

2 0 1 7   A N N U A L   R E P O R T







Natural Gas Utility Worker's Day was observed on March 17th. Employees were treated to breakfast and recognized for the roles they play in maintaining a safe and reliable distribution system. The highlight of the day was the employee March Madness Basketball Shoot-out.



Construction of the Newport Lateral included 16 bores with the longest bore setting a record at 2,622 feet

The Newport Lateral, a 12" transmission pipeline, was completed in 2017. This 9.6 mile project will connect the Patriot's Energy Group mainline with Dominion Energy and the largest YCNGA load point at the Celanese Lateral.



The Authority received four (4) national awards for excellence in the areas of safety, emergency management, operations and marketing.



Public Natural Gas Week in October featured events to thank employees, educate customers and give back to the community. The week culminated in a 60th Anniversary Open House with classic cars from the 50's and a BBQ lunch for over 700 attendees.

Pipeline Safety training was held in November with close to 100 emergency responders in attendance from various agencies across the county.



## CHAIRMAN'S MESSAGE

On behalf of the Board of Directors of York County Natural Gas Authority, it is again my pleasure to present our Annual Report for the fiscal year ending August 31, 2017. Calendar year 2017 represents the Authority's 60th year in service to the citizens of York County and is also a year of leadership transition for the Authority. A timeline showing our history, and highlights surrounding our 60th anniversary celebration are located elsewhere in this report.

In June of this year, James (Jim) A. Heckle retired as the Authority's President and CEO after 23 years with the Authority, and 14 years in that role. Jim oversaw the growth of the Authority's customer base from just under 40,000 customers in 2003, when he assumed command, to almost 65,000 customers when he retired. During his tenure, the Authority expanded into northwestern Cherokee County with the acquisition of the Town of Blacksburg's distribution system. In addition, Jim was instrumental, along with the leadership of the Chester and Lancaster County Natural Gas Authorities, in the formation of Patriots Energy Group (PEG) and construction of the 39.5 mile Patriots Energy Group Pipeline.

On June 30th of this year, the Board was very pleased to announce the appointment of James (Jimmy) T. Sprouse Jr. as the new President and Chief Executive Officer of the Authority. Mr. Sprouse is a graduate of Clemson University and has over 25 years of extensive utility and energy industry experience. He has worked in various progressive roles within the Authority, ranging from Construction Crewman to Executive Vice President and Chief Operating Officer. The Board is very excited to have Jimmy assume this role and build on the Authority's tradition of outstanding commitment to safety, operational excellence, and outstanding customer service.

From an operational and financial perspective, I am also pleased to report that the Authority remains financially sound and has successfully met the challenges that occurred this fiscal year. During Fiscal Year 2017, the Authority continued its commitment to invest resources in projects designed to meet the future needs of our growing system and to increase access to the PEG Pipeline. Just prior to the beginning of the fiscal year, the 8-mile Fort Mill Lateral was completed and placed in service. The Fort Mill Lateral is essential infrastructure in the Authority's efforts to meet the demands of future system growth in northern York County.

During fiscal year 2017, construction began and was essentially completed on the 10-mile Newport Lateral. The Newport Lateral will tie into both the PEG Pipeline and the transmission pipeline owned by Dominion Energy Carolina Gas Transmission. The Newport Lateral is expected to be in service prior to the upcoming heating season. Combined, the two projects represent an investment by the Authority of approximately \$17 million in infrastructure to meet the future growth of our customer base, improve operational flexibility and increase reliability of supply to the northern York County portion of our service area.

“From an operational and financial perspective, I am pleased to report that the Authority remains financially sound and has successfully met the challenges that occurred this fiscal year.”

Since the economy began to improve in fiscal year 2013, the Authority has experienced substantial growth in residential and commercial construction, especially in the Fort Mill/northern York County area of our service territory. During fiscal year 2017, the Authority installed 1,909 new service lines, an increase of 2.5% over the previous fiscal year. Approximately 36.62 miles of main distribution lines were also installed. Based on the number of new homes that have been announced, we expect this trend to continue. At its monthly peak, the Authority provided service to 64,614 customers during the past fiscal year. This represents an increase of 2,008 customers or 3.2% over the prior fiscal year's peak month.

The Authority remains dedicated to providing our customers with the safest, most reliable, competitively priced source of energy possible. As the nation's economic recovery moves forward, the Authority is well positioned to meet the challenges ahead. This effort continues as the Authority operates in the spirit of its Enabling Act. Our customers can rest assured that the Board, management and employees of York County Natural Gas Authority are working hard to ensure future generations will enjoy the many benefits of natural gas.

If you have any questions about our report, please let me know.

Sincerely,  
  
**M. Brian Hall, III**  
 Board Chairman  
 York County Natural Gas Authority



**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



**Elizabeth S. Owen**  
City of York



**G. Stevens Moore, Jr.**  
City of Rock Hill



**Mike S. Drummond**  
York County



**William J. Hagner**  
York County



**Albert J. Hanlon**  
York County





James T. Sprouse, Jr.  
PRESIDENT & CEO

## PRESIDENT & CHIEF EXECUTIVE OFFICER'S MESSAGE

In July of 1991, I was hired by the Authority as a general construction laborer. Twenty-six years later, I've been blessed with the opportunity to lead this utility as we continue to build on our past successes. I am also grateful to the Board and awed by the responsibility and trust they have placed in me. The Authority has experienced many changes during my years of service - the most significant being our customer growth. In 1991, the customer base was just over 13,000 and included several large textile mills. Today, we proudly serve nearly 65,000 residential, commercial and industrial customers in York and Cherokee Counties, ranking the Authority as the 11th largest public gas system in the United States.

As we celebrated our 60th anniversary in 2017, the Authority was the recipient of several prestigious awards. In addition to receiving the American Public Gas Association's (APGA) Marketing & Sales Award for our "Education and Safety Awareness Program", the Authority was presented the APGA Public Gas System Achievement Award - the APGA's most prestigious award. APGA presents this annual award to only one of its over seven hundred public gas system members across the United States. In the twenty-seven years this award has been presented, the Authority becomes only the second two-time winner (2017 and 2012), joining Okaloosa Gas District in Florida (2014 and 1999) for this distinguished honor.

The Authority also received the Southern Gas Association's Emergency Management Award. As one of five finalists for this honor and the only public gas system to make the finals, YCNGA competed favorably against Exelon, NiSource, Entergy and Southern Company for the award. When combined, these companies provide natural gas to over twenty million customers and employ over 60,000 individuals. This is an even more impressive accomplishment when taking into consideration that we serve our customer base with less than one hundred employees.

The results of fiscal year 2017 indicate that the Authority once again experienced a successful year - both operationally and financially. The completion of the Newport and Fort Mill Laterals were significant milestones as we continue to improve our system to meet the demands of customer growth. Other major projects included Hubert Graham Parkway in Tega Cay, Sloan Asphalt Plant in Blacksburg and Cel-River Road relocation in Rock Hill, plus new services to over 1,900 customers. Multiple road and bridge projects continue to be a driver for infrastructure relocation.

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, supplies energy solutions to the natural gas authorities of York, Chester and Lancaster counties. PEG recently completed a strategic planning session to define its mission and goals for the next three to five years.

From an operational perspective, the Authority has invested significant resources to meet the ever challenging regulatory environment. A deliberate process has been established to conduct regular safety meetings and training. Our organization participates in forums to address and influence pending regulatory changes and works to develop policies and procedures mandated by regulatory requirements. Company-wide "mock emergency" drills have become a regular occurrence, most recently demonstrated by the Authority's participation in GridEx IV, a nationwide event that focused on how utilities, governments and other institutions respond during interruptions to the power and communication grids.

The Authority again experienced a successful year financially with net income of \$6,318,469. During the fiscal year, we invested \$14,441,979 in natural gas infrastructure and equipment. With no taxing authority, all system growth must be paid for through either earnings or borrowings. The Authority issued Gas System Improvement Revenue Bonds in the amount of \$7,075,000 during the fiscal year, primarily to finance the completion of the Newport Lateral.

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 five years being substantially warmer than normal. Four years have been colder than normal, with two of those years establishing all time throughput records. Heating Degree Days (HDD's) is a benchmark used in the gas industry to measure the impact of winter temperatures. Fiscal year 2017 experienced 2,359 HDD's, which was approximately 3.4% colder than the previous year, yet 22.8% warmer than normal. Predictions for the upcoming winter are varied, with most analyst forecasting a slightly colder than normal

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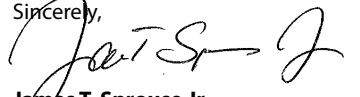
winter. The Authority has taken some steps to mitigate severe, unforeseen spikes in the cost of the gas for the upcoming winter. Regardless of the steps taken, we will always be subject to the uncertainties of the weather and the commodity market.

During fiscal 2017, the Authority billed a monthly average of 63,875 customers, or 1,926 more than the average in fiscal year 2016. Warmer than normal weather experienced during the fiscal year provided a negative impact on unit sales. Total sales of natural gas decreased by 431,001 Dekatherms (5.9%) from the prior year. Unit sales to residential customers were down 3.9% and sales to industrial rate customers experienced a 9.5% decrease from fiscal 2016. Ironically, the Authority experienced three of its highest throughput days on record during this warmer than normal winter.

Pipeline capacity issues continue to impact the delivered cost of natural gas. Capacity on interstate and intrastate pipelines is extremely limited and hard to find. Increased cost of gas supply is driven by this lack of capacity, especially on the highest demand days of winter. Governmental regulations continue to drive electric power generators toward more environmentally friendly natural gas-fired generation plants. Additionally, new pipeline projects face larger environmental and governmental hurdles which lead to costly delays in the effort to create greater capacity. One bright spot within the industry is the shale revolution, which has led to stable, low commodity cost for the foreseeable future.

In closing, I want to thank the Authority's Board of Directors for their tireless effort and support during fiscal 2017. I am also extremely proud of our employees for their commitment during a year of change. Our customers can be confident that while we continue to expand the distribution system to meet the ever increasing demand for natural gas service within our service territory, we also continue to work in their best interest to ensure a safe, reliable and cost efficient supply of natural gas today and well into the future.

Sincerely,

  
James T. Sprouse Jr.  
President and Chief Executive Officer  
York County Natural Gas Authority

## CELEBRATING 60 YEARS HISTORY OF YCNGA

1954

C.W.F. Spencer, a local attorney, worked closely with Porter, Berry & Associates in the creation of Natural Gas Authorities. Legislation was passed creating the York County Natural Gas Authority as a not-for-profit, political subdivision of the State.

1961

The Authority terminated its management agreement with Carolina Pipeline and began employing its own personnel. C.K. Stafford was appointed manager of the Authority. Working out of the original office on Hampton St, 19 construction and service workers slowly expanded the system. Service lines were dug using picks and shovels.

1970s

The Authority increased its customer base by 5,000 during the 70's and doubled the employees on staff to 42 by the early 80's.

1981

C.K. Stafford retired and William S. Stephenson became Manager. With the loss of industrials in the mid-80s, aggressive plans were made to expand service into residential and commercial markets.

1986

The Authority moves to West Main Street taking over the former Pepsi-Cola Plant.

1989

A new customer information system was installed to improve customer service and billing functions. Meter books were replaced with handheld electronic devices.

1996-1999

Advances in technology led to the installation of ERT's, which enabled meters to be read electronically from a vehicle in motion. The Westgate Industrial Park was established in Clover. Service was expanded to rural areas of the county including Smyrna, Hickory Grove, Sharon and McConnells.

1990s

Bonds were issued to sustain development and growth. A new Operations Center was built to add office space and garage company vehicles and equipment.

The Authority began converting fleet vehicles to Compressed Natural Gas (CNG).

2000s

The Authority established a website presence with www.ycnga.com.

Due to unprecedented growth and the need to ensure reliable, effective and low-cost service, the Authority partnered with Chester County Natural Gas Authority and Lancaster County Natural Gas Authority to form Patriots Energy Group (PEG).

2003-2009

Jim Heckle was appointed General Manager as William Stephenson retired.

Operations transitioned to wireless technologies and 24-hour system monitoring with SCADA.

2010-2011

The Authority purchased the Town of Blacksburg's natural gas distribution system, expanding service across county lines and gaining direct access to Transcontinental Pipeline (Transco).

Construction of the Customer Service Center was completed and the area's first public CNG fast-fill station was opened. Both structures received LEED Silver Certification.

2017

YCNGA was selected as the APGA Public Gas System of the Year for the second time (2012 & 2017).

Construction of the Fort Mill and Newport Laterals was completed.

Jim Heckle retired and James T. (Jimmy) Sprouse was appointed CEO and President in July.

miles of main	29	91	178	508	800	1,046	1,520	1,725
employees	10	19	22	42	66	74	95	
customer base	844	2,000	3,600	7,000	10,000	13,400	20,000	34,000
								55,500
								64,500

1957

The first deposits for service under the new entity were accepted. The office was established in the old Huckle Building at 121 Hampton Street.

1968

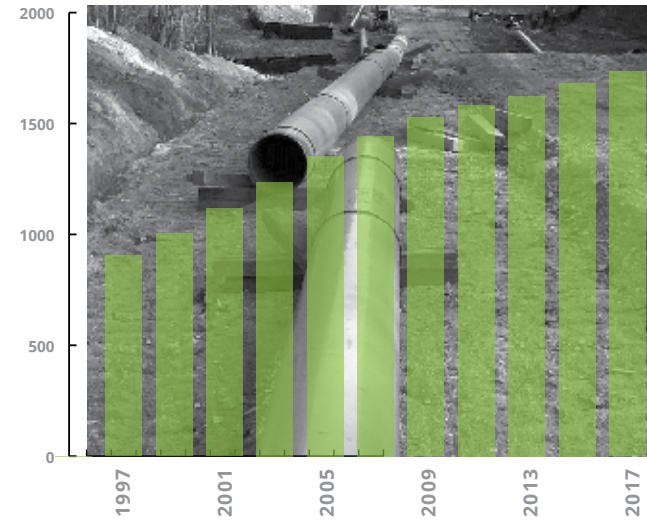
The Authority expanded its presence into the industrial market opening up the ability to provide gas service year-round. Gaining access to the industrial market moved the Authority to a position of financial stability, and the office was relocated to Cherry Road.



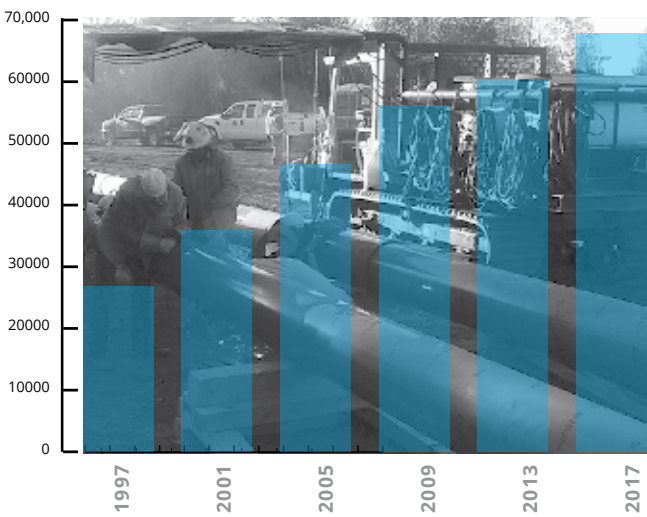
STATEMENT OF  
NET POSITION

FOR THE YEAR ENDED AUGUST 31

MILES OF MAIN



NUMBER OF SERVICE LINES



ASSETS AS OF AUGUST 31

Utility Plant

Gas Plant in Service	2017	2016
	\$ 235,890,327	\$ 221,448,349
Accumulated Depreciation	(84,826,722)	(78,516,574)
	151,063,605	142,931,775

Other Property and Investments

Restricted Funds	1,785,736	—
Prepaid Pension Costs	1,615,091	1,251,367
Other	1,028,592	1,087,175
	4,429,419	2,338,542

Current Assets

Cash & Cash Equivalents	8,500,772	11,064,703
Investments - Operating & Maintenance	6,982,924	6,182,491
Investments - Renewal & Extension	3,989,743	3,120,000
Investments - Series 2017 Bond Proceeds	176,744	—
Investments - Customer Deposits	1,003,118	1,001,441
Investments - Capital Reserve Fund	5,040,219	4,926,609
Accounts Receivable (net)	2,336,756	1,495,676
Accrued Interest	9,578	1,061
Inventories	2,534,598	2,493,008
Prepaid Expenses	724,639	802,340
	31,299,091	31,087,329

Deferred Charges & Intangibles

Intangibles (net)	860,255	21,073
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Deferred Outflows

Deferred Outflows Related to Pension	2,927,267	2,456,515
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TOTAL ASSETS

	\$ 190,579,637	\$ 178,835,234
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Liabilities and Net Assets

Long-Term Liabilities

Bonds Payable	\$ 11,668,474	\$ 6,222,316
Post Retirement Benefit Obligation	7,313,478	6,764,427
Deferred Compensation	1,615,091	1,251,367
	20,597,043	14,238,110

Current Liabilities

Current Portion of Long-Term Debt	1,628,953	970,548
Accounts Payable	3,117,949	4,780,629
Accrued Expenses	523,579	512,248
Tenant Deposits	14,957	14,957
Deferred Compensation	250,000	250,000
Customer Deposits	1,915,239	1,750,564
	7,450,677	8,278,946

Deferred Inflows

Deferred Inflows Related to Pension	279,919	384,649
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Retained Earnings

Invested in Capital Assets, Net of Related Debt	137,766,178	135,738,911
Restricted (Bond Proceeds for Capital Investment)	1,785,736	—
Unrestricted	22,700,084	20,194,618
	162,251,998	155,933,529

TOTAL LIABILITIES AND NET POSITION

	\$ 190,579,637	\$ 178,835,234
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STATEMENT OF  
REVENUE & EXPENSES

FOR THE YEAR ENDED AUGUST 31

	2017	2016
OPERATING REVENUE	\$ 59,093,343	\$ 53,137,049

Operating Expenses

Cost of Gas	35,427,195	34,139,493
Operations	2,513,747	2,320,989
Maintenance	1,007,337	1,062,371
Customer Expenses	2,008,259	1,957,477
Sales, General & Administration	4,702,308	4,419,336
Depreciation	6,469,879	6,033,515
Other	1,434,805	1,401,287
	53,563,530	51,334,468

Operating Income Before Interest Expense	5,529,813	1,802,581
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Interest Expense	210,942	144,395
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Operating Income	5,318,871	1,658,186
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Non-Operating Income (Expense)

Interest	159,021	126,204
Appliance Program	401,822	274,845
Other	438,755	348,826
	999,598	749,875

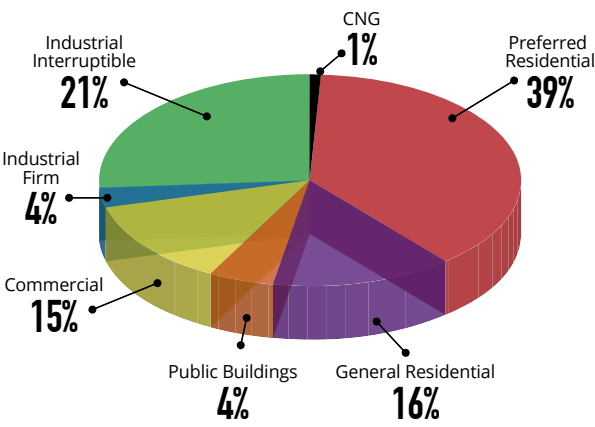
NET INCOME

	\$ 6,318,469	\$ 2,408,061
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Capital Improvements

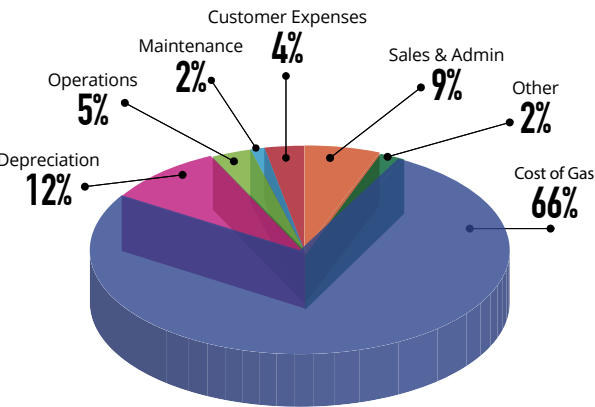
System Expansion	17,759,984	8,851,230
Vehicles	159,382	355,109
Furniture, Fixtures and Equipment	207,855	384,942
Land and Buildings	23,184	781,394
Construction in Progress - inc/(dec)	(3,565,730)	5,269,323
	\$ 14,584,675	\$ 15,641,998

2017 GAS REVENUE \*



\* Percentage of total gas revenue

2017 OPERATING EXPENSES \*\*



\*\* Percentage of total operating expenses



## O U R M I S S I O N

... is to provide for the safe and reliable distribution of natural gas throughout the service area in accordance with its enabling legislation, while striving for excellence in customer, community and employee relationships.