AGL RESOURCES INC
Form 424B5
February 12, 2003
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FILED PURSUANT TO

RULE 424(B)(5)

REGISTRATION NO. 333-69500

PROSPECTUS SUPPLEMENT

(To Prospectus dated January 7, 2003)

5,600,000 Shares

Common Stock

AGL Resources Inc. is offering 5,600,000 shares of its common stock.

Our common stock is listed on the New York Stock Exchange under the symbol ATG. On February 11, 2003, the last reported sale price of our common stock on the New York Stock Exchange was $22.16 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page S-13 of this prospectus supplement.

	Per Share	Total
Public offering price	$ 22.00	$ 123,200,000
Underwriting discounts and commissions	$ 0.77	$ 4,312,000
Proceeds, before expenses, to AGL Resources	$ 21.23	$ 118,888,000

We have granted the underwriters a 30-day option to purchase up to an additional 840,000 shares of our common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on or about February 14, 2003.

Joint Book-Running Managers

Morgan Stanley **Banc of America Securities LLC**

Credit Lyonnais Securities (USA) Inc.

Credit Suisse First Boston

JPMorgan

SunTrust Robinson Humphrey

The date of this prospectus supplement is February 11, 2003

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of common stock. The second part is the accompanying prospectus, which contains a description of the common stock and gives more general information, some of which will not apply to the common stock.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. If the information in this prospectus supplement varies from the information contained or incorporated by reference in the accompanying prospectus, you should rely on the information in this prospectus supplement. No person is authorized to provide you with information that is different or to offer the common stock in any jurisdiction where the offer is not permitted. It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus, including the information and documents incorporated by reference therein, in making your investment decision. You should not assume that the information provided by this prospectus supplement, the accompanying prospectus or in any document incorporated by reference is accurate as of any date other than the date of the document that contains the information. You should also read and consider the information in the documents we have referred you to in Where You Can Find More Information below.

Unless stated otherwise, references in this prospectus supplement and the accompanying prospectus to AGL Resources, we, us or our refer to AGL Resources Inc., a Georgia corporation, and its subsidiaries.

FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this prospectus supplement reflect assumptions, expectations, projections, intentions or beliefs about future events. These statements, which may relate to such matters as future earnings, growth, supply and demand, costs, subsidiary performance, new technologies, and strategic initiatives, are forward-looking statements within the meaning of the federal securities laws. These statements do not relate strictly to historical or current facts, and you can identify certain of these statements, but not necessarily all, by the use of the words anticipate, assume, indicate, estimate, believe, predict, forecast, rely, expect, continue, grow, and c meaning. Although we believe that the expectations and assumptions reflected in these statements are reasonable in view of the information currently available to us, there can be no assurance that these expectations will prove to be correct. These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. In addition to the specific factors discussed in the Risk Factors section in this prospectus supplement and our reports that are incorporated by reference, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements:

- changes in industrial, commercial and residential growth in our service territories;
- changes in price, supply and demand for natural gas and related products;
- impact of changes in state and federal legislation and regulation, including orders of various state public service commissions and of the Federal Energy Regulatory Commission, or FERC, on the gas and electric industries and on us, including the impact of Atlanta Gas Light Company s performance-based rate plan;
- effects and uncertainties of deregulation and competition, particularly in markets where prices and providers historically have been regulated, unknown issues following deregulation such as the stability of certificated marketers, and unknown risks related to non-regulated businesses, including risks related to energy trading;
- market changes due to Georgia s Natural Gas Consumers Relief Act of 2002;
- concentration of credit risk in certificated marketers;

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- excess high-speed network capacity and demand for dark fiber in metropolitan network areas;
- market acceptance of new fiber optic technologies and products, as well as the adoption of new networking standards;
- our ability to negotiate new contracts with telecommunications providers for the provision of dark fiber services;
- utility and energy industry consolidation;
- impact of acquisitions and divestitures;
- the ultimate impact of the Sarbanes-Oxley Act of 2002 and any future changes in accounting regulations or practices in general with respect to public companies, the energy industry or our operations specifically;
- the enactment of new accounting standards by the Financial Accounting Standards Board, or FASB, or the SEC that could impact the way we record revenues, assets and liabilities, which could lead to negative impacts on reported earnings or increases in liabilities, which in turn could affect our reported results of operations;
- performance of equity and bond markets and the impact on pension funding costs;
- direct or indirect effects on our business, financial condition or liquidity resulting from a change in our credit rating or the credit ratings of our competitors or counterparties;
- interest rate fluctuations, financial market conditions and general economic conditions;
- uncertainties about environmental issues and the related impact of such issues;
- impact of changes in weather upon the temperature sensitive portions of our business;
- impact of litigation;
- impact of changes in prices on margins achievable in the non-regulated retail gas marketing business; and
- other risks described in our documents on file with the SEC.

Any forward-looking statements should be considered in light of such important factors.

New factors that could cause actual results to differ materially from those described above emerge from time to time, and it is not possible for us to predict all of such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and we do not undertake any obligation to update the information contained in such statement to reflect subsequent developments or information except as required by law.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before deciding to invest in our common stock. You should read this entire prospectus supplement and the accompanying prospectus carefully, including the Risk Factors section contained in this prospectus supplement and the information incorporated by reference into these documents, before deciding to invest in our common stock.

AGL Resources Inc.

Overview

We are an energy services holding company whose principal business is the distribution of natural gas in Georgia, Tennessee and Virginia. We operate three utilities which, combined, serve approximately 1.8 million end-users, making us the largest gas utility in the southeastern United States and the second largest pure gas distribution utility in the country. We also are involved in various non-utility businesses including gas asset management, last-mile telecommunications infrastructure, retail gas marketing and propane services. For the year ended December 31, 2002, we had total operating revenues of $868.9 million, earnings before interest and taxes, or EBIT, of $247.0 million and net income of $103.0 million. During this period, approximately 91% of our EBIT was derived from our regulated natural gas distribution business. As of December 31, 2002 we had total assets of $3.7 billion, of which approximately 84% was attributable to our regulated natural gas distribution business.

We manage our business in three operating segments and one non-operating segment. The following chart shows AGL Resources, its business segments and principal subsidiaries:

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The following charts show our EBIT and total assets by business segment for and as of the year ended December 31, 2002:

Distribution Operations

Our distribution operations segment consists of three wholly-owned natural gas local distribution companies: Atlanta Gas Light Company, Chattanooga Gas Company and Virginia Natural Gas.

Atlanta Gas Light Company, or AGLC, is a natural gas local distribution utility with distribution systems and related facilities serving 237 cities throughout Georgia, including Atlanta, Athens, Augusta, Brunswick, Macon, Rome, Savannah, and Valdosta. AGLC also has approximately 6.0 billion cubic feet, or Bcf, of liquefied natural gas, or LNG, storage capacity in three LNG plants to supplement the supply of natural gas during peak usage periods.

Chattanooga Gas Company, or CGC, is a natural gas local distribution utility with distribution systems and related facilities serving 12 cities and surrounding areas in Tennessee, including the Chattanooga and Cleveland areas of Tennessee. CGC also has approximately 1.2 Bcf of LNG storage capacity in its LNG plant.

Virginia Natural Gas, or VNG, is a natural gas local distribution utility with distribution systems and related facilities serving the Hampton Roads region of southeastern Virginia. VNG is one of the most modern natural gas local distribution companies in the United States, with approximately 50% of its main piping having been installed after 1980. VNG also operates approximately 155 miles of a separate high-pressure pipeline that provides delivery of gas to customers under firm transportation agreements within the state of Virginia.

The following table summarizes key statistics for our distribution operations as of December 31, 2002:

	AGLC/CGC	VNG	Total
Utility end-users (in 000s)	1,573	251	1,824
Gas throughput (in Bcf) for 12 months ended December 31, 2002	270	35	305
Miles of gas pipeline	29,912	4,946	34,858

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Wholesale Services

Our wholesale services segment includes Sequent Energy Management LP, our energy asset optimization, gas supply services and wholesale energy marketing and risk management subsidiary. Our asset optimization activities focus on capturing the value from idle or underutilized energy assets, typically by participating in transactions that balance the needs of various markets and time horizons. Sequent also aggregates gas from other marketers and producers and sells it to third parties. In addition, Sequent bundles this commodity with transportation and storage service and redelivers short and long-term transported commodity. Risk parameters are established by our risk management committee, which oversees risk management policies for the entire corporation. We use mark-to-market and position-limit methodologies as an integral part of managing the risk associated with our commodity, basis and storage positions. Additionally, we employ value-at-risk, or VaR, methodologies to evaluate our exposure to open positions. Based on a 95% confidence interval and employing a one-day and a 20-day holding period for all positions, as of December 31, 2002, Sequent s positions had a VaR of $0.1 million and $0.3 million, respectively. As of December 31, 2002, Sequent had outstanding trades with approximately 120 approved counterparties with an average credit rating of BBB+.

Although Sequent is a non-regulated business, under varying agreements and practices, Sequent acts as asset manager for our regulated utilities. In its capacity as asset manager, Sequent captures value from idle or underutilized assets of the utilities by arbitraging pricing differences across different locations and differences in commodity prices over time. Profits from these activities are shared under varying agreements with the various utilities customers.

Energy Investments

Our energy investments segment includes our investments in SouthStar Energy Services LLC, AGL Networks, LLC and US Propane LP.

SouthStar is a joint venture formed in 1998 by subsidiaries of AGL Resources, Piedmont Natural Gas Company and Dynegy Inc. to market retail natural gas and related services to industrial, commercial and residential customers, principally in Georgia. SouthStar is the largest marketer in Georgia with a market share of 38% and operates under the trade name Georgia Natural Gas. Initially, our subsidiary owned a 50% interest, Piedmont s subsidiary owned 30% and Dynegy s subsidiary owned the remaining 20%. In January 2003, we announced our intention to purchase the 20% interest owned by the Dynegy subsidiary. The purchase price is $20 million and the transaction is expected to close in March 2003. Upon closing, our subsidiary will own a 70%, non-controlling financial interest in the partnership.

AGL Networks, our wholly owned subsidiary, is a carrier-neutral provider of last-mile infrastructure and dark fiber solutions to a variety of customers in the Atlanta, Georgia and Phoenix, Arizona metropolitan areas, including local, regional and national telecommunication companies, wireless service providers, educational institutions and other commercial entities. AGL Networks typically provides conduit and dark fiber to its customers under long-term lease arrangements with terms that vary from three to 20 years. In addition to conduit and dark fiber leasing, AGL Networks also provides turnkey telecommunications network construction services.

US Propane owns all of the general partnership interests, directly or indirectly, and approximately 29% of the limited partnership interests in Heritage Propane Partners, L.P., a publicly traded marketer of propane. Heritage is the fourth largest retail marketer of propane in the United States, delivering approximately 350 million gallons per year to approximately 600,000 customers in 28 states. We own 22.36% of the limited partnership interests in US Propane and 22.36% of the limited liability company that serves as US Propane s general partner. The other limited partners are subsidiaries of TECO Energy, Inc., Piedmont Natural Gas Company and Atmos Energy Corporation. These companies also are the owners of US Propane s general partner.

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Corporate Services

Our corporate services segment includes our non-operating business units, principally AGL Services Company and AGL Capital Corporation. AGL Services is a service company that provides business services to our various operations. AGL Capital was established to provide for our ongoing financing needs through a commercial paper program, the issuance of various debt and hybrid securities and other financing mechanisms.

Competitive Strengths

We believe our competitive strengths have enabled us to grow our business profitably and create significant shareholder value. These strengths include:

Distribution assets located in an attractive geographic region. Our operations are concentrated in the southern United States, one of the fastest growing regions in the country in terms of both population and energy demand. We believe that the population growth in the southern United States should result in increased demand for natural gas and related infrastructure.

Proven track record of continuous improvement in EBIT. We have continued to focus our efforts on reducing operating expenses and improving EBIT. As a result, since 2000, we have reduced our operational and maintenance expense per customer from $141 in 2000 to $135 in 2002 for AGLC/CGC and from $202 in 2000 to $173 in 2002 for VNG. In addition, during this period we have reduced operating expenses as a percentage of operating margin from 54% in 2000 to 49% in 2002 for AGLC/CGC and from 49% in 2000 to 46% in 2002 for VNG. The improvements to our operations have been achieved in part through increased investments in technology and automation as well as the implementation of best practices in our utility operations and workforce reductions.

Improved revenue stability. Recent changes with respect to the regulation of AGLC in Georgia should provide us with greater stability in our revenues and cash flow. In April 2002, we reached an agreement with the Georgia Public Service Commission on its earnings review of AGLC that enabled us to implement a three-year performance-based rate plan. The order, effective May 1, 2002, reduced AGLC customers base rates by $10 million annually. This reduction in operating revenue will be largely offset by a reduction in depreciation expense. The performance-based rate plan allows AGLC to continue to earn a return on equity of 11%, while establishing an earnings band of between 10% and 12%. Three-quarters of any earnings above 12% will be shared with the natural gas customers of Georgia, and the remaining quarter will be retained by AGLC.

In Virginia, the Virginia State Corporation Commission, or VSCC, approved a two-year experimental weather normalization adjustment, or WNA, program effective November 2002 to reduce the effect of weather on customer bills. CGC operates under a WNA under the authority of the Tennessee Regulatory Authority. These WNAs should reduce customer bills when winter weather is colder than normal and surcharge customer bills when weather is warmer than normal. A factor based on customer usage and weather conditions during each billing cycle is used to determine the credit or surcharge. The WNA should provide customers with less volatile bills and VNG and CGC with more stable operating margins and less exposure to weather risk. As part of the VSCC approval, VNG agreed not to file for a general rate increase for at least two years.

Experienced management team. Our senior management team is highly experienced in the natural gas, utility and energy industries. Our Chairman, President and CEO, Paula Rosput, has more than 20 years of utility and energy industry experience. Our senior management team, which averages over 20 years experience in industry and regulatory positions, has been strengthened over the past 18 months with the additions of a number of industry experts in asset optimization, operations, finance and regulatory and legal affairs.

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Business Strategy

Our business strategy is focused on effectively managing our gas distribution operations, optimizing our return on our assets and selectively growing our portfolio of closely related, unregulated businesses with an emphasis on risk management and earnings visibility. Key elements of our strategy include:

Enhance the value and growth potential of our regulated utility operations. We will continue to seek to enhance the value and growth of our existing utility operations by:

- maximizing our return on invested capital and managing our capital spending;
- pursuing growth opportunities in the service areas for each operating utility to expand our customer base;
- providing efficient service while aggressively managing operating costs;
- working to achieve authorized returns and share the benefits with our customers; and
- maintaining stability through regulatory compacts.

Selectively evaluate the acquisition of natural gas assets. We will selectively examine and evaluate the acquisition of gas distribution, gas pipeline or other gas assets in the Southeast and related markets. Our acquisition criteria include our ability to generate operational synergies, value from near-term earnings accretion and adequate returns on invested capital, while maintaining or improving our investment grade ratings.

Expand our wholesale services business. We will continue to selectively expand our wholesale services business to provide disciplined earnings growth. We will seek to grow this business by providing producers with markets for their gas commodity, providing end-users with gas supply and arbitraging pipeline and storage assets across various gas markets and time horizons. We will continue to maintain limited open position risk as we expand the business to ensure limited downside to our earnings.

Explore opportunities to expand our telecommunications business. We will continue to explore opportunities to expand our telecommunications business into strategic and carefully selected target markets. Our focus will be on major metropolitan areas, and we generally pursue those opportunities that improve our cash flow and/or contribute positively to earnings. Moreover, we will generally only move into a new market when we have an anchor tenant who will contribute to the capital required to expand into such market. We also will continue to sell additional network capacity on, and offer new services to enhance the value of, our existing assets.

Focus on maintaining a strong investment grade profile and high level of liquidity. Our senior unsecured debt ratings are BBB+, Baa1 and BBB+ from Standard and Poor s Ratings Group, Moody s Investor Service, Inc. and Fitch, Inc., respectively. We combine a disciplined approach to capital spending with our continuous focus on improving operating margins to optimize our cash flow generation. Additionally, we seek to reduce, over time, our ratio of total debt to total capitalization to strengthen our balance sheet and allow us to better respond to both temporary reductions in cash flow and potential opportunities to invest capital in projects closely related to our businesses that provide attractive returns.

The address of our principal executive offices is 817 West Peachtree Street, N.W., 10th Floor, Atlanta, Georgia 30308, and our telephone number is (404) 584-9470.

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THE OFFERING

Common stock offered	5,600,000 shares
Common stock to be outstanding after the offering	62,316,797 shares
Use of proceeds	Repayment of a portion of our outstanding short-term indebtedness and general corporate purposes.
New York Stock Exchange symbol	ATG

The number of shares of common stock to be outstanding after this offering is based on 56,716,797 shares outstanding as of December 31, 2002. The number of shares of common stock offered and to be outstanding after this offering does not include:

- 840,000 additional shares of common stock that the underwriters have a right to purchase from us within 30 days after the date of this prospectus supplement to cover over-allotments;
- 2,483,756 shares issuable upon the exercise of stock options outstanding as of December 31, 2002 and having a weighted average exercise price of $20.07 per share; and
- 8,867,269 additional shares available for issuance under our equity incentive plans as of December 31, 2002.

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SUMMARY FINANCIAL AND OTHER DATA

We have provided selected financial and other data in the tables below. The income statement data, common stock data and balance sheet data as of and for each of the years ended September 30, 2000 and 2001, the three months ended December 31, 2001 and the year ended December 31, 2002 have been derived from our audited financial statements, and such data for the twelve-month period ended December 31, 2001 have been derived from our unaudited financial statements. In our management s opinion, the unaudited financial statements were prepared on the same basis as our audited financial statements. You should read the following financial information in conjunction with our consolidated financial statements and related notes that we have incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Years Ended September 30,		Three Months Ended December 31,	Twelve Months Ended December 31,	Year Ended December 31,
	2000	2001	2001	2001	2002
	(In millions, except per share data)				
Income Statement Data:					
Operating revenues	$ 607.4	$ 940.9	$ 201.0	$ 847.1	$ 868.9
Cost of sales	111.9	327.3	49.1	245.6	268.2
Operating margin	495.5	613.6	151.9	601.5	600.7
Operating expenses:					
Operations and maintenance	247.8	267.2	68.1	263.1	274.1
Depreciation and amortization	83.2	100.0	23.2	97.1	89.1
Taxes other than income taxes	26.7	32.8	6.0	28.4	29.3
Total operating expenses	357.7	400.0	97.3	388.6	392.5
Operating income	137.8	213.6	54.6	212.9	208.2
Other income	28.2	22.6	7.7	25.1	38.8
Earnings before interest and taxes (EBIT)(1)	166.0	236.2	62.3	238.0	247.0
Interest expense and preferred stock dividends	57.7	97.4	23.8	96.5	86.0
Earnings before income taxes	108.3	138.8	38.5	141.5	161.0
Income taxes	37.2	49.9	13.6	50.2	58.0
Net income	$ 71.1	$ 88.9			