AGL RESOURCES INC
Form 10-Q
November 07, 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 September 30, 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 October 31, 2014, was 119,572,999.

AGL RESOURCES INC.
Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 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
2013 Form 10-K/A	Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on November 7, 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, 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, which matures in November 2017
AGL Resources	AGL Resources Inc., together with its consolidated subsidiaries
Atlanta Gas Light	Atlanta Gas Light Company
Atlantic Coast Pipeline	Atlantic Coast Pipeline, LLC
Bcf	Billion cubic feet
Central Valley	Central Valley Gas Storage, LLC
Compass Energy	Compass Energy Services, Inc., which was sold in 2013
Dalton Pipeline	A 50% undivided ownership interest in a pipeline facility in Georgia
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 weather, 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 market price
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission
MGP	Manufactured Gas Plant
Moody's	Moody's Investors Service
New Jersey BPU	New Jersey Board of Public Utilities, the state regulatory agency for Elizabethtown Gas
Nicor 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, which matures in December 2017
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
PennEast Pipeline	PennEast Pipeline Company, LLC
Piedmont	Piedmont Natural Gas Company, Inc.
Pivotal Home Solutions	Nicor Energy Services Company, doing business as 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.
SouthStar	SouthStar Energy Services, LLC
STRIDE	Atlanta Gas Light's Strategic Infrastructure Development and Enhancement program
Triton	Triton Container Investments, LLC
Tropical Shipping	Tropical Shipping and Construction Company Limited, and also the name used throughout this filing to describe the business operations of our former cargo shipping segment (excluding Triton), which has been classified as discontinued operations and held for sale
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

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

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

In millions, except share amounts	September 30, 2014	As of December 31, 2013 Revised	September 30, 2013 Revised
Current assets			
Cash and cash equivalents	$32	$81	$97
Short-term investments	8	49	41
Receivables			
Energy marketing	544	786	502
Gas, unbilled and other	409	736	308
Less allowance for uncollectible accounts	37	29	32
Total receivables, net	916	1,493	778
Inventories, net	796	658	788
Regulatory assets	105	114	87
Derivative instruments	102	99	97
Assets held for sale	-	283	294
Other	134	118	70
Total current assets	2,093	2,895	2,252
Long-term assets and other deferred debits			
Property, plant and equipment	11,352	10,938	10,761
Less accumulated depreciation	2,427	2,295	2,281
Property, plant and equipment, net	8,925	8,643	8,480
Goodwill	1,827	1,827	1,822
Regulatory assets	637	705	845
Intangible assets	130	145	152
Other	341	335	259
Total long-term assets and other deferred debits	11,860	11,655	11,558
Total assets	$13,953	$14,550	$13,810
Current liabilities			
Short-term debt	$681	$1,171	$832
Energy marketing trade payables	612	671	539
Other accounts payable - trade	298	421	295
Current portion of long-term debt	200	-	-
Accrued expenses	173	203	149
Customer deposits and credit balances	122	136	140
Regulatory liabilities	118	183	174
Accrued environmental remediation liabilities	82	70	48
Derivative instruments	45	75	38
Liabilities held for sale	-	40	39
Other	131	148	153

Total current liabilities	2,462	3,118	2,407
Long-term liabilities and other deferred credits			
Long-term debt	3,605	3,813	3,816
Accumulated deferred income taxes	1,655	1,628	1,551
Regulatory liabilities	1,567	1,518	1,524
Accrued pension and retiree welfare benefits	406	404	511
Accrued environmental remediation liabilities	372	377	416
Other	84	79	79
Total long-term liabilities and other deferred credits	7,689	7,819	7,897
Total liabilities and other deferred credits	10,151	10,937	10,304
Commitments, guarantees and contingencies (see Note 10)			
Equity			
Common stock, $5 par value; 750,000,000 shares authorized: outstanding: 119,564,666 shares at September 30, 2014, 118,888,876 shares at December 31, 2013, and 118,778,298 shares at September 30, 2013	599	595	595
Additional paid-in capital	2,080	2,054	2,047
Retained earnings	1,222	1,063	1,042
Accumulated other comprehensive loss	(133)	(136)	(208)
Treasury shares, at cost: 216,523 shares at September 30, 2014, December 31, 2013, and September 30, 2013	(8)	(8)	(8)
Total common shareholders' equity	3,760	3,568	3,468
Noncontrolling interest	42	45	38
Total equity	3,802	3,613	3,506
Total liabilities and equity	$13,953	$14,550	$13,810

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions, except per share amounts	Three months ended September 30, 2014	Three months ended September 30, 2013 Revised	Nine months ended September 30, 2014	Nine months ended September 30, 2013 Revised
Operating revenues (includes revenue taxes of $9 and $103 for the three and nine months in 2014 and $9 and $83 for the three and nine months in 2013)	$589	$574	$3,940	$2,991
Operating expenses				
Cost of goods sold	198	174	2,000	1,447
Operation and maintenance	193	199	693	634
Depreciation and amortization	93	104	281	309
Taxes other than income taxes	30	27	160	139
Total operating expenses	514	504	3,134	2,529
Gain on disposition of assets	3	-	3	11
Operating income	78	70	809	473
Other income	3	7	8	18
Interest expense, net	(44)	(37)	(135)	(126)
Income before income taxes	37	40	682	365
Income tax expense	14	16	254	137
Income from continuing operations	23	24	428	228
(Loss) income from discontinued operations, net of tax	(31)	1	(80)	1
Net (loss) income	(8)	25	348	229
Less net income attributable to the noncontrolling interest	-	-	14	11
Net (loss) income attributable to AGL Resources Inc.	$(8)	$25	$334	$218
Per common share information				
Basic earnings (loss) per common share				
Continuing operations	$0.19	$0.20	$3.48	$1.85
Discontinued operations	(0.25)	0.01	(0.67)	0.01
Basic (loss) earnings per common share attributable to AGL Resources Inc. common shareholders	$(0.06)	$0.21	$2.81	$1.86
Diluted earnings (loss) per common share				
Continuing operations	$0.19	$0.20	$3.47	$1.84
Discontinued operations	(0.25)	0.01	(0.67)	0.01
Diluted (loss) earnings per common share attributable to AGL Resources Inc. common shareholders	$(0.06)	$0.21	$2.80	$1.85
Cash dividends declared per common share	$0.49	$0.47	$1.47	$1.41
Weighted average number of common shares outstanding				
Basic	119.0	118.2	118.8	117.8
Diluted	119.4	118.5	119.2	118.1

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Three months ended September 30, 2014	Three months ended September 30, 2013 Revised	Nine months ended September 30, 2014	Nine months ended September 30, 2013 Revised
Net (loss) income	$(8)	$25	$348	$229
Other comprehensive income (loss), net of tax				
Retirement benefit plans				
Reclassification of actuarial losses to net benefit cost (net of income tax of $2 and $5 for the three and nine months ended September 30, 2014, and $3 and $8 for the three and nine months ended September 30, 2013)	2	3	7	11
Reclassification of prior service credits to net benefit cost (net of income tax of $(1) for the nine months ended September 30, 2013)	-	(2)	(1)	(3)
Retirement benefit plans	2	1	6	8
Cash flow hedges, net of tax				
Net derivative instrument (losses) gains arising during the period	(2)	-	2	-
Reclassification of realized derivative instrument (gains) losses to net income (net of income tax of $(1) for the nine months ended September 30, 2014 and $1 for the nine months ended September 30, 2013)	-	-	(5)	2
Cash flow hedges, net	(2)	-	(3)	2
Other comprehensive income, net of tax	-	1	3	10
Comprehensive (loss) income	(8)	26	351	239
Less comprehensive income attributable to noncontrolling interest	-	-	14	11
Comprehensive (loss) income attributable to AGL Resources Inc.	$(8)	$26	$337	$228

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

	AGL Resources Inc. Shareholders							
	Common stock							
In millions, except per share amounts	Shares	Amount	Additional paid-in capital	Retained earnings Revised	Accumulated other comprehensive loss	Treasury shares	Noncontrolling interest	Total Revised
Balance as of December 31, 2012	117.9	$ 590	$ 2,015	$ 990	$ (218)	$ (8)	$ 22	$ 3,391
Net income	-	-	-	218	-	-	11	229
Other comprehensive income	-	-	-	-	10	-	-	10
Dividends on common stock ($1.41 per share)	-	-	-	(166)	-	-	-	(166)
Contribution from noncontrolling interest	-	-	-	-	-	-	22	22
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)
Stock granted, share-based compensation, net of forfeitures	-	-	(6)	-	-	-	-	(6)
Stock issued, dividend reinvestment plan	0.2	1	7	-	-	-	-	8
Stock issued, share-based compensation, net of forfeitures	0.7	4	22	-	-	-	-	26
Stock-based compensation expense, net of tax	-	-	9	-	-	-	-	9
Balance as of September 30, 2013	118.8	$ 595	$ 2,047	$ 1,042	$ (208)	$ (8)	$ 38	$ 3,506

	AGL Resources Inc. Shareholders							
	Common stock							
			Additional paid-in	Retained earnings	Accumulated other comprehensive	Treasury	Noncontrolling	Total

In millions, except per share amounts	Shares	Amount	capital	Revised	loss	shares	interest	Revised
Balance as of December 31, 2013	118.9	$ 595	$ 2,054	$ 1,063	$ (136)	$ (8)	$ 45	$ 3,613
Net income	-	-	-	334	-	-	14	348
Other comprehensive income	-	-	-	-	3	-	-	3
Dividends on common stock ($1.47 per share)	-	-	-	(175)	-	-	-	(175)
Distributions to noncontrolling interests	-	-	-	-	-	-	(17)	(17)
Stock granted, share-based compensation, net of forfeitures	-	-	(11)	-	-	-	-	(11)
Stock issued, dividend reinvestment plan	0.1	1	8	-	-	-	-	9
Stock issued, share-based compensation, net of forfeitures	0.6	3	19	-	-	-	-	22
Stock-based compensation expense, net of tax	-	-	10	-	-	-	-	10
Balance as of September 30, 2014	119.6	$ 599	$ 2,080	$ 1,222	$ (133)	$ (8)	$ 42	$ 3,802

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions	Nine months ended September 30, 2014	Nine months ended September 30, 2013 Revised
Cash flows from operating activities		
Net income	$ 348	$ 229
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	281	309
(Loss) income from discontinued operations, net of taxes	80	(1)
Deferred income taxes	47	(32)
Change in derivative instrument assets and liabilities	(27)	37
Gain on disposition of assets	(3)	(11)
Changes in certain assets and liabilities		
Inventories	(138)	(89)
Receivables, other than energy marketing	335	359
Energy marketing receivables and trade payables, net	183	98
Income and miscellaneous taxes	(113)	75
Trade payables, other than energy marketing	(81)	(20)
Accrued/deferred natural gas costs	(65)	14
Other, net	37	82
Net cash flow (used) provided by operating activities of discontinued operations	(10)	20
Net cash flow provided by operating activities	874	1,070
Cash flows from investing activities		
Expenditures for property, plant and equipment	(543)	(526)
Acquisitions of assets	-	(154)
Disposition of assets	225	12
Other	47	16
Net cash flow used in investing activities of discontinued operations	(13)	(9)
Net cash flow used in investing activities	(284)	(661)
Cash flows from financing activities		
Net repayments of commercial paper	(490)	(545)
Dividends paid on common shares	(175)	(166)
Distribution to noncontrolling interest	(17)	(17)
Payment of senior notes	-	(225)
Issuance of senior notes	-	494
Contribution from noncontrolling interest	-	22
Other, net	19	28
Net cash flow used in financing activities	(663)	(409)
Net decrease in cash and cash equivalents - continuing operations	(50)	(11)
Net (decrease) increase in cash and cash equivalents - discontinued operations	(23)	11
Cash and cash equivalents (including held for sale) at beginning of period	105	131

Cash and cash equivalents (including held for sale) at end of period		32		131
Less cash and cash equivalents held for sale at end of period		-		34
Cash and cash equivalents (excluding held for sale) at end of period	$	32	$	97
Cash paid during the period for				
Interest	$	150	$	138
Income taxes	$	317	$	90
Non cash financing transaction				
Refinancing of gas facility revenue bonds	$	-	$	200

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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 of 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 revised audited consolidated financial statements filed on November 7, 2014 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/A filed on November 7, 2014.

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 or 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.

On September 1, 2014, we closed on the sale of Tropical Shipping, which historically operated within our cargo shipping segment. The assets and liabilities of these businesses are classified as held for sale on the unaudited Condensed Consolidated Statements of Financial Position, and the financial results of these businesses are reflected as discontinued operations on the unaudited Condensed Consolidated Statements of Income. Amounts shown in the following notes, unless otherwise indicated, exclude assets held for sale and discontinued operations. Cargo shipping also included our investment in Triton, which was not part of the sale and has been reclassified into our “other” segment. See Note 12 for additional information.

In the third quarter of 2014, we revised our financial statements and other affected disclosures for items related to the recognition of revenues for certain of our regulatory infrastructure programs and the amortization of our intangible assets. On November 7, 2014, we filed an amended Form 10-K/A revising certain prior period information with respect to our Annual Report on Form 10-K for the year ended December 31, 2013. See Note 13 for additional information.

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/A. Other than as described in Note 13, there were no significant changes to our accounting policies during the nine months ended September 30, 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. At December 31, 2013, and September 30, 2013, there were $24 million and $34 million, respectively, of cash and cash equivalents held by Tropical Shipping that were excluded from cash and cash equivalents within our unaudited Condensed Consolidated Statements of Financial Position and included in assets held for sale. For more information on the sale of Tropical Shipping, see 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 September 30, 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. Nicor Gas' inventory is carried at cost on a LIFO 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.

Our natural gas inventories at 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 and nine months ended September 30, 2014, we recorded $5 million and $11 million, respectively, total LOCOM adjustment to reduce the value of our inventories to market value and $1 million and $9 million, respectively, for the three and nine months ended September 30, 2013. Additionally, we have $19 million of inventory at wholesale services that is currently inaccessible due to operational issues at a third party storage facility. The owner of the storage facility is working to resolve these issues. While we expect this inventory to be fully recovered, the timing of withdrawal of this gas may be impacted by the operational issues.

At midstream operations, mechanical integrity tests and engineering studies are periodically performed on the storage facilities in accordance with certain state regulatory requirements. However, such tests may be performed in advance of such state requirements for operational purposes. During 2014, an engineering study and mechanical integrity tests were performed at one of our storage facilities, identifying a lower amount of working gas capacity that is the result of naturally occurring shrinkage of the storage caverns. Further, based on the lower capacity and an analysis of the volume of natural gas stored in the facility, we recorded natural gas costs to true-up the amount of retained fuel at this facility in the amount of $10 million for the nine months ended September 30, 2014. Our other storage facilities at midstream operations were not impacted.

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/A.

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.

Property, Plant and Equipment

On April 11, 2014, we entered into two arrangements associated with the Dalton Pipeline. The first was a construction and ownership agreement through which we will have a 50% undivided ownership interest in the 106 mile Dalton Pipeline that will be constructed in Georgia and serve as an extension of the Transco natural gas pipeline system into northwest Georgia. We also entered into an agreement to lease our 50% undivided ownership in the Dalton Pipeline once it is placed in-service. The lease payments to be received are $26 million annually for an initial term of 25 years. The lessee will be responsible for maintaining the pipeline during the lease term and for providing service to transportation customers under its FERC regulated tariff. Engineering design work has commenced and construction is expected to begin in the second quarter of 2016 with a targeted completion date in the second quarter of 2017. The capacity from this pipeline will further enhance system reliability as well as provide access to a more diverse supply of natural gas.

Goodwill

In 2014, we completed an engineering study at our midstream operations storage facilities that 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 in the valuation model. 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.

Our interim goodwill impairment test assumed a cash flow forecast providing for growth over the next eight years. This forecast indicated that the estimated fair value of this reporting unit continues to exceed its carrying amount with a cushion of less than 10%. However, continued declines in capacity or subscription rates, reductions to our cash flow forecasts, 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 and require us to proceed to step two of the goodwill impairment test in a future period.

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. Our goodwill balances by segment as of September 30, 2014, and December 31, 2013, and changes in the amount of goodwill for the nine months ended September 30, 2013, are provided in the following table.

In millions	Distribution Operations	Retail Operations	Midstream Operations	Consolidated
December 31, 2012	$1,640	$122	$14	$ 1,776
2013 acquisitions	-	46	-	46
September 30, 2013 (1)	$1,640	$168	$14	$ 1,822
December 31, 2013 (1)	$1,640	$173	$14	$ 1,827
September 30, 2014	$1,640	$173	$14	$ 1,827

(1) Excludes goodwill at Tropical Shipping which is classified as held for sale. See Note 12 for additional information.

Other Income

Our other income is detailed in the following table.

In millions	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Equity method investment income (1)	$2	$3	$6	$8
AFUDC - equity	1	3	2	8
Other, net	-	1	-	2
Total other income	$3	$7	$8	$18

(1) For more information on our equity method investment income, see Note 9.

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 award programs. 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, as if performance units currently earned under the plan ultimately vest and as if stock options currently exercisable at prices below the average market prices are exercised.

In millions (except per share amounts)	Three months ended September 30, 2014	Three months ended September 30, 2013 (1)	Nine months ended September 30, 2014 (1)	Nine months ended September 30, 2013 (1)
Income from continuing operations (2)	$ 23	$ 24	$ 414	$ 217
(Loss) income from discontinued operations, net of tax (3)	(31)	1	(80)	1
Net (loss) income attributable to AGL Resources Inc.	$ (8)	$ 25	$ 334	$ 218
Denominator:				
Basic weighted average number of common shares outstanding (4)	119.0	118.2	118.8	117.8
Effect of dilutive securities	0.4	0.3	0.4	0.3
Diluted weighted average number of common shares outstanding	119.4	118.5	119.2	118.1
Basic earnings (loss) per common share				
From continuing operations	$ 0.19	$ 0.20	$ 3.48	$ 1.85
From discontinued operations	(0.25)	0.01	(0.67)	0.01
	$ (0.06)	$ 0.21	$ 2.81	$ 1.86

Basic (loss) earnings per common share attributable to AGL Resources Inc. common shareholders											
Diluted earnings (loss) per common share											
From continuing operations	$	0.19		$	0.20	$	3.47		$	1.84	
From discontinued operations		(0.25	)		0.01		(0.67	)		0.01	
Diluted (loss) earnings per common share attributable to AGL Resources Inc. common shareholders	$	(0.06	)	$	0.21	$	2.80		$	1.85	

(1) Amounts revised and or include prior period adjustments. See Note 13 for additional information.

(2) Excludes net income attributable to the noncontrolling interest.

(3) For additional information on our discontinued operations, see Note 12.

(4) Daily weighted average shares outstanding.

Sale of Compass Energy

On May 1, 2013, we sold Compass Energy, a non-regulated retail natural gas business supplying commercial and industrial customers, which was part of our wholesale services segment. We received an initial cash payment of $12 million, which resulted in an $11 million pre-tax gain ($5 million net of tax) for the nine months ended September 30, 2013. Under the terms of the purchase and sale agreement, we were eligible to receive contingent cash consideration up to $8 million with a guaranteed minimum receipt of $3 million that was recognized during 2013. The remaining $5 million of contingent cash consideration was to be received from the buyer annually over a five-year earn-out period based upon the financial performance of Compass Energy. In the third quarter of 2014, we negotiated with the buyer to settle the future earn-out payments and we received $4 million, resulting in the recognition of a $3 million gain. We have a five year agreement to supply natural gas to our former customers. Accordingly, as a result of our continued involvement, the sale of Compass Energy did not meet the criteria for treatment as a discontinued operation.

Accounting Developments

On April 10, 2014, the FASB issued authoritative guidance related to reporting discontinued operations. The guidance generally raises the threshold for disposals to qualify as discontinued operations and requires new disclosures of both discontinued operations and certain other material disposals that do not meet the definition of a discontinued operation. The guidance will be effective for us prospectively beginning January 1, 2015. It is not expected to have a material impact on our consolidated financial statements, and it will have no impact on our accounting for the sale of Tropical Shipping.

On May 28, 2014, the FASB issued an update to authoritative guidance related to revenue from contracts with customers. The update replaces most of the existing guidance with a single set of principles for recognizing revenue from contracts with customers. The guidance will be effective for us beginning January 1, 2017. Early adoption is not permitted. The new guidance must be applied retrospectively to each prior period presented or via a cumulative effect upon the date of initial application. We have not yet determined the impact of this new guidance, nor have we selected a transition method.

On June 19, 2014, the FASB issued an update to authoritative guidance related to accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The guidance will be effective for us beginning January 1, 2016, and will have no material impact on our consolidated financial statements for our existing share-based plans.

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	September 30, 2014	December 31, 2013 (1)	September 30, 2013 (1)
Regulatory assets			
Recoverable ERC	$41	$45	$30
Recoverable pension and retiree welfare benefit costs	9	9	19
Recoverable seasonal rates	9	10	9
Deferred natural gas costs	3	1	-
Other	43	49	29
Total regulatory assets - current	105	114	87
Recoverable ERC	363	433	456
Recoverable pension and retiree welfare benefit costs	91	99	183
Long-term debt fair value adjustment	76	82	84
Recoverable regulatory infrastructure program costs (1)	62	55	78
Other	45	36	44
Total regulatory assets - long-term	637	705	845
Total regulatory assets	$742	$819	$932
Regulatory liabilities			
Bad debt over collection	$31	$41	$37
Accrued natural gas costs	29	92	104
Accumulated removal costs	27	27	17
Other	31	23	16
Total regulatory liabilities - current	118	183	174
Accumulated removal costs	1,499	1,445	1,448
Regulatory income tax liability	26	27	26
Unamortized investment tax credit	23	26	26
Bad debt over collection	7	17	20
Other	12	3	4
Total regulatory liabilities - long-term	1,567	1,518	1,524
Total regulatory liabilities	$1,685	$1,701	$1,698

(1) Amounts revised for prior period adjustments. See Note 13 for additional information.

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.

Unrecognized Ratemaking Amounts We have authorized unrecognized ratemaking amounts that are not reflected within our unaudited Condensed Consolidated Statements of Financial Position as indicated in the following table. These amounts are primarily composed of an allowed equity rate of return on assets associated with certain of our regulatory infrastructure programs. These amounts will be recognized as revenues in our financial statements in the periods they are collected in rates from our customers. For additional information, see Note 13.

In millions	
September 30, 2014	$118
December 31, 2013	$93
September 30, 2013	$86

Natural Gas Costs We charge our utility customers for natural gas consumed using natural gas cost recovery mechanisms established 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 September 30, 2013 to September 30, 2014.

In millions	September 30, 2014	September 30, 2013	Change
Deferred natural gas costs	$3	$-	$3
Accrued natural gas costs	(29)	(104)	75
Total (1)	$(26)	$(104)	$78

(1) The $78 million change resulted from increased natural gas prices during the first nine months of 2014 compared to the first nine months of 2013, primarily driven by colder weather experienced in 2014.

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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, substantially all of which is related to our MGP sites. The ERC assets and liabilities are associated with our distribution operations segment and remediation costs are generally recoverable from customers through rate mechanisms approved by regulators. Accordingly, both costs incurred to remediate the former MGP sites, plus the future estimated cost recorded as liabilities, net of amounts previously collected, are recognized as a regulatory asset until recovered from customers.

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 September 30, 2014 and reflects changes in estimates since December 31, 2013.

In millions	Probabilistic model cost estimates	Engineering estimates	Amount recorded		Expected costs over next 12 months
Illinois	$ 205 - $462	$46	$244		$41
New Jersey	107 - 174	16	122		16
Georgia and Florida	66 - 106	9	77		17
North Carolina (1)	n/a	11	11		8
Total	$ 378 - $742	$82	$454	(2)	$82

(1) We have no regulatory recovery mechanisms for the site in North Carolina. Therefore, there is no amount included within our regulatory assets and changes in estimated costs are recognized in income in the period of change.

(2) Increase of $7 million from December 31, 2013, primarily relates to a scope increase required by the Georgia Environmental Protection Division for a site in Georgia and an adjustment for a site in Florida. This was partially offset by a decrease for a site in New Jersey where remediation is almost complete.

In July 2014, we reached a $77 million settlement with an insurance company for environmental claims relating to potential contamination at several of our MGP sites in New Jersey and North Carolina. The terms of the settlement required the $77 million to be paid in two installments. We received the first $45 million installment in the third quarter of 2014 and this payment was primarily recorded as a reduction to our recoverable ERC regulatory asset. The remaining $32 million is due in the third quarter of 2015. We will file for approval with the New Jersey BPU to utilize the insurance proceeds related to the New Jersey sites to reduce the ERC expenditures that otherwise would have been recovered from our customers in future periods. As such, the settlement, once approved, is expected to reduce our recoverable ERC regulatory asset and have a favorable impact on the rates for our Elizabethtown Gas customers.

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 Condensed Consolidated Statements of Financial Position as of the dates presented. See Note 5 for additional derivative instrument information.

	September 30, 2014		December 31, 2013		September 30, 2013	
In millions	Assets (1)	Liabilities	Assets (1)	Liabilities	Assets (1)	Liabilities
Natural gas derivatives						
Quoted prices in active markets (Level 1)	$4	$(72)	$6	$(79)	$4	$(52)
Significant other observable inputs (Level 2)	57	(51)	67	(79)	60	(41)
Netting of cash collateral	49	76	43	78	45	49
Total carrying value (2) (3)	$110	$(47)	$116	$(80)	$109	$(44)

(1) Balances of $3 million at September 30, 2014, December 31, 2013 and September 30, 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.

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 lists the carrying amount and fair value of our long-term debt as of the dates presented.

In millions	September 30, 2014	December 31, 2013	September 30, 2013
Long-term debt carrying amount	$3,805	$3,813	$3,816
Long-term debt fair value (1)	4,165	3,956	4,024

(1) Fair value determined using Level 2 inputs.

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 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. 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 September 30, 2014, for agreements with such features, derivative instruments with liability fair values for which we had posted no collateral to our counterparties totaled $47 million. The maximum collateral that could be required with these features is $10 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 increase (decrease) to net income of $(27) million and $37 million for the nine months ended September 30, 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)	September 30, 2014 (2)	December 31, 2013	September 30, 2013
Cash flow hedges	7	6	3
Not designated as hedges	97	183	40
Total volumes	104	189	43
Short position	(2,756)	(2,622)	(2,788)
Long position	2,860	2,811	2,831
Net long position	104	189	43

(1) Volumes related to Nicor Gas exclude variable-priced contracts, which are carried at fair value, but whose fair values are not directly impacted by changes in commodity prices.
(2) Approximately 98% of these contracts have durations of 2 years or less and the remaining 2% expire between 2 and 5 years.

Derivative Instruments in our Unaudited Condensed Consolidated Statements of Financial Position

In accordance with regulatory requirements, gains and losses on derivative instruments used to hedge natural gas purchases for customer use at distribution operations are reflected in accrued natural gas costs within our Consolidated Statements of Financial Position until billed to customers. The following amounts deferred as a regulatory asset or liability on our unaudited Condensed Consolidated Statements of Financial Position represent the net realized gains (losses) related to these natural gas cost hedges for the periods presented.

In millions	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Nicor Gas	$(4)	$(6)	$8	$2
Elizabethtown Gas	(1)	(1)	4	(5)

The following table presents the fair values and unaudited Condensed Consolidated Statements of Financial Position classifications of our derivative instruments as of the dates presented.

In millions	Classification	September 30, 2014 Assets	September 30, 2014 Liabilities	December 31, 2013 Assets	December 31, 2013 Liabilities	September 30, 2013 Assets	September 30, 2013 Liabilities
Designated as cash flow or fair value hedges							
Natural gas contracts	Current	$ 2	$ (2)	$ 3	$ (1)	$ 6	$ (5)
Not designated as hedges							
Natural gas contracts	Current	834	(891)	691	(761)	445	(462)
Natural gas contracts	Long-term	78	(80)	206	(220)	143	(153)

Total	912	(971)	897	(981)	588	(615)
Gross amount of recognized assets and liabilities (1) (2)	914	(973)	900	(982)	594	(620)
Gross amounts offset in our unaudited Condensed Consolidated Statements of Financial Position (2)	(801)	926	(781)	902	(482)	576
Net amounts of assets and liabilities presented in our unaudited Condensed Consolidated Statements of Financial Position (3)	$ 113	$ (47)	$ 119	$ (80)	$ 112	$ (44)

(1) The gross amounts of recognized assets and liabilities are netted within our unaudited Condensed Consolidated Statements of Financial Position to the extent that we have netting arrangements with the counterparties.

(2) As required by the authoritative guidance related to derivatives and hedging, the gross amounts of recognized assets and liabilities above do not include cash collateral held on deposit in broker margin accounts of $125 million as of September 30, 2014, $121 million as of December 31, 2013, and $94 million as of September 30, 2013. Cash collateral is included in the "Gross amounts offset in our unaudited Condensed Consolidated Statements of Financial Position" line of this table.

(3) At September 30, 2014, December 31, 2013, and September 30, 2013, we held letters of credit from counterparties that would offset, under master netting arrangements, an insignificant portion of these assets.

Derivative Instruments in the Unaudited Condensed Consolidated Statements of Income

The following table presents the impacts of our derivative instruments in our unaudited Condensed Consolidated Statements of Income for the periods presented.

In millions	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Designated as cash flow or fair value hedges				
Natural gas contracts - net gain reclassified from OCI into cost of goods sold	$(1)	$(1)	$4	$-
Natural gas contracts - net gain reclassified from OCI into operation and maintenance expense	1	-	2	-
Interest rate swaps - net loss reclassified from OCI into interest expense	-	1	-	(2)
Income tax benefit	-	-	(1)	1
Net of tax	-	-	5	(1)
Not designated as hedges (1)				
Natural gas contracts - net fair value adjustments recorded in operating revenues	(6)	(14)	(6)	(16)
Natural gas contracts - net fair value adjustments recorded in cost of goods sold (2)	(1)	-	-	(1)
Income tax benefit	2	5	2	7
Net of tax	(5)	(9)	(4)	(10)
Total (losses) gains on derivative instruments	$(5)	$(9)	$1	$(11)

(1) Associated with the fair value of derivative instruments held at September 30, 2014 and 2013.

(2) Excludes losses recorded in cost of goods sold associated with weather derivatives of $6 million and $3 million for the nine months ended September 30, 2014 and 2013, respectively.

Any amounts recognized in operating income related to ineffectiveness or due to a forecasted transaction that is no longer expected to occur were immaterial for the three and nine months ended September 30, 2014 and 2013. Our expected gains to be reclassified from OCI into cost of goods sold, operation and maintenance expense, interest expense and operating revenues and recognized in our unaudited Condensed Consolidated Statements of Income over the next 12 months are less than $1 million. These deferred gains and losses are related to natural gas derivative contracts associated with retail operations and Nicor Gas' system use. The expected gains are based upon the fair values of these financial instruments at September 30, 2014. The effective portion of gains and losses on derivative instruments qualifying as cash flow hedges that were recognized in OCI during the periods is presented on our unaudited Condensed Consolidated Statements of Income. See Note 8 for these amounts.

There have been no other significant changes to our derivative instruments, as described in Note 2, Note 4 and Note 5 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A.

Note 6 - Employee Benefit Plans

Pension Benefits

We sponsor the AGL Resources Inc. Retirement Plan, a tax-qualified defined benefit retirement plan for our eligible employees, which is described in Note 6 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. Following are the components of our pension costs for the periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
In millions	2014	2013	2014	2013
Service cost	$6	$7	$18	$22
Interest cost	12	11	35	32
Expected return on plan assets	(16)	(16)	(48)	(47)
Net amortization of prior service cost	(1)	-	(2)	(1)
Recognized actuarial loss	5	9	16	26
Net periodic pension benefit cost	$6	$11	$19	$32

Welfare Benefits

The benefits of our Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. (AGL Welfare Plan) are described in Note 6 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. Following are the components of our welfare costs for the periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
In millions	2014	2013	2014	2013
Service cost	$1	$1	$2	$2
Interest cost	4	3	11	10
Expected return on plan assets	(2)	(1)	(5)	(4)
Net amortization of prior service cost	(1)	(1)	(2)	(3)
Recognized actuarial loss	1	2	4	6
Net periodic welfare benefit cost	$3	$4	$10	$11

Note 7 - Debt and Credit Facilities

The following table provides maturity dates, year-to-date weighted average interest rates and amounts outstanding for our various debt securities and facilities for the periods presented. We fully and unconditionally guarantee all debt issued by AGL Capital. For additional information on our debt, see Note 8 in our Consolidated Financial Statements and related notes in Item 8 of our 2013 Form 10-K/A.

		September 30, 2014			September 30, 2013	
Dollars in millions	Year(s) due	Weighted average interest rate (1)	Outstanding	Outstanding at December 31, 2013	Weighted average interest rate (1)	Outstanding
Short-term debt						
Commercial paper - AGL Capital (2)	2014	0.3 %	$ 292	$ 857	0.4 %	$ 680
Commercial paper - Nicor Gas (2)	2014	0.2	389	314	0.3	152
Total short-term debt		0.3 %	$ 681	$ 1,171	0.4 %	$ 832
Current portion of long-term debt	2015	5.0 %	$ 200	$ -	-	$ -
Long-term debt - excluding current portion						
Senior notes	2016-2043	5.0 %	$ 2,625	$ 2,825	5.1 %	$ 2,825
First mortgage bonds	2016-2038	5.6	500	500	5.6	500
Gas facility revenue bonds	2022-2033	0.9	200	200	0.8	200
Medium-term notes	2017-2027	7.8	181	181	7.8	181
Total principal long-term debt		4.9 %	3,506	3,706	4.9 %	3,706
Fair value adjustment of long-term debt (3)	n/a	n/a	83	91	n/a	94
Unamortized debt premium, net	n/a	n/a	16	16	n/a	16
Total non-principal long-term debt		n/a	99	107	n/a	110
Total long-term debt			$ 3,605	$ 3,813		$ 3,816
Total debt			$ 4,486	$ 4,984		$ 4,648

(1) Interest rates are calculated based on the daily weighted average balance outstanding for the nine months ended September 30.

(2) As of September 30, 2014, the effective interest rates on our commercial paper borrowings were 0.3% for AGL Capital and 0.2% for Nicor Gas.

(3) See Note 4 for additional information on our fair value measurements.

Commercial Paper Programs

We maintain commercial paper programs at AGL Capital and Nicor Gas that consist of short-term, unsecured promissory notes used in conjunction with cash from operations to fund our seasonal working capital requirements. Working capital needs fluctuate during the year and are highest during the injection period in advance of the Heating Season. The Nicor Gas commercial paper program supports working capital needs at Nicor Gas, while all of our other subsidiaries and SouthStar participate in the AGL Capital commercial paper program. During the first nine months of

2014, our commercial paper maturities ranged from 1 to 108 days, and at September 30, 2014, remaining terms to maturity ranged from 1 to 24 days. Total borrowings and repayments netted to a payment of $490 million during the first nine months of 2014. For commercial paper issuances with original maturities over three months, borrowings and repayments were $50 million and $145 million, respectively, during the first nine months of 2014. During the three months ended September 30, 2014, we utilized a portion of the $225 million in proceeds from the sale of Tropical Shipping to reduce our commercial paper borrowings.

Financial and Non-Financial Covenants

The AGL Credit Facility and the Nicor Gas Credit Facility each include a financial covenant that requires us to maintain a ratio of total debt to total capitalization of no more than 70% at the end of any fiscal month. These ratios, as calculated in accordance with the debt covenants, include standby letters of credit and surety bonds and exclude accumulated OCI items related to non-cash pension adjustments, welfare benefits liability adjustments and accounting adjustments for cash flow hedges. Adjusting for these items, the following table contains our debt-to-capitalization ratios for the dates presented, which are below the maximum allowed.

	September 30, 2014		December 31, 2013		September 30, 2013	
AGL Credit Facility	53	%	57	%	56	%
Nicor Gas Credit Facility	57	%	55	%	50	%

The credit facilities contain certain non-financial covenants that, among other things, restrict liens and encumbrances, loans and investments, acquisitions, dividends and other restricted payments, asset dispositions, mergers and consolidations and other matters customarily restricted in such agreements.

Default Provisions

Our credit facilities and other financial obligations include provisions that, if not complied with, could require early payment or similar actions. The most important default events include the following:

- a maximum leverage ratio
- insolvency events and or nonpayment of scheduled principal or interest payments
- acceleration of other financial obligations
- change of control provisions

We have no triggering events in our debt instruments that are tied to changes in our specified credit ratings or our stock price, and have not entered into any transaction that requires us to issue equity based on credit ratings or other triggering events. We were in compliance with all existing debt provisions and covenants, both financial and non-financial, for all periods presented.

Note 8 - Equity

Our OCI amounts are aggregated within our accumulated other comprehensive loss. The following table provides changes in the components of our accumulated other comprehensive loss balance, net of the related income tax effects.

In millions (1)	2014 Cash flow hedges	2014 Retirement benefit plans	2014 Total	2013 Cash flow hedges	2013 Retirement benefit plans	2013 Total
For the three months ended September 30						
As of beginning of period	$ -	$ (133)	$ (133)	$ (1)	$ (208)	$ (209)
OCI, before reclassifications	(2)	-	(2)	-	-	-
Amounts reclassified from accumulated OCI	-	2	2	-	1	1
Net current-period other comprehensive (loss) income	(2)	2	-	-	1	1
As of end of period	$ (2)	$ (131)	$ (133)	$ (1)	$ (207)	$ (208)
For the nine months ended September 30						
As of beginning of period	$ 1	$ (137)	$ (136)	$ (3)	$ (215)	$ (218)
OCI, before reclassifications	2	-	2	-	-	-
Amounts reclassified from accumulated OCI	(5)	6	1	2	8	10
Net current-period other comprehensive (loss)	(3)	6	3	2	8	10

income						
As of end of period	$ (2)	$ (131)	$ (133)	$ (1)	$ (207)	$ (208)

(1) All amounts are net of income taxes. Amounts in parentheses indicate increases to our accumulated other comprehensive loss.

The following table provides details of the reclassifications out of accumulated other comprehensive loss and the impact on net income.

In millions (1)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flow hedges				
Cost of goods sold (natural gas contracts)	$(1)	$(1)	$4	$-
Operation and maintenance expense (natural gas contracts)	1	-	2	-
Interest expense (interest rate contracts)	-	1	-	(3)
Total before income tax	-	-	6	(3)
Income tax benefit	-	-	(1)	1
Total cash flow hedges	-	-	5	(2)
Retirement benefit plans				
Operation and maintenance expense (actuarial losses)(2)	(4)	(6)	(12)	(19)
Operation and maintenance expense (prior service credits) (2)	-	2	1	4
Total before income tax	(4)	(4)	(11)	(15)
Income tax benefit	2	3	5	7
Total retirement benefit plans	(2)	(1)	(6)	(8)
Total reclassification for the period	$(2)	$(1)	$(1)	$(10)

(1) Amounts in parentheses indicate reductions to our net income and accumulated other comprehensive loss. Except for retirement benefit plan amounts, the net income impacts are immediate.

(2) Amortization of these accumulated other comprehensive loss components is included in the computation of net periodic benefit cost. See Note 6 for additional details about net periodic benefit cost.

Note 9 - Non-Wholly Owned Entities

SouthStar, a joint venture owned by us and Piedmont, is our only significant VIE for which we are the primary beneficiary. This requires us to consolidate its assets, liabilities and statements of income. For additional information on SouthStar, see Note 10 to our Consolidated Financial Statements and related notes included in Item 8 of our 2013 Form 10-K/A. Earnings from SouthStar in 2014 and 2013 were allocated entirely in accordance with the ownership interests.

Cash flows used in our investing activities include capital expenditures for SouthStar of $6 million for the nine months ended September 30, 2014, and $2 million for the nine months ended September 30, 2013. Cash flows used in our financing activities include SouthStar's distribution to Piedmont for its portion of SouthStar's annual earnings from the previous year. Generally, this distribution occurs in the first quarter of each fiscal year. For each of the nine months ended September 30, 2014 and 2013, SouthStar distributed $17 million to Piedmont. SouthStar's creditors have no recourse to our general credit beyond our corporate guarantees that we have provided to SouthStar's counterparties and natural gas suppliers. The following table provides additional information about SouthStar's assets and liabilities as of the dates presented, which are consolidated within our unaudited Condensed Consolidated Statements of Financial Position.

	September 30, 2014 (1)			December 31, 2013 (1)			September 30, 2013 (1)		
In millions	Consolidated	SouthStar (2)	% (3)	Consolidated	SouthStar (2)	% (3)	Consolidated	SouthStar (2)	% (3)
Current assets	$ 2,093	$ 188	9 %	$ 2,895	$ 264	9 %	$ 2,252	$ 192	9 %
Goodwill and intangible assets	1,957	127	6	1,972	133	7	1,974	136	7
Long-term assets and other deferred debits	9,903	17	-	9,683	13	-	9,584	13	-
Total assets	$ 13,953	$ 332	2 %	$ 14,550	$ 410	3 %	$ 13,810	$ 341	2 %
Current liabilities	$ 2,462	$ 47	2 %	$ 3,118	$ 95	3 %	$ 2,407	$ 73	3 %
Long-term liabilities and other deferred credits	7,689	-	-	7,819	-	-	7,897	-	-
Total Liabilities	10,151	47	1	10,937	95	1	10,304	73	1
Equity	3,802	285	7	3,613	315	9	3,506	268	8
Total liabilities and equity	$ 13,953	$ 332	2 %	$ 14,550	$ 410	3 %	$ 13,810	$ 341	2 %

(1) Amounts revised and include prior period adjustments. See Note 13 for additional information.
(2) These amounts reflect information for SouthStar and exclude intercompany eliminations and the balances of our wholly owned subsidiary with an 85% ownership interest in SouthStar.
(3) SouthStar's percentage of the amount on our unaudited Condensed Consolidated Statements of Financial Position.

The following table provides information on SouthStar's operating revenues and operating expenses for the periods presented, which are consolidated within our unaudited Condensed Consolidated Statements of Income.

In millions	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Operating revenues	$113	$98	$633	$464
Operating expenses				
Cost of goods sold	89	81	470	340
Operation and maintenance	19	16	62	49
Depreciation and amortization	3	2	8	3
Taxes other than income taxes	-	-	1	1
Total operating expenses	111	99	541	393
Operating income (loss)	$2	$(1)	$92	$71

Equity Method Investments

For more information about our equity method investments, see Note 10 to our Consolidated Financial Statements and related notes in Item 8 of our 2013 Form 10-K/A. The carrying amounts of our equity method investments within our unaudited Condensed Consolidated Statements of Financial Position were as follows:

In millions	September 30, 2014	December 31, 2013	September 30, 2013
Triton	$ 64	$70	$ 71
Horizon Pipeline	14	15	15
Other	2	1	9
Total	$ 80	$86	$ 95

Income from our equity method investments is classified as other income in our unaudited Condensed Consolidated Statements of Income. The following table provides the income from our equity method investments for the periods presented.

	Three months ended September 30,		Nine months ended September 30,	
In millions	2014	2013	2014	2013
Triton (1)	$2	$3	$5	$7
Other	-	-	1	1

(1) Reported within our "other" segment. For more information, see Note 11.

In the third quarter of 2014, we entered into two interstate pipeline joint ventures within our midstream operations segment as described below. The capacity from these joint ventures will further enhance system reliability as well as provide access to a more diverse supply of natural gas. We have concluded that, at present, both are VIEs. We are not considered the primary beneficiary and we have not consolidated the financial statements for these joint ventures in our unaudited Condensed Consolidated Financial Statements, because we share in the ability to direct the activities that most significantly impact their economic performance with their other member companies. We have accounted for our investment in these joint ventures using the equity method of accounting, and have classified the investment in other noncurrent assets in our unaudited Condensed Consolidated Statements of Financial Position.

PennEast Pipeline On August 11, 2014, we entered into a joint venture to develop and operate a 108-mile natural gas pipeline between New Jersey and Pennsylvania with initial transportation capacity of 800,000 dekatherms per day, which may be expanded to 1.2 Bcf per day. Our current investment in PennEast Pipeline is less than $1 million and represents a 20% ownership interest, and is the maximum extent of our current exposure to loss. Construction is expected to begin in the first quarter of 2017 with a targeted completion date in the fourth quarter of 2017.

Atlantic Coast Pipeline On September 2, 2014, we entered into a joint venture to develop and operate a 550-mile natural gas pipeline in North Carolina, Virginia, and West Virginia with initial transportation capacity of 1.5 Bcf per day, which may be expanded to 2.0 Bcf per day. Our current investment in Atlantic Coast Pipeline is less than $1 million and represents a 5% ownership interest, and is the maximum extent of our current exposure to loss. Construction is expected to begin in the second half of 2016 with a targeted completion date in the second half of 2018.

Note 10 - Commitments, Guarantees and Contingencies

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.

In 2014, we entered into several unconditional purchase obligations in the ordinary course of business. These include capacity and supply agreements related to the Dalton Pipeline, PennEast Pipeline, Atlantic Coast Pipeline and wholesale services, which are reflected in the table below. In addition, other contracts in the ordinary course of business have expired or ended. The following table illustrates our expected future contractual payments under our obligations and other commitments as of September 30, 2014.

2019 &

In millions	Total	2014	2015	2016	2017	2018	thereafter
Recorded contractual obligations:							
Long-term debt (1)	$3,706	$-	$200	$545	$22	$155	$2,784
Short-term debt	681	681	-	-	-	-	-
Environmental remediation liabilities (2)	454	16	83	104	50	38	163
Pipeline replacement program costs (2)	1	1	-	-	-	-	-
Total	$4,842	$698	$283	$649	$72	$193	$2,947
Unrecorded contractual obligations and commitments (3) (8):							
Pipeline charges, storage capacity and gas supply (4)	$3,837	$304	$564	$292	$185	$174	$2,318
Interest charges (5)	2,798	36	179	171	147	146	2,119
Operating leases (6)	207	11	35	31	24	18	88
Asset management agreements (7)	31	2	9	8	6	4	2
Standby letters of credit, performance/surety bonds (8)	27	9	17	1	-	-	-
Other	9	1	3	3	1	1	-
Total	$6,909	$363	$807	$506	$363	$343	$4,527

(1) Excludes the $77 million step up to fair value of first mortgage bonds, $16 million unamortized debt premium and $6 million interest rate swaps fair value adjustment. Includes current portion of long-term debt of $200 million, which matures in January 2015.

(2) Includes charges recoverable through base rates or rate rider mechanisms.

(3) In accordance with GAAP, these items are not reflected in our unaudited Condensed Consolidated Statements of Financial Position.

(4) Includes charges recoverable through a natural gas cost recovery mechanism or alternatively billed to Marketers and demand charges associated with Sequent. The gas supply balance includes amounts for Nicor Gas and SouthStar gas commodity purchase commitments of 66 Bcf at floating gas prices calculated using forward natural gas prices as of September 30, 2014, and is valued at $271 million. As we do for other subsidiaries, we provide guarantees to certain gas suppliers for SouthStar in support of payment obligations.

(5) Floating rate interest charges are calculated based on the interest rate as of September 30, 2014, and the maturity date of the underlying debt instrument. As of September 30, 2014, we have $42 million of accrued interest on our unaudited Condensed Consolidated Statements of Financial Position that will be paid in the next 12 months.

(6) We have certain operating leases with provisions for step rent or escalation payments and certain lease concessions. We account for these leases by recognizing the future minimum lease payments on a straight-line basis over the respective minimum lease terms, in accordance with GAAP. However, this lease accounting treatment does not affect the future annual operating lease cash obligations as shown herein. Our operating leases are primarily for real estate.

(7) Represent fixed-fee minimum payments for Sequent's affiliated asset management agreements.

(8) We provide guarantees to certain municipalities and other agencies and certain gas suppliers of SouthStar in support of payment obligations.

We also are involved in legal or administrative proceedings before various courts and agencies with respect to general claims, taxes, environmental, gas cost prudence reviews and other matters. Although we are unable to determine the ultimate outcomes of these other contingencies, we believe that our financial statements appropriately reflect these amounts, including the recording of liabilities when a loss is probable and reasonably estimable. For more information on these matters, see Note 11 in our Consolidated Financial Statements and related notes in Item 8 of our 2013 Form 10-K/A.

Contingencies and Guarantees

Contingent financial commitments, such as financial guarantees, represent obligations that become payable only if certain predefined events occur. We have certain subsidiaries that enter into various financial and performance guarantees and indemnities providing assurance to third parties. We believe the likelihood of payment under our guarantees is remote. No liability has been recorded for such guarantees and indemnifications as the fair value was inconsequential at inception.

Regulatory Matters

On December 21, 2012, Atlanta Gas Light filed a petition with the Georgia Commission for approval to resolve a volumetric imbalance of natural gas related to Atlanta Gas Light's use of retained storage assets to operationally balance the system for the benefit of the natural gas market. On September 11, 2014, we filed a stipulation that was entered between us, staff of the Georgia Commission and several marketers that include a resolution of the 4.6 Bcf imbalance over a five-year period from January 1, 2015 through December 31, 2019. Over the five-year period, discretionary funds available from the Universal Service Fund, which is controlled by the Georgia Commission, would be used to resolve 25% of the imbalance, or 1.15 Bcf of natural gas. Atlanta Gas Light would be obligated for 25% as well and we have recorded a reserve in our unaudited Condensed Consolidated Statements of Financial Position representing the future estimated cost to purchase the 1.15 Bcf of natural gas. Marketers would be obligated to resolve the remaining 50% of the imbalance, or 2.3 Bcf of natural gas. The Georgia Commission is expected to vote on the petition in December 2014. We are currently unable to predict the ultimate outcome.

On August 7, 2014, staff of the Illinois Commission and the Citizens Utility Board (CUB) filed testimony in the 2003 gas cost prudence review disputing certain gas loan transactions offered by Nicor Gas under its Chicago Hub services requesting refunds of $18 million and $22 million, respectively. We have filed testimony in this proceeding disputing that any refund is due. Similar gas loan transactions were provided in other open review years. The resolution will ultimately be decided by the Illinois Commission. We are currently unable to predict the ultimate outcome and have recorded no liability for this matter.

Environmental Matters

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. See Note 3 for additional information.

Litigation

We are involved in litigation arising in the normal course of business. Although in some cases the company is unable to estimate the amount of loss reasonably possible in addition to any amounts already recognized, it is possible that the resolution of these contingencies, either individually or in aggregate, will require us to take charges against, or will result in reductions in, future earnings. Management believes that while the resolution of these contingencies, whether individually or in aggregate, could be material to earnings in a particular period, they will not have a material adverse effect on our consolidated financial position or cash flows. For additional litigation information, see Note 11 in our Consolidated Financial Statements and related notes in Item 8 of our 2013 Form 10-K/A.

PBR Proceeding Nicor Gas’ PBR plan was a regulatory plan that provided economic incentives based on natural gas cost performance. The PBR plan went into effect in 2000 and was terminated effective January 1, 2003, following allegations that Nicor Gas acted improperly in connection with the plan. Under this plan, Nicor Gas’ total gas supply costs were compared to a market-sensitive benchmark. Savings and losses relative to the benchmark were determined annually and shared equally with sales customers. Since 2002, the amount of the savings and losses required to be shared has been disputed by the CUB and others, with the Illinois Attorney General (IAG) intervening, and subject to extensive contested discovery and other regulatory proceedings before administrative law judges and the Illinois Commission. In 2009, the staff of the Illinois Commission, IAG and CUB requested refunds of $85 million, $255 million and $305 million, respectively.

In February 2012, we committed to a stipulation with the staff of the Illinois Commission for a resolution of the dispute through credits to Nicor Gas customers of $64 million. On November 5, 2012, the Administrative Law Judges issued a proposed order for a refund of $72 million to ratepayers. In the fourth quarter of 2012, we increased our accrual for this dispute by $8 million for a total of $72 million as a result of these developments and their effect on the estimated liability.

On June 7, 2013, the Illinois Commission issued an order requiring us to refund $72 million to current Nicor Gas customers through our purchased gas adjustment mechanism based upon natural gas throughput over 12 months beginning on July 1, 2013. Approximately $43 million was refunded during the first half of 2014, which resulted in the completion of all refunds. On February 28, 2014, the CUB appealed the Illinois Commission's order requesting refunds consistent with its 2009 request to the appellate court in Illinois and Nicor Gas filed its response brief on July 25, 2014. The CUB filed its reply brief on October 17, 2014. There is no set time frame for a final ruling by the appellate court.

Note 11 - Segment Information

Our operating segments comprise revenue-generating components of our company for which we produce separate financial information internally that regularly is used to make operating decisions and assess performance. Our determination of reportable segments considers the strategic operating units under which we manage sales of various products and services to customers in differing regulatory environments. We manage our businesses through four operating segments - distribution operations, retail operations, wholesale services and midstream operations - and other, a non-operating segment.

Effective September 1, 2014, we closed on the sale of Tropical Shipping, which historically operated within our cargo shipping segment. The assets and liabilities of these businesses are classified as held for sale on the unaudited Condensed Consolidated Statements of Financial Position, and the financial results of these businesses are reflected as discontinued operations on the unaudited Condensed Consolidated Statements of Income. Amounts shown in this note, unless otherwise indicated, exclude assets held for sale and discontinued operations. Cargo shipping also included our investment in Triton, which was not part of the sale and has been reclassified into our "other" segment. See Note 12 for additional information.

Our distribution operations segment is the largest component of our business and includes natural gas local distribution utilities in seven states. These utilities construct, manage and maintain intrastate natural gas pipelines and distribution facilities. Although the operations of our distribution operations segment are geographically dispersed, the operating subsidiaries within the distribution operations segment are all regulated utilities, with rates determined by individual state regulatory commissions. These natural gas distribution utilities have similar economic and risk characteristics.

We are also involved in several related and complementary businesses. Our retail operations segment includes retail natural gas marketing to end-use customers primarily in Georgia and Illinois. Additionally, retail operations provide home protection products and services. Our wholesale services segment engages in natural gas storage and gas pipeline arbitrage and related activities. Additionally, they provide natural gas asset management and/or related logistics services for each of our utilities except Nicor Gas, as well as for nonaffiliated companies. Our midstream operations segment includes our non-utility storage and pipeline operations, including the operation of high-deliverability natural gas storage assets. Our "other" segment includes aggregated subsidiaries that individually are not significant on a stand-alone basis and that do not fit into one of our operating segments.

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The chief operating decision maker of the company is the Chairman, President and Chief Executive Officer, who utilizes EBIT as the primary measure of profit and loss in assessing the results of each segment's operations. EBIT includes operating income and other income and expenses. Items we do not include in EBIT are income taxes and financing costs, including interest expense, each of which we evaluate on a consolidated basis. Summarized Statements of Income, Statements of Financial Position and capital expenditure information by segment as of and for the periods presented are shown in the following tables.

Three months ended September 30, 2014

In millions	Distribution operations	Retail operations	Wholesale services (1)	Midstream operations	Other (3)	Intercompany eliminations	Consolidated
Operating revenues from external parties	$ 439	$ 146	$ 5	$ 4	$ 1	$ (6)	$ 589
Intercompany revenues	35	-	-	-	-	(35)	-
Total operating revenues	474	146	5	4	1	(41)	589
Operating expenses							
Cost of goods sold	138	99	3	(3)	-	(39)	198
Operation and maintenance	145	34	10	5	1	(2)	193
Depreciation and amortization	79	7	-	5	2	-	93
Taxes other than income taxes	24	1	1	1	3	-	30
Total operating expenses	386	141	14	8	6	(41)	514
Gain on disposition of assets	-	-	3	-	-	-	3
Operating income (loss)	88	5	(6)	(4)	(5)	-	78
Other income (expense)	1	-	(1)	-	3	-	3
EBIT	$ 89	$ 5	$ (7)	$ (4)	$ (2)	$ -	$ 81
Capital expenditures	$ 196	$ 3	$ -	$ 3	$ 9	$ -	$ 211

Three months ended September 30, 2013

In millions	Distribution operations (4)	Retail operations (4)	Wholesale services (1)	Midstream operations	Other (3)	Intercompany eliminations	Consolidated (4)
Operating revenues from external parties	$ 409	$ 138	$ 13	$ 19	$ 1	$ (6)	$ 574
Intercompany revenues	36	-	-	-	-	(36)	-
Total operating revenues	445	138	13	19	1	(42)	574

Operating expenses							
Cost of goods sold	111	92	1	9	-	(39)	174
Operation and maintenance	150	31	13	5	3	(3)	199
Depreciation and amortization	89	8	-	5	2	-	104
Taxes other than income taxes	22	1	1	1	2	-	27
Total operating expenses	372	132	15	20	7	(42)	504
Operating income (loss)	73	6	(2)	(1)	(6)	-	70
Other income	4	-	-	-	3	-	7
EBIT	$ 77	$ 6	$ (2)	$ (1)	$ (3)	$ -	$ 77
Capital expenditures	$ 200	$ 3	$ -	$ 3	$ 5	$ -	$ 211

Nine months ended September 30, 2014

In millions	Distribution operations (4)	Retail operations (4)	Wholesale services (1)	Midstream operations	Other (3)	Intercompany eliminations	Consolidated (4)
Operating revenues from external parties	$ 2,821	$ 728	$ 383	$ 65	$ 5	$ (62)	$ 3,940
Intercompany revenues	153	1	-	-	-	(154)	-
Total operating revenues	2,974	729	383	65	5	(216)	3,940
Operating expenses							
Cost of goods sold	1,655	498	13	44	-	(210)	2,000
Operation and maintenance	515	105	59	18	2	(6)	693
Depreciation and amortization	&						