulatory assets or liabilities until included in cost of goods sold	Gains or losses on these derivative instruments are ultimately included in billings to customers and are recognized in cost of goods sold in the same period as the related revenues

Quantitative Disclosures Related to Derivative Instruments

As of the dates presented, our derivative instruments were comprised of both long and short natural gas positions. A long position is a contract to purchase natural gas, and a short position is a contract to sell natural gas. We had a net long natural gas contracts position outstanding in the following quantities:

In Bcf (1)	March 31, 2014 (2)	December 31, 2013	March 31, 2013
Hedge designation			
Cash flow hedges	6	6	6
Not designated as hedges	277	183	304
Total hedges			