

2018 ANNUAL REPORT



PRESIDENT AND CHAIRMAN'S MESSAGE



James T. Sprouse, Jr.
James T. Sprouse, Jr.
PRESIDENT & CEO
York County Natural Gas Authority

Fiscal Year 2018 proved to be one of the most successful years in the history of the Authority. An updated mission statement was developed during the year as part of our strategic planning sessions. These meetings, which included input from employees and the Board of Directors, concluded with the formation of five specific focus areas: Safety, Workforce Development, Financial Stability, Growth and Customer Service.

Several new initiatives were implemented in response to the Authority's strategic plan. Under our "Safety" goal, creation of Personal Protective Equipment and Hearing Conservation programs were introduced during the fiscal year. Expanded participation in emergency exercises, such as the Patriots Energy Group full scale mock emergency drill, was instituted. The Authority also established the month of March as "Safety and Wellness Month", with numerous activities focused on a safe and healthy work environment.

"Workforce Development" efforts included an updated salary study, revised employee evaluations, new retirement plan education sessions and South Carolina PEBA insurance plan enrollment. The "Growth" goal established the use of developer agreements and implementation of a project payback calculator. "Customer Service" initiatives focused on providing a premier experience for our customers, both externally and internally. In addition to a new and responsive website, a mobile phone app for customers was released during the fiscal year.

The Authority concluded its 60th Anniversary Celebration during Fiscal 2018 in conjunction with Public Natural Gas Week. Events included an Employee Appreciation Day, Tankless Water Heater "Lunch & Learn", Red Cross Blood Drive, a Business After Hours "Blue Tie Bash" and a Customer Appreciation BBQ Lunch. The lunch event, with attendance estimated at 675, featured a classic car show and congressional recognition by United States Congressman Ralph Norman. Following the conclusion of the Authority's 60th Anniversary, a new logo was introduced for 2018. Our marketing campaign related to this significant milestone received national recognition. The American Public Gas Association, with over 720 public natural gas systems across the United States, awarded the Authority first place for our program entitled "Celebrating 60 Years and the Energy Natural Gas Brings to the Community".

The winter of 2017-18 introduced multiple volumetric throughput records for the Authority. Eight of the top ten all-time peak day records were set in January of 2018. January also set the mark of 1,496,620 dekatherms (dts) for the highest monthly total, eclipsing the previous record by 9.8% set in January of 2014. The total annual throughput of 7,716,898 dts is second highest all-time, slightly trailing the fiscal 2014 record of 7,773,682 dts. This record usage did come with challenges. Extended operational flow orders issued by major transmission pipelines, volatile daily pricing and limited supply peaking options hampered efforts to ensure we met the demands of our customers.

Weather is one of the most important factors impacting the Authority's financial results. We have experienced volatile swings over the past ten years, with four years being substantially warmer than normal. Four years have been colder than normal, while two years have been equivalent to normal.

Heating Degree Days (HDD's) is a benchmark used in the gas industry to measure the impact of winter temperatures. Fiscal year 2018 experienced 3,093 HDD's, which was approximately 32.3% colder than the previous year, yet only 1.3% colder than normal. Predictions for the upcoming winter in the Southeast are varied, with most analysts forecasting a slightly colder and wetter than normal winter. The Authority has

taken some steps to mitigate severe, unforeseen spikes in the cost of the gas for the upcoming winter. Regardless of the steps taken, we will always be subject to the uncertainties of the weather and the commodity market.

During Fiscal 2018, the Authority billed a monthly average of 65,487 customers, or 1,612 more than the average in Fiscal Year 2017. The cold weather experienced during the fiscal year provided a positive impact on unit sales. Total sales of natural gas increased by 769,269 dekatherms (11.3%) from the prior year. Unit sales to residential customers increased 27.9% and sales to industrial rate customers experienced a 4.1% decrease from Fiscal 2017.

In accordance with our "Financial Stability" goal, the Authority experienced a successful year financially with net income of \$15,819,804, of which \$4.6 million was from a non-operating item related to changes in the Authority's post-retirement benefit plan and related obligation. With net operating income of \$10.3 million for Fiscal 2018, the Authority had a



M. Brian Hall, III
M. Brian Hall, III
CHAIRMAN
Town of Clover

**FISCAL YEAR 2018 PROVED
TO BE ONE OF THE MOST
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HISTORY OF THE AUTHORITY.**

return on capital employed (ROCE) of 5.4%. During the fiscal year, \$9,288,095 was invested in natural gas infrastructure, equipment and vehicles. With no taxing authority, all system growth and expansion must be funded through the gas system earnings, debt, or a combination of these.

The Authority successfully continued in its role as operator of Patriots Energy Group (PEG) during the fiscal year. PEG, a South Carolina Joint Action Agency (JAA), supplies energy solutions to the natural gas authorities of York, Chester and Lancaster counties. This partnership led to the creation of Patriots Energy Group Financing Agency (PEGFA), a separate South Carolina JAA consisting of the same three Authorities. PEGFA was introduced in an effort to secure a prepaid gas supply deal for the three Authorities. On August 16, 2018, PEGFA closed on an \$832,350,000 Gas Supply Revenue Bond, which provided a discount of \$0.456/dt on the gas volumes purchased through this gas supply prepayment contract. Savings generated from this type of transaction are a vital component used to reduce gas supply costs to the customers of York County Natural Gas Authority. The first year savings to the Authority total \$1,405,440, with a projected thirty year savings in excess of \$60,000,000.

Operationally, the Authority once again experienced a productive year. The completion of the Newport Lateral will provide a significant benefit to the fast growing areas of northern York County. In addition to a number of subdivision projects, the Authority completed a significant bridge relocation project on Gordon Road, an infrastructure renewal project on Finley Court and a major station replacement near the Pharr Yarns industrial site. A major renewal project was initiated in the Town of Blacksburg. Over the next few years, the Authority plans to replace most of the distribution system in the Blacksburg area. In addition to the distribution projects, nearly 2,000 new services were installed during the fiscal year. As we prepare for fiscal 2019, road and bridge projects continue to be a driver for infrastructure relocation.

While natural gas supply has benefited tremendously from the shale gas revolution, pipeline capacity issues continue to impact the delivered cost of natural gas. New pipeline projects face larger environmental and governmental hurdles, which lead to costly delays in the effort to create greater capacity. As part of Patriots Energy Group, the Authority is currently participating in an engineering study to help define its growth and determine capacity needs over the next fifteen years.

In closing, we would like to recognize the Authority's Board of Directors for their continued support of the Authority during Fiscal 2018. We are also extremely proud and appreciative of our employees for their tireless efforts in providing safe, reliable and affordable energy solutions for the benefit of our customers.

2018 BOARD OF DIRECTORS



Charles E. Alvis
VICE CHAIRMAN
City of Rock Hill



Ellen M. Weir
TREASURER
City of Tega Cay



David T. Bowman
SECRETARY
Town of Fort Mill



Amy B. Faulkenberry
City of Rock Hill



G. Stevens Moore, Jr.
City of Rock Hill



Elizabeth S. Owen
City of York



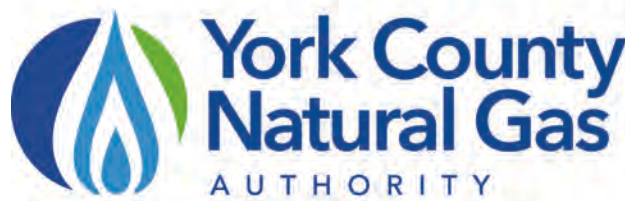
Albert J. Hanlon
York County



Michael S. Drummond
York County

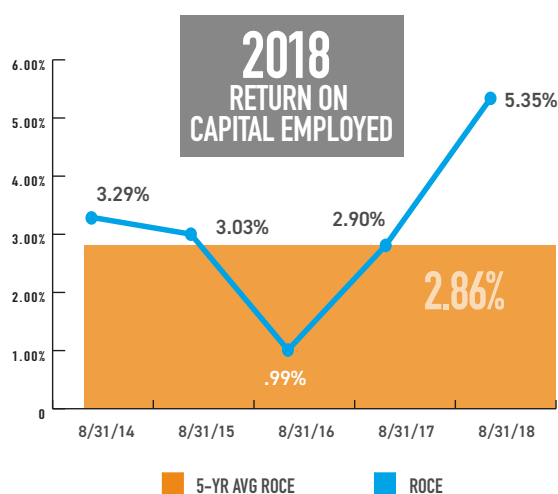
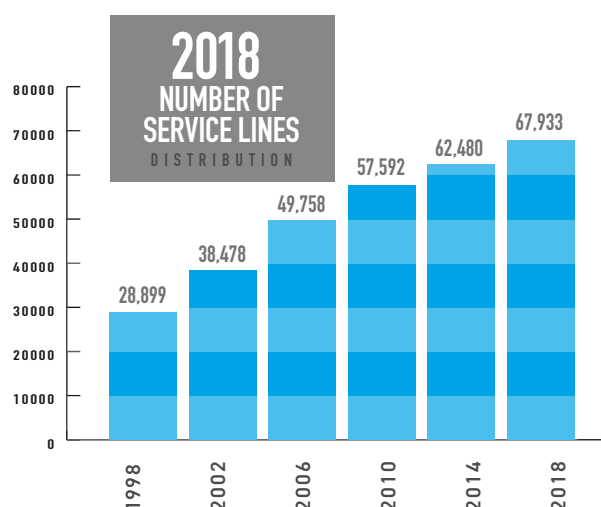
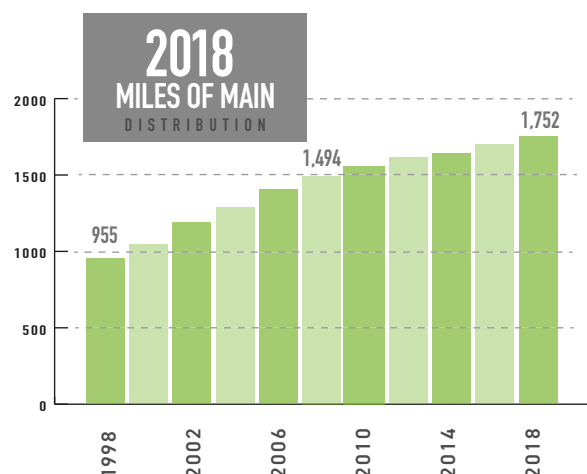


William J. Hagner
York County





FINANCIAL



STATEMENT OF NET POSITION

FOR THE YEAR ENDED AUGUST 31

ASSETS

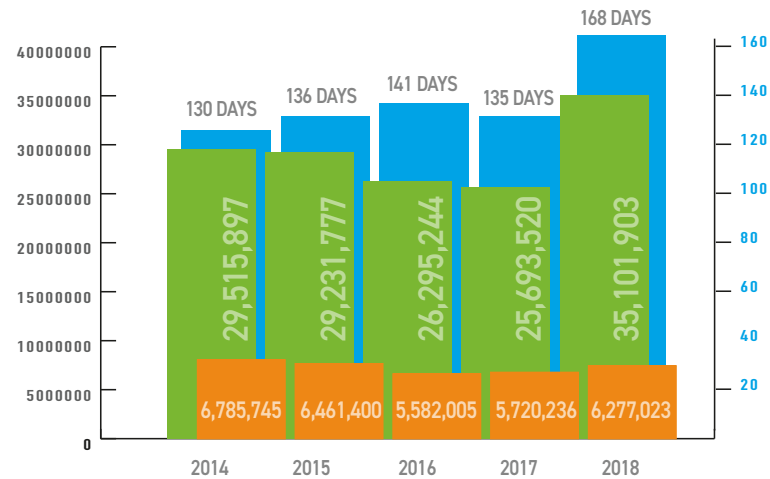
AS OF AUGUST 31

	2018	2017
Utility Plant		
Gas Plant in Service	\$ 242,812,581	\$ 235,890,327
Accumulated Depreciation	(90,996,274)	(84,826,722)
	<u>151,816,307</u>	<u>151,063,605</u>
Other Property and Investments		
Restricted Funds	1,035,406	1,785,736
Prepaid Pension Costs	1,654,632	1,615,091
Other	897,100	1,028,592
	<u>3,587,138</u>	<u>4,429,419</u>
Current Assets		
Cash & Cash Equivalents	8,039,012	8,500,772
Investments - Operating & Maintenance	12,168,983	6,982,924
Investments - Renewal & Extension	8,405,343	3,989,743
Investments - Series 2017 Bond Proceeds	43,825	176,744
Investments - Customer Deposits	995,966	1,003,118
Investments - Capital Reserve Fund	5,448,774	5,040,219
Accounts Receivable (net)	2,226,371	2,336,756
Accrued Interest	10,572	9,578
Inventories	2,747,507	2,534,598
Prepaid Expenses	582,636	724,639
	<u>40,668,989</u>	<u>31,299,091</u>
Deferred Charges & Intangibles		
Intangibles (net)	828,377	860,255
Deferred Outflows		
Deferred Outflows Related to Pension	2,465,288	2,927,267
	<u>2,465,288</u>	<u>2,927,267</u>
TOTAL ASSETS	<u><u>\$ 199,366,099</u></u>	<u><u>\$ 190,579,637</u></u>
Liabilities and Net Assets		
Long-Term Liabilities		
Bonds Payable	\$ 10,005,790	\$ 11,668,474
Post Retirement Benefit Obligation	2,009,980	7,313,478
Deferred Compensation	1,654,632	1,615,091
	<u>13,670,402</u>	<u>20,597,043</u>
Current Liabilities		
Current Portion of Long-Term Debt	1,662,706	1,628,953
Accounts Payable	2,855,861	3,117,949
Accrued Expenses	484,045	523,579
Tenant Deposits	—	14,957
Deferred Compensation	250,000	250,000
Customer Deposits	2,018,180	1,915,239
	<u>7,270,792</u>	<u>7,450,677</u>
Deferred Inflows		
Deferred Inflows Related to Pension	353,103	279,919
Retained Earnings		
Invested in Capital Assets, Net of Related Debt	140,147,811	137,766,178
Restricted (Bond Proceeds for Capital Investment)	1,035,406	1,785,736
Unrestricted	36,888,585	22,700,084
	<u>178,071,802</u>	<u>162,251,998</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 199,366,099</u></u>	<u><u>\$ 190,579,637</u></u>



2018 CASH & LIQUIDITY POSITIONS

- CASH ON HAND (\$)
- CASH NEED (AVG MONTHLY \$)
- LIQUIDITY (DAYS ON HAND)

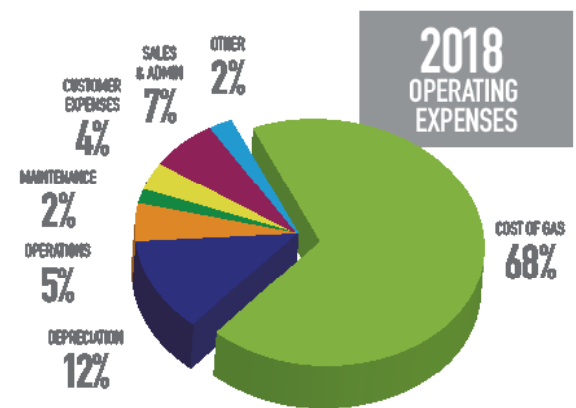
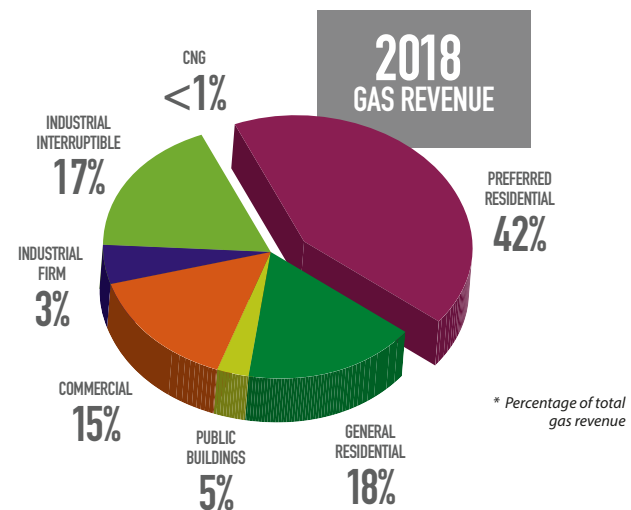


CASH NEED IS THE MONTHLY AMOUNT REQUIRED CALCULATED AS THE AVERAGE MONTHLY OPERATING COSTS, INCLUDING COST OF GAS, FOR THE WINTER MONTHS OF NOVEMBER THROUGH MARCH.

STATEMENT OF REVENUE & EXPENSES

FOR THE YEAR ENDED AUGUST 31

	2018	2017
OPERATING REVENUE	\$66,921,059	\$59,093,343
Operating Expenses		
Cost of Gas	38,263,973	35,427,195
Operations	2,721,475	2,513,747
Maintenance	1,002,398	1,007,337
Customer Expenses	2,066,118	2,008,259
Sales, General & Administration	4,178,488	4,702,308
Depreciation	6,696,683	6,469,879
Other	1,467,289	1,434,805
	<u>56,396,424</u>	<u>53,563,530</u>
Operating Income Before Interest Expense	10,524,635	5,529,813
Interest Expense	256,404	210,942
Operating Income	<u>10,268,231</u>	<u>5,318,871</u>
Non-Operating Income (Expense)		
Interest	195,644	159,021
Appliance Program	364,320	401,822
Other	329,711	438,755
Change in pension plan terms	4,661,898	-
	<u>5,551,573</u>	<u>999,598</u>
NET INCOME	<u><u>\$ 15,819,804</u></u>	<u><u>\$ 6,318,469</u></u>
Capital Improvements		
System Expansion	8,416,863	17,759,984
Vehicles	243,905	159,382
Furniture, Fixtures and Equipment	184,450	207,855
Land and Buildings	63,155	23,184
Construction in Progress - inc/(dec)	379,722	(3,565,730)
	<u><u>\$ 9,288,095</u></u>	<u><u>\$ 14,584,675</u></u>



2018 | STRATEGIC PLAN

The energy landscape is constantly changing, and evolving. New government regulations, changing workforce demographics, advancing technologies and economic uncertainties affect every business. The Authority's Strategic Plan, developed in 2018, puts these business challenges into perspective, paving the way for a coordinated effort to achieve our goals.

The strategic planning process provides for a better understanding of the Authority's mission, vision for the future, and key values that guide our actions and decisions. To begin, the leadership team evaluated and redefined the Authority's mission statement, focusing on key elements to set goals and strategies.



JANUARY

Board Feedback



FEBRUARY

Employee Feedback



MARCH

Management Workshop
Review of Feedback
Creation of Strategic Plan



APRIL

The Adaptive Organization:
Management Session

GROWTH

GOAL: MEET THE DEMANDS OF OUR GROWING AREA AND CUSTOMERS' NEEDS WHILE MAXIMIZING PARTNERSHIPS AND OPPORTUNITIES

STRATEGY 1 MEET THE DEMANDS OF OUR GROWING AREA BY FOCUSING ON FOUR KEY AREAS:

- Residential, Commercial, CMG, and Industrial markets
- Community Relations
- Economic Growth
- PEG Partnership Opportunities

STRATEGY 2 MEET THE DEMANDS OF OUR GROWING AREA BY IMPROVING IN FOUR KEY AREAS:

- Processes and Procedures
- Technology
- Infrastructure Needs
- Corporate Culture Shifts

GROWTH MILESTONES

1,991 Service lines installed

Service worked approximately
31,000 work orders

Construction completed
3,359 work orders



RECORD-BREAKING WINTER 2018

Energy Information Agency (EIA) reported an all-time record gas storage withdrawal of 359 Bcf for the week ending 1/5/18

- previous record of 288 Bcf set on 1/10/14

York established new peak day of 70,941 dts on 1/3/18

- previous record of 68,229 dts set on 2/19/15

January 2018 final throughput of 1,496,620 dts

- exceeded previous record of 1,362,548 dts set in January 2014
- 9.8% increase



MAY



JUNE-JULY



AUGUST



SEPT-DEC

The Adaptive Organization:
Employee Session & Presentation of
Strategic Plan to
Employees and Board

Developing Strategies

Goal Strategies defined

Strategy Meetings and
Implementation of Goals

CUSTOMER SERVICE

GOAL- PROVIDE A PREMIER CUSTOMER EXPERIENCE

STRATEGIES

FROM CUSTOMERS

Improve workflows; and increase value added services

INDUSTRIAL INTERRUPTIBLE CUSTOMERS

Provide value added services

INTERNAL CUSTOMERS (EMPLOYEES)

Focus on internal communication

PATIENTS ENERGY GROUP

Provide value added services



Mobile App
Introduced
June 2018

CUSTOMER SERVICE MILESTONES

65,000 customers as of Dec 2017

66,114 total customers at FY18 (Aug 2018)

Closed 9,888 applications

Answered 61,814 phone calls

Processed 727,208 payments

71% of payments made through IVR, Draft or Online Portal



Revived the
NewsLeak
Employee
Newsletter
September 2017

New
Customer
Brochure
May 2018

Our Vision

CAPITALIZE ON EVERY OPPORTUNITY TO BE THE
LEADER IN SAFETY AND CUSTOMER SATISFACTION BY
EMPOWERING OUR EMPLOYEES, DEVELOPING PARTNERSHIPS
WITHIN THE COMMUNITY AND UTILIZING TECHNOLOGY TO
FUEL THE GROWTH OF OUR INFRASTRUCTURE AND SERVICE AREA



SALES & INSTALLATION MILESTONES

Gross sales increased approximately 6% from FY16-17

Installed 1,835 natural gas appliances

Replaced boiler system in Winthrop dorm with two commercial Rinnai rack systems holding a total of 12 Sensei model tankless water heaters



the SHOWROOM
YORK COUNTY NATURAL GAS



JUST WANTED TO LET YOU KNOW YOUR GUYS CAME THIS MORNING AND INSTALLED OUR NEW GAS RANGE. THEY WERE EXTREMELY COURTEOUS AND PROFESSIONAL. WANTED TO SAY THANKS!!

—customer Stephen D.



Winthrop University
Lee Wicker Dorm
Rinnai Tankless Water Heater Project



SAFETY

GOAL: STRIVE TO BE AN INDUSTRY LEADER IN SAFETY

STRATEGY 1 Focus on Employee Safety

STRATEGY 2 Focus on Pipeline Safety

SAFETY MILESTONES

- Expanded training with focus on newer employees
- Increased safety awareness through communication
- Enhanced company driver safety
- Improved office safety and security
- Increased damage prevention through mapping and locating of pipelines
- Conducted video assessments of sewer lines in advance of pipeline projects
- Enhanced Operator Qualification Program



GOAL SURVEY COMPLETED IN NOVEMBER 2017

16,200 residents called | 1,334 respondents

76.92% of all respondents think they would recognize a natural gas leak by being able to smell it

80.88% of all respondents have heard that they or an excavating company should call a central number prior to digging to avoid accidentally hitting a natural gas pipeline

97.87% of all respondents have heard and know that if they smelled gas inside their house they would leave their house and call 911 from a neighbor's house



Our Values

IN OUR COMMITMENT TO EMPLOYEES, CUSTOMERS AND THE COMMUNITY,
WE ARE TRUSTWORTHY, SAFE AND ACCOUNTABLE

PUBLIC AWARENESS MILESTONES

- Safe Digging Month Contest - 485 entries
- Winthrop Game Sponsor - over 3,300 in attendance
- Football USA Kickoff Sponsor - est 5,200 in attendance
- Safety Education - through YMCA and York County Museum sponsorship programs
- National Energy Foundation (NEF) - classroom resources distributed to 38 classrooms with est reach 4,560 family members
- Responder Liaison Meetings
- Patriot's Energy Group Mock Emergency Drill



WORKFORCE

GOAL: CREATE, EMPOWER AND EQUIP ALL STAKEHOLDERS TO BE CHAMPIONS FOR YCNGA

STRATEGIES:

- Provide competitive benefit packages to attract and retain our workforce
- Actively seek ways to engage our workforce
- Provide opportunities for a well trained workforce
- Promote from within whenever possible
- Actively seek ways to engage and educate our board, customers and legislature
- Actively participate in community activities and serve on boards and committees
- Actively participate in economic development activities



EMPLOYEE ENGAGEMENT

FUSION TEAM established November 2017 to increase employee engagement

The Fusion Team facilitates employee engagement opportunities and support through recognition of employee or team contributions, social events, job shadowing, Fuse classes, small groups, and other activities to build strong and healthy relationships at work.



MARKETING MILESTONES

- Introduced new logo
- Launched new, responsive website
- APGA Marketing & Sales Award for 60th Anniversary Campaign



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