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

Condensed Consolidated Financial Statements as of March 31, 2016 and 2015 and December 31, 2015 and for the Three Months Ended March 31, 2016 and 2015 (Unaudited)

Nicor Gas Company
For the Quarter Ended March 31, 2016

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Certification of Senior Financial Officer

In connection with the unaudited condensed consolidated financial statements of Northern Illinois Gas Company (the Corporation) for the three months ended March 31, 2016 (the Financial Statements), the undersigned, the Senior Vice President and Chief Accounting Officer of the Corporation, hereby certifies that, to the best of his knowledge and belief on the date hereof, the unaudited condensed consolidated financial statements fairly present, in all material respects, the financial position of the Corporation and its results of operations and cash flows, prepared in accordance with accounting principles generally accepted in the United States.

Date: May 20, 2016

/s/ Bryan E. Seas
Bryan E. Seas
Senior Vice President and Chief Accounting Officer

Condensed Consolidated Financial Statements (Unaudited)

NICOR GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS - ASSETS
(UNAUDITED)

	As of		
In millions	March 31, 2016	December 31, 2015	March 31, 2015
Current assets			
Receivables			
Natural gas, unbilled and other	$ 297	$ 266	$ 481
Less allowance for uncollectible accounts	23	18	32
Total receivables, net	274	248	449
Regulatory assets	37	47	50
Inventories			
Natural gas	2	145	4
Other	17	17	12
Total inventories	19	162	16
Prepaid taxes	10	85	1
Other	8	12	12
Total current assets	348	554	528
Long-term assets and other deferred debits			
Property, plant and equipment	5,763	5,685	5,371
Less accumulated depreciation	2,188	2,170	2,147
Property, plant and equipment, net	3,575	3,515	3,224
Regulatory assets	331	335	314
Other	78	76	94
Total long-term assets and other deferred debits	3,984	3,926	3,632
Total assets	$ 4,332	$ 4,480	$ 4,160

See Notes to Condensed Consolidated Financial Statements (Unaudited).

NICOR GAS COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS - LIABILITIES AND EQUITY
(UNAUDITED)

	As of		
In millions, except share and per share amounts	**March 31, 2016**	**December 31, 2015**	**March 31, 2015**
Current liabilities			
Short-term debt	$ 353	$ 539	$ 350
Current portion of long-term debt	50	125	75
Regulatory liabilities	126	119	102
Customer deposits and credit balances	75	88	64
Accounts payable - trade	74	93	93
Accrued expenses	60	28	69
Temporary LIFO liquidation	48	—	87
Accumulated deferred income taxes	46	47	12
Accrued environmental remediation liabilities	30	32	45
Other	41	53	36
Total current liabilities	903	1,124	933
Long-term liabilities and other deferred credits			
Regulatory liabilities	1,233	1,221	1,247
Accumulated deferred income taxes	517	515	426
Long-term debt	372	372	422
Accrued environmental remediation liabilities	216	218	197
Accrued pension and retiree welfare benefits	199	200	210
Other	6	7	7
Total long-term liabilities and other deferred credits	2,543	2,533	2,509
Total liabilities and other deferred credits	3,446	3,657	3,442
Commitments, guarantees and contingencies (see Note 9)			
Equity			
Preferred stock, cumulative	1	1	1
Common stock, $5 par value; 25,000,000 shares authorized, 15,232,414 shares outstanding	76	76	76
Additional paid-in capital	193	168	108
Retained earnings	617	579	534
Accumulated other comprehensive loss	(1)	(1)	(1)
Total equity	886	823	718
Total liabilities and equity	$ 4,332	$ 4,480	$ 4,160

See Notes to Condensed Consolidated Financial Statements (Unaudited).

NICOR GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

In millions	Three months ended March 31, 2016	2015
Operating revenues (includes revenue taxes of $40 and $56 for the three months in 2016 and 2015, respectively)	$ 570	$ 806
Operating expenses		
Cost of goods sold	321	540
Operation and maintenance	94	90
Depreciation and amortization	41	38
Taxes other than income taxes	44	60
Total operating expenses	500	728
Operating income	70	78
Interest expense	(8)	(8)
Income before income taxes	62	70
Income tax expense	24	28
Net income	$ 38	$ 42

See Notes to Condensed Consolidated Financial Statements (Unaudited).

NICOR GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

In millions	Three months ended March 31, 2016	2015
Net income	$ 38	$ 42
Other comprehensive income, net of tax	—	—
Comprehensive income	$ 38	$ 42

See Notes to Condensed Consolidated Financial Statements (Unaudited).

NICOR GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

In millions	Preferred stock		Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2014	**0.014**	**$ 1**	**15.2**	**$ 76**	**$ 108**	**$ 492**	**$ (1)**	**$ 676**
Net income	—	—	—	—	—	42	—	42
Balance as of March 31, 2015	**0.014**	**$ 1**	**15.2**	**$ 76**	**$ 108**	**$ 534**	**$ (1)**	**$ 718**

In millions	Preferred stock		Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2015	**0.014**	**$ 1**	**15.2**	**$ 76**	**$ 168**	**$ 579**	**$ (1)**	**$ 823**
Net income	—	—	—	—	—	38	—	38
Equity contribution from AGL Resources	—	—	—	—	25	—	—	25
Balance as of March 31, 2016	**0.014**	**$ 1**	**15.2**	**$ 76**	**$ 193**	**$ 617**	**$ (1)**	**$ 886**

See Notes to Condensed Consolidated Financial Statements (Unaudited).

NICOR GAS COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

In millions	Three months ended March 31, 2016	2015
Cash flows from operating activities		
Net income	$ 38	$ 42
Adjustments to reconcile net income to net cash flow provided by operating activities		
Depreciation and amortization	41	38
Change in derivative instrument assets and liabilities	6	(6)
Deferred income taxes	—	(4)
Changes in certain assets and liabilities		
Inventories, net of temporary LIFO liquidation	191	221
Prepaid and miscellaneous taxes	106	54
(Deferred) accrued natural gas costs	(6)	31
Customer deposits and credit balances	(13)	(15)
Accounts payable - trade	(22)	(38)
Receivables	(34)	(38)
Other, net	13	9
Net cash flow provided by operating activities	320	294
Cash flows from investing activities		
Expenditures for property, plant and equipment	(96)	(62)
Other, net	12	3
Net cash flow used in investing activities	(84)	(59)
Cash flows from financing activities		
Net repayments of commercial paper	(186)	(235)
Repayments of long-term debt	(75)	—
Equity contribution from AGL Resources	25	—
Net cash flow used in financing activities	(236)	(235)
Net increase in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of period	—	—
Cash and cash equivalents at end of period	**$ —**	**$ —**

See Notes to Condensed Consolidated Financial Statements (Unaudited).

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In accordance with such rules and regulations, we have omitted certain information and notes that would typically be included in our annual audited consolidated financial statements. Our unaudited condensed consolidated financial statements include our accounts and the accounts of our wholly owned subsidiary. We have eliminated intercompany profits and transactions in consolidation except for intercompany profits where recovery of such amounts is probable under our rate regulation process. Our unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are, in the opinion of management, necessary for a fair statement of our financial results for the interim periods and should be read in conjunction with our audited consolidated financial statements and related notes as of December 31, 2015 (2015 Financial Statements).

Due to the seasonal nature of our business and other factors, our results of operations and our financial condition for the periods presented are not necessarily indicative of the results of operations or financial condition to be expected for, or as of, any other period.

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

Note 2 - Proposed Merger with Southern Company

On August 23, 2015, AGL Resources entered into an Agreement and Plan of Merger (Merger Agreement) with The Southern Company (Southern Company) and a new wholly owned subsidiary of Southern Company (Merger Sub), providing for the merger of Merger Sub with and into AGL Resources, with AGL Resources surviving as a wholly owned, direct subsidiary of Southern Company. At the effective time of the merger, which is expected to occur in the second half of 2016, each share of AGL Resources' common stock, other than certain excluded shares, will convert into the right to receive $66 in cash, without interest, less any applicable withholding taxes.

AGL Resources and Southern Company have made joint filings seeking regulatory approval with all of the required state regulatory agencies. Completion of the merger remains subject to various closing conditions, including, (i) the receipt of remaining required regulatory approvals from the Illinois Commerce Commission (Illinois Commission) and the New Jersey Board of Public Utilities (New Jersey BPU), and such approvals having become final orders and (ii) the absence of a judgment, order, decision, injunction, ruling or other finding or agency requirement of a governmental entity prohibiting the closing of the merger.

On April 28, 2016, Southern Company, AGL Resources, Nicor Gas, the Illinois Attorney General’s Office, and the Citizens Utility Board (CUB) filed a settlement agreement with the Illinois Commission that resolves all remaining contested issues with regards to the merger approval. On May 5, 2016, Southern Company, AGL Resources, Elizabethtown Gas, the Staff of the New Jersey BPU and New Jersey Large Energy User Coalition reached an agreement that settles all contested issues in the New Jersey merger proceeding. These settlement agreements, along with the other resolved matters, are still subject to approvals by the Illinois Commission and New Jersey BPU, respectively.

To date, the proposed merger has been approved by the Maryland Public Service Commission, the Georgia Public Service Commission, the California Public Utilities Commission, the Virginia State Corporation Commission and the AGL Resources shareholders. Additionally, AGL Resources received consent from the Federal Communications Commission to transfer parent company control of radio licenses held by certain of its subsidiaries, and the waiting period under the Hart-Scott-Rodino Act has expired.

Note 3 - Significant Accounting Policies and Methods of Application

Our significant accounting policies are described in Note 3 to our 2015 Financial Statements. There have been no significant changes to our accounting policies during the three months ended March 31, 2016.

Use of Accounting Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us to use judgment and make estimates 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 accounting literature or in the development of estimates that impact our financial statements. The most significant estimates relate to the accounting for our accrued unbilled revenues, regulatory assets and liabilities, retirement plan benefit obligations, environmental liabilities, loss contingencies, derivatives 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.

Inventories

Our natural gas inventory is carried at cost on a last-in, first-out (LIFO) basis. Under the LIFO method, inventory decrements occurring during the year that are expected to be restored prior to year-end are charged to cost of goods sold at the estimated annual replacement cost, and the difference between this cost and the actual liquidated LIFO layer cost is recorded as a temporary LIFO liquidation on our unaudited Condensed Consolidated Balance Sheets. Interim inventory decrements that are not expected to be restored prior to year-end are charged to cost of goods sold at the actual LIFO cost of the layers liquidated. The inventory decrement as of March 31, 2016 is expected to be restored prior to year-end and the inventory decrement as of March 31, 2015 was restored prior to December 31, 2015.

Revenue Taxes

We charge customers for gas revenue and gas use taxes imposed on us and remit amounts owed to various governmental authorities. Revenue taxes included in operating expenses were $39 million and $55 million for the three months ended March 31, 2016 and 2015, respectively.

Equity

Due to the increased working capital requirements associated with our Investing in Illinois infrastructure replacement program, we have temporarily ceased distributing dividends to AGL Resources. The $25 million increase in additional paid-in-capital was attributable to a cash contribution from AGL Resources to provide capital for our expanded financing needs. Any cash that was not used for working capital requirements was used to pay down our commercial paper borrowings during the period.

Accounting Developments

Accounting standards adopted in 2016

Effective January 1, 2016, we adopted the accounting guidance described below, none of which had a material impact on our unaudited condensed consolidated financial statements. For additional information on these accounting standards, see Note 3 to our 2015 Financial Statements.

- accounting for fees paid in connection with arrangements with cloud-based software providers; and
- reducing the diversity in fair value measurements hierarchy disclosures.

Other newly issued accounting standards and updated authoritative guidance

In February 2016, the FASB issued updated authoritative guidance related to accounting for lease transactions. The new guidance will require all organizations that use leased assets, referred to as "lessees," to recognize all leases with terms of more than 12 months on the balance sheet as right of use assets and corresponding liabilities. Lessees will continue to recognize lease expense based on classification of the lease, using a straight-line expense pattern for operating leases and a front-loaded expense pattern for financing leases. The accounting for lessors is substantially equivalent to the existing guidance. It also requires additional disclosures, both qualitative and quantitative, including amount, timing, and uncertainty of cash flows arising from leases. The new guidance is effective for us beginning January 1, 2019 and must be applied using the modified retrospective approach to each prior period presented. Early adoption of this new guidance is permitted. We are currently evaluating the potential impact of this new guidance.

In November 2015, the FASB issued updated authoritative guidance related to the balance sheet classification of deferred taxes, which requires companies to present deferred income tax assets and deferred income tax liabilities as noncurrent on a classified balance sheet instead of the current requirement to separate deferred income tax liabilities and assets into current and noncurrent amounts. The guidance is effective for us beginning January 1, 2017, and early application is permitted either prospectively or retrospectively. We have determined that this new guidance will not have a material 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. In July 2015, the FASB delayed the effective date by one year and the guidance will now be effective for us beginning January 1, 2018. Early adoption of the standard is permitted, but not before the original effective date of December 15, 2016. The new guidance must be applied retrospectively to each prior period presented or via a cumulative effect upon the date of initial application. We have not determined the impact of this new guidance, nor have we selected a transition method.

Note 4 - Regulated Operations

The accounting policies for our regulated operations are described within "Regulated Operations" in Note 3 to our 2015 Financial Statements. Our regulatory assets and liabilities reflected within our unaudited Condensed Consolidated Balance Sheets as of the dates presented are summarized in the following table.

In millions	March 31, 2016	December 31, 2015	March 31, 2015
Regulatory assets			
Recoverable environmental remediation costs	$ 18	$ 28	$ 32
Recoverable pension and retiree welfare benefit costs	12	12	11
Other	7	7	7
Regulatory assets – current	37	47	50
Recoverable environmental remediation costs	214	218	197
Recoverable pension and retiree welfare benefit costs	105	107	102
Unamortized losses on reacquired debt	7	8	8
Other	5	2	7
Regulatory assets – long-term	331	335	314
Total regulatory assets	$ 368	$ 382	$ 364
Regulatory liabilities			
Accumulated removal costs	$ 53	$ 53	$ 25
Bad debt over collection	47	42	30
Energy efficiency over collection	15	7	18
Accrued natural gas costs	11	17	29
Regulatory liabilities – current	126	119	102
Accumulated removal costs	1,171	1,165	1,193
Bad debt over collection	28	21	19
Regulatory income tax liability	18	19	18
Unamortized investment tax credit	14	14	16
Other	2	2	1
Regulatory liabilities – long-term	1,233	1,221	1,247
Total regulatory liabilities	$ 1,359	$ 1,340	$ 1,349

Base rates are designed to provide the opportunity to recover cost and earn 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.

Unrecognized Ratemaking Amounts At both March 31, 2016 and December 31, 2015 we had $3 million of authorized ratemaking amounts that are not recognized on our unaudited Condensed Consolidated Balance Sheets. These amounts are primarily composed of an allowed equity rate of return on assets associated with our regulatory infrastructure program, Investing in Illinois. These amounts will be recognized as revenues in our financial statements in the periods they are billable to our customers. At March 31, 2015 we had no authorized ratemaking amount that was not recognized on our unaudited Condensed Consolidated Balance Sheets.

Deferred/Accrued 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.

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 approved by the Illinois Commission that authorizes dollar-for-dollar recovery. 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 accrued environmental remediation 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-based estimates and 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 environmental remediation liabilities are not regulatory liabilities; however, the associated expenses are deferred as corresponding regulatory assets until the costs are recovered from customers. These recoverable environmental remediation costs assets are a combination of accrued environmental remediation costs liabilities and recoverable cash expenditures for investigation and cleanup costs. We expect to collect $18 million in revenues over the next 12 months, which is reflected as a current regulatory asset. The following table provides more information on the costs to remediate our former operating sites as of March 31, 2016.

In millions	Probabilistic model cost estimates	Engineering-based estimates	Amount recorded	Expected costs over next 12 months
Former operating sites (1)	$200 - $457	$ 46	$ 246	$ 30

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

Regulatory Infrastructure Program In July 2014, the Illinois Commission approved our nine-year regulatory infrastructure program, Investing in Illinois, under which we implemented monthly surcharge rates in the first quarter of 2015. As of March 31, 2016, we have placed into service $276 million of qualifying assets under this program, $26 million of which was related to the first quarter of 2016. We filed our annual update under the program with the Illinois Commission in April 2016.

Note 5 - Fair Value Measurements

The methods used to determine the fair values of our assets and liabilities are described in Note 3 to our 2015 Financial Statements.

Derivative Instruments

Our derivative assets and liabilities are included in other current and long-term assets and liabilities on the unaudited Condensed Consolidated Balance Sheets. The following table summarizes, by level within the fair value hierarchy, our derivative assets and liabilities that were carried at fair value, net of counterparty offset and collateral, on a recurring basis on our unaudited Condensed Consolidated Balance Sheets as of the dates presented. See Note 6 herein for additional information on our derivative instruments.

	March 31, 2016		December 31, 2015		March 31, 2015	
In millions	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Quoted prices in active markets (Level 1)	$ —	$ (20)	$ —	$ (13)	$ —	$ (27)
Significant other observable inputs (Level 2)	—	(5)	1	(3)	—	(8)
Netting of counterparty offset and cash collateral	3	20	6	13	7	27
Total carrying value (1)	$ 3	$ (5)	$ 7	$ (3)	$ 7	$ (8)

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

Debt

The following table presents the carrying amount and fair value of our long-term debt as of the dates presented.

In millions	March 31, 2016	December 31, 2015	March 31, 2015
Long-term debt carrying amount (1)	$ 422	$ 497	$ 497
Long-term debt fair value (2)	522	577	616

(1) The change in the March 31, 2015 balance is related to our adoption of new accounting guidance in 2015 that resulted in the reclassification of debt issuance costs from other long-term assets to offset the related debt balances in long-term debt.
(2) Fair value determined using Level 2 inputs.

Note 6 - Derivative Instruments

Our objectives and strategies for using derivative instruments, and the related accounting policies and methods used to determine their fair values are described within Note 3 to our 2015 Financial Statements. See Note 5 herein for additional information on the fair value of our derivative instruments. Certain of our derivative instruments contain credit-risk-related or other contingent features that could require us to post collateral in the normal course of business when our financial instruments are in net liability positions. As of March 31, 2016, December 31, 2015 and March 31, 2015, for agreements with such features, derivative instruments with liability fair values totaled $5 million, $3 million and $7 million, respectively, for which we had posted no collateral to our counterparties. As of March 31, 2016, the maximum collateral that could have been required with these features was $5 million.

Quantitative Disclosures Related to Derivative Instruments

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

In billion cubic feet	March 31, 2016	December 31, 2015	March 31, 2015
Hedge designation:			
Not designated as hedges – customer use	41.7	35.4	41.9
Not designated as hedges – company use	0.3	0.6	0.4
Designated as cash flow hedges – company use	1.2	1.0	1.6
Total long position	43.2	37.0	43.9

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. All of the contracts outstanding as of March 31, 2016 have durations of two years or less.

Derivative Instruments on our Unaudited Condensed Consolidated Balance Sheets

In accordance with regulatory requirements, gains and losses on derivative instruments used in hedging activities of natural gas purchases for customer use are reflected in accrued natural gas costs within our unaudited Condensed Consolidated Balance Sheets until they are billed to customers. The following amounts deferred as regulatory assets on our unaudited Condensed Consolidated Balance Sheets are included in the net realized losses related to these natural gas cost hedging activities as of the periods presented.

	Three months ended March 31,	
In millions	2016	2015
Net losses deferred as regulatory assets	$ 2	$ 3

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 as of March 31, 2016 and 2015, respectively.

The following table presents the fair values and unaudited Condensed Consolidated Balance Sheets classifications of our natural gas contracts as of the dates presented.

	March 31, 2016		December 31, 2015		March 31, 2015	
In millions	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Designated as cash flow hedges - current	$ —	$ (1)	$ —	$ (1)	$ —	$ (1)
Not designated as hedges						
Current	$ 1	$ (25)	$ 2	$ (16)	$ —	$ (32)
Long-term	—	—	—	—	—	(2)
Total not designated as hedges	$ 1	$ (25)	$ 2	$ (16)	$ —	$ (34)
Gross amounts of recognized assets and liabilities (1)(2)	1	(26)	2	(17)	—	(35)
Gross amounts offset on our unaudited Condensed Consolidated Balance Sheets (2)	2	21	5	14	7	27
Net amounts of assets and liabilities presented on our unaudited Condensed Consolidated Balance Sheets	$ 3	$ (5)	$ 7	$ (3)	$ 7	$ (8)

(1) The gross amounts of recognized assets and liabilities are netted within our unaudited Condensed Consolidated Balance Sheets 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 do not include cash collateral held on deposit in broker margin accounts of $23 million as of March 31, 2016, $19 million as of December 31, 2015, and $34 million as of March 31, 2015. Cash collateral is included in the "Gross amounts offset on our unaudited Condensed Consolidated Balance Sheets" line of this table.

Note 7 - Employee Benefit Plans

Pension Benefits

We participate in the AGL Resources Inc. Retirement Plan, which is a tax-qualified defined benefit retirement plan covering substantially all Nicor Gas employees hired prior to 1998. The benefits of the plan are described in Note 3 and Note 7 to our 2015 Financial Statements. Following are the components of our pension costs for the periods indicated.

	Three months ended March 31,	
In millions	2016	2015
Service cost (1)	$ 2	$ 2
Interest cost (1)	3	3
Expected return on plan assets	(7)	(7)
Recognized actuarial loss	2	3
Net periodic pension benefit cost	$ —	$ 1

(1) Effective January 1, 2016, we use a spot rate approach to estimate the service cost and interest cost components. Historically, we estimated these components using a single weighted-average discount rate.

Welfare Benefits

We participate in the Health and Welfare Plan for Retirees and Inactive Employees of AGL Resources Inc., which is a defined benefit retiree health care and life insurance plan. The benefits of the plan are described in Note 3 and Note 7 to our 2015 Financial Statements. Following are the components of our welfare costs for the periods indicated.

	Three months ended March 31,	
In millions	2016	2015
Service cost [1]	$ —	$ 1
Interest cost [1]	2	2
Net amortization of prior service credit	(1)	(1)
Recognized actuarial loss	1	1
Net periodic welfare benefit cost	$ 2	$ 3

(1) Effective January 1, 2016, we use a spot rate approach to estimate the service cost and interest cost components. Historically, we estimated these components using a single weighted-average discount rate.

Note 8 - Debt and Credit Facility

The following table provides maturity dates or ranges, year-to-date weighted average interest rates and amounts outstanding for our various debt securities and facility for the periods presented. Substantially all of our properties are subject to the lien of the indenture securing our first mortgage bonds. For additional information on our debt and credit facility, see Note 8 to our 2015 Financial Statements.

		March 31, 2016			March 31, 2015	
Dollars in millions	Year(s) due	Weighted average interest rate [1]	Outstanding	December 31, 2015	Weighted average interest rate [1]	Outstanding
Commercial paper [2]	2016	0.6%	$ 353	$ 539	0.4%	$ 350
Current portion of long-term debt	2016	7.2%	$ 50	$ 125	2.9%	$ 75
Long-term debt - excluding current portion						
First mortgage bonds	2019-2038	5.9%	$ 375	$ 375	6.0%	$ 425
Unamortized debt discount, net		n/a	(1)	(1)	n/a	(1)
Unamortized debt issuance costs		n/a	(2)	(2)	n/a	(2)
Total long-term debt - excluding current portion			$ 372	$ 372		$ 422
Total debt			$ 775	$ 1,036		$ 847

(1) Interest rates are calculated based on the daily weighted average balance outstanding for the three months ended March 31, 2016 and 2015.
(2) As of March 31, 2016, the effective interest rate on our commercial paper borrowings was 0.6%.

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, which is the period from November through March when natural gas usage and operating revenues are generally higher. Our commercial paper program supports our working capital needs. During the first three months of 2016, our commercial paper maturities ranged from 1 to 53 days and at March 31, 2016, remaining terms to maturity ranged from 1 to 13 days. During the first three months of 2016, there were no commercial paper issuances with original maturities over three months.

Long-Term Debt

On February 1, 2016, $75 million of our first mortgage bonds matured and were repaid using the proceeds from commercial paper borrowings.

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 month; however, our goal is to maintain this ratio at a level between 50% and 60%. The following table contains our debt-to-capitalization ratios for the dates presented, which are below the maximum allowed.

	March 31, 2016	December 31, 2015	March 31, 2015
Debt covenants [1]	47%	56%	54%

(1) As defined in our credit facility, these ratios include standby letters of credit and performance/surety bonds and exclude accumulated OCI items related to non-cash pension adjustments, welfare benefits liability adjustments and accounting for cash flow hedges.

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; and
- 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, for all periods presented.

Note 9 - Commitments, Guarantees and Contingencies

We incur 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 commercial arrangements that are directly supported by related revenue-producing activities.

We are also involved in legal or administrative proceedings before various courts and agencies with respect to general claims, environmental remediation and other matters. While we are unable to determine the ultimate outcomes of these contingencies, we believe that our financial statements appropriately reflect these amounts, including the recording of liabilities when a loss is probable and reasonably estimable. For more information on these matters, see Note 10 to our 2015 Financial Statements.

Contingencies and Guarantees

Contingent financial commitments, such as financial guarantees, represent obligations that become payable only if certain predefined events occur. We believe the likelihood of payment under our guarantees is remote. No liabilities have been recorded for such guarantees and indemnifications, as the fair values were inconsequential at inception.

Regulatory Matters

In August 2014, staff of the Illinois Commission and the CUB filed testimony in our 2003 gas cost prudence review disputing certain gas loan transactions we offered under our Chicago Hub services and requesting refunds of $18 million and $22 million, respectively. We filed surrebuttal testimony in December 2014 disputing that any refund is due, as we were authorized to enter into these transactions and revenues associated with such transactions reduced ratepayers' costs as either credits to the purchased gas adjustment or reductions to base rates consistent with then-current Illinois Commission orders governing these activities. In July 2015, the Administrative Law Judge issued a proposed order concluding that our supply costs and purchases in 2003 were prudent, our reconciliation of the related costs was proper, and the propositions by the staff of the Illinois Commission and the CUB were based on hindsight speculation, which is expressly prohibited in a prudence review examination. In September 2015, the Illinois Commission issued a final order approving the proposal of the Administrative Law Judge. In November 2015, the Illinois Commission granted the CUB's petition for a rehearing on this matter. In February 2016, the Administrative Law Judge issued a proposed order on the rehearing affirming the original order by the Illinois Commission, which was approved by the Illinois Commission in March 2016.

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 4 herein for additional information on our environmental remediation costs.

In September 2015, the United States Environmental Protection Agency filed an administrative complaint and notice of opportunity for hearing against the company. The complaint alleges violation of the regulatory requirements applicable to polychlorinated biphenyls in our distribution system and the United States Environmental Protection Agency seeks a total civil penalty of approximately $0.3 million. While we are unable to predict the ultimate outcome of this matter, 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 resolutions of these contingencies, whether individually or in aggregate, could possibly be material to earnings in a particular quarter, they will not have a material adverse effect on our Condensed

Consolidated Balance Sheets or cash flows for the year. For additional litigation information, see Note 10 to our 2015 Financial Statements.

Nicor Energy Services Company (Nicor Services) Warranty Product Actions 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 our customer move calls. In compliance with the Illinois Commission merger order related to our merger with AGL Resources, Nicor Services was to continue providing customer move services for us; however, Nicor Services has not been providing those customer move services 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, 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.

Note 10 - 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 $35 million and $33 million for the three months ended March 31, 2016 and 2015, respectively. 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 facility 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 during the first three months of 2016 or 2015.

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. We paid no dividends to our parent company for the first three months of 2016 and 2015.

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). SouthStar is a joint venture 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 $8 million and $12 million for the three months ended March 31, 2016 and 2015, respectively, 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 $1 million and $2 million for the three months ended March 31, 2016 and 2015, respectively. Additionally, Nicor Advanced Energy may pay or receive inventory imbalance adjustments. Nicor Advanced Energy paid to us $1 million for each of the three months ended March 31, 2016 and 2015.

Sequent Energy Management, L.P. (Sequent) is a wholly owned subsidiary 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 $3 million and $1 million for the three months ended March 31, 2016 and 2015, respectively. Additionally, we charged Sequent less than $1 million for each of the three months ended March 31, 2016 and 2015 in gas supply related charges.

Horizon Pipeline Company, L.L.C., a 50-percent-owned joint venture of AGL Resources, which operates an interstate regulated natural gas pipeline of approximately 70 miles stretching from Joliet, Illinois to near the Wisconsin/Illinois border, charged us

$2 million for each of the three months ended March 31, 2016 and 2015, 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 11 - Subsequent Events

Our management evaluated subsequent events for potential recognition and disclosure through March 31, 2016 and through May 20, 2016, the date that these unaudited condensed consolidated financial statements and related notes were available to be issued, and determined that no significant events have occurred subsequent to period end.