AGL RESOURCES INC
Form 10-Q
August 02, 2007

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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 June 30, 2007

OR

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

For the transition period from to

Commission File Number 1-14174

AGL RESOURCES INC.
(Exact name of registrant as specified in its charter)

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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 July 26, 2007
Common Stock, $5.00 Par Value	77,695,018

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AGL RESOURCES INC.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2007

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PART I - Financial Information
Item 1. Financial Statements

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

In millions, except share data	June 30, 2007	As of December 31, 2006	June 30, 2006
Current assets			
Cash and cash equivalents	$ 17	$ 20	$ 37
Inventories	608	597	642
Energy marketing receivables	423	505	401
Receivables (less allowance for uncollectible accounts of $19 at June 30, 2007, $15 at Dec. 31, 2006 and $21 at June 30, 2006)	178	375	183
Energy marketing and risk management assets	69	159	96
Unrecovered pipeline replacement program costs	27	27	27
Unrecovered environmental remediation costs	25	27	30
Other	86	112	92
Total current assets	1,433	1,822	1,508
Property, plant and equipment			
Property, plant and equipment	5,100	4,976	4,876
Less accumulated depreciation	1,598	1,540	1,510
Property, plant and equipment-net	3,502	3,436	3,366
Deferred debits and other assets			
Goodwill	420	420	420
Unrecovered pipeline replacement program costs	236	247	259
Unrecovered environmental remediation costs	139	143	155
Other	67	79	80
Total deferred debits and other assets	862	889	914
Total assets	$ 5,797	$ 6,147	$ 5,788
Current liabilities			
Energy marketing trade payables	$ 510	$ 510	$ 431
Short-term debt	339	539	455
Payables	145	213	135
Accrued expenses	127	120	108
Customer deposits	42	42	38
Accrued pipeline replacement program costs	39	35	32
	22	41	46

Energy marketing and risk management liabilities			
Deferred purchased gas adjustment	16	24	19
Accrued environmental remediation costs	11	13	12
Other	70	129	96
Total current liabilities	1,321	1,666	1,372
Accumulated deferred income taxes	507	505	422
Long-term liabilities			
Accrued pipeline replacement program costs	187	202	217
Accumulated removal costs	166	162	159
Accrued environmental remediation costs	90	83	89
Accrued pension obligations	82	78	92
Accrued postretirement benefit costs	27	32	45
Other	161	146	153
Total long-term liabilities	713	703	755
Commitments and contingencies (Note 7)			
Minority interest	40	42	34
Capitalization			
Long-term debt	1,544	1,622	1,632
Common shareholders' equity, $5 par value; 750,000,000 shares authorized	1,672	1,609	1,573
Total capitalization	3,216	3,231	3,205
Total liabilities and capitalization	$ 5,797	$ 6,147	$ 5,788

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 June 30,		Six months ended June 30,	
In millions, except per share amounts	2007	2006	2007	2006
Operating revenues	$ 467	$ 436	$ 1,440	$ 1,480
Operating expenses				
Cost of gas	233	219	828	874
Operation and maintenance	111	113	227	230
Depreciation and amortization	36	34	71	68
Taxes other than income	9	10	20	20
Total operating expenses	389	376	1,146	1,192
Operating income	78	60	294	288
Other income (expense)	-	-	1	(2)
Interest expense, net	(27)	(29)	(58)	(59)
Minority interest	(2)	-	(24)	(19)
Earnings before income taxes	49	31	213	208
Income taxes	19	12	81	79
Net income	$ 30	$ 19	$ 132	$ 129
Basic earnings per common share	$ 0.40	$ 0.25	$ 1.71	$ 1.66
Diluted earnings per common share	$ 0.40	$ 0.25	$ 1.70	$ 1.65
Cash dividends paid per common share	$ 0.41	$ 0.37	$ 0.82	$ 0.74
Weighted-average number of common shares outstanding				
Basic	77.5	77.7	77.5	77.8
Diluted	77.9	78.1	77.9	78.2

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions, except per share amount	Common Stock Shares	Common Stock Amount	Premium on common stock	Earnings reinvested	Other comprehensive loss	Shares Held in Treasury	Total
Balance as of December 31, 2006	77.7	$ 390	$ 664	$ 601	$ (32)	$ (14)	$ 1,609
Comprehensive income:							
Net income	-	-	-	132	-	-	132
Realized gain from hedging activities (net of tax benefit of $3)	-	-	-	-	(6)	-	(6)
Pension adjustment (net of tax benefit of $-)	-	-	-	-	1	-	1
Total comprehensive income							127
Dividends on common shares ($0.82 per share)	-	-	-	(64)	-	2	(62)
Benefit, dividend reinvestment and share purchase plans	-	-	(1)	-	-	-	(1)
Issuance of treasury shares	0.6	-	(4)	(4)	-	21	13
Purchase of treasury shares	(0.5)	-	-	-	-	(20)	(20)
Stock-based compensation expense (net of tax benefit of $2)	-	-	6	-	-	-	6
Balance as of June 30, 2007	77.8	$ 390	$ 665	$ 665	$ (37)	$ (11)	$ 1,672

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	Six months ended June 30, 2007	2006
Cash flows from operating activities		
Net income	$ 132	$ 129
Adjustments to reconcile net income to net cash flow provided by operating activities		
Change in risk management assets and liabilities	82	(62)
Depreciation and amortization	71	68
Minority interest	24	19
Deferred income taxes	(15)	20
Changes in certain assets and liabilities		
Receivables	279	636
Inventories	(11)	(99)
Payables	(68)	(473)
Other - net	(5)	(1)
Net cash flow provided by operating activities	489	237
Cash flows from investing activities		
Property, plant and equipment expenditures	(125)	(113)
Other	-	5
Net cash flow used in investing activities	(125)	(108)
Cash flows from financing activities		
Net payments and borrowings of short-term debt	(265)	(67)
Dividends paid on common shares	(62)	(58)
Distribution to minority interest	(23)	(22)
Purchase of treasury shares	(20)	(15)
Payments of long-term debt	(11)	-
Payment of notes payable to AGL Capital Trust I	-	(150)
Issuance of senior notes	-	175
Issuance of treasury shares	13	8
Other	1	7
Net cash flow used in financing activities	(367)	(122)
Net (decrease) increase in cash and cash equivalents	(3)	7
Cash and cash equivalents at beginning of period	20	30
Cash and cash equivalents at end of period	$ 17	$ 37

Cash paid during the period for				
Interest	$	57	$	53
Income taxes	$	55	$	19

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

Note 1 - Accounting Policies and Methods of Application

General

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

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (U.S.) of America (GAAP). We have prepared the accompanying unaudited condensed consolidated financial statements under the rules of the Securities and Exchange Commission (SEC). Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with GAAP. However, the condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of our financial results for the interim periods. You should read these condensed consolidated financial statements in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2006, filed with the SEC on February 7, 2007.

Due to the seasonal nature of our business, our results of operations for the three and six months ended June 30, 2007 and 2006, and our financial condition as of December 31, 2006, and June 30, 2007 and 2006, are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period.

Basis of Presentation

Our condensed consolidated financial statements include our accounts, the accounts of our majority-owned and controlled subsidiaries and the accounts of variable interest entities for which we are the primary beneficiary. This means that our accounts are combined with our subsidiaries' accounts. We have eliminated any intercompany profits and transactions in consolidation; however, we have not eliminated intercompany profits when such amounts are probable of recovery under the affiliates' rate regulation process. Certain amounts from prior periods have been reclassified and revised to conform to the current period presentation. Specifically, $39 million at December 31, 2006, and $22 million at June 30, 2006, of net deferred income taxes associated with current assets and liabilities previously presented in accumulated deferred income taxes have been presented in other current liabilities for all balance sheet dates presented herein.

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

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

Inventories

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

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 weighted-average cost are other than temporary. For any declines considered to be other than temporary, we record adjustments to reduce the weighted-average cost of the natural gas inventory to market price. SouthStar did not record adjustments in the first six months of 2007 or 2006. Sequent recorded adjustments of $3 million for the three and six months ended June 30, 2007. This compares to Sequent's adjustments of $8 million for the three months and $13 million for the six months ended June 30, 2006.

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Stock-Based Compensation

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

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

Comprehensive Income

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

	Three months ended June 30,	
In millions	2007	2006
Cash flow hedges:		
Net derivative unrealized losses arising during the period (net of taxes of $- in 2007 and 2006)	$ (1)	$ (1)
Less reclassification of realized losses included in income (net of taxes of $1 in 2006)	-	2
Pension adjustments (net of taxes of $- in 2007)	1	-
Total	$ -	$ 1

	Six months ended June 30,	
In millions	2007	2006
Cash flow hedges:		
Net derivative unrealized gains arising during the period (net of taxes of $4 in 2006)	$ -	$ 6
Less reclassification of realized gains included in income (net of taxes of $3 in 2007 and $2 in 2006)	(6)	(3)
Pension adjustments (net of taxes of $- in 2007)	1	-
Total	$ (5)	$ 3

Earnings per Common Share

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

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

	Three months ended June 30,	
In millions	2007	2006
Denominator for basic earnings per share (1)	77.5	77.7
Assumed exercise of restricted stock, restricted stock units and stock options	0.4	0.4
Denominator for diluted earnings per share	77.9	78.1

(1) Daily weighted-average shares outstanding.

	Six months ended June 30,	
In millions	2007	2006
Denominator for basic earnings per share (1)	77.5	77.8
Assumed exercise of restricted stock, restricted stock units and stock options	0.4	0.4
Denominator for diluted earnings per share	77.9	78.2

(1) Daily weighted-average shares outstanding.

Use of Accounting Estimates

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

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Accounting Developments

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

SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. All valuation adjustments will be recognized as cumulative-effect adjustments to the opening balance of retained earnings for the fiscal year in which SFAS 157 is initially applied. We will adopt SFAS 157 on January 1, 2008, and we are currently evaluating the impact it will have on our consolidated financial condition, results of operations and cash flows.

FSP FIN 39-1 FASB Interpretation No. 39 "Offsetting of Amounts Related to Certain Contracts" (FIN 39) was issued in March 1992 and provides guidance related to offsetting payable and receivable amounts related to certain contracts, including derivative contracts. It was effective for financial statements issued for periods beginning after December 15, 1993.

FASB Staff Position 39-1 "Amendment of FASB Interpretation No. 39" (FSP FIN 39-1), was issued in April 2007, which amends FIN 39 and addresses whether a company with a master netting arrangement can offset fair value amounts of derivative instruments against a receivable or payable. We enter into derivative contracts, but FSP 39-1 will not have a material effect on our consolidated financial condition.

Note 2 - Risk Management

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

We use the following derivative financial instruments and physical hedges to manage commodity price, interest rate, weather 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

During the quarter ended June 30, 2007, Sequent entered into foreign currency forward contracts in connection with its 2007 expansion into Canada. Sequent accounts for these contracts in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." The contracts are recorded at fair value and marked to market in our condensed consolidated balance sheets, with changes in fair value recorded in earnings in the period of change. The amounts outstanding at June 30, 2007 were not material.

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

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Note 3 - Regulatory Assets and Liabilities

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

In millions	June 30, 2007	Dec. 31, 2006	June 30, 2006
Regulatory assets			
Unrecovered PRP costs	$ 263	$ 274	$ 286
Unrecovered ERC	164	170	185
Unrecovered postretirement benefit costs	12	13	13
Unrecovered purchased gas adjustment	5	14	1
Elizabethtown Gas hedging program	-	16	-
Unrecovered seasonal rates	-	11	-
Other	23	20	19
Total regulatory assets	467	518	504
Associated assets			
Elizabethtown Gas hedging program	8	-	9
Total regulatory and associated assets	$ 475	$ 518	$ 513
Regulatory liabilities			
Accumulated removal costs	$ 166	$ 162	$ 159
Regulatory tax liability	21	22	17
Unamortized investment tax credit	17	18	18
Deferred purchased gas adjustment	16	24	19
Deferred seasonal rates	9	-	9
Elizabethtown Gas hedging program	8	-	9
Other	16	17	15

Total regulatory liabilities	253	243	246
Associated liabilities			
PRP costs	226	237	249
ERC	92	87	92
Elizabethtown Gas hedging program	-	16	-
Total associated liabilities	318	340	341
Total regulatory and associated liabilities	$ 571	$ 583	$ 587

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

Note 4 - Employee Benefit Plans

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

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

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

	Three months ended June 30,	
In millions	2007	2006
Service cost	$ 2	$ 2
Interest cost	6	6
Expected return on plan assets	(8)	(8)
Amortization of prior service cost	-	-
Recognized actuarial loss	1	2
Net cost	$ 1	$ 2

In millions	Six months ended June 30, 2007	2006
Service cost	$ 4	$ 4
Interest cost	12	13
Expected return on plan assets	(16)	(16)
Amortization of prior service cost	(1)	(1)
Recognized actuarial loss	3	4
Net cost	$ 2	$ 4

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

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

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

	Three months ended June 30,	
In millions	2007	2006
Service cost	$ -	$ -
Interest cost	2	2
Expected return on plan assets	(1)	(1)
Amortization of prior service cost	(1)	(1)
Recognized actuarial loss	-	-
Net cost	$ -	$ -

	Six months ended June 30,	
In millions	2007	2006
Service cost	$ -	$ -
Interest cost	3	3
Expected return on plan assets	(2)	(2)
Amortization of prior service cost	(2)	(2)
Recognized actuarial loss	-	1
Net cost	$ (1)	$ -

Employee Savings Plan Benefits

We sponsor the Retirement Savings Plus Plan (RSP), a defined contribution benefit plan that allows eligible participants to make contributions to their accounts up to specified limits. Under the RSP, we made matching contributions to participant accounts of $4 million and $3 million in the first six months of 2007 and 2006, respectively.

Note 5 - Common Shareholders' Equity

Share Repurchase Program

In March 2001, our Board of Directors approved the purchase of up to 600,000 shares of our common stock to be used for issuances under the Officer Incentive Plan. In the six months ended June 30, 2007, we purchased 10,667 shares. As of June 30, 2007, we had purchased a total of 297,234 shares, leaving 302,766 shares authorized for purchase.

In February 2006, our Board of Directors authorized a plan to purchase up to 8 million shares of our outstanding common stock over a five-year period. These purchases are intended to offset share issuances under our employee and non-employee director incentive compensation plans and our dividend reinvestment and stock purchase plans. Stock purchases under this program may be made in the open market or in private transactions at times and in amounts that we deem appropriate. There is no guarantee as to the exact number of shares that we will purchase, and we can terminate or limit the program at any time. We will hold the purchased shares as treasury shares. During the six months ended June 30, 2007, we repurchased 472,800 shares at a weighted-average price of $41.93. As of June 30, 2007, we had repurchased a total of 1,500,300 shares at a weighted-average price of $38.33.

Note 6 - Debt

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

			Outstanding as of:		
In millions	Year(s) due	Int. rate (1)	June 30, 2007	Dec. 31, 2006	June 30, 2006
Short-term debt					
Commercial paper (2)	2007	5.4%	$ 250	$ 508	$ 438
Notes Payable to AGL Capital Trust I	2007	8.2	77	-	-
Pivotal Utility Holdings, Inc. line of credit (3)	2007	5.7	11	17	13
Capital leases	2007	4.9	1	1	1
Sequent lines of credit (4)	2007	-	-	2	3
Current portion of long-term debt	2007	-	-	11	-
Total short-term debt (5)		**5.9%**	**$ 339**	**$ 539**	**$ 455**
Long-term debt - net of current portion					
Senior notes	2011-2034	4.5-7.1%	$ 1,150	$ 1,150	$ 1,150
Gas facility revenue bonds, net of unamortized issuance costs	2022-2032	3.6-5.3	199	199	199
Medium-term notes	2012-2027	6.6-9.1	196	196	208
Notes payable to AGL Capital Trust I	2037	-	-	77	77
Capital leases	2013	4.9	5	6	6
AGL Capital interest rate swaps	2011	9.0	(6)	(6)	(8)
Total long-term debt (5)		**6.0%**	**$ 1,544**	**$ 1,622**	**$ 1,632**
Total debt(5)		**6.0%**	**$ 1,883**	**$ 2,161**	**$ 2,087**

(1) As of June 30, 2007.

(2) The daily weighted-average interest rates were 5.4% and 4.8% for the six months ended June 30, 2007 and 2006, respectively.
(3) The daily weighted-average interest rates were 5.9% and 5.3% for the six months ended June 30, 2007 and 2006, respectively.
(4) The daily weighted-average interest rates were 5.7% and 5.3% for the six months ended June 30, 2007 and 2006, respectively.
(5) Weighted-average interest rate, including interest rate swaps if applicable and excluding debt issuance and other financing-related costs.

In June 2007, we refinanced $55 million of our gas facility revenue bonds due June 2032.The original bonds had a fixed interest rate of 5.7% per year and were refunded with $55 million of adjustable-rate gas facility revenue bonds. The maturity date of these bonds remains June 2032. The bonds were issued at an initial annual interest rate of 3.8%, which was the interest rate at June 30, 2007. The bonds have a 35-day auction period where the interest rate will adjust every 35 days.

In June 2007, we extended Sequent’s $25 million line of credit through June 2008. This unsecured line of credit, which bears interest at the federal funds effective rate plus 0.4%, is used solely for the posting of margin deposits for New York Mercantile Exchange (NYMEX) transactions and is unconditionally guaranteed by us.

In June 2007, we provided a redemption notice to AGL Capital Trust I, the holder of our $75 million, 8.17% junior subordinated debentures and classified the balance, together with a $2 million note payable, representing our common securities investment in AGL Capital Trust I, to short-term debt. While these junior subordinated debentures had an original maturity date of June 1, 2037, the terms of the junior subordinated debentures permitted prepayment of the obligation represented by the junior subordinated debentures at any time subsequent to June 1, 2007. However, the terms also require that we pay a premium to AGL Capital Trust I in the event that we redeem these debentures prior to the maturity date. In July 2007, we used the proceeds from the sale of commercial paper to pay AGL Capital Trust I the $75 million principal amount plus a $3 million premium in connection with the early redemption of the junior subordinated debentures, and to pay the $2 million note with respect to our common securities interest in AGL Capital Trust I.

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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. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. There were no significant changes to our contractual obligations which were described in Note 8 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006.

Contingent financial commitments represent obligations that become payable only if certain predefined events occur, such as financial guarantees, and include the nature of the guarantee and the maximum potential amount of future payments that could be required of us as the guarantor. The following table illustrates our contingent financial commitments as of June 30, 2007.

	Commitments due before Dec. 31,		
In millions	Total	2007	2008 & thereafter
Standby letters of credit and performance and surety bonds	$ 16	$ 10	$ 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 consolidated financial condition, results of operations or cash flows.

There have been no significant changes in the Jefferson Island litigation, which was described in Note 8 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2006. The ultimate resolution of such litigation will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

Note 8 - Income Taxes

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. The Interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. We adopted the provisions of FIN 48 on January 1, 2007. At the date of adoption, and as of June 30, 2007, we did not and do not have a liability for unrecognized tax benefits. Based on current information, we do not anticipate that this will change materially in the next year.

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

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

Note 9 - Segment Information

Our four operating segments are as follows:

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

We treat corporate, our fifth segment, as a non-operating business segment, and it currently includes AGL Services Company, AGL Capital Corporation and the effect of intercompany eliminations. We have eliminated any intercompany profits and transactions in consolidation for the three and six months ended June 30, 2007 and 2006, from our condensed consolidated statements of income. However, we have not eliminated intercompany profits when such amount are probable of recovery under the affiliates' rate regulation process.

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

You should not consider EBIT an alternative to, or a more meaningful indicator of, our operating performance than operating income or net income as determined in accordance with GAAP. In addition, our EBIT may not be comparable to a similarly titled measure of another company. The reconciliations of EBIT to operating income and net income for the three and six months ended June 30, 2007 and 2006, are presented in the following table.

	Three months ended June 30,	
In millions	2007	2006
Operating revenues	$ 467	$ 436
Operating expenses	389	376
Operating income	78	60
Minority interest	(2)	-
EBIT	76	60
Interest expense	(27)	(29)
Earnings before income taxes	49	31

Income taxes	19	12
Net income	$ 30	$ 19

	Six months ended June 30,	
In millions	2007	2006
Operating revenues	$ 1,440	$ 1,480
Operating expenses	1,146	1,192
Operating income	294	288
Other income (expense)	1	(2)
Minority interest	(24)	(19)
EBIT	271	267
Interest expense	(58)	(59)
Earnings before income taxes	213	208
Income taxes	81	79
Net income	$ 132	$ 129

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

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

(1) Identifiable assets are those assets used in each segment's operations.
(2) Our corporate segment's assets consist primarily of intercompany eliminations, cash and cash equivalents and property, plant and equipment.

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Summarized income statement information, identifiable and total assets, goodwill and property, plant and equipment expenditures as of and for the three and six months ended June 30, 2007 and 2006, by segment are shown in the following tables.

Three months ended June 30, 2007

In millions	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (2)	Consolidated AGL Resources
Operating revenues from external parties	$ 268	$ 171	$ 18	$ 9	$ 1	$ 467
Intercompany revenues (1)	41	-	-	-	(41)	-
Total operating revenues	309	171	18	9	(40)	467
Operating expenses						
Cost of gas	126	145	3	-	(41)	233
Operation and maintenance	83	17	8	5	(2)	111
Depreciation and amortization	30	2	-	1	3	36
Taxes other than income taxes	7	-	1	-	1	9
Total operating expenses	246	164	12	6	(39)	389
Operating income (loss)	63	7	6	3	(1)	78
Other income (expense)	1	-	-	(1)	-	-
Minority interest	-	(2)	-	-	-	(2)
EBIT	$ 64	$ 5	$ 6	$ 2	$ (1)	$ 76
Capital expenditures for property, plant and equipment	$ 52	$ 1	$ -	$ 6	$ 13	$ 72

Three months ended June 30, 2006

In millions	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (2)	Consolidated AGL Resources
Operating revenues from external parties	$ 254	$ 153	$ 19	$ 10	$ -	$ 436
Intercompany revenues (1)	39	-	-	-	(39)	-
Total operating revenues	293	153	19	10	(39)	436
Operating expenses						
Cost of gas						