UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) AUGUST 10, 2000

HERITAGE PROPANE PARTNERS, L.P.
(Exact name of registrant as specified in its charter)

DELAWARE	1-11727	73-1493906
(State or other jurisdiction of incorporation or organization)	(Commission file number)	(I.R.S. Employer Identification No.)

8801 SOUTH YALE AVENUE, SUITE 310, TULSA, OKLAHOMA 74137
(Address of principal executive offices and zip code)

(918) 492-7272
(Registrant's telephone number, including area code)

This Form 8-K/A amends the Form 8-K of Heritage Propane Partners, L.P. dated August 23, 2000 and filed with the Securities and Exchange Commission on August 23, 2000. That Form 8-K reported under Item 2 the acquisition of assets from U.S. Propane, L.P. This report provides the financial statements and the pro forma financial information as required under Item 7. This Form 8-K/A also amends the Date of Report (Date of earliest event reported) to be August 10, 2000.

ITEM 7. Financial Statements and Exhibits.

(a) Financial Statements of businesses acquired:

The audited balance sheets of Peoples Gas Company as of as of December 31, 1999 and 1998 and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of operations and retained earnings and cash flows for the six months ended June 30, 2000 and 1999. The audited balance sheets of United Cities Propane Gas, Inc. as of September 30, 1999 and 1998, and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended September 30, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of operations and retained earnings and cash flows for the nine months ended June 30, 2000 and 1999. The audited balance sheets of AGL Propane, Inc. as of September 30, 1999 and 1998, and the related statements of income, stockholder's equity and cash flows for each of the three years in the period ended September 30, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of income and cash flows for the nine months ended June 30, 2000 and 1999. The audited balance sheets of Piedmont Propane Company as of October 31, 1999 and 1998, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended October 31, 1999 and the unaudited interim balance sheet as of July 31, 2000 and the related statements of income and retained earnings and cash flows for the nine months ended July 31, 2000 and 1999.

The above financial statements together with the report of their respective auditors are filed as Exhibit 99.2 to this Current Report.

(b) Pro forma financial information:

The unaudited pro forma condensed combined financial statements of Heritage Propane Partners, L.P. and U.S. Propane as of June 30, 2000, for the six months ended June 30, 2000 and for the year ended December 31, 1999, are filed as Exhibit 99.3 to this Current Report.

(c) Exhibits:

The following Exhibits are filed herewith:

Exhibit Number	Description
99.2	The audited balance sheets of Peoples Gas Company as of December 31, 1999 and 1998 and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of operations and retained earnings and cash flows for the six months ended June 30, 2000 and 1999.
	The audited balance sheets of United Cities Propane Gas, Inc. as of September 30, 1999 and 1998, and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended September 30, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of operations and retained earnings and cash flows for the nine months ended June 30, 2000 and 1999.
	The audited balance sheets of AGL Propane, Inc. as of September 30, 1999 and 1998, and the related statements of income, stockholder's equity and cash flows for each of the three years in the period ended September 30, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of income and cash flows for the nine months ended June 30, 2000 and 1999.
	The audited balance sheets of Piedmont Propane Company as of October 31, 1999 and 1998, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended October 31, 1999 and the unaudited interim balance sheet as of July 31, 2000 and the related statements of income and retained earnings and cash flows for the nine months ended July 31, 2000 and 1999.
99.3	The unaudited pro forma condensed combined financial statements of Heritage Propane Partners, L.P. and U.S. Propane as of June 30, 2000, for the six months ended June 30, 2000 and the year ended December 31, 1999.

SIGNATURES

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, thereunto duly authorized.

DATED: October 24, 2000

HERITAGE PROPANE PARTNERS, L.P.

By: Heritage Holdings, Inc.
(General Partner)

By: /s/ H. Michael Krimbill

H. Michael Krimbill
President and Chief Executive Officer

INDEX TO EXHIBITS

The exhibits listed on the following Exhibit Index are filed as part of this Report. Exhibits required by Item 601 of Regulation S-K, but which are not listed below, are not applicable.

Exhibit Number	Description
99.2	The audited balance sheets of Peoples Gas Company as of December 31, 1999 and 1998 and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of operations and retained earnings and cash flows for the six months ended June 30, 2000 and 1999.
	The audited balance sheets of United Cities Propane Gas, Inc. as of September 30, 1999 and 1998, and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended September 30, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of operations and retained earnings and cash flows for the nine months ended June 30, 2000 and 1999.
	The audited balance sheets of AGL Propane, Inc. as of September 30, 1999 and 1998, and the related statements of income, stockholder's equity and cash flows for each of the three years in the period ended September 30, 1999 and the unaudited interim balance sheet as of June 30, 2000 and the related statements of income and cash flows for the nine months ended June 30, 2000 and 1999.
	The audited balance sheets of Piedmont Propane Company as of October 31, 1999 and 1998, and the related statements of income and retained earnings and cash flows for each of the three years in the period ended October 31, 1999 and the unaudited interim balance sheet as of July 31, 2000 and the related statements of income and retained earnings and cash flows for the nine months ended July 31, 2000 and 1999.
99.3	The unaudited pro forma condensed combined financial statements of Heritage Propane Partners, L.P. and U.S. Propane as of June 30, 2000, for the six months ended June 30, 2000 and the year ended December 31, 1999.

EXHIBIT 99.2

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholder of
Peoples Gas Company:

We have audited the accompanying balance sheets of Peoples Gas Company (a Florida corporation and wholly-owned subsidiary of TECO Energy, Inc.) as of December 31, 1999 and 1998, and the related statements of operations and retained earnings and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples Gas Company as of December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP
- -----------------------
Tampa, Florida,
October 18, 2000

PEOPLES GAS COMPANY

BALANCE SHEETS -- DECEMBER 31, 1999 AND 1998
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21	$ 116
Accounts receivable, net of allowance of $75 and $50 at December 31, 1999 and 1998, respectively	5,224	3,173
Inventories	1,384	956
Prepaid expenses	14	65
Total current assets	6,643	4,310
PROPERTY, PLANT AND EQUIPMENT, net	36,063	32,095
INTANGIBLES AND OTHER ASSETS, net	1,018	801
Total assets	$43,724	$37,206
LIABILITIES AND SHAREHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable to related companies	$16,315	$10,251
Accounts payable	2,072	1,561
Accrued and other current liabilities	1,774	1,859
Total current liabilities	20,161	13,671
DEFERRED TAX LIABILITIES	8,456	7,939
COMMITMENTS AND CONTINGENCIES (Note 5)		
SHAREHOLDER'S EQUITY:		
Common stock, no par value; 60 shares issued and outstanding at December 31, 1999 and 1998	--	--
Paid-in capital	5,054	5,054
Retained earnings	10,053	10,542
Total shareholder's equity	15,107	15,596
Total liabilities and shareholder's equity	$43,724	$37,206

The accompanying notes are an integral part of these balance sheets.

PEOPLES GAS COMPANY

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(AMOUNTS IN THOUSANDS)

	1999	1998	1997
REVENUES	$ 34,045	$ 30,187	$ 32,874
COSTS AND EXPENSES:			
Cost of products sold	14,849	12,283	17,063
Operating expenses	13,223	11,088	11,927
Depreciation and amortization	3,088	2,855	2,514
Total costs and expenses	31,160	26,226	31,504
Operating income	2,885	3,961	1,370
OTHER INCOME (EXPENSE)	10	(478)	(390)
INCOME BEFORE PROVISION FOR INCOME TAXES	2,895	3,483	980
PROVISION FOR INCOME TAXES	1,127	1,412	378
NET INCOME	$ 1,768	$ 2,071	$ 602
RETAINED EARNINGS, beginning of year	$ 10,542	$ 10,442	$ 9,840
Net income	1,768	2,071	602
Dividends paid to parent	(2,257)	(1,971)	--
RETAINED EARNINGS, end of year	$ 10,053	$ 10,542	$ 10,442

The accompanying notes are an integral part of these statements.

PEOPLES GAS COMPANY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(AMOUNTS IN THOUSANDS)

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,768	$ 2,071	$ 602
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	3,088	2,855	2,514
Deferred income taxes	517	444	326
Changes in assets and liabilities, net of effect of acquisitions-			
Accounts receivable	(2,051)	698	869
Inventories	(413)	255	443
Prepaid expenses	51	22	(87)
Intangibles and other assets	(97)	--	(95)
Accounts payable to related companies	6,064	4,226	4,546
Accounts payable	511	(300)	(194)
Accrued and other current liabilities	(85)	(1,052)	(1,242)
Net cash provided by operating activities	9,353	9,219	7,682
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisitions, net of cash acquired	(1,015)	(1,719)	--
Capital expenditures	(6,176)	(5,328)	(4,497)
Net cash used in investing activities	(7,191)	(7,047)	(4,497)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term debt	--	(346)	(7,811)
Capital contributions	--	--	4,250
Dividends paid	(2,257)	(1,971)	--
Net cash used in financing activities	(2,257)	(2,317)	(3,561)
DECREASE IN CASH	(95)	(145)	(376)
CASH, beginning of year	116	261	637
CASH, end of year	$ 21	$ 116	$ 261
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid to parent for income taxes under tax sharing agreement, net	$ 851	$ 582	$ 403

The accompanying notes are an integral part of these statements.

PEOPLES GAS COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999, 1998 AND 1997

1. OPERATIONS AND ORGANIZATION

Peoples Gas Company (the Company) is a wholly-owned subsidiary of TECO Energy, Inc. (the Parent Company) and is engaged in the purchase, distribution and marketing of liquefied petroleum gas (propane). The Company has a diversified customer base, which consists primarily of residential, commercial and industrial customers located in Florida.

In June 1997, TECO Energy, Inc. acquired Lykes Energy, Inc. and issued approximately 12.1 million shares of its stock for total consideration of approximately $300 million. Prior to the merger, the Company was a wholly-owned subsidiary of Lykes Energy, Inc. The merger was accounted for as a pooling of interests.

The accompanying financial statements have been presented on a carve-out basis and reflect the historical results of operations, financial position and cash flows of the Company. As discussed further in Note 6, certain expenses in the financial statements include allocations from the Parent Company and other wholly-owned subsidiaries of the Parent Company (individually, a Related Company and collectively, the Related Companies). Management believes that the allocations were made on a reasonable basis; however, the allocations of costs and expenses do not necessarily indicate the costs that would have been incurred by the Company on a stand-alone basis. Also, the financial statements may not necessarily reflect what the financial position, results of operations and cash flows of the Company would have been if the Company had been a separate, stand-alone company during the periods presented.

In August 2000, TECO Energy, Inc., Atmos Energy Corporation, Piedmont Natural Gas Co., Inc., and AGL Resources, Inc. contributed each companies' propane operations, Peoples Gas Company, United Cities Propane Gas, Inc., Piedmont Propane Company and AGL Propane, Inc., respectively, to U.S. Propane L.P., (U.S. Propane) in exchange for equity interests in U.S. Propane. The merger was accounted for as an acquisition using the purchase method of accounting with Peoples Gas Company being the acquirer. Accordingly, Peoples Gas Company's assets and liabilities were recorded at historical cost and the assets and liabilities of United Cities Propane Gas, Inc., Piedmont Propane Company and AGL Propane, Inc. were recorded at fair market value, as determined based on a valuation and appraisal.

In August 2000, U.S. Propane obtained control of Heritage Propane Partners, L.P. (Heritage Propane) by acquiring Heritage Holdings, Inc., Heritage Propane's general partner. Simultaneously, U.S. Propane transferred its propane operations to Heritage Propane in exchange for cash, common units in Heritage Propane and a limited partner interest in Heritage Operating, L.P. Upon closing the transaction, which occurred in August 2000, U.S. Propane owns all of the general partnership interest and approximately 34 percent of the limited partnership interest in Heritage Propane.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION

Sales of propane, propane appliances, parts and fittings are recognized at the later of the time of delivery of the product to the customer or the time of sale or installation. Revenue from service labor is recognized upon completion of the service, and tank rent is recognized ratably over the period it is earned.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

INVENTORIES

Inventories are valued at the lower of cost or market. The cost of fuel inventories is determined using weighted-average cost, while the cost of appliances, parts and fittings is determined by the first-in, first-out method. Inventories consisted of the following at December 31, 1999 and 1998 (amounts in thousands):

	1999	1998
Fuel	$1,315	$ 684
Appliances, parts and fittings	69	272
	$1,384	$ 956

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are expensed as incurred. Additionally, the Company capitalizes certain costs directly related to the installation of company-owned tanks, including internal labor costs. Components and useful lives of property, plant and equipment were as follows at December 31, 1999 and 1998 (amounts in thousands):

	Useful Life (in years)	1999	1998
Land and improvements		$ 719	$ 719
Buildings and improvements	20	1,673	1,651
Bulk storage, equipment and facilities	20	2,393	2,393
Tanks and other equipment	5-20	42,206	37,524
Vehicles	10	6,248	5,891
Furniture and fixtures	7-20	1,391	1,233
Other	20	522	517
		55,152	49,928
Less-Accumulated depreciation		(20,657)	(18,622)
		34,495	31,306
Plus-Construction work-in-process		1,568	789
		$ 36,063	$ 32,095

Included within tanks and other equipment is approximately $34,627,000 and $30,762,000 of propane equipment (principally tanks and appliances) leased to third parties as of December 31, 1999 and 1998, respectively.

INTANGIBLES AND OTHER ASSETS

Intangibles and other assets are stated at cost net of amortization computed on the straight-line method. Components and useful lives of intangibles and other assets were as follows as of December 31, 1999 and 1998 (amounts in thousands):

	Useful Life (in years)	1999	1998
Noncompete agreements	5	$1,295	$ 1,095
Customer lists	5	200	-
Other		81	64
		1,576	1,159
Less-Accumulated amortization		(558)	(358)
		$1,018	$ 801

The Company entered into noncompete agreements for five years with certain previous owners of acquired companies and certain other outside parties. The costs associated with these agreements are being amortized over the terms of the agreements. Amounts payable under the noncompete obligations total $525,000 at December 31, 1999, and are included in accrued and other current liabilities on the accompanying balance sheet. These payments are payable in the succeeding years and thereafter as follows (amounts in thousands):

Year Ending December 31,	Amount
2000	$ 300
2001	100
2002	100
2003	25
	$ 525

LONG-LIVED ASSETS

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If such a review should indicate that the carrying amount of long-lived assets is not recoverable, the Company reduces the carrying amount of such assets to fair value. Based on the most recent review, the Company believes no impairment exists at December 31, 1999 and 1998.

ACCRUED AND OTHER CURRENT LIABILITIES

Accrued and other current liabilities consisted of the following as of December 31, 1999 and 1998 (amounts in thousands):

	1999	1998
Wages and payroll taxes	$ 90	$ 52
Deferred tank rent	278	265
Customer deposits	800	742
Noncompete payable	525	425
Other	81	375
	$1,774	$1,859

INCOME TAXES

The Company has followed the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes" (SFAS 109). Under SFAS 109, deferred income taxes are recorded based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the underlying assets are received and liabilities are settled.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE

The carrying amount of financial instruments, including cash and cash equivalents, accounts receivable and accounts payable approximated fair value as of December 31, 1999 and 1998, because of the relatively short maturity of these instruments.

RECENTLY ISSUED ACCOUNTING STANDARD NOT YET ADOPTED

The Company has not yet adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 will be effective for the Company's fiscal year ended December 31, 2001. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS 133 does not allow retroactive application to financial statements of prior periods. The Company's management has evaluated the impact of adopting SFAS 133 and does not expect it to have a significant impact on its reported financial condition, results of operations and cash flows.

3. ACQUISITIONS

Effective January 1998, the Company purchased substantially all of the fixed assets of Ankney Gas, Inc. for approximately $412,000 in cash. Additionally, the Company obtained a five-year noncompete agreement with the prior owner amounting to $203,000, to be amortized over a five-year period.

Effective July 1998, the Company purchased substantially all of the fixed assets of Florida Gas Service Corporation for approximately $1,307,000 in cash. Additionally, the Company obtained a five-year noncompete agreement with the prior owners amounting to $50,000, to be amortized over a five-year period.

Effective July 1999, the Company purchased substantially all of the inventory and fixed assets of Commercial Propane, Inc. for approximately $1,015,000 in cash. Additionally, the Company obtained a five-year noncompete agreement with the prior owners amounting to $200,000, to be paid in 2000 and amortized over a five-year period.

The results of operations of the acquired entities have been included in the Company's financial statements from the date of acquisition.

Effective January 1998, the Parent Company completed its merger with Griffis, Inc. and U.S. Propane, Inc. and issued approximately 600,000 shares of its common stock for total consideration of approximately $15,000,000. Concurrent with the merger, Griffis, Inc. and U.S. Propane, Inc. were merged into Peoples Gas Company. This merger was accounted for as a pooling of interests and, accordingly, the Company's balance sheet as of December 31, 1998, and its statements of operations and related earnings and cash flows for the period ended December 31, 1998, include the results of Griffis, Inc. and U.S. Propane, Inc. The statements of operations and retained earnings and cash flows for the year ended December 31, 1997, include the results of Griffis, Inc. and U.S. Propane, Inc. Additionally, the Company obtained a five-year noncompete agreement with the prior owner amounting to $500,000 to be paid and amortized over a five-year period.

4. INCOME TAXES

The Company files a consolidated federal income tax return with the Parent Company and, based on a tax sharing agreement, includes, in its statements of operations, a provision for income taxes calculated on a separate return basis.

The provision for income taxes for the years ended December 31, 1999, 1998, and 1997, was comprised of the following (amounts in thousands):

	1999	1998	1997
Federal income taxes:			
Current	$ 524	$ 830	$ 45
Deferred	443	381	280
State income taxes:			
Current	86	138	7
Deferred	74	63	46
Total provision for income taxes	$1,127	$1,412	$ 378

The income tax effect of temporary differences comprising the deferred tax liability on the accompanying balance sheet is a result of the following at December 31, 1999 and 1998 (amounts in thousands):

	1999	1998
Depreciation and amortization	$ 8,717	$ 8,093
Deferred revenue	(104)	(102)
Other	(157)	(52)
	$ 8,456	$ 7,939

Income taxes differ from amounts computed by applying the statutory rates to pre-tax income as follows (amounts in thousands):

	1999	1998	1997
Federal income taxes at statutory rate of 35%	$ 1,013	$ 1,219	$ 343
State income tax, net	104	130	35
Other, net	10	63	--
Provision for income taxes	$ 1,127	$ 1,412	$ 378

5. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases propane equipment (principally tanks and appliances) to third parties. All existing leases are cancelable operating leases. The net book value of total leased property amounted to $23,618,000 and $20,885,000 at December 31, 1999 and 1998, respectively.

The Company leases certain operational facilities from third parties under non-cancelable operating leases expiring in various years through 2003. Future minimum lease payments under these leases are as follows at December 31, 1999 (amounts in thousands):

Year Ending December 31,	Amount
2000	$ 108
2001	72
2002	48
2003	18
	$ 246

Rental expense under the terms of the non-cancelable operating leases for the years ended December 31, 1999, 1998 and 1997, totaled approximately $184,000, $119,000 and $181,000, respectively, and has been included in operating expenses in the accompanying statements of operations.

LITIGATION

The Company is involved in litigation arising in the normal course of business. The Company participates in umbrella insurance coverage through a policy held by the Parent Company. The Company pays an annual premium to the Parent Company for the Company's portion of the policy, as allocated by the Parent Company. In addition, the Company is allocated a portion of a self-insurance reserve maintained by a Related Company to cover losses up to the deductible of the insurance coverage. Amounts paid for premiums and the self-insurance reserve were approximately $170,000, $260,000 and $290,000 in 1999, 1998 and 1997, respectively. Under the agreement with the Related Company, the Company has no additional liability for actual claims or losses.

PURCHASE COMMITMENTS

The Company has several non-cancelable purchase agreements with its vendors for the purchase of propane gas inventory, which expire during fiscal 2001. The agreements provide that the Company purchase, principally at market rates, approximately 34,000,000 gallons during fiscal 2000 and 2001. The Company purchases substantially all of its volumes sold through these agreements.

During 1999, the Company entered into a contract with one of its vendors to hedge the price of propane gas purchases up to a cap of $0.45 per gallon for 1,000,000 gallons. The agreement provides for specific monthly volumes and expired in February 2000. The Company paid approximately $18,000 for this contract, which is included in other assets. The Company is amortizing this amount over the actual volumes purchased under the contract, or the life of the contract, whichever comes first.

6. RELATED-PARTY TRANSACTIONS

The Parent Company and Related Companies perform certain services for the Company, which are billed at actual cost. In addition, common general and administrative salary and other operating costs and expenses are allocated to the Company based upon methods considered reasonable by management. Such charges for employee services amounted to $2,906,000, $2,160,000 and $2,406,000 for the years ended 1999, 1998 and 1997, respectively. Accounts payable to related companies is non-interest bearing.

Employees of the Company participate in the non-contributory defined benefit retirement plan and postretirement benefit plan of the Parent Company, which cover substantially all full-time employees. The Company's share of the Parent Company's annual pension, postretirement benefit, and medical and dental expenses amounted to $1,067,000, $821,000 and $820,000 in 1999, 1998 and 1997, respectively.

During the year ended December 31, 1997, the Parent Company contributed $4,250,000 to the Company.

The Company leases certain office space from an employee of the Company. Future minimum lease payments under this lease are $18,444 and $1,537 for the years ending December 31, 2000 and 2001, respectively.

7. SUBSEQUENT EVENT

Effective January 2000, the Company purchased substantially all of the fixed assets of Horizon Gas, Inc., Horizon Gas of Dover, Inc., Horizon Gas of St. Petersburg, Inc. and Horizon Gas of Tampa, Inc. for approximately $3,300,000 in cash. Additionally, the Company obtained a five-year noncompete agreement with the prior owners amounting to $500,000, to be amortized over a five-year period. The transaction is being accounted for using the purchase method.

PEOPLES GAS COMPANY

BALANCE SHEET -- JUNE 30, 2000
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS	June 30, 2000 (unaudited)
CURRENT ASSETS:	
Cash and cash equivalents	$ 11
Accounts receivable, net of allowance of $75	4,206
Inventories	1,541
Prepaid expenses	14
Total current assets	5,772
PROPERTY, PLANT AND EQUIPMENT, net	40,887
INTANGIBLES AND OTHER ASSETS, net	1,284
Total assets	$47,943
LIABILITIES AND SHAREHOLDER'S EQUITY	
CURRENT LIABILITIES:	
Accounts payable to related companies	$21,359
Accounts payable	1,823
Accrued and other current liabilities	1,205
Total current liabilities	24,387
DEFERRED TAX LIABILITIES	8,711
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDER'S EQUITY:	
Common stock, no par value, 60 shares issued and outstanding at June 30, 2000	--
Paid-in capital	5,054
Retained earnings	9,791
Total shareholder's equity	14,845
Total liabilities and shareholder's equity	$47,943

The accompanying notes are an integral part of this balance sheet.

PEOPLES GAS COMPANY

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2000 AND 1999
(AMOUNTS IN THOUSANDS)

	Six-month Period Ended June 30, 2000	Six-month Period Ended June 30, 1999
	(unaudited)	
REVENUES	$ 23,747	$ 17,181
COSTS AND EXPENSES:		
Cost of products sold	13,153	6,954
Operating expenses	6,650	6,020
Depreciation and amortization	1,665	1,525
Total costs and expenses	21,468	14,499
Operating income	2,279	2,682
OTHER (EXPENSE) INCOME	(228)	11
INCOME BEFORE PROVISION FOR INCOME TAXES	2,051	2,693
PROVISION FOR INCOME TAXES	800	1,039
NET INCOME	$ 1,251	$ 1,654
RETAINED EARNINGS, beginning of period	$ 10,053	$ 10,542
Net income	1,251	1,654
Dividends paid to parent	(1,513)	(1,755)
RETAINED EARNINGS, end of period	$ 9,791	$ 10,441

The accompanying notes are an integral part of these statements.

PEOPLES GAS COMPANY

STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2000 AND 1999
(AMOUNTS IN THOUSANDS)

	Six-month Period Ended June 30, 2000	Six-month Period Ended June 30, 1999
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,251	$ 1,654
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	1,665	1,525
Deferred income taxes	255	51
Changes in assets and liabilities, net of effect of acquisitions-		
Accounts receivable	1,018	88
Inventories	(157)	54
Prepaid expenses	--	43
Accounts payable	(249)	(943)
Accounts payable to related companies	5,044	1,878
Accrued and other current liabilities	(569)	(361)
Net cash provided by operating activities	8,258	3,989
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for acquisition and non-compete agreement, net of cash acquired	(3,785)	--
Capital expenditures	(2,970)	(2,343)
Net cash used in investing activities	(6,755)	(2,343)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid to parent	(1,513)	(1,755)
Net cash used in financing activities	(1,513)	(1,755)
DECREASE IN CASH	(10)	(109)
CASH, beginning of period	21	116
CASH, end of period	$ 11	$ 7
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid to parent for income taxes under tax sharing agreement	$ 1,028	$ 1,432

The accompanying notes are an integral part of these statements.

PEOPLES GAS COMPANY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

1. OPERATIONS AND ORGANIZATION

Peoples Gas Company (the Company) is a wholly-owned subsidiary of TECO Energy, Inc. (the Parent Company) and is engaged in the purchase, distribution and marketing of liquefied petroleum gas (propane). The Company has a diversified customer base, which consists primarily of residential, commercial and industrial customers located in Florida.

In June 1997, TECO Energy, Inc. acquired Lykes Energy, Inc. and issued approximately 12.1 million shares of its stock for total consideration of approximately $300 million. Prior to the merger, the Company was a wholly-owned subsidiary of Lykes Energy, Inc. The merger was accounted for as a pooling of interests.

The accompanying financial statements have been presented on a carve-out basis and reflect the historical results of operations, financial position and cash flows of the Company. Certain expenses in the financial statements include allocations from the Parent Company and other wholly-owned subsidiaries of the Parent Company (collectively, the Related Companies). Management believes that the allocations were made on a reasonable basis; however, the allocations of costs and expenses do not necessarily indicate the costs that would have been incurred by the Company on a stand-alone basis. Also, the financial statements may not necessarily reflect what the financial position, results of operations and cash flows of the Company would have been if the Company had been a separate, stand-alone company during the periods presented.

In August 2000, TECO Energy, Inc., Atmos Energy Corporation, Piedmont Natural Gas Co., Inc., and AGL Resources, Inc. contributed each companies' propane operations, Peoples Gas Company, United Cities Propane Gas, Inc., Piedmont Propane Company and AGL Propane, Inc., respectively, to U.S. Propane L.P., (U.S. Propane) in exchange for equity interests in U.S. Propane. The merger was accounted for as an acquisition using the purchase method of accounting with Peoples Gas Company being the acquirer. Accordingly, Peoples Gas Company's assets and liabilities were recorded at historical cost and the assets and liabilities of United Cities Propane Gas, Inc., Piedmont Propane Company and AGL Propane, Inc. were recorded at fair market value, as determined based on a valuation and appraisal.

In August 2000, U.S. Propane obtained control of Heritage Propane Partners, L.P. (Heritage Propane) by acquiring Heritage Holdings, Inc., Heritage Propane's general partner. Simultaneously, U.S. Propane transferred its propane operations to Heritage Propane in exchange for cash, common units in Heritage Propane and a limited partner interest in Heritage Operating, L.P. Upon closing of the transaction, which occurred in August 2000, U.S. Propane owns all of the general partnership interest and approximately 34 percent of the limited partnership interest in Heritage Propane.

2. INTERIM FINANCIAL INFORMATION

The interim financial statements as of June 30, 2000, and for the six-month periods ended June 30, 2000 and 1999, are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of the Company's management, the unaudited interim financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. The results of operations for the interim periods are not necessarily indicative of the results for the entire fiscal year.

3. ACQUISITION

Effective January 2000, the Company purchased substantially all of the fixed assets of Horizon Gas, Inc., Horizon Gas of Dover, Inc., Horizon Gas of St. Petersburg, Inc. and Horizon Gas of Tampa, Inc. for approximately $3.3 million in cash. Additionally, the Company obtained a five-year noncompete agreement with the prior owners amounting to $500,000, to be amortized over a five-year period. The transaction is being accounted for using the purchase method.

Report of Independent Auditors

Board of Directors
Atmos Energy Corporation

We have audited the accompanying balance sheets of United Cities Propane Gas, Inc. (a Tennessee corporation and wholly owned subsidiary of Atmos Energy Corporation) as of September 30, 1999 and 1998, and the related statements of operations and retained earnings, and cash flows for each of the three years in the period ended September 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Cities Propane Gas, Inc. as of September 30, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1999, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

August 21, 2000

United Cities Propane Gas, Inc.
Balance Sheets

	SEPTEMBER 30 1999	1998
ASSETS		
Current assets:		
Cash	$ 3,285,000	$ 2,437,000
Receivables:		
Principally trade, less allowance for uncollectible accounts of $435,000 in 1999 and $440,000 in 1998	956,000	834,000
Accrued income taxes - receivable from Parent Company	1,448,000	1,346,000
Accrued income taxes receivable	891,000	219,000
Inventories	1,465,000	2,167,000
Other current assets	60,000	388,000
	8,105,000	7,391,000
Property and equipment:		
Land	1,767,000	1,867,000
Buildings and improvements	3,461,000	3,503,000
Furniture and fixtures	1,278,000	983,000
Propane equipment	27,317,000	27,129,000
Lease equipment	5,687,000	6,392,000
	39,510,000	39,874,000
Less accumulated depreciation	(15,753,000)	(14,086,000)
	23,757,000	25,788,000
Deferred charges and noncurrent assets:		
Noncompetition agreements, less accumulated amortization of $1,449,000 in 1999 and $1,188,000 in 1998	1,604,000	1,865,000
Goodwill, less accumulated amortization of $455,000 in 1999 and $176,000 in 1998	2,721,000	2,999,000
Other assets	--	8,000
Total assets	$ 36,187,000	$ 38,051,000

United Cities Propane Gas, Inc.
Balance Sheets

	SEPTEMBER 30 1999	1998
LIABILITIES AND SHAREHOLDER'S EQUITY		
Accounts payable:		
Principally trade	$ 725,000	$ 860,000
Parent Company	4,429,000	3,965,000
Current portion of long-term debt	1,465,000	2,387,000
Short-term notes - due to Parent Company	13,960,000	9,700,000
Other current liabilities	900,000	970,000
	21,479,000	17,882,000
Long-term debt, net of current portion	4,160,000	8,879,000
Deferred credits and other liabilities:		
Obligations payable under noncompetition agreements, net of current portion	1,254,000	1,462,000
Deferred income taxes	1,326,000	1,322,000
Other liabilities	804,000	538,000
	3,384,000	3,322,000
Commitments and contingencies		
Shareholder's equity:		
Common stock, par value $10 per share: Authorized, issued, and outstanding shares - 100	1,000	1,000
Paid-in capital	3,708,000	3,708,000
Retained earnings	3,455,000	4,259,000
Shareholder's equity	7,164,000	7,968,000
Total liabilities and shareholder's equity	$36,187,000	$38,051,000

See accompanying notes.

United Cities Propane Gas, Inc.
Statements of Operations and Retained Earnings

	YEAR ENDED SEPTEMBER 30 1999	1998	1997
Operating revenues:			
Propane gas	$ 19,647,000	$ 20,590,000	$ 29,550,000
Merchandise	1,178,000	1,027,000	1,560,000
Rental	1,430,000	1,199,000	1,551,000
Transport services	689,000	864,000	533,000
Total operating revenues	22,944,000	23,680,000	33,194,000
Operating expenses:			
Cost of propane gas sold	9,627,000	11,687,000	20,244,000
Cost of merchandise sold	1,268,000	721,000	949,000
General, administrative, and selling	9,499,000	8,321,000	9,478,000
Depreciation	2,413,000	2,099,000	1,944,000
Amortization	547,000	237,000	175,000
Total operating expenses	23,354,000	23,065,000	32,790,000
Operating (loss) income	(410,000)	615,000	404,000
Other income, net	206,000	47,000	15,000
Interest income (expense):			
Interest income	260,000	143,000	144,000
Interest expense	(1,338,000)	(850,000)	(742,000)
	(1,078,000)	(707,000)	(598,000)
Loss before taxes	(1,282,000)	(45,000)	(179,000)
Federal and state income tax benefit	478,000	13,000	90,000
Net loss	$ (804,000)	$ (32,000)	$ (89,000)
Retained earnings, beginning of year	$ 4,259,000	$ 4,291,000	$ 4,780,000
Less:			
Net loss	(804,000)	(32,000)	(89,000)
Dividends paid	--	--	(400,000)
Retained earnings, end of year	$ 3,455,000	$ 4,259,000	$ 4,291,000

See accompanying notes.

United Cities Propane Gas, Inc.
Statements of Cash Flows

	YEAR ENDED SEPTEMBER 30		
	1999	1998	1997
OPERATING ACTIVITIES			
Net loss	$ (804,000)	$ (32,000)	$ (89,000)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	2,413,000	2,099,000	1,944,000
Amortization	547,000	237,000	175,000
Deferred income taxes	713,000	227,000	(123,000)
Gain on sale of property and equipment	(214,000)	(7,000)	(1,000)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable, net	(122,000)	(293,000)	881,000
Inventories	702,000	(68,000)	18,000
Accounts payable	329,000	(1,130,000)	674,000
Noncompetition obligations	(233,000)	(100,000)	(129,000)
Accrued taxes	(774,000)	(1,304,000)	(534,000)
Other, net	(160,000)	619,000	(151,000)
Net cash provided by operating activities	2,397,000	248,000	2,665,000
INVESTING ACTIVITIES			
Property and equipment additions	(1,035,000)	(582,000)	(1,985,000)
Proceeds from retirements and other property sales	867,000	59,000	68,000
Acquisition of Harlan LP Gas, Inc.	--	--	(809,000)
Acquisition of Propane Sales and Service, Inc.	--	--	(231,000)
Acquisition of Ingas, Inc.	--	(1,179,000)	--
Acquisition of Harris Propane Gas Co., Inc.	--	(177,000)	--
Acquisition of E-Con Gas, Inc.	--	(470,000)	--
Acquisition of Massey Propane	--	(393,000)	--
Acquisition of Shaw L.P. Gas, Inc.	--	(3,861,000)	--
Net cash used in investing activities	(168,000)	(6,603,000)	(2,957,000)
FINANCING ACTIVITIES			
Short-term borrowings, net	4,260,000	10,203,000	2,521,000
Payments on long-term debt	(5,641,000)	(1,769,000)	(1,674,000)
Cash dividends paid	--	--	(400,000)
Net cash provided (used) by financing activities	(1,381,000)	8,434,000	447,000
Net increase in cash	848,000	2,079,000	155,000
Cash at beginning of year	2,437,000	358,000	203,000
Cash at end of year	$ 3,285,000	$ 2,437,000	$ 358,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for income taxes	$ --	$ --	$ 577,000
Cash paid for interest	$ 1,357,000	$ 882,000	$ 756,000

See accompanying notes.

United Cities Propane Gas, Inc.
Notes to Financial Statements
September 30, 1999

1. ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

United Cities Propane Gas, Inc. (the Company) is a wholly owned subsidiary of Atmos Energy Corporation (the Parent Company). The Company is engaged in the retail distribution of propane gas and merchandise, the transportation of propane gas and other companies' products as well as the leasing of appliances and propane equipment. The Company has diversified customer classes which consist primarily of residential, commercial, industrial, and transport customers. The financial statements give subsequent effect to business combinations accounted for as purchases (see Note 4).

Effective February 15, 2000, the Parent Company entered into an agreement to form a joint venture which combines 100% of the Company's operations with the propane operations of three other unrelated utility companies. Subsequently, the joint venture partners agreed to sell their operations to a publicly traded limited partnership for approximately $181,000,000 in cash and limited partnership units. Upon closing of this transaction, which occurred in August 2000, the joint venture referred to above owns all of the general partnership interest and approximately 34% of the limited partnership interest in the partnership.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INTANGIBLE ASSETS

The excess of cost over the fair value of the net intangible assets and identifiable intangible assets acquired has been reflected as goodwill in the Company's balance sheet. Amortization of goodwill is computed by the straight-line method over 10 to 20 years.

The Company entered into noncompetition agreements for ten years with certain previous owners of acquired properties and certain other outside parties. The costs associated with these agreements are being amortized over the terms of the agreements. Amounts payable under the noncompetition obligations for each of the five succeeding years and thereafter are as follows:

2000	$ 202,000
2001	202,000
2002	194,000
2003	194,000
2004	162,000
Thereafter	502,000
	$1,456,000

The Company assesses the recoverability of intangible assets by determining whether the amortization of the balances over their remaining lives can be recovered through undiscounted future operating cash flows of the acquired operations. Recoverability is reviewed when events or changes in circumstances indicate that the carrying amount may exceed such cash flows.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is provided generally on a straight-line basis over the estimated service lives of the respective classes of property. The service lives used are: buildings, 20 years; furniture and fixtures, 5 to 10 years; propane equipment on customers' premises, 5 to 20 years; storage tanks, 10 to 25 years; transportation equipment, 3 to 10 years; rental equipment and other, 8 to 10 years. Amortization of leasehold improvements is based upon the terms of the respective leases.

Maintenance, repairs and renewals, including replacements of minor items of physical properties, are charged against income; major additions to physical properties are capitalized.

INVENTORIES

Inventories are principally priced at average cost and are stated at lower of cost or market. The components of inventories are as follows:

	SEPTEMBER 30 1999	1998
Propane gas	$ 841,000	$ 771,000
Appliances	63,000	584,000
Appliance parts	561,000	812,000
Total inventories	$1,465,000	$2,167,000

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and short-term debt, approximated fair value as of September 30, 1999 and 1998, because of the relatively short maturity of these instruments. The carrying value of long-term debt, including the current portion, approximated fair value as of September 30, 1999 and 1998, based upon quoted market prices for the same or similar debt issues.

STATEMENT OF CASH FLOWS

For purposes of reporting cash flows, the Company considers all liquid debt instruments purchased with remaining maturities of three months or less to be cash equivalents.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year presentation.

RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED

The Company has not yet adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement will be effective for the Company's fiscal year 2001. It establishes accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. This Statement does not allow retroactive application to financial statements of prior periods. The Company's management has evaluated the impact of adopting the Statement and does not expect it to have a significant impact on its reported financial condition, results of operations, and cash flows.

2. LONG-TERM DEBT

INTERIM FINANCING

The Company has a revolving line of credit with First American (Revolver) which provides a total line of credit of $4,000,000 maturing on June 30, 2000, at which time all outstanding principal and interest are due. The Revolver bears interest at the bank's prime interest rate plus 1.75% and requires monthly payments of interest only and an annual commitment fee of 3.75% to be paid on the committed, unused portion. The Company had no balance outstanding for this line of credit at September 30, 1999 or 1998. The Company did not renew its credit agreement with First American that expired June 30, 2000.

LONG-TERM DEBT

Long-term debt consists of the following:

	SEPTEMBER 30 1999	1998
Bank of America credit facility, dated December 15, 1995, totaling $5,000,000, maturing on December 15, 2002, at which time all principal and interest are due. The note bears interest at 6.99% per annum, payable monthly.	$ --	$ 3,750,000
Notes due to third parties as the result of acquisitions. The notes have maturities ranging from January 2000 to June 2008 with annual, semiannual, and quarterly payments of principal and interest, ranging from 6.00% to 8.5%. The weighted average interest rate on the long-term debt at September 30, 1999 was 7.31%.	5,625,000	7,516,000
	$ 5,625,000	$11,266,000

Future maturities of the Company's long-term debt at September 30, 1999, are as follows:

2000	$1,465,000
2001	1,035,000
2002	975,000
2003	942,000
2004	409,000
Thereafter	799,000
	$5,625,000

The Company repaid its Bank of America credit facility during the year, incurring a prepayment penalty of $63,000, which is included in General, administrative, and selling expense on the statement of operations and retained earnings.

3. INCOME TAXES

The Company files a consolidated federal income tax return with the Parent Company and, based on an informal tax sharing agreement, includes in its statements of operations a provision or benefit for income tax expense calculated on a separate return basis.

The Company's net deferred tax liability consists of the following:

	SEPTEMBER 30 1999	1998
Accelerated tax depreciation and amortization	$ 1,758,000	$ 1,724,000
Accrual for legal liability	(124,000)	(89,000)
Accrual for uncollectible accounts	(165,000)	(167,000)
Other, net	(143,000)	(146,000)
	$ 1,326,000	$ 1,322,000

A detail of the federal and state income tax provision (benefit) is set forth below:

	SEPTEMBER 30 1999	1998	1997
Federal income taxes:			
Current	$ (1,139,000)	$ (211,000)	$ 25,000
Deferred, net	661,000	199,000	(108,000)
State income taxes:			
Current	(52,000)	(29,000)	8,000
Deferred, net	52,000	28,000	(15,000)
Total federal and state income tax benefit	$ (478,000)	$ (13,000)	$ (90,000)

Income taxes differ from amounts computed by applying the statutory rates to pretax income as follows:

	SEPTEMBER 30 1999	1998	1997
Federal income tax at statutory rate of 35%	$ (448,000)	$ (16,000)	$ (63,000)
State income tax, net	--	(1,000)	(5,000)
Other, net	(30,000)	4,000	(22,000)
Income tax benefit	$ (478,000)	$ (13,000)	$ (90,000)

4. ACQUISITIONS AND OTHER RELATED MATTERS

Effective May 31, 1998, the Company purchased substantially all of the assets of Ingas, Inc. of Pulaski, Tennessee, for approximately $1,179,000 in cash for the accounts receivable, inventory, and partial payment of the fixed assets, and $1,000,000 in two notes payable for the balance of fixed assets. Additionally, the Company obtained a ten year noncompetition agreement with the prior owners amounting to $600,000, to be paid and amortized over a ten year period.

Effective July 17, 1998, the Company purchased substantially all of the assets of Harris Propane Gas Co., Inc. of Clarksville, Tennessee, for approximately $177,000 in cash for the accounts receivable, inventory, and partial payment of the fixed assets, and $1,600,000 in two notes payable for the balance of fixed assets. Additionally, the Company obtained a ten year noncompetition agreement with the prior owners amounting to $200,000, to be paid over a ten year period.

Effective August 3, 1998, the Company purchased substantially all of the assets of E-Con Gas, Inc. of Evensville, Tennessee, for approximately $470,000 in cash for the accounts receivable, inventory, and partial payment of the fixed assets, and $1,345,000 in a note payable for the balance of the fixed assets. Additionally, the Company obtained a ten year noncompetition agreement with the prior owner amounting to $250,000, to be paid and amortized over a ten year period.

Effective August 17, 1998, the Company purchased substantially all of the assets of Massey Propane of Petersburg, Tennessee, for approximately $393,000 in cash for the accounts receivable, inventory, and partial payment of the fixed assets, and $500,000 in a note payable for the balance of the fixed assets. Additionally, the Company obtained ten year noncompetition agreements with the prior owners amounting to $100,000, to be paid and amortized over a ten year period.

Effective September 4, 1998, the Company purchased all of the assets of Shaw L.P. Gas, Inc. of Greenville, Tennessee, for approximately $3,861,000 in cash for the accounts receivable, inventory, and fixed assets. Additionally, the Company obtained ten year noncompetition agreements with the prior owners amounting to $50,000, to be paid and amortized over a ten year period.

Effective February 28, 1997, the Company purchased substantially all of the assets of Harlan LP Gas, Inc. and Propane Sales and Service, Inc. for $1,040,000 in cash for the accounts receivable, inventory, and partial payment of the fixed assets and $1,000,000 in notes payable for the balance of the fixed assets. Additionally, the Company obtained ten year noncompetition agreements with the prior owners amounting to $150,000, to be paid and amortized over a ten year period. This acquisition added approximately 3,100 customers in the Harlan, Kentucky, and Tazewell, Tennessee, areas.

The acquisitions of Ingas, Inc., Harris Propane Gas Co., Inc., E-Con Gas, Inc., Massey Propane, Shaw L.P. Gas, Inc., Harlan LP Gas, Inc., and Propane Sales and Service, Inc. have been accounted for as purchases, and the results of operations of these companies have been included in the financial statements subsequent to the dates indicated above. The Company recorded no excess of cost over the fair value of assets acquired from Harris Propane Gas Co., Inc., but recorded an excess of cost over fair value of assets acquired from Ingas, Inc., E-Con Gas, Inc., Massey Propane, and Shaw L.P. Gas, Inc. of $300,000, $518,000, $341,000, and $1,100,000, respectively. The excess of cost over fair value of assets acquired is being amortized on a straight-line basis over 20 years.

5. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases propane equipment (principally tanks and appliances) to nonaffiliated third parties. All existing leases are cancelable operating leases. At September 30, 1999, the net book value of total leased property amounted to $14,433,000.

The Company leases certain operational facilities from nonaffiliated third parties under noncancelable operating leases expiring in various years through 2005. Future minimum lease payments under these leases at September 30, 1999, for each of the five succeeding years and thereafter are as follows:

2000	$169,000
2001	93,000
2002	69,000
2003	29,000
2004	26,000
Thereafter	3,000
Total future minimum lease payments	$389,000

Rental expense under the operating leases amounted to $192,000, $235,000, and $239,000 in 1999, 1998, and 1997, respectively. Certain operating leases provide for renewal and/or negotiable purchase options.

Renewal options are for one and two successive five-year terms at their fair rental value at the time of renewal.

PURCHASE COMMITMENTS

The Company has several noncancelable purchase agreements with its vendors for the purchase of propane gas inventory, which expire during fiscal 2000. The agreements provide that the Company purchase, primarily at market rates, approximately 15,341,000 gallons during fiscal 2000. The Company purchases all of its volumes sold through these agreements.

Additionally, the Company entered into two contracts with one of its vendors to fix the price of its propane gas purchases at $.41 per gallon over 90,000 gallons, and $.51 per gallon over 2,101,000 gallons. The agreements provide for specific monthly volumes and expire during fiscal 2000. The Company paid approximately $50,000 for the contracts, which is included in other current assets. The Company is amortizing the amounts over the actual volumes purchased under the contracts, or the life of the contract, whichever comes first.

LITIGATION

The Company is a party to an action pending in the Circuit Court of Sevier County, Tennessee. The Plaintiffs' claims arise out of injuries alleged to have been caused by a low-level propane explosion. The Plaintiffs seek to recover damages of $13.0 million. The Company denies any wrongdoing and intends to vigorously defend against the Plaintiffs' claims. The Company does not expect the final outcome of this case to have a material adverse effect on the financial condition, the results of operations, or the net cash flows of the Company because the Company believes that it has adequate insurance coverage for any damages that may be ultimately awarded.

The Company is a party to other litigation matters and claims that arise out of the ordinary business of the Company. While the results of these litigation matters and claims cannot be predicted with certainty, the Company does not believe the final outcome of such litigation and claims will have a material adverse effect on the financial condition, the results of operations, or the cash flows of the Company because the Company believes that it has adequate insurance and reserves to cover any damages that may ultimately be awarded.

6. RELATED PARTY DATA

The Parent Company's employees perform certain services for which the Company is billed at actual cost. In addition, common general and administrative labor and other operating costs and expenses are allocated to the Company based upon methods considered reasonable by management. Such charges for employee services amounted to $468,000, $389,000, and $426,000 in 1999, 1998, and 1997, respectively.

Interest was charged by affiliated companies to the Company on short-term notes payable at an average rate of 5.89%, 6.69%, and 5.70% in 1999, 1998, and 1997, respectively. Total interest expense related to these notes amounted to $673,000, $279,000, and $26,000 in 1999, 1998, and 1997, respectively.

Employees of the Company participate in the trusteed noncontributory defined benefit pension plan, the postretirement benefits plan, and the medical and dental insurance plans of the Parent Company, which cover substantially all full-time employees. The Company's share of the Parent Company's annual pension, postretirement benefit, and medical and dental insurance expenses amounted to $1,254,000, $634,000, and $639,000 in 1999, 1998, and 1997, respectively.

7. IMPACT OF YEAR 2000 - UNAUDITED

The Company believes that the Parent Company, as operator of the Company, took the appropriate measures to ensure that the computer systems used in the operations of the Company were made year 2000 compliant prior to the millennium date change. As a result of those measures, the Company experienced no significant disruptions in mission-critical information technology and non-information technology systems and believes those systems successfully responded to the year 2000 date change. The Company is not aware of any material problems resulting from year 2000 issues, either with its products, its internal systems, or the products and services of third parties.

United Cities Propane Gas, Inc.
Balance Sheet (Unaudited)

	JUNE 30 2000 (UNAUDITED)
ASSETS	
Current assets:	
Cash	$ 649,000
Receivables:	
Principally trade, less allowance for uncollectible accounts of $397,000	576,000
Accrued income taxes - receivable from Parent Company	1,358,000
Accrued income taxes receivable	1,110,000
Inventories	1,753,000
Other current assets	39,000
	5,485,000
Property and equipment:	
Land	1,776,000
Buildings and improvements	3,471,000
Furniture and fixtures	997,000
Propane equipment	27,825,000
Lease equipment	5,585,000
	39,654,000
Less accumulated depreciation	(17,118,000)
	22,536,000
Deferred charges and noncurrent assets:	
Noncompetition agreements, less accumulated amortization of $1,556,000	1,497,000
Goodwill, less accumulated amortization of $717,000	2,459,000
Other assets	--
Total assets	$ 31,977,000

United Cities Propane Gas, Inc.
Balance Sheet (Unaudited)

	JUNE 30 2000 (UNAUDITED)
LIABILITIES AND SHAREHOLDER'S EQUITY	
Accounts payable:	
Principally trade	$ 97,000
Parent Company	3,676,000
Current portion of long-term debt	975,000
Short-term notes - due to Parent Company	13,162,000
Other current liabilities	1,144,000
	19,054,000
Long-term debt, net of current portion	3,694,000
Deferred credits and other liabilities:	
Obligations payable under noncompetition agreements, net of current portion	1,113,000
Deferred income taxes	1,330,000
Other liabilities	53,000
	2,496,000
Commitments and contingencies	
Shareholder's equity:	
Common stock, par value $10 per share: Authorized, issued, and outstanding shares - 100	1,000
Paid-in capital	3,708,000
Retained earnings	3,024,000
Shareholder's equity	6,733,000
Total liabilities and shareholder's equity	$ 31,977,000

See accompanying notes.

United Cities Propane Gas, Inc.
Statements of Operations and Retained Earnings

	NINE MONTHS ENDED JUNE 30 2000 (UNAUDITED)	NINE MONTHS ENDED JUNE 30 1999 (UNAUDITED)
Operating revenues:		
Propane gas	$ 18,852,000	$ 16,237,000
Merchandise	516,000	1,012,000
Rental	1,475,000	1,298,000
Transport services	552,000	550,000
Total operating revenues	21,395,000	19,097,000
Operating expenses:		
Cost of propane gas sold	11,501,000	7,898,000
Cost of merchandise sold	564,000	1,199,000
General, administrative, and selling	6,965,000	7,304,000
Depreciation	1,722,000	1,813,000
Amortization	369,000	323,000
Total operating expenses	21,121,000	18,537,000
Operating income	274,000	560,000
Other income (expense), net	(8,000)	178,000
Interest income (expense):		
Interest income	190,000	216,000
Interest expense	(1,112,000)	(996,000)
	(922,000)	(780,000)
Loss before taxes	(656,000)	(42,000)
Federal and state income tax benefit	225,000	12,000
Net loss	$ (431,000)	$ (30,000)
Retained earnings, beginning of year	$ 3,455,000	$ 4,259,000
Less:		
Net loss	(431,000)	(30,000)
Retained earnings, end of year	$ 3,024,000	$ 4,229,000

See accompanying notes.

United Cities Propane Gas, Inc.
Statements of Cash Flows

	NINE MONTHS ENDED JUNE 30 2000 (UNAUDITED)	NINE MONTHS ENDED JUNE 30 1999 (UNAUDITED)
OPERATING ACTIVITIES		
Net loss	$ (431,000)	$ (30,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	1,722,000	1,813,000
Amortization	369,000	323,000
Deferred income taxes	4,000	(1,211,000)
(Gain) loss on sale of property and equipment	23,000	(168,000)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	380,000	886,000
Inventories	(288,000)	1,072,000
Accounts payable	(1,381,000)	(818,000)
Noncompetition obligations	(141,000)	(87,000)
Accrued taxes	(129,000)	1,025,000
Other, net	(486,000)	(253,000)
Net cash provided (used) by operating activities	(358,000)	2,552,000
INVESTING ACTIVITIES		
Property and equipment additions	(575,000)	(631,000)
Proceeds from retirements and other property sales	51,000	623,000
Net cash used in investing activities	(524,000)	(8,000)
FINANCING ACTIVITIES		
Short-term borrowings, net	(798,000)	3,462,000
Payments on long-term debt	(956,000)	(4,582,000)
Net cash provided (used) by financing activities	(1,754,000)	(1,120,000)
Net increase (decrease) in cash	(2,636,000)	1,424,000
Cash at beginning of year	3,285,000	2,437,000
Cash at end of year	$ 649,000	$ 3,861,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ --	$ --
Cash paid for interest	$ 989,000	$ 978,000

See accompanying notes.

UNITED CITIES PROPANE GAS, INC.
NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTHS ENDED JUNE 30, 2000

1. ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

United Cities Propane Gas, Inc. (the Company) is a wholly owned subsidiary of Atmos Energy Corporation (the Parent Company). The company is engaged in the retail distribution of propane (LP) gas and merchandise, the transportation of propane (LP) gas and other companies' products as well as the leasing of appliances and propane equipment. The Company has diversified customer classes, which consist primarily of residential, commercial, industrial and transport customers.

Effective February 15, 2000, the Parent Company entered into an agreement to form a joint venture that combines 100% of the Company's operations with the propane operations of three other unrelated utility companies. Subsequently, the joint venture partners agreed to sell their operations to a publicly traded limited partnership for approximately $181,000,000 in cash and limited partnership units. Upon closing of this transaction, which occurred in August 2000, the joint venture referred to above owns all of the general partnership interest and approximately 34% of the limited partnership interest in the partnership.

In the opinion of management, the unaudited financial statements included herein reflect all normal recurring adjustments necessary for a fair statement of the results of the interim period reflected. These interim financial statements and notes are condensed and should be read in conjunction with the financial statements and the notes included in the financial statements for the fiscal year ended September 30, 1999. Due to the seasonal nature of the Company's business, the results of operations for the nine-month period are not necessarily indicative of results of operations for a twelve-month period.

INVENTORY

Inventories are principally priced at average cost and are stated at lower of cost of market. The components of inventories are as follows:

Propane Gas	$1,118
Appliances	44
Appliance parts and fittings	591
	$1,753

RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED

The Company has not yet adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement will be effective for the Company's fiscal year 2001. It establishes accounting and reporting Standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. This Statement does not allow retroactive application to financial statements of prior periods. The Company's management has evaluated the impact of adopting the Statement and does not expect it to have a significant impact on its reported financial condition, results of operations, and cash flows.

UNITED CITIES PROPANE GAS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. COMMITMENTS AND CONTINGENCIES

LITIGATION

The Company is a party to an action pending in the Circuit Court of Sevier County, Tennessee. The Plaintiffs' claims arise out of injuries alleged to have been caused by a low-level propane explosion. The Plaintiffs seek to recover damages of $13.0 million. The Company denies any wrongdoing and intends to vigorously defend against the Plaintiffs' claims. The Company does not expect the final outcome of this case to have a material adverse effect on the financial condition, the results of operations, or the net cash flows of the Company because the Company believes that it has adequate insurance coverage for any damages that may be ultimately awarded.

The Company is party to other litigation matters and claims that arise out of the ordinary business of the Company. While the results of these litigation matters and claims cannot be predicted with certainty, the Company does not believe the final outcome of such litigation and claims will have a material adverse effect on the financial condition, the results of operations, or the cash flows of the Company because the Company believes that it has adequate insurance and reserves to cover any damages that may ultimately be awarded.

Report of Independent Auditors

Board of Directors of AGL Propane, Inc.:

We have audited the accompanying balance sheets of AGL Propane, Inc. (the "Company") as of September 30, 1999 and 1998, and the related statements of income, stockholder's equity, and cash flows for each of the three years in the period ended September 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of AGL Propane, Inc. as of September 30, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1999, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche, LLP
- --------------------------
October 2, 2000

AGL PROPANE, INC.

BALANCE SHEETS
SEPTEMBER 30, 1999 AND 1998

IN THOUSANDS

	1999	1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,871	$ 5,001
Receivables (less allowance for uncollectible accounts of $499 in 1999 and $505 in 1998)	2,209	2,040
Receivable due from related parties	1,650	
Inventory	2,670	2,815
Other current assets	257	310
Total current assets	8,657	10,166
PROPERTY, PLANT AND EQUIPMENT	27,888	25,847
Less accumulated depreciation	5,623	3,874
Property, plant, and equipment - net	22,265	21,973
GOODWILL	6,051	7,170
	$ 36,973	$ 39,309
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable - trade	$ 1,557	$ 888
Short-term debt	572	1,485
Payable due to related parties		3,473
Other accrued liabilities	2,160	2,134
Total current liabilities	4,289	7,980
LONG-TERM LIABILITIES:		
Deferred income taxes	5,075	4,954
Long-term debt	35	70
Total long-term liabilities	5,110	5,024
STOCKHOLDER'S EQUITY (see accompanying statements of stockholder's equity)	27,574	26,305
	$ 36,973	$ 39,309

See notes to financial statements

AGL PROPANE, INC.

STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998, 1997

IN THOUSANDS

	1999	1998	1997
OPERATING REVENUES	$20,010	$23,380	$14,426
COST OF SALES	8,311	11,265	5,973
OPERATING MARGIN	11,699	12,115	8,453
OTHER OPERATING EXPENSES:			
Operation	6,693	7,461	5,051
Maintenance	428	224	648
Depreciation and amortization	2,080	1,806	1,203
Taxes other than income taxes	544	680	137
Total other operating expenses	9,745	10,171	7,039
OPERATING INCOME	1,954	1,944	1,414
Other income	341	753	192
Interest expense	65	51	30
INCOME BEFORE INCOME TAXES	2,230	2,646	1,576
Income taxes	961	1,125	679
Net income	$ 1,269	$ 1,521	$ 897

See notes to financial statements.

AGL PROPANE, INC.

STATEMENTS OF STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998, 1997

IN THOUSANDS

	1999	1998	1997
EQUITY INVESTMENT OF PARENT			
Beginning of year	$23,566	$23,566	$ 5,905
Acquisition of propane companies			17,661
End of year	23,566	23,566	23,566
RETAINED EARNINGS			
Beginning of year	2,739	1,218	321
Net income	1,269	1,521	897
End of year	4,008	2,739	1,218
Total stockholder's equity	$27,574	$26,305	$24,784

See notes to financial statements.

AGL PROPANE, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1999, 1998, 1997

IN THOUSANDS

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 1,269	$ 1,521	$ 897
Adjustments to reconcile net income to net cash flow from operating activities:			
Depreciation and amortization	2,080	1,806	1,203
Deferred income taxes	121	219	146
Changes in assets and liabilities:			
Inventory	145	1,098	442
Payables due to related parties	(3,908)	600	1,350
Other -- net	419	104	899
Net cash flow from operating activities	126	5,348	4,937
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(2,041)	(3,307)	(2,728)
Loan to related party	(1,215)		
Net cash used in investing activities	(3,256)	(3,307)	(2,728)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,130)	2,041	2,209
CASH AND CASH EQUIVALENTS AT			
Beginning of period	5,001	2,960	751
End of period	$ 1,871	$ 5,001	$ 2,960
CASH PAID DURING PERIOD FOR:			
Income taxes	$ 870	$ 1,038	$ 547

See notes to financial statements.

AGL PROPANE, INC.

NOTES TO FINANCIAL STATEMENTS
AS OF THE YEARS ENDED SEPTEMBER 30, 1999 AND 1998, AND FOR THE THREE YEARS ENDED SEPTEMBER 30, 1999

1. ORGANIZATION

AGL Propane, Inc. ("AGL Propane" or the "Company") engages in the sale of propane and related products and services in Georgia, Alabama, North Carolina, and Tennessee. AGL Propane was originally incorporated on October 6, 1964 under the name Georgia Gas Service Company. Currently, AGL Propane is a wholly owned subsidiary of AGL Investments, Inc. ("AGLI"), which in turn is a wholly owned subsidiary of AGL Resources Inc. ("AGL Resources").

On August 9, 2000, assets and liabilities of AGL Propane were contributed to AGL Propane Services, Inc. ("AGL Propane Services"), another wholly owned subsidiary of AGLI. Subsequently, AGL Propane Services contributed certain assets and liabilities to U.S. Propane, L.P. ("US Propane") in exchange for a 22.36% interest in US Propane. US Propane is a joint venture between Piedmont Natural Gas Company, Inc.; TECO Energy, Inc.; Atmos Energy Corporation; and AGL Resources.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition - Sales of propane, propane appliances, parts and fittings are recognized at the time of delivery of the product to the customer or at the time of sale or installation. Revenue from service labor is recognized upon completion of the service, and tank rental revenue is recognized ratably over the period it is earned.

Income Taxes - The reporting of AGL Propane's assets and liabilities for financial accounting purposes differs from the reporting for income tax purposes. The tax effects of the differences in those items are reported as deferred income tax assets or liabilities in AGL Propane's Balance Sheet. The operating results of AGL Propane are included in the consolidated federal income tax return of AGL Resources. The resulting income taxes are allocated to AGL Propane as if it were a separate taxpayer.

Evaluation of Assets for Impairment - Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS No. 121"), requires AGL Propane to review long-lived assets and certain intangibles for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is measured by comparing the undiscounted cash flows generated from a long-lived asset to its carrying value. Any impairment losses are reported in the period in which the recognition criteria are first applied based on the fair value of the asset. In accordance with SFAS 121, AGL Propane has evaluated its long-lived assets for financial impairment and believes that no asset impairments exist.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at original cost. Gains or losses from retired or otherwise-disposed-of property, plant, and equipment are recognized for the difference between cost and accumulated depreciation. Depreciation is computed on a straight-line basis over the lives of various classes of property. Property, plant, and equipment consisted of the following at September 30, 1999 and 1998 (in thousands):

	USEFUL LIVES	1999	1998
Land and improvements	30	$ 1,268	$ 1,393
Buildings and improvements	30	2,432	2,096
Bulk storage, equipment, and facilities	30	2,984	3,239
Tanks and other equipment	20	14,225	13,036
Vehicles	7	5,631	4,898
Furniture and fixtures	7	731	603
Machinery and equipment	7	617	582
Property, plant, and equipment		27,888	25,847
Less accumulated depreciation		(5,623)	(3,874)
Property, plant, and equipment - net		$ 22,265	$ 21,973

Statement of Cash Flows - For the reporting of cash flows, cash equivalents are defined as highly liquid investments that mature in three months or less.

Noncash investing and financing transactions include the following:

- Purchase of GBJ Investment Co., Inc.; Jordan Gas Company, Inc.; Good Neighbor Gas Company, Inc.; Southern Butane Co., Inc.; Waters L.P. Gas, Inc.; J&H Propane, Inc.; and Jordan Gas Service, Inc. (collectively referred to as "Jordan Propane"). All the individual Jordan Propane companies were Alabama corporations, except for Good Neighbor Gas Company, Inc., which was a Georgia corporation. (See Note 3, Acquisitions)

- Merger with Capitol Fuels, Inc. ("Capitol Fuels"), a Georgia corporation. (See Note 3, Acquisitions)

- Purchase of Ocoee Gas Company, LLC ("Ocoee Gas"), a Tennessee limited liability company. (See Note 3, Acquisitions)

Inventory - Inventory is valued at the lower of cost or market. The cost of inventory is determined by the first-in, first-out method. Inventory consists of the following at September 30, 1999 and 1998 (in thousands):

	1999	1998
Fuel	$ 1,317	1,600
Appliance, parts, and fittings	1,353	1,215
Inventory	$ 2,670	$ 2,815

Recently Issued Accounting Pronouncements - The Financial Accounting Standards Board ("FASB") has issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"), as amended by Statement of Financial Standards No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS 133 ("SFAS 137"); and Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities ("SFAS No. 138"). SFAS 133 and SFAS 138 establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The impact of SFAS 133 and SFAS 138 on AGL Propane's financial statements is under review and is currently unknown. SFAS 133 is effective for AGL Propane on October 1, 2000.

3. ACQUISITIONS

In February 1997, AGLI purchased Jordan Propane's issued and outstanding shares of capital stock for $14,492,000, of which $13,042,000 was paid in cash. The remaining purchase price of $1,450,000 was paid by the deliverance of a non-negotiable promissory note. (See Note 6, Short-Term Debt) In September 1997, AGLI purchased certain assets and liabilities of Ocoee Gas for $274,000 in cash, plus a $175,000 noncompete agreement and a $25,000 consulting agreement. AGLI principally financed these two acquisitions and subsequently dividended them to AGL Propane as an equity investment by AGLI.

In June 1997, AGL Propane merged with Capitol Fuels. The merger was financed through AGL Resources' issuance of 200,000 shares of common stock in the amount of $3,875,000 and was dividended to AGL Propane as an equity investment by AGLI.

AGL Resources and AGLI incurred costs of $470,000 related to these acquisitions which were accounted for as an additional equity investment by AGLI.

The acquisitions have been accounted for using the purchase method and, accordingly, the purchase prices have been allocated to assets acquired and liabilities assumed based on the fair market values at the date of the acquisitions. The excess of the total purchase prices over the total fair market values of the net assets of $7,320,000, the majority of which relates to the Jordan Propane acquisition, has been recorded as goodwill, which is being amortized over 40 years. Amortization expense of $215,000, $214,000, and $136,000 was recognized in the years ended September 30, 1999, 1998, and 1997, respectively.

4. INCOME TAX EXPENSE

The components of income tax expense for the years ended September 30, 1999, 1998 and 1997 are as follows (in thousands):

	1999	1998	1997
Current:			
Federal	$ 761	$ 820	$ 482
State	79	86	51
Deferred:			
Federal	110	198	132
State	11	21	14
Income tax expense	$ 961	$ 1,125	$ 679

For the three years in the period ended September 30, 1999, the provision for income taxes differs from the amount of income taxes determined by applying the applicable U.S. statutory federal income tax rate to income before taxes as a result of the following differences (in thousands):

	1999	1998	1997
Statutory U.S. tax rates	$ 795	$ 941	$ 562
Nondeductible goodwill	82	82	56
State income taxes	84	99	59
Other	3	2	
Total	$ 961	$ 1,125	$ 679

The tax effect of temporary differences that give rise to the deferred income tax assets and liabilities at September 30, 1999 and 1998 is as follows (in thousands):

	1999	1998
Current deferred tax asset:		
Allowance for doubtful accounts	$ 164	$ 166
Other	25	44
Long-term deferred tax liability:		
Property, plant, and equipment	(5,264)	(5,164)
Net long-term deferred tax liability	$ (5,075)	$ (4,954)

5. EMPLOYEE BENEFIT PLANS

Substantially all of AGL Propane's employees are eligible to participate in its employee benefit plans.

Employee Savings Plan Benefits - AGL Propane participates in a defined contribution plan, the Retirement Savings Plus Plan, which is sponsored by AGL Resources. AGL Propane made matching contributions to participant accounts in the following amounts:

- $75,000 for fiscal 1999;
- $143,000 for fiscal 1998; and
- $60,000 for fiscal 1997

6. SHORT-TERM DEBT

In conjunction with the acquisition of Jordan Propane in February 1997, AGL Propane issued to Jordan's shareholders a non-negotiable promissory note for $1,450,000 with an interest rate of 9.25%, which was guaranteed by AGL Propane's parent, AGLI. (See Note 3, Acquisitions) The promissory note's maturity date was the eighteen-month anniversary of the closing date or August 1998. Therefore, as of September 30, 1998, the promissory note was classified as short-term debt. In 1999, AGL Propane fully settled the debt with a payment to the Jordan family in the amount of $538,000. The reduction in the promissory note was due to the resolution of certain contingencies and was accounted for as a reduction in goodwill.

7. COMMITMENTS AND CONTINGENCIES

Total rental expense for property and equipment was as follows:

- $15,000 for fiscal 1999;
- $45,000 for fiscal 1998; and
- No rental expense for fiscal 1997

Minimum annual rentals under noncancelable operating leases are as follows:

- Fiscal 2000 - $22,000;
- Fiscal 2001 - $18,000;
- Fiscal 2002 - $17,000; and
- Fiscal 2003 - $4,000

8. RELATED PARTIES

Payables Due to Related Parties - consists primarily of amounts due to AGL Resources for current income taxes.

Receivables Due from Related Parties - consists of $1,215,000 payable from Utilipro, Inc., a wholly owned subsidiary of AGL Resources Inc., in accordance with a Note Agreement dated April 16, 1999. Interest accrues at a rate of 8.075% annually with a maturity date of June 1, 2000. Interest income recognized during 1999 was $33,000. All interest was accrued and unreceived as of September 30, 1999. The remaining receivable due from related parties is associated with excess cash advanced to AGL Resources.

9. LONG-TERM DEBT

In conjunction with the acquisition of Capitol Fuels in June 1997, AGL Propane entered into a non-compete agreement for $175,000, payable over a five-year period. Amounts payable related to this agreement at September 30, 1999 are as follows:

- Fiscal 2000 - $35,000
- Fiscal 2001 - $35,000

AGL PROPANE, INC.

BALANCE SHEETS (UNAUDITED)
JUNE 30, 2000

IN THOUSANDS

	2000
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 1,480
Receivables (less allowance for uncollectible accounts of $723)	1,398
Inventory	1,594
Other current assets	264
Total current assets	4,736
PROPERTY, PLANT AND EQUIPMENT	28,858
Less accumulated depreciation	6,922
Property, plant, and equipment -- net	21,936
GOODWILL	5,866
	$32,538
LIABILITIES AND STOCKHOLDER'S EQUITY	
CURRENT LIABILITIES:	
Accounts payable -- trade	$ 182
Short-term debt	35
Payable due to related parties	133
Other accrued liabilities	1,526
Total current liabilities	1,876
LONG-TERM LIABILITIES:	
Deferred income taxes	4,980
Total long-term liabilities	4,980
STOCKHOLDER'S EQUITY	25,682
	$32,538

See notes to financial statements

AGL PROPANE, INC.

STATEMENTS OF INCOME (UNAUDITED)
FOR THE NINE MONTHS ENDED JUNE 30, 2000 AND 1999

IN THOUSANDS

	2000	1999
OPERATING REVENUES	$ 19,183	$ 16,142
COST OF SALES	9,948	6,456
OPERATING MARGIN	9,235	9,686
OTHER OPERATING EXPENSES:		
Operation	5,139	5,480
Maintenance	398	214
Depreciation and amortization	1,611	1,566
Taxes other than income taxes	487	438
Total other operating expenses	7,635	7,698
OPERATING INCOME	1,600	1,988
Other income	253	236
Interest expense	(5)	(46)
INCOME BEFORE INCOME TAXES	1,848	2,178
Income taxes	739	871
Net income	$ 1,109	$ 1,307

See notes to financial statements.

AGL PROPANE, INC.

STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED JUNE 30, 2000 AND 1999

IN THOUSANDS

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,109	$ 1,307
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	1,611	1,566
Deferred income taxes	(95)	248
Changes in assets and liabilities:		
Inventory	1,076	312
Payables due to related parties	567	(2,645)
Other -- net	(1,331)	(436)
Net cash flow from operating activities	2,937	352
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of short-term debt	(572)	
Net cash used in financing activities	(572)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(971)	(1,960)
Repayment of loan to related party	1,215	(1,215)
Dividend paid to parent	(3,000)	
Net cash used in investing activities	(2,756)	(3,175)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(391)	(2,823)
CASH AND CASH EQUIVALENTS AT		
Beginning of period	1,871	5,001
End of period	$ 1,480	$ 2,178
CASH PAID DURING PERIOD FOR:		
Income taxes	$ 450	$ 839

See notes to financial statements.

AGL PROPANE, INC.

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE NINE MONTHS ENDED JUNE 30, 2000 AND 1999

1. ORGANIZATION

AGL Propane, Inc. ("AGL Propane") engages in the sale of propane and related products and services in Georgia, Alabama, North Carolina and Tennessee. AGL Propane was originally incorporated on October 6, 1964 under the name Georgia Gas Service Company. Currently, AGL Propane is a wholly owned subsidiary of AGL Investments, Inc, ("AGLI"), which in turn is a wholly owned subsidiary of AGL Resources, Inc. ("AGL Resources").

On August 9, 2000, assets and liabilities of AGL Propane were contributed to AGL Propane Services, Inc. ("AGL Propane Services"), another wholly-owned subsidiary of AGLI. Subsequently, AGL Propane Services contributed certain assets and liabilities to U.S. Propane, L. P. ("US Propane") in exchange for a 22.36% interest in US Propane. US Propane is a joint venture between Piedmont Natural Gas Company, Inc., TECO Energy, Inc., Atmos Energy Corporation and AGL Resources.

2. SIGNIFICANT ACCOUNTING POLICIES

In the opinion of management, the unaudited financial statements included herein reflect all normal recurring adjustments necessary for a fair statement of the results of the interim period reflected. These interim financial statements and notes are condensed and should be read in conjunction with the financial statements and the notes included in the financial statements for the fiscal year ended September 30, 1999. Due to the seasonal nature of AGL Propane's business, the results of operations for the nine-month period are not necessarily indicative of results of operations for a twelve-month period.

Recently Issued Accounting Pronouncements - The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"), as amended by Statement of Financial Standards No. 137 ("SFAS 137") and Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities ("SFAS No. 138"). SFAS 133 and SFAS 138 establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The impact of SFAS 133 and SFAS 138 on AGL Propane's financial statements is currently unknown.

Property, Plant and Equipment - Property, plant and equipment is recorded at original cost. Gains or losses from retired or otherwise-disposed-of property, plant and equipment are recognized for the difference between cost and accumulated depreciation. Depreciation is computed on a straight-line basis over the lives of various classes of property. Property, plant and equipment consisted of the following at June 30, 2000:

Land and improvements	$ 1,471
Buildings and improvements	2,442
Bulk storage, equipment, and facilities	3,078
Tanks and other equipment	14,788
Vehicles	5,657
Furniture and fixtures	787
Machinery and equipment	635
Property, plant, and equipment	28,858
Less accumulated depreciation	(6,922)
Property, plant, and equipment - net	$ 21,936

Inventory - Inventories are valued at the lower of cost or market. The cost of fuel inventories and appliances is determined by the first-in, first-out method. Inventories consist of the following at June 30, 2000:

Fuel	$ 439
Appliance, parts, and fittings	1,155
Inventory	$ 1,594

Report of Independent Auditors

We have audited the accompanying balance sheets of Piedmont Propane Company (the Company) as of October 31, 1999 and 1998, and the related statements of income and retained earnings and of cash flows for each of the three years in the period ended October 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at October 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 1999 in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte and Touche
- -----------------------
October 6, 2000

PIEDMONT PROPANE COMPANY
BALANCE SHEETS
OCTOBER 31, 1998 AND 1999 AND JULY 31, 2000 (UNAUDITED)

	JULY 31, 2000 (UNAUDITED)	1999	1998
Current Assets:			
Cash and cash equivalents	$ 1,508,082	$ 1,907,650	$ 837,684
Accounts receivable, less allowance for doubtful accounts of $416,479 in 2000, $248,952 in 1999 and $280,902 in 1998	1,538,180	2,134,740	1,378,517
Inventories:			
Liquid propane	2,619,306	2,640,267	1,790,868
Materials, supplies and other	756,155	1,055,915	997,929
Prepaid Expenses:			
Liquid propane inventory	2,789,265	2,704,340	2,719,250
Insurance	24,235	34,802	--
Other	1,087	10,423	3,918
Total current assets	9,236,310	10,488,137	7,728,166
Property, Plant and Equipment, less accumulated depreciation of $19,424,668 in 2000, $17,911,237 in 1999 and $16,459,609 in 1998	23,910,058	24,862,765	25,352,929
Due From Parent	21,881,801	16,571,896	15,924,688
Deferred Charges and Other Assets:			
Organization costs	--	8,164	8,164
Goodwill, less accumulated amortization of $776,366 in 2000, $712,968 in 1999 and $628,438 in 1998	2,799,350	2,862,748	2,947,279
Covenants not to compete, less accumulated amortization of $497,839 in 2000, $443,521 in 1999 and $391,215 in 1998	78,161	75,337	42,503
Deferred expenses	--	--	9,524
Total deferred charges and other assets	2,877,511	2,946,249	3,007,470
Total Assets	$57,905,680	$54,869,047	$52,013,253

See notes to financial statements.

PIEDMONT PROPANE COMPANY
BALANCE SHEETS
OCTOBER 31, 1998 AND 1999 AND JULY 31, 2000 (UNAUDITED)

	JULY 31, 2000 (UNAUDITED)	1999	1998
Current Liabilities:			
Accounts payable - trade	$ 2,607,552	$ 2,279,643	$ 1,516,972
Accounts payable - parent	3,819,984	1,106,495	795,837
Accrued liquid propane inventory	701,205	1,270,324	292,629
Unearned finance charges	20,859	22,456	22,149
Accrued insurance	214,509	411,863	512,559
General taxes payable	207,954	142,745	155,585
Income taxes payable	338,979	526,914	583,629
Other	71,925	149,151	115,186
Total current liabilities	7,982,967	5,909,591	3,994,546
Deferred Credits and Other Liabilities:			
Deferred income taxes	8,295,687	8,027,515	7,759,343
Customer deposits	161,606	166,284	166,328
Escheats payable	74,389	74,389	85,534
Other	--	1,995	--
Total deferred credits and other liabilities	8,531,682	8,270,183	8,011,205
Shareholder's Equity:			
Common stock, par value $10 per share, 10,000 shares authorized, 101 shares outstanding	1,010	1,010	1,010
Additional paid-in capital	16,270,647	16,270,647	16,270,647
Retained earnings	25,119,374	24,417,616	23,735,845
Total shareholder's equity	41,391,031	40,689,273	40,007,502
Total Liabilities and Shareholder's Equity	$57,905,680	$54,869,047	$52,013,253

See notes to financial statements.

PIEDMONT PROPANE COMPANY
STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997 AND THE NINE MONTHS ENDED JULY 31, 2000 AND 1999 (UNAUDITED)

	NINE MONTHS ENDED JULY 31		YEARS ENDED OCTOBER 31,		
	2000	1999	1999	1998	1997
	(UNAUDITED)	(UNAUDITED)			
Revenues:					
Propane	$28,488,591	$19,838,621	$26,265,628	$29,072,079	$34,897,661
Appliance sales	607,248	538,013	826,917	693,850	758,287
Service work	548,249	489,639	730,599	636,458	704,901
Tank rentals	288,399	266,667	419,237	371,530	392,252
Miscellaneous	34,949	3,500	7,002	14,672	62,593
Total revenues	29,967,436	21,136,440	28,249,383	30,788,589	36,815,694
Costs and expenses:					
Cost of goods sold	18,434,261	10,305,176	14,383,088	16,436,965	21,675,118
General, administrative and selling	7,853,551	7,925,999	9,772,634	9,211,441	9,736,978
Depreciation and amortization	1,743,186	1,801,305	2,132,841	2,183,570	2,216,015
General taxes	583,449	629,386	657,324	619,346	687,722
Total costs and expenses	28,614,447	20,661,866	26,945,887	28,451,322	34,315,833
Operating income	1,352,989	474,574	1,303,496	2,337,267	2,499,861
Other income (expense):					
Interest income	217,262	114,417	144,724	174,039	281,807
Interest expense	(339,561)	(298,995)	(406,865)	(614,627)	(618,735)
Other, net	(51,935)	72,323	109,364	54,050	62,017
Total other income (expense)	(174,234)	(112,255)	(152,777)	(386,538)	(274,911)
Income before income taxes	1,178,755	362,319	1,150,719	1,950,729	2,224,950
Income taxes:					
Federal	406,592	127,019	387,085	654,304	743,455
State	70,405	23,365	81,863	136,499	154,458
Total income taxes	476,997	150,384	468,948	790,803	897,913
Net income	701,758	211,935	681,771	1,159,926	1,327,037
Retained earnings at beginning of period	24,417,616	23,735,845	23,735,845	22,575,919	21,248,882
Retained earnings at end of period	$25,119,374	$23,947,780	$24,417,616	$23,735,845	$22,575,919

See notes to financial statements.

PIEDMONT PROPANE COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997 AND THE NINE MONTHS
ENDED JULY 31, 2000 AND 1999 (UNAUDITED)

	NINE MONTHS ENDED JULY 31,		YEARS ENDED OCTOBER 31,		
	2000	1999	1999	1998	1997
	(UNAUDITED)	(UNAUDITED)			
Cash Flows From Operating Activities:					
Net income	$ 701,758	$ 211,935	$ 681,771	$ 1,159,926	$ 1,327,037
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	1,743,186	1,801,305	2,132,841	2,183,570	2,216,015
(Gain) loss on sale of fixed assets	18,032	(40,388)	(64,774)	(2,685)	(9,884)
Changes in assets and liabilities:					
Accounts receivable	596,560	805,192	(756,223)	568,809	664,216
Inventories	320,721	702,515	(907,385)	730,735	381,819
Prepaid expenses	(65,022)	2,581,979	(26,397)	(145,498)	(287,817)
Other assets	60,317	(38,563)	(94,323)	(89,301)	(107,266)
Accounts payable - trade	327,909	(990,486)	762,671	(1,019,111)	669,718
Income taxes payable	(187,935)	(107,106)	(56,715)	(372,197)	(1,269,347)
Other liabilities	2,174,104	257,694	1,478,473	(538,873)	(738,912)
Total adjustments	4,987,872	4,972,142	2,468,168	1,315,449	1,518,542
Net cash provided by operating activities	5,689,630	5,184,077	3,149,939	2,475,375	2,845,579
Cash Flows From Investing Activities:					
Capital expenditures	(755,492)	(1,127,200)	(1,429,136)	(983,941)	(1,491,206)
Business acquisitions	--	--	--	(121,054)	(1,845,645)
Covenants not to compete	(67,571)	(51,143)	(63,543)	(75,143)	(59,143)
Proceeds from sale of property	37,105	26,651	58,699	34,713	291,554
Excess cash, net of tax payments, transferred (to) from the parent	(5,303,240)	(4,245,993)	(645,993)	(1,572,651)	235,164
Net cash used in investing activities	(6,089,198)	(5,397,685)	(2,079,973)	(2,718,076)	(2,869,276)
Net increase (decrease) in cash and cash equivalents	(399,568)	(213,608)	1,069,966	(242,701)	(23,697)
Cash and cash equivalents at beginning of period	1,907,650	837,684	837,684	1,080,385	1,104,082
Cash and cash equivalents at end of period	$ 1,508,082	$ 624,076	$ 1,907,650	$ 837,684	$ 1,080,385
Cash Paid During the Year for income taxes	$ --	$ 3,484	$ 3,484	$ 123,750	$ 346,425

See notes to financial statements.

PIEDMONT PROPANE COMPANY
NOTES TO FINANCIAL STATEMENTS
(Information as of July 31, 2000, and for the nine months ended July 31, 1999 and 2000, is unaudited.)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Corporate Structure and Operations.

Piedmont Propane Company was formed in 1987 and is a wholly owned subsidiary of Piedmont Natural Gas Company, Inc. (the Parent). Propane markets liquid propane and propane appliances to residential, commercial and industrial customers within and adjacent to the Parent's three-state service area. The three-state service area consists of the Piedmont region of North Carolina and South Carolina and the metropolitan Nashville, Tennessee, area.

The financial statements have been prepared from the separate records maintained by us and may not necessarily be indicative of the conditions that would have existed or the results of operations if we had been operated as an unaffiliated company. Portions of certain income and expenses represent allocations made from the Parent applicable to the consolidated company as a whole.

B. Long-lived Assets and Intangibles.

Property, plant and equipment is stated at cost. Expenditures for maintenance and routine repairs are expensed as incurred. Depreciation is calculated using the straight-line method based on estimated useful lives of the assets ranging from five to 35 years.

Intangible assets, consisting of goodwill, covenants not to compete and organizational costs, are stated at cost, net of amortization. Goodwill is amortized over 40 years using the straight-line method. Amortization expense totaled $221,817, $162,430 and $163,722 for the years ended October 31, 1997, 1998 and 1999, respectively. Noncompetition agreements with certain previous owners of acquired properties are being amortized over the terms of the agreements. Amounts payable under the noncompetition agreements total $73,142 for 2000, $16,000 for 2001, $10,000 for 2002 and none thereafter.

We review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Our reviews have not resulted in a material effect on results of operations or financial condition.

C. Inventories.

Inventories are stated at the lower of cost or market. Inventory is charged to cost of goods sold using the weighted average cost method.

In addition to inventories on hand, we also enter into contracts to purchase propane to meet a portion of our supply requirements. Generally, such contracts have terms of less than one year and call for payment based on either fixed prices or market prices at the date of delivery.

D. Operating Revenues.

We recognize revenue from liquid propane sales when the product is delivered to customers. Service labor is recognized when the job is completed. Tank installation revenues are recognized when the tank is installed. Tank rental revenues are recognized on a monthly basis. Revenues from appliance sales are recognized when the appliance is installed. For appliances that are financed, the unearned finance revenue is recognized as the customer pays for the appliance.

E. Income Taxes.

We provide deferred income taxes for differences between the book and tax basis of assets and liabilities, principally attributable to accelerated tax depreciation.

F. Statement of Cash Flows.

We use the indirect method to report cash flows from operating activities, which requires adjustments to net income to reconcile net cash flows provided by operating activities. We consider all highly liquid debt instruments with a maturity of three months or less as cash equivalents.

G. Business Segments.

We have no other reportable segments.

H. Use of Estimates.

We make estimates and assumptions when preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

I. Recently Issued Accounting Standards.

Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), requires all derivative instruments to be recognized on the balance sheet at their fair value. Changes in the fair value of derivatives are to be recorded each period either in other comprehensive income or in current earnings depending on the use of the derivative and whether it qualifies for hedge accounting. FAS 133, as amended by SFAS No. 137 and No. 138 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. We are currently evaluating the effects of FAS 133 on financial position and results of operations.

J. Unaudited Interim Results.

The accompanying balance sheet as of July 31, 2000, and the statements of income and retained earnings and cash flows for the nine months ended July 31, 1999 and 2000, are unaudited. We have prepared these statements on the same basis as the audited financial statements and have included all normal recurring adjustments necessary for the fair presentation of these periods.

Our business is seasonal in nature. The results of operations for the nine-month period ended July 31, 2000, do not necessarily reflect the results to be expected for the full year.

NOTE 2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at October 31, 1998 and 1999:

	1998	1999
Land and improvements	$ 917,724	$ 1,023,987
Buildings and improvements	1,036,057	1,140,852
Transportation equipment	8,740,233	8,899,818
Furniture and fixtures	246,691	251,548
Storage facilities	3,164,331	3,209,795
Equipment, primarily cylinders and tanks	25,017,084	25,402,051
Refueling stations	994,486	991,486
Computer equipment	412,948	623,267
Communications equipment	276,356	315,568
Tools and other small equipment	410,835	424,804
Leased property	158,727	162,555
Other	437,066	274,124
Construction work in progress	--	54,147
Gross property, plant and equipment	41,812,538	42,774,002
Less accumulated depreciation	16,459,609	17,911,237
Net property, plant and equipment	$25,352,929	$24,862,765

Depreciation expense totaled $1,994,198, $2,021,140 and $1,969,119 for the years ended October 31, 1997, 1998 and 1999, respectively.

NOTE 3. FINANCIAL INSTRUMENTS AND RELATED FAIR VALUE

The carrying amounts in the balance sheets of cash and cash equivalents, receivables and accounts payable approximated their fair values due to the short-term maturities of these financial instruments.

NOTE 4. LEASES

We lease certain propane equipment to nonaffiliated third parties. All existing leases are cancelable operating leases.

We lease certain operational facilities from nonaffiliated third parties under noncancelable operating leases expiring in various years through 2006. Future minimum lease payments under these leases at October 31, 1999, for each of the five succeeding years and thereafter are as follows:

2000	$ 210,352
2001	125,547
2002	88,672
2003	80,272
2004	48,602
Thereafter	7,500
Total future minimum lease payments	$ 560,945

Rental expense under the operating leases totaled $255,127, $247,012 and $229,536 for the years ended October 31, 1997, 1998 and 1999, respectively. Certain operating leases provide for renewal. These renewal options vary from month-to-month renewals to one and two successive five-year terms at their fair rental value at the time of renewal.

NOTE 5. MARKET AND CREDIT RISKS

We are subject to commodity price risks to the extent that propane market prices deviate from fixed contract settlement amounts. Because our profitability is sensitive to changes in wholesale propane costs, we generally seek to pass on increases in the cost of propane to customers. However, we can give no assurance that we will always be able to pass on product cost increases fully, particularly when product costs rise rapidly.

We have financial instruments such as trade accounts receivable which could expose us to concentrations of credit risk. The credit risk from trade accounts receivable is limited because of our large customer base.

NOTE 6. EMPLOYEE BENEFIT PLANS

We participate with the Parent and its affiliates in a defined-benefit pension plan. Plan benefits are generally based on credited years of service and the level of compensation during the five consecutive years of the last ten years prior to retirement during which the participant received the highest compensation. Amounts allocated to us for pension costs were $274,363, $300,528 and $341,911 for the years ended October 31, 1997, 1998 and 1999, respectively. The Parent's policy is to fund the plan in an amount not in excess of the amount that is deductible for income tax purposes. Plan assets consist primarily of marketable securities and cash equivalents. As of October 31, 1998 and 1999, with respect to the entire plan, the fair value of plan assets exceeded the projected benefit obligation.

We participate with the Parent and its affiliates in a postretirement benefit plan that provides health care and life insurance benefits to substantially all full-time regular employees. Amounts allocated to us for postretirement benefit costs were $77,053, $81,886 and $85,535 for the years ended October 31, 1997, 1998 and 1999, respectively. As of October 31, 1998 and 1999, with respect to the entire plan, the liability associated with such benefits was funded in irrevocable trust funds which can only be used to pay the benefits.

We participate with the Parent and its affiliates in salary investment plans, which are profit-sharing plans under Section 401(a) of the Internal Revenue Code of 1986, as amended (the Tax Code), which include qualified cash or deferred arrangements under Tax Code Section 401(k). Employees who have completed six months of service are eligible to participate. Participants are permitted to defer a portion of their base salary to the plans and we match a portion of the participants' contributions. All contributions vest immediately. For the years ended October 31, 1997, 1998 and 1999, we contributed $135,792, $152,289 and $150,327, respectively, in matching contributions to the plans.

NOTE 7. DEBT

As of October 31, 1998 and 1999, total long-term debt, net of current maturities, of the Parent was $371,000,000 and $423,000,000, respectively. Interest expense is allocated to us on a monthly basis based on the level of certain assets and at the Parent's debt to equity ratio. Amounts allocated to us for long-term interest costs were $484,722, $409,550 and $318,150 for the years ended October 31, 1997, 1998 and 1999, respectively. The average embedded interest cost of long-term debt over the three-year period was 8.30%.

We also borrow money on a short-term basis at the Parent's cost of money. Amounts allocated to us for short-term interest costs were $86,336, $158,312 and $50,886 for the years ended October 31, 1997, 1998 and 1999, respectively.

NOTE 8. BUSINESS COMBINATIONS

On March 11, 1997, we sold our ice business and related assets known as the Southern Ice Company for approximately $251,000.

On June 20, 1997, we purchased certain assets from Lynchburg Gas, Inc., doing business as Lincoln-Moore County Propane, for approximately $770,000. We also entered into noncompetition agreements with prior owners totaling $30,003 to be paid over five years.

On August 27, 1997, we purchased certain assets from McCombs Oil Company, Inc., for approximately $1,250,000, plus liquid propane inventories. We also entered into noncompetition agreements with prior owners totaling $50,000 to be paid over five years.

On November 13, 1997, we purchased certain assets from Metro Gas, Inc., for approximately $160,000. We also entered into a noncompetition agreement with a former owner for three years for $25,000 payable immediately.

NOTE 9. CONTINGENCIES AND COMMITMENTS

We have been named as a defendant in various legal actions arising in the normal course of business. We cannot predict with certainty the final results of these matters; however, we are of the opinion that there are no known claims that are likely to have a material adverse effect on financial condition, results of operations or cash flows.

During the year ended October 31, 1997, and the period November 1, 1997 through May 31, 1998, we guaranteed up to $5,000,000 related to debt for certain working funds and other general purposes for a joint venture of a subsidiary of the Parent. As of June 1998, the joint venture was terminated and we no longer guarantee this debt.

Effective July 1, 1998, a subsidiary of the Parent became a member of SouthStar Energy Services LLC (SouthStar). Effective November 1, 1998, we agreed to guaranty a portion of SouthStar's obligations to Atlanta Gas Light Company (AGL) for the pipeline capacity it furnishes SouthStar in accordance with the member's share that this subsidiary of the Parent has in SouthStar. As a condition of the indemnification agreement, we are required to maintain stockholder's equity of at least $30,000,000. On May 18, 2000, Dynegy Holdings Inc. agreed to guaranty SouthStar's obligations to AGL and our indemnification agreement is now with Dynegy Holdings Inc. We have also guaranteed up to $7,500,000 related to bank borrowings for certain working funds and other general purposes for SouthStar.

NOTE 10. RELATED PARTY TRANSACTIONS

The Parent performs certain engineering and payroll processing services for us for which we were billed $13,044, $10,922 and $8,442 for the years ended October 31, 1997, 1998 and 1999, respectively.

We have an agreement with the Parent to purchase, transport, store, if necessary, and deliver propane for use by the Parent for an annual service fee of $50,000.

The Parent purchases propane from us for operations. These purchases totaled $483,939, $269,319 and $244,569 for the years ended October 31, 1997, 1998 and 1999, respectively.

NOTE 11. TAXES

We file a consolidated federal income tax return with the Parent. We include in our statements of income a provision for tax expense calculated on a separate return basis. The consolidated tax liability is allocated to us based on the ratio of our taxable income to the total consolidated group.

Our net deferred tax liability consists primarily of accelerated tax depreciation and amortization. The components of income tax expense for the years ended October 31, 1997, 1998 and 1999, are as follows:

	1997		1998		1999	
	FEDERAL	STATE	FEDERAL	STATE	FEDERAL	STATE
Current	$ 455,945	$ 90,828	$ 305,864	$ 101,389	$ 166,377	$ 34,399
Deferred	287,510	63,630	348,440	35,110	220,708	47,464
Total income tax expense	$ 743,455	$ 154,458	$ 654,304	$ 136,499	$ 387,085	$ 81,863

A reconciliation of income tax expense at the federal statutory rate to recorded income tax expense for the years ended October 31, 1997, 1998 and 1999, is as follows:

	1997	1998	1999
Federal taxes at 35%	$ 778,732	$ 682,755	$ 402,752
State income taxes, net of federal benefit	101,235	92,556	49,096
Other, net	17,946	15,492	17,100
Total income tax expense	$ 897,913	$ 790,803	$ 468,948

NOTE 12. ENVIRONMENTAL MATTERS

Since 1967, the Parent has owned real property in Hickory, North Carolina, which was acquired in conjunction with the acquisition of Carolina Natural Gas Company (CNG). CNG operated a manufactured gas plant (MGP) facility at or near this site, but at the time of the acquisition the facility was no longer being operated. In 1982, this property was transferred to our books. The Parent has recorded an environmental liability for this site based on a generic MGP site study as no site-specific evaluation has been performed.

NOTE 13. SUBSEQUENT EVENTS

We signed an agreement on February 15, 2000, to form a joint venture, US Propane, L.P., combining our propane operations with the propane operations of three other companies. On June 15, 2000, US Propane announced that it would combine with Heritage Holdings, Inc., the general partner of Heritage Propane Partners, L.P. The formation of US Propane and the combination with Heritage was complete on August 10, 2000. US Propane contributed all of its assets to Heritage for approximately $181,000,000 in cash and limited partner units and purchased all of the outstanding common stock of Heritage Holdings for approximately $120,000,000. US Propane now owns all of the general partnership interest and approximately 34% of the limited partnership interest in the partnership

EXHIBIT 99.3

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma combined financial statements present (i) unaudited pro forma balance sheet data at June 30, 2000, giving effect to the Merger (as defined below) as if the Merger had been consummated on that date and (ii) unaudited pro forma operating data for the six months ended June 30, 2000 and the year ended December 31, 1999, giving effect to the Merger as if the Merger had been consummated on January 1, 1999. The unaudited pro forma combined balance sheet data at June 30, 2000 combines balance sheets of Peoples Gas Company (Peoples Gas) as of June 30, 2000, Heritage Propane Partners, L.P. (Heritage) as of May 31, 2000, United Cities Propane Gas, Inc. (United Cities) as of June 30, 2000, Piedmont Propane Company (Piedmont) as of July 31, 2000 and AGL Propane, Inc. (AGL) as of June 30, 2000, after giving effect to pro forma adjustments. The unaudited pro forma combined statements of operations for the six months ended June 30, 2000 and the year ended December 31, 1999, combine the results of operations for Peoples Gas' six months ended June 30, 2000, and fiscal year ended December 31, 1999, with the results of operations for Heritage's six months ended May 31, 2000, and 12 months ended November 30, 1999, United Cities' six months ended March 31, 2000, and year ended September 30, 1999, Piedmont's six months ended April 30, 2000, and year ended October 31, 1999, and AGL's six months ended March 31, 2000, and year ended September 30, 1999, after giving effect to pro forma adjustments.

Immediately prior to the transaction with Heritage Holdings, Inc., TECO Energy, Inc., Atmos Energy Corporation, Piedmont Natural Gas Co., Inc., and AGL Resources, Inc. contributed each companies' propane operations, Peoples Gas, United Cities, Piedmont and AGL, respectively, to U.S. Propane L.P., (U.S. Propane) in exchange for equity interests in U.S. Propane. The merger was accounted for as an acquisition using the purchase method of accounting with Peoples Gas being the acquirer. Accordingly, Peoples Gas' assets and liabilities were recorded at historical cost and the assets and liabilities of United Cities, Piedmont and AGL were recorded at fair market value, as determined based on a valuation and appraisal.

In August 2000, U.S. Propane obtained control of Heritage by acquiring Heritage Holdings, Inc., Heritage's general partner. U.S. Propane simultaneously transferred its propane operations to Heritage in exchange for cash, common units in Heritage and a limited partner interest in Heritage Operating, L.P. The merger will be accounted for as a reverse acquisition in accordance with Accounting Principles Board Opinion No. 16. Although Heritage is the surviving entity for legal purposes, U.S. Propane's propane operations will be the acquirer for accounting purposes. The assets and liabilities of Heritage will be reflected at fair value to the extent acquired by U.S. Propane in accordance with EITF 90-13. The assets and liabilities of U.S. Propane's propane operations will be reflected at historical cost, as recorded in the U.S. Propane merger described above.

A final determination of purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not been made. Accordingly, the purchase accounting adjustments made in connection with the development of the following summary pro forma combined financial statements are preliminary and have been made solely for purposes of developing such pro forma combined financial statements. However, management does not believe that final adjustments will be materially different from the amounts presented herein.

The following unaudited pro forma combined financial statements are provided for informational purposes only and should be read in conjunction with the separate audited consolidated financial statements and related notes of Peoples Gas, United Cities, Piedmont and AGL (which are included elsewhere in this Form 8-K/A) and Heritage (which are filed with Heritage's Annual Report filed on Form 10-K with the Securities and Exchange Commission on November 29, 1999, incorporated herein by reference). The following unaudited pro forma combined financial statements are based on certain assumptions and do not purport to be indicative of the results which actually would have been achieved if the Merger had been consummated on the dates indicated or which may be achieved in the future.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEETS (1)

JUNE 30, 2000
(IN THOUSANDS)

	Peoples Gas Company (Historical)	Piedmont Propane Company (Historical)	AGL Propane, Inc. (Historical)
ASSETS			
CURRENT ASSETS:			
Cash	$ 11	$ 1,508	$ 1,480
Accounts receivable	4,206	1,538	1,398
Inventories	1,541	3,375	1,594
Marketable securities	--	--	--
Prepaid expenses	14	2,815	264
Total current assets	5,772	9,236	4,736
PROPERTY, PLANT AND EQUIPMENT, net	40,887	23,910	21,936
DUE FROM PARENT	--	21,882	--
INTANGIBLES AND OTHER ASSETS, net	1,284	2,878	5,866
Total assets	$ 47,943	$ 57,906	$ 32,538
LIABILITIES AND PARTNERS' CAPITAL			
CURRENT LIABILITIES:			
Working capital facility	$ --	$ --	$ --
Accounts payable	1,823	2,608	182
Payable to associated companies	21,359	3,820	133
Accrued and other current liabilities	1,205	1,791	1,561
Current maturities of long-term debt	--	--	--
Total current liabilities	24,387	8,219	1,876
LONG-TERM DEBT, less current maturities	--	--	--
DEFERRED INCOME TAXES	8,711	8,296	4,980
COMMITMENTS AND CONTINGENCIES	--	--	--
Total liabilities	33,098	16,515	6,856

	United Cities Propane Gas, Inc. (Historical)	Pro Forma Adjustments (2)	U.S. Propane Pro Forma Combined
ASSETS			
CURRENT ASSETS:			
Cash	$ 649	$ --	$ 3,648
Accounts receivable	3,044	(2,468)(3)	7,718
Inventories	1,753	--	8,263
Marketable securities	--	--	--
Prepaid expenses	39	--	3,132
Total current assets	5,485	(2,468)	22,761
PROPERTY, PLANT AND EQUIPMENT, net	22,536	(685)(4)	138,157
		29,573 (5)	--
DUE FROM PARENT	--	(21,882)(6)	
INTANGIBLES AND OTHER ASSETS, net	3,956	--	13,984
Total assets	$ 31,977	$ 4,538	$ 174,902
LIABILITIES AND PARTNERS' CAPITAL			
CURRENT LIABILITIES:			
Working capital facility	$ --	$ --	$ --
Accounts payable	97	--	4,710
Payable to associated companies	16,838	(42,150)(6)	--
Accrued and other current liabilities	1,197	--	5,754

Current maturities of long-term debt	975	(975)(7)	--
Total current liabilities	19,107	(43,125)	10,464
LONG-TERM DEBT, less current maturities	4,807	(3,694)(7)	1,113
DEFERRED INCOME TAXES	1,330	(23,317)(8)	--
COMMITMENTS AND CONTINGENCIES	--	--	--
Total liabilities	25,244	(70,136)	11,577

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEETS(1)

JUNE 30, 2000
(IN THOUSANDS)

	Peoples Gas Company (Historical)	Piedmont Propane Company (Historical)	AGL Propane, Inc. (Historical)
PARTNERS' CAPITAL:			
Common unitholders	$ --	$ --	$ --
Subordinated unitholders	--	--	--
Class B subordinated unitholders	--	--	--
General partner	--	--	--
Stockholder's equity	14,845	41,391	25,682
Accumulated other comprehensive income	--	--	--
Total partners' capital	14,845	41,391	25,682
Total liabilities and partners' capital	$ 47,943	$ 57,906	$ 32,538

	United Cities Propane Gas, Inc. (Historical)	Pro Forma Adjustments (2)	U.S. Propane Pro Forma Combined
PARTNERS' CAPITAL:			
Common unitholders	$ --	$ --	$ --
Subordinated unitholders	--	--	--
Class B subordinated unitholders	--	--	--
General partner	--	--	--
Stockholder's equity	6,733	(2,468)(3) (685)(4) 29,573 (5) 20,268 (6) 4,669 (7) 23,317 (8)	163,325
Accumulated other comprehensive income	--	--	--
Total partners' capital	6,733	74,674	163,325
Total liabilities and partners' capital	$ 31,977	$ 4,538	$ 174,902

See accompanying notes.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEETS(1)
JUNE 30, 2000
(IN THOUSANDS)

	U.S. Propane Pro Forma Combined	Heritage Propane (Historical)	Pro Forma Adjustments (2)	Pro Forma Combined
ASSETS				
CURRENT ASSETS:				
Cash	$ 3,648	$ 4,206	$ 180,000 (9) (180,000)(10) 1,201 (12) (7,213)(14)	$ 1,842
Accounts receivable	7,718	19,489	--	27,207
Inventories	8,263	17,857	--	26,120
Marketable securities	--	2,697	--	2,697
Prepaid expenses	3,132	1,608	--	4,740
Total current assets	22,761	45,857	(6,012)	62,606
PROPERTY, PLANT AND EQUIPMENT, net	138,157	190,179	11,180 (15)	339,516
INVESTMENT IN AFFILIATE	--	5,924	--	5,924
INTANGIBLES AND OTHER ASSETS, net	13,984	92,606	7,213 (14) 73,210 (15)	187,013
Total assets	$ 174,902	$ 334,566	$ 85,591	$ 595,059
LIABILITIES AND PARTNERS' CAPITAL				
CURRENT LIABILITIES:				
Working capital facility	$ --	$ 25,400	$ (8,605)(10)	$ 16,795
Accounts payable	4,710	22,235	--	26,945
Payable to associated companies	--	--	--	--
Accrued and other current liabilities	5,754	10,703	581 (12) 2,652 (11) 1,704 (15) (364)(16)	21,030
Current maturities of long-term debt	--	2,364	--	2,364
Total current liabilities	10,464	60,702	(4,032)	67,134

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEETS(1)

JUNE 30, 2000
(IN THOUSANDS)

	U.S. Propane Pro Forma Combined	Heritage Propane (Historical)	Pro Forma Adjustments (2)	Pro Forma Combined
LONG-TERM DEBT, less current maturities	1,113	225,149	180,000 (9) (50,203)(13)	356,059
DEFERRED INCOME TAXES	--	--	--	--
COMMITMENTS AND CONTINGENCIES	--	--	--	--
Total liabilities	11,577	285,851	125,765	423,193
PARTNERS' CAPITAL:				
Common unitholders	--	44,085	7,348 (11) 22,924 (13) 61,350 (15) (13,137)(16)	122,570
Subordinated unitholders	--	1,050	11,742 (15) (2,515)(16)	10,277
Class B subordinated unitholders	--	--	27,279 (13) 8,767 (15) (1,877)(16)	34,169
General partner	--	407	620 (12) 827 (15) (177)(16)	1,677
Stockholder's equity	163,325	--	(163,325)(16)	--
Accumulated other comprehensive income	--	3,173	--	3,173
Total partners' capital	163,325	48,715	(40,174)	171,866
Total liabilities and partners' capital	$ 174,902	$ 334,566	$ 85,591	$ 595,059

See accompanying notes.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS(1)
TWELVE MONTHS ENDED DECEMBER 31, 1999
(IN THOUSANDS)

	Peoples Gas Company (Historical)	Piedmont Propane Company (Historical)	AGL Propane, Inc. (Historical)
REVENUES:			
Fuel sales	$ 34,045	$ 26,265	$ 20,010
Other	--	1,984	--
Total revenues	34,045	28,249	20,010
COSTS AND EXPENSES:			
Cost of products sold	14,849	14,383	8,311
Operating expenses	13,223	10,430	7,665
Depreciation and amortization	3,088	2,133	2,080
Total costs and expenses	31,160	26,946	18,056
OPERATING INCOME (LOSS)	2,885	1,303	1,954
OTHER INCOME (EXPENSE):			
Interest expense	--	(406)	(65)
Equity in earnings of affiliate	--	--	--
Gain on disposal of assets	--	--	--
Other	10	254	341
INCOME (LOSS) BEFORE MINORITY INTEREST	2,895	1,151	2,230
Minority interest	--	--	--
INCOME (LOSS) BEFORE INCOME TAXES	2,895	1,151	2,230
Income tax benefit (expense)	(1,127)	(469)	(961)
NET INCOME (LOSS)	$ 1,768	$ 682	$ 1,269

	United Cities Propane Gas, Inc. (Historical)	Pro Forma Adjustments (2)	U.S. Propane Pro Forma Combined
REVENUES:			
Fuel sales	$ 19,647	$ --	$ 99,967
Other	3,297	--	5,281
Total revenues	22,944	--	105,248
COSTS AND EXPENSES:			
Cost of products sold	10,895	--	48,438
Operating expenses	9,499	--	40,817
Depreciation and amortization	2,960	(34)(17) 986 (18)	11,213
Total costs and expenses	23,354	952	100,468
OPERATING INCOME (LOSS)	(410)	(952)	4,780
OTHER INCOME (EXPENSE):			
Interest expense	(1,338)	1,809 (19)	--
Equity in earnings of affiliate	--	--	--
Gain on disposal of assets	214	(214)(20)	--
Other	252	--	857
INCOME (LOSS) BEFORE MINORITY INTEREST	(1,282)	643	5,637
Minority interest	--	--	--

INCOME (LOSS) BEFORE INCOME TAXES	(1,282)	643	5,637
Income tax benefit (expense)	478	2,079 (21)	--
NET INCOME (LOSS)	$ (804)	$ 2,722	$ 5,637

See accompanying notes.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS(1)
TWELVE MONTHS ENDED DECEMBER 31, 1999
(IN THOUSANDS)

	U.S. Propane Pro Forma Combined	Heritage Propane Partners (Historical)	Pro Forma Adjustments (2)	Pro Forma Combined
REVENUES:				
Fuel sales	$ 99,967	$ 170,660	$ --	$ 270,627
Other	5,281	23,692	--	28,973
Total revenues	105,248	194,352	--	299,600
COSTS AND EXPENSES:				
Cost of products sold	48,438	96,757	--	145,195
Operating expenses	40,817	58,935	--	99,752
Depreciation and amortization	11,213	15,226	3,252 (22)	29,691
Total costs and expenses	100,468	170,918	3,252	274,638
OPERATING INCOME (LOSS)	4,780	23,434	(3,252)	24,962
OTHER INCOME (EXPENSE):				
Interest expense	--	(16,417)	(11,224)(23)	(27,641)
Equity in earnings of affiliate	--	873	--	873
Gain on disposal of assets	--	505	(505)(20)	--
Other	857	(302)		555
INCOME (LOSS) BEFORE MINORITY INTEREST	5,637	8,093	(14,981)	(1,251)
Minority interest	--	(454)	43 (24)	(411)
INCOME (LOSS) BEFORE INCOME TAXES	5,637	7,639	(14,938)	(1,662)
Income tax benefit (expense)	--	--	--	--
NET INCOME (LOSS)	$ 5,637	$ 7,639	$ (14,938)	$ (1,662)
GENERAL PARTNER'S INTEREST IN NET LOSS				$ (16)
LIMITED PARTNERS' INTEREST IN NET LOSS				$ (1,646)
BASIC AND DILUTED NET INCOME (LOSS) PER LIMITED PARTNER UNIT	$ .65			$ (.14)
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	8,715			11,631

See accompanying notes.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS(1)
SIX MONTHS ENDED JUNE 30, 2000
(IN THOUSANDS)

	Peoples Gas Company (Historical)	Piedmont Propane Company (Historical)	AGL Propane, Inc. (Historical)
REVENUES:			
Fuel sales	$ 23,747	$ 25,284	$ 16,981
Other	--	1,174	--
Total revenues	23,747	26,458	16,981
COSTS AND EXPENSES:			
Cost of products sold	13,153	15,377	8,850
Operating expenses	6,650	5,712	4,001
Depreciation and amortization	1,665	1,161	1,081
Total costs and expenses	21,468	22,250	13,932
OPERATING INCOME	2,279	4,208	3,049
OTHER INCOME (EXPENSE):			
Interest expense	--	(298)	(5)
Equity in earnings of affiliate	--	--	--
Gain on disposal of assets	--	--	--
Other	(228)	187	528
INCOME BEFORE MINORITY INTEREST	2,051	4,097	3,572
Minority interest	--	--	--
INCOME BEFORE INCOME TAXES	2,051	4,097	3,572
Income taxes	(800)	(1,628)	(1,429)
NET INCOME	$ 1,251	$ 2,469	$ 2,143

	United Cities Propane Gas, Inc. (Historical)	Pro Forma Adjustments (2)	Pro Forma Combined
REVENUES:			
Fuel sales	$ 17,152	$ --	$ 83,164
Other	2,289	--	3,463
Total revenues	19,441	--	86,627
COSTS AND EXPENSES:			
Cost of products sold	10,778	--	48,158
Operating expenses	4,557	--	20,920
Depreciation and amortization	1,424	(17)(17) 493 (18)	5,807
Total costs and expenses	16,759	476	74,885
OPERATING INCOME	2,682	(476)	11,742
OTHER INCOME (EXPENSE):			
Interest expense	(783)	1,086 (19)	--
Equity in earnings of affiliate	--	--	--
Gain on disposal of assets	4	(4)(20)	--
Other	150	--	637
INCOME BEFORE MINORITY INTEREST	2,053	606	12,379
Minority interest	--	--	--

INCOME BEFORE INCOME TAXES	2,053	606	12,379
Income taxes	(811)	4,668 (21)	--
NET INCOME	$ 1,242	$ 5,274	$ 12,379

See accompanying notes.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS(1)
SIX MONTHS ENDED JUNE 30, 2000
(IN THOUSANDS)

	U.S. Propane Pro Forma Combined	Heritage Propane Partners (Historical)	Pro Forma Adjustments (2)	Pro Forma Combined
REVENUES:				
Fuel sales	$ 83,164	$ 146,432	$ --	$ 229,596
Other	3,463	12,953	--	16,416
Total revenues	86,627	159,385	--	246,012
COSTS AND EXPENSES:				
Cost of products sold	48,158	90,157	--	138,315
Operating expenses	20,920	35,641	--	56,561
Depreciation and amortization	5,807	9,602	1,626 (22)	17,035
Total costs and expenses	74,885	135,400	1,626	211,911
OPERATING INCOME	11,742	23,985	(1,626)	34,101
OTHER INCOME (EXPENSE):				
Interest expense	--	(9,697)	(5,612)(23)	(15,309)
Equity in earnings of affiliate	--	676	--	676
Gain on disposal of assets	--	134	(134)(20)	--
Other	637	108	--	745
INCOME BEFORE MINORITY INTEREST	12,379	15,206	(7,372)	20,213
Minority interest	--	(433)	(275)(24)	(708)
INCOME BEFORE INCOME TAXES	12,379	14,773	(7,647)	19,505
Income taxes	--	--	--	--
NET INCOME	$ 12,379	$ 14,773	$ (7,647)	$ 19,505
GENERAL PARTNER'S INTEREST IN NET INCOME				$ 195
LIMITED PARTNERS' INTEREST IN NET INCOME				$ 19,310
BASIC AND DILUTED NET INCOME PER LIMITED PARTNER UNIT	$ 1.25			$ 1.50
BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING	9,934			12,850

See accompanying notes.

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS
($ IN THOUSANDS, EXCEPT PER UNIT AMOUNTS)

1. Presentation:

The unaudited pro forma condensed combined financial statements do not give any effect to any restructuring cost, potential cost savings, or other operating efficiencies that are expected to result from the Merger. The unaudited pro forma combined financial statements are based on certain assumptions and do not purport to be indicative of the results which actually would have been achieved if the Merger had been consummated on the dates indicated or which may be achieved in the future. The purchase accounting adjustments made in connection with the development of the unaudited pro forma condensed combined financial statements are preliminary and have been made solely for purposes of presenting such pro forma financial information.

2. It has been assumed that for purposes of the unaudited pro forma combined balance sheet, the following transactions occurred on June 30, 2000 and for purposes of the unaudited pro forma combined statements of operations, the following transactions occurred on January 1, 1999. The unaudited pro forma combined balance sheet data at June 30, 2000 combines balance sheets of Peoples Gas Company (Peoples Gas) as of June 30, 2000, Heritage Propane Partners, L.P. (Heritage) as of May 31, 2000, United Cities Propane Gas, Inc. (United Cities) as of June 30, 2000, Piedmont Propane Company (Piedmont) as of July 31, 2000 and AGL Propane, Inc. (AGL) as of June 30, 2000, after giving effect to pro forma adjustments. The unaudited pro forma combined statements of operations for the six months ended June 30, 2000 and the year ended December 31, 1999, combine the results of operations for Peoples Gas' six months ended June 30, 2000, and fiscal year ended December 31, 1999, with the results of operations for Heritage's six months ended May 31, 2000, and 12 months ended November 30, 1999, United Cities' six months ended March 31, 2000, and year ended September 30, 1999, Piedmont's six months ended April 30, 2000, and year ended October 31, 1999, and AGL's six months ended March 31, 2000, and year ended September 30, 1999, after giving effect to pro forma adjustments.

Immediately prior to the transaction with Heritage Holdings, Inc. (HHI), TECO Energy, Inc., Atmos Energy Corporation, Piedmont Natural Gas Co., Inc., and AGL Resources, Inc. contributed each companies' propane operations, Peoples Gas, United Cities, Piedmont and AGL, respectively, to U.S. Propane L.P., (U.S. Propane) in exchange for equity interests in U.S. Propane. The Merger was accounted for as an acquisition using the purchase method of accounting with Peoples Gas being the acquirer. Accordingly, Peoples Gas' assets and liabilities were recorded at historical cost and the assets and liabilities of United Cities, Piedmont and AGL were recorded at fair market value, as determined based on a valuation and appraisal.

The purchase allocations were as follows:

Purchase price of Piedmont, AGL and United Cities	$ 112,501
Net book value of Piedmont, AGL and United Cities	82,928
Step-up of net book value, allocated to property, plant and equipment	$ 29,573

In August 2000, U.S. Propane acquired all of the outstanding common stock of HHI, Heritage's General Partner for $120,000. By virtue of HHI's 2% general partner interest and a 34% limited partner interest in Heritage, U.S. Propane gained control of Heritage. Simultaneously, U.S. Propane, transferred its propane operations, consisting of its interest in four separate limited liability companies, AGL Propane, L.L.C., Peoples Gas Company, L.L.C., United Cities Propane Gas, L.L.C. and Retail Propane Company, L.L.C. (former Piedmont operations) to Heritage for $181,395 plus working capital. The $181,395 was payable $139,552 in cash, $31,843 of assumed debt, and the issuance of 372,392 Common Units of Heritage valued at $7,348 and a $2,652 limited partnership interest in Heritage's operating partnership. The purchase price and the exchange price for the common units were approved by an independent committee of the Board of Directors of HHI. The exchange price for the common units was $19.73125 per unit under a formula based on the average closing price of Heritage's common units on the New York Stock Exchange for the twenty (20) day period beginning ten (10) days prior to the public announcement of the transaction on June 15, 2000 (the "Formula Price"). The working capital adjustment is anticipated to be settled in December 2000. For purposes of the pro forma financial statements, an additional payment of $5,000 has been assumed.

Concurrent with the acquisition, Heritage borrowed $180,000 from several institutional investors and sold 1,161,814 common units and 1,382,514 Class B subordinated units in a private placement to the former shareholders of HHI based on the Formula Price resulting in net proceeds of $50,203. The total of these proceeds were utilized to finance the transaction and retire a portion of existing debt.

The merger will be accounted for as a reverse acquisition in accordance with Accounting Principles Board Opinion No. 16. Although Heritage is the surviving entity for legal purposes, U.S. Propane's propane operations will be the acquirer for accounting purposes. The assets and liabilities of Heritage will be reflected at fair value to the extent acquired by U.S. Propane's propane operations, approximately 36 percent, in accordance with EITF 90-13. The assets and liabilities of U.S. Propane will be reflected at historical cost, as recorded in the U.S. Propane transaction described above.

The historical financial statements of Peoples Gas will be the historical financial statements of the registrant as Peoples Gas is the acquirer in the transaction in which U.S. Propane was formed. The results of operations of Heritage, Piedmont, AGL and United Cities will be included with the results of Peoples Gas after completion of the merger on August 10, 2000. Peoples Gas has a fiscal year-end of December 31, however the registrant will continue to have an August 31 year-end. Accordingly, the eight-month period ended August 31, 2000, will be treated as a transition period under the rules of the Securities and Exchange Commission.

The excess purchase price over predecessor cost was determined as follows:

Net book value of Heritage at May 31, 2000	$ 48,715
Equity investment	50,203
	98,918
Percent acquired by U.S. Propane	36%
Equity interest acquired	$ 35,610
Purchase price	$ 120,000
Equity interest acquired	35,610
Excess purchase price over predecessor cost	$ 84,390

The excess purchase price over predecessor cost was allocated as follows:

Property, plant and equipment (30 year life)	$ 11,180
Customer lists (15 year life)	5,935
Goodwill (30 year life)	67,275
	$ 84,390

The pro forma adjustments are as follows:

3. Reflects the elimination of receivables retained by U.S. Propane owners.

4. Reflects the elimination of a building retained by United Cities.

5. Reflects the allocation of the fair market value of the assets of Piedmont, AGL, and United Cities.

6. Reflects the elimination of intercompany receivables and payables retained by U.S. Propane owners.

7. Reflects the elimination of the debt retained by United Cities.

8. Reflects the elimination of the deferred tax liabilities of U.S. Propane as income taxes will be borne by the partners and not the Partnership.

9. Reflects the proceeds received from borrowings from institutional investors. The notes have a fixed average rate of 8.66%.

10. Reflects use of proceeds from long-term debt as follows:

Cash paid to U.S. Propane for purchase of propane operations	$ (171,395)
Excess proceeds used to pay down working capital	(8,605)
Total	$ (180,000)

11. Reflects the issuance to U.S. Propane of limited partnership interest in Heritage and common units.

U.S. Propane's limited partnership interest in Heritage's operating partnership	$ 2,652
Issuance of 372,392 common units of Heritage	7,348
Total	$ 10,000

12. Reflects the cash contribution from U.S. Propane for the HHI General Partner interest received through the purchase of HHI's common stock. Of the total contribution of $1,201, $581 was for the 1.0101% minority interest in the Operating Partnership and $620 was for the 1% interest in the MLP.

13. Reflects the proceeds received from the private placement of 1,161,814 common units and 1,382,514 Class B subordinated units to the former shareholders of HHI.

14. Reflects the allocation to goodwill for the cash paid for acquisition costs of $2,213 and the estimated working capital payment of $5,000.

15. Reflects the allocation of the excess purchase price over predecessor costs to the property, plant and equipment of $11,180, goodwill of $67,275 and customer lists of $5,935.

16. Represents the allocation of the cash paid of $171,395, $7,348 of common units of Heritage and $2,652 of limited partnership interest in Heritage's operating partnership for U.S. Propane's propane operations by Heritage allocated to partners' capital and minority interest liability based on their ownership percentages.

17. Reflects the elimination of the depreciation for the building retained by United Cities.

18. Reflects the additional depreciation related to the step-up of net book value of Piedmont, AGL and United Cities allocated to property, plant and equipment having 30-year lives.

19. Reflects the elimination of interest expense related to debt retained by Piedmont, AGL and United Cities.

20. Reflects the elimination of the gain on sale of assets as the assets are recorded at fair market value there would not be any gain to recognize.

21. Reflects the elimination of provision for current income tax expense and benefits, as income taxes will be borne by the partners and not at the partnership level.

22. Reflect the additional depreciation and amortization related to the excess purchase price over Heritage's cost allocated to property, plant and equipment (30-years), goodwill (30 years) and customer lists (15 years).

23. Allocation of additional interest expense of $15,600 and $7,800 for the twelve and six month periods respectively, related to the issuance of $180 million of Senior Secured Notes at a fixed average rate of 8.66%. This additional expense is offset by the elimination of $4,376 and $2,188 of interest on the debt reduction of $58,808 for the twelve and six months, respectively.

24. Reflects the adjustment to minority interest expense for U.S. Propane's General Partner 1.0101% interest and their 1.0101% limited partner interest in the operating partnership on the pro forma income and adjustments.