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RGC RESOURCES INC
Form U-3A-2
February 26, 2004

RGC RESOURCES, INC.
FILE NO.

FORM U-3A-2

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

STATEMENT BY HOLDING COMPANY CLAIMING EXEMPTION
UNDER RULE U-3A-2 FROM THE PROVISIONS OF THE
PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

RGC Resources, Inc. hereby files with the Securities and Exchange Commission (the Commission), pursuant to Rule 2, its statement claiming exemption as a holding company from the provisions of the Public Utility Holding Company Act of 1935 (the "Act"), and submits the following information:

1. The Claimant RGC Resources, Inc., a Virginia corporation, is a holding company which directly or indirectly holds interests in the following subsidiaries, each of which is organized under the laws of the Commonwealth of Virginia or the State of West Virginia:

- a. Roanoke Gas Company, a public service corporation organized under the laws of the Commonwealth of Virginia;
- b. Diversified Energy Company, a Virginia corporation, d/b/a Highland Propane Company and d/b/a Highland Energy;
- c. Bluefield Gas Company, a public service corporation organized under the laws of the State of West Virginia;
- d. RGC Ventures of Virginia, Inc., a Virginia corporation, d/b/a Application Resources, Inc.

The business address of the Claimant and each of its subsidiaries is:

RGC Resources, Inc.
519 Kimball Avenue, N.E.
Roanoke, VA 24016

Roanoke Gas Company
Diversified Energy Company
RGC Ventures of Virginia, Inc.
519 Kimball Avenue, N.E.
Roanoke, VA 24016

Bluefield Gas Company
4699 East Cumberland Road
Bluefield, WV 24701

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Roanoke Gas Company ("Roanoke Gas") is a public service corporation organized and existing in good standing under the laws of the Commonwealth of Virginia. Roanoke Gas distributes natural gas to some 55,088 residential, commercial and industrial customers located in the City of Roanoke and environs and Bluefield, Virginia pursuant to certificates of convenience and necessity at rates and charges issued and prescribed by the State Corporation Commission of Virginia ("Virginia Commission"). Diversified Energy Company, a Virginia corporation, operates as Highland Propane Company ("Highland Propane"), and Highland Energy. Highland Propane, which is not a public utility, is operated under two (2) divisions, Highland Propane-Virginia and Highland Propane-West Virginia. Highland Propane-Virginia is engaged in the business of selling liquefied petroleum gas (propane) in bulk to residential, commercial and industrial customers in and around Roanoke, Virginia and Western Virginia. Roanoke Gas provides managerial and other direct labor, goods and services to Highland Propane-Virginia under agreement approved by the Virginia Commission. Highland Propane is not otherwise subject to the regulatory jurisdiction of the Virginia Commission. Highland Propane-West Virginia is engaged in the business of selling liquefied petroleum gas (propane) in bulk to residential, commercial and industrial customers in Southern West Virginia and has offices in Bluefield and Rainelle, West Virginia. Highland Energy is a purchasing and marketing entity that buys fuels on the spot and short-term market and resells to certain transportation customers of Roanoke Gas Company and Bluefield Gas Company.

Bluefield Gas Company ("Bluefield Gas"), a West Virginia public service corporation, is regulated as to rates and service by the Public Service Commission of West Virginia ("West Virginia Commission"). Bluefield Gas provides natural gas service to some 4,249 residential, commercial and industrial customers located in and around Bluefield, West Virginia.

RGC Ventures of Virginia, Inc., a Virginia corporation, operates as Application Resources, Inc. Application Resources, Inc. provides information technology consulting services specific to the utility industry.

2. Roanoke Gas and Bluefield Gas are each served by two interstate pipelines. Roanoke Gas is served by Columbia Gas Transmission Corporation and Columbia Gulf Transmission Corporation (together "Columbia"), and East Tennessee Natural Gas Company, Tennessee Gas Pipeline and Midwestern Gas Transmission (together "East Tennessee"). Bluefield Gas is served by Columbia and Bluefield Pipeline, LLC. Columbia historically has delivered approximately 60 percent of Roanoke Gas' gas supply and 75 percent of Bluefield Gas' gas supply. East Tennessee and Bluefield Pipeline, LLC deliver the remaining gas supply to Roanoke Gas and Bluefield Gas, respectively. The rates paid for natural gas transportation and storage services purchased from Columbia and East Tennessee are established by tariffs approved by FERC. These tariffs contain flexible pricing provisions, which, in some instances, authorize these transporters to reduce rates and charges to meet price competition.

Both Roanoke Gas and Bluefield Gas currently use long-term (multi-year), mid-term (seasonal) and short-term (spot) gas purchases to meet its system requirements. As of December 31, 2003, both companies had entered into, or were in the process of entering into, long-term and mid-term firm supply agreements to cover the majority of its firm demand. Long-term and mid-term suppliers currently include Cabot Oil and Gas, Duke Energy Trading and Marketing, LLC, Equitable Energy, and Phoenix Energy Sales Company.

Roanoke Gas receives its gas supply from Columbia at two city gate stations. Each station is connected by a thirty-three mile transmission line to Columbia's system at Gala, Virginia. Roanoke Gas receives its gas supply from East Tennessee at five city gate stations located on East Tennessee's transmission line. The city gate stations are located on the perimeter of a

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network of distribution mains located in the Cities of Roanoke and Salem, the Towns of Vinton, Fincastle and Troutville, and the Counties of Bedford, Botetourt, Montgomery and Roanoke, Virginia. Also, located on the transmission line in Botetourt County, Virginia is a liquefied natural gas storage facility which has the capacity to hold 200 million cubic feet of natural gas.

Bluefield Gas owns a transmission line extending from Princeton, West Virginia to Bluefield, West Virginia, and a distribution system within the City of Bluefield, West Virginia and the immediate surrounding area of Mercer County, West Virginia. Bluefield Gas also owns a two mile distribution line that connects its distribution system to facilities owned by Bluefield Pipeline, LLC. A portion of the gas transported by Bluefield

Gas is sold at the West Virginia-Virginia State line to Roanoke Gas for resale to its customers through a distribution network in Bluefield, Virginia and the immediate surrounding area of Tazewell County, Virginia.

Highland Propane-West Virginia's principal bulk storage facility, located at its Bluefield, West Virginia facility, is comprised of two 30,000-gallon storage tanks and one 18,000-gallon storage tank. Three 18,000-gallon storage tanks are located at its Rainelle, West Virginia facility, one 30,000-gallon tank is located at Ansted, WV, one 30,000-gallon tank is located near Beckley, WV, and one 30,000-gallon tank is located at Dunmore, WV.

Highland Propane-Virginia owns and operates twelve storage facilities. A facility at Thirlane Road, N.W. in Roanoke, Virginia consists of two 30,000-gallon tanks. A second facility at Fort Chiswell, Virginia consists of two 30,000-gallon tanks. The third facility is located on the property of Consolidated Glass in Galax, Virginia and consists of one 30,000-gallon tank. The fourth facility is located in Craig County, near the town of New Castle, Virginia and consists of one 30,000-gallon tank. The fifth facility, located near the intersection of Routes 221 and 679 in Floyd County, consists of one 30,000-gallon tank. The sixth facility is located on the property of Virginia Forging in Botetourt County, near the Town of Buchanan, Virginia, and consists of one 30,000-gallon tank. The seventh facility is located on the property of Golden West Foods in Bedford, Virginia and consists of one 30,000-gallon tank. The eighth facility is located in the City of Buena Vista, Virginia and consists of two 30,000-gallon tanks. The ninth facility is located in Allegheny County near the Town of Low Moor and consists of one 30,000-gallon tank. The tenth facility is located at Weyers Cave in Augusta County, Virginia and consists of one 30,000-gallon tank. The eleventh facility is located in Nelson County near the town of Lovingston, Virginia and consists of one 30,000-gallon tank. The twelfth facility is located in the town of Rocky Mount and consists of one 30,000-gallon tank.

3. The following information for the last calendar year with respect to Roanoke Gas and Bluefield Gas is submitted:

- (a) Roanoke Gas distributed at retail 8,052,916 DTH of gas during the calendar year 2003 for total revenues of \$69,328,519. Bluefield Gas distributed at retail 875,662 DTH of gas in the State of West Virginia during the calendar year 2003 for total revenues of \$7,253,971.
- (b) Neither Roanoke Gas nor Bluefield Gas distributed at retail natural gas outside the state of its incorporation.
- (c) Roanoke Gas did not sell at wholesale natural gas outside the

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Commonwealth of Virginia. Bluefield Gas sold 278,864 DTH of natural gas at wholesale to Roanoke Gas at the Virginia- West Virginia line for \$1,691,963.

- (d) Roanoke Gas purchased 8,274,860 DTH of natural gas outside the Commonwealth of Virginia during the calendar year 2003 for \$52,344,120. All such gas was transported to Roanoke Gas for resale as system supply by Columbia Gas Transmission Corporation, East Tennessee Natural Gas Company, and Bluefield Gas. Bluefield Gas purchased 1,199,798 DTH of natural gas for \$7,139,776 outside the State of West Virginia. All such gas was transported to Bluefield Gas for resale as system supply by Columbia Gas Transmission Corporation and Bluefield Pipeline, LLC. Roanoke Gas transported 2,961,831 DTH of natural gas to its end-users for \$1,781,424 in total transportation fees. Bluefield Gas transported 24,759 DTH of natural gas to its end-users for \$19,628 in transportation fees. Highland Energy purchased and delivered 2,458,338 DTH of natural gas to Roanoke Gas Company and Bluefield Gas Company for delivery to certain end-users for \$14,867,988.

4. (a)-(e) Not applicable. The Company holds no interest, directly or indirectly in an exempt wholesale generator (EWG) or foreign utility company.

A consolidating statement of income and a consolidating balance sheet of RGC Resources, Inc. and its subsidiaries for the 2003 calendar year is attached as Exhibit A and Exhibit A(1).

The above-named claimant has caused this statement to be duly executed on its behalf by its authorized officer on this 26th day of February, 2004.

RGC RESOURCES, INC.

By: s/John B. Williamson, III
Its President

(SEAL)
ATTEST:

s/ Howard T. Lyon
Howard T. Lyon,
Vice-President, Treasurer & Controller

Notices and correspondence regarding this statement should be addressed to:

Howard T. Lyon
Vice-President, Treasurer & Controller
RGC Resources, Inc.
Post Office Box 13007
Roanoke, VA 24030

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RGC RESOURCES, INC. AND SUBSIDIARIES
 CONSOLIDATING INCOME STATEMENT
 TWELVE MONTHS ENDED DECEMBER 31, 2003
 (UNAUDITED)

| | RGC Resources | Roanoke Gas Company | Bluefield Gas Company | Highland Propane Company | Highland Energy |
|--------------------------------|------------------|------------------------|-----------------------------|--------------------------------|--------------------|
| <hr/> | | | | | |
| Operating Revenues: | | | | | |
| Gas utilities | | \$72,179,244 | \$8,990,551 | | |
| Propane operations | | | | 15,128,854 | |
| Energy marketing | | | | | 14,867,000 |
| Other | | 392,368 | 17,050 | 325,415 | |
| Total operating revenues | 0 | 72,571,612 | 9,007,601 | 15,454,269 | 14,867,000 |
| <hr/> | | | | | |
| Cost of Sales: | | | | | |
| Gas utilities | | 52,136,661 | 7,139,776 | | |
| Propane operations | | | | 7,798,867 | |
| Energy marketing | | | | | 14,599,000 |
| Other | | 191,828 | 10,285 | 197,299 | |
| Total cost of sales | 0 | 52,328,489 | 7,150,061 | 7,996,166 | 14,599,000 |
| <hr/> | | | | | |
| Operating Margin | 0 | 20,243,123 | 1,857,540 | 7,458,103 | 268,000 |
| <hr/> | | | | | |
| Other Operating Expenses: | | | | | |
| Operations | 301 | 8,400,488 | 964,580 | 3,749,725 | 44,000 |
| Maintenance | | 1,418,862 | 114,040 | 131,001 | |
| General taxes | (249) | 994,991 | 391,665 | 297,194 | 1,000 |
| Depreciation and amortization | | 3,515,736 | 235,519 | 1,479,071 | |
| Total other operating expenses | 52 | 14,330,077 | 1,705,804 | 5,656,991 | 46,000 |
| <hr/> | | | | | |
| Operating Income | (52) | 5,913,046 | 151,736 | 1,801,112 | 222,000 |
| Other Expenses, net | (1,995,000) | 111,026 | 1,012 | 71,289 | |
| Interest Expense | 9 | 1,836,834 | 134,298 | 191,591 | |
| <hr/> | | | | | |
| Income Before Income Taxes | 1,994,939 | 3,965,186 | 16,426 | 1,538,232 | 222,000 |
| Income Tax Expense | | 1,466,957 | 7,313 | 601,929 | 84,000 |
| <hr/> | | | | | |
| Net Income | \$1,994,939 | \$2,498,229 | \$9,113 | \$936,303 | \$138,000 |
| <hr/> | | | | | |

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| | Highland Heating & Cooling | Application Resources | Eliminations | Exhibit A Consolidated Total |
|--------------------------------|-------------------------------|--------------------------|---------------|------------------------------------|
| Operating Revenues: | | | | |
| Gas utilities | | | (\$1,709,237) | \$79,460,55 |
| Propane operations | | | | 15,128,85 |
| Energy marketing | | | | 14,867,98 |
| Other | 8,350 | 5,621 | | 748,80 |
| Total operating revenues | 8,350 | 5,621 | (1,709,237) | 110,206,20 |
| Cost of Sales: | | | | |
| Gas utilities | | | (1,679,781) | 57,596,65 |
| Propane operations | | | | 7,798,86 |
| Energy marketing | | | | 14,599,45 |
| Other | (11,794) | 7,122 | | 394,74 |
| Total cost of sales | (11,794) | 7,122 | (1,679,781) | 80,389,71 |
| Operating Margin | 20,144 | (1,501) | (29,456) | 29,816,49 |
| Other Operating Expenses: | | | | |
| Operations | (4,250) | 11,153 | (29,456) | 13,136,80 |
| Maintenance | 517 | | | 1,664,42 |
| General taxes | | 409 | | 1,685,82 |
| Depreciation and amortization | 2,203 | | 443 | 5,232,97 |
| Total other operating expenses | (1,530) | 11,562 | (29,013) | 21,720,02 |
| Operating Income | 21,674 | (13,063) | (443) | 8,096,46 |
| Other Expenses, net | | | 1,995,000 | 183,32 |
| Interest Expense | | | | 2,162,73 |
| Income Before Income Taxes | 21,674 | (13,063) | (1,995,443) | 5,750,40 |
| Income Tax Expense | 8,659 | (5,033) | | 2,160,74 |
| Net Income | \$13,015 | (\$8,030) | (\$1,995,443) | \$3,589,65 |

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RGC RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2003
(UNAUDITED)

| ASSETS | RGC Resources | Roanoke Gas Company | Bluefield Gas Company | Highland Propa Compa |
|---|---------------------|---------------------------|-----------------------------|----------------------------|
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 639,739 | \$ 166,206 | \$ 38,379 | \$ 5 |
| Accounts Receivable | | 11,631,120 | 1,350,339 | 1,8 |
| Intercompany Accounts Receivable | 300,151 | 194,802 | (55,707) | (1,5 |
| Inventories | | 2,146,214 | 231,155 | 3 |
| Prepaid gas service | | 9,694,212 | 1,301,588 | |
| Prepaid income taxes | | | | |
| Deferred income taxes | | | | |
| Under-recovery of gas costs | | | 885,963 | |
| Unrealized gains on marked-to-market transactions | | | | |
| Other | 44,001 | 656,118 | 70,232 | 2 |
| Total current assets | 983,891 | 24,488,672 | 3,821,949 | 1,3 |
| Property, Plant And Equipment: | | | | |
| Utility plant in service | | 89,319,777 | 7,715,738 | |
| Accumulated depreciation and amortization | | (36,794,020) | (2,700,799) | |
| Utility plant in service, net | - | 52,525,757 | 5,014,939 | |
| Construction work in progress | | 2,080,966 | 395,634 | |
| Utility Plant, Net | - | 54,606,723 | 5,410,573 | |
| Nonutility property | | | | 21,0 |
| Accumulated depreciation and amortization | | | | (9,0 |
| Nonutility property, net | - | - | - | 12,0 |
| Total property, plant and equipment | - | 54,606,723 | 5,410,573 | 12,0 |
| Investment in Subsidiaries | 28,078,079 | | | |
| Other Assets: | | | | |
| Goodwill | | | | 2 |
| Other assets | 43,816 | 488,241 | 238,619 | |
| Total other assets | 43,816 | 488,241 | 238,619 | 3 |
| Total Assets | \$29,105,786 | \$79,583,636 | \$9,471,141 | \$13,6 |

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RGC RESOURCES, INC. AND SUBSIDIARIES
 CONSOLIDATING BALANCE SHEET
 DECEMBER 31, 2003
 (UNAUDITED)

| ASSETS | Highland Heating & Cooling | Application Resources | Elimi |
|---|-------------------------------|--------------------------|-------|
| <hr/> | | | |
| Current Assets: | | | |
| Cash and cash equivalents | | | |
| Accounts Receivable | | | |
| Intercompany Accounts Receivable | (646,574) | (103,964) | |
| Inventories | | | |
| Prepaid gas service | | | |
| Prepaid income taxes | | | |
| Deferred income taxes | | | |
| Under-recovery of gas costs | | | |
| Unrealized gains on marked-to-market transactions | | | |
| Other | 50 | | |
| | <hr/> | | |
| Total current assets | (646,524) | (103,964) | |
| | <hr/> | | |
| Property, Plant And Equipment: | | | |
| Utility plant in service | | | |
| Accumulated depreciation and amortization | - | - | |
| | <hr/> | | |
| Utility plant in service, net | - | - | |
| Construction work in progress | | | |
| | <hr/> | | |
| Utility Plant, Net | - | - | |
| | <hr/> | | |
| Nonutility property | | 128 | |
| Accumulated depreciation and amortization | | | |
| | <hr/> | | |
| Nonutility property, net | - | 128 | |
| | <hr/> | | |
| Total property, plant and equipment | - | 128 | |
| | <hr/> | | |
| Investment in Subsidiaries | | | |
| | <hr/> | | |
| Other Assets: | | | |
| Goodwill | | | |
| Other assets | - | - | |
| | <hr/> | | |

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| | | | |
|--------------------|-------------|-------------|---|
| Total other assets | - | - | |
| Total Assets | (\$646,524) | (\$103,836) | (|

RGC RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2003

| LIABILITIES AND STOCKHOLDERS' EQUITY | RGC Resources | Roanoke Gas Company | Bluefield Gas Company | High Prop Comp |
|--|------------------|---------------------------|-----------------------------|----------------------|
| Current Liabilities: | | | | |
| Current maturities of long-term debt | | \$32,959 | | |
| Borrowings under lines of credit | | 14,955,000 | 4,125,000 | |
| Dividends payable | 574,562 | - | | |
| Accounts payable | 145,531 | 5,604,722 | 571,351 | |
| Income taxes payable | (786,422) | 1,734,458 | (442,715) | |
| Customer deposits | | 570,572 | 49,306 | |
| Accrued expenses | 486,472 | 2,701,490 | 353,314 | |
| Refunds from suppliers - due customers | | 44,776 | | |
| Overrecovery of gas costs | | 2,169,124 | | |
| Unrealized losses on marked to market transactions | | | | |
| Total current liabilities | 420,143 | 27,813,101 | 4,656,256 | 1, |
| Long-term Debt, Excluding Current Maturities | | 24,011,523 | 2,000,000 | 4, |
| Deferred Credits: | | | | |
| Deferred income taxes | (165,286) | 1,899,137 | 699,649 | 1, |
| Deferred investment tax credits | | 249,257 | 8,789 | |
| Total deferred credits | (165,286) | 2,148,394 | 708,438 | 1, |
| STOCKHOLDERS' EQUITY: | | | | |
| Common Stock | 10,072,880 | 8,603,965 | 49,704 | |
| Preferred Stock | | | | |
| Capital in excess of par value | 12,179,869 | 7,578,754 | 220,564 | 1, |
| Retained earnings | 6,598,180 | 9,427,899 | 1,836,179 | 5, |
| Accumulated comprehensive loss | | | | |
| Total stockholders' equity | 28,850,929 | 25,610,618 | 2,106,447 | 6, |
| Total Liabilities and Stockholders' Equity | \$29,105,786 | \$79,583,636 | \$9,471,141 | \$13, |

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RGC RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2003

| LIABILITIES AND STOCKHOLDERS' EQUITY | Highland Heating & Cooling | Application Resources | E |
|--|-------------------------------|--------------------------|---|
| ----- | | | |
| Current Liabilities: | | | |
| Current maturities of long-term debt | | | |
| Borrowings under lines of credit | | | |
| Dividends payable | | | |
| Accounts payable | (1,906) | | |
| Income taxes payable | (13,771) | (9,143) | |
| Customer deposits | 750 | | |
| Accrued expenses | | | |
| Refunds from suppliers - due customers | | | |
| Overrecovery of gas costs | | | |
| Unrealized losses on marked to market transactions | | | |
| | ----- | | |
| Total current liabilities | (14,927) | (9,143) | |
| Long-term Debt, Excluding Current Maturities | | | |
| Deferred Credits: | | | |
| Deferred income taxes | (73,981) | | |
| Deferred investment tax credits | | | |
| | ----- | | |
| Total deferred credits | (73,981) | - | |
| STOCKHOLDERS' EQUITY: | | | |
| Common Stock | | | |
| Preferred Stock | | | |
| Capital in excess of par value | 903,225 | | |
| Retained earnings | (1,460,841) | (94,693) | |
| Accumulated comprehensive loss | | | |
| | ----- | | |
| Total stockholders' equity | (557,616) | (94,693) | |
| Total Liabilities and Stockholders' Equity | \$ (646,524) | \$ (103,836) | |
| | ===== | | |

EXHIBIT B

Not Applicable.

