Northern Illinois Gas Company
(doing business as Nicor Gas Company)

Consolidated Financial Statements as of December 31, 2014 and 2013
and for the Years Then Ended, and
Independent Auditor's Report

NICOR GAS COMPANY

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Independent Auditor's Report

To the Board of Directors and Stockholder of Northern Illinois Gas Company:

We have audited the accompanying consolidated financial statements of Northern Illinois Gas Company and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2014 and December 31, 2013, and the related consolidated statements of income, comprehensive income, equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern Illinois Gas Company and its subsidiary at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

February 11, 2015, except as to Note 12 which is as of March 20, 2015

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Nicor Gas Company
Consolidated Statements of Financial Position - Assets

In millions	As of December 31, 2014	2013
Current assets		
Receivables		
Natural gas	$247	$232
Unbilled revenues	134	139
Other	52	32
Less allowance for uncollectible accounts	23	17
Total receivables, net	410	386
Inventories		
Natural gas	141	168
Other	9	6
Total inventories	150	174
Regulatory assets	64	54
Prepaid taxes	26	1
Other	4	7
Total current assets	654	622
Long-term assets and other deferred debits		
Property, plant and equipment	5,320	5,126
Less accumulated depreciation	2,128	2,069
Property, plant and equipment, net	3,192	3,057
Regulatory assets	305	317
Pension assets	85	102
Other	10	11
Total long-term assets and other deferred debits	3,592	3,487
Total assets	$4,246	$4,109

See Notes to Consolidated Financial Statements.

Nicor Gas Company
Consolidated Statements of Financial Position - Liabilities and Equity

In millions, except share amounts	As of December 31, 2014	2013
Current liabilities		
Short-term debt	$585	$314
Accounts payable	126	216
Customer credit balances and deposits	79	89
Regulatory liabilities	72	150
Accrued expenses	42	63
Accrued environmental remediation liabilities	41	38
Accumulated deferred income taxes	16	10
Other	47	39
Total current liabilities	1,008	919
Long-term liabilities and other deferred credits		
Regulatory liabilities	1,238	1,203
Long-term debt	498	498
Accumulated deferred income taxes	419	377
Accrued pension and retiree welfare benefits	210	208
Accrued environmental remediation liabilities	189	213
Other	8	7
Total long-term liabilities and other deferred credits	2,562	2,506
Total liabilities and other deferred credits	3,570	3,425
Commitments, guarantees and contingencies (see Note 9)		
Equity		
Preferred stock, cumulative (see Note 8)	1	1
Common stock, $5 par value; 25,000,000 shares authorized, 15,232,414 shares outstanding	76	76
Additional paid-in capital	108	108
Retained earnings	492	499
Accumulated other comprehensive loss	(1)	-
Total equity	676	684
Total liabilities and equity	$4,246	$4,109

See Notes to Consolidated Financial Statements.

Nicor Gas Company
Consolidated Statements of Income

In millions	Years ended December 31, 2014	2013
Operating revenues (includes revenue taxes of $133 in 2014 and $112 in 2013)	$2,480	$1,976
Operating expenses		
Cost of goods sold	1,645	1,171
Operation and maintenance	333	328
Depreciation and amortization	152	182
Taxes other than income taxes	149	128
Total operating expenses	2,279	1,809
Operating income	201	167
Interest expense, net	31	30
Income before income taxes	170	137
Income tax expense	70	55
Net income	$100	$82

See Notes to Consolidated Financial Statements.

Nicor Gas Company
Consolidated Statements of Comprehensive Income

In millions	Years ended December 31, 2014	2013
Net income	$100	$82
Other comprehensive loss, net of income tax		
Reclassification of realized derivative gains to net income (net of income tax of $0 in 2014 and 2013)	(1)	-
Comprehensive income	$99	$82

See Notes to Consolidated Financial Statements.

Nicor Gas Company
Consolidated Statements of Equity

In millions	Preferred stock Shares	Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance as of December 31, 2012	0.014	$1	15.2	$76	$108	$500	$(6)	$679
Net income	-	-	-	-	-	82	-	82
Transfer of actuarial losses to affiliates, net of tax	-	-	-	-	-	-	7	7
Transfer of prior service credits to affiliates, net of tax	-	-	-	-	-	-	(1)	(1)
Dividends on common stock	-	-	-	-	-	(83)	-	(83)
Balance as of December 31, 2013	0.014	$1	15.2	$76	$108	$499	$-	$684
Net income	-	-	-	-	-	100	-	100
Other comprehensive loss	-	-	-	-	-	-	(1)	(1)
Dividends on common stock	-	-	-	-	-	(107)	-	(107)
Balance as of December 31, 2014	0.014	$1	15.2	$76	$108	$492	($1)	$676

See Notes to Consolidated Financial Statements.

Nicor Gas Company
Consolidated Statements of Cash Flows

In millions	Years ended December 31, 2014	2013
Cash flows from operating activities		
Net income	$100	$82
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	152	182
Deferred income taxes	57	(3)
Change in derivative instrument assets and liabilities	7	-
Changes in certain assets and liabilities		
Inventories	24	(48)
Postretirement benefits	4	9
Customer credit balances and deposits	(10)	(4)
Accrued expenses	(21)	33
Receivables	(24)	(56)
Prepaid taxes	(25)	27
Deferred/accrued natural gas costs	(68)	(22)
Accounts payable	(90)	97
Other, net	(9)	12
Net cash flow provided by operating activities	97	309
Cash flows from investing activities		
Expenditures for property, plant and equipment	(275)	(236)
Other, net	14	10
Net cash flow used in investing activities	(261)	(226)
Cash flows from financing activities		
Net borrowings of short-term debt	271	-
Dividends paid	(107)	(83)
Net cash flow provided by (used in) financing activities	164	(83)
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	$ -	$ -
Cash paid during the period for		
Interest	$30	$29
Income taxes (payments made by and on behalf of Nicor Gas)	59	16

See Notes to Consolidated Financial Statements.

Note 1 - Organization and Basis of Presentation

General

Northern Illinois Gas Company (doing business as Nicor Gas Company) is a natural gas distribution company that serves 2.2 million customers in a service territory that encompasses most of the northern third of Illinois, excluding the city of Chicago, and is a wholly owned subsidiary of AGL Resources Inc. ("AGL Resources"). Unless the context requires otherwise, references to "we," "us," "our," the "company," or "Nicor Gas" mean consolidated Nicor Gas Company and its wholly owned subsidiary.

Basis of Presentation

Our consolidated financial statements as of and for the year ended December 31, 2014 are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our consolidated financial statements include our accounts and the accounts of our wholly owned subsidiary. We have eliminated intercompany profits and transactions in consolidation.

Certain amounts from prior periods have been reclassified to conform to the current period presentation. The reclassifications had no material impact on our prior period balances.

Note 2 - Significant Accounting Policies and Methods of Application

Cash and Cash Equivalents

Our cash and cash equivalents primarily consist of highly liquid investments with original maturities of three months or less.

Receivables and Allowance for Uncollectible Accounts

Our receivables consist primarily of natural gas sales and transportation services billed to residential, commercial, industrial and other customers. We bill customers monthly, and our accounts receivable are due within 30 days. For the majority of our receivables, we establish an allowance for doubtful accounts based on our collection experience and other factors. If circumstances change, our estimate of the recoverability of accounts receivable could change as well. Circumstances that could affect our estimates include, but are not limited to, customer credit issues, the level of natural gas prices, customer deposits and general economic conditions. Customers' accounts are written off once we deem them to be uncollectible.

We have a diversified customer base and maintain prudent credit policies, which limits our exposure to concentrations of credit risk in any one industry or income class. Additionally, we offer options to help customers manage their bills, such as energy assistance programs for low-income customers and a budget payment plan that spreads gas bills more evenly throughout the year. Our credit risk exposure is further mitigated by a bad debt rider approved by the Illinois Commerce Commission ("Illinois Commission"). The bad debt rider provides for the recovery from (or refund to) customers of the difference between our actual bad debt experience on an annual basis and the benchmark bad debt expense used to establish our base rates for the respective year. See Note 3 - Regulated Operations for additional information on the bad debt rider.

Inventories

Our natural gas is carried at cost on a last-in, first-out ("LIFO") basis. Inventory decrements occurring during the year that are restored prior to year-end are charged to cost of goods sold at the estimated annual replacement cost. Inventory decrements that are not restored prior to year-end are charged to cost of goods sold at the actual LIFO cost of the layers liquidated. Since the cost of gas, including inventory costs, is charged to customers without markup, subject to Illinois Commission review, LIFO liquidations have no impact on net income. Based on the average cost of gas purchased in December 2014, the estimated replacement cost of inventory at December 31, 2014 was $346 million, which exceeded the LIFO cost by $205 million. During 2014, we liquidated 6.8 billion cubic feet ("Bcf") of our LIFO-based inventory at an average cost per million cubic feet ("Mcf") of $3.98. For gas purchased in 2014, our average cost per Mcf was $1.33 higher than the average LIFO liquidation rate. Applying LIFO cost in valuing the liquidation, as opposed to using the average gas purchase cost, had the effect of decreasing the cost of gas in 2014 by $9 million.

Regulated Operations

We account for the financial effects of regulation in accordance with authoritative guidance related to regulated entities whose rates are designed to recover the costs of providing service. In accordance with this guidance, incurred costs that would otherwise be charged to expense in the current period are capitalized as regulatory assets when it is probable that such costs will be recovered in rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for estimated expenditures that have not yet been incurred. Generally, regulatory assets and regulatory liabilities are amortized into our Consolidated Statements of Income over the period authorized by the Illinois Commission.

Fair Value Measurements

We have financial and nonfinancial assets and liabilities subject to fair value measurement. The financial assets and liabilities measured and carried at fair value include cash and cash equivalents, and derivative assets and liabilities. The carrying values of receivables, accounts payable, short-term debt, other current assets and liabilities, and accrued interest approximate fair value. Our nonfinancial assets and liabilities include pension and other retirement benefits. See Note 4 - Fair Value Measurements for additional fair value disclosures.

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

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

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

Level 3 Pricing inputs include significant unobservable inputs that may be used with internally developed methodologies to determine management's best estimate of fair value from the perspective of market participants. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs. Our Level 3 assets, liabilities and any applicable transfers are primarily related to our pension and welfare benefit plan assets as described in Note 4 - Fair Value Measurements and Note 6 - Employee Benefit Plans. We determine both transfers into and out of Level 3 using values at the end of the interim period in which the transfer occurred.

The authoritative guidance related to fair value measurements and disclosures also includes a two-step process to determine whether the market for a financial asset is inactive or a transaction is distressed. Currently, this authoritative guidance does not affect us, as our derivative instruments are traded in active markets.

Natural Gas Derivative Instruments

Our policy is to classify derivative cash flows and gains and losses within the same financial statement category as the hedged item, rather than by the nature of the instrument.

Fair Value Hierarchy Derivative assets and liabilities are classified in their entirety into the previously described fair value hierarchy levels based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The measurement of fair value incorporates various factors required under the guidance. These factors include not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits, letters of credit and priority interests), but also the impact of our own nonperformance risk on our liabilities. To mitigate the risk that a counterparty to a derivative instrument defaults on settlement or otherwise fails to perform under contractual terms, we have established procedures to monitor the creditworthiness of counterparties, seek guarantees or collateral backup in the form of cash or letters of credit and, in most instances, enter into netting arrangements. See Note 4 - Fair Value Measurements for additional fair value disclosures.

Netting of Cash Collateral and Derivative Assets and Liabilities under Master Netting Arrangements We maintain accounts with brokers to facilitate financial derivative transactions. Based on the value of our positions in these accounts and the associated margin requirements, we may be required to deposit cash into these broker accounts.

We have elected to net derivative assets and liabilities under master netting arrangements on our Consolidated Statements of Financial Position. With that election, we are also required to offset cash collateral held in our broker accounts with the associated net fair value of the instruments in the accounts. See Note 5 - Derivative Instruments for additional derivative disclosures.

Accounting for Derivative Instruments Cash flow hedge accounting may be elected only for highly effective hedges, based upon an assessment, performed at least quarterly, of the historical and probable future correlation of cash flows from the derivative instrument to changes in the expected future cash flows of the hedged item. To the extent cash flow hedge accounting is applied, the effective portion of any changes in the fair value of the derivative instruments is reported as a component of accumulated other comprehensive income (“OCI”). Ineffectiveness, if any, is immediately recognized in operating income. The amount in accumulated OCI is reclassified to earnings when the forecasted transaction is recognized in the Consolidated Statements of Income, even if the derivative instrument is sold, extinguished or terminated prior to the transaction occurring. If the forecasted transaction is no longer expected to occur, the amount in accumulated OCI is immediately reclassified to operating income.

The fair value of the natural gas derivative instruments that we use to manage exposures arising from changing natural gas prices reflects the estimated amounts that we would receive or pay to terminate or close the contracts at the reporting date, taking into account the current unrealized gains or losses on open contracts. We use external market quotes and indices to value substantially all of our derivative instruments.

Our risk management activities are monitored by our Risk Management Committee, which consists of members of senior management and is charged with reviewing our risk management activities and enforcing policies. Subject to review by the Illinois Commission, we enter into derivative instruments, including forward, futures and options contracts to hedge the impact of market fluctuations in natural gas prices. In accordance with regulatory requirements, any realized gains and losses related to these derivatives are reflected in natural gas costs and ultimately included in billings to customers. As previously noted, such derivative instruments are reported at fair value each reporting period in our Consolidated Statements of Financial Position. Hedge accounting is not elected and, in accordance with accounting guidance pertaining to rate-regulated entities, unrealized changes in the fair value of these derivative instruments are deferred or accrued as regulatory assets or liabilities until the related revenue is recognized.

We also enter into derivative instruments to reduce the earnings volatility of certain forecasted operating costs arising from fluctuations in natural gas prices, such as the purchase of natural gas for company use. These derivative instruments are carried at fair value. To the extent hedge accounting is not elected, changes in such fair values are recorded in the current period as operation and maintenance expenses.

Debt

Our long-term debt outstanding is recorded at amortized cost. We estimate the fair value of debt using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration, optionality and risk profile. In determining the market interest yield curve, we consider our currently assigned secured debt rating.

Property, Plant and Equipment ("PP&E")

Our PP&E consists of property and equipment that is in use or currently under construction. We report PP&E at its original cost, which includes:

- material and labor;
- contractor costs;
- construction overhead costs;
- allowance for funds used during construction; and
- pad gas – the portion considered to be non-recoverable is recorded as depreciable PP&E, while the portion considered to be recoverable is recorded as non-depreciable PP&E.

We recognize no gains or losses on depreciable utility property that is retired or otherwise disposed, as required under the composite depreciation method. Such gains and losses are ultimately refunded to, or recovered from, customers through future rate adjustments. We also hold property, primarily land, which is not presently used and useful in our operations and is not included in rate base. Upon sale, any gain or loss is recognized in other income.

Depreciation Expense

We compute depreciation expense by applying a composite, straight-line rate (approved by the Illinois Commission) to the investment in depreciable property. In October 2013, the Illinois Commission approved a composite depreciation rate of 3.07%, a decrease from our prior rate of 4.10%. The depreciation rate was effective as of August 30, 2013, the date the depreciation study was filed, and had the effect of reducing our 2014 and 2013 depreciation expense by $51 million and $19 million, respectively.

Asset Retirement Obligations

We record a liability at fair value for an asset retirement obligation ("ARO") when a legal obligation to retire the asset has been incurred, with an offsetting increase to the carrying value of the related asset. Accretion of the ARO due to the passage of time is recorded as an operating expense. We have recorded an ARO of $1 million at December 31, 2014 and 2013 related to our facilities. For our natural gas distribution system, we cannot reasonably estimate the fair value of this obligation because we have determined that we have insufficient internal or industry information to reasonably estimate the potential settlement dates or costs.

Accounting for Retirement Benefit Plans

We recognize the funded status of our plans as an asset or a liability on our Consolidated Statements of Financial Position, measuring the plans' assets and obligations that determine our funded status as of the end of the fiscal year. Because substantially all of our retirement costs are recoverable through base rates, we defer the change in funded status that would normally be charged or credited to comprehensive income to a regulatory asset or liability until the period in which the costs are included in base rates, in accordance with authoritative guidance for rate-regulated entities. The assets of our retirement plans are measured at fair value and are classified in the fair value hierarchy in their entirety based on the lowest level of input that is significant to the fair value measurement.

In determining net periodic benefit cost, the expected return on plan assets component is determined by applying our expected return on assets to a calculated asset value, rather than to the fair value of the assets as of the end of the previous fiscal year. For more information, see Note 6 - Employee Benefit Plans. In addition, we have elected to amortize gains and losses caused by actual experience that differs from our assumptions into subsequent periods. The amount to be amortized is the amount of the cumulative gain or loss as of the beginning of the year, excluding those gains and losses not yet reflected in the calculated value, that exceeds 10 percent of the greater of the benefit obligation or the calculated asset value; and the amortization period is the average remaining service period of active employees.

Our employees participate in the AGL Resources Inc. Retirement Plan ("AGL Pension Plan") and the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc. ("AGL Welfare Plan"). We account for our participation in AGL Resources' retirement benefit plans under the multiple employer method of accounting. We are responsible for our share of plan costs and obligations and are entitled to our share of plan assets.

Taxes

Income Taxes The reporting of our assets and liabilities for financial accounting purposes differs from the reporting for income tax purposes. The principal difference between net income and taxable income relates to the timing of deductions, primarily due to the benefits of tax depreciation since we generally depreciate assets for tax purposes over a shorter period of time than for book purposes. The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. We report the tax effects of depreciation and other temporary differences as deferred income tax assets or liabilities in our Consolidated Statements of Financial Position.

We have current and deferred income taxes in our Consolidated Statements of Income. Current income tax expense consists of federal and state income tax less applicable tax credits related to the current year. Deferred income tax expense is generally equal to the changes in the deferred income tax liability and regulatory tax liability during the year.

Accumulated Deferred Income Tax Assets and Liabilities As noted above, we report some of our assets and liabilities differently for financial accounting purposes than we do for income tax purposes. We report the tax effects of the differences in those items as deferred income tax assets or liabilities in our Consolidated Statements of Financial Position. We measure these deferred income tax assets and liabilities using enacted income tax rates.

Income Tax Benefits The authoritative guidance related to income taxes requires us to determine whether tax benefits claimed or expected to be claimed on our tax return should be recorded in our consolidated financial statements. Under this guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based upon the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Uncertain Tax Positions We recognize accrued interest related to uncertain tax positions in interest expense and penalties in operating expense in our Consolidated Statements of Income.

Tax Collections We do not collect income taxes from our customers on behalf of governmental authorities. However, we do collect and remit various other taxes on behalf of various governmental authorities. We record these amounts in our Consolidated Statements of Financial Position. In other instances, we are allowed to recover from customers other taxes that are imposed upon us. We record such taxes as operating expenses and record the corresponding customer charges as operating revenues.

Revenues

We record revenues when natural gas is delivered to customers. Those revenues are based on rates approved by the Illinois Commission. We have rate structures that include volumetric rate designs that allow the opportunity to recover certain costs based on gas usage. We accrue revenues for estimated deliveries of gas not yet billed to customers from the date of their last bill to the end of the accounting period and included as unbilled revenue in the Consolidated Statements of Financial Position. Revenues are comprised principally of natural gas sales bundled with delivery, delivery-only (transportation) services and revenue taxes, as follows:

In millions	**2014**	**2013**
Bundled sales	$2,013	$1,570
Transportation	202	188
Revenue taxes	133	112
Other	132	106
Total revenues	$2,480	$1,976

Revenue Taxes

We charge customers for gas revenue and gas use taxes imposed on us and remit amounts owed to various governmental authorities. Our policy for gas revenue taxes is to record the amounts charged by us to customers, which for some taxes includes a small administrative fee, as operating revenues, and to record the related taxes imposed on us as operating expenses in our Consolidated Statements of Income. Our policy for gas use taxes is to exclude these taxes from revenue and expense, aside from a small administrative fee that is included in operating revenues as the tax is imposed on the customer. As a result, the amount recorded in operating revenues will exceed the amount recorded in operating expenses by the amount of administrative fees that are retained by the Company. Revenue taxes included in operating expenses were $130 million in 2014 and $110 million in 2013.

Cost of Goods Sold

We charge our customers for natural gas consumed using a natural gas cost recovery mechanism set by the Illinois Commission. Under this mechanism, all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. In accordance with the authoritative guidance for rate-regulated entities, we defer or accrue (that is, include as an asset or liability in the Consolidated Statements of Financial Position and exclude from, or include in, the Consolidated Statements of Income, respectively) the difference between the actual cost of goods sold and the amount of commodity revenue earned in a given period, such that no operating margin is recognized related to these costs. The deferred or accrued amount is either billed or refunded to our customers prospectively through adjustments to the commodity rate. Deferred natural gas costs are reflected as regulatory assets and accrued natural gas costs are reflected as regulatory liabilities. For more information, see Note 3 - Regulated Operations.

Use of Accounting Estimates

The preparation of our financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our estimates may involve complex situations requiring a high degree of judgment either in the application and interpretation of existing literature or in the development of estimates that impact our financial statements. The most significant estimates relate to our accrued unbilled revenues, regulatory assets and liabilities, retirement plan benefit obligations, environmental liabilities, loss contingencies, derivative and hedging activities and provisions for income taxes. We evaluate our estimates on an ongoing basis and our actual results could differ from our estimates.

Accounting Developments

In April 2014, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance related to reporting discontinued operations. The guidance generally raises the threshold for disposals to qualify as discontinued operations and requires new disclosures of both discontinued operations and certain other material disposals that do not meet the definition of a discontinued operation. The guidance was effective for us prospectively beginning January 1, 2015. This guidance is not expected to have an impact on our consolidated financial statements.

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

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

Note 3 - Regulated Operations

Our regulatory assets and liabilities reflected within our Consolidated Statements of Financial Position as of December 31 are summarized in the following table.

In millions	**2014**	**2013**
Regulatory assets - current		
Recoverable environmental remediation costs	$44	$41
Recoverable pension and retiree welfare benefit costs	12	9
Deferred natural gas costs	2	-
Other	6	4
Total regulatory assets - current	64	54
Regulatory assets - long-term		
Recoverable environmental remediation costs	189	213
Recoverable pension and retiree welfare benefit costs	103	92
Unamortized losses on reacquired debt	9	10
Other	4	2
Total regulatory assets - long-term	305	317
Total regulatory assets	$369	$371
Regulatory liabilities - current		
Bad debt over collection	$33	$41
Accumulated removal costs	25	27
Energy efficiency over collection	14	16
Accrued natural gas costs	-	66
Total regulatory liabilities - current	72	150
Regulatory liabilities - long-term		
Accumulated removal costs	1,185	1,149
Regulatory income tax liability	25	17
Unamortized investment tax credit	16	18
Bad debt over collection	12	17
Other	-	2
Total regulatory liabilities - long-term	1,238	1,203
Total regulatory liabilities	$1,310	$1,353

Base rates are designed to provide the opportunity to recover cost and a return on investment during the period rates are in effect. As such, all of our regulatory assets recoverable through base rates are subject to review by the Illinois Commission during future rate proceedings. We are not aware of evidence that these costs will not be recoverable through either rate riders or base rates, and we believe that we will be able to recover such costs consistent with our historical recoveries.

In the event that the provisions of authoritative guidance related to regulated operations were no longer applicable, we would recognize a write-off of regulatory assets that would result in a charge to net income. Additionally, while some regulatory liabilities would be written-off, others would continue to be recorded as liabilities, but not as regulatory liabilities.

Although our industry is competing with alternative fuels, primarily electricity, we continue to recover our costs through cost-based rates established by the Illinois Commission. As a result, we believe that the accounting prescribed under the guidance remains appropriate. It is also our opinion that all regulatory assets are recoverable in future rate proceedings, and therefore we have not recorded any regulatory assets that are recoverable but are not yet included in base rates or contemplated in a rate rider or proceeding. The regulatory liabilities that do not represent revenue collected from customers for expenditures that have not yet been incurred are refunded to ratepayers through a rate rider or base rates. If the regulatory liability is included in base rates, the amount is reflected as a reduction to the rate base used to periodically set base rates.

The majority of our regulatory assets and liabilities listed in the preceding table are included in base rates except for the recoverable environmental remediation costs (“ERC”), bad debt over collection, natural gas costs and energy efficiency costs, which are recovered through specific rate riders on a dollar-for-dollar basis. The rate riders for environmental costs, natural gas costs and energy efficiency costs provide a return of investment and expense including short-term interest on reconciliation balances. However, there is no interest associated with the under or over collections of bad debt expense.

Our pension and retiree welfare benefit costs have historically been considered in rate proceedings in the same period they are accrued under GAAP. As a regulated utility, we expect to continue rate recovery of the eligible costs of these defined benefit retirement plans and, accordingly, associated changes in the funded status have been deferred as a regulatory asset or liability until recognized in net income, instead of being recognized in OCI. The Illinois Commission presently does not allow us the opportunity to earn a return on our recoverable retirement benefit costs. Such costs are expected to be recovered over a period of approximately 10 years. The regulatory assets related to debt are also not included in rate base, but the costs are recovered over the term of the debt through the authorized rate of return component of base rates.

Natural Gas Costs We charge our customers for natural gas consumed using natural gas cost recovery mechanisms established by the Illinois Commission. Under these mechanisms, all prudently incurred natural gas costs are passed through to customers without markup, subject to regulatory review. We defer or accrue the difference between the actual cost of gas and the amount of commodity revenue earned in a given period, such that no operating margin is recognized related to these costs. The deferred or accrued amount is either billed or refunded to our customers prospectively through adjustments to the commodity rate. Deferred natural gas costs are reflected as regulatory assets and accrued natural gas costs are reflected as regulatory liabilities.

Environmental Remediation Costs We are subject to federal, state and local laws and regulations governing environmental quality and pollution control that require us to remove or remedy the effect on the environment of the disposal or release of specified substances at our current and former manufactured gas plant (“MGP”) operating sites. The remediation costs are recoverable from customers through a rate rider mechanism that authorizes dollar-for-dollar recovery approved by the Illinois Commission. Accordingly, both costs incurred to remediate the former MGP sites, plus the future estimated cost recorded as liabilities, net of amounts previously collected, are recognized as a regulatory asset until recovered from customers.

Our ERC liabilities are estimates of future remediation costs for investigation and cleanup of our current and former operating sites that are contaminated. These estimates are based on conventional engineering estimates and the use of probabilistic models of potential costs when such estimates cannot be made, on an undiscounted basis. These estimates contain various assumptions, which we refine and update on an ongoing basis. These liabilities do not include other potential expenses, such as unasserted property damage claims, personal injury or natural resource damage claims, legal expenses or other costs for which we may be held liable but for which we cannot reasonably estimate an amount.

Our accrued ERC are not regulatory liabilities, however, they are deferred as a corresponding regulatory asset until the costs are recovered from customers. These recoverable ERC assets are a combination of accrued ERC liabilities and recoverable cash expenditures for investigation and cleanup costs. We expect to collect $41 million in revenues over the next 12 months, which is reflected as a current regulatory asset. We recovered $35 million in 2014 and $16 million in 2013 from our ERC rate rider. The following table provides more information on the costs related to remediation of our former operating sites.

Dollars in millions	**Number of sites**	**Probabilistic model cost estimates** (1)	**Engineering estimates** (1)	**Amount recorded**	**Expected costs over next 12 months**	**Cost recovery period**
Former operating sites (2)	26	$205 - $462	$30	$230	$41	As incurred

(1) The year-end ERC cost estimates were completed as of November 30, 2014. The liability recorded reflects a reduction of these cost estimates for expenses incurred during December.

(2) We are responsible in whole or in part for 26 MGP sites, of which two sites have been remediated and their use is no longer restricted by the environmental condition of the property. Nicor Gas and Commonwealth Edison Company are parties to an agreement to cooperate in cleaning up residue at 23 of the sites listed. Our allocated share of cleanup costs is 52%.

Bad Debt Rider Our bad debt rider provides for the recovery from, or refund to, customers of the difference between our actual bad debt experience on an annual basis and a benchmark, as determined by the Illinois Commission in February 2010. The over recovery is recorded as an increase to operating expenses on our Consolidated Statements of Income and a regulatory liability on our Consolidated Statements of Financial Position until refunded to customers. In the period refunded, operating expenses are reduced and the regulatory liability is reversed. The actual bad debt experience and resulting refunds are shown in the following table.

In millions	Benchmark	Actual bad debt	Total refund	Amount refunded in 2013	Amount refunded in 2014	Amount to be refunded in 2015	Amount to be refunded in 2016
2014	$63	$35	$28	$ -	$ -	$16	$12
2013	63	21	42	-	25	17	-

Accumulated Removal Costs In accordance with regulatory treatment, our depreciation rates are comprised of two cost components - historical cost and the estimated cost of removal, net of estimated salvage. We collect these costs in base rates through straight-line depreciation expense, with a corresponding credit to accumulated depreciation. Because the accumulated estimated removal costs are not a generally accepted component of depreciation, but meet the requirements of authoritative guidance related to regulated operations, we have reclassified them from accumulated depreciation to the accumulated removal cost regulatory liability in our Consolidated Statements of Financial Position. In the rate setting process, the liability for these accumulated removal costs is treated as a reduction to the net rate base upon which we have the opportunity to earn an allowed rate of return.

Regulatory Infrastructure Program In 2013, Illinois enacted legislation that allows us to provide more widespread safety and reliability enhancements to our distribution system. The legislation stipulates that rate increases to customer bills as a result of any infrastructure investments shall not exceed an annual average of 4.0% of base rate revenues. In July 2014, the Illinois Commission approved our new regulatory infrastructure program, Investing in Illinois (previously known as Qualified Infrastructure Plant), for which we may implement rates under the program effective in March 2015.

Energy Smart Plan In May 2014, the Illinois Commission approved our Energy Smart Plan, which outlines energy efficiency program offerings and therm reduction goals with spending of $93 million over a three-year period that began in June 2014. Our first energy efficiency program ended in May 2014.

Investment Tax Credits Deferred investment tax credits are included as a regulatory liability in our Consolidated Statements of Financial Position. These investment tax credits are being amortized over the estimated lives of the related properties as credits to income tax expense.

Regulatory Income Tax Liability We measure deferred income tax assets and liabilities using enacted income tax rates. Thus, when the statutory income tax rate declines before a temporary difference has fully reversed, the deferred income tax liability must be reduced to reflect the newly enacted income tax rates. However, the amount of the reduction is transferred to our regulatory income tax liability, which we are amortizing over the lives of the related properties as the temporary differences reverse over approximately 30 years.

Note 4 - Fair Value Measurements

The methods used to determine the fair values of our assets and liabilities are described within Note 2 - Significant Accounting Policies and Methods of Application.

Retirement Benefit Plan Assets

As further described in Note 2 - Significant Accounting Policies and Methods of Application, our employees participate in AGL Resources' retirement benefit plans. The following tables reflect our pro rata share of the AGL Pension Plan assets. Our pro rata share of the AGL Welfare Plan assets was zero for December 31, 2014 and 2013.

The target pension asset allocations are 70% to 95% equity, 5% to 20% fixed income and up to 10% cash for both periods. The plan's investment policies provide for some variation in these targets. The actual asset allocations of the pension plan are presented in the following table by Level within the fair value hierarchy.

	December 31,									
	2014					2013				
In millions	**Level 1**	**Level 2**	**Level 3**	**Total**	**% of total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**% of total**
Cash	**$2**	**$ -**	**$ -**	**$2**	**1%**	**$1**	**$1**	**$ -**	**$2**	**0%**
Equity securities:										
U.S. large cap (1)	$39	$85	$ -	$124	33%	$39	$85	$ -	$124	33%
U.S. small cap (1)	32	10	-	42	11%	30	12	-	42	11%
International companies (2)	-	52	-	52	13%	-	58	-	58	15%
Emerging markets (3)	-	13	-	13	3%	-	14	-	14	4%
Total equity securities	**$71**	**$160**	**$ -**	**$231**	**60%**	**$69**	**$169**	**$ -**	**$238**	**63%**
Fixed income securities:										
Corporate bonds (4)	$ -	$97	$ -	$97	25%	$ -	$86	$ -	$86	23%
Other (or gov't/muni bonds)	-	14	-	14	4%	-	12	-	12	3%
Total fixed income securities	**$ -**	**$111**	**$ -**	**$111**	**29%**	**$ -**	**$98**	**$ -**	**$98**	**26%**
Other types of investments:										
Global hedged equity (5)	$ -	$ -	$12	$12	3%	$ -	$ -	$18	$18	5%
Absolute return (6)	-	-	18	18	5%	-	-	16	16	4%
Private capital (7)	-	-	8	8	2%	-	-	9	9	2%
Total other investments	**$ -**	**$ -**	**$38**	**$38**	**10%**	**$ -**	**$ -**	**$43**	**$43**	**11%**
Total assets at fair value	**$73**	**$271**	**$38**	**$382**	**100%**	**$70**	**$268**	**$43**	**$381**	**100%**
% of fair value hierarchy	19%	71%	10%	100%		19%	70%	11%	100%	

(1) Includes funds that invest primarily in U.S. common stocks.
(2) Includes funds that invest primarily in foreign equity and equity-related securities.
(3) Includes funds that invest primarily in common stocks of emerging markets.
(4) Includes funds that invest primarily in investment grade debt and fixed income securities.
(5) Includes funds that invest in limited / general partnerships, managed accounts, and other investment entities issued by non-traditional firms or "hedge funds."
(6) Includes funds that invest primarily in investment vehicles and commodity pools as a "fund of funds."
(7) Includes funds that invest in private equity and small buyout funds, partnership investments, direct investments, secondary investments, directly / indirectly in real estate and may invest in equity securities of real estate related companies, real estate mortgage loans, and real estate mezzanine loans.

The following is a reconciliation of our pension plan assets in Level 3 of the fair value hierarchy.

In millions	**Global hedged equity**	**Absolute return**	**Private capital**	**Total**
Balance at December 31, 2012	$16	$15	$9	$40
Actual return on plan assets	2	1	2	5
Sales	-	-	(2)	(2)
Balance at December 31, 2013	$18	$16	$9	$43
Actual return on plan assets	-	2	1	3
Sales	(6)	-	(2)	(8)
Balance at December 31, 2014	$12	$18	$8	$38

There were no transfers out of Level 3, or between Level 1 and Level 2 for any of the periods presented.

Natural Gas Derivative Instruments

A description of our objectives and strategies for using derivative instruments, and related accounting policies are fully described within Note 2 - Significant Accounting Policies and Methods of Application. See Note 5 - Derivative Instruments for additional derivative disclosures. The following table summarizes, by level within the fair value hierarchy, our derivative assets and liabilities that were carried at fair value on a recurring basis in our Consolidated Statements of Financial Position as of December 31.

	2014		**2013**	
In millions	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Quoted prices in active markets (Level 1)	$ -	$(20)	$4	$ -
Significant other observable inputs (Level 2)	-	(8)	1	(2)
Netting of cash collateral	1	20	(3)	-
Total carrying value	$1	$(8)	$2	$(2)

There were no unobservable inputs (Level 3) and there were no transfers between Level 1, Level 2 or Level 3 for any of the dates presented.

Debt

The following table presents the amortized cost and fair value of our long-term debt as of December 31.

In millions	**2014**	**2013**
Long-term debt at amortized cost	$498	$498
Long-term debt at fair value (1)	609	568

(1) Fair value determined using Level 2 inputs.

Note 5 - Derivative Instruments

A description of our objectives and strategies for using derivative instruments, related accounting policies and methods used to determine their fair values are described in Note 2 - Significant Accounting Policies and Methods of Application. See Note 4 - Fair Value Measurements for additional fair value disclosures.

Credit-Risk-Related Contingent Features

Certain of our derivative instruments contain credit-risk-related or other contingent features that could require us to post collateral in the normal course of business when our financial instruments are in net liability positions. For agreements with such features, derivative instruments with liability fair values for which we had posted no collateral to our counterparties totaled $6 million at December 31, 2014 and less than $1 million at December 31, 2013. If we had to post the maximum contractually specified collateral or settle the liability, we would have been required to pay $6 million at December 31, 2014 and $0 at December 31, 2013.

Quantitative Disclosures Related to Derivative Instruments

As of the dates presented, our derivative instruments were comprised of positions to purchase natural gas. We had natural gas contract positions outstanding in the following quantities:

	December 31,	
In Bcf	**2014** (1)	**2013**
Hedge designation:		
Not designated as hedges - customer use	29.8	29.6
Not designated as hedges - company use	0.7	-
Designated as cash flow hedges - company use	1.1	0.9
Total	31.6	30.5

(1) These contracts have durations of 2 years or less.

The volumes above exclude variable-priced contracts, which are carried at fair value, but whose fair values are not directly impacted by changes in commodity prices.

Derivative Instruments in our Consolidated Statements of Financial Position

The following table presents the fair values and Consolidated Statements of Financial Position classifications of our natural gas contracts as of December 31.

	2014		2013	
In millions	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Designated as cash flow hedges - current	$ -	$(1)	$ -	$ -
Not designated as hedges - current	-	(27)	5	(2)
Gross amounts of recognized assets and liabilities (1)(2)	-	(28)	5	(2)
Gross amounts offset in our Consolidated Statements of Financial Position (2)	1	20	(3)	-
Net amounts of assets and liabilities presented in our Consolidated Statements of Financial Position	$1	$(8)	$2	$(2)

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

(2) As required by the authoritative guidance related to derivatives and hedging, the gross amounts of recognized assets and liabilities above do not include cash collateral held on deposit in (received from) broker margin accounts of $21 million as of December 31, 2014 and $(3) million as of December 31, 2013. Cash collateral is included in the “Gross amounts offset in our Consolidated Statements of Financial Position” line of this table.

Derivative Instruments in our Consolidated Statements of Income

Derivatives used to hedge the purchase of natural gas for our customers are not designated as hedging instruments. Gains or losses on these derivatives are not recognized in pretax earnings, but are deferred as regulatory assets or liabilities until the related revenue is recognized as follows as of December 31.

In millions	**2014**	**2013**
Net gains (losses) deferred as regulatory assets or liabilities	$(25)	$6

Total gains and losses related to cash flow hedges and non-designated derivatives used to hedge purchases of natural gas for company use were immaterial in 2014 and 2013.

Note 6 - Employee Benefit Plans

As further described in Note 2 - Significant Accounting Policies and Methods of Application, our employees participate in AGL Resources’ retirement benefit plans. The following disclosures reflect our balances and activity of the AGL Pension Plan and the AGL Welfare Plan under the multiple employer method of accounting.

Investment Policies, Strategies and Oversight of Plans

The Retirement Plan Investment Committee appointed by AGL Resources’ Board of Directors is responsible for overseeing the investments of the defined benefit retirement plans. Further, AGL Resources has an Investment Policy for its pension and welfare benefit plans whose goal is to preserve these plans’ capital and maximize investment earnings in excess of inflation within acceptable levels of capital market volatility. To accomplish this goal, the plans’ assets are managed to optimize long-term return while maintaining a high standard of portfolio quality and diversification.

In developing AGL Resources’ allocation policy for the pension and welfare plan assets they examined projections of asset returns and volatility over a long-term horizon. In connection with this analysis, they evaluated the risk and return tradeoffs of alternative asset classes and asset mixes given long-term historical relationships as well as prospective capital market returns. AGL Resources also conducted an asset-liability study to match projected asset growth with projected liability growth to determine whether there is sufficient liquidity for projected benefit payments. AGL Resources developed their asset mix guidelines by incorporating the results of these analyses with an assessment of their risk posture, and taking into account industry practices. AGL Resources periodically evaluates their investment strategy to ensure that plan assets are sufficient to meet the benefit obligations of the plans. As part of the ongoing evaluation, AGL Resources may make changes to their targeted asset allocations and investment strategy.

AGL Resources' investment strategy is designed to meet the following objectives:

- Generate investment returns that, in combination with their funding contributions, provide adequate funding to meet all current and future benefit obligations of the plans.
- Provide investment results that meet or exceed the assumed long-term rate of return, while maintaining the funded status of the plans at acceptable levels.
- Improve funded status over time.
- Decrease contribution and expense volatility as funded status improves.

To achieve these investment objectives, AGL Resources' investment strategy is divided into two primary portfolios of return seeking and liability hedging assets. Return seeking assets are intended to provide investment returns in excess of liability growth and reduce deficits in the funded status of the plans, while liability hedging assets are intended to reflect the sensitivity of the liabilities to changes in discount rates.

See Note 4 – Fair Value Measurements for a detailed listing of the investment types, amounts and percentages allocated to the plans. AGL Resources continues to diversify retirement plan investments to minimize the risk of large losses in a single asset class. There is no concentration of assets in a single entity, industry, country, commodity or class of investment fund. The Investment Policy's permissible investments include domestic and international equities (including convertible securities and mutual funds), domestic and international fixed income securities (corporate and government obligations), cash and cash equivalents and other suitable investments.

Equity market performance and corporate bond rates have a significant effect on our reported funded status. Changes in the projected benefit obligation and accumulated postretirement benefit obligation are mainly driven by the assumed discount rate. Additionally, equity market performance has a significant effect on our market-related value of plan assets ("MRVPA"), which is used by the AGL Pension Plan to determine the expected return on the plan assets component of net annual pension cost. The MRVPA is a calculated value. Gains and losses on plan assets are spread through the MRVPA based on the five-year smoothing weighted average methodology.

Pension and Welfare Benefits

We participate in the AGL Pension Plan, which is a tax-qualified defined benefit retirement plan covering eligible employees. A defined benefit plan specifies the amount of benefits an eligible participant eventually will receive using information about the participant, including information related to the participant's earnings history, years of service and age. Substantially all Nicor Gas employees hired prior to 1998 participate in this plan. Pension benefits are based on years of service and the highest average annual salary for non-collectively bargained employees and job level for collectively bargained employees (referred to as pension bands). The benefit obligation related to collectively bargained benefits reflects the most recent collective bargained agreement terms with regards to the benefit increases.

We participate in the AGL Welfare Plan, which is a defined benefit retiree health care and life insurance plan. Eligibility for these benefits is based on date of hire, age, date of retirement and years of service. The AGL Welfare Plan provides health care and life insurance benefits to our eligible retired employees and includes a limit on the employer share of cost for employees hired after 1982. Effective March 18, 2014, the AGL Welfare Plan was closed to new employees hired on or after that date.

Prior to participation in the AGL retirement benefit plans, Nicor Gas sponsored its own pension and welfare benefit plans and accounted for those plans under the multi-employer method of accounting. As a result of the change in the plan sponsor from Nicor Gas to AGL Resources and the subsequent adoption of the multiple employer method of accounting in 2013, we transferred $4 million of the pension benefit, $7 million of accrued retiree welfare benefits and $6 million (net of income taxes of $5 million) of accumulated OCI to the affiliate where the participating employees provide services.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides for a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Prescription drug coverage for our Medicare-eligible population is provided through an Employer Group Waiver Plan.

Assumptions

We considered a variety of factors in determining and selecting our assumptions for the discount rate at December 31. We based our discount rates separately for each plan on an above-mean yield curve provided by our actuaries that is derived from a portfolio of high quality (rated AA or better) corporate bonds with a yield higher than the regression mean curve and the equivalent annuity cash flows.

The components of our pension and welfare costs are set forth in the following table.

	Pension plan		Welfare plan	
Dollars in millions	**2014**	**2013**	**2014**	**2013**
Service cost	$8	$10	$1	$2
Interest cost	14	13	10	9
Expected return on plan assets	(27)	(27)	-	-
Net amortization of prior service credit	-	-	(3)	(3)
Recognized actuarial loss	8	13	4	5
Net periodic benefit cost	$3	$9	$12	$13
Assumptions used to determine benefit costs				
Discount rate	5.0%	4.2%	4.7%	4.0%
Expected return on plan assets	7.8%	7.8%	n/a	n/a
Rate of compensation increase	3.7%	3.7%	3.7%	3.8%
Pension band increase (1)	2.0%	2.0%	n/a	n/a

(1) Only applicable to our union employees. The pension bands have been updated to reflect the new negotiated rates for 2015 and 2016, of 2.0% and 0%, respectively, as indicated in the union agreement with Local Union 19 of the International Brotherhood of Electrical Workers dated March 2014.

The following tables present details about our pension and welfare plans.

	Pension plan		Welfare plan	
Dollars in millions	**2014**	**2013**	**2014**	**2013**
Change in plan assets				
Fair value of plan assets, January 1,	$381	$419	$ -	$ -
Actual return on plan assets	37	43	-	-
Employee contributions	-	-	1	1
Employer contributions	-	-	12	15
Benefits paid	(36)	(33)	(14)	(17)
Federal subsidies	-	-	1	1
Transfer to affiliates	-	(48)	-	-
Fair value of plan assets, December 31,	$382	$381	$ -	$ -
Change in benefit obligation				
Benefit obligation, January 1,	$279	$386	$208	$235
Service cost	8	10	1	2
Interest cost	14	13	10	9
Actuarial loss (gain)	32	(53)	3	(16)
Federal subsidies	-	-	1	1
Benefits paid	(36)	(33)	(14)	(17)
Employee contributions	-	-	1	1
Transfer to affiliates	-	(44)	-	(7)
Benefit obligation, December 31,	$297	$279	$210	$208
Funded status at end of year	$85	$102	$(210)	$(208)
Amounts recognized in the Consolidated Statements of Financial Position consist of				
Long-term asset	$85	$102	$ -	$ -
Long-term liability	-	-	(210)	(208)
Accumulated benefit obligation (“ABO”) (1)	$284	$269	n/a	n/a
Assumptions used to determine benefit obligations				
Discount rate	4.2%	5.0%	4.0%	4.7%
Rate of compensation increase	3.7%	3.7%	3.7%	3.7%
Pension band increase (2)	2.0%	2.0%	n/a	n/a

(1) The ABO differs from the projected benefit obligation in that the ABO excludes the effect of salary and wage increases.
(2) Only applicable to our union employees.

A portion of the net benefit cost or credit related to these plans has been capitalized as a cost of constructing gas distribution facilities and the remainder is included in operation and maintenance expense.

Assumptions used to determine the health care benefit cost for the welfare plan were as follows:

	2014	2013
Health care cost trend rate assumed for next year	8.1%	8.4%
Ultimate rate to which the cost trend rate is assumed to decline	4.5%	4.5%
Year that reaches ultimate trend rate	2030	2030

Assumed health care cost trend rates can have a significant effect on the amounts reported for our health care plan. A one percentage point change in the assumed health care cost trend rates for the welfare plan would have the following effects on the benefit obligation. The impact on service and interest cost is less than $1 million.

In millions	Effect on benefit obligation
1% Health care cost trend rate increase	$14
1% Health care cost trend rate decrease	(12)

As a result of caps on expected cost for the welfare plan, a one percentage point increase or decrease in the assumed health care trend does not materially affect the Plan's periodic benefit cost or accumulated postretirement benefit obligation.

The following table presents the amounts not yet reflected in net periodic benefit cost and included in net regulatory assets as of December 31:

	2014		2013	
In millions	Pension plan	Welfare plan	Pension plan	Welfare plan
Prior service credit	$ -	$(18)	$ -	$(20)
Net loss	76	57	61	60
Total	$76	$39	$61	$40

The 2015 estimated amortization out of regulatory assets for these plans are set forth in the following table.

In millions	Pension plan	Welfare plan
Amortization of prior service credit	$ -	$(3)
Amortization of net loss	10	4

The following table presents the gross benefit payments expected for the years ended December 31, 2015 through 2024 for our pension and welfare plans. There will be benefit payments under these plans beyond 2024.

In millions	Pension plan	Welfare plan
2015	$26	$11
2016	28	12
2017	30	12
2018	31	13
2019	32	14
2020-2024	149	74

Contributions

Our employees do not contribute to the pension plan. As of December 31, 2014 and 2013, our pension plan is overfunded, therefore, we made no contributions during these periods and we do not expect to contribute to our pension plan in 2015.

Employee Savings Plan Benefits

We sponsor or participate in defined contribution retirement benefit plans that allow eligible participants to make contributions to their accounts up to specified limits. Under these plans, our matching contributions to participant accounts were $5 million in 2014 and $4 million in 2013.

Note 7 - Debt and Credit Facility

Our financing activities, including long-term and short-term debt, are subject to customary approval or review by state and federal regulatory bodies. The following table provides maturity dates, year-to-date weighted average interest rates and amounts outstanding for our various debt securities that are included in our Consolidated Statements of Financial Position.

		December 31, 2014		December 31, 2013	
Dollars in millions	Year due	Weighted average interest rate (1)	Outstanding	Weighted average interest rate (1)	Outstanding
Short-term debt					
Commercial paper (2)	2015	0.2%	$585	0.3%	$314
Long-term debt					
First mortgage bonds					
Issued February 2011	2016	2.9%	$75	2.9%	$75
Issued May 2001	2016	7.2%	50	7.2%	50
Issued July 2009	2019	4.7%	50	4.7%	50
Issued December 2003	2023	5.8%	50	5.8%	50
Issued February 1998	2028	6.6%	50	6.6%	50
Issued December 2003	2032	5.9%	50	5.9%	50
Issued December 2003	2033	5.9%	50	5.9%	50
Issued December 2006	2036	5.9%	50	5.9%	50
Issued August 2008	2038	6.3%	75	6.3%	75
Less: Unamortized debt discount, net of premium	n/a	n/a	2	n/a	2
Total long-term debt		5.6%	$498	5.6%	$498
Total debt			$1,083		$812

(1) Interest rates are calculated based on the daily weighted average balance outstanding for the 12 months ended December 31, 2014 and 2013.
(2) As of December 31, 2014, the effective interest rate on our commercial paper borrowing was 0.4%.

Commercial Paper Program

We maintain a commercial paper program that consists of short-term, unsecured promissory notes used in conjunction with cash from operations to fund our seasonal working capital requirements. Working capital needs fluctuate during the year and are highest during the injection period in advance of the heating season. During 2014, our commercial paper maturities were 32 days or less.

Credit Facility

At December 31, 2014 and 2013, there were no outstanding borrowings under our credit facility. In 2013, the maturity date on our $700 million credit facility was extended to December 15, 2017. The terms, conditions and pricing under the agreement remain unchanged.

Long-Term Debt

Our long-term debt at December 31, 2014 and 2013 consisted of first mortgage bonds. Some of these issuances were completed in the private placement market. In determining that those specific bonds qualified for exemption from registration under Section 4(2) of the Securities Act of 1933, we relied on the facts that the bonds were offered only to a limited number of large institutional investors and each institutional investor that purchased the bonds represented that it was purchasing the bonds for its own account and not with a view to distribute them.

Substantially all of our properties are subject to the lien of the indenture securing our first mortgage bonds.

Financial and Non-Financial Covenants

Our credit facility includes a financial covenant that requires us to maintain a ratio of total debt to total capitalization of no more than 70% at the end of any fiscal month; however, our goal is to maintain this ratio at a level between 50% and 60%. Our ratio, as calculated in accordance with the debt covenants, includes standby letters of credit and surety bonds and excludes accumulated OCI. Adjusting for these items, the following table contains our debt-to-capitalization ratios as of December 31, which are below the maximum allowed.

	2014	2013
Debt-to-capitalization ratio	62%	55%

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

Default Provisions

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

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

We have no triggering events in our debt instruments that are tied to changes in our specified credit ratings. We were in compliance with all existing debt provisions and covenants, both financial and non-financial, as of December 31, 2014 and 2013.

Note 8 - Preferred Stock

Non-Redeemable Preferred Securities

At December 31, 2014 and 2013, we had 800,000 shares authorized, $100 par value preferred stock. We had 8,750 shares outstanding of 4.6% convertible preferred stock and 5,258 shares outstanding of 5.0% convertible preferred stock at December 31, 2014 and 2013 included within equity on our Consolidated Statements of Financial Position.

Mandatorily Redeemable Preferred Securities

We have $1 million of mandatorily redeemable preferred stock which is payable ratably between 2015 and 2017 and is recorded within other long-term liabilities on our Consolidated Statements of Financial Position.

Note 9 - Commitments, Guarantees and Contingencies

We have incurred various contractual obligations and financial commitments in the normal course of our operating and financing activities that are reasonably likely to have a material effect on liquidity or the availability of capital resources. Contractual obligations include future cash payments required under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities and from commercial arrangements that are directly supported by related revenue-producing activities. The following table illustrates our expected future contractual payments under our obligations and other commitments as of December 31, 2014.

In millions	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020 & thereafter**
Recorded contractual obligations:							
Long-term debt (1)	$500	$ -	$125	$ -	$ -	$50	$325
Short-term debt	585	585	-	-	-	-	-
Environmental remediation liabilities (2)	230	41	37	37	37	23	55
Total	$1,315	$626	$162	$37	$37	$73	$380
Unrecorded contractual obligations and commitments (3):							
Pipeline charges, storage capacity and gas supply (4)	$358	$200	$54	$22	$14	$12	$56
Interest charges (5)	377	28	25	22	22	22	258
Standby letters of credit, performance/surety bonds (6)	10	9	1	-	-	-	-
Maintenance and service contracts	10	4	4	2	-	-	-
Other (7)	6	2	2	1	-	1	-
Total	$761	$243	$86	$47	$36	$35	$314

(1) Excludes the $2 million net unamortized debt discount.
(2) Costs are recoverable through a rate rider mechanism, subject to Illinois Commission review.
(3) In accordance with GAAP, these items are not reflected in our Consolidated Statements of Financial Position.
(4) Costs are primarily recoverable through a natural gas cost recovery mechanism, subject to Illinois Commission review. The gas supply balance includes amounts for our commodity purchase commitments of 22 Bcf at floating gas prices calculated using forward natural gas prices as of December 31, 2014, and is valued at $67 million.
(5) As of December 31, 2014, we have $6 million of accrued interest in our Consolidated Statements of Financial Position that will be paid in 2015.
(6) We provide guarantees to certain municipalities and other agencies in support of payment obligations.
(7) Includes purchase commitments related to equipment purchases and real estate licenses.

Contingencies and Guarantees

Contingent financial commitments, such as financial guarantees, represent obligations that become payable only if certain predefined events occur. We have indemnities providing assurance to third parties. No liability has been recorded for such indemnifications as the fair value was inconsequential at inception.

Indemnities In certain instances, we have undertaken to indemnify current property owners and others against costs associated with the effects and/or remediation of contaminated sites for which we may be responsible under applicable federal or state environmental laws, generally with no limitation as to the amount. These indemnifications relate primarily to ongoing coal tar cleanup, as discussed in Environmental Matters. We believe that the likelihood of payment under our other environmental indemnifications is remote. No liability has been recorded for such indemnifications as the fair value was inconsequential at inception.

We have also indemnified, to the fullest extent permitted under the laws of the State of Illinois and any other applicable laws, our present and former directors, officers and employees against expenses they may incur in connection with litigation to which they are a party by reason of their association with us. There is generally no limitation as to the amount. While we do not expect to incur significant costs under these indemnifications, it is not possible to estimate the maximum future potential payments.

Regulatory Matters

On August 7, 2014, staff of the Illinois Commission and the Citizens Utility Board ("CUB") filed testimony in the 2003 gas cost prudence review disputing certain gas loan transactions that we offered under our Chicago Hub services requesting refunds of $18 million and $22 million, respectively. We filed surrebuttal testimony in December 2014 in this proceeding disputing that any refund is due, as we were authorized to enter into these transactions and revenues associated with such transactions reduced rate payers' costs as either credits to the purchased gas adjustment ("PGA") or reductions to base rates consistent with then-current Illinois Commission orders governing these activities. We believe these claims engage in hindsight speculation, which is expressly prohibited in a prudence review examination, and we intend to vigorously defend against these claims. Evidentiary hearings are scheduled for March 2015. Similar gas loan transactions were provided in other open review years. The resolution will ultimately be decided by the Illinois Commission. We are currently unable to predict the ultimate outcome and have recorded no liability for this matter.

Environmental Matters

We are subject to federal, state and local laws and regulations governing environmental quality and pollution control that require us to remove or remedy the effect on the environment of the disposal or release of specified substances at our current and former operating sites. See Note 3 - Regulated Operations for additional information.

We are involved in an investigation by the U.S. Environmental Protection Agency regarding the applicable regulatory requirements for polychlorinated biphenyl in our distribution system. While we are unable to predict the outcome of this matter or to reasonably estimate our potential exposure related thereto, if any, and have not recorded a liability associated with this contingency, the final disposition of this matter is not expected to have a material adverse impact on our liquidity or financial condition.

Litigation

We are involved in litigation arising in the normal course of business. Although in some cases we are unable to estimate the amount of loss reasonably possible in addition to any amounts already recognized, it is possible that the resolution of these contingencies, either individually or in aggregate, will require us to take charges against, or will result in reductions in, future earnings. Management believes that while the resolution of these contingencies, whether individually or in aggregate, could be material to earnings in a particular period, they will not have a material adverse effect on our consolidated financial position, results of operation or cash flows.

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

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

On June 7, 2013, the Illinois Commission issued an order requiring us to refund $72 million to our current customers through our PGA mechanism based upon natural gas throughput over 12 months beginning on July 1, 2013. Approximately $43 million was refunded during the first half of 2014, which resulted in the completion of all refunds. On February 28, 2014, the CUB appealed the Illinois Commission's order requesting refunds consistent with its 2009 request to the appellate court in Illinois and we filed our response brief on July 25, 2014. The CUB filed its reply brief on October 17, 2014. On March 18, 2015, the appellate court in Illinois rejected CUB's appeal.

Nicor Services Warranty Product Actions Nicor Energy Services Company ("Nicor Services") is a wholly owned business of AGL Resources that, directly or through subsidiaries, provides customer move connection services for utilities and product warranty contracts, heating, ventilation and air conditioning repair, maintenance and installation services and equipment to retail markets, including residential and small commercial customers. We, along with Nicor Services and Nicor Inc. are defendants in a putative class action initially filed in September 2011, in state court in Cook County, Illinois. The plaintiffs purport to represent a class of our customers who purchased the Gas Line Comfort Guard product from Nicor Services, primarily through Nicor Gas customer move calls. In compliance with the Illinois Commission merger order, however, Nicor Services has not been providing those customer move services for us since the merger. In the putative class action, the plaintiffs variously allege that the marketing, sale and billing of the Nicor Services Gas Line Comfort Guard violate the Illinois Consumer Fraud and Deceptive Business Practices Act, constitute common law fraud and result in unjust enrichment of Nicor Services and us. The plaintiffs seek, on behalf of the classes they purport to represent, actual and punitive damages, interest, costs, attorney fees and injunctive relief. The parties unsuccessfully mediated this lawsuit in August 2014. The defendants agreed that Nicor Services would have paid the full amount of any settlement the parties might have reached and, therefore, Nicor Services recorded a liability based on the offers that were made during the negotiation. While we are unable to predict the outcome of this matter or to reasonably estimate our potential exposure related thereto, if any, and have not recorded a liability associated with this contingency, the final disposition of this matter is not expected to have a material adverse impact on our liquidity or financial condition.

Substitute Natural Gas ("SNG") In 2011, Illinois enacted laws that required us and other large utilities in Illinois to elect to either sign contracts to purchase SNG from coal gasification plants to be constructed in Illinois or file rate cases with the Illinois Commission in 2012, 2014 and 2016.

In October 2011, the Illinois Power Agency ("IPA") approved the form of a draft 30-year contract for the purchase by us of 20 Bcf per year of SNG from a proposed plant beginning as early as 2018. The purchase price of the SNG that may be produced from this proposed coal gasification plant may significantly exceed market prices for natural gas and is expected to be dependent upon a variety of factors, including the developer's financing, plant construction costs and volumes sold, which are currently not determinable. The Illinois law pertaining to this plant provides that the price paid for SNG purchased from the plant is to be considered prudent and not subject to review or disallowance by the Illinois Commission.

In November 2011, we filed a lawsuit against the IPA and the developer of this proposed plant contending that the draft contract approved by the IPA does not conform to certain requirements of the enabling legislation. In accordance with the enabling legislation, the draft contract approved by the IPA was submitted to the Illinois Commission for further approvals by that regulatory body. The final form of contract approved by the Illinois Commission modified the draft contract submitted by the IPA in various respects. We had appealed the Illinois Commission's decision to the circuit court in DuPage County, Illinois. In October 2014, both lawsuits were dismissed pursuant to a settlement agreement.

Other In addition to the matters set forth above, we are involved in legal or administrative proceedings before various courts and agencies with respect to general claims, taxes, environmental, gas cost prudence reviews and other matters. We are unable to determine the ultimate outcome of these other contingencies. We believe that these amounts are appropriately reflected in our consolidated financial statements, including the recording of appropriate liabilities when reasonably estimable.

Note 10 - Income Taxes

Income Tax Expense

The relative split between current and deferred taxes is due to a variety of factors, including true ups of prior year tax returns, and most importantly, the timing of our property-related deductions. Components of income tax expense in our Consolidated Statements of Income for the years ended December 31 are shown in the following table.

In millions	**2014**	**2013**
Current income taxes		
Federal	$6	$43
State	9	17
Deferred income taxes		
Federal	47	-
State	10	(3)
Amortization of investment tax credits	(2)	(2)
Total income tax expense	$70	$55

The reconciliations between the statutory federal income tax rate of 35%, the effective rate and the related amount of income tax expense for the years ended December 31 in our Consolidated Statements of Income are presented in the following table.

In millions	**2014**	**2013**
Computed tax expense at statutory rate	$60	$48
State income tax, net of federal income tax benefit	11	8
Amortization of investment tax credits	(2)	(2)
Amortization of regulatory income tax liability	1	1
Total income tax expense	$70	$55

Accumulated Deferred Income Tax Assets and Liabilities

Components that give rise to the net current and long-term accumulated deferred income tax liability are as follows.

	As of December 31,	
In millions	**2014**	**2013**
Current accumulated deferred income tax liabilities		
Inventory	$26	$18
Total current accumulated deferred income tax liabilities	26	18
Current accumulated deferred income tax assets		
Other	10	8
Total current accumulated deferred income tax assets	10	8
Net current accumulated deferred income tax liability	$16	$10
Long-term accumulated deferred income tax liabilities		
Property, plant and equipment	$437	$415
Employee benefits	63	64
Other	20	22
Total long-term accumulated deferred income tax liabilities	520	501
Long-term accumulated deferred income tax assets		
Employee benefits	73	72
Other	28	52
Total long-term accumulated deferred income tax assets	101	124
Net long-term accumulated deferred income tax liability	$419	$377

Tax Benefits

As of December 31, 2014 and 2013, we did not have a liability for unrecognized tax benefits. Based on current information, we do not anticipate that this will change materially in 2015. As of December 31, 2014 and 2013, we did not have a liability recorded for payment of interest or penalties associated with uncertain tax positions nor did we have any such interest or penalties during 2014 or 2013.

We are included in the AGL Resources' United States federal and Illinois consolidated income tax returns. Income taxes are allocated to us based upon the tax liability that would have been incurred on a separate company basis. We are no longer subject to income tax examinations by the Internal Revenue Service and Illinois Department of Revenue for years before 2011.

Note 11 - Related Party Transactions

In the ordinary course of business, in accordance with the terms authorized under the Public Utilities Act, we enter into transactions with our affiliates. The charges for these transactions are cost-based, market-based or at a prevailing price.

Facilities and Services

We enter into transactions with our affiliates for the use of facilities and services. We had net charges from affiliates of $123 million in 2014 and $116 million in 2013. Certain operating costs are paid on our behalf by AGL Services Company, a service company that was established to provide certain centralized shared services to the operating subsidiaries of AGL Resources, and then charged to us.

Loans and Dividends

We currently are prohibited by regulations of the Illinois Commission from loaning money to affiliates. However, we are permitted under these regulations to receive cash advances from AGL Resources. The balance of any such advances may not exceed the balance of funds available to us under our existing credit agreements or commercial paper facilities with unaffiliated third parties. Interest is charged on such loans at the lower of our commercial paper rate or AGL Resources' actual interest cost for the funds obtained or used to provide us the cash advance. We received no cash advances from AGL Resources in 2014 or 2013.

We are restricted by regulation in the amount we can dividend to our parent company. Dividends are allowed only to the extent of our retained earnings balance. Dividends paid to our parent company were $107 million in 2014 and $83 million in 2013.

Natural Gas Related Transactions

Nicor Solutions, L.L.C. ("Nicor Solutions") and Prairie Point Energy, L.L.C. (doing business as Nicor Advanced Energy) are wholly owned by SouthStar Energy Services LLC ("SouthStar") since September 1, 2013. SouthStar is a joint venture of AGL Resources. Prior to September 1, 2013, Nicor Solutions and Nicor Advanced Energy were wholly owned businesses of AGL Resources.

Nicor Solutions offers residential and small commercial customers energy-related products that provide for natural gas cost stability and management of their utility bill. Under these products, Nicor Solutions pays us for the utility bills issued to the utility-bill management customers. We recorded revenues of $35 million in 2014 and $28 million in 2013 associated with these payments.

Nicor Advanced Energy provides natural gas and related services on an unregulated basis to residential and small commercial customers. As a natural gas supplier, Nicor Advanced Energy pays us for delivery charges, administrative charges and applicable taxes. Nicor Advanced Energy paid us $5 million in 2014 and $4 million in 2013. Additionally, Nicor Advanced Energy may pay or receive inventory imbalance adjustments. The amount Nicor Advanced Energy received from us was $1 million in 2014. The amount Nicor Advanced Energy paid to us was $5 million in 2013.

Sequent Energy Management, L.P. ("Sequent") is a wholly owned business of AGL Resources that engages in wholesale marketing of natural gas supply services. We enter into natural gas purchases and sales with Sequent as authorized by terms of an Illinois Commission order. Net purchases with Sequent were $2 million for 2014. Net sales with Sequent were $6 million for 2013. Additionally, we charged Sequent $4 million in gas supply related charges for 2014.

Horizon Pipeline Company, L.L.C., a 50-percent-owned joint venture of AGL Resources, that operates an interstate regulated natural gas pipeline of approximately 70 miles stretching from Joliet, Illinois to near the Wisconsin/Illinois border, charged us $10 million in 2014 and 2013 for natural gas transportation under rates that have been accepted by the Federal Energy Regulatory Commission.

In addition, certain related parties may acquire regulated utility services at rates approved by the Illinois Commission.

Note 12 - Subsequent Events

We have evaluated events occurring subsequent to December 31, 2014 and through March 20, 2014 for potential recognition and disclosure in these consolidated financial statements. As of this date, no material subsequent events exist.