

GAS COMPANY ECONOMICS



~~Vol. 1, Edition 1~~ *The New Edition*

AGL Resources 2000 Annual Report

Company Profile

Natural Gas Distribution

Natural gas distribution is AGL Resources' principal line of business. Through its gas distribution subsidiaries, AGL Resources is recognized as the second largest natural gas-only distributor in the United States. Together, these companies serve more than 1.8 million customers and boast customer growth rates that are among the highest in the industry.

Atlanta Gas Light Company ("AGLC") and *Chattanooga Gas Company* provide natural gas delivery service to more than 1.5 million homes and businesses throughout Georgia and Tennessee.

In October 2000, AGL Resources acquired *Virginia Natural Gas* ("VNG"), which serves more than 230,000 customers and is headquartered in Norfolk, Virginia. With its service territory in the economically vibrant Hampton Roads region of Virginia, VNG is among the industry leaders in customer growth at more than 4 percent per year.

Telecommunications

AGL Networks was formed to leverage our experience in managing underground infrastructure to install conduit and fiber optic cable for communication network companies.

Retail Energy Marketing

Through *SouthStar Energy Services*, AGL Resources is a joint venture partner with Piedmont Natural Gas Company and Dynegy Holdings, Inc. SouthStar offers retail energy products and services to more than 500,000 customers in Georgia and 500 industrial customers throughout the Southeast. SouthStar operates in Georgia under the trade name of Georgia Natural Gas Services.

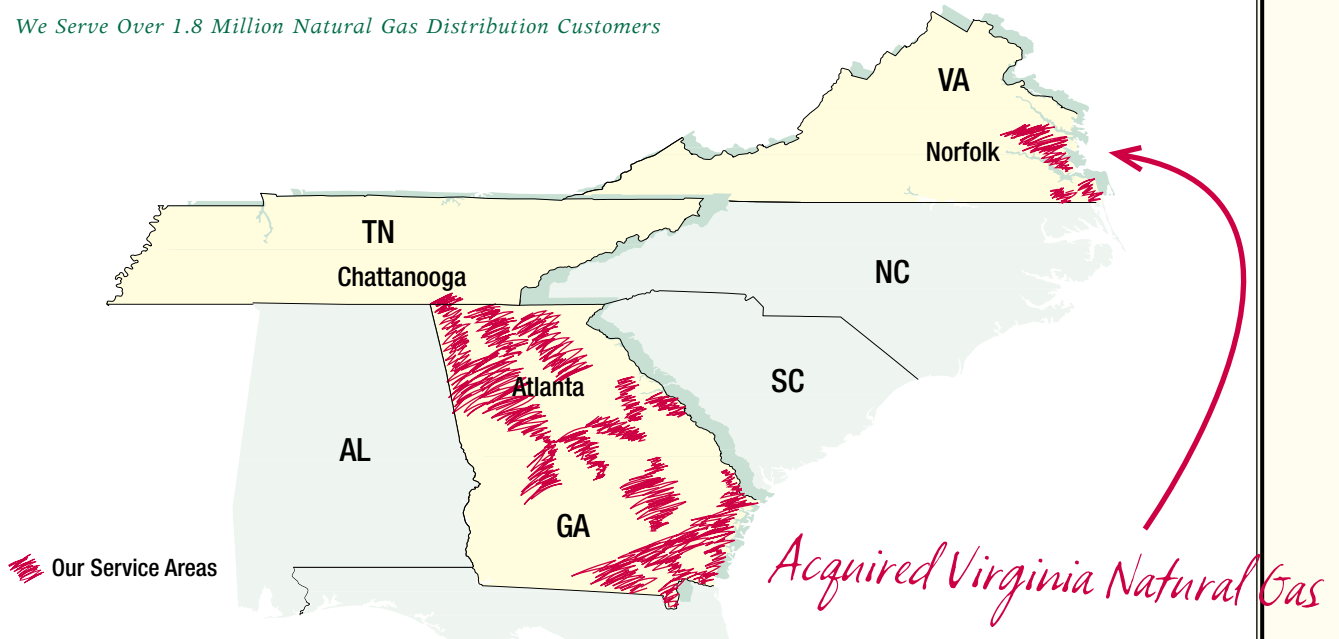
Propane

AGL Resources is a partner in *Heritage Propane*, the fourth largest propane distributor serving more than 480,000 customers in 28 states.

Customer Care

Utilipro provides outsourced customer care services (billing, call center, payment processing) to energy marketing companies.

We Serve Over 1.8 Million Natural Gas Distribution Customers



AGL Resources

Table of Contents

We're Rewriting The Book **1** Letter To Shareholders **12** Financial Review **17**
 Shareholder Information **68** Directors and Officers **Inside back cover**

AGL Resources

Financial Highlights

(In Millions, except per share amounts)

	2000	1999
Core Earnings (Net income excluding one-time items)	\$ 68.6	\$ 52.1
Operation & Maintenance Expenses	\$ 247.8	\$ 268.2
Net Income Reported	\$ 71.1	\$ 74.4
Dividends Paid Per Share	\$ 1.08	\$ 1.08
Closing Market Price	\$ 20.06	\$ 16.25
Shares Outstanding		
Average	55.2	57.4
End of Year	54.0	57.1

We're rewriting
the book →



Paula G. Rosput,
AGL Resources Inc.
President and Chief Executive Officer

*Opportunity! Let's get a line
in this. Let's change this
and all will be much better.*

*We'll need to change this as well.
It doesn't read clearly.*

Placeholder text for the top of the page, partially obscured by the sticky note.

*we need to
address this case.*

You are about to learn of a new company – one born out of trial, steeled by experience, and setting a new standard of excellence and achievement. This will not be your traditional gas company. We have sharpened our vision of our future and adopted a new mindset about our potential. We have shed traditional ways of viewing and running our business. We have embraced a new confidence in our ability to transform this enterprise into one that creates its own opportunities.

In the following pages, we invite you to see how our rewrite of this business already has translated into the most successful chapter in our history.

*Let's leverage!
this is better.
oh yeah*

*Shall we do it?
I think so.
Change this.*

*Add something here.
Look at our
affordably*

*We can enhance
this paper work.
It is not my
official one.*

take a look at this

*What do you think?
This change needs to happen.*

CHAPTER 1:

~~Efficient~~ Operations

Transforming

Automation allows appointment setting for customers and faster field response

Whatever is at the core of an enterprise must be its strongest point, its foundation, its center. From the core flow the most important attributes, qualities and values that shape the rest of the company.

Nothing truer could be said about our core gas distribution business, for over the past year we have transformed our core utility business into one of the top performers in the industry. We reduced expenses, streamlined basic business processes and unleashed employees on a range of initiatives and innovations that are improving operating efficiency and customer service.

The initiative that best reflects the combination of technology and innovation reshaping this business is Automated Dispatch. It allows our field service representatives to get their work orders through electronic mobile data terminals in their trucks rather than through dispatch calls and paper work orders. Automated Dispatch has boosted productivity, reduced paperwork, and maximized the time our representatives spend in the field. The system has another important component that our busy customers enjoy: setting appointments for service, making it easier for our customers to plan their day around our visit.

Leveraging and Realigning Our Strengths

We are leveraging our strong customer relationships with the launch of our www.atlantagaslight.com web site, which is designed to market natural gas appliances as well as offer useful information to our customers. The web initiative reflects our commitment to seek out partnerships and industry allies to deepen our offerings – in this case, linking up with Enercom's national appliance "warehouse" and partnering with select suppliers and HVAC contractors locally to handle deliveries and installation of purchased appliances.

Working Smarter

Our rapid and effective deployment of technology and new work practices allowed us to reduce our labor costs throughout our utility operations. We reduced our field workforce from 1,492 in January 1999 to 1,038 in October 2000. By improving our approaches to dispatching and more efficiently stocking trucks with supplies, we were able to reduce the number of service centers from 39 to 21.

By matching these labor reductions with improved work practices, we were able to boost productivity, spur the pace of our daily activities and record gains in our report card from customers and independent marketers. Our retail customers are benefitting from faster and more flexible dispatching and greater efficiency in availability of our services through better voice response units, better-trained call representatives, and web-based services and products. Our regulatory climate is stabilizing through more open communication with the Georgia, Tennessee, and Virginia commissions. And our market position is strong in growing areas of the Southeast and now Virginia. We have just finished our best year ever, installing 55,442 new meters at \$758 per meter – the lowest cost in the industry.

During the year, we were also able to advance several goals common to us and our state regulatory commissions, including a plan that adjusts AGLC's base distribution charges to better reflect seasonal usage while maintaining a steady stream of annual revenues from our distribution operations.

The transformation of our core business is far from complete, but it is already translating into improved customer service, more efficient field operations, and consistent earnings.

ures
les
ther
vers
les
al
ling
he
A

~~Manual~~ Automated Work Processes

Atlanta Gas Light Company
COMBINED ORDER-PRINTER

*** TURN OFF ***
*** DUPLICATE ***

08-18-08 10:15:00 GUL BAL WMS 10/25/08 08-5544-000 11/17/08
099 PALL PL NW ATLANTA GA 30308 08 5550-000
BARY-DORRFIELD 10001135-1219 1001003-0000 10/15/08
1001003-0000 10/15/08
METER INFORMATION
METER CHANGE INFO

APPT: 08-08 1 HR MINIMUM NGR ORDER TYPE: OFF

TIME PRINTED:
10/18/08 10:15:03

DATE EFFECTIVE:
10/18/08

MTR METER METER IS
AUT SIZE NUMBER N
7N 475000

BA: 8769132021

LEAK ORDER

APPLNCE ORDER

Atlanta Gas Light Company
COMBINED ORDER-PRINTER

*** TURN ON ***
*** DUPLICATE ***

08-18-08 10:15:00 GUL BAL WMS 10/25/08 08-5544-000 11/17/08
1750 WOOD 08-5544-000 08-5544-000 10/15/08 10:15:00
WILCOX E ALEXANDER (433)434-2837 (603)600-0000 11/17/08
METER INFORMATION
METER CHANGE INFO

APPT: 08-08 1 HR MINIMUM WORK ORDER TYPE: ON

TIME PRINTED:
10/18/08 10:15:03



Atlanta Gas Light Company
COMBINED ORDER-PRINTER

*** LEAK ***
*** DUPLICATE ***

08-25-08 08:00:00 2500-0000-0000
RONALD G STEWART
METER INFORMATION
METER CHANGE INFO

APPLNCE ORDER

INTERSECTING MIDVALE

LEAK FIRST NO
TIME DA
13:00 09

MTR METER METER IS
AUT SIZE

BA: 99137

LEAK ORDER

APPLNCE ORDER

METER INFORMATION

METER CHANGE INFO

Atlanta Gas Light Company
COMBINED ORDER-PRINTER

*** LEAK ***
*** DUPLICATE ***

08-25-08 08:00:00 2500-0000-0000
RONALD G STEWART
METER INFORMATION
METER CHANGE INFO

APPLNCE ORDER

INTERSECTING MIDVALE

LEAK FIRST NO
TIME DA
13:00 09

MTR METER METER IS
AUT SIZE

BA: 99137

LEAK ORDER

APPLNCE ORDER

METER INFORMATION

METER CHANGE INFO

CHAPTER 2:

Manage Costs

Not enough - be relentless

Strengthening an already strong opportunity

When we said we wanted to grow, we didn't have to look very far or long for the ideal opportunity. Our acquisition of Norfolk-based VNG marks our largest acquisition to date – and our most promising.

At face value, VNG is a great addition to our core business. It boosts our customer base more than 15 percent to 1.8 million. It serves the Hampton Roads region of Virginia, an area boasting an annual customer growth rate of four percent, which is above the industry average. VNG's market is an attractive balance of residential, commercial, and industrial gas users. And it operates 155 miles of transmission pipeline and 4,110 miles of gas mains – valuable infrastructure for continued growth in the region. Our per-customer acquisition cost was among the best in the industry and positioned us well to have this operation add to earnings during fiscal 2001.

We closed this transaction ahead of schedule, within five months, allowing us to benefit from the start of the heating season in that market. But that fast-paced acquisition effort also meant we were able to move quickly to mine the additional value of VNG – the opportunity to deploy the proven business practices

from AGLC. The real success in any acquisition is the ability to integrate the operations quickly and effectively. Our joint transition team was well underway before the closing, identifying opportunities in the combination of our companies.

Coupling Our Strengths Effectively

Rising with the tide of population growth does not, by itself, generate superior returns, nor does it always serve customers best. AGLC already has the industry's lowest cost for installing new meters, so by extending our success in this area into VNG we can lower our cost of operations, improve service to customers and developers, and create the capacity for earnings growth as the region continues to expand.

Both AGLC and VNG have developed best practices in several different areas of operations and we are already sharing those successes within both units.

The acquisition of VNG is a logical and compelling opportunity to extend our success in utility operations to a market that will strengthen our foothold in the fast-growing Southeastern region.

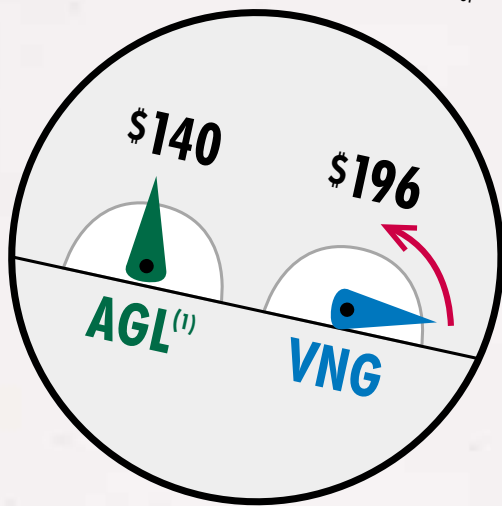
Atlanta Gas Light Company
ter location for future growth. Georgia is one of the
fastest growing states in the country. Three of the
country's fastest growing counties are located in

the nation in job creation, adding the most jobs
with an estimated 1.8 million new positions.



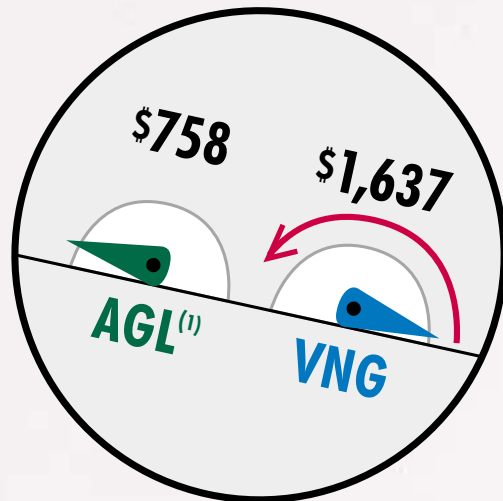
OPERATION & MAINTENANCE COST PER CUSTOMER

Annual cost to serve each utility customer



NET CAPITAL COST PER NEW METER

Capital investment for extending our utility system to a new customer



(1) Includes AGLC and Chattanooga



Figure 6a. Gas company growth traditionally is dependent upon population trends.

Leverage growth by integrating best practices

CHAPTER 3:

Leveraging Our ~~Manage~~ Assets

Maximize our core pipe installation skills in one of the world's fastest growing telecom markets

In today's world of broadband communications and fiber optic networks, our strength couldn't be in a better place: Underground.

High capacity fiber optic networks are creating seemingly limitless bandwidth for people and businesses to communicate as never before, but those same networks need some space of their own, and much of it needs to be found beneath the busy streets of cities. Our kind of place.

As one of the best operators of underground distribution systems in the nation, we have refined our skills and capabilities in contracting, engineering, permitting, and work management. These are all critical elements in the success of a telecom company seeking to safely and efficiently install new fiber networks underground. It serves the best interests of our communities and customers for us to find a way to co-construct conduit when we replace gas mains. This way, we can support the growth of our communities while minimizing the disruption and potential safety issues that arise when multiple contractors are cutting into streets.

To bring a focus to this market and separate it from our utility operations, we formed AGL Networks. Already, our approach to this market is capturing the attention of leading fiber network developers, especially in Atlanta, where almost boundless growth is straining the capacity of its infrastructure. Most major fiber optic network developers in Atlanta have held discussions with us on their network needs and we expect to extend this partnership in other markets where we have a strong presence.

AGL Networks is approaching this market in three ways:

- The first phase is co-constructing conduit along gas main routes and leasing the conduit capacity to fiber network developers;
- The second phase of our effort moves us up the value chain in the telecom industry by putting us in partnership with major fiber network providers in joint development efforts. We would install "dark" fiber, leasing the fiber itself to other telecoms or jointly operating the fiber systems as a separate telecom venture; and
- The third phase of our strategy is to market the latent capacity of retired or obsolete gas, water and sewer mains as conduit for fiber systems. Retired mains are those that are no longer used or useful in the utility but can be recycled to serve as conduit for fiber without the major digging required of new conduit. This plan is well underway with the development of our web site, www.retiredmain.com, which will give telecoms an on-line resource to purchase conduit capacity that we will market on behalf of municipalities and water and gas companies.

It is easy to sometimes take what you do best for granted. We have learned, over the past three years of hard work, that we cannot take anything for granted. Because sometimes the value you seek is right under your feet.



Figure 7a. Metropolit

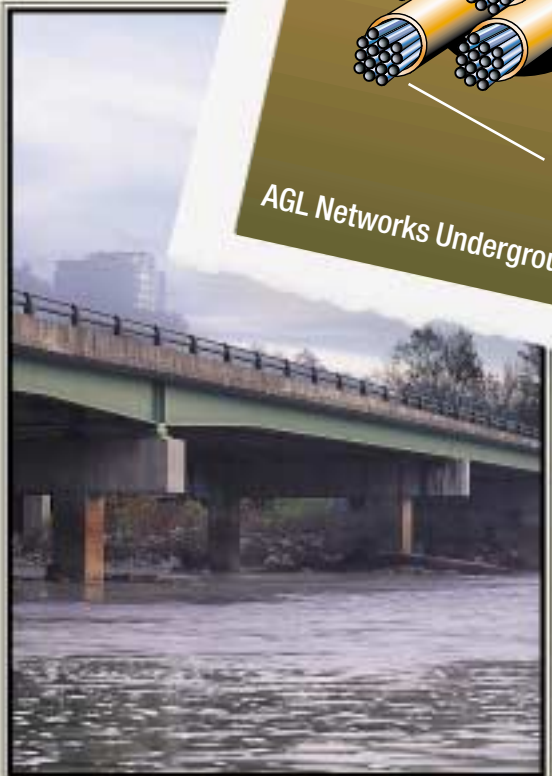
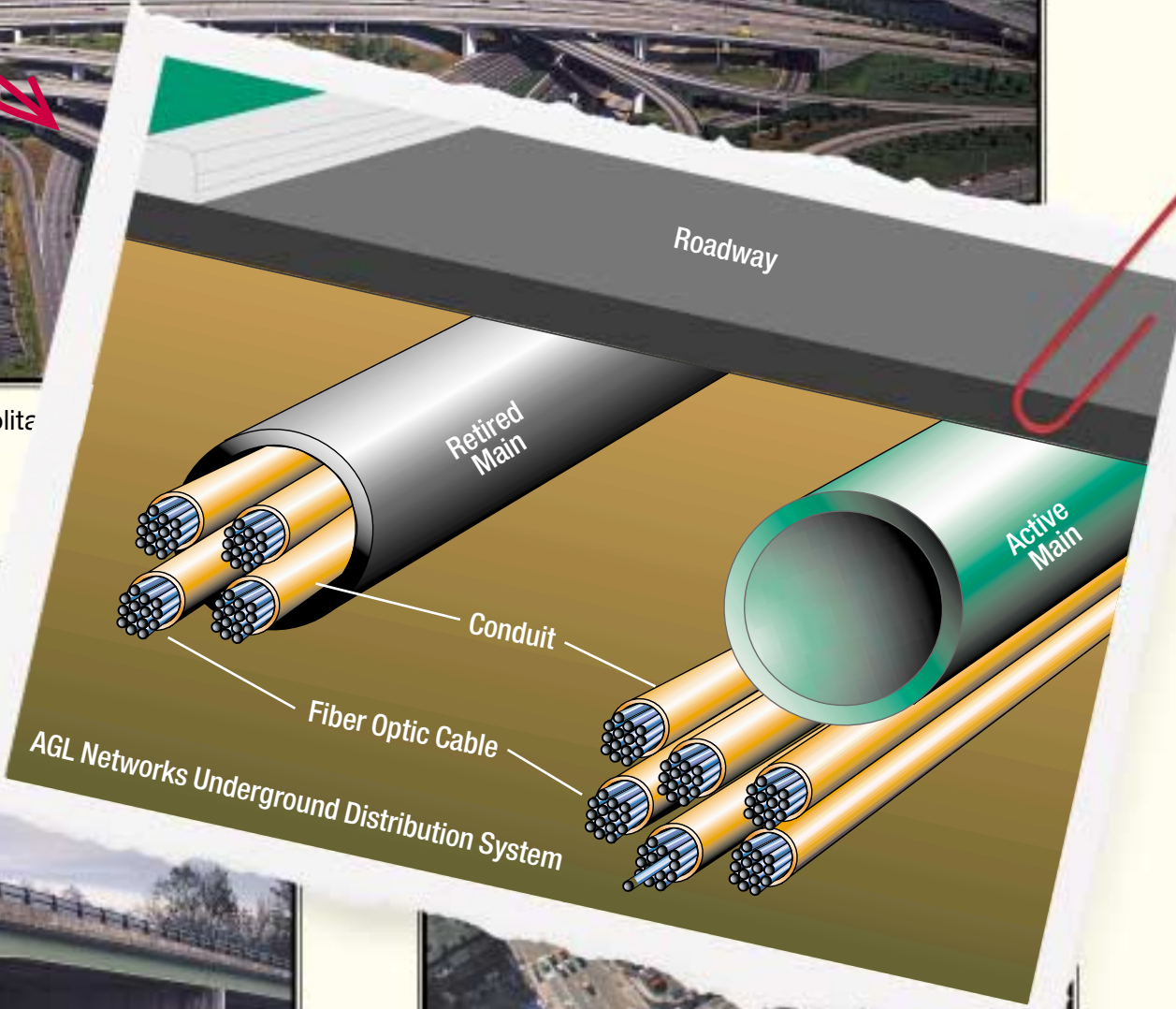


Figure 7b. River crossing



Figure 7c. Dense downtown business district

CHAPTER 4:

~~Maintaining Facilities~~

Optimizing Wholesale Opportunities

Wholesale gas assets well positioned to grow

A gas delivery system may be all connected, but each piece – whether a pipeline, storage facility or local gas main – has its own role and its own unique value in today's energy market. At AGL Resources, we intend to have each piece play its role to the fullest – both in serving customers and adding value for shareholders.

In particular, over the years, we have assembled a contract portfolio of interstate gas pipeline and storage assets that were traditionally associated with distributing gas to Georgia and Tennessee. When you step back and look at these assets as they are seen by the rest of the industry, it is an impressive picture.

We are the largest liquefied natural gas ("LNG") provider in the Southeast and the fifth largest in the nation. With our acquisition of VNG, we have now added significant intrastate pipeline and distribution facilities to our current base of distribution pipelines in Georgia and Tennessee. This gives us a pipeline and distribution network that laces through some of the highest growth areas of the Eastern and Southeastern U.S. Also, the VNG acquisition provides us access to increased interstate capacity. These strategic additions give us the desired scale to capitalize on emerging business opportunities – such as taking advantage of short-term supply, capacity and price changes – in the larger energy markets.

Attractive Storage Assets

Given the profile of natural gas usage in our part of the country, summer and winter peaking resources such as LNG are in great need but in limited supply. By carefully balancing the commitment to ensure adequate supply assets with the opportunities to respond to other demands for LNG supplies in the open market, we can reduce costs for customers and add value for shareholders. Our pipeline and storage capacity is both large enough and strategically located to enable us to partner with respected, major players in energy trading and asset

optimization so we can participate in the broader energy markets. Developing these partnerships and achieving positive results is a key goal for us in fiscal 2001.

Further, there is an increasing need throughout our region for more supplies of electric power, and natural gas has become the fuel of choice for responsible power development, especially to meet summer peak demand. Again, we are strategically positioned to capture a niche in this emerging marketplace. It is important that gas pipelines run close to electric transmission lines. We offer a power developer the siting, gas supply management, and ancillary services that would enable them to build and operate new peaking plants in the Southeast on a very competitive basis.

Innovative Arrangement

This focus on optimizing assets also means knowing when to manage a business and when to restructure it to extract its full value. Our stand-alone propane operations never achieved sufficient scale to generate the return we require of our invested capital, so we first combined them with the propane businesses of three other regional utilities to form an entity called US Propane. Then we took an innovative path to sell US Propane to Heritage Propane, one of the nation's largest and most respected propane companies. In turn, US Propane acquired the general partner of Heritage Propane. This arrangement quickly monetized a portion of our investment in the propane business, gave us board-level oversight, and positioned us for improved future cash distributions from Heritage Propane.

Fiscal 2001 will mark a watershed year for our customers and our shareholders as we implement our strategic vision to be a key regional player in the energy marketplace through asset optimization and value creation.

atures
des
ether
swers
icles
ural
s
nding
in the
en. A
ce it
r per
gy
y
ild-
in
m
he
ls.
ed
of
ice
d



Figure 8b. LNG storage facility

Chapter 5:

High Performance Teams

This means ALL employees contribute

Some improvements are planned. Some improvements are scheduled and expected. And some of the best improvements come from the minds of our employees who have taken our shareholder value mission to heart. It shows.

Many of our employees are in jobs that, by their nature, demand routines. But the new and better ways they have found to do their work show they hardly consider their jobs routine. Our employees have developed and worked out the kinks in technology and innovative work practices to drive down costs and spur the pace of our daily operations. They have eliminated or automated functions that would mire most traditional utilities in paperwork. Our employees have come through the gauntlet of reshaping our core distribution business as a result of the deregulation of Georgia's natural gas market. They have emerged with a fierce determination and refreshing resilience as we rewrite the rules of how to be a new breed of gas company. Our most basic business processes – working customer orders, dispatching crews, installing new services – are now subject to rigorous assessment and improvement by our employees every day. In short, we have taken what we do well and brought it to a higher level.

Over this past year, our employees have transformed a number of our key functions:

Better Leak Order Processes

Team members recognized that the technology of a hand-held computer could make a world of difference in completing our leak order survey process.

They have developed applications that will allow our crews and contractors next year to use hand-held computers to complete and streamline the leak order form process. Using this technology saves the cost of call-backs and reduces reporting time at the end of the day from approximately 45 minutes to five minutes.

Innovations in Construction and Maintenance

We launched MeterExpress, another time-saving tool that allows the meter of a new home to be installed earlier in the homebuilding process. This new approach means we no longer have to make a return trip to light appliances for meter sets in residential new construction. Instead, builders can now determine and control when the fuel line is connected, when the mechanical inspection takes place, and when the appliance light up occurs.

We also are offering our expertise in constructing and managing distribution systems to other municipalities or industrial developments. We are already working with the city of Quitman, Georgia, serving as its gas system maintenance department. In Grantville, Georgia, we are managing the city's gas system replacement project.

Streamlined Purchase Functions

We are incorporating the PeopleSoft® supply chain modules into our financial systems to make accounts payable, employee reimbursement, inventory, and purchasing functions more streamlined and practically paperless. One of the goals of the system is to create a platform for a company-wide e-commerce strategy to facilitate faster, simpler interaction with vendors and suppliers.

... company employees, service crews, administrative staff, supervisors, technicians and plant engineers.

Memorandum

TO: All Team Members

SUBJECT: ~~Work Practices~~

Innovation

encourage you to continually improve our approach to

We will be ~~implementing standard procedures~~ for all basic business processes.

The procedures ~~have been~~ developed and ~~approved by senior management~~ and should be ~~followed at all times~~ to ensure work is ~~done in a routine fashion~~.

are best

teams closest to the work

measured

adding to shareholder value.

If you have any ~~questions~~, you should refer them to your supervisor.

ideas

to raise them with

and team members.

we encourage



Figure 11a. Sample memorandum