RGC RESOURCES INC
Form 10-K
December 10, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2015 **Commission file number 000-26591**

RGC RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Virginia	**54-1909697**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
519 Kimball Avenue, N.E., Roanoke, VA	**24016**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (540) 777-4427

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $5 Par Value	**NASDAQ Global Market**

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

State the aggregate market value of the voting and non voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of the last business day of the registrant s most recently completed second fiscal quarter: March 31, 2015. $89,254,811

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the last practicable date.

Class	**Outstanding at November 30, 2015**
COMMON STOCK, $5 PAR VALUE	**4,750,645 SHARES**

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the RGC Resources, Inc. Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

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Cautionary Note Regarding Forward Looking Statements

This report contains forward-looking statements that relate to future transactions, events or expectations. In addition, RGC Resources, Inc. (Resources or the Company) may announce or publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. These statements are based on management s current expectations and information available at the time of such statements and are believed to be reasonable and are made in good faith. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company s actual results and experience to differ materially from the anticipated results or expectations expressed in the Company s forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company s business include, but are not limited to those set forth in the following discussion and within Item 1A Risk Factors of this Annual Report on Form 10-K. All of these factors are difficult to predict and many are beyond the Company s control. Accordingly, while the Company believes its forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in the Company s documents or news releases, the words anticipate, believe, intend, plan, estimate, expect, objective, projection, foreca assume, indicate or similar words or future or conditional verbs such as will, would, should, can, could or may are intended to ident forward-looking statements.

Forward-looking statements reflect the Company s current expectations only as of the date they are made. The Company assumes no duty to update these statements should expectations change or actual results differ from current expectations except as required by applicable laws and regulations.

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PART I

Item 1. Business.

General and Historical Development

RGC Resources, Inc. (Resources or the Company) was incorporated in the state of Virginia on July 31, 1998, for the primary purpose of becoming the holding company for Roanoke Gas Company (Roanoke Gas) and its subsidiaries. Effective July 1, 1999, Roanoke Gas and its subsidiaries were reorganized into the holding company structure. Resources is currently composed of the following subsidiaries: Roanoke Gas, Diversified Energy Company, RGC Ventures of Virginia, Inc and RGC Midstream, LLC.

Roanoke Gas was organized as a public service corporation under the laws of the Commonwealth of Virginia in 1912. The principal service of Roanoke Gas is the distribution and sale of natural gas to residential, commercial and industrial customers within its service territory in Roanoke, Virginia and the surrounding localities. Roanoke Gas also provides certain non-regulated services which account for most of the non-gas utility revenue of Resources.

In 2000, the information technology department of Resources formed Application Resources, Inc. under RGC Ventures of Virginia, Inc. to provide information technology consulting services. In 2011, the Company also formed The Utility Consultants under RGC Ventures of Virginia, Inc to provide utility and regulatory consulting services to other utilities. The operations of RGC Ventures of Virginia, Inc. contributed less than 6% of other revenues and less than 1% of total revenues of Resources during fiscal 2015. The Utility Consultants portion of RGC Ventures of Virginia, Inc. and Diversified Energy Company currently have no active operations.

In July 2015, the Company formed RGC Midstream, LLC, a limited liability company established for the purpose of becoming a 1% investor in Mountain Valley Pipeline, LLC. Mountain Valley Pipeline, LLC was created for the purpose of constructing a natural gas pipeline in West Virginia and Virginia. Additional information regarding this investment is provided under Note 12 of the Company s annual consolidated financial statements and under the Equity Investment in Mountain Valley Pipeline section of Item 7.

Services

Roanoke Gas maintains an integrated natural gas distribution system to deliver natural gas purchased from suppliers to residential, commercial and industrial users in its service territory. The schedule below is a summary of customers, delivered volumes (expressed in decatherms), revenues and margin as a percentage of the total for each category:

	2015			
	Customers	Volume	Revenue	Margin
Residential	91.2%	40%	58%	58%
Commercial	8.7%	30%	33%	26%
Industrial	0.1%	30%	6%	11%
Other Utility	0.0%	0%	1%	3%
Other Non-Utility	0.0%	0%	2%	2%
Total Percent	100.0%	100%	100%	100%
Total Value	59,080	9,875,007	$ 68,189,607	$ 30,206,433

	2014			
	Customers	Volume	Revenue	Margin
Residential	91.2%	40%	57%	58%
Commercial	8.7%	29%	34%	25%

Industrial	0.1%	31%	6%	12%
Other Utility	0.0%	0%	1%	3%
Other Non-Utility	0.0%	0%	2%	2%
Total Percent	100.0%	100%	100%	100%
Total Value	58,553	10,087,651	$ 75,016,134	$ 29,337,089

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	2013			
	Customers	Volume	Revenue	Margin
Residential	91.2%	41%	57%	58%
Commercial	8.7%	28%	33%	25%
Industrial	0.1%	31%	6%	12%
Other Utility	0.0%	0%	2%	3%
Other Non-Utility	0.0%	0%	2%	2%
Total Percent	100.0%	100%	100%	100%
Total Value	58,238	9,408,894	$ 63,205,666	$ 27,602,891

Roanoke Gas regulated natural gas distribution business accounted for approximately 98% of Resources total revenues for fiscal years ending September 30, 2015, 2014 and 2013. The table above indicates that residential customers represent over 91% of the Company s customer total; however, they represent less than 50% of the total gas volumes delivered and more than half of the Company s consolidated revenues and margin. Industrial customers include primarily transportation customers that purchase their natural gas requirements directly from a supplier other than the Company and utilize Roanoke Gas natural gas distribution system for delivery to their operations. Most of the revenue billed for these customers relates only to transportation service and not to the purchase of natural gas causing total revenues generated by these deliveries to be approximately 6% of total revenues even though they represent 30% of total natural gas deliveries for the year ended September 30, 2015 and approximately 11% to 12% of gross margin for each of the years presented.

The Company s revenues are affected by changes in gas costs as well as by changes in consumption volume due to weather and economic conditions and changes in the non gas portion of customer billing rates. Increases or decreases in the cost of natural gas are passed on to customers through the purchased gas adjustment mechanism as explained in further detail in Note 1 of the Company s annual consolidated financial statements. Significant increases in gas costs may cause customers to conserve or, in the case of industrial customers, to switch to alternative energy sources.

The Company s residential and commercial sales are seasonal and temperature-sensitive as the majority of the gas sold by Resources to these customers is used for heating. For the fiscal year ended September 30, 2015, approximately 68% of the Company s total DTH of natural gas deliveries and 77% of the residential and commercial deliveries were made in the five-month period of November through March. These percentages are consistent with prior years. Total natural gas deliveries were 9.9 million DTH, 10.1 million DTH and 9.4 million DTH in fiscal 2015, 2014 and 2013, respectively.

Suppliers

Roanoke Gas relies on multiple interstate pipelines including those operated by Columbia Gas Transmission Corporation and Columbia Gulf Transmission Corporation (together Columbia), and East Tennessee Natural Gas Company (East Tennessee), Tennessee Gas Pipeline, Midwestern Gas Transmission and Saltville Gas Storage Company, LLC to transport natural gas from the production and storage fields to Roanoke Gas distribution system. Roanoke Gas is directly served by two pipelines, Columbia and East Tennessee. Columbia historically has delivered between 50% and 60% of the Company s gas supply, while East Tennessee delivers the balance of the Company s requirements. The rates paid for natural gas transportation and storage services purchased from the interstate pipeline companies are established by tariffs approved by the Federal Energy Regulatory Commission (FERC). These tariffs contain flexible pricing provisions, which, in some instances, authorize these transporters to reduce rates and charges to meet price competition. The current pipeline contracts expire at various times from 2017 to 2020. The Company anticipates being able to renew these contracts or enter into other contracts to meet customers continued demand for natural gas.

The Company manages its pipeline contracts and liquefied natural gas storage (LNG) facility in order to provide for sufficient capacity to meet the natural gas demands of its customers. The maximum daily winter capacity for delivery into Roanoke Gas distribution system under the interstate pipelines is 78,606 DTH per day. The LNG facility, which is capable of storing up to 220,000 DTH of natural gas in a liquid state for use during peak demand, has the capability of providing an additional 33,000 DTH per day. Combined, the pipelines and LNG facility can provide more than 111,000 DTH on a single winter day. In fiscal 2015, the Company realized a maximum one day-customer demand of 91,341 DTH which represented the highest single day volume delivery in the Company s history.

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The Company uses multi-year contracts to meet its natural gas supply needs. The Company currently contracts with Sequent Energy Management, L.P. to manage its pipeline transportation and storage rights and gas supply inventories and deliveries and serve as the primary supplier of natural gas for Roanoke Gas. Natural gas purchased under the asset management agreement is priced at indexed-based market prices as reported in major industry pricing publications. The Company expects its firm supply agreements will be sufficient to meet customer demands for natural gas during the term of the agreement, which expires March 31, 2017.

The Company uses summer storage programs to supplement gas supply requirements during the winter months. During the summer months, the Company injects gas into its LNG facility. In addition, the Company has contracted for storage capacity from Columbia, Tennessee Gas Pipeline and Saltville Gas Storage Company, LLC for a combined total of more than 2.4 million DTH of storage capacity. The balance of the Company s annual natural gas requirements are met primarily through market purchases made by its asset manager.

Competition

The Company s natural gas utility operates in a regulated, monopolistic environment. Roanoke Gas currently holds the only franchises and/or certificates of public convenience and necessity to distribute natural gas in its Virginia service areas. These franchises generally extend for multi-year periods and are renewable by the municipalities, including exclusive franchises in the cities of Roanoke and Salem and the Town of Vinton, Virginia, which all expire December 31, 2015.

Management anticipates that the Company will be able to renew all of its franchises when they expire. There can be no assurance, however, that a given jurisdiction will not refuse to renew a franchise or will not, in connection with the renewal of a franchise, attempt to impose restrictions or conditions that could adversely affect the Company s business operations or financial condition. Certificates of public convenience and necessity, issued by the Virginia State Corporation Commission (the SCC), are of perpetual duration, subject to compliance with regulatory standards.

Although Roanoke Gas has exclusive rights for the distribution of natural gas in its service area, the Company competes with suppliers of other energy sources such as fuel oil, electricity, propane, coal and solar. Competition can be intense among the other energy sources and can be based primarily on price. This is particularly true for those industrial applications that have the ability to switch to alternative fuels. The relationship between supply and demand has the greatest impact on the price of natural gas. Greater demand for natural gas for electric generation and other uses can provide upward pressure on the price of natural gas. Currently, a plentiful supply of natural gas, mostly due to new drilling and extraction processes in shale formations, has served to maintain prices at lower levels. The Company continues to see a demand for its product and extends service to the new residential construction markets located along or near gas distribution mains in its service area. Although new construction activity has been limited over the last few years, the Company has been able to grow its customer base through customer conversions from an alternative energy source to natural gas along its distribution lines.

Regulation

In addition to the regulatory requirements generally applicable to all companies, Roanoke Gas is also subject to additional regulation at the federal, state and local levels. At the federal level, the Company is subject to pipeline safety regulations issued by the Department of Transportation and the Pipeline and Hazardous Materials Safety Administration.

At the state level, the SCC performs regulatory oversight including the approval of rates and charges at which natural gas is sold to customers, the approval of agreements between or among affiliated companies involving the provision of goods and services, pipeline safety, and certain other corporate activities of the Company, including mergers and acquisitions related to utility operations. The SCC also grants certificates of public convenience and necessity to distribute natural gas in Virginia.

At the local level, Roanoke Gas is further regulated by the municipalities and localities that grant franchises for the placement of gas distribution pipelines and the operation of gas distribution networks within their jurisdictions.

Employees

At September 30, 2015, Resources had 125 full-time employees and 133 total employees. As of that date, 33 employees, or 26% of the Company s full-time employees, belonged to the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied-Industrial International Union, Local No. 515 and were represented under a collective bargaining agreement. The union has been in place at the Company since 1952. The Company and the union successfully negotiated a new collective bargaining agreement during 2015 that will expire on July 31, 2020. Management maintains an amicable relationship with the union.

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Website Access to Reports

The Company s website address is www.rgcresources.com. Information appearing on this website is not incorporated by reference in and is not a part of this annual report. The Company files reports with the Securities and Exchange Commission (SEC). A copy of this annual report, as well as other recent annual and quarter reports are available on the Company s website. You may read and copy these filings with the SEC at the SEC public reference room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding the Company s filings at www.sec.gov, which is hyper linked on the Company s website and is where you can obtain other Company filings with the SEC.

Item 1A. Risk Factors

Please carefully consider the risks described below regarding the Company. The risks described below are not the only ones faced by the Company. Additional risks not presently known to the Company or that the Company currently believes are immaterial may also impair business operations and financial results. If any of the following risks actually occur, the Company s business, financial condition or results of operations could be adversely affected. In such case, the trading price of the Company s common stock could decline and an investor could lose all or part of his, her or its investment.

Increased compliance and pipeline safety requirements and fines.

The Company is committed to the safe and reliable delivery of natural gas to its customers. Working in concert with this commitment are numerous laws and regulations at both the federal and state levels. The Company is subject to ongoing inspections and reviews. Failure to comply with such requirements could result in the levy of significant fines. Recent enforcement actions by the Virginia Division of Utility and Railroad Safety have resulted in increased fines for gas distribution companies across the state. There are inherent risks that may be beyond the Company s control, including third party actions, which could result in damage to pipeline facilities, injury and even death. Such incidents could subject the Company to lawsuits, large fines, increased scrutiny and loss of customers, all of which could have a significant effect on the Company s financial position and results of operation.

Availability of adequate and reliable pipeline capacity.

The Company is served directly by two interstate pipelines. These two pipelines carry 100% of the natural gas transported to the Company s distribution system. Depending on weather conditions and the level of customer demand, failure of one or both of these interstate transmission pipelines could have a major impact on the Company s ability to meet customer demand for natural gas and adversely affect the Company s earnings as a result of lost revenue and the cost of service restoration.

Risks associated with the operation of a natural gas distribution pipeline and LNG storage facility.

Numerous potential risks are inherent in the operation of a natural gas distribution system and LNG storage facility including unanticipated or unforeseen events that are beyond the control of the Company. Examples of such events include adverse weather conditions, acts of terrorism, accidents, equipment breakdowns, failure of upstream pipelines and storage facilities, as well as catastrophic events such as explosions, fires, earthquakes, floods, or other similar events. These risks could result in injury or loss of life, property damage, pollution and customer service disruption resulting in potentially significant financial losses. The Company maintains insurance policies with financially sound carriers to protect against many of these risks. If losses result from a risk that is not fully covered by insurance, the Company s financial condition could be significantly impacted if it were unable to recover such losses from customers through the regulatory rate making process. Even if the Company did not incur a direct financial loss as a result of any of the events noted above, it could encounter significant reputational damage from a reliability, safety, integrity or similar viewpoint, ultimately resulting in a longer-term negative impact on earnings.

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Investment in Mountain Valley Pipeline.

The success or failure of the Company s investment in Mountain Valley Pipeline, LLC (the LLC) is predicated on several key factors including but not limited to the ability of all investors to meet their capital calls when due, the timely approval of the pipeline project by FERC, completing the construction of the pipeline within the targeted time frame and budget and fully subscribing the capacity of the pipeline once in service. Any significant delay, cost over-run or the failure to receive the requisite approvals could have a significant effect on the Company s earnings and financial position.

In addition, there are also numerous risks facing the LLC over time, which in turn could adversely affect the Company s earnings and financial performance through its 1% investment. The LLC s ability to complete construction of, and capital improvement to, facilities on schedule and within budget may be adversely affected by escalating costs for materials and labor and regulatory compliance, inability to obtain or renew necessary licenses, rights-of-way, permits or other approvals on acceptable terms or on schedule, disputes involving contractors, labor organizations, land owners, governmental entities, environmental groups, Native American and aboriginal groups, and other third parties, negative publicity, transmission interconnection issues, and other factors. If any development project or construction or capital improvement project is not completed, is delayed or is subject to cost overruns, certain associated costs may not be approved for recovery or recoverable through regulatory mechanisms that may otherwise be available, and the LLC could become obligated to make delay or termination payments or become obligated for other damages under contracts, could experience the loss of tax credits or tax incentives, or delayed or diminished returns, and could be required to write-off all or a portion of its investment in the project. Any of these events could have a material adverse effect on the LLC s business, financial condition, results of operations and prospects. project siting, financing, construction, permitting, governmental approvals and the negotiation of project development agreements that may impede its development and operating activities. The LLC may face risks related to project siting, financing, construction, permitting, governmental approvals and the negotiation of project development agreements that may impede its development and operating activities. The LLC must periodically apply for licenses and permits from various local, state, federal and other regulatory authorities and abide by their respective conditions. Should the LLC be unsuccessful in obtaining necessary licenses or permits on acceptable terms, should there be a delay in obtaining or renewing necessary licenses or permits or should regulatory authorities initiate any associated investigations or enforcement actions or impose related penalties or disallowances on the LLC, the LLC s business, financial condition, results of operations and prospects could be materially adversely affected. Any failure to negotiate successful project development agreements for new facilities with third parties could have similar results. The LLC s gas infrastructure facilities and other facilities are subject to many operational risks. Operational risks could result in, among other things, lost revenues due to prolonged outages, increased expenses due to monetary penalties or fines for compliance failures, liability to third parties for property and personal injury damage, a failure to perform under applicable sales agreements and associated loss of revenues from terminated agreements or liability for liquidated damages under continuing agreements. The consequences of these risks could have a material adverse effect on the LLC s business, financial condition, results of operations and prospects. Uncertainties and risks inherent in operating and maintaining the LLC s facilities include, but are not limited to, risks associated with facility start-up operations, such as whether the facility will achieve projected operating performance on schedule and otherwise as planned. The LLC s business, financial condition, results of operations and prospects can be materially adversely affected by weather conditions, including, but not limited to, the impact of severe weather. Threats of terrorism and catastrophic events that could result from terrorism, cyber-attacks, or individuals and/or groups attempting to disrupt the LLC s business, or the businesses of third parties, may materially adversely affect the LLC s business, financial condition, results of operations and prospects.

Supply disruptions due to weather or other forces.

Hurricanes and other natural or man-made disasters could damage or inhibit production and/or pipeline transportation facilities, which could result in decreased supplies of natural gas. Decreased supplies could result in an inability to meet customer demand leading to higher prices or service disruptions. Disasters could also lead to additional governmental regulations that limit production activity or increase production and transportation costs.

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Security breach or cyber-attacks on the Company s computer systems could corrupt financial information, expose confidential personal information or compromise the safe and reliable delivery of natural gas.

A breach of the Company s information systems from cyber-attacks or other sources could lead to disruptions in natural gas deliveries or compromise the safety of our distribution system. Such attacks could also result in corruption of the Company s financial information or the unauthorized release of confidential customer, employee or vendor information. The Company takes reasonable precautions to safeguard its computer systems from attack; however, there is no guarantee that Company processes will adequately protect against unauthorized access to data. In the event of a successful attack, the Company could be exposed to material financial and reputational risks.

General downturn in the economy or prolonged period of slow economic recovery.

A weak or poorly performing economy can negatively affect the Company s profitability. An economic downturn can result in loss of commercial and industrial customers due to plant closings as well as slow or declining growth in new customer additions, both of which would result in reduced sales volumes and lower revenues. An economic downturn could also result in rising unemployment and other factors that could result in increased customer delinquencies and bad debt expense.

Environmental laws or regulations.

Passage of new environmental legislation or implementation of regulations that mandate reductions in greenhouse gas emissions or other similar restrictions could have a negative effect on the Company s core operations. Natural gas is a clean and efficient energy source; however, the combustion of natural gas results in carbon related emissions. Such legislation could impose limitations on greenhouse gas emissions, require funding of new energy efficiency objectives, impose new operational requirements or lead to other additional costs to the Company. New regulations could result in a significant reduction in the use of coal as a fuel for electric power generation, potentially resulting in natural gas supply concerns and higher cost for natural gas. Legislation or regulations could limit the exploration and development of natural gas reserves, making the price of natural gas less competitive and less attractive as a fuel source for consumers, resulting in reduced deliveries and earnings.

Regulatory actions or failure to obtain timely rate relief could decrease future profitability.

The Company s natural gas operations are regulated by the SCC. The SCC approves the rates that the Company charges its natural gas customers. If the SCC did not allow rates that provided for the timely recovery of costs or a reasonable rate of return on investment in natural gas distribution facilities, earnings could be negatively impacted. Issuance of debt and equity are also subject to SCC regulation and approval. Delays or lack of approvals could inhibit the ability to access capital markets and negatively impact liquidity or earnings.

Access to capital to maintain liquidity.

The Company relies on a variety of capital sources to operate its business and fund capital expenditures, including internally generated cash from operations, short-term borrowings under its line-of-credit, proceeds from stock issued under the Dividend Reinvestment and Stock Purchase Plan (DRIP) and other sources. Access to a line-of-credit is essential to provide seasonal funding of natural gas operations and provide capital budget bridge financing. Access to capital markets and other long-term funding sources is important to provide more predictable financing for capital outlays and funding of the investment in the LLC. The ability of the Company to maintain and renew its line-of-credit and to secure longer-term financing is critical to operations. Adverse market trends or deterioration in the financial condition of the Company could increase the cost of borrowing or limit the Company s ability to secure adequate funding.

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Volatility in the price and availability of natural gas.

Natural gas purchases represent the single largest expense of the Company. Even with increasing demand from other areas including electric generation, natural gas prices are currently expected to remain stable in the near term, although there can be no guarantee to that effect. However, if restrictions on drilling for natural gas in the shale rock formations are imposed at either federal, state or local levels due to environmental or other concerns or other exploration and development restrictions on conventional drilling are enacted, the price of natural gas could escalate. The economic viability of the LLC could be significantly impacted by such restrictions. Furthermore, if demand for natural gas increases at a rate in excess of current expectations, natural gas prices could also face upward pressure. Increasing natural gas prices could make natural gas a less attractive energy source to the Company s customers; thereby potentially resulting in declining sales as well as increases in bad debt expense.

Business activities are concentrated in a limited geographic region.

Changes in the Roanoke Valley s economy, politics, regulations and weather patterns could negatively impact the existing customer base, leading to declining usage patterns and financial condition of customers, both of which could adversely affect earnings.

The cost of providing post-retirement benefits and related funding obligations may increase.

The costs of providing defined benefit pension and retiree medical plans are dependent on a number of factors such as the rates of return on plan assets, discount rates used in determining plan liabilities, the level of interest rates used to measure the required minimum funding levels of the plan, future government regulation, changes in life expectancy, and required or voluntary contributions made to the plan. Changes in actuarial assumptions and differences between the assumptions and actual results, as well as a significant decline in the value of investments that fund these plans, if not offset or mitigated by a decline in plan liabilities, could increase the expense of these plans and require significant additional funding of these plans. Such funding obligations could have a material impact on liquidity by reducing cash flows and could negatively affect results of operations.

Weather conditions may cause revenues and earnings to vary from year to year.

The Company s revenues and earnings are highly dependent upon weather conditions, specifically winter weather. The Company s rate structure currently has a weather normalization adjustment factor that results in either a recovery or refund of revenues due to any variation from the 30-year average for heating degree-days. If the provision for the weather normalization adjustment were removed from its rate structure, the Company would be exposed to a much greater risk related to weather variability resulting in earnings volatility. A colder than normal winter could cause the Company to incur higher than normal operating and maintenance costs with no benefit of additional revenues to offset those costs as a result of the weather normalization adjustment.

Competition from other energy providers.

The Company competes with other energy providers in its service territory, including those that provide electricity, propane, coal, fuel oil and solar. A significant competitive factor is price. Higher natural gas costs or decreases in the price of other energy sources may enhance competition and encourage customers to convert their gas-fired equipment to systems that use alternative energy sources, thus lowering natural gas deliveries and earnings. Price considerations could also inhibit customer and revenue growth if builders and developers do not perceive natural gas to be a better value than other energy options and elect to install heating systems that use an energy source other than natural gas.

Failure to comply with debt covenant requirements could lead to adverse financial consequences that could affect the Company s liquidity and ability to borrow funds.

The Company s long-term debt obligations and bank line of credit contain financial covenants. Noncompliance with any of these covenants could result in an event of default which, if not cured or waived, could accelerate payment on outstanding debt obligations or cause prepayment penalties. In such an event, the Company may not be able to refinance or repay all of its indebtedness, pay dividends or have sufficient liquidity to meet operating and capital expenditure requirements. Any such acceleration would cause a material adverse change in our financial condition.

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Inability to complete necessary or desirable pipeline expansion or infrastructure development projects may delay or prevent the Company from adequately serving its customers or expanding its distribution system.

In order to serve new customers or expand service to existing customers, the Company needs to maintain, expand or upgrade its distribution, transmission and/or storage infrastructure, including new pipeline installation. Various factors may prevent or delay the completion of such projects or make them more costly, such as the inability to obtain required approval from local, state and/or federal regulatory and governmental bodies, public opposition to the projects, inability to obtain adequate financing, competition for labor and materials, construction delays, cost overruns, and an inability to negotiate acceptable agreements relating to rights-of-way, construction or other material development components. As a result, the Company may not be able to adequately serve existing customers or support customer growth, which would negatively impact earnings.

Item 1B. Unresolved Staff Comments.
Not applicable.

Item 2. Properties.
Included in Utility Plant on the Company s consolidated balance sheet are storage plant, transmission plant, distribution plant and general plant of Roanoke Gas as categorized by natural gas utilities. The Company has approximately 1,125 miles of transmission and distribution pipeline with transmission and distribution plant representing more than 85% of the total investment in plant. The transmission and distribution pipelines are located on or under public roads and highways or private property for which the Company has obtained the legal authorization and rights to operate.

Roanoke Gas owns and operates eight metering stations through which it measures and regulates the gas being delivered by its suppliers. These stations are located at various points throughout the Company s distribution system.

Roanoke Gas also owns a liquefied natural gas storage facility located in Botetourt County that has the capacity to store up to 220,000 DTH of natural gas.

The Company s executive, accounting and business offices, along with its maintenance and service departments, are located on Kimball Avenue in Roanoke, Virginia.

Although the Company considers its present properties adequate, management continues to evaluate the adequacy of its current facilities and intends to complete the replacement of its remaining cast iron and bare steel pipeline within the next two years.

Item 3. Legal Proceedings.
The Company was a defendant in two civil lawsuits associated with a November 2009 explosion and fire at a West Virginia residence. The first lawsuit was dismissed by order on March 31, 2015, and the second lawsuit was dismissed by order on April 27, 2015. The final resolution was consistent with management s expectations as the settlement did not materially affect the Company s financial position, results of operation, or liquidity.

The Company is not known to be a party to any other pending legal proceedings.

Item 4. Mine Safety Disclosures.
Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Resources common stock is listed on the NASDAQ Global Market under the trading symbol RGCO. Payment of dividends is within the discretion of the Board of directors and will depend on, among other factors, earnings, capital requirements, and the operating and financial condition of the Company.

	Range of Bid Prices		Cash Dividends
Year Ending September 30, 2015	High	Low	Declared
First Quarter	$ 22.45	$ 19.28	$ 0.1925
Second Quarter	25.67	20.20	0.1925
Third Quarter	22.99	19.78	0.1925
Fourth Quarter	21.96	19.95	0.1925
Year Ending September 30, 2014			
First Quarter	$ 19.98	$ 18.10	$ 0.185
Second Quarter	20.06	18.46	0.185
Third Quarter	19.73	19.00	0.185
Fourth Quarter	20.51	19.17	0.185

As of November 30, 2015, there were 1,209 holders of record of the Company s common stock. This number does not include all beneficial owners of common stock who hold their shares in street name.

Comparisons of Cumulative Total Shareholder Returns

The following performance graph compares the Company s total shareholder return from September 30, 2010 through September 30, 2015 with the Dow Jones US Utility Index, a utility based index, and the Standard & Poor s 500 Stock Index (S&P 500 Index), a broad market index.

The graph below reflects the value of a hypothetical investment of $100 made September 30, 2010 in the Company s common stock and in each index as of September 30, 2015, assuming the reinvestment of all dividends. Historical stock price performance as reflected on the graph is not indicative of future price performance. The total value at the end of the five years was $172 for the Company s common stock, $181 for the Dow Jones US Utilities Index and $187 for the S&P 500 Index.

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A summary of the Company s equity compensation plans follows as of September 30, 2015:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	52,400	$ 19.83	128,134
Equity compensation plans not approved by security holders			
Total	52,400	$ 19.83	128,134

Item 6. Selected Financial Data.

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	Year Ending September 30,				
	2015	2014	2013	2012	2011
Operating Revenues	$ 68,189,607	$ 75,016,134	$ 63,205,666	$ 58,799,687	$ 70,798,871
Gross Margin	30,206,433	29,337,089	27,602,891	26,933,097	27,269,566
Operating Income	10,006,192	9,681,868	8,795,055	8,786,535	9,313,046
Net Income	5,094,415	4,708,440	4,262,052	4,296,745	4,653,473
Basic Earnings Per Share	$ 1.08	$ 1.00	$ 0.91	$ 0.92	$ 1.01
Cash Dividends Declared Per Share	$ 0.77	$ 0.74	$ 1.72	$ 0.70	$ 0.68
Book Value Per Share	$ 11.14	$ 11.02	$ 10.51	$ 10.85	$ 10.55
Average Shares Outstanding	4,728,210	4,715,478	4,698,727	4,647,439	4,592,713
Total Assets	$ 148,140,730	$ 139,127,641	$ 124,510,870	$ 129,735,019	$ 125,522,242
Long-Term Debt (Less Current Portion)	$ 30,500,000	$ 30,500,000	$ 13,000,000	$ 13,000,000	$ 13,000,000
Stockholders Equity	52,840,991	52,020,847	49,502,422	50,682,930	48,785,778
Shares Outstanding at Sept. 30	4,741,498	4,720,378	4,709,326	4,670,567	4,624,682

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This report contains forward-looking statements that relate to future transactions, events or expectations. RGC Resources, Inc. (Resources or the Company) may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. These statements are based on management s current expectations and information available at the time of such statements and are believed to be reasonable and are made in good faith. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company s actual results and experience to differ materially from the anticipated results or expectations expressed in the Company s forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company s business include, but are not limited to, those set forth in the following discussion and within Item 1A Risk Factors of this Annual Report on Form 10-K. All of these factors are difficult to predict and many are beyond the Company s control. Accordingly, while the Company believes its forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in the Company s documents or news releases, the words anticipate, believe, intend, plan, estimate, expect, objective, projection, forecast, budget or similar words or future or conditional verbs such as will, would, should, can, could or may are intended to identify forward-looking statements.

Forward-looking statements reflect the Company s current expectations only as of the date they are made. The Company assumes no duty to update these statements should expectations change or actual results differ from current expectations except as required by applicable laws and regulations.

Overview

Resources is an energy services company primarily engaged in the regulated sale and distribution of natural gas to approximately 59,100 residential, commercial and industrial customers in Roanoke, Virginia and the surrounding localities, through its Roanoke Gas Company (Roanoke Gas) subsidiary. Resources also provides certain unregulated services through Roanoke Gas and utility information system services through RGC Ventures of Virginia, Inc., which operates as The Utility Consultants and Application Resources. The Company also formed a new wholly-owned subsidiary, RGC Midstream, LLC (Midstream), which was created to invest in the Mountain Valley Pipeline (MVP) project. On October 1, 2015, Midstream executed the agreements to become a 1% member in the MVP project. More information is provided under the Equity Investment in Mountain Valley Pipeline section below. The unregulated operations represent less than 3% of revenues and margins of Resources.

The utility operations of Roanoke Gas are regulated by the Virginia State Corporation Commission (SCC), which oversees the terms, conditions, and rates to be charged to customers for natural gas service, safety standards, extension of service, accounting and depreciation. The Company is also subject to federal regulation from the Department of Transportation in regard to the construction, operation, maintenance, safety and integrity of its transmission and distribution pipelines. The Federal Energy Regulatory Commission (FERC) regulates prices for the transportation and delivery of natural gas to the Company s distribution system and underground storage services. The Company is also subject to other regulations which are not necessarily industry specific.

The Company is committed to the safe and reliable delivery of natural gas to its customers. Since 1991, the Company has placed an emphasis on the modernization of its distribution system through the renewal and replacement of its cast iron and bare steel natural gas distribution pipelines. With recent regulatory actions placing a greater emphasis on pipeline safety, the Company continues to focus its efforts on completing its renewal and replacement program. Management anticipates replacing all remaining cast iron and bare steel pipe within the next two years and expects to continue its renewal program with plans to replace first generation pre-1973 plastic pipe.

The Company is also dedicated to the safeguarding of its information technology systems. These systems contain confidential customer, vendor and employee information as well as important financial data. There is risk associated with the unauthorized access of this information with a malicious intent to corrupt data, cause operational disruptions, or compromise information. Management believes it has taken reasonable security measures to protect these systems from cyber security attacks and other types of breaches; however, there can be no guarantee that a breach will not occur. In the event of a breach, the Company will execute its Security Incident Response Plan to assist with managing the incident. The Company also maintains cyber-insurance coverage to mitigate financial implications resulting from a breach of confidential information.

Over 97% of the Company s revenues are derived from the sale and delivery of natural gas to Roanoke Gas customers. The SCC authorizes the rates and fees the Company charges its customers for these services. These rates are designed to provide the Company with the opportunity to recover its gas and non-gas expenses and to earn a reasonable rate of return for shareholders based on normal weather. Normal weather refers to the average number of heating degree days (an industry measure by which the average daily temperature falls below 65 degrees Fahrenheit) over the previous 30-year period.

As the Company s business is seasonal in nature, volatility in winter weather and the commodity price of natural gas, can impact the effectiveness of the Company s rates in recovering its costs and providing a reasonable return for its shareholders. In order to mitigate the effect of weather variations, the Company has certain approved rate mechanisms in place that help provide stability in earnings, adjust for volatility in the price of natural gas and provide a return on increased infrastructure investment. These mechanisms include a purchased gas adjustment factor (PGA), weather normalization adjustment factor (WNA), inventory carrying cost revenue and a Steps to Advance Virginia Energy (SAVE) adjustment rider.

The Company s approved billing rates include a component designed to allow for the recovery of the cost of natural gas used by its customers. The cost of natural gas is considered a pass-through cost and is independent of the non-gas rates of the Company. This rate component, referred to as the PGA clause, allows the Company to pass along to its customers increases and decreases in natural gas costs incurred by its regulated operations. On a quarterly basis, the Company files a PGA rate adjustment request with the SCC to adjust the gas cost component of its rates up or down depending on projected price and activity. Once administrative approval is received, the Company adjusts the gas cost component of its rates to reflect the approved amount. As actual costs will differ from the projections used in establishing the PGA rate, the Company will either over-recover or under-recover its actual gas costs during the period. The difference between actual costs incurred and costs recovered through the application of the PGA is recorded as a regulatory asset or liability. At the end of the annual deferral period, the balance is amortized over an ensuing 12-month period as amounts are reflected in customer billings.

The WNA reduces the volatility in earnings due to the variability in temperatures during the heating season. The WNA is based on a weather measurement band around the most recent 30-year temperature average. The WNA provides the Company with a level of earnings protection when weather is warmer than normal and provides its customers with price protection when the weather is colder than normal. Prior to April 2014, the WNA provided a weather band of 3% above and below normal, whereby the Company would bill its customers for the lost margin (excluding gas costs) for the impact of weather that was more than 3% warmer than normal or refund customers the excess margin earned for weather that was more than 3% colder than normal. Effective with the WNA year that began April 2014, the 3% weather band was removed and the WNA is now based strictly on temperature variations from normal. For the fiscal year ended September 30, 2015, the Company recorded a $609,000 reduction in revenue for weather that was approximately 6.5% colder than normal. During the fiscal year ended September 30, 2014, the Company recorded a reduction in revenue of $563,000 to reflect the WNA adjustment for weather that was 8.8% colder than normal. If the WNA weather band had been 0% for the entire fiscal 2014 instead of 3% for the period October 1, 2013 through March 31, 2014, revenue would have been adjusted down by $814,000. No revenue adjustment for WNA was made for fiscal 2013 as the number of heating degree days fell within the 3% band then in effect.

The Company also has an approved rate structure in place that mitigates the impact of financing costs of its natural gas inventory. Under this rate structure, Roanoke Gas recognizes revenue for the financing costs, or carrying costs , of its investment in natural gas inventory. The carrying cost revenue (ICC) factor applied to average inventory is based on the Company s weighted-average cost of capital including interest rates on short-term and long-term debt and the Company s authorized return on equity.

During times of rising gas costs and rising inventory levels, the Company recognizes revenues to offset higher financing costs associated with higher inventory balances. Conversely, during times of decreasing gas costs and declining inventory balances, the Company recognizes less carrying cost revenue as financing costs are lower. As the commodity price for natural gas has declined by more than $1.00 a decatherm compared to the same period last year, the price of gas delivered into storage during the current year has declined by a similar amount. The result was a decline in the price of gas in storage to $3.38 per decatherm at September 30, 2015 compared to a price in storage of $4.71 and $4.08 at September 30, 2014 and 2013, respectively. However, the average dollar balance of gas in storage inventory actually increased over the prior fiscal year due to the higher-priced gas in storage at the beginning of fiscal 2015 combined with a greater level of withdrawals in fiscal 2014 due to the colder winter. Although the average balance of gas in storage during the current year was higher than the prior fiscal year, ICC revenues during fiscal 2015 declined by approximately $46,000 due to a reduction in the weighted-average cost of capital. The weighted-average cost of capital declined from last year due to the refinancing of the Company s long-term debt in September 2014 combined with an increasing allocation of low cost short-term debt in the determination of the ICC rate. Based on the current prices of natural gas futures, the average dollar balance of gas in storage is expected to be much lower in the next fiscal year, resulting in lower ICC revenues in fiscal 2016.

Generally, as investment in natural gas inventory increases so does the level of borrowing under the Company s line-of-credit. However, as the carrying cost factor used in determining carrying cost revenues is based on the Company s weighted-average cost of capital, carrying cost revenues do not directly correspond with incremental short-term financing costs. Therefore, when inventory balances decline due to a reduction in commodity prices, net income will decline as carrying cost revenues decrease by a greater amount than short-term financing costs decrease. The inverse occurs when inventory costs increase.

The Company s non-gas rates provide for the recovery of non-gas related expenses and a reasonable return to shareholders. These rates are determined based on the filing of a formal rate application with the SCC utilizing historical information including investment in natural gas facilities. Generally, investments related to extending service to new customers are recovered through the non-gas rates currently in place. The investment in replacing and upgrading existing infrastructure is not recoverable until a formal rate application is made to include the additional investment and new non-gas rates are approved. The SAVE Plan and Rider provides the Company with the ability to recover costs related to these investments on a prospective basis rather than on a historical basis. The SAVE Plan provides a mechanism to recover the related depreciation and expenses and provide a return on rate base of the additional capital investments related to improving the Company s infrastructure until such time a formal rate application is filed to incorporate this investment in the Company s non-gas rates. As the Company did not file for an increase in the non-gas rates during the prior year and the level of capital investment continues to grow, SAVE Plan revenues have increased significantly. The Company recognized approximately $1,308,000, $292,000 and $169,000 in SAVE Plan revenues for years ended September 30, 2015, 2014 and 2013. SAVE revenues will be included as part of the new non-gas base rates the next time the Company files for a non-gas rate increase. Additional information regarding the SAVE Rider is provided under the Regulatory Affairs section.

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The economic environment has a direct correlation with business and industrial production, customer growth and natural gas utilization. The local economy has lost some key business activities over the last year as some companies have either shut down or relocated all or portions of their operations elsewhere. In addition, a couple of the Company s larger industrial customers have reduced natural gas consumption amid lower production activities. The impact of these relocations or the duration of these curtailments is unknown at this time. However, despite these losses, the local economy appears relatively stable and should continue to slowly improve absent a major economic setback, on either a local or national level.

Results of Operations

Fiscal Year 2015 Compared with Fiscal Year 2014

The table below reflects operating revenues, volume activity and heating degree-days.

Operating Revenues

Year Ended September 30,	2015	2014	Decrease	Percentage
Gas Utilities	$ 67,094,290	$ 73,865,487	$ (6,771,197)	(9)%
Other	1,095,317	1,150,647	(55,330)	(5)%
Total Operating Revenues	$ 68,189,607	$ 75,016,134	$ (6,826,527)	(9)%

Delivered Volumes

Year Ended September 30,	2015	2014	Decrease	Percentage
Regulated Natural Gas (DTH)				
Residential and Commercial	6,955,594	7,005,920	(50,326)	(1)%
Transportation and Interruptible	2,919,413	3,081,731	(162,318)	(5)%
Total Delivered Volumes	9,875,007	10,087,651	(212,644)	(2)%
Heating Degree Days (Unofficial)	4,253	4,351	(98)	(2)%

Total gas utility operating revenues for the year ended September 30, 2015 decreased by 9% from the year ended September 30, 2014 primarily due to lower gas costs and a reduction in natural gas deliveries. The average commodity price of natural gas declined by 21% per decatherm sold. Delivered volumes declined due in part to weather, as reflected in the decline in residential and commercial volumes, and a reduction in industrial consumption. Residential and commercial deliveries tend to be more weather sensitive as reflected by a decline of 1% in volumes on 2% fewer heating degree days. Transportation and interruptible volumes, which are primarily driven by production activities rather than weather, decreased by 5%. Other revenues decreased by 5% as well.

Gross Margin

Year Ended September 30,	2015	2014	Increase / (Decrease)	Percentage
Gas Utility	$ 29,656,975	$ 28,774,213	$ 882,762	3%
Other	549,458	562,876	(13,418)	(2)%
Total Gross Margin	$ 30,206,433	$ 29,337,089	$ 869,344	3%

Regulated natural gas margins from utility operations increased by 3% from fiscal 2014, primarily as a result of higher SAVE Plan revenues and customer base charges more than offsetting lower volumetric margins and ICC revenues. SAVE Plan revenues increased by $1,016,000. As the Company continues to invest in eligible SAVE Plan infrastructure, the associated SAVE Plan revenues will continue to increase. Customer base charges also increased due

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to modest customer growth. As discussed above, volumetric margin declined due to a reduction in total volumes delivered. Residential and commercial volumes declined primarily due to slightly warmer weather. Interruptible and transportation volumes declined due to the loss of a customer and decreased usage at two of the Company s largest customers. The effect of the warmer weather was mitigated in part by the WNA mechanism. The prior year WNA mechanism provided for a weather band of 3% variance around normal during the winter heating season while the current heating season had a 0% weather band. Because the prior year had a 3% weather band in place for part of the year and weather was colder than normal, the Company was able to retain approximately $251,000 in excess margin realized on the 3% weather band, while the current year WNA with a 0% weather band required the adjustment of margin back to the level expected for normal weather.

Other margins, consisting of non-utility related services, decreased by $13,418 on comparable activity. The Utility Consultants, which ceased activity during fiscal 2015, contributed $17,000 to the non-utility related margin. The service contracts that comprise most of the non-utility related activities are subject to annual or semi-annual renewal provisions and the potential exists that these contracts may not be renewed or extended by the customer. In addition, the level of activity under these contracts will fluctuate based on customer requirements which may result in fluctuations in revenues and margins.

The changes in the components of the gas utility margin are summarized below:

	Twelve Months Ended September 30, 2015	2014	Increase (Decrease)
Customer Base Charge	$ 12,240,580	$ 12,064,764	$ 175,816
SAVE Plan	1,307,795	291,946	1,015,849
Volumetric	15,757,907	15,990,704	(232,797)
WNA	(608,560)	(563,187)	(45,373)
Carrying Cost	833,291	879,381	(46,090)
Other	125,962	110,605	15,357
Total	$ 29,656,975	$ 28,774,213	$ 882,762

Operations and Maintenance Expense - Operations and maintenance expenses increased by $103,497, or 1%, in fiscal 2015 compared with fiscal 2014 due to higher benefit costs and professional services and less overhead capitalization more than offsetting reductions in the level of bad debt expense, labor and contracted labor. Employee benefit expenses increased by $260,000 primarily due to higher medical, defined benefit pension plan (pension plan) and postretirement medical plan (postretirement plan) expense. The actuarially determined expenses for the pension and postretirement plans increased in fiscal 2015 due to a decline in the discount rate for valuing both plans liabilities at September 30, 2014. More information on these plans and the impact on the financial statements are provided under the Pension and Postretirement Benefits section of the Critical Accounting Policies and Estimates below and in Note 6 of the consolidated financial statements. Professional services increased by $77,000 primarily due to legal expenses associated with the new union contract, the formation of the Company s new subsidiary and the due diligence work related to the investment in MVP. Additional information on the investment in MVP is provided under the Equity Investment in Mountain Valley Pipeline section below and in Note 12 of the consolidated financial statements. Total capitalized overheads declined by $106,000 because of delays in the production of liquified natural gas due to maintenance down time, lower capital expenditures and a reduction in the capitalization rate compared to the prior year. Bad debt expense decreased by $61,000 due to lower customer billings resulting from warmer weather and a lower commodity price of gas. Labor and contracted services costs declined by $133,000 due to timing of pipeline right-of-way clearing and prior year costs related to updating the Company s corrosion control processes. The remaining decrease relates to a variety of areas including the level of facility and equipment maintenance, advertising and administrative costs.

General Taxes - General taxes increased $46,035, or 3%, primarily due to higher property taxes associated with increases in utility property.

Depreciation - Depreciation expense increased by $395,488, or 8%, corresponding to a similar increase in utility plant investment.

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Other Expense Other expense, net, increased by $21,909, or 11%, primarily due to an increase in charitable requests related to specific campaigns.

Interest Expense Total interest expense decreased by $314,582, or 17%, due to a lower interest rate on long-term debt. In September 2014, the Company refinanced its $28,000,000 in long-term debt, which had an average interest rate of 6.30% with $30,500,000 in new debt having a rate of 4.26%.

Income Taxes Income tax expense increased by $231,022 on higher pre-tax earnings. The effective tax rate was 38.4% for both fiscal 2015 and 2014.

Net Income and Dividends Net income for fiscal 2015 was $5,094,415 compared to $4,708,440 for fiscal 2014. Basic and diluted earnings per share were $1.08 in fiscal 2015 compared to $1.00 in fiscal 2014. Dividends declared per share of common stock were $0.77 in fiscal 2015 compared to $0.74 in fiscal 2014.

Fiscal Year 2014 Compared with Fiscal Year 2013

The table below reflects operating revenues, volume activity and heating degree-days.

Operating Revenues

Year Ended September 30,	**2014**	**2013**	**Increase / (Decrease)**	**Percentage**
Gas Utilities	$ 73,865,487	$ 62,024,174	$ 11,841,313	19%
Other	1,150,647			