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PRESENTATION

Sarah Stashak - AGL Resources - Director - IR

Good morning, everyone. Thanks for joining us today for our 2011 Analyst Conference. I've met most of you. I'm Sarah Stashak, Director of Investor Relations.

We have nine members of our senior management team here today, sox of whom you'll be hearing from, and with presentations and Q&A. We have John Somerhalder, our Chairman, President and Chief Executive Officer, Hank Linginfelter, our Executive Vice President of Utility Operations, Mike Braswell, CEO of SouthStar, Pete Tumminello, President of Sequent, Dana Grams, President of Pivotal, our storage business, and Drew Evans, our Chief Financial Officer, will be the presenters today.

We also have with us Ralph Cleveland, our Executive Vice President of engineering and operations, Bryan Seas, who left his green visor in Atlanta, our Chief Accounting Officer, and it's good for him to be here as we work through our financial reporting and disclosure for him to hear your questions. And then we also have [Steve Case] who has passed the Investor Relations responsibilities on to me, our local celebrity in the gas utility space, who is our Vice President of Finance and Treasurer.

The presentations we're making today are available on our website. For those of you listening via webcast, you can access these materials at www.aglresources.com.

So, for the fun part, the forward-looking statements. We will be making some of those today. And our projections and our actual results could differ materially from those forward-looking statements. The factors that could cause such material differences are included in our presentation today, and our 10-K and 10-Q. We also describe our business using some non-GAAP measures, such as operating margin, EBIT, adjusted net income and adjusted EPS. A reconciliation of those measures to the GAAP financials is available on the appendix of our accompanying presentation, as well as on our website.

John will start us off today, and following John we'll just go straight into Hanks' presentation. And then at the end of each presenter's presentation we'll do some Q&A. And then we've also left time for Q&A at the end. If you have questions, just raise your hand and make a signal, we'll bring a microphone around to you so that people on the webcast can hear.

And I think that's it and we'll get started with John.

John Somerhalder - AGL Resources - Chairman, President, CEO

Great. Thanks, Sarah. Good morning. Thanks, everyone, for joining us today.

I'd like to do three things to start out with, to introduce what we'll talk about today. I'd like to go back and look at accomplishments that the Company achieved in 2010, talk about what our priorities are for 2011, and then give you a brief overview of the Nicor merger. And Drew will go into more detail, but give you an overview strategically of how we look at that transaction.

We always tart out with our top priority, and that's continued strong focus on safety. And we had very good results over the past several years in this area. And that shows not only in how we compare to other like companies and AGA puts together statistics, we show up at the top of that list as far as low incidence rates for injuries or motor vehicle accidents, or show up in the top quartile repeatedly because of the good processes and programs we have in place.

Also, on public safety and on pipeline safety, because of very good pipeline replacement programs and other programs that deal with our pipeline integrity, we're looked to as a leader in that area. And as one example, and Hank will talk about this, this last year through a 12-year -- we've been 12 years into a program in Georgia, we just recently completed replacing all the cast iron pipe in the state of Georgia. And we have [leading programs] in other states where we're making significant progress as well.

At the same time, last year we achieved record earnings of $3.05 per diluted share, and that excludes the merger related costs. Probably the most important thing as far as establishing a solid track record moving forward is we had successful outcomes in a number of regulatory areas. The Georgia rate case, which you're aware of, the Tennessee rate case, and then continued progress on infrastructure programs where we get real-time or more real-time recovery at cost that we invest -- our costs that we incur when we invest in things like pipeline replacement, pressure improvement projects and other infrastructure projects.

As an example, the UIE mechanism that we have up here in New Jersey. We've also seen the benefits of disciplined investments in pipeline infrastructure projects like [HRX] Hampton Roads Crossing project, the magnolia pipeline project. Those pipeline projects are operating very well, benefit our customers, and we've seen good financial results as a result of that.

And then we also were able to invest in more of SouthStar. We increased our ownership from 70% up to 85% and that had a very good result. So we look at our record earnings and you look at the foundation we have for continued earnings growth, we think these are exactly the type ways we want to establish that foundation and be able to grow our earnings. And good regulatory outcomes, investment in our utility businesses and other disciplined investments that show these good financial results.

Pete will talk about his business, will talk about the expanded service offerings and expanded geographic reach of that wholesale business, which provides stability and diversity in that business, which has allowed us to produce good results. And as you all know, in lower volatile time periods we've seen those continued good results. We've made significant progress on our storage strategy. Dana will talk a little bit more about that.

We've brought GTS Cavern 1 on line. That facility is operating very well and we're making good progress towards expanding that facility by leaching out cavern 2 and we're about 50% through that process. We'll talk a little bit more about the opportunities and challenges we have in that business.

Very good success on financing activities. And Drew will cover that in more detail. And then we were very excited and remain very excited about the Nicor merger, which we announced in late 2010 in December. Our priorities for 2011 are maintain that focus I talked about on safety. And again, we have the right foundation to continue on that. But as an industry, we must continue to take that to the next level.

We're obviously focused on successful closing, financing, and day one integration of the Nicor transaction. And as we sit today, we've made significant progress and feel very good about where we are related to being able to meet the goal that we had related to closing that in the second half of 2011 and achieving the financial benefits that we've talked to you all about as part of that merger.

At the same time, we're not going to miss our core business. We're going to focus on earnings of our core business and meet the targets we've established and communicated to you. And again, those targets are excluding merger related costs, which we want to provide, and are committed to provide a lot of transparency around costs we're incurring in that area.

Continue to invest in our distribution and other core businesses, continue to make progress on the -- build on the regulatory successes we've had. And as you know, after we moved from Tennessee to Georgia, we're now in process of filing a rate case in Virginia -- or we have filed that and we're in the process of moving through that. hank will talk about that and talk about the opportunities in Florida and other places to continue those successes.

We want to optimize the remaining capacity at Golden Triangle cavern 1, and then at the same time build out cavern 2. And Dana will talk to you about the options we have to contract the remaining or manage the remaining 4 Bcf a day on cavern 1 that is now not sold under long term contracts. We have 2 Bcf sold under a very good long term -- longer term contract there. We'll talk about the options we have there.

The one area of our business where we see the most challenge right now, where the fundamentals are the most challenging are in our storage area. And what we've seen over the past couple of years, same thing everyone in the industry is seeing, we've seen since late 2008 and it continues through today, we've seen the combination of the shale gas and how prolific it's been, at the same time back when we saw the economy turn down, we saw a situation where since that time period, basically entering every winter time period and entering every summer time period, we've gone into those time periods with record high levels of storage.

And at the same time, because of the flowing gas from shale, we've seen flowing gas at levels at or above what would be necessary to meet the market under normal conditions. So we've seen an environment where existing storage and flowing gas can largely meet increased demands in those time periods. And the good news is the fundamentals have been there and we have seen strong demand for natural gas, not only because of weather that's been colder in the winter, hotter in the summer, but because more gas has been used for power generation.

We've seen industrial demand start to come back. We've seen good fundamentals and we've seen peaks in the power generation market because of things like the intermittent nature of wind. So good fundamentals, but what we've seen in this time period is that high storage levels and the existing storage and a large amount of flowing gas have resulted in very low stable gas prices and lack of volatility, which works really well for a majority of our business, like our distribution operations business. But it has produced a challenge in our storage business and selling the remaining capacity in that business.

Dana will talk to you about the fundamentals. We still strongly believe in the fundamentals of that storage business once we've seen the balance between flowing gas and storage levels return back to more historical levels. And Dana will talk to you about those fundamentals in more detail. But because of that set of circumstances, we're taking a very disciplined approach, which is to contract the remaining capacity in a way that lets us take advantage of that in the future, but allows us to make sure we achieve our near term earnings targets.

Continue to preserve the options, the low cost expansions of those facilities, make sure we can move forward with those, but make sure we're disciplined and we do not allocate significant capital to that until we see the fundamentals improving. And we're committed to maintaining strong investment grade ratings, the balance sheet, by doing the things I just mentioned, we can deliver on our commitments to our investors.

The Nicor transaction has many benefits to us. And the most straightforward is just the visible and achievable financial and operational benefits that are driven by scope and scale. If you look at the successes we've had in our regulated business recently, it really is driven by a number of factors. It's driven by good regulatory outcomes, and we've shown a history of being able to achieve those good regulatory outcomes.

It's driven by the fact that we have good regulatory mechanisms around infrastructure investment, like the [Stride PRP] in the past, UIE program that allows us to invest and have real-time recovery of those dollars and avoid regulatory lag. And it's driven by the fact that even with our customer account growth, and Hank will show this, we've been able to control costs to continue to achieve those allowed -- or closer to those allowed returns.

What the Nicor merger clearly does for us is it give us more scale, more scope, ability to share best practices, and even take that ability to keep costs low for our customers and for our shareholders. It enhances that moving forward. Not only on the distribution operations business where we see the benefits, the unregulated businesses between the two companies fit together very, very well.

As an example, Sequent has good reach across the country. Nicor has even more expertise in the Midwest and the Chicago area. So by bringing that expertise and the skills we have in sequent, we think there are increased revenue opportunities in our wholesale business. And by bringing those two businesses together we have scale, scope and back office systems and other cost efficiencies as well. So benefits in that area.

In the retail area, it's great that we can bring two businesses together that are leading businesses. Mike's business, a leading business, the leading business as far as providing commodity services to retail markets like Georgia, Ohio, Florida and additional markets that we'll talk about entering. And Nicor that is leading the way as far as providing retail services, protecting customers' builds, warranting products and some of those things, we can bring those together and get the benefits of taking those leading products to a greater geographic reach.

In the storage business, we get the scope and scale of bringing Nicor storage businesses together with ours that will help us control costs moving forward. But importantly, they have a different profile with their storage facilities. Our facilities are high deliverability [salt dome] storage. Their facilities are more reservoir lower turn service, which in a time period like today where there's still good intrinsic value but not as much extrinsic value because of the lack of volatility. People see more value related to the lower turn reservoir type service.

And those facilities are lower cost and can be constructed quicker, so the two facilities that Nicor brings to our portfolio mix fit very well and give us new options and opportunities to expand and to have scale and keep costs low moving forward. So the businesses fit very well together.

I think we've demonstrated over the past decade that we have expertise related to integrating these type transactions. And we are bringing that to bear now in this transaction to make sure we produce the results we've talked about, which will resulting accretion after year one, neutral in year one, and then an enhancement to our growth rate. And obviously we are committed to keeping solid investment grade credit ratings.

With that, and this map kind of shows our geographic reach and now we're under construction with the -- or Nicor is under construction with the facility in California, with that I'm going to turn it over to Hank Linginfelter to talk about distribution operations.

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Great. Thank you, John.

Good morning, everyone. It's a real pleasure to be here and share with you about things going on at the Company and what a great place to do this. And for those joining online, thank you for joining us today and for being with us. These are very exciting times for our business and we appreciate your interest and support.

I'm going to take you on a little tour through the distribution business and share with you some of the things that are going on. And we'll have some time for questions as part of my part in the course -- and some time for questions across the entire presentation.

As you are fairly well aware, this is a utility company that also does many other things well. Each of our business units we think has a compelling story. And your utility business is no different. It's about 70% of the entire EBITDA of AGL Resources, 2.3 million customers today across six states, 46,000 miles of pipeline, a rate base of about $2.5 billion. And CapEx typically in the $360 million range is our current forecast.

The great thing about our CapEx inside our regulated businesses is that about half of it is recovered through mechanisms, rider and various programs, that gives something close to real-time recovery in the capital investment. About 50% of that $360 million will be recovered with very little lag, and that has been strategic on our part to try to move things in that way and it's been really good for our business in terms of how we deploy capital on the regulated side.

The balance, of course, would be recoverable through rate cases and so forth. And some of that balance of the capital is revenue producing, so it funds itself in some cases.

We have about 2,184 right now, and that includes those who are sort of dedicated. They may not be inside the utilities as employees, but they're dedicated to supporting utilities through our shared services model. And part of the Nicor integration takes advantage of things like shared services, and so we'll start reporting a little more often how many people are dedicated to supporting the regulated business over time.

John mentioned our safety record, and we're very proud of it. It is our first thing that we try to do is make sure that we operate safely, not only personal safety with our workforce around motor vehicle accidents and on the job injuries, which our rates are fabulous there, but also around overall system safety and reliability and quality.

This next slide I want to share and just make one point about sharing this, and that is I'll say a number of things today and if there's one thing you would take away from my part of the presentation, it would be the evidence of our result on this slide. Over a period of years now we've had solid growth in EBIT contribution to the corporation in our regulated utilities.

Over time, from $300 million back in '05 to over $350 million last year, solid growth. About a 3.5% CAGR over that period of time. while our customer growth has been limited. And so we've had customer growth, it's fairly limited, but we've been able to grow earnings through very effective cost management and cost containment, taking advantage of our scale and of new technology deployment and so forth, and projects that we've deployed inside our regulated businesses that have grown earnings in that company or that set of companies as we have at the same time had only limited customer growth.

That growth year-over-year has been very strong. And particularly '09 to '10, you can see we had a pretty big jump and that's a fairly uncommon leap in a single year for a gas utility company. But we'll continue to stay focused on customer -- on cost containment and serving our customers.

Next slide deals with our 2010 results. And you can see here our margin grew about 6%, and yet our operating costs only grew about 10%. That allowed us to take an 11% operating income down and 9% EBIT growth year-over-year. 9% EBIT growth in a gas company is pretty rare. Sometimes our growth is a little lumpy, and we had a terrific year-over-year from '09 to '10. And as I mentioned earlier, that was really part of a trend that we had seen over now five strong years inside our utilities.

For the quarter this year we're continuing to see margin growth, which is very good news. 4% margin growth quarter-over-quarter for the first quarter of 2011. And our operating costs about 4% also. And that allowed us to take for the first quarter EBIT growth of 4%. So we're trending nicely inside the utility business even for 2011.

Things that have contributed tour growth include, of course, our Atlanta Gas Light and Chattanooga Gas rate cases. Those were very solid outcomes. About $28.7 million worth of revenue requirement -- rewards that came out of those cases for depreciation and revenue requirement.

Our projects like the Hampton Roads Crossing, our pipeline project in Virginia is running -- is very nicely serving customers, not only our utility customers at V&G, but a couple of other customers. Dominion has a power plant on that pipeline and Columbia Gas of Virginia gets service as well. So those are generating cash today because of the pipeline.

We've continued to keep our cost consciousness at top of mind, keeping our O&M well managed. That's a tradition at our company. We continue to do it. Just to give a couple of hard numbers on the safety records that we've already talked about a couple of times, number three in on the job injuries in our industry for large gas companies, and number two in at-fault motor vehicle accidents for 2010. And those are really big achievements, very important to us.

We believe in automation where it makes good business case in the Company and we've really spent some time deploying automated meter reading over a number of years, but especially lately, and in particular at Atlanta Gas Light has run through a very aggressive automation program. And we're seeing terrific benefits from that. Meter reading, an interesting, very pedestrian concept, if you don't do it right, you have a lot of challenges in the business, you can't get an accurate read, customers complain or you estimate a bill and they complain about that. And you have to true those up over time.

Automation has solved so many of those problems. It's given us a seamless process from when we get the reading to making sure we close out the reading. In Georgia we hand those readings over to marketers and they bill on them. In the rest of the enterprise, we render retail bill. And deploying automation in that sector of activities for us has been a very good thing and we've seen customer satisfaction actually rise because we've automated that process. We're estimating virtually zero of our bills and we're reading them on time as far as the meter readings.

So a lot of good things that we've done over the last several years. And speaking of that, the next slide I want to share with you, we wanted to give you a little bit of a window into the infrastructure business that we're in, particularly our replacement programs. And so this slide details by utility in the AGL family where we are with programs for infrastructure replacement.

And John mentioned that we had gotten all the cast iron out of our Atlanta Gas Light system in Georgia. Just after the holidays, after Christmas, in December, we took the last piece of cast iron out of the Atlanta system. We're moving along with that same concept in other jurisdictions inside our business. The nice thing about the Atlanta program, it's the PRP rider and that has the sort of real-time recovery aspects that we've talked about, in each utility we have a program of some sort to replace aging infrastructure that needs to be replaced. It's on a very planned method.

And generally we're getting recovery either in base rate cases, which we are prosecuting, as you know, over time, but more often through mechanisms. And just as an example, and John mentioned UIE, that's our utility infrastructure enhancement program in New Jersey where we're getting recovery of those costs. And that program, we've filed for an expansion of it for the next couple of years.

One of the other companies in New Jersey has already gotten approval for an expansion of their pogrom, so we're modeling after that and customizing it to our needs. In Virginia there's legislation that allows companies like ours to replace infrastructure, reduce emissions that come with aging infrastructure, but also increase safety and reliability. We have not filed for that yet, but we are in the process still of replacing pipeline. That's embedded in our Virginia rate case anyway, but where we move forward over time we'll probably make a filing at some point under the statute that was approved for replacing infrastructure in Virginia.

And in Florida we've been replacing some fairly unique types of pipe. Galvanized, for example, galvanized steel we have in Florida and some other things. But we thought it'd be helpful for you to see how much we've done over more than a decade across the utilities, how much is pending in those existing programs, and what we're going to do this year and next in those. That doesn't mean that's all that we have to do in terms of infrastructure replacement and enhancement. These are discrete programs or activities that we're in right now.

I'm going to walk you a little bit just briefly through each of the gas companies and tell you a little bit about what's going on in them. And the next -- the first one is Atlanta Gas Light, on the next slide. About a million and a half customers there. A rate base of 1.3 billion. You can see the returns authorized, ROR and ROE. We did get a reset of the ROE in the rate case last year.

We believe we're going to bump right up just under that for this year in terms of our achievement against authorized. We'll be about, we think, half a point under -- half a percent under what we could achieve. And that's a few million dollars, we think, of the EBIT in that business. But it's very small.

So our CapEx estimate for Atlanta Gas Light is about $228 million this year. And again, some of those are in those rider recovery programs. We were very thankful for the good outcome in the rate case, not only because we thought it was fair and balanced, but that it also funded a number of initiatives that we think are important in the business, including enhancing our customer service delivery, something we need to do in that business, and but at the same time we also got something fairly unique, we think this is rather precedential in its outcome and that is that the commission granted the recognition and sharing of synergies that come from the Company's endeavors to acquired more businesses.

And so they recognize sort of in the current environment that we were getting value out of the NUI acquisition and gave the Company the right to recover a little over $4 million in cash out of the rate case because of the synergies that came out of that deal. That mechanism has a little bit of window on it, whereas we move through the Nicor transaction, it'll take us a couple of years to settle out the costs and then we'll start measuring synergies. And we can talk about that some more if you have questions.

But it's a very good outcome for us from that perspective. It encourages the Company to continue to be in the business of consolidating this industry, which we think the industry is ripe for. We've talked about Strode before. it's a strategic infrastructure development enhancement program that allows us to improve pressures on the Atlanta system as Atlanta grew over a couple of decades.

If you're in the outer reaches of our territory on a design day we would have had some challenges reaching the pressure we like to operate on, so the commission recognized that and approved it. And then we're 100% decoupled at Atlanta Gas Light in terms of how our margins come in.

Moving on to Virginia, John mentioned are rate case that we had filed there. The process in Virginia is fairly lengthy and so we're in a very deliberate and paced out process in Virginia. We filed the case. we're seeking $25 million. About $15 million of that is in the HRX project. We're recognizing EBIT from HRX because statute allows that. now the rates case is to true up cash for that recognition of EBIT going forward. The other $10 million I related to other operating costs and some capital deployment.

I mentioned the Hampton Roads Crossing. We're please about that pipeline. It is serving customers today. It actually came in very handy in the last winter when we had a short interruption upstream on the other pipeline that supplies that part of the state. Our pipeline performed terrifically, almost to the very day we turned it on we needed it. So it was really great. It's about a [tenth of a B] in terms of capacity. And in that region that's materially valuable.

I mentioned the legislation of Virginia that would allow us to do more infrastructure projects. Another company in Virginia has filed and I think received authorization to proceed with [the Save project] or program. We'll follow that and see how it goes and we'll time our own needs around when we think we should file. But we probably will file something in Virginia around that.

78% of our margin is decoupled in Virginia when you add revenue normalization and weather normalization. You can see obviously our ability to perform against authorized returns is hampered and that is in part why we're in a rate case. But we knew it would be around these numbers, and so the filing is to get those returns in real terms, cash, back into the business up to where they should be.

We're authorized for 10.9 right now and we filed at 10.95 in the case, so there's not a ton of upside in the case but it would true up cash to give us what we need to run our business, but also it would bring us up to those authorized returns in terms of the case.

Moving on to Elizabethtown Gas, our New Jersey franchise, we completed a rate case in late 2009. We agreed to a two-year stay out in that case. We think we were treated fairly there as well, a balanced outcome from the commission, the Board of Public Utilities in New Jersey. I've mentioned the UIE program already a couple of times, but our total spend of $69 million in the first phase of that program is just about done.

And we're seeking a $40 million expansion of that program and we believe we have a good line of sight to a favorable outcome in our filing for that to be approved. So we'll continue to deploy capital in New Jersey the way we have for the last couple of years with a good mechanism to recover the cost of that deployment of capital.

Really good news, just recently the asset management agreement that we have with Sequent was extended, a three-year extension under very similar terms to what they've operated under the last several years. And the commission -- the Board of Public Utilities we believe has come to really value what Sequent does in asset management for our business, and so they're highly supportive of how we do it. It's very transparent and it brings real value back to our customers as well as a good business proposition for AGL.

You can see that in 2010 we exceeded our authorized return there just after the rate case. And we're modeling in something close to achieving authorized return for 2011. We'll spend about $47 million in CapEx for the fiscal year. We have weather normalization at Elizabethtown and that insulates a fair amount of our risk in the business in terms of weather.

In Florida, this is one of our opportunities we think in the next couple of years. We agreed to a five-year stay out in Florida a few years ago, and so we're eligible to file a rate case next year. We probably will, but we'll have to see where the numbers are at that time to see if it's a compelling need. These returns that we're sharing with you in this document include the impact of the recognition of the amortization of goodwill and that drives the returns down a few points, a few percent.

And so the returns without that recognition would be higher, but we sought that recognition. We thought it was a good thing to do. And the statute in Florida allowed for recognition of goodwill, and so we think that's been a good thing for us to recognize that. Certainly dampens the calculated returns, but it also recognizes opportunity in recovering things like goodwill in a place like Florida.

Florida's a very pro gas state. They recognize -- they have growth in Florida, of course, over time, power production is stressed a lot in Florida. So if you're a gas company in Florida, the Public Service Commission in Florida wants to support, trying to make sure gas is available in the marketplace. And there are a number of programs that we deploy in Florida because of that.

And there are energy conservation programs that allow us to give incentives to customers for residential and commercial applications to use natural gas efficiently. We use those funds to develop new technologies and deploy them and the commission recognizes the value of that over time. and then we are thankful that that program is well funded and it's funded through a surcharge from customers and it's a very modest number. About $12 million of capital deployment forecast for this year in Florida.

In Chattanooga we had a rate case you might remember. It was a pretty good outcome again. We think we've had a nice track record of regulatory decisions. New rate design encourages conservation, but it also allows the Company to earn a good rate of return on that. The first decoupled rate design in Tennessee, there are a few other gas companies in Tennessee and we were the first to get the commission to recognize the value of decoupling in Tennessee.

We're about 70% insulted against weather and margin, so about 72% decoupled. You can see Tennessee's another place we exceeded our authorized return in 2010 and we forecast we'll probably exceed it again this year. And we'll deploy about $7 million worth of capital in Chattanooga.

Well, let me just quickly walk through our 2011 priorities and objectives. Obviously safety is number one. We've talked about it already a good bit today. We want to stay in the top quartile for the things we measure that are important for safety, motor vehicle accidents and job injuries. We'd like to continue to be a leader in this role, safety focus. and we think we have the ability to do that and we'd like to continue to be a leader and plan to be a leader in infrastructure enhancement and replacement programs across our system.

Regulatory strategy, I've shared quite a bit of numbers with you today by each utility. And you can see in some places we're exceeding authorized returns. In some places we have a pretty good gap. And some places we're right on them. I think if you look at our track record on the cases that I've talked about, you can see that we have every reason to be optimistic that in Virginia and Florida we'll have a good line of sight to get outcomes and regulatory filings and we're optimistic that we'll be treated fairly in those jurisdictions. And the nice thing about our business is the scale and scope of it is big enough that we can insulate our risks as we go through the lumpiness of regulatory proceedings, filing and earnings results by utility.

And that's the compelling story about the current business, but it certainly highlights why bringing Nicor into the family is a very valuable proposition in the utility space for us. We'll continue to prosecute rate cases. We'll execute in on customer service initiatives that we committed to, and the Atlanta rate case in particular where funding was approved for us to enhance customer service and reliability and we'll execute on those.

We're all about the process of fulfilling the commitments we made to spend about $10 million of the rate case revenue that we were granted to improve the overall quality of service that we deliver, and we're actually very excited about that.

We'll continue to control our expenses. We have, as you know, a good long, strong history of controlling our operating costs. We deploy new technologies, as I've mentioned, and we look for opportunities to improve processes and take advantage of the scale of our business.

And then, in the merger with Nicor, we have some real to-dos, short run and long run, and we will -- the short run is we have to get the Illinois Commerce Commission to approve that merger document and agree that it's a good deal for customer.

And we have a good path to that. We think we will achieve that thank you during the second half of the year and hopefully close before the end of the second half of this year.

And we have a lot of day-one work going on to make sure that when the business is won that we can operate effectively, we can take care of our customers, our systems will appropriately track our activities and that we'll be ready to roll with being one of the largest gas providers in the industry.

We really appreciate that we have diversity in our regulatory risk across this business, and Nicor has a very good reputation with the regulators and we believe we can join them in that opportunity to be a really fine operator in Illinois.

Those are my comments, and we have some time for questions if you have any. I may ask a couple of my compatriots to join me if we have any particular questions. Anybody bring one? Yes? Let's get a microphone first.

QUESTION AND ANSWER

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Is that on? Hi.

Unidentified Audience Member

Can you hear me?

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Yes.

Unidentified Audience Member

Yes. My question was on the pipeline replacement. You kind of have the little slide on slide 7 where you talk about what's left in terms of mileage.

It looks like -- I mean, if I just look at that slide, it looks like at Atlanta Gas Light you're going to kind of run out of running room in terms of what you need to get done maybe after a couple of more years. Or, is there more -- you alluded it to. Is there more that you need to do? You've done all the cast iron. Is there other things left to do?

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Thanks, for the question. The -- the Atlanta Gas Light system is very large, and you -- and we -- the program that is in existence today was approved on the discreet set of pipes that were the highest priority.

That program is a dozen years old now, and we have continued -- at times, we've got a few other slivers of pipe that might fit appropriately in that program, and the Commission has recognized that it's appropriate.

And I think we'll continue to see a little bit of that. But, because that was a discreet program, we will probably go to a little bit more of a normalized replacement program over time for the existing infrastructure.

Having said that, the real story for Atlanta Gas Light, of course, is as we saw the end of some of these programs taking hold we also recognized the need for infrastructure enhancement because of the growth we've had in our model showed that on a design day in some parts of our territory we struggle to keep our pressures.

And that was what spawned our STRIDE program, and STRIDE will continue for a couple of more years. But, the way that program was files and the way we discussed it with the regulators and we had our case on that was that it was really at least a few tranches of 3 years each and infrastructure that we think is necessary at the time.

We'll continue to recycle our model and make sure that there's a case for additional investment. We believe, just on the service, there probably will be. We'll finish the first phase of STRIDE and probably make a filing on the next phase before too long. But, that's -- we have not -- we have a lot of work to do on that before we get to that point.

So -- but, we think there's still quite a bit of capital to deploy over time in Atlanta Gas Light that would very much mimic the models that we've operated under with PRP over the years.

Unidentified Audience Member

And (inaudible)

Unidentified Company Representative

Hank said this, but it actually works very well for us. And that is the fact that we were proactive and had a lot of the pipeline replacement done in these categories feeds very nicely into the pressure improvement work. It's good that we're not doing those two things at the same time, so it allows us to continue to invest in infrastructure, two similar programs, but they're different.

And, as Hank indicated, there are other categories of pipe that we'll look at moving forward as the industry continues to modernize its system that we'll look at as we're moving the pressure improvement project. So, we really see a pretty smooth path through that because of the way we transition from one part of that program to the other.

Unidentified Company Representative

Thanks, Jay. Others? Yes?

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Thanks. I just wanted to ask you a question. You talked about the automated meter reading installation and how that's really improved your customer service, customer satisfaction levels. What is the status of Nicor's automated meter reading system?

And on Chattanooga, you've over-earned by a fairly large percentage there. What -- can the Commission come in and relook at those returns? Or, is there a sharing mechanism on the over-returned portions?

Unidentified Company Representative

Okay. Thank you.

Unidentified Audience Member

Thank you.

Hank Linginfelter - AGL Resources - EVP - Utility Operations

On the automated meter reading, even inside AGL over the last several years we've had various stages of automation. And we've moved fairly quickly, for example in New Jersey, where we have a substantial number of meters indoors. And that really helped us get some of those great metrics.

And Nicor has some indoor meters as well. It's significant -- I don't know the number, but it's a significant number of their meters. They have -- their strategy has been that they read the meters every other month, so their underlying cost reading meters, it's a manual process for them, has been fairly low-cost.

They're a very low-cost-focused company, and their mechanism to do that has been read the meters every month, have a very good estimation routine, so they render a bill every month that's -- every other month is estimated, and we will study what we can do there.

I think because of the fact that they're a very low-cost operator in meter reading and customers are fairly comfortable because of the long history of every-other-month reads.

We think that's status quo for them now, but we'll continue to investigate whether we could make some enhancements using automation. We'll probably only do it if there's a real good business case for it, and we'll wait and see about that.

And then on Chattanooga, the Commission I think really believes that Chattanooga has done a good job of running its business. As I mentioned earlier, some of the returns get lumpy. One year you might have an expense that -- and Chattanooga is small enough that a single expense could make a material difference in that return.

But, I don't know of anything that would happen to make that different. The Commission has generally been pretty good with -- once they approve rates they will let the Company manage under those rates. We don't anticipate the Commission calling us on that.

When you -- because of the size Chattanooga, when you look at what the cost of prosecuting a case on both sides would be versus what you -- it would take to bring that number to a lower return, it would be quite a wash. So, we don't anticipate any issue there.

Unidentified Audience Member

Thank you.

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Yes, thank you. Steve?

Unidentified Audience Member

Yes, thanks. In Virginia, and I apologize if you already mentioned this, but I -- you look at the expectations for your ROE going down about 300 basis points, 280 basis points, in 2011 versus 2010.

You're mostly decoupled, so it's not weather driving that. I know you'd mentioned costs, but what was the -- and that's a pretty significant decrease, $10 million of that that you're trying to recover as expenses, but the big decrease on a year-over-year basis without weather playing a role. So, I'm just trying to get a better understanding of that.

Unidentified Company Representative

Thanks, for the question. It's primarily the treatment of the accounting for the Hanson Roads Crossing project. The law enabled the Company, as the project was being built and before it was filed as a rate case, for us to capitalize interest on that project.

And that was recognized with AFUDC, and so that difference is primarily the recognition of the impact of HRX coming out of that mechanism and going into base rates, and that's really the driver for it. And someone may have a better answer than that, but that's mine. I think that deals with almost all of the difference.

Unidentified Company Representative

(inaudible - microphone inaccessible)

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Yes.

Unidentified Company Representative

Interest and equity.

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Interest and equity return, yes, on that. Anything else? Yes? Oh, yes, sorry.

Unidentified Audience Member

Yes. Could you talk a little bit more about how the energy-sharing policy works in terms of, first of all, for what's existing, when it starts, when it's ending and whether those -- that 4.4 is included in your calculation of actual ROE and then what the procedure is for determining what the synergy savings are and how that then gets recovered and how that might apply to the Nicor situations?

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Sure, thank you. I may ask a little bit of help on that as well. The -- when the Commission approved the synergy-sharing mechanism last year, there were -- some number of assumptions made in that decision that were memorialized and it includes, for example, that in the deal like -- for example, in the Nicor deal, we'll have a year of kind of clearing out everything, transactions and transition costs. And some of those transition costs even go past the first year, obviously systems integrations and so forth.

And so, there's about a -- there's a two-year window to settle out the impacts across the utilities for doing a deal like Nicor or any other acquisition. And so, the Commission allows a two-year window for us to kind of settle out all the impacts that are one-time impacts.

After that two years, there'll be a formal calculation of the impact of, Nicor in this case, on Atlanta Gas Light and, for example. The cost of the accounting department or the CEO's office or whatever today gets allocated somewhat on a customer volume or some other activity-based allocation mechanism.

Those are all formalized. They're part of -- any rate case we have across any utility in our shared services mode. And so, they're easily trackable that will impacts on Atlanta Gas Light that will go to Nicor as a fair allocation of costs of running Nicor as a new part of the Company.

Those costs will come off of Atlanta Gas Light. They'll be calculated and memorialized. And just generally speaking, whatever that calculated savings is that the Commission and the Company agree on, 50% of that will be credited back to the cost of serving customers. So, it'll be a credit in -- for Atlanta Gas Light in the cost of service.

That will live for 10 years, and it will be tracked and updated, what the impact of those costs are and the sharing will go as part of that. The other 50%, obviously, will go to the corporation as a recognition of risk that shareholders take in those kinds of deals and reward the Company's bottom line for that.

You asked another part of that question, and I'll have to ask you to repeat.

Unidentified Audience Member

It was whether -- when you show these actual ROEs whether --

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Yes.

Unidentified Audience Member

That is -- those savings are included in that number or excluded from the calculation?

Hank Linginfelter - AGL Resources - EVP - Utility Operations

They are included. I think the other -- that's where I was going to go. The other assumption by the Commission was, just generically, the Company should do all it can to achieve its authorized return, and then sharing beyond that would be the reward.

So, there's a presumption you're going to achieve your authorized return, so it's possible you share some value even if you're slightly below your authorized return. However, the Commission would also say rate cases are always an option for you if you're under-achieving against your ROE.

So, there's a presumption we may go back and -- a few years or whatever if we're under-earning and true that up. The mechanism for -- we would embed the mechanism for recovery of synergies in a case like that so that we'd say this is the policy of the Commission for Atlanta Gas Light. And so, we'd have a rate case that would true that back up to authorized returns and get savings.

But, ultimately we believe especially a deal like Nicor but others potentially following that, would bring just a recycling of value over and over again under that mechanism. Do you want to --

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Unidentified Company Representative

And the good news on that is, should we choose to go back in for a rate case, we the ability to ask for an allowed return on our base rates as well as continue 50% of the savings associated with an NUI deal as well as ask for a sharing of the savings with Nicor.

So, as Hank said, it gives us the ability to share that and that helps our customers and it helps us. But, we would have to do that. If otherwise we're below our allowed returns we'd have to go back in for a rate case, but this gives us a clean mechanism to do that and keep that benefit but also share it.

Unidentified Audience Member

All right. So -- all right. So, is that way to think about that that -- for -- you know, when you do an acquisition you have lower service costs allocated out to each of the companies, so for 10 years you would get to have as a cost of service 50% of the savings in there even though it's a savings, it's not an actual? Is that sort of like the way to think about it?

Hank Linginfelter - AGL Resources - EVP - Utility Operations

Yes, because rates would be set on that basis. So, the cash should be coming in. But, you're right. You would get that savings. You'd keep.

Drew Evans - AGL Resources - CFO

Yes. Under the methodology before this, if we went back in for another rate case, that -- we would not have the right for either one of those savings, for the 50% of the NUI or the Nicor. When we went and filed rates, it would be whatever the costs were at the time.

At the same time, the customers get the benefits of before you go into a rate case a mechanism that helps share these benefits. So it smoothes out those benefits, gives the customers the benefits and gives the Company certainty around our ability to recover those costs and to have the benefits of the savings we bring. Yes, right there?

Unidentified Audience Member

Thank you. Can you hear me?

Drew Evans - AGL Resources - CFO

Yes.

Unidentified Audience Member

After I guess we [get on], just a quick question on the Nicor merger moving forward, you said you expect to close it the second half of this year, just got the staff come back.