AGL RESOURCES INC
Form 10-Q
July 31, 2008

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, 2008

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, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” ”accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

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

Class	Outstanding as of July 22, 2008
Common Stock, $5.00 Par Value	76,671,051

AGL RESOURCES INC.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2008

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GLOSSARY OF KEY TERMS

AFUDC	Allowance for funds used during construction, which has been authorized by applicable state regulatory agencies to record the cost of debt and equity funds as part of the cost of construction projects
AGL Capital	AGL Capital Corporation
AGL Networks	AGL Networks, LLC
Atlanta Gas Light	Atlanta Gas Light Company
Bcf	Billion cubic feet
Chattanooga Gas	Chattanooga Gas Company
Credit Facility	Credit agreement supporting our commercial paper program
EBIT	Earnings before interest and taxes, a non-GAAP measure that includes operating income, other income, equity in SouthStar's income, minority interest in SouthStar's earnings, donations and gain on sales of assets and excludes interest and income tax expense; as an indictor of our operating performance, EBIT should not be considered an alternative to, or more meaningful than, operating income or net income as determined in accordance with GAAP
EITF	Emerging Issues Task Force
ERC	Environmental remediation costs
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretation Number
Fitch	Fitch Ratings
Florida Commission	Florida Public Service Commission
FSP	FASB Staff Position
GAAP	Accounting principles generally accepted in the United States of America
Georgia Commission	Georgia Public Service Commission
GNG	Georgia Natural Gas, or the name under which SouthStar does business in Georgia
Golden Triangle Storage	Golden Triangle Storage, Inc.
Heating Degree Days	A measure of the effects of weather on our businesses, calculated when the average daily actual temperatures are less than a baseline temperature of 65 degrees Fahrenheit. Generally, increased heating degree days result in greater demand for gas on our distribution systems.
Heating Season	The period from November to March when natural gas usage and operating revenues are generally higher because more customers are connected to our distribution systems when weather is colder
Jefferson Island	Jefferson Island Storage & Hub, LLC
LOCOM	Lower of weighted average cost or current market price
Maryland Commission	Maryland Public Service Commission
Marketers	Marketers selling retail natural gas in Georgia and certificated by the Georgia Commission
Medium-term notes	Notes issued by Atlanta Gas Light with scheduled maturities between 2012 and 2027 bearing interest rates ranging from 6.6% to 9.1%
MMBtu	NYMEX equivalent contract units of 10,000 million British thermal units
Moody's	Moody's Investors Service
New Jersey Commission	New Jersey Board of Public Utilities
NUI	NUI Corporation

NYMEX	New York Mercantile Exchange, Inc.
OCI	Other comprehensive income
Operating margin	A measure of income, calculated as revenues minus cost of gas, that excludes operation and maintenance expense, depreciation and amortization, taxes other than income taxes, and the gain or loss on the sale of our assets; these items are included in our calculation of operating income as reflected in our statements of consolidated income.
OTC	Over-the-counter
Piedmont	Piedmont Natural Gas
Pivotal Utility	Pivotal Utility Holdings, Inc., doing business as Elizabethtown Gas, Elkton Gas and Florida City Gas
PGA	Purchased gas adjustment
PP&E	Property, plant and equipment
PRP	Pipeline replacement program for Atlanta Gas Light
S&P	Standard & Poor's Ratings Services
SEC	Securities and Exchange Commission
Sequent	Sequent Energy Management, L.P.
SFAS	Statement of Financial Accounting Standards
SouthStar	SouthStar Energy Services LLC
VaR	Value at risk is defined as the maximum potential loss in portfolio value over a specified time period that is not expected to be exceeded within a given degree of probability
Virginia Natural Gas	Virginia Natural Gas, Inc.
Virginia Commission	Virginia State Corporation Commission
WACOG	Weighted average cost of gas
WNA	Weather normalization adjustment

REFERENCED ACCOUNTING STANDARDS

FSP FIN 39-1	FASB Staff Position 39-1 "Amendment of FIN 39"
FIN 46 & FIN 46R	FIN 46, "Consolidation of Variable Interest Entities"
FIN 48	FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS Statement No. 109"
FSP EITF 03-6-1	FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"
FSP EITF 06-3	FSP EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That Is, Gross versus Net Presentation)"
SFAS 71	SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS 133	SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"
SFAS 141	SFAS No. 141, "Business Combinations"
SFAS 157	SFAS No. 157, "Fair Value Measurements"
SFAS 160	SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements"
SFAS 161	SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities, an amendment of SFAS 133"
SFAS 162	SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles"

Glossary of Terms

PART 1 – Financial Information
Item 1. Financial Statements

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

In millions, except share data	June 30, 2008	As of December 31, 2007	June 30, 2007
Current assets			
Cash and cash equivalents	$ 19	$ 19	$ 14
Energy marketing receivables	807	598	421
Inventories	708	551	608
Receivables (less allowance for uncollectible accounts of $19 at June 30, 2008, $14 at Dec. 31, 2007 and $19 at June 30, 2007)	239	391	180
Energy marketing and risk management assets	107	69	66
Unrecovered PRP costs – current portion	37	31	27
Unrecovered ERC – current portion	20	23	25
Other current assets	106	117	77
Total current assets	2,043	1,799	1,418
Property, plant and equipment			
Property, plant and equipment	5,284	5,177	5,100
Less accumulated depreciation	1,621	1,611	1,598
Property, plant and equipment-net	3,663	3,566	3,502
Deferred debits and other assets			
Goodwill	420	420	420
Unrecovered PRP costs	216	254	236
Unrecovered ERC	130	135	139
Other	119	86	70
Total deferred debits and other assets	885	895	865
Total assets	$ 6,591	$ 6,260	$ 5,785
Current liabilities			
Energy marketing trade payables	$ 927	$ 578	$ 510
Short-term debt	513	580	339
Accounts payable - trade	158	172	145
Energy marketing and risk management liabilities – current portion	111	18	12
Accrued expenses	106	87	127
Accrued PRP costs – current portion	48	55	39
Customer deposits	33	35	42
Deferred purchased gas adjustment	20	28	16
Accrued ERC – current portion	15	10	11
Other current liabilities	48	73	67

Total current liabilities	1,979	1,636	1,308
Accumulated deferred income taxes	604	566	507
Long-term liabilities and other deferred credits (excluding long-term debt)			
Accumulated removal costs	175	169	166
Accrued PRP costs	162	190	187
Accrued ERC	92	97	90
Accrued pension obligations	44	43	82
Accrued postretirement benefit costs	21	24	27
Other long-term liabilities and other deferred credits	157	152	161
Total long-term liabilities and other deferred credits (excluding long-term debt)	651	675	713
Commitments and contingencies (Note 6)			
Minority interest	34	47	40
Capitalization			
Long-term debt	1,637	1,675	1,545
Common shareholders’ equity, $5 par value; 750,000,000 shares authorized	1,686	1,661	1,672
Total capitalization	3,323	3,336	3,217
Total liabilities and capitalization	$ 6,591	$ 6,260	$ 5,785

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

In millions, except per share amounts	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Operating revenues	$ 444	$ 467	$ 1,456	$ 1,440
Operating expenses				
Cost of gas	275	233	932	828
Operation and maintenance	114	111	233	227
Depreciation and amortization	38	36	74	71
Taxes other than income taxes	11	9	23	20
Total operating expenses	438	389	1,262	1,146
Operating income	6	78	194	294
Other income	3	-	4	1
Minority interest	(1)	(2)	(17)	(24)
Interest expense, net	(26)	(27)	(56)	(58)
(Loss) earnings before income taxes	(18)	49	125	213
Income tax expense (benefit)	(7)	19	47	81
Net (loss) income	$ (11)	$ 30	$ 78	$ 132
Per common share data				
Basic (loss) earnings per common share	$ (0.15)	$ 0.40	$ 1.02	$ 1.71
Diluted (loss) earnings per common share	$ (0.15)	$ 0.40	$ 1.01	$ 1.70
Cash dividends declared per common share	$ 0.42	$ 0.41	$ 0.84	$ 0.82
Weighted-average number of common shares outstanding				
Basic	76.2	77.5	76.2	77.5
Diluted	76.2	77.9	76.4	77.9

See notes to Condensed Consolidated Financial Statements

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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 and trust	Total
Balance as of December 31, 2007	76.4	$ 390	$ 667	$ 680	$ (13)	$ (63)	$ 1,661
Comprehensive income:							
Net income	-	-	-	78	-	-	78
Net realized gains from hedging activities (net of tax of $1)	-	-	-	-	(1)	-	(1)
Total comprehensive income							77
Dividends on common stock ($0.84 per share)	-	-	-	(64)	-	-	(64)
Issuance of treasury shares	0.3	-	-	(3)	-	11	8
Stock-based compensation expense (net of tax of $1)	-	-	4	-	-	-	4
Balance as of June 30, 2008	76.7	$ 390	$ 671	$ 691	$ (14)	$ (52)	$ 1,686

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Glossary of Terms

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

In millions	Six months ended June 30, 2008	2007
Cash flows from operating activities		
Net income	$ 78	$ 132
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	74	71
Change in energy marketing and risk management assets and liabilities	51	75
Minority interest	17	24
Deferred income taxes	(34)	(15)
Changes in certain assets and liabilities		
Gas, unbilled and other receivables	152	194
Energy marketing receivables and energy marketing trade payables, net	140	84
Accrued expenses	19	7
Gas and trade payables	(14)	(68)
Inventories	(157)	(11)
Other – net	33	(4)
Net cash flow provided by operating activities	359	489
Cash flows from investing activities		
Property, plant and equipment expenditures	(166)	(125)
Net cash flow used in investing activities	(166)	(125)
Cash flows from financing activities		
Payments of long-term debt	(161)	(11)
Net payments of short-term debt	(67)	(265)
Dividends paid on common shares	(64)	(62)
Distribution to minority interest	(30)	(23)
Issuance of treasury shares	8	13
Issuance of variable rate gas facility revenue bonds	122	-
Purchase of treasury shares	-	(20)
Other	(1)	1
Net cash flow used in financing activities	(193)	(367)
	-	(3)

Net decrease in cash and cash equivalents				
Cash and cash equivalents at beginning of period		19		17
Cash and cash equivalents at end of period	$	19	$	14
Cash paid during the period for				
Interest	$	59	$	57
Income taxes	$	24	$	55

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 our audited financial statements, but does not include all disclosures required by GAAP. We have prepared the accompanying unaudited condensed consolidated financial statements under the rules of the SEC. Under such rules and regulations, we have condensed or omitted certain information and notes normally included in financial statements prepared in conformity with GAAP. However, the condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of our financial results for the interim periods. For a glossary of key terms and referenced accounting standards, see page 3. You should read these condensed consolidated financial statements in conjunction with our consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on February 7, 2008.

Due to the seasonal nature of our business, our results of operations for the three and six months ended June 30, 2008 and 2007, and our financial condition as of December 31, 2007, and June 30, 2008 and 2007, 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.

We currently own a noncontrolling 70% financial interest in SouthStar and 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 condensed consolidated statements of income and we record Piedmont's portion of SouthStar's capital as a minority interest in our condensed 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 FIN 46, which was 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 SouthStar's 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.

Inventories

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

Sequent and SouthStar evaluate the average cost of their natural gas inventories against market prices to determine whether any declines in market prices below the WACOG are other than temporary. For any declines considered to be other than temporary, we record adjustments to reduce the weighted average cost of the natural gas inventory to market price. SouthStar did not record LOCOM adjustments in the first six months of 2008 or 2007. Sequent recorded no LOCOM adjustments in the first six months of 2008 and $3 million for the three and six months ended June 30, 2007.

Stock-Based Compensation

In the first six months of 2008, we issued grants of approximately 258,000 stock options and 207,000 restricted stock units, which will result in the recognition of approximately $2 million of stock-based compensation expense in 2008. No material share awards have been granted to employees whose compensation is subject to capitalization. We use the Black-Scholes pricing model to determine the fair value of the options granted. On an annual basis, we evaluate the assumptions and estimates used to calculate our stock-based compensation expense.

There have been no significant changes to our stock-based compensation, as described in Note 4 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007.

Glossary of Terms

Comprehensive Income

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

In millions	Three months ended June 30, 2008		Three months ended June 30, 2007	
Cash flow hedges:				
Net derivative unrealized gains (losses) arising during the period (net of taxes of $1 in 2008 and $- in 2007)	$	2	$	(1)
Less reclassification of realized gains included in income (net of taxes of $1 in 2008 and $- in 2007)		(1)		-
Pension adjustments (net of taxes of $- in 2007)		-		1
Total	$	1	$	-

In millions	Six months ended June 30, 2008		Six months ended June 30, 2007	
Cash flow hedges:				
Net derivative unrealized gains arising during the period (net of taxes of $2 in 2008 and $- in 2007)	$	4	$	-
Less reclassification of realized gains included in income (net of taxes of $3 in 2008 and $3 in 2007)		(5)		(6)
Pension adjustments (net of taxes of $- in 2007)		-		1
Total	$	(1)	$	(5)

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 potentially dilutive common shares are added to common shares outstanding.

We derive our potentially dilutive common shares by calculating the number of shares issuable under restricted stock, restricted stock units and stock options. The 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. We did not include approximately 0.3 million shares of potentially dilutive common shares in the calculation of diluted loss per share for the three months ended June 30, 2008, as their effect would be anti-dilutive. 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.

In millions	Three months ended June 30, 2008	Three months ended June 30, 2007
Denominator for basic earnings per share (1)	76.2	77.5

Assumed exercise of restricted stock, restricted stock units and stock options	-	0.4
Denominator for diluted earnings per share	76.2	77.9

(1) Daily weighted-average shares outstanding.

	Six months ended June 30,	
In millions	2008	2007
Denominator for basic earnings per share (1)	76.2	77.5
Assumed exercise of restricted stock, restricted stock units and stock options	0.2	0.4
Denominator for diluted earnings per share	76.4	77.9

(1) Daily weighted-average shares outstanding.

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

	June 30,	
In millions	2008	2007 (1)
Three months ended	1.7	0.0
Six months ended	1.6	0.0

(1) 0.0 values represent amounts less than 0.1 million.

Glossary of Terms

Regulatory Assets and Liabilities

We have recorded regulatory assets and liabilities in our condensed consolidated balance sheets in accordance with SFAS 71. Our regulatory assets and liabilities, and associated liabilities for our unrecovered PRP costs, unrecovered ERC and the associated assets and liabilities for our Elizabethtown Gas hedging program, are summarized in the following table.

In millions	June 30, 2008	Dec. 31, 2007	June 30, 2007
Regulatory assets			
Unrecovered PRP costs	$ 253	$ 285	$ 263
Unrecovered ERC	150	158	164
Elizabethtown Gas hedging program	35	-	-
Unrecovered postretirement benefit costs	11	12	12
Unrecovered seasonal rates	-	11	-
Unrecovered PGA	22	23	5
Other	28	24	24
Total regulatory assets	499	513	468
Associated assets			
Elizabethtown Gas hedging program	-	4	8
Total regulatory and associated assets	$ 499	$ 517	$ 476
Regulatory liabilities			
Accumulated removal costs	$ 175	$ 169	$ 166
Elizabethtown Gas hedging program	-	4	8
Unamortized investment tax credit	15	16	17

Deferred PGA	20	28	16
Deferred seasonal rates	9	-	9
Regulatory tax liability	19	20	21
Other	20	19	17
Total regulatory liabilities	258	256	254
Associated liabilities			
PRP costs	210	245	226
ERC	97	96	91
Elizabethtown Gas hedging program	35	-	-
Total associated liabilities	342	341	317
Total regulatory and associated liabilities	$ 600	$ 597	$ 571

There have been no significant changes to our regulatory assets and liabilities as described in Note 1 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007.

Income Taxes

We adopted FIN 48 on January 1, 2007, and as of June 30, 2008, December 31, 2007 or June 30, 2007, we did not have a liability for unrecognized tax benefits.

We do not collect income taxes from our customers on behalf of governmental authorities. We do collect and remit state and local taxes and record these amounts within our condensed consolidated balance sheets. Therefore, EITF No. 06-3 does not apply to us.

There have been no significant changes to our income taxes as described in Note 8 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007.

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 PRP accruals, environmental liability accruals, allowance for uncollectible accounts and other 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.

Accounting Developments

Previously discussed

SFAS 160 In December 2007, the FASB issued SFAS 160, which is effective for fiscal years beginning after December 15, 2008. Early adoption is prohibited. SFAS 160 will require us to present our minority interest, to be referred to as a noncontrolling interest, separately within the capitalization section of our consolidated balance sheets. We will adopt SFAS 160 on January 1, 2009.

SFAS 161 In March 2008, the FASB issued SFAS 161, which is effective for fiscal years beginning after November 15, 2008. Early adoption is encouraged. SFAS 161 amends the disclosure requirements of SFAS 133 to provide an enhanced understanding of how and why derivative instruments are used, how they are accounted for and their effect on an entity's financial condition, performance and cash flows. SFAS 161 will require additional disclosure in future filings, but will have no financial impact to our consolidated results of operations, cash flows or financial condition.

Recently issued

SFAS 162 In May 2008, the FASB issued SFAS 162, which is effective 60 days after the SEC approves the PCAOB amendments to Interim Auditing Standards Section 411. SFAS 162 provides guidance on the sources for application of GAAP and categorizes these sources according to the order of authority. SFAS 162 will have no financial impact to our consolidated results of operations, cash flows or financial condition. We will adopt SFAS 162 when it becomes effective.

FSP EITF 03-6-1 The FASB issued this FSP in June 2008 and is effective for fiscal years beginning after December 15, 2008. This FSP classifies unvested share-based payment grants containing nonforfeitable rights to dividends as participating securities that will be included in the computation of earnings per share. As of June 30, 2008, we had approximately 156,000 restricted shares with nonforfeitable dividend rights. We will adopt FSP EITF 03-6-1 on January 1, 2009.

Glossary of Terms

Note 2 – Financial Instruments and Risk Management

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

We maintain accounts with brokers to facilitate financial derivative transactions in support of our energy marketing and risk management activities. Based on the value of our positions in these accounts and the associated margin requirements, we may be required to deposit cash into these broker accounts.

On January 1, 2008, we adopted FIN 39-1, which required that we offset cash collateral held in these broker accounts on our condensed consolidated balance sheets with the associated fair value of the instruments in the accounts. Prior to the adoption of FIN 39-1, we presented such cash collateral on a gross basis within other current assets and liabilities on our condensed consolidated balance sheets. Our cash collateral amounts are provided in the following table.

	As of		
In millions	June 30, 2008	Dec. 31, 2007	June 30, 2007
Right to reclaim cash collateral	$ 103	$ 3	$ 15
Obligations to return cash collateral	(8)	(10)	(3)
Total cash collateral	$ 95	$ (7)	$ 12

Fair Value Measurements

In September 2006, the FASB issued SFAS 157, which 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 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. In December 2007, the FASB provided a one-year deferral of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually. We adopted SFAS 157 on January 1, 2008, for our financial assets and liabilities, which primarily consist of derivatives we record in accordance with SFAS 133. The adoption of SFAS 157 primarily impacts our disclosures and did not have a material impact on our condensed consolidated results of operations, cash flows and financial condition. We will adopt SFAS 157 for our nonfinancial assets and liabilities on January 1, 2009, and are currently evaluating the impact to our condensed consolidated results of operations, cash flows and financial condition.

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

Level 1

Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 items consist of financial instruments with exchange-traded derivatives.

Level 2

Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using valuation methodologies. These methodologies are primarily industry-standard methodologies that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as OTC forwards and options.

Level 3

Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers’ needs. We do not have any assets or liabilities classified as level 3.

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The following table sets forth, by level within the fair value hierarchy, our financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2008. As required by SFAS 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Recurring fair value measurements as of June 30, 2008

In millions	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Netting of cash collateral	Total carrying value
Assets: (1)					
Derivatives at wholesale services	$ 14	$ 52	$ -	$ 24	$ 90
Derivatives at distribution operations	2	33	-	2	37
Derivatives at retail energy operations	12	1	-	(8)	5
Total assets	$ 28	$ 86	$ -	$ 18	$ 132
Liabilities: (2)					
Derivatives at wholesale services	$ 77	$ 85	$ -	$ (77)	$ 85
Derivatives at distribution operations	2	33	-	-	35
Derivatives at retail energy operations	5	-	-	-	5
Total liabilities	$ 84	$ 118	$ -	$ (77)	$ 125

(1) Includes $107 million of current assets and $25 million of long-term assets reflected within our condensed consolidated balance sheet.
(2) Includes $111 million of current liabilities and $14 million of long-term liabilities reflected within our condensed consolidated balance sheet.

The determination of the fair values above incorporates various factors required under SFAS 157. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of our nonperformance risk on our liabilities.

Derivatives at distribution operations relate to Elizabethtown Gas and are utilized in accordance with a directive from the New Jersey Commission to create a program to hedge the impact of market fluctuations in natural gas prices. These derivative products are accounted for at fair value each reporting period. In accordance with regulatory requirements, realized gains and losses related to these derivatives are reflected in purchased gas costs and ultimately included in billings to customers. Unrealized gains and losses are reflected as a regulatory asset or liability, as appropriate, in our condensed consolidated balance sheets.

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

OTC derivative trading instruments include swaps, forwards and options that are valued at fair value and may be offset with similar positions in exchange-traded markets. In certain instances, these instruments may utilize different methodologies to measure fair value. Generally, we use a similar methodology to value similar instruments. Valuation methodologies utilize various inputs which include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other observable inputs for the asset or liability, and market-corroborated inputs, which are inputs derived principally from or corroborated by observable market data by correlation or other means. Where observable inputs are available for substantially the full term of the asset or liability, the instrument is categorized in level 2. Certain OTC derivatives trade in less active markets with a lower availability of pricing information.

In addition, certain structured transactions can introduce the need for internally-developed methodology inputs which might not be observable in or corroborated by the market. When such inputs have a significant impact on the measurement of fair value, the instrument is categorized in level 3.

At the beginning of 2008, we had a notional principal amount of $100 million of interest rate swap agreements associated with our senior notes. In March 2008, we terminated these interest rate swap agreements. We received a payment of $2 million, which included accrued interest and the fair value of the interest rate swap agreements at the termination date. The payment was recorded as deferred income and classified as a liability in our condensed consolidated balance sheets. The amount will be amortized through January 2011, the remaining life of the associated senior notes.

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The following table sets forth a reconciliation of the termination of our interest rate swaps, classified as level 3 in the fair value hierarchy.

In millions	Six months ended June 30, 2008
Balance as of January 1, 2008	$ (2)
Realized and unrealized gains	-
Settlements	2
Transfers in or out of level 3	-
Balance as of June 30, 2008	$ -
Change in unrealized gains (losses) relating to instruments held as of June 30, 2008	$ -

Transfers in or out of level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the methodology inputs became unobservable or assets and liabilities that were previously classified as level 3 for which the lowest significant input became observable during the period.

The carrying value of cash and cash equivalents, receivables, accounts payable, other current liabilities, derivative assets, derivative liabilities and accrued interest approximate fair value.

Risk Management

Our risk management activities are monitored by our Risk Management Committee (RMC) which consists of members of senior management and our Finance and Risk Management Committee (FRMC) which consists of members from our Board of Directors. Both the RMC and FRMC are charged with reviewing and enforcing our risk management activities. Our risk management policies limit the use of derivative financial instruments and physical transactions within predefined risk tolerances associated with pre-existing or anticipated physical natural gas sales and purchases and system use and storage. We use the following derivative financial instruments and physical transactions to manage commodity price, interest rate, weather 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

Note 3 - Employee Benefit Plans

Pension Benefits

We sponsor two tax-qualified defined benefit retirement plans for our eligible employees, the AGL Resources Inc. Retirement Plan and the Employees' Retirement Plan of NUI Corporation. A defined benefit plan specifies the amount of benefits an eligible participant eventually will receive using information about the participant. 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	2008	2007
Service cost	$ 2	$ 2
Interest cost	6	6
Expected return on plan assets	(8)	(8)
Amortization of prior service cost	-	-
Recognized actuarial loss	1	1
Net pension cost	$ 1	$ 1

	Six months ended June 30,	
In millions	2008	2007
Service cost	$ 4	$ 4
Interest cost	13	12
Expected return on plan assets	(16)	(16)
Amortization of prior service cost	(1)	(1)
Recognized actuarial loss	2	3
Net pension cost	$ 2	$ 2

Our employees do not contribute to the 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 2008.

Postretirement Benefits The AGL Resources Inc. Postretirement Health Care Plan (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.

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Eligibility for benefits under the AGL Postretirement Plan is based on age and years of service. Following are the cost components of the AGL Postretirement Plan for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
In millions	2008	2007	2008	2007
Service cost	$ 1	$ -	$ 1	$ -
Interest cost	2	2	3	3
Expected return on plan assets	(2)	(1)	(3)	(2)
Amortization of prior service cost	(1)	(1)	(2)	(2)
Net postretirement benefit cost	$ -	$ -	$ (1)	$ (1)

Employee Savings Plan Benefits

We sponsor the Retirement Savings Plus Plan (RSP Plan), a defined contribution benefit plan that allows eligible participants to make contributions to their accounts up to specified limits. Under the RSP Plan, we made $3 million in matching contributions to participant accounts in the first six months of 2008 and $4 million in the same period last year.

Note 4 - 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 first six months of 2008, we purchased 10,333 shares under this plan. As of June 30, 2008, we had purchased a total 307,567 shares, leaving 292,433 shares available 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. We did not purchase shares under this program during the first six months of 2008. As of June 30, 2008, we had repurchased 3,049,049 shares at a weighted average price of $38.58.

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Note 5 - 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 FERC as granted by the Energy Policy Act of 2005. The following table provides more information on our various debt securities.

In millions	Year(s) due (1)	Interest rate (1)	Weighted average interest rate (1)	Outstanding as of June 30, 2008	Dec. 31, 2007	June 30, 2007
Short-term debt						
Commercial paper borrowings	2008	3.0%	3.7%	$ 465	$ 566	$ 250
Sequent lines of credit	2008	3.2	2.7	38	1	-
Pivotal Utility line of credit	2008	2.5	3.1	9	12	11
Capital leases	2008	4.9	4.9	1	1	1
Notes payable to Trusts	-	-	-	-	-	77
Total short-term debt		3.0%	3.6%	$ 513	$ 580	$ 339
Long-term debt - net of current portion						
Senior notes	2011-2034	4.5-7.1%	5.9%	$ 1,275	$ 1,275	$ 1,150
Medium-term notes	2012-2027	6.6-9.1	7.8	196	196	196
Gas facility revenue bonds	2022-2033	1.7-5.3	3.9	161	200	200
Capital leases	2013	4.9	4.9	5	6	5
AGL Capital interest rate swaps	-	-	-	-	(2)	(6)
Total long-term debt		5.7%	5.9%	$ 1,637	$ 1,675	$ 1,545
Total debt		5.1%	5.6%	$ 2,150	$ 2,255	$ 1,884

(1) As of June 30, 2008

Gas Facility Revenue Bonds

In 2008, a portion of our gas facility revenue bonds failed to draw enough potential buyers due to the dislocation or disruption in the auction markets as a result of the downgrades to the bond insurers which reduced investor demand and liquidity for these types of investments. Three of these bonds with principal amounts of $55 million, $47 million and $20 million had interest rates that were adjusted every 35-days, and one of the bonds with a principal amount of $39 million had an interest rate which was reset daily. In March and April 2008, we tendered these bonds with a cumulative principal amount of $161 million through commercial paper borrowings.

In June 2008, we completed a Letter of Credit Agreement for the bonds with principal amounts of $55 million, $47 million and $20 million which provided credit support and enhanced the investor demand for these bonds. As a result, these bonds with a cumulative principal amount of $122 million were successfully auctioned and issued as variable rate gas facility bonds and reduced our commercial paper borrowings. The bonds with principal amounts of $55 million and $47 million now have interest rates that reset daily and the bond with a principal amount of $20 million has an interest rate that resets weekly. There was no change to the maturity dates on these bonds.

Sequent Line of Credit

In June 2008, we extended one of Sequent's line of credit in the amount of $25 million to June 2009, which bears interest at the federal funds effective rate plus 0.75%. Sequent's second line of credit for $20 million has an expiration date of August 2008, bears interest at the federal funds effective rate plus 0.4%. Both lines of credit are used for the posting of margin deposits for NYMEX transactions and are unconditionally guaranteed by us.

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Note 6 - 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 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, 2007.

Contingent financial commitments, such as financial guarantees, represent obligations that become payable only if certain predefined events occur and include the nature of the guarantee and the maximum potential amount of future payments that could be required of us as the guarantor. The following table illustrates our contingent financial commitments as of June 30, 2008.

		Commitments due before Dec. 31,	
In millions	Total	2008	2009 & thereafter
Standby letters of credit and performance and surety bonds	$ 56	$ 29	$ 27

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.

In March 2008, Jefferson Island served discovery requests on the State of Louisiana and sought a trial date in its pending lawsuit over its natural gas storage expansion project at Lake Peigneur. Jefferson Island also asserted additional claims against the State seeking to obtain a declaratory ruling that Jefferson Island’s surface lease, under which it operates its existing two storage caverns, authorizes the creation of the two new expansion caverns separate and apart from the mineral lease challenged by the State. Jefferson Island originally filed the suit against the State in the 19th Judicial District Court in Baton Rouge in September 2006.

In addition, in June 2008, the State of Louisiana passed legislation restricting water usage from the Chicot aquifer, which is a main source of fresh water required for the expansion of our Jefferson Island capacity. We contend that this legislation is unconstitutional and have sought to amend the pending litigation to seek a declaration that the legislation is invalid and cannot be enforced. Even if we are not successful on those grounds, we believe the legislation does not materially impact the feasibility of the expansion project.

Additional information in the Jefferson Island Storage & Hub, LLC vs. State of Louisiana litigation is described in Note 7 to our Consolidated Financial Statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2007. The ultimate resolution of such litigation cannot be determined, but it is not expected to have a material adverse effect on our consolidated financial condition, results of operations or cash flows.

In February 2008, the consumer affairs staff of the Georgia Commission alleged that GNG charged its customers on variable rate plans prices for natural gas that were in excess of the published price, that it failed to give proper notice regarding the availability of potentially lower price plans and that it changed its methodology for computing variable rates. GNG asserts that it fully complied with all applicable rules and regulations, that it properly charged its customers on variable rate plans the rates on file with the Georgia Commission, and that, consistent with its terms and conditions of service, it routinely switched customers who requested to move to another price plan for which they qualified. In order to resolve this matter GNG agreed to pay $2.5 million in the form of credits to customers, or as directed by the Georgia Commission, which was recorded in our condensed consolidated statements of income for the six months ended June 30, 2008.

In February 2008, a class action lawsuit was filed in the Superior Court of Fulton County in the State of Georgia against GNG containing similar allegations to those asserted by the Georgia Commission staff and seeking damages on behalf of a class of GNG customers. GNG continues to assert that it has complied fully with state law and Georgia Commission rules and will vigorously defend the lawsuit.

In March 2008, a second class action suit was filed against GNG in the State Court of Fulton County in the State of Georgia, regarding monthly service charges. This lawsuit alleges that GNG arbitrarily assigned customer service charges rather than basing each customer service charge on a specific credit score.

GNG asserts that no violation of law or Georgia Commission rules has occurred and that both lawsuits are without merit. GNG has filed motions to dismiss both class action suits on various grounds. The ultimate resolution of these lawsuits cannot be determined, but is not expected to have a material adverse effect on our condensed consolidated results of operations, cash flows or financial condition.

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Review of Compliance with FERC Regulations

We recently conducted an internal review of our compliance with FERC interstate natural gas pipeline capacity release rules and regulations. Independent of our internal review, we also received data requests from FERC's Office of Enforcement relating specifically to compliance with FERC's capacity release posting and bidding requirements. We have responded to FERC's data requests and are fully cooperating with FERC in its investigation. As a result of this process, we have identified certain instances of possible non-compliance. We are committed to full regulatory compliance and we have met with the FERC Enforcement staff to discuss with them these instances of possible non-compliance. At this time we are unable to predict the outcome of the FERC investigation.

Note 7 - Segment Information

We are an energy services holding company whose principal business is the distribution of natural gas in six states - Florida, Georgia, Maryland, New Jersey, Tennessee and Virginia. We generate nearly all our operating revenues through the sale, distribution, transportation and storage of natural gas. We are involved in several related and complementary businesses, including retail natural gas marketing to end-use customers primarily in Georgia; natural gas asset management and related logistics activities for each of our utilities as well as for nonaffiliated companies; natural gas storage arbitrage and related activities; and the development and operation of high-deliverability natural gas storage assets. We manage these businesses through four operating segments – distribution operations, retail energy operations, wholesale services and energy investments and a nonoperating corporate segment which includes intercompany eliminations.

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

You should not consider EBIT an alternative to, or a more meaningful indicator of our operating performance than, operating income or net income as determined in accordance with GAAP. In addition, our EBIT may not be comparable to a similarly titled measure of another company. The following table contains the reconciliations of EBIT to operating income, (loss) earnings before income taxes and net income for the three and six months ended June 30, 2008 and 2007.

	Three months ended June 30,	
In millions	2008	2007
Operating revenues	$ 444	$ 467
Operating expenses	438	389
Operating income	6	78
Minority interest	(1)	(2)

Other income	3	-
EBIT	8	76
Interest expense, net	26	27
(Loss) earnings before income taxes	(18)	49
Income tax expense (benefit)	(7)	19
Net (loss) income	$ (11)	$ 30

In millions	Six months ended June 30, 2008	2007
Operating revenues	$ 1,456	$ 1,440
Operating expenses	1,262	1,146
Operating income	194	294
Minority interest	(17)	(24)
Other income	4	1
EBIT	181	271
Interest expense, net	56	58
Earnings before income taxes	125	213
Income taxes	47	81
Net income	$ 78	$ 132

Balance sheet information at December 31, 2007, is as follows:

In millions	Goodwill

	Identifiable and total assets (1)	
Distribution operations	$ 4,847	$ 406
Retail energy operations	284	-
Wholesale services	890	-
Energy investments	287	14
Corporate and intercompany eliminations (2)	(48)	-
Consolidated AGL Resources	$ 6,260	$ 420

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

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Summarized income statement information, identifiable and total assets, goodwill and property, plant and equipment expenditures as of and for the three and six months ended June 30, 2008 and 2007, by segment are shown in the following tables.

Three months ended June 30, 2008

In millions	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (3)	Consolidated AGL Resources
Operating revenues from external parties	$ 299	$ 177	$ (51)	$ 19	$ -	$ 444
Intercompany revenues (1)	46	-	-	-	(46)	-
Total operating revenues	345	177	(51)	19	(46)	444
Operating expenses						
Cost of gas	165	153	2	1	(46)	275
Operation and maintenance	83	16	10	6	(1)	114
Depreciation and amortization	31	1	2	2	2	38
Taxes other than income taxes	9	1	-	-	1	11
Total operating expenses	288	171	14	9	(44)	438
Operating income (loss)	57	6	(65)	10	(2)	6
Other income	-	-	-	-	3	3
Minority interest	-	(1)	-	-	-	(1)
EBIT	$ 57	$ 5	$ (65)	$ 10	$ 1	$ 8
Capital expenditures for property, plant and equipment	$ 64	$ 1	$ -	$ 18	$ 3	$ 86

Three months ended June 30, 2007

In millions	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (3)	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

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Six months ended June 30, 2008

In millions	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (3)	Consolidated AGL Resources
Operating revenues from external parties	$ 909	$ 552	$ (34)	$ 30	$ (1)	$ 1,456
Intercompany revenues (1)	112	-	-	-	(112)	-
Total operating revenues	1,021	552	(34)	30	(113)	1,456
Operating expenses						
Cost of gas	593	446	4	1	(112)	932
Operation and maintenance	169	35	22	10	(3)	233
Depreciation and amortization	62	2	3	3	4	74
Taxes other than income taxes	18	1	1	1	2	23
Total operating expenses	842	484	30	15	(109)	1,262
Operating income (loss)	179	68	(64)	15	(4)	194
Other income	1	-	-	-	3	4
Minority interest	-	(17)	-	-	-	(17)
EBIT	$ 180	$ 51	$ (64)	$ 15	$ (1)	$ 181
Identifiable and total assets (2)	$ 4,805	$ 253	$ 1,361	$ 310	$ (138)	$ 6,591
Goodwill	$ 406	$ -	$ -	$ 14	$ -	$ 420
Capital expenditures for property, plant and equipment	$ 123	$ 7	$ -	$ 29	$ 7	$ 166

Six months ended June 30, 2007

In millions	Distribution operations	Retail energy operations	Wholesale services	Energy investments	Corporate and intercompany eliminations (3)	Consolidated AGL Resources
Operating revenues from external parties	$ 860	$ 525	$ 37	$ 18	$ -	$ 1,440
Intercompany revenues (1)	100	-	-	-	(100)	-
Total operating revenues	960	525	37	18	(100)	1,440
Operating expenses						
Cost of gas	529	396	3	-	(100)	828
Operation and maintenance	171	34	17	10	(5)	227
Depreciation and amortization	59	3	1	2	6	71

Taxes other than income taxes		16		-		1		1		2	20
Total operating expenses		775		433		22		13		(97)	1,146
Operating income (loss)		185		92		15		5		(3)	294
Other income (expense)		2		-		-		(1)		-	1
Minority interest		-		(24)		-		-		-	(24)
EBIT	$	187	$	68	$	15	$	4	$	(3)	$ 271
Identifiable and total assets (2)	$	4,694	$	221	$	776	$	272	$	(178)	$ 5,785&