AGL Resources, Inc.
Comments Regarding Implementation of Sarbanes-Oxley Act Section 404
March 31, 2005

Reference File Number 4-497

AGL Resources Inc. (“AGL Resources” or “the Company”) respectfully submits the following comments to assist the Securities and Exchange Commission (“SEC”) in establishing the issues for discussion at the April 13, 2005 Roundtable Discussion on Sarbanes-Oxley Implementation Issues.

Background

AGL Resources is an energy services holding company whose principal business is the distribution of natural gas in six states - Florida, Georgia, Maryland, New Jersey, Tennessee and Virginia. Our six utilities serve more than 2.2 million end-use customers, making us the largest distributor of natural gas in the eastern United States based on number of customers. We are also involved in various related businesses, including retail natural gas marketing to end-use customers in Georgia; natural gas asset management and related logistics activities for our own utilities as well as for other non-affiliated companies; natural gas storage arbitrage and related activities; operation of high deliverability underground natural gas storage; and construction and operation of telecommunications conduit and fiber infrastructure within select metropolitan areas.

AGL Resources started its implementation of SOX 404 in the second quarter of 2003 with the expectation of meeting the original compliance deadline of December 31, 2003. When this original deadline was extended to December 31, 2004, we continued to work toward compliance and, based on information available at the time and the apparent increase in the scope of the project, we decided to hire a project manager and prepare a more detailed project plan to ensure a successful implementation. We spent much of the first quarter of 2004 working with our project manager, a Big Four firm, developing a plan that addressed the known expectations at that time.

The Public Company Accounting Oversight Board (“PCAOB”) issued Standard No. 2 on March 9, 2004, outlining significant details of the requirements for SOX 404 compliance. Therefore, final requirements were not available prior to that date and, additionally, interpretations continued throughout the year via the issuance of three separate FAQs (June 23, 2004, October 6, 2004 and November 23, 2004). PCAOB Standard No. 2 combined with the FAQs significantly increased the complexity and scope of the implementation project. Implementation of such a significant requirement as SOX 404 would have been difficult enough had all of the requirements been known at the beginning of 2004. Changing requirements throughout 2004 made the management of this initiative extremely difficult, frustrating and costly. The SEC’s own estimates of the cost of implementation were less than $100,000 for an average registrant. This probably seemed reasonable based on the brief two paragraphs of SOX 404. The SEC estimate for our company was understated by a factor of approximately 80.

AGL Resources has had no history of weak internal controls over financial reporting. We believe that SOX 404 has some positive benefits for the Company. Preparing detailed documentation of significant processes, risks and controls over financial reporting is a valuable exercise. Many people throughout the Company became more educated about our significant processes and controls. Some also were enlightened on the identification and evaluation of risks and controls, which will only serve to improve our control environment. Almost all of this work was completed by the end of the third quarter of 2004.

Our SOX 404 implementation included the documentation of over 150 separate processes that supported our significant accounts. We also identified approximately 600 key controls, including IT general and application controls, that cover the financial statement assertions.

Testing of the controls commenced during the third quarter of 2004 and continued into January, 2005. While, we believe that the documentation of the processes, risks and controls was very valuable to the Company, we also believe that the testing phase, with its extreme, overly burdensome and detailed requirements added considerably less value, if any, and any value added was dwarfed by the costs of compliance. We employed, at times, up to 14 contract auditors to assist in the testing in addition to almost all of the internal audit department consisting of eight professionals.

In total, we estimate that SOX 404 compliance cost the company approximately $8 million, again, more than 80 times the original estimate of the cost of compliance made by the SEC. Of that amount, approximately $5 million was paid to external parties, including our independent auditor. Combined fees paid to our independent auditor and our Big Four project manager totaled approximately $2 million.

Comments

While AGL Resources supports the concepts of accuracy, reliability, integrity and transparency in its financial reporting process, we also believe that guidance provided by the SEC and the PCAOB, and the interpretation of such guidance by the independent auditors, could be made more effective through the implementation of the following changes.

1. The PCAOB issued Standard No. 2 on March 9, 2004, outlining significant details of the requirements for SOX 404 compliance. Therefore, final requirements were not available prior to that date and, additionally, interpretations continued throughout the year via the issuance of three separate FAQs (June 23, 2004, October 6, 2004 and November 23, 2004). Additionally, the major independent accounting firms issued a whitepaper, with the latest revision on December 20, 2004, outlining guidance relating to the evaluation of deficiencies. The SEC and PCAOB should consider implementing new guidance with an "effective date," which would allow sufficient time for adoption of the new guidance in a thoughtful and cost-efficient manner. Additionally, registrants should be encouraged to comment on proposed guidance before final issuance which would provide value from a buy-in perspective.

2. Existing guidance is geared toward the independent auditors' requirements to render an opinion. The independent auditors are taking a very conservative approach in determining the documentation standards for their clients in order to support their audit opinion. Therefore, they are able to generate and justify fees based on their interpretation of the guidelines. In other words, some of the very entities that SOX 404 was designed to monitor are reaping huge benefits from it. They have the proverbial gun to the heads of their clients, and they know it. The SEC and the PCAOB should provide additional guidance as to the documentation, testing and evaluation standards for management's assessment.

3. The PCAOB standards should allow for greater reliance on the work of the internal audit department as long as the department practices in accordance with The International Standards for the Professional Practice of Internal Auditing and there is evidence as to the qualifications and competence of the internal audit staff. This would allow for a more streamlined, cost-effective process.

4. PCAOB guidance should be amended to allow for greater discussion between management and the independent auditor on complex accounting issues and transactions without fear of jeopardizing the independent auditor's independence. Currently, the independent auditor is fearful of too much participation and management is not able to discuss complex transactions with other firms out of fear of opinion shopping. This is an absurd position for auditors and their clients to be in. It is simply not practical for every registrant to have the same resources as the accounting firms to monitor and interpret every aspect of the evolving accounting guidance. We need to have the ability to seek advice on complex accounting matters in those cases where the expertise is not available internally.

5. PCAOB rules relating to evidence requirements should be relaxed or standardized. The interpretation of the documentation standards has created an administrative burden while in certain cases adding no value to the control itself.

6. The PCAOB rules should be amended so that effectiveness testing could be evaluated on a cyclical basis. Management could evaluate the risk of each process/control and establish a cycle whereby high risk controls would be tested every year, and medium to low risk controls could be tested on a cyclical schedule. This would provide additional streamlining and cost-effectiveness to the process.

7. The SEC should issue new guidance relating to compliance with SOX Section 302 in light of the SOX 404 baseline established with the initial implementation in 2004. Without specific guidance, interpretation of certification of "design effectiveness" of material changes in internal controls and the amount of testing required to assess design effectiveness on an interim basis will result in unnecessary increased costs for companies and increased revenues for the independent auditor.

8. The PCAOB guidelines issued in Standard No. 2 require a pass/fail type of analysis of the effectiveness of internal control over financial reporting. This pushes the focus of compliance towards ensuring that the administrative mechanics of the assessment process are at an A+ level for all processes and controls. But even at this level management cannot guaranty to the public that a material misstatement will not occur. The PCAOB should consider moving to a sliding scale – an A through F type of grading system – whereby management could assess its controls over financial reporting as effective as long as they received a passing grade. In addition, management could be required to provide disclosure of the activities it expects to complete, and a timeline to do so, so that their controls improve up the scale. Financial statements can be prepared despite material weaknesses in a particular control process, and independent auditors can still issue unqualified audit opinions on those financial statements. PCAOB Standard No. 2 simply does not recognize that.

9. Some of the requirements of compliance with SOX 404 have been a key driver towards bad business decisions for some companies relating to implementation of new IT systems. Some companies have stopped or delayed a key system implementation because moving that system into production late in the year might cause them to fail SOX 404, even though the system provides stronger internal controls. The SEC and/or the PCAOB should consider an exception for internal controls affected by the implementation of a new IT system similar to the exception allowed for material purchase business combinations granted by SEC FAQ No. 3. This exception could be for

up to six months so that implementation bugs could be cleared and so a scope limitation with respect to repetitions tested would not be a factor in the assessment.

10. The PCAOB should consider providing more clarity and formalization regarding the definitions of deficiency, significant deficiency and material weakness. Qualitative factors will always influence the judgment of the severity of a deficiency. However, the ambiguousness of the current guidelines results in severity limits that appear exceptionally low.

If the SEC or its staff have any questions about these comments, please contact Bryan Seas, Vice President and Controller, at 404.584.3400 or Ron Lepionka, Vice President and Chief Auditor, at 404.584.3107.

Respectfully submitted,

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