RGC RESOURCES INC
Form ARS
December 11, 2013
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RGC RESOURCES IS SITTING FRONT AND CENTER, ENJOYING THE VIEW AS THE WORLD TURNS MORE AND MORE TO NATURAL GAS AS A PREFERRED FUEL. WE RE SECURE IN OUR POSITION, POISED TO TAKE FULL ADVANTAGE OF THE INDUSTRY S METAMORPHOSIS AS WE SERVE OUR LOCAL COMMUNITY S NEEDS, STAKE OUR CLAIM AS A REGIONAL LEADER IN THE INCREASED USE OF NATURAL GAS, AND CELEBRATE THE RISING GLOBAL PERSPECTIVE OF NATURAL GAS AS THE MOST ECONOMICAL, ECOLOGICAL AND INCREASINGLY PLENTIFUL FUEL OF THE PRESENT AND FUTURE.

RGC CONTINUES TO GROW STRONG AND STEADY. OUR INVESTORS CONSISTENTLY SEE IMPRESSIVE DIVIDENDS AS STOCK PRICES RISE, FOLLOWING AN INDUSTRY TREND. HISTORICALLY LOW PRICES OF NATURAL GAS, COMBINED WITH A MULTITUDE OF ALTERNATIVE USES, ARE BOLSTERING THE DRAMATICALLY EMERGING POPULARITY OF THE CLEANER FUEL.

THE FUTURE FOR OUR INDUSTRY IS AS BRIGHT AND DYNAMIC AS THE BUTTERFLIES IN THEIR SPECTACULAR NEW HABITAT AT THE REVITALIZED CENTER IN THE SQUARE, A GREEN FACILITY IN DOWNTOWN ROANOKE ON TRACK TO BE LEED-CERTIFIED. IT S REFLECTIVE OF A NEW DAY IN ROANOKE, STANDING AS OUR CITY S OWN MICROCOSM OF POSITIVE CHANGE HAPPENING WORLDWIDE.

FROM GENERATING ELECTRICITY ON A GLOBAL SCALE TO HEATING HOMES AROUND ROANOKE, NATURAL GAS HAS GROWN INTO A MAJOR PLAYER, AND IT S HERE TO STAY. AT RGC, NATURAL GAS IS ENSURING OUR FUTURE.

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THE WORLD LOOKS TO NATURAL GAS

GLOBAL DEMAND FOR NATURAL GAS IS ON THE RISE, AND THE UNITED STATES IS READY TO ANSWER THE CALL WITH SUPPLIES MADE SUDDENLY ABUNDANT THROUGH UNCONVENTIONAL RESOURCES. FORTUNATELY FOR RGC, ONE OF THE MOST IMPRESSIVE SITES FOR SHALE GAS PRODUCTION IS THE APPALACHIAN BASIN S HUGE MARCELLUS SHALE FORMATION. THE MARCELLUS IS ONE OF THE LARGEST NATURAL GAS FIELDS IN THE WORLD, ENRICHING US WITH VAST, INEXPENSIVE SUPPLIES CLOSE TO HOME. IN A DRAMATIC TURNAROUND, DEVELOPMENT OF THESE UNCONVENTIONAL RESOURCES IS EXPECTED TO MAKE THE UNITED STATES A NET EXPORTER IN YEARS TO COME. AND THE WORLD IS READY FOR IT NATURAL GAS APPLICATIONS ARE MANY, FROM HEATING AND COOLING HOMES TO CHEMICAL PRODUCTION ESSENTIAL IN THE MANUFACTURE OF EVERYDAY ITEMS INCLUDING CLOTHING, CARPET, ELECTRONICS, FURNITURE AND FERTILIZER. LOW PRICES AND SUPPLY SURPLUSES ARE BRINGING INVESTMENT INTO THE UNITED STATES AS WELL, AS FOREIGN COMPANIES EXPAND THEIR PLANTS AND INDUSTRIAL PROJECTS.

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AS THE NATION SHIFTS, SO DOES THE SOUTHEAST

U.S. COMPANIES ARE BUILDING AND ADAPTING TO TAKE ADVANTAGE OF NATURAL GAS ESPECIALLY IN THE SOUTHEAST, WHERE GAS IS BECOMING MORE USEFUL FOR POWER GENERATION. MANUFACTURERS ARE INCREASINGLY EXPANDING THEIR GAS USE IN PRODUCTION. AT STEEL DYNAMICS, RGC S LARGEST INDUSTRIAL CUSTOMER, NATURAL GAS IS USED TO EXPEDITE THE MELTING PROCESS, REDUCING MELT TIMES AND IMPROVING OVERALL EFFICIENCY. IMPROVED EFFICIENCIES TRANSLATE TO REDUCED COSTS AND A STRONGER COMPETITIVE POSITION IN THE GLOBAL MARKETPLACE. ON THE ECONOMY FRONT, THE BOOM IN NATURAL GAS PRODUCTION HAS LED TO ECONOMIC GROWTH AND JOB CREATION. AND WHAT S GOOD FOR THIS REGION AND THIS NATION IS GOOD FOR THE PLANET: BURNING NATURAL GAS PRODUCES ABOUT HALF THE CARBON EMISSIONS AS DOES BURNING COAL. AMONG OTHER APPLICATIONS, NATURAL GAS IS BEING USED AS AN ENVIRONMENTALLY FRIENDLY ALTERNATIVE TO POWER VEHICLES AS PRIVATE COMPANIES AND SOME LOCAL GOVERNMENTS CONVERT VEHICLES TO NATURAL GAS.

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We continue to aggressively modernize our distribution system through the

replacement of cast iron and bare steel pipeline with plastic or coated steel pipe.

We invested more than $10 million in capital improvements in 2013.

a period of high prices and long-term natural gas supply concerns to what now appears to be a future of supply abundance and relative price stability. Natural gas in America is truly helping to ensure our future. With appropriate and reasonable regulatory policy, natural gas should improve the competitiveness of the nation s manufacturing sector and enhance economic opportunity.

We continue to aggressively modernize our distribution system through the replacement of cast iron and bare steel pipeline with plastic or coated steel pipe. We invested more than $10 million in capital improvements in 2013. After 20 years of a steady replacement program, we approximately doubled our prior annual replacement efforts starting in 2012. We plan to invest approximately $13 million in capital improvements in 2014 and anticipate replacing all remaining cast iron and bare steel pipe by 2017. We also will upgrade some

crucial equipment at our liquefied natural gas facility, which is used to ensure adequate gas supply on extremely cold days.

The new-home construction market remains weak compared with pre-2008 levels. However, we are experiencing modest customer growth, including conversion to natural gas of homes previously heated with fuel oil or electricity. Industrial deliveries remained steady in 2013. While always difficult to predict, we anticipate similar activity in 2014, assuming the U.S. economy does not dip back into recession.

We continue to be active in regulatory filings with the Virginia State Corporation Commission to ensure timely cost recovery. We filed a rate case in September 2013 to recover the added cost of 2013 investment in capital improvements, along with increased depreciation and operating expense. We filed for an amendment to a separate regulatory plan designed to recover

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We announced a management succession plan in 2013. John D Orazio was appointed President and CEO of Roanoke Gas Company, our largest and primary subsidiary, while John Williamson continued as Chairman, President and CEO of RGC Resources, Inc., on a part-time basis.

the increased cost and depreciation expense associated with future planned pipeline replacement through 2018, modernization of our liquefied natural gas facility in 2014, and replacement of one of our gas transfer stations on the interstate pipeline system.

We announced a management succession plan in 2013. John D Orazio was appointed President and CEO of Roanoke Gas Company, our largest and primary subsidiary, while John Williamson continued as Chairman, President and CEO of RGC Resources, Inc., on a part-time basis. The Board of Directors approved succession plan is progressing nicely and Mr. Williamson is expected to step down as President and CEO of RGC Resources following the shareholder meeting in February 2014. Under the provisions of the succession plan, Mr. D Orazio will become President and CEO of RGC Resources at that time. Mr. Williamson is expected to

remain as Chairman and to be available in an advisory capacity when needed.

On behalf of our employees and the Board of Directors, we thank you for your interest in our operations and your continuing decision to own RGC Resources stock. We are pleased to be part of an exciting new era for natural gas in America, and continue to believe it is in the long-term interest of our shareholders to invest in the natural gas distribution business and the Roanoke, Va., region.

Sincerely,

John B. Williamson, III
Chairman, President & CEO - RGC Resources, Inc.

John S. D Orazio
President & CEO - Roanoke Gas Company

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HERE AT HOME, GREEN INITIATIVES TAKE FLIGHT

GREEN CONSTRUCTION HAS EMERGED AS A THING OF BEAUTY IN DOWNTOWN ROANOKE. FOR ITS ENERGY EFFICIENCY AND FORWARD FOCUS, WE AT RGC SALUTE THE NEWLY REVITALIZED CENTER IN THE SQUARE. IT S A PHENOMENAL SPACE CONCEIVED AS A LIVING FACILITY WHERE BUTTERFLIES CAPTURE THE SPIRIT OF SUSTAINABLE LIVING AS PART OF THE SCIENCE MUSEUM OF WESTERN VIRGINIA. BUTTERFLIES RULE INSIDE THE FACILITY, FROM THE CREATURES FLUTTERING FREELY ON THE FIFTH FLOOR TO THE 66-FOOT BUTTERFLY DESIGN INLAID INTO THE LOBBY FLOOR BELOW. CENTER IN THE SQUARE S REDESIGN IS ONE OF INTERCONNECTIVITY, FILLED WITH MUSEUMS AND EDUCATIONAL EXHIBITS. A LIVING CORAL REEF AQUARIUM IS FULL OF TROPICAL FISH, AND OTHER AQUARIUMS ARE HOME TO JELLYFISH, SEAHORSES, FRESHWATER FISH AND TURTLES. ON THE ROOFTOP, A KOI AND GOLDFISH POND COMPLEMENTS ATTRACTIVE VEGETATION IRRIGATED BY RAINWATER. THE ROOFTOP PAVILION ALSO FEATURES A GLASS DOME ALLOWING VISITORS TO LOOK DOWN INTO THE BUTTERFLY HABITAT. CENTER IN THE SQUARE IS DESIGNED AS A CUTTING-EDGE, ENERGY-EFFICIENT FACILITY ABLE TO GROW WITH TECHNOLOGICAL ADVANCES IN THE FUTURE.

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SELECTED FINANCIAL DATA

Years Ended September 30,	2013	2012	2011	2010	2009
OPERATING REVENUES	**$ 63,205,666**	$ 58,799,687	$ 70,798,871	$ 73,823,914	$ 82,184,473
GROSS MARGIN	**27,602,891**	26,933,097	27,269,566	26,440,273	27,075,924
OPERATING INCOME	**8,795,055**	8,786,535	9,313,046	8,982,181	9,844,516
NET INCOME	**4,262,052**	4,296,745	4,653,473	4,445,436	4,869,010
BASIC EARNINGS PER SHARE	**$ 0.91**	$ 0.92	$ 1.01	$ 0.98	$ 1.09
CASH DIVIDENDS DECLARED PER SHARE	**1.72**	0.70	0.68	0.66	0.64
BOOK VALUE PER SHARE	**10.51**	10.85	10.55	10.18	10.00
AVERAGE SHARES OUTSTANDING	**4,698,727**	4,647,439	4,592,713	4,514,262	4,447,454
TOTAL ASSETS	**$ 124,526,701**	**$ 129,756,338**	**$ 125,549,049**	**$ 120,683,316**	**$ 118,801,892**
LONG-TERM DEBT (Less Current Portion)	**13,000,000**	13,000,000	13,000,000	28,000,000	28,000,000
STOCKHOLDERS EQUITY	**49,502,422**	50,682,930	48,785,778	46,309,747	44,799,871
SHARES OUTSTANDING AT SEPT. 30	**4,709,326**	**4,670,567**	**4,624,682**	**4,548,864**	**4,477,974**

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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 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.

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MANAGEMENT S DISCUSSION & ANALYSIS

OVERVIEW

Resources is an energy services company primarily engaged in the regulated sale and distribution of natural gas to approximately 58,200 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 consulting and information system services through RGC Ventures of Virginia, Inc., which operates as The Utility Consultants and Application Resources. 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 regulates the 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 focus 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 four years.

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 is prepared to execute its Security Incident Response Plan to reduce the impact of the incident. The Company also maintains cyber-insurance coverage to mitigate financial implications resulting from a potential breach of confidential information.

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The SCC authorizes the rates and fees that the Company charges its customers for regulated natural gas service. 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. The Company s business is seasonal in nature and weather dependent as a majority of natural gas sales are for space heating during the winter season. 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 rate of return for its shareholders. Over the past several years, the Company has implemented certain approved rate mechanisms that reduce some of the volatility in earnings associated with variations in winter weather and the cost of natural gas, including the weather normalization adjustment mechanism and inventory carrying cost revenue.

The weather normalization adjustment mechanism (WNA) is based on a weather measurement band around the most recent 30- year temperature average. Because the SCC authorizes billing rates for the utility operations

of Roanoke Gas based on normal weather, warmer than normal weather may result in the Company failing to earn its authorized rate of return. Therefore, the WNA provides the Company with a level of earnings protection when weather is significantly warmer than normal and provides its customers with price protection when the weather is significantly colder than normal. The WNA mechanism provides for a weather band of 3% above and below the 30-year average, 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. The annual WNA period extends from April to March. For the most recently completed WNA period ending in March 2013, total heating degree days fell within the 3% weather band and thereby did not trigger the WNA mechanism for the current WNA period. Weather during the corresponding WNA period in fiscal 2012 was approximately 22% warmer than the 30-year normal with 883 fewer heating degree days (an industry measure by which the average daily temperature falls below 65 degrees

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Fahrenheit) compared to normal. As a result, the Company recorded approximately $1,747,000 in additional revenues to reflect the impact of the WNA in fiscal 2012 for the difference in margin not realized for warmer weather between 3% and 22% of the 30-year average. The Company did not record any WNA revenues during the WNA period in fiscal 2011 as total heating degree days were within the 3% weather band.

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 factor applied to 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. Although the price of natural gas in storage at September 30, 2013 was higher than the price in storage at September 30, 2012, the average price of gas in storage during fiscal 2013 was $0.61 a decatherm or 14% lower than last year s levels. Correspondingly, carrying cost revenues declined by $299,000 in fiscal 2013. After five years of decline, natural gas commodity prices appeared to have bottomed out in 2012 and have rebounded to a small degree. The cost of gas delivered into storage during the 2013 summer fill months was higher compared to the prior year,

resulting in the higher gas in storage balances at September 30, 2013. As a result, carrying cost revenues are expected to increase modestly during the next fiscal year.

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 economic environment has a direct correlation with business and industrial production, customer growth and natural gas utilization. The local economy continues to show signs of modest improvement from the economic downturn that began in 2008, and industrial production activities and the related interruptible and transportation sales to support those activities have returned to pre-2008 levels. Although there are signs of improvement, residential construction and housing starts continue to remain below historical levels, thereby limiting new customer growth opportunities. If economic uncertainty continues, industrial activity and new customer growth could be negatively impacted. In addition to economic considerations, natural gas consumption continues to be impacted by technological improvements to heating equipment which improve efficiency and reduce energy usage.

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RESULTS OF OPERATIONS

Fiscal Year 2013 Compared with Fiscal Year 2012

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

Operating Revenues

Year Ended September 30,	2013	2012	Increase	Percentage
Gas Utilities	**$ 62,024,174**	$ 57,657,940	$ 4,366,234	8%
Other	**1,181,492**	1,141,747	39,745	3%
Total Operating Revenues	**$ 63,205,666**	$ 58,799,687	$ 4,405,979	7%

Delivered Volumes

Year Ended September 30,	2013	2012	Increase/ (Decrease)	Percentage
Regulated Natural Gas (DTH)				
Residential and Commercial	**6,498,783**	5,335,836	1,162,947	22%
Transportation and Interruptible	**2,910,111**	2,981,660	(71,549)	-2%
Total Delivered Volumes	**9,408,894**	8,317,496	1,091,398	13%
Heating Degree Days (Unofficial)	**4,001**	3,189	812	25%

Total gas utility operating revenues for the year ended September 30, 2013 increased by 7% from the year ended September 30, 2012. The increase in gas revenues is primarily attributable to a 22% increase in residential and commercial delivery volumes, partially offset by lower natural gas commodity prices during the winter heating season. The increase in delivered volumes was driven by the much colder winter heating season than the prior year, evidenced by the 25% increase

in heating degree days. The total heating degree days for 2013 approximated the 30-year average. Transportation and interruptible volumes, which are primarily driven by production activities rather than weather, declined by 2%. Other revenues increased by 3% due to the completion of a one-time project more than offsetting declines in the level of certain other contract services from last year.

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The table below reflects gross margin.

Gross Margin

Year Ended September 30,	2013	2012	Increase/ (Decrease)	Percentage
Gas Utility	**$ 27,108,112**	$ 26,379,767	$ 728,345	3%
Other	**494,779**	553,330	(58,551)	-11%
Total Gross Margin	**$ 27,602,891**	$ 26,933,097	$ 669,794	2%

Regulated natural gas margins from utility operations increased by 3% from the same period last year primarily as a result of significantly higher residential and commercial sales volumes, the implementation of a non-gas rate increase and the addition of the SAVE Plan rider. Residential and commercial volumes (which are strongly correlated to the weather) increased due to the much colder winter season. The higher margins generated by the increased residential and commercial volume was mostly offset by the $1,747,000 in WNA revenues recorded last year. The Company also implemented a non-gas rate increase effective November 1, 2012 and a SAVE Plan Rider beginning January 1, 2013. The non-gas rate increase was designed to provide approximately $650,000 in additional non-gas revenues annually. The implementation of the new rates in November accounted for approximately $254,000 of the $280,000 increase in customer base charges, a flat monthly fee billed to each natural gas customer, and $328,000 of the $2,344,000 additional volumetric revenue. The SAVE Plan Rider, as discussed in more detail under Regulatory Affairs below, provided an additional $169,000 in margin. Carrying cost revenues continued to decline with a $299,000 reduction due to lower average price of gas in storage during the current fiscal year as discussed above.

Other margins, consisting of non-utility related services, decreased by $58,551 due to a reduction in the services requested. Some of these non-utility services are subject to annual or semi-annual contract renewals and the level of activity under these contracts will fluctuate. If the Company is unable to continue renewing or extending the largest contracts, or if activity under these contracts continues to decline, margins from other revenues would be negatively impacted. The Company intends to continue to pursue these contracts where profitable; however, future continuation of some of these contracted services is uncertain.

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

Net Utility Margin Increase

Customer Base Charge	$ 279,872
Volumetric	2,343,618
SAVE Plan	168,747
WNA	(1,747,150)
Carrying Cost	(299,029)
Other	(17,713)
Total	$ 728,345

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Operations and Maintenance Expense Operations and maintenance expenses increased by $305,906, or 2%, in fiscal 2013 compared with fiscal 2012 primarily due to higher labor costs, contracted services, bad debt expense, corporate insurance expense and stock option expense more than offsetting greater capitalization of Company overheads on construction projects and LNG (liquefied natural gas) production. Labor costs and contracted services increased by $453,000 primarily due to an increase in operations staffing, timing of leak surveys and pipeline right-of-way clearing, costs related to an SCC mandated meter installation inspection and remediation program, and network services support and training. Bad debt expense increased by approximately $74,000. Total bad debt expense was 0.13% of gross natural gas billings for the year and is consistent with the five-year average. Last year s bad debt expense ratio was only 0.02%. This unusually low rate was due to much warmer weather and low gas prices, resulting in the lowest bad debt write-off in over twenty-five years. Corporate property and liability insurance increased by $126,000 due to a combination of higher premiums and increased general liability coverage limits. A similar increase in premiums is expected in fiscal 2014. The Company also recognized $85,000 in expense related to the granting of stock options. These were the first option grants since 2002. These higher costs were partially offset by greater capitalization of overheads due to a higher level of pipeline construction expenditures and increased LNG production. The Company continued to increase activity under its pipeline renewal program, with

total capital expenditures rising by more than $1.3 million over last year, resulting in a greater capitalization of overheads.

General Taxes General taxes increased $114,066, or 8%, primarily due to higher property taxes associated with increases in utility property.

Depreciation Depreciation expense increased by $241,302, or 6%, corresponding to the increase in utility plant investment.

Other Income (Expense) Other expense, net, increased by $40,161 primarily due to the reduction in interest income related to the payoff of the ANGD note.

Interest Expense Total interest expense remained virtually unchanged from last year as the Company only briefly accessed its line-of-credit during fiscal 2013.

Income Taxes Income tax expense was nearly unchanged on slightly less pre-tax earnings. The effective tax rate for fiscal 2013 was 38.3% compared to 38.0% for 2012.

Net Income and Dividends Net income for fiscal 2013 was $4,262,052 compared to $4,296,745 for fiscal 2012. Basic and diluted earnings per share were $0.91 in fiscal 2013 compared to $0.92 in fiscal 2012. Dividends declared per share of common stock were $1.72, which includes the one-time special dividend of $1.00 paid in December, in fiscal 2013 and $0.70 in fiscal 2012.

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Fiscal Year 2012 Compared with Fiscal Year 2011

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

Operating Revenues

Year Ended September 30,	2012	2011	(Decrease)	Percentage
Gas Utilities	$ 57,657,940	$ 69,483,620	$ (11,825,680)	-17%
Other	1,141,747	1,315,251	(173,504)	-13%
Total Operating Revenues	$ 58,799,687	$ 70,798,871	$ (11,999,184)	-17%

Delivered Volumes

Year Ended September 30,	2012	2011	Increase/ (Decrease)	Percentage
Regulated Natural Gas (DTH)				
Residential and Commercial	5,335,836	6,582,487	(1,246,651)	-19%
Transportation and Interruptible	2,981,660	2,962,111	19,549	1%
Total Delivered Volumes	8,317,496	9,544,598	(1,227,102)	-13%