AGL RESOURCES INC
Form 8-K
November 07, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 7, 2002

AGL RESOURCES INC.

(Exact Name of Registrant as Specified in Charter)

| | | |
|---|---|---|
| Georgia | 1-14174 | 58-2210952 |
| (State or Other Jurisdiction Of Incorporation | (Commission File No.) | (IRS Employer Identification No.) |

817 West Peachtree Street, NW, Suite 1000, Atlanta, Georgia 30308

(Address of Principal Executive Offices) (Zip Code)

(404) 584-9470

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Item 9. Regulation FD Disclosure

Materials discussed at the AGL Resources Inc. 2002 Analyst Conference to be held on November 6-8,2002.

Forward-Looking Statements

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. The future results and securities values of AGL Resources and its subsidiaries may differ materially from those expressed in the forward-looking statements contained throughout these presentations and in documents filed with the Securities and Exchange Commission. Many of the factors that will determine these results and values are beyond AGL Resources' ability to control or predict. The statements are necessarily based upon various assumptions involving judgments with respect to the future, including, among others, the ability to achieve synergies and revenue growth; national, international, regional and local economic, competitive and regulatory conditions and developments; technological developments; capital markets conditions; inflation rates; interest rates; energy markets; weather conditions; business and regulatory or legal decisions; the pace of deregulation of natural gas; the timing and success of business development efforts; and other uncertainties and risks. You are cautioned not to put any undue reliance on any forward-looking statement, and to consult the company's periodic public SEC filings for other risks and factors that could materially impact the company's operations and financial results.

Delivering Value

Paula G. Rosput

Chairman, President and CEO

AGL Resources

Analyst Conference

November 6-8, 2002

Miami, Florida

[AGL Resources logo appears here]

Our Success Has Been Deliberate

[The following data is presented in graphic format]

| | Year-to-Date | Last Twelve Months | Trailing 24 Months | Trailing 36 Months |
|---|---|---|---|---|
| AGL Resources | 6.4% | 13.0% | 16.6% | 34.5% |
| LDC Index | (2.9)% | 1.9% | 9.3% | 6.8% |
| S&P 500 | (22.0)% | (18.3)% | (34.7)% | (34.2)% |
| Large-cap LDC Index | (5.2)% | (1.0)% | 5.1% | (0.9)% |
| Mid-cap LDC Index | 6.0% | 10.3% | 27.5% | 24.4% |
| Small-cap LDC Index | (19.7)% | (12.3)% | (19.1)% | (12.5)% |
| Data includes closing prices through November 1, 2002 | | | | |

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A Multi-Year Plan That Features:

- A fundamentals orientation
- Management's value philosophy
- Spectrum of necessary skill sets
- Discipline in execution
- We like to "kick the tires"

3

2002 Milestones

[The following data is presented in graphic format]

Improve earnings

Change the Regulatory Paradigm

Accelerate Telecom

Jan

- AGLN AT&T Deal Signed

April

- 1Q: $0.90 vs. $0.87 First Call
- AGLC/GPSC establish PBR

May

- Sequent one-year mark (3 Bcf/day)
- Producer Services Initiated

June

- Completed Atlanta network

July

- 2Q: $0.22 vs. $0.20 First Call
- Credit Default avoided with merchants [Graphic indicates Jun-Oct+)
- AGLN Emory deal signed

Aug

- Credit Facility Closing
- AGLN B of A deal signed

Sept

- WNA Approved for VNG
- AGLN Expands into:

- Kansas City
- St. Louis
- Richmond
- Phoenix

Oct

- 3Q: $0.17 vs. $0.14

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What Are The Fundamentals for 2003?

- Pervasiveness of financial distress in the industry
- Volatility of underlying commodity
- Deepening governmental involvement
- Understanding value cycle
- Acquisition ambition tempered by value cycle realities

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Financial Distress in the Industry

[The following data is presented in graphic format]

Market Capitalization Changes (Last 12 Months)

RECENT CREDIT DOWNGRADES

Williams - July 2002 - outlook NEGATIVE

Dynegy - July 2002 - outlook NEGATIVE

Duke Energy - August 2002 - outlook STABLE

Aquila - September 2002 - outlook NEGATIVE

Mirant - October 2002 - outlook NEGATIVE

CenterPoint (Reliant) - November 2002 - outlook NEGATIVE

El Paso - October 2002 - outlook NEGATIVE

Energy East - March 2002 - outlook STABLE

Sempra Energy - March 2002 - outlook STABLE

UGI - September 2002 - outlook STABLE

PGL - September 2002 - outlook NEGATIVE

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Financial Distress In the Industry

In millions

As of 9/30/02

| | | Gross Receivable | Gross Payable |
|---|---|---|---|
| Receivables with netting agreements in place: | | | |
| | Counterparty is investment grade | $87.6 | $75.8 |
| | Counterparty is non-investment grade | 11.2 | 16.0 |
| | Counterparty has no external rating | 2.0 | 13.6 |
| Receivables without netting agreements in place: | | | |
| | Counterparty is investment grade | 6.2 | 16.6 |
| | Counterparty is non-investment grade | - | - |
| | Counterparty has no external rating | - | 0.4 |
| Amount recorded on balance sheet | | $107.0 | $122.4 |

Credit support and netting are essential *in real time*

7

Distress is Not Unique to Energy Industry

| | Stock Price | | Shares | Market Cap | | Value |
|---|---|---|---|---|---|---|
| Company | $/Share | | Outstanding | ($ Billions) | | Degradation |
| | Jan-00 | Recent | (Millions) | Jan-00 | Recent | ($ Billions) |
| Cisco | 55.00 | 14.34 | 7,315 | 402.3 | 104.9 | 297.4 |
| Nortel | 55.00 | 2.32 | 3,206 | 176.3 | 7.4 | 168.9 |
| Alcatel | 40.00 | 7.07 | 1,231 | 49.2 | 8.7 | 40.5 |
| JDS Uniphase | 80.00 | 3.62 | 1,519 | 121.5 | 5.5 | 116.0 |
| Lucent | 50.00 | 2.26 | 3,407 | 170.4 | 7.7 | 162.7 |
| Ericsson | 15.00 | 1.52 | 8,059 | 120.9 | 12.2 | 108.6 |
| WorldCom | 60.00 | 0.09 | 2,963 | 177.8 | 0.3 | 177.5 |
| Nokia | 42.00 | 21.50 | 4,737 | 199.0 | 101.8 | 97.1 |
| Motorola | 40.00 | 14.70 | 2,267 | 90.7 | 33.3 | 57.4 |

Over $1.2 Trillion of stockholders' equity lost in 30 months

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Volatility

[Graphic appears here]

- Continue to seek regulatory partnerships to dampen effects
- Recognize that longer-term business prospects lie in managing volatility, rather than retailing it

[Graphic appears here]

9

Market Is Becoming More Peak Reliant

[Graphic appears here]

10

Regulatory Environment

[Graphic appears here]

We continue to invest the resources to do the job right.

11

[Graphic appears here]

12

Return on Invested Capital
(Based on AGLR Core Earnings)

[Graphic appears here]

The challenge of moving a behemoth

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Valuations as Multiple of EBITDA

[The following data is presented in graphic format]

| | |
|---|---|
| El Paso/TPC | 8.9X |
| Williams/Transco | 8.3X |
| Mid-American/Kern River | 7.1X |
| Mid-American/NNG | 7.3X |
| Atmos/MS Valley | 11.4X |
| Piedmont/NCNG | 12.8X |

- Recent decline in valuation from historical precedents
- Recent pipeline deals acquired at 6.5x - 7.5x LTM EBITDA -- below historical pipeline range of around 8.0x
- Strategic buyers must be able to make the multiples work!

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Proven Track Record in Consolidation

- VNG accretive in nine months, using 100% debt
- VNG scenarios at 40% equity financing
- Equity will be a key ingredient in future transactions

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Matching Our Valuation to Likely Opportunities

[The following data is presented in graphic format]

| | |
|---|---|
| ATG | 13.4X |
| GAS | 11.3X |
| EAS | 13.1X |
| OKE | 14.1X |
| PGL | 13.1X |
| PNY | 17.6X |

| | |
|---|---|
| WGL | 18.0X |
| WGR | 29.1X |
| ATO | 14.5X |
| NJR | 14.6X |
| NWN | 15.7X |
| SUG | 9.9X |
| SWX | 15.6X |
| UGI | 13.9X |
| CGC | 16.3X |
| LG | 17.1X |
| NUI | 11.7X |
| Data includes closing prices through October 24, 2002 | |

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Strategy for 2003

- Measurably improve return on invested capital (ROIC) in base business
- Increase asset management business
- Build repeatable multi-city telecom business
- Execute on opportunities to take advantage of current industry distress
- Enhance strength of balance sheet

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Financial Overview and Strategy

Richard T. O'Brien

Executive Vice President

and Chief Financial Officer

AGL Resources

Analyst Conference

November 6-8, 2002

Miami, Florida

{AGL Resources logo appears hear}

Forward-Looking Statements

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. The future results and securities values of AGL Resources and its subsidiaries may differ materially from those expressed in the forward-looking statements contained throughout these presentations and in documents filed with the Securities and Exchange Commission. Many of the factors that will determine these results and values are beyond AGL Resources' ability to control or predict. The statements are necessarily based upon various assumptions involving judgments with respect to the future, including, among others, the ability to achieve synergies and revenue growth; national, international, regional and local economic, competitive and regulatory conditions and developments; technological developments; capital markets conditions; inflation rates; interest rates; energy markets; weather conditions; business and regulatory or legal decisions; the pace of deregulation of natural gas; the timing and success of business development efforts; and other uncertainties and risks. You are cautioned not to put any undue reliance on any forward-looking statement, and to consult the company's periodic public SEC filings for other risks and factors that could materially impact the company's operations and financial results.

Financial Management Philosophy

- Low-cost asset operator
- Disciplined financial approach
- No planes, executive loans, etc.

  - Attention to detail
  - Weekly operations and financial assessment
  - Monthly earnings and accounting reviews
  - Frequent strategic reviews and planning sessions

  - Risk management
  - Strong risk management capability in all business units
  - Maintain physical, asset-based approach to asset optimization efforts

  - Earnings visibility and transparency remain key financial goals for ATG

Third Quarter Financial Results

{bar graph depicting}

Earnings Per Share

2001 $0.09

2002 $0.17

Earnings Drivers

- Strong wholesale services performance due to volatility
- Improved year-over-year results from SouthStar
- Increased revenues and lower expenses in Distribution Operations
- Lower interest expense

YTD 2002 Financial Results

{bar graph depicting}

Earnings Per Share

2001 $1.22

2002 $1.28

Earnings Drivers

- Lower utility O&M, including depreciation
- Higher utility revenues (pipeline replacement)
- Improved contributions from SouthStar
- Increased EBIT contribution from market opportunities at Sequent
- Lower interest expense

EBIT - 2002 vs. 2001 For Quarter Ended September 30 (in millions)

{waterfall graph appears here}

Prior Year $30.9

AMR ($6.4)

PY Corp SSE Res ($6.0)

Rate Settlement ($1.8)

VNG, CGC volumes ($1.4)

SSE Unbilled Issue $5.7

Wholesale $4.2

Corp. OH/Bad Debt $4.1

PY Etowah W/O $2.6

Pipeline Repl. Rev $2.4

Propane/Networks $2.2

Actual $36.0

EBIT - 2002 vs. 2001 For Nine Months Ended September 30 (in millions)

{waterfall graph appears here}

Prior Year $175.7

Utilipro gain ($10.9)

Corp. Reserves ($8.6)

AMR ($6.4)

PY Storage Adj. ($4.9)

VNG Weather ($3.5)

SouthStar $13.6

Lower DO O&M $9.2

Pipeline Repl. $4.7

Lower Service Co. OH $4.2

PY Etowah W/O $2.2

Propane $1.6

Actual $176.5

Cash Flow Projections (in millions of dollars)

{bar chart depicting Total Cash Outflow for Investing and Financing}

2002

$361 Cash Inflow

$313 Cash Outflow (including: Other Cap Ex, Bare Steel Cap Ex, Interest Payments, Dividends, and MGP)

2003

$320 Cash Inflow

$316 Cash Outflow (including: Other Cap Ex, Bare Steel Cap Ex, Interest Payments, Dividends, and MGP)

2004

$350 Cash Inflow

$331 Cash Outflow (including: Other Cap Ex, Bare Steel Cap Ex, Interest Payments, Dividends, and MGP)

2005

$360 Cash Inflow

$338 Cash Outflow (including: Other Cap Ex, Bare Steel Cap Ex, Interest Payments, Dividends, and MGP)

Cash Flow Strategy

- Company will be cash positive by improving margins
- Focus on capital efficiency and effectiveness
- Improved processes around timing/amount of capital spending
- Improve coverage ratios
- Continuously improve cash forecasting processes and cash realizations from each business

Secure Dividend

{Bar & Line chart depicting Core EPS, DPS, and Payout Ratio}

| | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002F |
|---|---|---|---|---|---|---|
| Core EPS | $1.37 | $1.56 | $0.91 | $1.24 | $1.50 | $1.73-1.78 |
| DPS | $1.08 | $1.08 | $1.08 | $1.08 | $1.08 | $1.08 |
| Payout Ratio | 79% | 70% | 119% | 87% | 72% | 62% |

- We are committed to the security of the dividend
- Board continues to evaluate future dividend increase

Earnings Guidance

- 2002

- Revised guidance upward to \$1.73 to \$1.78 per share (from previous \$1.65 to \$1.70)
- Improved expectations reflect strong 3Q and YTD performance

- 2003
- Will provide an update in January after formal budgeting and planning process is complete and approved by the Board

Achieving Size and Scale

- Financial distress pervades the industry
- Assets are beginning to be marketed and change hands
- Recent decline in valuations
- Focus on LDC and/or pipeline assets in the Southeast
- Must meet stringent investment criteria
- Sometimes the deal you don't do is as important as the one you do

Operational and strategic options using an analytical framework we continue to develop

Current Asset Portfolio

- Financial pro forma
- How would new assets fit in?

External Market Conditions

- What assets are available and attractively priced?
- Synergies from combination

Internal Considerations

- Balance sheet issues
- EPS growth targets
- Management capabilities

Decision and Financial Analysis Framework

- Identify internal improvements
- Prioritize improvement initiatives
- Screen opportunities
- Balance sheet considerations

Prioritized Strategic Options

- Internal Options
- Benchmark to others
- Regulatory framework

- External growth
- Divest/acquire

Approach Business as Portfolio of Opportunities - Buy or Sell

A Unique Investment Opportunity

- Premier LDC assets with stable cash flows
- Reasonable pace of growth in developing non-utility businesses to complement utility earnings
- Strong, investment-grade credit
- Attractive dividend yield
- Improving balance sheet
- Strong management team that delivers on promises
- Continuing focus on cost containment and improving return on invested capital
- Proven track record of organic growth and acquisition consolidation
- Acquisition upside potential
- Trade at a discount to peer group

Delivering Value

through Distribution & Pipeline Operations

Kevin P. Madden

Executive Vice President

AGL Resources

Analyst Conference

November 6-8, 2002

Miami, Florida

[AGL Resources logo appears here]

Where We Are

- Fundamentals of the Business
- Review of 2002 Goals and Accomplishments
- 2002 Financial Results

- Strategic Thinking
- What to Expect in 2003
- Appendix (Supplemental Data)

2

Fundamentals of the Business

- Managing Customer Growth
- Managing Capital Deployment
- Changing the Regulatory Paradigm

3

Managing Customer Growth

(All Utilities Combined)

[Graphic appears here - depicts customer count 1995-2002]

4

Managing Our Customer Growth

- Regulated Provider
- Multi-family homes initiatives
- Working with developers
- Line extension policies

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Managing Capital Deployment

[Graphic depicts capital expenditures expected for FY02 and FY03 broken down into the following categories: Environmental Response Cost, Pipeline Replacement Program, Distribution/AGLC, Distribution/VNG, IS/T, and Other]

FY 02 Expected is actual at 9/30/02 plus anticipated for 4th quarter

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Managing Capital Deployment

Construction Cost Management

[The following data appears in graphic format]

| | Expansion Cost Per Foot of Main | | | |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 |
| AGLR | $5.90 | $5.29 | $5.95 | $5.41 |
| Benchmark Median | $9.52 | $12.44 | $13.07 | |

7

Changing the Regulatory Paradigm

- AGLC - Performance Based Ratemaking
  - Allows for retention of portion of increased earnings resulting from efficiencies and growth
  - Reduces regulatory uncertainty for 3 years
  - Maintains Straight Fixed Variable (SFV) rate design
- VNG - Weather Normalization
  - Protects earnings from asymmetric effect of weather
  - Provides price stability for consumers
- CGC - Fixed Portion of the Bill
  - Provides certainty and stability for consumers
  - Levels revenue stream through-out the year

8

Review of 2002 Goals

We deliver what we promise. . .

- Increase Earnings
- Georgia
  - Performance Based Rates (PBR)
- Virginia
  - Weather Normalization (WNA)
- Tennessee
  - Rate Stabilization
  - Utilization of LNG Facilities

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2002 Business Results

- EBIT
- Jurisdictional Rates of Return
- AGLC Performance Based Rates
- Classification of Net Assets
- Cost per Customer

10

Comparison of EBIT
Projected 2002 vs 2001

[Graphic depicts the following information]

| $ in Millions | | |
|---|---|---|
| | CY01 | CY02 |
| AGLC | 167.1 | 169.2 |
| VNG | 35.3 | 42.7 |
| CGC | 10.8 | 12.8 |

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Authorized Versus Actual Returns

[The following information is presented in graphic format]

| AGL Resources Utility Operations<br>Return on Equity 12 Months Ended September 30, 2002 | | |
|---|---|---|
| | Percent of Return | |
| | Authorized | Actual |
| AGLC | 12.00 (1)<br>11.00 (1) | 11.85 (2) |

| | | |
|---|---|---|
| CGC | 11.06 | 10.53 |
| VNG | 10.90 | 8.73 (3) |

(1) The authorized ROE is 11.00%. The top of the earnings band is 12.00%. The Company can also include 1/2 of VNG Synergies in calculating the return prior to sharing.

(2) Represents 5 months under new rates and 7 months under previous rates.

(3) Based on actual weather.

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AGLC Performance Based Rates

[Graphic depicts projected Return on Equity for 2002-2005 assuming 1% growth in Revenue and 0% growth in O&M and projected Return on Equity for 2002-2005 assuming 1.5% growth in Revenue and 0% growth in O&M]

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Classification of Net Assets

(as of September 30, 2002)

[Graphic depicts assets for AGLC, VNG, CGC and Total broken down into the following categories: Rate Base, PRP Assets, ERC Assets, and Other]

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O & M per Customer
Projected 2002 vs 2001

[Graphic depicts projected 2002 and 2001 O&M per Customer for AGLC, VNG and CGC]

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Strategic Thinking

Peaking - Growing Peak Day Requirement

[Graphic appears here]

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AGLR Peaking Leadership Position

- Customer needs shifting to peaking
- Leverage our market expertise to capitalize on the shifting needs
- Paradigm shift in meeting deliverability by creating options to traditional upstream transport and storage contracts
- Paradigm shift in solving localized pressure issues; reduces captive investments

[Map "Existing AGL LNG Plants" appears here]

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Southeast Pipeline Infrastructure

- Cypress - Project on hold
- Gulf Pines - Project on hold
- Southeastern Pipeline constraints will lead to bottlenecks and opportunities
- AGLR infrastructure unique in the Southeast

[Map "Proposed AGLR Pipeline" appears here]

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VNG Pipeline Infrastructure

- Columbia's Homestead (southern zone) pipeline construction on hold
- Joint-Use-Pipeline (JUP) strategically located to provide deliverability to five parties (Florida Power, Virginia Power, City of Richmond, Columbia Gas of Va, and VNG)
- Anticipated supply constraints in the VNG "southern zone" in 2005

[Map appears here]

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Final Observations: What to Expect in 2003

- Stability through regulatory compact
- Capital deployment
  - Focus our business where we make our greatest return
  - Drilling down on capital
- Working to achieve authorized returns and share benefits with customers
- Continuing opportunities to improve service and develop wholesale asset opportunities

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Appendix
(Supplemental Data)

- Consolidating Balance Sheets
- Consolidating Income Statement
- Components of Rate Base

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Consolidating Balance Sheet

at September 30, 2002

| | Distribution Segment | AGLC | VNG | CGC |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets | 212,943,869 | 97,584,052 | 73,137,694 | 42,222,122 |
| Property, Plant & Equipment | 2,046,505,669 | 1,580,719,446 | 368,098,358 | 97,687,864 |
| Deferred Debits & Other Assets | 864,239,689 | 681,198,010 | 181,414,335 | 1,627,344 |
| TOTAL ASSETS | $3,123,689,227 | $2,359,501,508 | $622,650,388 | $141,537,331 |
| | | | | |
| LIABILITIES | | | | |
| Current Liabilities | (284,200,693) | (230,554,892) | (33,400,826) | (20,244,975) |
| Accumulated Deferred Income Taxes | (319,241,393) | (292,459,992) | (13,767,417) | (13,013,984) |
| Long-Term Liabilities/Deferred Credits | (616,619,670) | (603,118,823) | (13,982,293) | 481,446 |
| Capitalization | (1,903,627,471) | (1,233,367,802) | (561,499,850) | (108,759,819) |
| TOTAL LIABILITIES | $(3,123,689,227) | $(2,359,501,508) | $(622,650,388) | $(141,537,331) |

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Consolidating Income Statement
Twelve Months Ended 9/30/02

| | Distribution Segment | AGLC | VNG | CGC |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Revenue | 797,142,328 | 519,924,488 | 209,748,067 | 67,469,773 |
| Cost of Sales | 226,292,360 | 78,567,355 | 110,138,981 | 37,586,024 |
| Operating Margin | 570,849,968 | 441,357,133 | 99,609,086 | 29,883,749 |
| | | | | |
| O&M Expenses | 250,886,155 | 198,007,445 | 42,818,847 | 10,059,863 |
| Other Expenses | 106,831,716 | 79,406,133 | 19,706,705 | 7,718,878 |
| | | | | |
| Operating Income | 213,132,097 | 163,943,555 | 37,083,534 | 12,105,008 |
| | | | | |
| Other Income | 10,648,541 | 10,241,726 | (103,651) | 510,466 |
| EBIT | 223,780,639 | 174,185,281 | 36,979,883 | 12,615,475 |
| | | | | |
| Interest Expense | 50,516,089 | 42,034,493 | 8,348,650 | 132,946 |
| Income Taxes | 64,645,667 | 49,498,067 | 10,219,460 | 4,928,140 |
| NET INCOME | $108,618,883 | $82,652,721 | $18,411,773 | $7,554,389 |

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Components of Rate Base

AGL Resources Distribution Operations
Major Common Elements of Rate Base
12 Months Ended September 30, 2002 *(1)*
(Millions)

| | | AGLC | CGC | VNG | Distribution Operations Total |
|---|---|---|---|---|---|
| | | | | | |
| Utility Plant | | 2,276.9 | 151.6 | 524.3 | 2,952.9 |
| Less: | | | | | |
| | Accumulated Provision for Depreciation | 795.7 | 58.4 | 169.0 | 1,023.2 |
| | Contributions in Aid of Construction | 47.2 | 2.2 | - | 49.4 |
| | Accumulated Deferred Income Taxes | 246.1 | 9.0 | 3.9 | 259.0 |
| | Other | 3.0 | 2.6 | 9.9 | 15.5 |
| Balance | | 1,185.1 | 79.4 | 341.4 | 1,605.9 |
| Cash Working Capital | | (58.0) | 16.1 | 10.2 | (31.7) |
| Total Rate Base | | 1,127.1 | 95.5 | 351.6 | 1,574.2 |
| | | | | | |

| |
|---|
| (1) Averaging the average of 12 months of rate base balances results in an average amount which is less than the period end balances. |

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Delivering Value

through Wholesale Services

Robert M. Flavin

Dana A. Grams

Patrick J. Strange

Sequent Energy Management

Analyst Conference

November 6-8, 2002

Miami, Florida

[AGL Resources logo appears here]

Sequent Overview

Robert M. Flavin

Executive Vice President

Sequent Energy Management

Analyst Conference

November 6-8, 2002

Miami, Florida

[AGL Resources logo appears here]

What a Difference a Year Makes...

- Volatility
- Competition

- Credit
- Regulatory Environment

3

Merchant Energy Markets:
What's the Same?
*The Need for a Middle Man*

- Markets are very complex
- Relationships are important
- Supply and transportation balancing
- Credit judgment
- Continuing demand for services

4

Merchant Energy Markets:
What's Different?

- Markets are more available
- Margins are better
- More room to grow
- Greater available talent pool
- Positive effects of volatility

Events have vindicated our strategy

5

AGLR/Sequent's Approach

What We Do

- Based on assets
- Focused on specific geographies
- Strong relationships
- Utility empathy
- Good corporate discipline

What We Don't Do

- Pure speculation
- Round trip trades
- Have long-dated mark-to-model accounting

6

Sequent's Business Infrastructure

[Graphic depicts Sequent's office structure]

- Front Office: responsible for pricing, marketing, trade origination/capture, and scheduling.
- Middle Office: responsible for trade support, trade confirmation, contract administration, portfolio validation, and policy compliance.
- Back Office: responsible for management reporting, trade settlement, and accounting.

7

Asset Management Activities

Dana A. Grams

Vice President Asset Management

Sequent Energy Management

Analyst Conference

November 6-8, 2002

Miami, Florida

[AGL Resources logo appears here]

Sequent Asset
Management Activities

- Transportation and Logistics (place)
- Storage (time)
- Supply and Distribution
- Services

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Wholesale Market Hubs

[Map appears here]

10

[Map appears here]

11

Futures Pricing

NYMEX Natural Gas

[Graphic appears here]

12

Futures Pricing

NYMEX Natural Gas

[Graphic appears here]

13

Futures Pricing

NYMEX Natural Gas

[Graphic appears here]

14

Typical Example of

Storage Arbitrage*

- Inject Gas into storage in May
- Withdraw Gas and Sell to Market in January

| Arbitrage | |
|---|---|
| May 02 NYMEX | $3.00 |
| May 02 Physical Basis | -.03 |
| | $2.97 |

| | |
|---|---|
| January 03 NYMEX | $3.80 |
| January 03 Physical Basis | -.03 |
| | $3.77 |
| | |
| Margin | $0.80 |

| Cost and Fees | $/MMBtu |
|---|---|
| Transportation to Storage | $0.07 |
| Injection Fee | $0.10 |
| Withdrawal Fee | $0.05 |
| Time Value of Money | $0.12 |
| Total Costs | $0.34 |

*Not differentiated by jurisdiction

15

Gas Supply and Distribution

Patrick J. Strange

Vice President Supply and Distribution

Sequent Energy Management

Analyst Conference

November 6-8, 2002

Miami, Florida

[AGL Resources logo appears here]

Sequent's Supply and Distribution Activities

- Gas Supply (acquisition/aggregation)
- Transportation and Storage
- Marketing

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Sequent Counterparties

| Producers | Pipelines | Markets |
| --- | --- | --- |
| Adams Resources | ANR | Alabama Gas Corp. |
| Amerada Hess | Bridgeline | Ashland |
| Petrofina | Centerpoint | Baltimore Gas & Electric |
| Anadarko | Columbia Gas | Bethlehem Steel |
| Bass Enterprises | Columbia Gulf | Carolina Power & Light |
| BP Amoco | Destin | Columbia Gas |
| Conoco Phillips | Dominion Transmission | Delmarva |
| ExxonMobil | East Tennessee | Entergy |
| Houston Exploration | Florida Gas | Florida Power |
| Hunt Exploration | Gulf South | International Paper |
| Swift Energy | Kinder Morgan Texas | Michigan Consolidated |
| Total Fina | Tennessee Gas | New Jersey Natural |
| Unocal | Texas Gas | PCS Nitrogen |
| | Transco | SCANA |
| | Southern Natural | |

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Natural Gas Storage Is An Important Part of Our Business

[Map appears here]

19

Transportation Logistics

"The sum of the parts is greater than the whole"

[Map appears here]

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Looking Forward

Robert M. Flavin

Executive Vice President

Sequent Energy Management

Analyst Conference

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Future Directions:
Business Development

- Filling the void for customers
- Deepening contractual asset base
- Developing relationships with strong counterparties
- Maintaining the right risk/return profile

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Formula for Success:
Industry Factors to Watch

- Value and volatility of natural gas
  - Natural gas supply
  - Seasonality (hot summer/cold winters)
  - Market disruptions (hurricanes)
- Market dislocations
- Price and volatility of competitive fuels

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Formula for Success:

Financial Resources

- Required working capital
  - Provided by cash flow much of the year or short term borrowings from AGLR under money pool arrangement
  - $15 million Bank One line of credit covers margining on the commodity futures exchange
  - Typical month's working capital is minimal
- Fixed capital deployment
  - Depreciation and Amortized items "negligible" at approximately $3 million

24

Wholesale Services Receivables/Payables

| In millions | Gross Receivable | Gross Payable |
|---|---|---|
| Contracts with netting agreements in place: | | |
| Counterparty is investment grade | $87.6 | $75.8 |
| Counterpart is non-investment grade | 11.2 | 16.0 |
| Counterparty has no external rating | 2.0 | 13.6 |
| | | |
| Contracts without netting agreements in place: | | |
| Counterparty is investment grade | 6.2 | 16.6 |
| Counterpart is non-investment grade | - | - |
| Counterparty has no external rating | - | 0.4 |
| Amount recorded on balance sheet | 107.0 | $122.4 |

As of 09/30/02

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Formula for Success:
Financial Resources

- Required working capital

- Provided by cash flow much of the year or short term borrowings from AGLR under money pool arrangement
- $15 million Bank One line of credit covers margining on the commodity futures exchange
- Typical month's working capital is minimal

- Fixed capital deployment

- Depreciation and Amortized items "negligible" at approximately $3 million

26

Wholesale Services

Financial Performance

| (in millions $) | Total 2001 | First 9 Months 2002 | Combined |
|---|---|---|---|
| Gross Margin | 17.6 | 14.9 | 32.5 |
| Operation Expenses | 8.8 | 9.8 | 18.6 |
| Taxes other than income | 0.1 | 0.3 | 0.4 |
| Total Operating Exp | 9.0 | 10.1 | 19.1 |
| Write off of Etowah LNG | -2.6 | | -2.6 |
| Other Income | 0.4 | 0.0 | 0.4 |
| EBIT | 6.4 | 4.8 | 11.2 |

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Summary

- We focus on business fundamentals.
- Ours is a simpler business than those who have gone before us, not glamorous or risky.
- We will grow it consistent with market timing and our ability to maintain a strong control environment.

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Delivering Value through Risk Management

Gene Rozgonyi

Chief Risk Officer

AGL Resources

Analyst Conference

November 6-8, 2002

Miami, Florida

{AGL Resources logo appears here}

Enterprise Risk

Board Level Finance and Risk Management Committee

- ♦ Executive Risk Management Committee
- ♦ Chief Risk Officer

Risk Observation, Reporting, & Recommendations

Weather

Commodity

Insurance

Treasury

Regulatory

Operational

Credit

Enterprise Risk

- Expansive - The enterprise risk initiatives incorporate the efforts of traditional insurance, credit, capital allocation, quality movements, safety, and trading and marketing risk management.

- Systematic - AGLR's Enterprise risk efforts are conducted thoughtfully and methodically throughout the corporation
- Specific - The unique nature of each risk is addressed, understood, and managed to provide meaningful information.
- Awareness - A risk aware culture is promoted in all business units.
- Evolving - The risk management framework acts to support the continued development of metrics, analysis and observations.
- Value - The enterprise risk efforts preserve and enhance value by effectively assessing and mitigating factors that affect the activities and earnings of the corporation.

AGLR "Umbrella" Risk Management Policy

- Identification
- Definition
- Purpose
- Instruments/Activities
- Measurement Methodology
- Monitoring
- Limit Structure
- Compliance
- Responsibilities
- Reporting

Sequent/Commodity Risk Management Policy

- Fair Value Valuation Policy
- Credit Policy and Procedures

Operations Risk Management Policy

Interest Rate Risk Management Policy

Credit Risk Management Policy

Earnings at Risk

- Canvass - all business units for embedded risks.
- Identify and quantify potential range of uncertainty around specific risks.
- Create - the unique nature of each risk is addressed, understood, and managed to provide meaningful information.
- Build Earnings at Risk (EaR) model.
- Mitigate manageable exposures through the development of action plans.
- Report findings to Risk Management Committee and Finance & Risk Management Committee.

Sequent Risk Profile

- Asset backed operations

- Arbitrage/ back to back transactions
- Low open position results in a low VaR
- Price transparency - short tenor transactions
- Niche one-commodity, one region player - Southeast market
- Top 10 counterparty exposure A- rated
- Rolling best-practice diagnostics

Reported Risk Metrics

- P&L daily, monthly, quarterly, year-to-date
- 1 and 20-day VaR
- Scenario stress testing
- Credit exposure metrics
- Limit monitoring

{graphic of Sharpe Ratio 2.87}

Sharpe Ratio - Benchmarks

| Mutual Funds: | Trading Systems: |
|---|---|
| Sharpe>0 | Sharpe>0 |
| Sharpe>1 "Pretty Good" | Sharpe>1 "Very Good" |
| Sharpe>2 "Outstanding" | Sharpe>2 "Outstanding" |

Summary

- Risk management is real-time and evolving activity
- AGLR enterprise-wide, touches all business units
- Deep engagement in business activities
- On the trading floor daily
- Driving force for implementing and maintaining best practices
- Direct reporting to Board Finance and Risk Management Committee

Delivering Value
through Finance

Drew Evans

Vice President and Treasurer

AGL Resources

Analyst Conference

November 6-8, 2002

Miami, Florida

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Asset Deployment

- Regulated businesses represent over 90% of total assets deployed
  - Under regulatory compact in 3 states
- Wholesale Services has approximately $210 million in assets or 6% of total
  - Primarily storage positions and working capital requirements
- Energy Investments has approximately $150 million in assets or 4% of total
  - AGL Networks, SouthStar, US Propane

[The following information is presented as a graphic]

Distribution Operations - 90%

Wholesale Services - 6%

Energy Investments - 4%

$3.5 Billion in total Assets

2

Assets and Liabilities

- Nearly $3.5 billion of total assets and liabilities in our business
  - Book value of equity of approximately $760 million
  - Total debt of approximately $1.4 billion
  - Remainder represents AP/AR, deferred credits, income taxes, and accrued liabilities
- Equates to debt to capitalization of 65%

[The following information is presented as a graphic]

Debt - $1,390 million

Equity - $760 million

3

Liability Composition

- Total liabilities of approximately $1.4 billion
- Comprised of standard and simple instruments
  - Bank Facility
  - Medium Term Notes
  - Senior Notes
  - Trust Preferred
- Provides for flexibility across the issuance spectrum

[The following information is presented as a graphic]

Trust Preferred - $225 million

Senior Notes - $300 million

Medium Term Notes - $545 million

Short Term Debt - $320 million

As of 3Q02

4

Bank Facility

- Bank Facility Renewed in August
  - $500,000,000 Credit Facility
  - $200,000,000 364-day facility
  - $300,000,000 Three-year facility
  - One year term-out option on the 364-day facility
  - Debt-to-Capitalization not to exceed 70%
  - Minimum Consolidated Net Worth of $586 million, plus 25% of net income and 80% of equity offering proceeds

- Commercial Paper Program
  - Very well subscribed
  - Paper prices very tightly to benchmarks
  - Goal is to maintain consistent bucketing of maturities to capture benefit in short term rates
  - 50% 30-days or less
  - 25% 30 to 60 days
  - 25% 60 to 90 days
  - Issuance over 2003 has already begun

- Material Adverse Change clause only at Closing
- Backstop to commercial paper

5

Maturity Schedule

[The following information is presented as a graphic]

| | Millions |
|---|---|
| 2002 | $48.0 |
| 2003 | $30.0 |
| 2004 | $33.5 |
| 2005 | $42.0 |
| 2006 | $10.0 |
| 2011 | $300.0 |
| 2012 | $15.0 |
| 2013 | $69.1 |
| 2014 | $7.2 |
| 2015 | $11.2 |
| 2017 | $22.0 |
| 2019 | $43.5 |
| 2021 | $30.0 |
| 2022 | $46.0 |
| Thereafter | $362.5 |

- Burden of refinancing given current maturity schedule is very light
- Goal is to allow near term maturities to be absorbed into short term debt
- Allows for more liquid and better priced instruments to be issued

6

Fixed to Floating Mix

- Very near targeted levels
- To increase the percentage of floating in the mix, AGLR entered into a fixed-for-floating swap in Nov. '01

- Currently produces about $900k in positive carry each quarter
- Currently has a market value in excess of $3 million

- We will take advantage of the historically low yields on corporate bonds

[The following information is presented as a graphic]

Floating Debt - 28.4%

Fixed Debt - 71.6%

As of 3Q02

7

Contingent Capital

- AGLR has contracts with adequate assurance provisions relating to trade credit/payment on behalf of Sequent
- Normal course of business assurances
- Small percentage of contracts would require cash collateralization if AGLR were downgraded below investment grade
- Total capital outflow would be $22.3 million
- Value is disclosed in recent 10Q and will be reported prospectively

8

Ratings

- Currently BBB+, Baa1 and BBB+ with S&P, Moody's and Fitch respectively
- Slightly more levered than the benchmark, AGLR continues to exceed goals established with agencies when VNG was acquired
- Continue to keep the agencies apprised of our activities

9

Pension

- Pension asset has suffered same fate as majority of Fortune 500 and is 14 percent smaller than year-end 2001
- Pension was fully funded at that time
- Due to decline in asset value and reduction in rate used to discount asset, an unfunded "ABO" may exist at the end of the plan year
- AGLR is currently looking at alternatives to reduce the impact of this shortfall, including:

- Funding entire shortfall to reduce impact on common equity
- Partial funding to allow the asset value to grow

10

Summary

- Continue to have good access to capital
- Minimal contingent liabilities
- Actively manage to maintain solid investment-grade ratings

11

Delivering Value through AGL Networks

Eric Martinez

Executive Vice President

AGL Networks

Analyst Conference

November 6-8, 2002

Miami, Florida

{AGL Resources logo appears here}

Agenda

- **AGL Network Overview**
- **Business Model**
- **Strategy and Tactics**
- **Why Our Model Will Succeed**

- **Financials**

- **Growth**

AGLN Overview

First, Some Definitions

- *POP*
  (Point of Presence) - The point at which a line from a long distance carrier (IXC) connects to the line of the local telephone company or to the user directly.
- *CO*
  (Central Office) - a telephone company building that houses switching equipment for connecting other subscribers to each other, locally and long distance
- *Carrier Hotel*
  - a term for a building that houses many local and long distance telephone companies, usually owned by a "disinterested" third party
- *Colocation*
  - a competing phone company providing network connections to several carriers housed together in a server room.
- *RBOC*
  (Regional Bell Operating Company) - the dominant local phone carrier within a specific geographic region (i.e. Bell South)
- *CLEC*

(Competitive Local Exchange Carrier) - a local phone company that competes with the ILEC (i.e. MFN, Time Warner Telecom, Level 3, Winstar)

Signaling Speeds

| | | | |
|---|---|---|---|
| T-1/DS-1 | 24 | Simultaneous Digitized signals | |
| DS-3 | 28 | T-1's | 45 Mbps |
| OC-3 | 3 | DS-3 | 155 Mbps |
| OC-3 | 3 | DS-3 | 155 Mbps |
| OC-12 | 12 | DS-3's | 622 Mbps |
| OC-48 | 48 | DS-3's | 2,448 Mbps |
| OC-192 | 192 | DS-3's | 10,000 Mbps |

Telecomm Schematic

Current Network View

- POP
- CO
- Internet
- COLO
- Long distance
- Internet
- ILEC/CLEO

    - ♦ tandem
    - ♦ CO
    - ♦ POP
    - ♦ Long distance

Fiber View

{graphic of metro Atlanta network}

Business Model

- Infrastructure Provider
- Conduit
- Dark Fiber

    - Metropolitan Networks
    - Distressed Assets
    - Connectivity to Building Wall - "Revenue Ready"
    - Connectivity to Wireless and Next Generations

{Map of metro Atlanta network}

Atlanta Network

- ♦ 175 miles
- ♦ 8 conduits
- ♦ 8 rings

Location

- ♦ Downtown
- ♦ Midtown
- ♦ Buckhead
- ♦ Sandy Springs
- ♦ Galleria
- ♦ Airport
- ♦ Alpharetta

Connected to

- ♦ Carrier hotels
- ♦ POP's
- ♦ LSO's
- ♦ Enterprise Buildings

Target Market

Interexchange Carrier

- IXC's (Carriers) preceded development of local infrastructure
- They rely on their own national backbone for transport and depend on metro access providers for dark fiber rings in the metro core
- The lack of local fiber is the reason much of the long-haul fiber is unused
- IXCs and the metro providers will need fiber facilities in the last mile to compete in end-to-end services

Target Market

Regional Bell Operating

Companies (RBOC's)

- What they require:
  - ♦ Fiber capacity/connectivity needs vs copper
  - ♦ Redundancy
  - ♦ Local capabilities for out-of-region RBOCs for their largest customers
  - ♦ Out of region RBOC, not relying on in region RBOC, for facilities
  - ♦ Infrashare - Large capital investments dispersed amongst several players

Target Market

Enterprise/Institutions

- Data-rich applications are requiring more capacity to move information between users in a timely manner.
  - ♦ Video conferencing
  - ♦ Check imaging and credit card processing
  - ♦ Storage Area Networks

- Internet traffic grew approximately 100% in 2001. Data traffic now constitutes well over half of all network traffic (vs. voice)
- Local RBOC infrastructure does not address needs quickly or cost-effectively

Source: Telecommunications Industry Association (TIA), Sept. 2002

A Balanced Portfolio

{Pie chart depicting Contract Valuation Year-to-Date 2002}

Enterprise 49%

IXCs 29%

ISPs 17%

Universities 5%

Opportunities for AGL Networks

- In-place assets are available at cents on the dollar
- Competitors' business strategies and infrastructure are not geared toward dark fiber sales
- Customers uneasy over bankruptcies of large providers
- RBOCs' tariff structures and marketing practices do not allow them to be competitive
- Inexpensive electronics allow enterprise customers to "light" their own networks

How We Make Money

- All transactions thus far are term leases rather than asset sales, predominantly with upfront cash
- 467 tax code applies, which allows for the receipt of cash up-front, while taxes are paid over the term of the lease
- Revenue is recognized over the term of the contract
- Possibility of asset sales remains to anchor incremental markets

What We Have Learned From Others

- Poor market positioning - No differentiation between "me too" strategies, everyone had to own their own system
- Overly optimistic demand growth forecasts - High expectations on penetration and up-selling opportunities in all market segments
- Terrible CAPEX Management - Overspent on assets to implement poorly managed growth creating too much debt load
- Low barriers to entry - Capital too easily available, enticing market entrants
- Poor management practices - Limited controls, reliance on continued equity appreciation to cover mistakes, "shoot from the hip" strategies

Capital Invested 2002

{bar graph appears here Q1, Q2, Q3 & Q4 (estimates): Total Year-end CAPEX: $32.5M}

2002 YTD Financial Summary

{bar graph appears here Earned Revenue, Deferred Revenue, Cash & Capital}

| Totals *(in millions of dollars):* | |
|---|---|
| Earned Revenue | $1.6 |
| Deferred Revenue | $18.9 |
| Cash | $13 |
| Capital | $22.5 |

2002 Year-End Estimate

{bar graph appears here Earned Revenue, Deferred Revenue, Cash & Capital}

| Totals *(in millions of dollars):* | |
|---|---|
| Earned Revenue | $1.9 |
| Deferred Revenue | $33.9 |
| Cash | $34.5 |
| Capital | $32.5 |

Growth Strategy

- Increase utilization through leasing
- Penetrate additional markets
- Create new services

Future Growth - Increase Utilization

Fiber Miles in Inventory

{

Pie graph appears here: 96% Available; 4$ Sold}

Future Growth - New Cities

Growth Strategy

- Turnkey
- St. Louis
- Kansas City
- Richmond

  - Anchor Tenet
  - Atlanta
  - Phoenix

  - Infrastructure
  - Exploring potential of cities with similar characteristics to Atlanta

{map of United States appears here: Phoenix, Kansas City, St. Louis, Richmond, and Atlanta}

City Selection Criteria

- Sun Belt locale, growing from our southeast sphere of influence
- Tier 1 city or population greater than 2 million
- Retail Revenue must be greater than $1 billion
- Competition
- Footprint
- Business Plans
- Companies

  - Asset investment
  - Must be able to own conduit and interest in manholes
  - Distressed

  - City relations
  - Customers - anchor tenet pulling us there

{map of metro Phoenix network appears here}

Phoenix Network

- 60 miles
- 1 conduit
- 3 rings

Location

- Downtown
- Midtown
- Airport

Connected to

- Carrier hotels
- POP's
- LSO's

Phoenix vs Atlanta

Phoenix

- Entered by buying bankrupt asset
- Third party provides maintenance
- 60 conduit miles
- 17,280 fiber miles
- 545 businesses over 250 employees
- 10 headquarters of Fortune 1000

Atlanta

- Entered by buying bankrupt asset
- We provide maintenance
- 175 conduit miles
- Approx. 50,000 fiber miles
- 774 businesses over 250 employees
- 24 headquarters of Fortune 1000

Future Growth - Services

Wireless Industry

- Wireless represents 12% of all calls today, expected to grow to 25% by 2005*
- Due to higher capacity applications being introduced for wireless devices, bandwidth is growing at 130% per year**
- Looking for high speed and low speed solutions

*Insight Research Corporation - 4/2002

**CIBC - 2002

Cell Site Express

- Leverages our existing asset
- Connect towers straight to the MSCs
- Sell the equivalent of T1 service to the wireless carriers
- Sell - Build

{graph of network}

Opportunities

- Combination of upfront cash and solid corporate credit enabled us to pursue these opportunities
- Over time, others can replicate certain aspects of the model
- Must be one step ahead on:
- Execution
- Marketing
- Service innovation
- Horizontal integration

Delivering Value

Paula G. Rosput

Chairman, President and CEO

AGL Resources

Analyst Conference

November 6-8, 2002

Miami, Florida

{AGL Resources logo appears here}

Corporate Governance

Board of Directors

- Executive Committee
- Corporate Responsibility Committee
- Nominations & Corporate Governance Committee
- Audit Committee
- Finance and Risk Management Committee
- Compensation Committee

Significant Milestones in Governance

07/01 Formed Nominations and Corporate Governance Committee

09/01 Formed Risk Management Committee

01/02 CEO Performance Review

08/02

- ♦ Sarbanes-Oxley Act signed
- ♦ Consultant for Compensation Committee

09/02 Engaging consultant to expand board

- Board frequently meets in executive session without management present
- Deep engagement around asset management
- Only one insider on board (Paula Rosput)
- Independent director is chair of Executive Committee

Next Milestones

- December board planning meeting
- Will issue guidance in January
- Late January earnings announcement and file 10-K in late February
- Annual report mailing mid-March
- Annual meeting April 16, 2003
- AGA Update

Still Building . . .

VALUE

- **Commercial Sensibility**
- **Regulatory Expertise**
- **Operational Best Practices**

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AGL RESOURCES INC.

(Registrant)

Date: November 7, 2002

/s/ Richard T. O'Brien

Executive Vice President and Chief Financial Officer