



LETTER OF COMMENT NO. 15

Ten Peachtree Place
Atlanta, GA 30309
404 584 4000 phone
www.aglresources.com

June 16, 2008

Mr. Russell G. Golden, Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

File Reference: Proposed FSP ARB 43-a

Re: Proposed FASB Staff Position, *Amendment of the Inventory Provisions of Chapter 4 "Inventory Pricing" of ARB No. 43*

Dear Mr. Golden:

AGL Resources Inc. (AGLR) welcomes the opportunity to provide input on the proposed amendment to ARB No. 43, Chapter 4 which would require that inventories included in an entity's trading activities be initially and subsequently measured at fair value with the changes in fair value recognized in earnings. AGLR is a publicly traded energy services holding company whose principal business is the distribution of natural gas in six states – Florida, Georgia, Maryland, New Jersey, Tennessee and Virginia. We generate nearly all our operating revenues through the sale, distribution, transportation and storage of natural gas. We manage our businesses in four operating segments and a nonoperating corporate segment. The six utilities in our distribution operations operating segment serve approximately 2.3 million end-use customers, making us the largest distributor of natural gas in the southeastern and mid-Atlantic regions of the United States based on customer count. We are involved in several related and complementary businesses, including retail energy operations, wholesale services and energy investments operating segments.

Our wholly-owned subsidiary, Sequent Energy Management (Sequent), in our wholesale services operating segment would be significantly impacted by the rules reflected in the proposed amendment to ARB No. 43. Sequent focuses on asset management, transportation, storage, natural gas producer and peaking services and wholesale marketing. We would consider these activities to be trading activities as defined under current accounting guidance. Sequent captures economic value from idle or underutilized natural gas assets, which are typically amassed by companies through investments in or contractual rights to natural gas transportation and storage assets. Operating margin, calculated as operating revenues less cost of gas, in this segment is typically created by participating in transactions that balance the needs of varying markets and across various time horizons.

A significant portion of Sequent's operating margin is generated through the utilization and optimization of natural gas storage capacity and the associated natural gas inventory. Operating margin is generated primarily by way of price arbitrage over various time horizons, both short-term (daily or weekly) and long-term (monthly or seasonal) periods.

In our retail energy operations operating segment, our natural gas inventories are generally utilized to serve end-use customers and are sold for a margin. However, during certain portions of the year, generally during the summer injection season, inventories may be sold in a fashion similar to our wholesale business to capture additional operating margin during periods of natural gas price volatility. Inventories in our retail natural gas marketing segment are generally not used to serve end-use customers during the summer injection season.

We are supportive of the proposed FSP as we believe that measuring trading inventories at fair value would result in significant benefits in, and simplification of, financial reporting. The most significant advantage of this change would be the alignment of the externally reported results for our wholesale services operating segment with the economic results of Sequent's operations. Management uses economic results to monitor and manage performance of this business segment by utilizing a "daily position report" (DPR) which values financial instruments, physical inventories, and other contracts within the portfolio at fair value. Some of these transactions meet the definition of a derivative under FASB Statement No. 133, as amended, and are reflected at fair value in the AGLR external financial statements. However, other positions within the portfolio do not meet the definition of a derivative, but are managed on a fair value basis although they are externally reported on an accrual basis. For example, when we enter into a position by physically injecting natural gas into storage, we lock-in the economic operating margin by using a NYMEX hedge consistent with the withdrawal period. Although the economic margin will remain unchanged during the period of the transaction, changes in the fair value of the hedging instrument are required to be reported in the financial statements, while the other component of the transaction (physical inventory) remains unchanged absent a required lower-of-cost-or-market (LOCOM) adjustment. This creates volatility in our reported results even though the original economics remain unchanged, as well as a mismatch in the valuation of the asset (cost) and the liability (fair value). The DPR reports daily, monthly and year-to-date results on an "economic" basis and an "accounting" basis which follows GAAP. The difference in the results demonstrates the disparity between the accounting treatment and the actual economics of the portfolio and creates a reconciliation challenge internally as well as difficulty in providing external transparency to the operations of the business.

We believe that the measurement of trading inventory at fair value could have significant benefits. The following are our responses to the Issues outlined in the FSP:

Issue 1: Commodity Inventories

“Would you prefer the alternative approach to limit the scope of the proposed FSP to commodity inventories that are not used in production, wholesale, retail, or distribution activities? Why or why not?”

No. We agree with the Board’s proposed approach that places the emphasis on whether an entity is trading any inventory within the scope of ARB 43 and oppose the alternative to limit the scope of the FSP. We agree with the view that the determining factor should be the nature of the entity’s activities. If an entity is involved in trading activities, then the application of fair value treatment for certain positions versus the accrual treatment for others diminishes the usefulness and transparency of the financial statements. This change will improve a trading entity’s ability to provide external parties with financial information that more closely resembles that which is used internally by management as well as potentially decreasing, though not eliminating, the volatility in GAAP earnings reported to our shareholders.

Issue 2: Readily Determinable Fair Value

“Would you prefer the alternative approach to limit the scope of this proposed FSP to inventories included in an entity’s trading activities that have readily determinable fair values? Why or why not?”

No. As our business is focused on natural gas, we know that fair value information is readily available for our commodity as it is used daily for calculating operating margin, managing the business and monitoring risk. However, there can be at times less liquid locations and certainly other commodities that do not have consistently available fair value information. In these instances, we believe that FASB Statement No. 157, *Fair Value Measurements*, clearly describes the requirements around Level 1, 2 and 3 inputs.

Issue 3: Trading Items Other Than Physical Inventories

“Do you believe that the Board should consider a broader scope project that would include all contracts and assets or liabilities within an entity’s trading activities even if it would result in significantly delaying the issuance of final guidance? Why or why not?”

No. We believe that it would be more beneficial to finalize the proposed amendment expeditiously than to expand the scope of the current project and risk a delay of the effective date.

However, we would support a follow-up project to address other non-inventory trading related items (specifically, natural gas pipeline transportation capacity and storage capacity contracts). The rationale for these items is the same as with inventory, as we hedge the majority of our positions with financial instruments that qualify as derivatives. The derivative instruments allow us to mitigate a particular

risk and lock-in economic value; however, as we are required to report the changes in the fair value of the derivatives in the financial statements without reporting changes in the underlying hedged item, the financial results show only one side of the change in fair value. This results in earnings volatility when there has actually been no change in the overall value of a given position.

Issue 4: Accounting Policy Election

“Do you believe that the measurement attribute for inventories should be subject to an entity-wide accounting policy election? Why or why not?”

No. Consistent with our view in Issue 1 above, we believe that the accounting for inventory should be based on an entity’s activities. An entity-wide election would not be appropriate if it has activities that would be classified as both trading and non-trading.

Issue 5: Implementation Issues

a. What costs would be incurred to implement this proposed FSP?

For entities that are already involved in trading activities and manage their positions on a fair value basis, we believe the implementation costs would be minimal. As mentioned above, we evaluate our business internally on an economic basis and as part of this process we reflect our inventory at fair value. In general, we believe the implementation of this proposed FSP would only require us to modify our external financial statement information to be more consistent with our internal management reporting.

Implementation could be costly for those entities that have trading and non-trading elements to their business activities and do not currently manage their positions based on fair value. For example, in our retail energy operations operating segment, a portion of inventory at various times of the year could be utilized in a trading activity, similar to our wholesale services operating segment, to optimize the value of the inventory. For example, during the summer injection season, the retail operations operating segment may inject natural gas for ultimate use during the winter heating season, which would be considered a non-trading activity. However, a short-term natural gas demand spike during the summer injection season may present a market opportunity to sell gas from inventory on the open market at a profit, with such gas ultimately replaced later in the injection season for sale to end-use customers during the winter heating season. This activity could be viewed as a trading activity, since it is essentially the same as the inventory activity of our wholesale services operating segment. Segregating and reclassifying inventory volumes between trading and non-trading within the same entity would be complicated and potentially costly, since it would require system development costs to appropriately track and classify such inventories.

b. Are the transition provisions of this proposed FSP appropriate?

Yes. We do not foresee any issues with the transition provisions and agree with the *cumulative effect of a change in accounting principle* treatment.

c. Given this proposed FSP's comment period, the Board expects to issue a final FSP in the third quarter of 2008. Does this expected issuance date provide sufficient time for entities to understand and apply the requirements of this proposed FSP, which could be effective for fiscal years (and interim periods within those fiscal years) beginning after November 15, 2008?

Yes. We believe that for AGLR the relative issuance and effective dates provide an adequate amount of time to properly apply the requirements of this FSP.

We believe that this proposed FSP will result in simplified accounting methods and reduced administrative workload and associated costs. As we discussed previously, our wholesale services operating segment internally monitors, controls and manages its operations on a fair value basis. To publish our GAAP results, a parallel process is employed to remove those items that do not qualify for fair value treatment. These efforts require additional resources in the back and mid offices in order to complete the accounting close, analytical reviews, and financial reporting processes.

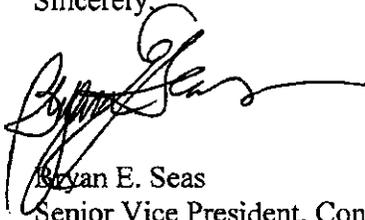
In addition, it is our position that the problems associated with reported earnings caused by the mixed-attribute model would be significantly mitigated. The current accounting alternatives to address the mixed-attribute model include hedge accounting and scope exceptions (e.g., normal purchases and normal sales), both provided within FASB Statement No. 133, as amended. The use of these alternatives may be either difficult or impossible to apply in certain situations since the cost of compliance in terms of implementation and complexity is extremely high and too burdensome on business operations to be considered practical. For example, physical natural gas inventory can be readily valued; however, implementing an accounting hedging process is costly and introduces additional reporting risk, while at the same time may impact the ability to commercially optimize, or subsequently alter, the economics of the position as market circumstances change. Separately, the use of the normal purchases and normal sales scope exception is usually inconsistent within the energy commodity trading business.

One issue on which you did not request comments, but that we believe deserves additional consideration is the use of the spot market as of the last day of the period as representative of fair value of the commodity. In our opinion, this is not representative of what the fair value would be, in general, for the commodity and for us specifically. The natural gas industry buys in advance of its projected withdrawal to ensure supplies to support its business. The value of a futures contract at the projected withdrawal date is the best fair value proxy for the inventory, as opposed to the current spot price, to be consistent with the underlying tenets of SFAS 157, as that is the price that a willing buyer would pay, not the spot price at the end of the month. Further, when large volumes of natural gas are stored, it is often operationally impossible to liquidate the commodity at a single point in time which is further evidence that the current spot price is not representative of fair value. Additionally in our specific situation, when we inject our

natural gas into storage, we simultaneously enter into a financial hedge to lock-in the spread value associated with the future withdrawal of the commodity. If the natural gas were valued at the withdrawal date (as evidenced by the hedge), consistent with the fair value of the hedging instrument, then the amount of earnings volatility associated with the spot-to-forward difference would be greatly reduced.

In summary, we fully support this proposed FSP, but do request the revisiting of the definition of fair value in terms of spot versus forward prices. We appreciate the opportunity to comment on this topic and would welcome the opportunity to provide any additional details in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Bryan E. Seas", with a long horizontal flourish extending to the right.

Bryan E. Seas
Senior Vice President, Controller
& Chief Accounting Officer

c: John Somerhalder
Drew Evans