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March 14, 2005

VIA HAND DELIVERY

Pat Miller, Chairman
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

Re: Petition of Chattanooga Gas Company for Approval of Adjustment of its Rates and Charges and Revised Tariff
Docket Number 04-00034
Pre-filed Testimony of Michael J. Morley in Support of Recon-2 to Chattanooga Gas Company's Petition for Reconsideration

Dear Chairman Miller:

At the February 28, 2005 Tennessee Regulatory Authority (TRA) Conference, the TRA adopted your motion requesting that Chattanooga Gas Company (CGC) provide additional information in support of its Petition for Reconsideration filed on November 4, 2004. Specifically, the motion stated:

> ...in order for the Authority to properly consider the new evidence on capital structure introduced into the record on December 31, 2004, Chattanooga Gas Company is ordered to provide additional testimony or supporting documentation regarding Exhibit No. Recon-2 no later than March 14, 2005. Such additional material should include all assumptions used to derive the projected capital structure, explanation why equity and debt ratios drastically changed from December 31, 2003 to the subsequent reporting periods, and other relevant documentation.

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

TESTIMONY OF MICHAEL J. MORLEY IN SUPPORT OF
EXHIBIT NO. RECON-2 TO
CHATTANOOGA GAS COMPANY'S
PETITION FOR RECONSIDERATION

IN RE:
DOCKET NO. 04-00034

Q. Please state your name, position and address.

A. Michael J. Morley, Director, Financial Accounting, AGL Services Company. My business address is 10 Peachtree Place, Location 1180, Atlanta, Georgia 30309.

Q. Have you previously filed testimony in this proceeding?

A. Yes. I previously filed direct and rebuttal testimony.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to respond to part (1) of the motion issued February 28, 2005 by Tennessee Regulatory Authority ("TRA") Chairman Pat Miller and adopted by the TRA, regarding Chattanooga Gas Company's ("CGC") Petition for Reconsideration filed with the Authority on November 4, 2004. Following is part (1) of Chairman Miller's motion:

> "Regarding the capital structure, I move that in order for the Authority to properly consider the new evidence on capital structure introduced into the record on December 31, 2004, Chattanooga Gas Company is ordered to provide additional testimony or supporting documentation regarding Exhibit No. Recon-2 no later than March 14, 2005. Such

additional material should include all assumptions used to derive the projected capital structure, explanation why equity and debt ratios drastically changed from December 31, 2003 to the subsequent reporting periods, and other relevant documentation"

In complying with the TRA's request, CGC is providing both this testimony and supporting documentation in support of Exhibit No. Recon-2. The assumptions used to derive the projected capital structure are being provided as exhibits to this testimony, and an explanation for the changes in equity and debt ratios from December 31, 2003 to the subsequent reporting periods is provided in Section III of this testimony.

Q. How will your testimony be presented?

A. My testimony will be presented in the following sections:

- Section I – Background of Capital Structure Issue
- Section II – Assumptions Used to Derive the Projected Capital Structure
- Section III - Explanations for the Change in Debt and Equity Ratios from December 31, 2003 to the Subsequent Reporting Periods.

Q. Were the exhibits you are providing with this testimony prepared by you or under your direction and supervision?

A. Yes.

Q. Please describe the exhibits you are providing in support of Exhibit No. Recon-2.

A I am providing five exhibits in support of Exhibit No. Recon-2 as follows:

- MJM Support - 1 – Exhibit supporting the information provided for the actual capital structure of AGL Resources Inc. ("AGLR") as of June 30, 2004
- MJM Support - 2 – Exhibit supporting the information provided for the actual capital structure of AGLR as of September 30, 2004
- MJM Support - 3 – Exhibit with workpapers supporting the information provided for the projected capital structures of AGLR as of December 31, 2004, March 31, 2005 and June 30, 2005. This exhibit includes four schedules as follows.
    - Schedule 1 – AGLR Forecasted Balance Sheets for the quarters ended December 31, 2004, March 31, 2005 and June 30, 2005
    - Schedule 2 – AGLR Forecasted Capital Expenditures for the quarters ended December 31, 2004, March 31, 2005 and June 30, 2005
    - Schedule 3 – AGLR Forecasted Income Statements for the quarters ended December 31, 2004, March 31, 2005 and June 30, 2005
    - Schedule 4 – Georgia Natural Gas Company ("GNGC") Forecasted Income Statements for the quarters ended December 31, 2004, March 31, 2005 and June 30, 2005. A separate forecasted income statement for GNGC is required to appropriately include GNGC's earnings before interest, income taxes and depreciation and amortization as a non-cash item. Cash received

from GNGC is based on annual dividends, which have been included in the forecast

Exhibit MJM Support – 3 is being filed as confidential under the protective order entered in this docket.

- Exhibit MJM Support – 4 – Exhibit that provides the average capital structure as of June 30, 2005, updated for December 31, 2004 actuals
- Exhibit MJM Support – 5 – Exhibit that provides the historical quarterly capital structures for AGLR for 2002 - 2004

Q. Why is Exhibit MJM Support – 3 being filed as confidential under the protective order?

A. Exhibit MJM Support – 3 is being filed as confidential due to the detailed forecasted information included in the exhibits. AGLR is a company whose common stock and debt are publicly-traded. As such, AGLR files various reports about its business and results of operations with the Securities and Exchange Commission (SEC) pursuant to the Securities Exchange Act of 1934, as amended. The information provided pursuant to this request is not provided and is not required in these reports and might be misinterpreted by stockholders and investors. AGLR feels it is necessary to file this information confidentially in order to abide by certain restrictions posed by the SEC regarding selective disclosure of information about its business.

Q. Why were the forecasted capital structures included in Exhibit No. Recon-2 not filed as confidential?

A. The forecasted capital structures included in Exhibit No. Recon-2 were not filed as confidential because they simply provided the net effect, or summary, of all the detailed forecasted information included in Exhibit MJM Support – 3. As can be seen in Exhibit MJM Support – 3, there are a number of assumptions that go into the forecasted capital structures. As discussed previously, providing these assumptions at a detail level could be misinterpreted by stockholders and investors, but the capital structures themselves most likely would not.

Section I

Background of Capital Structure Issue

Q. Mr. Morley, would you provide a brief background of this docket's capital structure issue?

A. Certainly. On October 20, 2004, the TRA issued an order that adopted a capital structure that was not in the record of this case. There were two capital structures included in the record, and those were provided by CGC and the Consumer Advocate and Protection Division ("CAPD"). Following are the capital structures provided by CGC and the CAPD as well as the capital structure included in the TRA's order.

	CGC	CAPD	TRA
Short-term debt	4.3%	12.9%	16.4%
Long-term debt	40.1%	44.6%	37.9%
Preferred stock	8.7%	0.0%	10.2%

Common equity	46.9%	42 5%	35.5%
Total Capitalization	100%	100%	100%

The Company filed for reconsideration on this issue as it is not consistent with the stated methodology in the TRA's order nor does it appear in the record of this case. In its order, the TRA adopted a projected average capital structure methodology. However, there was no record of evidence to allow for such a calculation. Accordingly, in support of its Petition, Exhibit No. Recon-2 was filed with the Petition for Reconsideration to provide the projected average capital structure of AGLR as of June 30, 2005.

Q. Please explain.

In its order, the TRA states that the capital structure is based on the capital structure of CGC's parent company, AGLR, and is consistent with the methodology used in CGC's previous rate case. However, the capital structure adopted by the TRA is not that of AGLR and is not consistent with the methodology used in CGC's previous rate case.

Section II

Assumptions Used to Derive the Projected Capital Structure

Q. Please explain the information included in Exhibits MJM Support - 1 and MJM Support - 2?

A. Both exhibits provide a reconciliation between AGLR's reported capital structures as provided in its Form 10-Qs for the applicable quarter and the capital structures included in Exhibit No. Recon-2.

Q. Why were these reconciliation exhibits required?

A. To properly reflect, from a regulatory standpoint, AGLR's capital structures as of June 30, 2004 and September 30, 2004, the Company included pro-forma adjustments in Exhibit No. Recon-2. As provided in Exhibit No.s MJM Support - 1 and MJM Support – 2, the primary pro-forma adjustment is to remove the impact of Other Comprehensive Income ("OCI") from AGLR's common equity.

Q. What is the OCI included in AGLR's common equity?

A. OCI, which reduces total equity, is primarily the result of a substantial increase in the pension liability of AGLR. In accordance with Statement of Financial Accounting Standard No. 87, "Employer's Accounting for Pensions" ("SFAS 87"), AGLR is required to recognize as a pension liability the difference between the accumulated benefit obligation ("ABO") and the fair value of Plan assets. FAS 87 also requires the offsetting debit to be recorded to OCI, which is included in the equity section of the balance sheet.

Q. What caused the large increase in the pension liability for the Company?

A. The reason for the large increase is due to a substantial increase in the ABO of the pension plan combined with a minimal increase in pension plan assets from October 2000 – December 2003. Equity market performance and corporate bond rates have a significant effect on the reported unfunded ABO, as the primary assumptions that drive the value of the unfunded ABO are the discount rate and actual return on pension plan assets. Currently, a one-percentage-point increase or decrease in the assumed discount rate could have a negative or positive impact to the ABO of approximately $40 million. From October 2000 – December 2003, the discount rate decreased 1.7%.

Q. Why should the OCI be excluded from common equity for regulatory purposes?

A. As discussed above, treatment of the increase in the pension liability as OCI is an accounting requirement under FAS 87. As it relates to regulated entities, this amount represents the future costs that will be recovered from customers through base rates. Excluding the OCI from common equity for regulatory purposes is appropriate for CGC since the OCI represents future contribution requirements to the pension plan CGC's recovery from rate payers is based on pension plan contributions. In other words, for CGC, the OCI represents the future funding requirements to the pension plan that will be recovered from ratepayers in the future, assuming there are no changes This also assumes that there are no changes in the ABO or plan asset amounts. Any changes in the ABO or plan asset amounts would adjust the OCI accordingly, but the regulatory treatment to exclude the OCI balance from common equity would remain the same. The regulatory treatment would be the same if CGC were recovering its pension costs through the FAS 87 expense calculation

Q. Were there any other pro-forma adjustments made to the June 30, 2004 and September 30, 2004 capital structures?

A. Yes. There were pro-forma adjustments made to exclude the impact of financial instruments (interest rate swaps) hedged against certain long-term debt and preferred stock instruments of AGLR. The amounts of these adjustments are minor and have little impact on AGLR's capital structure but were included to be consistent with the cost of debt included by the Company in its initial filing.

Q. Please describe the information included in Exhibit MJM Support – 3.

A. Exhibit MJM Support – 3 provides the workpapers, assumptions and support for the projected capital structures for the quarters ended December 31, 2004, March 31, 2005 and June 30, 2005

Q. How were the capital structures for the three quarters projected?

A. As discussed in my affidavit filed December 6, 2004, the following forecasted adjustments, by capital structure component, were made to the projected quarterly capital structures:

Short-term debt:

a) Estimated cash expenditures, primarily payments of interest, long-term debt and dividends on common stock

b) Forecasted capital expenditures and income tax payments

c) Forecasted net income, adjusted for non-cash items such as depreciation, interest and income tax expense and investment in subsidiary

d) Estimated working capital requirements based on estimates provided by AGLR's Treasury Department.

Long-Term Debt and Preferred Stock – Scheduled payments of debt obligations

Common Equity – Forecasted net income and payments of dividends on common stock

The adjustments made to each capital structure component represent the major cash and non-cash items that impact the balance sheet of AGLR.

Q. What assumptions and support were used for the forecasted capital structure adjustments?

A. The assumptions and support are provided in Exhibit MJM Support – 3, Schedules 1 – 4. The assumptions and support included in these schedules were also compared to historical information for reasonableness. The historical comparisons are also included in the above mentioned schedules. The forecasted adjustments were considered reasonable if they were comparable or less favorable than the historical data Additionally, most historical comparisons were based on the sum of the amounts forecasted for the three quarters

Q. What do you mean by "less favorable" than the historical data?

A. By less favorable, I mean the forecasted adjustments had the effect of either decreasing cash flow, thus increasing AGLR's debt position, or decreasing AGLR's common equity. As an example, forecasted capital expenditures for the three quarter period were $44.6 million higher than actual capital expenditures for the same period prior year amounts. This would cause a higher use of cash, resulting in a larger short-term debt balance than if the comparable prior period amounts were used. In summary, the Company used a conservative approach to the capital structure projections.

Q. Have you compared the actual results to the forecasted results for the quarter ended December 31, 2004?

A. Yes. The actual capital structure resulted in a common equity ratio of 42.37% compared to the forecasted capital structure of 44.49% as of December 31, 2004. However, the impact on the average capital structure for the five quarters presented in Exhibit Recon-2 was minor, reducing the common equity ratio from 46.22% to 45.79% Exhibit MJM Support – 4 provides the average capital structure for the five quarters with December 31, 2004 actual results.

Section III

Explanations for the Change in Debt and Equity Ratios from December 31, 2003 to the Subsequent Reporting Periods

Q. What caused the increase in the common equity ratio from December 31, 2003 to the subsequent periods included in the average capital structure?

A. The increase in the common equity ratio from December 31, 2003 to the subsequent periods was driven by two factors. First, December is historically AGLR's peak short-term debt month. This is the result of the seasonality of AGLR's business whereby working capital use is increased during the colder months of the year due to a substantial increase in natural gas volume purchases coupled with increases in the price of natural gas. The sources of working capital, which result from payments from customers, is not realized until the following one to two months Basically, AGLR experiences a substantial increase in working capital uses during December while the corresponding sources of working capital do not occur until subsequent months. This trend can be seen in the historical capital structure of AGLR.

Q. What is the second factor driving the increase in AGLR's common equity ratio?

A. The second and equally important factor driving the increase in AGLR's common equity ratio is consistent growth in AGLR's earnings. AGLR has consistently achieved quarterly earnings growth for the past three years. This consistent earnings growth provides for corresponding increases in AGLR's common equity, resulting in continual improvement in its common equity ratios. Exhibit MJM Support – 5 provides a historical view of AGLR's quarterly capital structures for 2002 – 2004. All amounts were taken form AGLR' publicly filed Form 10-Q's and Form 10-K's.

Q. Did you include pro-forma adjustments in Exhibit MJM Support – 5?

A. Yes. The same pro-forma adjustments discussed previously – OCI and financial instruments on debt – were excluded from the capital structures. Additionally, for the 2002 capital structures, short-term debt and common equity were adjusted for the equity offering done by AGLR in February 2003. This adjustment was done to normalize the capital structures and provide better and more accurate comparisons over the three year period. The adjustment is further detailed in Exhibit MJM Support – 5.

Q. Have there been any material changes to the operations of the Company since the calculation of the forecasted capital structures that could cause them to change substantially?

A. No. While the Company acquired NUI on December 1, 2004, the impacts of this acquisition are not expected to materially change AGLR's capital structure. The December actual results provided in Exhibit MJM Support – 4 include AGLR's financing of the acquisition through long-term debt and equity. Therefore, the capital structure components that could be impacted in the future are short-term debt and common equity. AGLR expects that any impacts would offset each other, resulting in a capital structure similar those included in Exhibit No. Recon-2.

Q. Does this conclude your testimony?

A. Yes.

Chattanooga Gas Company
Docket No. 04-00034
Reconciliation of June 30, 2004 AGL Resources Inc. Capital Structure
Per Form 10-Q to Exhibit No. Recon-2
Exhibit MJM Support - 1

June 30, 2004

	(E) Balance Per Form 10-Q	Pro-Forma Adjustments		Balance Per Exhibit No. Recon-2
Short-Term Debt	195	(34)	**(A)**	161
Long-Term Debt	728	39	**(B)**	767
Preferred Stock	234	(12)	**(C)**	222
Common Equity	1,011	40	**(D)**	1,051

(A)	Adjustment for current portion of LT debt (also included as adjustment to LT debt)	**(34)**	See (A) on attached Exhibit MJM Support-1, page 4
(B)	- Adjustment to include current portion of LT Debt	34	See (A) on attached Exhibit MJM Support-1, page 4
	- Adjustment to exclude impact of financial instruments hedged against LT debt	5	See (B) on attached Exhibit MJM Support-1, page 8
	Total Adjustment to Long-Tem Debt	**39**	
(C)	- Adjustment to exclude impact of FIN 46R (see attached excerpt from the Company's 10-Q for a detailed explanation	(10)	See (C) on attached Exhibit MJM Support-1, page 7
	- Adjustment to exclude impact of financial instruments hedged against LT debt	(2)	See (C) on attached Exhibit MJM Support-1, page 8
	Total Adjustment to Preferred Stock	(12)	
(D)	Adjustment to exclude Other Comprehensive Income (OCI)	40	See (D) on attached Exhibit MJM Support-1, page 5 See Reconsideration Support Testimony of Michael Morley, pages 5 and 6

(E) Refer to attached excerpts from AGL Resources Inc 's June 30, 2004 10-Q (Exhibit MJM Support-1, page 4 for debt and page 5 for common equity) page 2 of 8

Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJM Support - 1
Supporting Workpapers
June 30, 2004 Capital Structure

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2004

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
(State or other jurisdiction of incorporation or organization)

58-2210952
(I R.S. Employer Identification No.)

Ten Peachtree Place NE, Atlanta, Georgia 30309
(Address and zip code of principal executive offices)
(Zip Code)

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 X No __

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No __

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

\. · ", UNITED STATES

SFAS 133	SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"
SFAS 149	SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities"

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Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJM Support-1
Supporting Workpapers
June 30, 2004 Capital Structure

Item 1. Financial Statements

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

In millions	June 30, 2004	December 31, 2003	June 30, 2003
Current assets			
Cash and cash equivalents	$54	$17	$3
Receivables (less allowance for uncollectible accounts of $17 million at June 30, 2004, $2 million at December 31, 2003 and $3 million at June 30, 2003)	414	394	276
Unbilled revenues	42	40	5
Inventories	259	210	168
Unrecovered environmental response costs – current	26	24	24
Unrecovered pipeline replacement program costs – current	24	22	18
Energy marketing and risk management assets	21	13	12
Other	10	22	6
Total current assets	850	742	512
Property, plant and equipment			
Property, plant and equipment	3,476	3,402	3,390
Less accumulated depreciation	1,067	1,050	1,165
Property, plant and equipment-net	2,409	2,352	2,225
Deferred debits and other assets			
Unrecovered pipeline replacement program costs	381	410	437
Goodwill	177	177	176
Unrecovered environmental response costs	141	155	155
Investments in Trusts	10	-	-
Unrecovered postretirement benefit costs	9	9	11
Investments in equity interests	-	101	112
Other	33	26	25
Total deferred debits and other assets	751	878	916
Total assets	$4,010	$3,972	$3,653

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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UNITED STATES

Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJM support-1
Supporting Workpapers
June 30, 2004 Capital Structure

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

In millions	June 30, 2004	December 31, 2003	June 30, 2003
Current liabilities			
Payables {(1) - 195 (E)	$535	$403	$387
Short-term debt	(1) 161	306	147
Accrued pipeline replacement program costs – current	90	82	67
Accrued expenses	53	54	60
Accrued environmental response costs – current	37	40	48
Current portion of long-term debt	(1) 34 (A)	77	95
Energy marketing and risk management liabilities	11	17	11
Other	95	69	71
Total current liabilities	1,016	1,048	886
Accumulated deferred income taxes	413	376	344
Long-term liabilities			
Accrued pipeline replacement program costs	285	323	365
Accumulated removal costs	104	102	-
Accrued postretirement benefit costs	51	51	51
Accrued pension obligations	27	39	67
Accrued environmental response costs	25	43	38
Other	13	11	9
Total long-term liabilities	505	569	530
Deferred credits	74	77	71
Commitments and contingencies (Note 7)			
Minority interest	29	-	-
Capitalization			
Senior and Medium-Term notes	728 (E)	731	697
Notes payable to Trusts	234 (E)	-	-
Subsidiaries' obligated mandatorily redeemable preferred securities	-	225	228
Total long-term debt	962	956	925
Common shareholders' equity, $5 par value; 750,000,000 shares authorized	1,011	946	897
Total capitalization	1,973	1,902	1,822
Total liabilities and capitalization	$4,010	$3,972	$3,653

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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· UNITED STATES

Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJM Support-1
Supporting Workpapers
June 30, 2004 Capital Structure

AGL RESOURCES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(UNAUDITED)

In millions, except per share amounts	Common Stock Shares	Common Stock Amount	Premium on common shares	Earnings reinvested	Other Comprehensive income	Treasury stock	Total
Balance as of Dec. 31, 2003	64.5	$322	$326	$338	($40)	-	$946
Comprehensive income:							
Net income	-	-	-	87	-	-	87
Total comprehensive income							87
Dividends on common shares ($0.57 per share)	-	-	-	(37)	-		(37)
Benefit, stock compensation, dividend reinvestment and share purchase plans ($28.86 weighted average price per share)	0.4	3	12	-	-	-	15
Balance as of June 30, 2004	64.9	$325	$338	$388	($40) D	$-	$1,011 E

Notes to Condensed Consolidated Financial Statements (Unaudited)

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AGL RESOURCES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)

UNITED STATES

Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJMSupport-1
Supporting Workpapers
June 30, 2004 Capital Structure

June 30, 2003 our comprehensive income was equal to net income.

Earnings per Common Share

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

We derive our potential dilutive common shares by calculating the number of shares issuable under performance units and stock options. The future issuance of shares underlying the performance 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. There were no anti-dilutive items. The following table shows the calculation of our diluted shares for the three and six months ended June 30, 2004 and 2003, assuming performance units currently earned under the plan ultimately vest, and stock options currently exercisable at prices below the average market prices are exercised.

	Three months		Six months	
In millions	2004	2003	2004	2003
Denominator for basic earnings per share (daily weighted-average shares outstanding)	64.8	63.5	64.7	61.9
Assumed exercise of performance units and stock options	0.8	0.7	0.8	0.5
Denominator for diluted earnings per share	65.6	64.2	65 5	62.4

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Note 2
Recent Accounting Pronouncements

FIN 46

FIN 46 requires the primary beneficiary of a variable interest entity's activities to consolidate the variable interest entity. The primary beneficiary is the party that absorbs a majority of the expected losses and/or receives a majority of the expected residual returns of the variable interest entity's activities.

In December 2003, the FASB revised FIN 46, delaying the effective dates for certain entities created before February 1, 2003, and making other amendments to clarify application of the guidance. For potential variable interest entities other than any special purpose entities, FIN 46R was required to be applied no later than the end of the first fiscal year or interim reporting period ending after March 15, 2004.

FIN 46R may be applied prospectively with a cumulative-effect adjustment as of the date it is first applied, or by restating previously issued financial statements with a cumulative-effect adjustment as of the beginning of the first year restated. FIN 46R also requires certain disclosures of an entity's relationship with variable interest entities. We adopted FIN 46R as of March 31, 2004.

Notes payable to Trusts and Trust Preferred Securities In June 1997 and March 2001, we established AGL Capital Trust I and AGL Capital Trust II (Trusts) to issue our Trust Preferred Securities. The Trusts are considered to be special purpose entities under FIN 46 and FIN 46R since our equity in the Trusts is not considered to be sufficient to allow the Trusts to finance their own activities and our equity investment is not considered to be at risk since the equity amounts were financed by the Trusts.

Under FIN 46 (prior to the revision in FIN 46R), we concluded that we were the primary beneficiary of the Trusts because the Trust Preferred Securities are publicly traded, widely held, and no one party would absorb a majority of any expected losses of the Trusts In addition, our loan agreements with the Trusts include call options allowing us to capture the benefits of declining interest rates since the options enable us to call the preferred securities at par, giving us the ability to capture the majority of the residual returns in the Trusts. Accordingly, at December 31, 2003, the accounts of the Trusts were included in our consolidated financial statements.

The revisions in FIN 46R included specific guidance that instruments such as the call options included in our loan agreements with the Trusts do not constitute variable interests, and should not be considered in the determination of the primary beneficiary. As a result, as of January 1, 2004 we were required to exclude the accounts of the Trusts from our consolidated financial statements upon our adoption of FIN 46R and to classify amounts payable to the Trusts as "Notes Payable to Trusts" within capitalization in our condensed consolidated balance sheets as of June 30, 2004.

The impact of deconsolidation of the Trusts is that we have included in our condensed consolidated balance sheets at June 30, 2004, an asset of approximately $10 million representing our investment in the Trusts, and a note payable to the Trusts totaling approximately $232 million, which is net of an interest rate swap of $2 million, and removed $222 million related to the Trust Preferred Securities issued by the Trusts. The notes payable represent the loan payable to fund our investments in the Trusts of $10 million and the amounts due to the Trusts from the proceeds received from their issuances of Trust Preferred Securities of $222 million.

C

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Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJM Support-1
Supporting Workpapers
June 30, 2004 Capital Structure

SouthStar SouthStar is a joint venture formed in 1998 by our subsidiary, Georgia Natural Gas Company, Piedmont Natural Gas Company, Inc. (Piedmont) and Dynegy Inc. (Dynegy) to market natural gas and related services to retail customers, principally in Georgia. On March 11, 2003, we purchased Dynegy's 20% ownership interest in a transaction that for accounting purposes had an effective date of February 18, 2003. We currently own a non-controlling 70% financial interest in SouthStar and Piedmont owns the remaining 30%. Our 70% interest is non-controlling because all significant management decisions require approval by both owners.

On March 29, 2004 we executed an amended and restated partnership agreement with Piedmont. This amended and restated partnership agreement calls for SouthStar's future earnings starting in 2004 to be allocated 75% to our subsidiary and 25% to Piedmont. For all periods prior to February 18, 2003, SouthStar's earnings have been allocated to us based upon our ownership interests in those periods of 50%. SouthStar, which operates under the trade name Georgia Natural Gas, competes with other energy marketers, including Marketers in Georgia, to provide natural gas and related services to customers in Georgia and the Southeast.

As of December 31, 2003, we did not consolidate SouthStar in our financial statements because it did not meet the definition of a variable interest entity under FIN 46. FIN 46R added the following conditions for determining whether an entity was a variable interest entity:

- the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both, and page 8 of 8

UNITED STATES

Recognized actuarial loss	2	1	1	-
Net annual cost	$2	$1	$4	$4

Employer Contributions

In April of 2004, we made a $13 million contribution to our pension plan We do not anticipate making any additional contributions in 2004.

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Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJMSupport-1
Supporting Workpapers
June 30, 2004 Capital Structure

Note 6
Financing

			Outstanding as of:		
Dollars in millions	Year(s) Due	Int. rate (4)	June 30, 2004	Dec. 31, 2003	June 30, 2003
Short-term debt					
Commercial paper (1)	2004	1.4%	$161	$303	$140
Current portion of long-term debt	2004	7.6 – 7.75	34	77	95
Sequent line of credit (2)	2004	-	-	3	7
Total short-term debt (3)		2.4%	**$195**	**$383**	**$242**
Long-term debt - net of current portion					
Medium-Term notes					
Series A	2021	9.10%	$30	$30	$30
Series B	2012-2022	8.3 – 8.7	61	61	95
Series C	2015-2027	6.55 – 7.3	117	122	270
Senior Notes	2011-2013	4.45 - 7.125	525	525	300
AGL Capital interest rate swaps	2011-2013	4.57	(5) B	(7)	2
Total Medium-Term and Senior notes			$728	$731	$697
Notes payable to Trusts	2037-2041	8.0 – 8.17%	$232	-	-
Trust Preferred Securities					
AGL Capital Trust I	2037	-		$74	$74
AGL Capital Trust II	2041	-		148	147
AGL Capital interest rate swaps	2041	2.58	2 C	3	7
Total Notes payable to Trusts			234	-	-
Total Trust Preferred Securities				225	228
Total long-term					$925

Chattanooga Gas Company
Docket No. 04-00034
Reconciliation of September 30, 2004 AGL Resources Inc. Capital Structure
Per Form 10-Q to Exhibit No. Recon-2
Exhibit MJM Support - 2

September 30, 2004

	(E) Balance Per Form 10-Q	Pro-Forma Adjustments		Balance Per Exhibit No. Recon-2
Short-Term Debt	85	(34)	(A)	51
Long-Term Debt	981	36	(B)	1,017
Preferred Stock	235	(13)	(C)	222
Common Equity	1,023	38	(D)	1,061

(A)	Adjustment for current portion of LT debt (also included as adjustment to LT debt)	**(34)**	See (A) on attached Exhibit MJM Support-2, page 4
(B)	- Adjustment to include current portion of LT Debt	34	See (A) on attached Exhibit MJM Support-2, page 4
	- Adjustment to exclude impact of financial instruments hedged against LT debt	2	See (B) on attached Exhibit MJM Support-2, page 7
	Total Adjustment to Long-Tem Debt	36	
(C)	- Adjustment to exclude impact of FIN 46R (see attached excerpt from the Company's 10-Q for a detailed explanation	(10)	See (C) on attached Exhibit MJM Support-2, page 6
	- Adjustment to exclude impact of financial instruments hedged against LT debt	(3)	See (C) on attached Exhibit MJM Support-2, page 7
	Total Adjustment to Preferred Stock	(13)	
(D)	Adjustment to exclude Other Comprehensive Income (OCI)	38	See (D) on attached Exhibit MJM Support-2, page 5 See Reconsideration Support Testimony of Michael Morley, pages 5 and 6

(E) Refer to attached excerpts from AGL Resources Inc 's September 30, 2004 10-Q (Exhibit MJM Support-2, page 4 for debt and page 5 for common equity)

Chattanooga Gas Company
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Supporting Workpapers
Sept 30, 2004 Capital Structure

10-Q 1 form10q.htm SEPTEMBER 30, 2004 FORM 10-Q
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2004

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 X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes X No __

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

Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJM Support-2
Supporting Workpapers
Sept 30, 2004 Capital Structure

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Item 1. Financial Statements

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

In millions	September 30, 2004	December 31, 2003	September 30, 2003
Current assets			
Cash and cash equivalents	$ 44	$ 17	$ 1
Receivables (less allowance for uncollectible accounts of $12 million at September 30, 2004, $2 million at December 31, 2003 and $2 million at September 30, 2003)	328	394	210
Unbilled revenues	34	40	6
Inventories	340	210	254
Unrecovered environmental response costs - current	26	24	24
Unrecovered pipeline replacement program costs - current	24	22	19
Energy marketing and risk management assets	33	13	10
Other	19	22	19
Total current assets	848	742	543
Property, plant and equipment			
Property, plant and equipment	3,509	3,402	3,400
Less accumulated depreciation	1,072	1,050	1,166
Property, plant and equipment-net	2,437	2,352	2,234
Deferred debits and other assets			
Unrecovered pipeline replacement program costs	358	410	426
Goodwill	177	177	177
Unrecovered environmental response costs	147	155	163
Investments in Trusts	10	-	-
Unrecovered postretirement benefit costs	9	9	11
Investments in equity interests	-	101	115
Other	48	26	19
Total deferred debits and other assets	749	878	911
Total assets	$ 4,034	$ 3,972	$ 3,688

See Notes to Condensed Consolidated Financial Statements (Unaudited)

Chattanooga Gas Company
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Supporting Workpapers
Sept 30, 2004 Capital Structure

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

In million, except per share amounts	September 30, 2004	December 31, 2003	September 30, 2003
Current liabilities			
Payables	$ 423	$ 403	$ 299
Short-term debt	4 (i) - 85 (E) (i) 51	306	127
Accrued pipeline replacement program costs - current	88	82	74
Accrued expenses	38	54	55
Accrued environmental response costs - current	25	40	54
Current portion of long-term debt	(i) 34 (A)	77	42
Energy marketing and risk management liabilities	26	17	8
Other	98	69	48
Total current liabilities	783	1,048	707
Accumulated deferred income taxes	433	376	360
Long-term liabilities			
Accrued pipeline replacement program costs	264	323	345
Accumulated removal costs	93	102	-
Accrued postretirement benefit costs	48	51	52
Accrued pension obligations	28	39	62
Accrued environmental response costs	36	43	40
Other	10	11	10
Total long-term liabilities	479	569	509
Deferred credits	70	77	73
Commitments and contingencies (Note 8)			
Minority interest	30	-	-
Capitalization			
Senior and Medium-Term notes	981 (E)	731	904
Notes payable to Trusts	235 (E)	-	-
Subsidiaries' obligated mandatorily redeemable preferred securities	-	225	227
Total long-term debt	1,216	956	1,131
Common shareholders' equity, $5 par value; 750,000,000 shares authorized	1,023	946	908
Total capitalization	2,239	1,902	2,039
Total liabilities and capitalization	$ 4,034	$ 3,972	$ 3,688

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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

In millions, except per share amounts	Common Stock Shares	Common Stock Amount	Premium on common shares	Earnings reinvested	Other comprehensive income	Total
Balance as of December 31, 2003	64.5	$ 322	$ 326	$ 338	($40)	$ 946
Comprehensive income:						
Net income	-	-	-	107	-	107
Unrealized gain from hedging activities (net of taxes)	-	-	-	-	1	1
2003 tax adjustment in 2004 (1)	-	-	-	-	1	1
Total comprehensive income						109
Dividends on common shares ($0.86 per share)	-	-	-	(56)	-	(56)
Benefit, stock compensation, dividend reinvestment and share purchase plans ($29.55) weighted average price per share	0.8	5	19	-	-	24
Balance as of September 30, 2004	65.3	$ 327	$ 345	$ 389	(D) ($38)	$ 1,023 (E)

(1) See Note 9, Income Taxes

See Notes to Condensed Consolidated Financial Statements (Unaudited)

Chattanooga Gas Company
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Sept 30, 2004 Capital Structure

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Chattanooga Gas Company
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Sept 30, 2004 Capital Structure

Note 3
Recent Accounting Pronouncements

FIN 46

FIN 46 requires the primary beneficiary of a variable interest entity's activities to consolidate the variable interest entity The primary beneficiary is the party that absorbs a majority of the expected losses and/or receives a majority of the expected residual returns of the variable interest entity's activities.

In December 2003, the FASB revised FIN 46, delaying the effective dates for certain entities created before February 1, 2003, and making other amendments to clarify application of the guidance. For potential variable interest entities other than any special purpose entities, FIN 46R was required to be applied no later than the end of the first fiscal year or interim reporting period ending after March 15, 2004.

FIN 46R may be applied prospectively with a cumulative-effect adjustment as of the date it is first applied, or by restating previously issued financial statements with a cumulative-effect adjustment as of the beginning of the first year restated. FIN 46R also requires certain disclosures of an entity's relationship with variable interest entities Effective January 1, 2004 we adopted FIN 46R resulting in the consolidation of SouthStar's accounts in our condensed consolidated financial statements and the deconsolidation of the accounts related to our trust preferred securities.

Notes Payable to Trusts and Trust Preferred Securities In June 1997 and March 2001, we established AGL Capital Trust I and AGL Capital Trust II (Trusts) to issue our Trust Preferred Securities. The Trusts are considered to be special purpose entities under FIN 46 and FIN 46R since our equity in the Trusts is not considered to be sufficient to allow the Trusts to finance their own activities and our equity investment is not considered to be at risk since the equity amounts were financed by the Trusts.

Under FIN 46 (prior to the revision in FIN 46R), we concluded that we were the primary beneficiary of the Trusts because the Trust Preferred Securities are publicly traded, widely held, and no one party would absorb a majority of any expected losses of the Trusts. In addition, our loan agreements with the Trusts include call options allowing us to capture the benefits of declining interest rates since the options enable us to call the preferred securities at par, giving us the ability to capture the majority of the residual returns in the Trusts. Accordingly, at December 31, 2003, the accounts of the Trusts were included in our consolidated financial statements.

The revisions in FIN 46R included specific guidance that instruments such as the call options included in our loan agreements with the Trusts do not constitute variable interests and should not be considered in the determination of the primary beneficiary. As a result, as of January 1, 2004 we were required to exclude the accounts of the Trusts from our consolidated financial statements upon our adoption of FIN 46R and to classify amounts payable to the Trusts as "Notes payable to Trusts" within Capitalization in our condensed consolidated balance sheets as of September 30, 2004.

The impact of deconsolidation of the Trusts is that we have included in our condensed consolidated balance sheets at September 30, 2004, an asset of approximately $10 million representing our investment in the Trusts and a note payable to the Trusts totaling approximately $235 million, which is net of an interest rate swap of $3 million, and removed $222 million related to the Trust Preferred Securities issued by the Trusts. The notes payable represent the loan payable to fund our investments in the Trusts of $10 million and the amounts due to the Trusts from the proceeds received from their issuances of Trust Preferred Securities of $222 million.

C

September 30, 2004 Form 10-Q

Chattanooga Gas Company
Docket No. 04-00034
Exhibit MJM Support-2
Supporting Workpapers
Sept 30, 2004 Capital Structure

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Note 7
Financing

Dollars in millions	Year Due	Int. rate (3)	Outstanding as of: Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2003
Short-term debt					
Commercial paper (1)	2004	1.9%	$ 51	$ 303	$ 121
Current portion of long-term debt	2004	7.6 - 7.8	34	77	42
Sequent line of credit (2)	-	-	-	3	6
Total short-term debt (3)		4.2%	$ 85	$ 383	$ 169
Long-term debt - net of current portion					
Medium-Term notes					
Series A	2021	9.1%	$ 30	$ 30	$ 30
Series B	2012-2022	8 3 - 8 7	61	61	95
Series C	2015-2027	6 6 - 7.3	117	122	258
Senior notes	2011-2034	4 5 - 7.1	775 B	525	525
AGL Capital interest rate swaps	2011	5.2	(2)	(7)	(4)
Total Medium-Term and Senior notes			$ 981	$ 731	$ 904
Notes payable to Trusts	2037-2041	8.0 - 8.2%	$ 232	$ -	$ -
Trust Preferred Securities					
AGL Capital Trust I	2037	-	-	74	74
AGL Capital Trust II	2041	-	-	148	148
AGL Capital interest rate swaps	2041	3.0	3 C	3	5
Total notes payable to Trusts			235	-	-
Total Trust Preferred Securities			-	225	227
Total long-term debt (3)		6.2%	$ 1,216	$ 956	$ 1,131
Total short-term and long-term debt (3)		6.1%	$ 1,301	$ 1,339	$ 1,300

(1) The daily weighted average rate was 1 3% for the nine months ended September 30, 2004.
(2) The daily weighted average rate was 1 7% for the nine months ended September 30, 2004.
(3) Weighted average interest rate, including interest rate swaps if applicable and excluding debt issuance and other financing related costs

Short-term Debt

Our short-term debt is composed of borrowings under our commercial paper program which consists of short-term unsecured promissory notes with maturities ranging from 4 to 12 days, maturities within one year of AGLC's Medium-Term notes, Sequent's line of credit and SouthStar's line of credit. The commercial paper program is supported by our Credit Facility.

On April 19, 2004, SouthStar amended its $75 million revolving line of credit, which is used to meet seasonal working capital needs. SouthStar's line of credit is scheduled to expire on April 19, 2007 and is not guaranteed by us. Any amounts outstanding under SouthStar's line of credit would be included on our balance sheet. At September 30, 2004 there were no outstanding borrowings Sequent also has a $25 million line of credit, which is used solely for the posting of exchange deposits and is unconditionally guaranteed by us. On June 14, 2004,

CHATTANOOGA GAS COMPANY 04-00034

MJM Support – 3 Schedules 1-4

Confidential Filed Under Seal

Chattanooga Gas Company
Docket No. 04-00034
AGL Resources Inc. Forecasted Capital Structure - Updated for December 2004 Actuals
June 30, 2005
MJM Support - 4

Class of Capital	**6/30/2004**	**9/30/2004**	**12/31/2004 ***	**3/31/2005**	**6/30/2005**	**Twelve Months Ended June 30, 2005**
						Average
Short Term Debt	7 31%	2 17%	9 89%	1 21%	3 72%	4 86%
Total Long Term Debt	34 85%	43 26%	41.16%	41 91%	40 78%	40 24%
Preferred Stock	10 09%	9 44%	6 57%	9 46%	9 21%	8 96%
Common Equity	47 75%	45 13%	42 37%	47 42%	46 29%	45 79%
	100 0%	100.0%	100 0%	100 0%	100 0%	100 0%

	Qtr Ended 6/30/2004		**Qtr Ended 9/30/2004**		**Qtr Ended 12/31/2004**	**Qtr Ended 3/30/2005**	**Qtr Ended 6/30/2005**
Short Term Debt	$ 161 0		$ 51 0		$ 334	$ 28 3	$ 89 6
Total Long Term Debt	767		1,017		1,390	983	983
Preferred Stock	222	**(B)**	222	**(B)**	222	222	222
Common Equity - **(A)**	1,051		1,061		1,431	1,112	1,116
Total	$ 2,201 0		$ 2,351 0		$ 3,377 0	$ 2,345 5	$ 2,410 3

* - Updated to reflect actual results

(A) - Amounts have been adjusted to exclude "other comprehensive income" related to AGLR's consolidated accrued pension liability and other items not yet recognized as expense

(B) - In the first quarter 2004 AGLR adopted FIN 46R (See Note 2 to the 10Q)

Chattanooga Gas Company
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AGL Resources Inc. Historical Capital Structures
MJM Support - 5

	Qtr Ended 3/31/2002	Qtr Ended 6/30/2002	Qtr Ended 9/30/2002	Qtr Ended 12/31/2002	Qtr Ended 3/31/2003	Qtr Ended 6/30/2003	Qtr Ended 9/30/2003	Qtr Ended 12/31/2003	Qtr Ended 3/31/2004	Qtr Ended 6/30/2004	Qtr Ended 9/30/2004	Qtr Ended 12/31/2004
Short Term Debt	$ 130 **(A)**	$ 188 **(A)**	$ 184 **(A)**	$ 252 **(A)**	$ 137	$ 148	$ 127	$ 306	$ 100	$ 161	$ 51	$ 334
Current Portion of Long Term Debt	93	48	48	30	30	95	42	77	34	34	34	-
Long Term Debt	797	797	797	767	767	697	908	738	733	733	983	1,390
Total Long Term Debt	890	845	845	797	797	792	950	815	766	767	1,017	1,390
Preferred Stock **(C)**	218	221	221	221	221	222	222	222	222	222	222	222
Common Equity **(B)**	871 **(A)**	873 **(A)**	896 **(A)**	896 **(A)**	935	945	959	986	1,042	1,051	1,061	1,431
Total	$ 2,108 6	$ 2,126	$ 2,145	$ 2,166	$ 2,090	$ 2,106	$ 2,258	$ 2,329	$ 2,130	$ 2,201	$ 2,351	$ 3,377

	Qtr Ended 3/31/2002	Qtr Ended 6/30/2002	Qtr Ended 9/31/2002	Qtr Ended 12/31/2002	Qtr Ended 3/31/2003	Qtr Ended 6/30/2003	Qtr Ended 9/30/2003	Qtr Ended 12/31/2003	Qtr Ended 3/31/2004	Qtr Ended 6/30/2004	Qtr Ended 9/30/2004	Qtr Ended 12/31/2004
Short Term Debt	6 2%	8 8%	8 6%	11 6%	6 5%	7 0%	5 6%	13 1%	4 7%	7 3%	2 2%	9 9%
Long Term Debt	42 2%	39 7%	39 4%	36 8%	38 1%	37 6%	42 1%	35 0%	36 0%	34 8%	43 3%	41 2%
Preferred Stock	10 3%	10 4%	10 3%	10 2%	10 6%	10 5%	9 8%	9 5%	10 4%	10 1%	9 4%	6 6%
Common Equity	41 3%	41 0%	41 8%	41 4%	44 7%	44 9%	42 5%	42 3%	48 9%	47 8%	45 1%	42 4%
	100 0%	100 0%	100 0%	100 0%	100 0%	100 0%	100 0%	100 0%	100 0%	100 0%	100 0%	100 0%

Sauce Capital structure component as reported in the 10-Q and 10-K Reports filed with the Securities and Exchange Commission 10-Q and 10-K through calendar year 2003 were also filed with the TRA in response to Minimum Filing Guideline Item 17 Projected capital structure provided by Finance group

(A) - Quarters ended March 31, June 30, September 30 and December 31, 2002- Equity increased $136 7 million and short term debt reduced $136 7 million to reflect the issuance of 6 4 million shares of common stock in February 2003

(B) - Amounts have been adjusted to exclude "other comprehensive income" related to AGLR's consolidated accrued pension liability and other items not yet recognized as expense

(C) - Preferred stock is adjusted to exclude the impact of FIN 46R, which was adopted by AGLR January 1, 2004 and required the deconsolidation of AGL Capital Trust I and AGL Capital Trust II ("Trusts") from the consolidated financial statements of AGLR The impact of the deconsolidation of the Trusts is that AGLR currently includes a note payable to the Trusts of approximately $232 million in its consolidated balance sheets The notes payable to the Trusts represent the loan payable to fund AGLR's investments in the Trusts of $10 million and the amounts due to the Trusts from the proceeds received from their issuances of Trust Preferred Securities of $222 million, which represents the amounts due by the Trusts to parties unaffiliated with AGLR Please Please refer to pages 13 and 20 of the Forms10-Q's for June 30, 2004 and September 30, 2004, respectively, included in this exhibit for the full disclosure of this accounting treatment