

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended March 31, 2016

Commission File Number 000-26591

RGC Resources, Inc.

(Exact name of Registrant as Specified in its Charter)

VIRGINIA

(State or Other Jurisdiction of
Incorporation or Organization)

54-1909697

(I.R.S. Employer
Identification No.)

519 Kimball Ave., N.E., Roanoke, VA

(Address of Principal Executive Offices)

24016

(Zip Code)

(540) 777-4427

(Registrant's Telephone Number, Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a 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 Exchange Act) Yes No

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

Class
Common Stock, \$5 Par Value

Outstanding at April 30, 2016
4,767,653

RGC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	Unaudited March 31, 2016	September 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 699,304	\$ 985,234
Accounts receivable (less allowance for uncollectibles of \$239,555 and \$52,721, respectively)	8,355,839	3,196,573
Materials and supplies	987,537	968,108
Gas in storage	2,896,652	8,160,498
Prepaid income taxes	426,991	1,657,066
Other	1,661,312	1,182,343
Total current assets	<u>15,027,635</u>	<u>16,149,822</u>
UTILITY PROPERTY:		
In service	175,322,405	168,033,032
Accumulated depreciation and amortization	(54,823,732)	(53,307,079)
In service, net	<u>120,498,673</u>	<u>114,725,953</u>
Construction work in progress	3,915,908	3,903,599
Utility plant, net	<u>124,414,581</u>	<u>118,629,552</u>
OTHER ASSETS:		
Regulatory assets	11,019,100	10,923,243
Investment in unconsolidated affiliate	1,685,481	—
Other	126,360	144,577
Total other assets	<u>12,830,941</u>	<u>11,067,820</u>
TOTAL ASSETS	<u><u>\$ 152,273,157</u></u>	<u><u>\$ 145,847,194</u></u>

RGC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	Unaudited March 31, 2016	September 30, 2015
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Borrowings under line-of-credit	\$ 7,453,433	\$ 9,340,997
Dividends payable	965,450	912,995
Accounts payable	3,888,265	5,141,677
Customer credit balances	682,257	1,560,351
Income taxes payable	239,129	—
Customer deposits	1,788,444	1,579,441
Accrued expenses	2,446,658	2,766,097
Over-recovery of gas costs	4,763,260	1,901,426
Total current liabilities	<u>22,226,896</u>	<u>23,202,984</u>
LONG-TERM DEBT:		
Principal amount	32,432,200	30,500,000
Less unamortized debt issuance costs	(275,138)	(183,427)
Long-term debt net of unamortized debt issuance costs	<u>32,157,062</u>	<u>30,316,573</u>
DEFERRED CREDITS AND OTHER LIABILITIES:		
Asset retirement obligations	5,390,748	5,295,868
Regulatory cost of retirement obligations	9,208,266	8,885,486
Benefit plan liabilities	10,485,087	10,685,261
Deferred income taxes	16,218,692	14,620,031
Total deferred credits and other liabilities	<u>41,302,793</u>	<u>39,486,646</u>
STOCKHOLDERS' EQUITY:		
Common stock, \$5 par value; authorized 10,000,000 shares; issued and outstanding 4,766,451 and 4,741,498, respectively	23,832,255	23,707,490
Preferred stock, no par, authorized 5,000,000 shares; no shares issued and outstanding	—	—
Capital in excess of par value	9,093,406	8,647,669
Retained earnings	25,878,712	22,772,377
Accumulated other comprehensive loss	(2,217,967)	(2,286,545)
Total stockholders' equity	<u>56,586,406</u>	<u>52,840,991</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 152,273,157</u></u>	<u><u>\$ 145,847,194</u></u>

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED MARCH 31, 2016 AND 2015
 UNAUDITED

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
OPERATING REVENUES:				
Gas utilities	\$ 21,569,485	\$ 26,069,150	\$ 37,355,334	\$ 47,067,428
Other	208,288	362,579	432,495	614,366
Total operating revenues	21,777,773	26,431,729	37,787,829	47,681,794
COST OF SALES:				
Gas utilities	11,024,458	16,016,661	18,204,292	28,531,255
Other	104,046	201,298	196,152	314,626
Total cost of sales	11,128,504	16,217,959	18,400,444	28,845,881
GROSS MARGIN	10,649,269	10,213,770	19,387,385	18,835,913
OTHER OPERATING EXPENSES:				
Operations and maintenance	3,376,496	3,623,627	6,807,729	7,048,279
General taxes	443,614	429,045	867,601	834,555
Depreciation and amortization	1,384,845	1,281,629	2,769,689	2,559,258
Total other operating expenses	5,204,955	5,334,301	10,445,019	10,442,092
OPERATING INCOME	5,444,314	4,879,469	8,942,366	8,393,821
Equity in earnings of unconsolidated affiliate	33,846	—	55,383	—
Other expense, net	28,436	6,934	32,309	12,813
Interest expense	415,940	385,162	824,296	782,229
INCOME BEFORE INCOME TAXES	5,033,784	4,487,373	8,141,144	7,598,779
INCOME TAX EXPENSE	1,922,337	1,708,029	3,106,907	2,895,059
NET INCOME	\$ 3,111,447	\$ 2,779,344	\$ 5,034,237	\$ 4,703,720
BASIC EARNINGS PER COMMON SHARE	\$ 0.65	\$ 0.59	\$ 1.06	\$ 1.00
DILUTED EARNINGS PER COMMON SHARE	\$ 0.65	\$ 0.59	\$ 1.06	\$ 1.00
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.2025	\$ 0.1925	\$ 0.4050	\$ 0.3850

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED MARCH 31, 2016 AND 2015
UNAUDITED

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
NET INCOME	<u>\$ 3,111,447</u>	<u>\$ 2,779,344</u>	<u>\$ 5,034,237</u>	<u>\$ 4,703,720</u>
Other comprehensive income, net of tax:				
Defined benefit plans	<u>34,289</u>	<u>9,340</u>	<u>68,578</u>	<u>18,680</u>
OTHER COMPREHENSIVE INCOME, NET OF TAX	<u>34,289</u>	<u>9,340</u>	<u>68,578</u>	<u>18,680</u>
COMPREHENSIVE INCOME	<u>\$ 3,145,736</u>	<u>\$ 2,788,684</u>	<u>\$ 5,102,815</u>	<u>\$ 4,722,400</u>

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX-MONTH PERIODS
 ENDED MARCH 31, 2016 AND 2015
 UNAUDITED

	Six Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 5,034,237	\$ 4,703,720
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,830,149	2,615,387
Cost of removal of utility plant, net	(216,214)	(184,255)
Stock option grants	43,092	55,760
Equity in earnings of unconsolidated affiliate	(55,383)	—
Changes in assets and liabilities which used cash, exclusive of changes and noncash transactions shown separately	3,276,992	7,707,551
Net cash provided by operating activities	<u>10,912,873</u>	<u>14,898,163</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to utility plant and nonutility property	(8,164,000)	(6,801,151)
Investment in unconsolidated affiliate	(1,630,098)	—
Proceeds from disposal of equipment	316	4,526
Net cash used in investing activities	<u>(9,793,782)</u>	<u>(6,796,625)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	1,932,200	—
Borrowings under line-of-credit agreement	18,975,610	21,587,310
Repayments under line-of-credit agreement	(20,863,175)	(28,040,662)
Debt issuance expenses	(101,619)	—
Proceeds from issuance of stock (24,953 and 7,774 shares, respectively)	527,410	162,742
Cash dividends paid	(1,875,447)	(1,782,380)
Net cash used in financing activities	<u>(1,405,021)</u>	<u>(8,072,990)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(285,930)	28,548
BEGINNING CASH AND CASH EQUIVALENTS	985,234	849,757
ENDING CASH AND CASH EQUIVALENTS	<u>\$ 699,304</u>	<u>\$ 878,305</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	\$ 748,447	\$ 336,196
Income taxes paid	81,000	266,573

See notes to condensed consolidated financial statements.

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. Basis of Presentation

RGC Resources, Inc. is an energy services company primarily engaged in the sale and distribution of natural gas. The consolidated financial statements include the accounts of RGC Resources, Inc. ("Resources" or the "Company") and its wholly owned subsidiaries: Roanoke Gas Company; Diversified Energy Company; RGC Ventures of Virginia, Inc.; and RGC Midstream, LLC.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly Resources financial position as of March 31, 2016 and the results of its operations, cash flows and comprehensive income for the three months and six months ended March 31, 2016 and 2015. The results of operations for the three months and six months ended March 31, 2016 are not indicative of the results to be expected for the fiscal year ending September 30, 2016 as quarterly earnings are affected by the highly seasonal nature of the business and weather conditions generally result in greater earnings during the winter months.

The unaudited condensed consolidated interim financial statements and condensed notes are presented as permitted under the rules and regulations of the Securities and Exchange Commission. Pursuant to those rules, certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures made are adequate to make the information not misleading. Therefore, the condensed consolidated financial statements and condensed notes should be read in conjunction with the financial statements and notes contained in the Company's Form 10-K for the year ended September 30, 2015. The September 30, 2015 balance sheet was included in the Company's audited financial statements included in Form 10-K.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements in Form 10-K for the year ended September 30, 2015. Newly adopted and newly issued accounting standards are discussed below.

Recently Issued Accounting Standards

In May 2014, the FASB issued guidance under FASB ASC No. 606 - *Revenue from Contracts with Customers* that affects any entity that enters into contracts with customers for the transfer of goods or services or transfer of non-financial assets. This guidance supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when, or as, the entity satisfies the performance obligation. The new guidance was effective for the Company for the annual reporting period ending September 30, 2018 and interim periods within that annual period. Early application was not permitted. In August 2015, the FASB issued Accounting Standards Update (ASU) 2015-14 that deferred the effective date of this guidance by one year. Therefore, the new guidance is effective for the Company for the annual reporting period ending September 30, 2019 and interim periods within that year. The FASB has issued subsequent guidance under ASC No. 606 to provide further clarification of certain aspects of the original ASU. All additional guidance is being considered as part of the Company's evaluation of the revenue recognition standard. Although Management has not completed its evaluation of all the issued guidance under ASC No. 606, the Company does not currently expect the guidance to have a material effect on its financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The Company previously recognized debt issuance costs in assets and amortized those costs over the term of the debt. This guidance is effective for the Company for the annual reporting period ending September 30, 2017 and interim periods within that annual period. Early application is permitted. The Company adopted the ASU in the consolidated financial statements in Form 10-K for the year ended September 30, 2015. The adoption of this ASU did not have an effect on the Company's results of operations or cash flows; however, the unamortized balance

of debt issuance costs were reclassified from assets to an offset against long-term debt. Certain deferred costs related to the early retirement of debt in 2014 are classified as regulatory assets and are not offset against debt. The changes required under this guidance are presented in the Consolidated Balance Sheets presented in the Company's financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes: Balance sheet Classification of Deferred Taxes*. The ASU requires that all deferred tax assets and liabilities be presented as noncurrent and eliminates existing presentation requirements. This ASU is effective for the Company for the annual reporting period ended September 30, 2018 and interim periods within that annual period. Early application is permitted. The Company adopted this ASU for the quarter ended December 31, 2015. The Company applied the retrospective approach in adopting this ASU and reclassified \$2,293,536 previously reflected as a current deferred income tax asset against the balance of the non-current deferred tax liability in the September 30, 2015 consolidated balance sheet. There was no other impact to the Company's financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU enhances the reporting model for financial instruments to provide users of the financial statements with more useful information through several provisions, including the following: (1) requires equity investments, excluding investments accounted for under the equity method, be measured at fair value with changes in fair value recognized in net income, (2) simplifies the impairment assessment of equity investments without readily determinable fair values, (3) eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (4) requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, and (5) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. The new guidance is effective for the Company for the annual reporting period ending September 30, 2019 and interim periods within that annual period. Management has not completed its evaluation of the new guidance. However, the Company does not currently expect the new guidance to have a material effect on its financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU leaves the accounting for leases mostly unchanged for lessors, with the exception of targeted improvements for consistency; however, the new guidance requires lessees to recognize assets and liabilities for leases with terms of more than 12-months. The ASU also revises the definition of a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. Consistent with current GAAP, the presentation and cash flows arising from a lease by a lessee will primarily depend on its classification as a finance or operating lease. In contrast, the new ASU requires both types of leases to be recognized on the balance sheet. In addition, the new guidance includes quantitative and qualitative disclosure requirements to aid financial statement users in better understanding the amount, timing and uncertainty of cash flows arising from leases. The new guidance is effective for the Company for the annual reporting period ending September 30, 2020 and interim periods within that annual period. Early adoption is permitted. Management has not completed its evaluation of the new guidance. However, the Company does not currently expect the new guidance to have a material effect on its financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting*. The guidance simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new guidance is effective for the Company for the annual reporting period ending September 30, 2018 and interim periods within that annual period. Early adoption is permitted. Management has not completed its evaluation of the new guidance. However, the Company does not currently expect the new guidance to have a material effect on its financial position, results of operations or cash flows.

Other accounting standards that have been issued by the FASB or other standard-setting bodies are not currently applicable to the Company or are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

2. Rates and Regulatory Matters

The State Corporation Commission of Virginia ("SCC") exercises regulatory authority over the natural gas operations of Roanoke Gas. Such regulation encompasses terms, conditions, and rates to be charged to customers for natural gas service; safety standards; extension of service; and accounting and depreciation.

Roanoke Gas Company has in place a weather normalization adjustment tariff ("WNA") based on a weather measurement band around the most recent 30-year temperature average ("normal"). The Company's base rates are determined utilizing the 30-year normal. When weather is warmer than normal, the Company delivers less natural gas which in turn reduces margins. Conversely, when weather is colder than normal, the Company delivers more natural gas resulting in additional margins. The WNA tariff provides the Company with a mechanism to recover unrealized margin due to reduced natural gas sales during warmer than normal periods and refund excess margin from increased natural gas sales during colder than normal periods. For the three and six-month periods ended March 31, 2016, the Company recorded \$105,235 and \$1,181,343 in WNA income for weather that was 1% and 13% warmer than normal for the respective periods. This compares to the accrual of a WNA refund for the three and six-month periods ended March 31, 2015 of \$734,313 and \$843,352 for weather that was 15% and 10% colder than normal for the corresponding periods.

3. Other Investments

In October 2015, the Company, through its wholly-owned subsidiary, RGC Midstream, LLC ("Midstream"), acquired a 1% equity interest in the Mountain Valley Pipeline, LLC (the "LLC").

The LLC was established to construct and operate a natural gas pipeline originating in northern West Virginia and extending through south central Virginia. The proposed pipeline will have the capacity to transport approximately 2 million decatherms of natural gas per day. If approved by the Federal Energy Regulatory Commission, the pipeline is expected to be in service by late 2018.

The total project cost is estimated to be approximately \$3.5 billion. The Company's 1% equity interest in the LLC will require a total estimated investment of approximately \$35 million, by periodic capital contributions throughout the design and construction phases of the project. Midstream held an approximate \$1.7 million equity method investment in the LLC at March 31, 2016. Initial funding for Midstream's investment in the LLC is provided through two unsecured promissory notes, each with a 5-year term.

The Company is participating in the earnings generated from the transportation of natural gas through the pipeline in proportion to its level of investment. The Company is utilizing the equity method to account for the transactions and activity of the investment.

The financial statement locations of the investment in the LLC are as follows:

Balance Sheet Location of Other Investments:	March 31, 2016	September 30, 2015
Other Assets:		
Investment in unconsolidated affiliate	\$ 1,685,481	\$ —

Income Statement Location of Other Investments:	Three Months Ended		Six Months Ended	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Equity in earnings of unconsolidated affiliate	\$ 33,846	\$ —	\$ 55,383	\$ —

4. Short-Term Debt

The Company entered into a new unsecured line-of-credit agreement dated March 31, 2016. The new agreement maintains the same variable interest rate based on 30-day LIBOR plus 100 basis points and availability fee of 15 basis points as the expiring agreement. The agreement also includes multi-tiered borrowing limits to accommodate seasonal borrowing demands and minimize borrowing costs. The Company's total available borrowing limits during the term of the line-of-credit agreement range from \$10,000,000 to \$24,000,000. The line-of-credit agreement will expire March 31, 2017, unless extended. The Company anticipates being able to extend or replace the credit line upon expiration. As of March 31, 2016, the Company had \$7,453,433 outstanding under its line-of-credit agreement.

5. Long-Term Debt

On December 29, 2015, Midstream, a wholly-owned subsidiary of Resources, entered into a Credit Agreement (the "Agreement") and related Promissory Notes (the "Notes") with Union Bank & Trust and Branch Banking & Trust

(collectively, the “Banks”), under which Midstream may borrow up to a total of \$25 million, over a period of 5 years, with an interest rate of 30-day LIBOR plus 160 basis points. Midstream issued the Notes to provide financing for capital contributions in respect of its 1% interest in the LLC. Coinciding with Midstream's entry into the Agreement and Notes, RGC Resources entered into a Guaranty in favor of the Banks by which it guarantees Midstream's payment and performance on the Notes.

The Agreement sets forth certain representations, warranties and covenants to which Midstream is subject, including financial covenants that limit Consolidated Long Term Indebtedness to not more than 65% of Consolidated Total Capitalization and Priority Indebtedness to not more than 15% of Consolidated Total Assets.

Interest on the Notes is due monthly with the outstanding balance on the Notes due in full on December 29, 2020. The Notes are unsecured. In accordance with the terms of the Agreement, at such point in time as Midstream has borrowed \$17.5 million under the Notes, Midstream is required to provide the next \$5 million towards its capital contributions to the LLC. Once Midstream has completed its \$5 million in contributions, it may resume borrowing under the Notes up to the \$25 million limit.

Long-term debt consists of the following:

	March 31, 2016		September 30, 2015	
	Principal	Unamortized Debt Issuance Costs	Principal	Unamortized Debt Issuance Costs
Unsecured senior notes payable, at 4.26% due on September 18, 2034	\$ 30,500,000	\$ 178,600	\$ 30,500,000	\$ 183,427
Unsecured term notes payable, at 30-day LIBOR plus 1.60%, due December 29, 2020	1,932,200	96,538	—	—
Total	<u>\$ 32,432,200</u>	<u>\$ 275,138</u>	<u>\$ 30,500,000</u>	<u>\$ 183,427</u>

6. Other Comprehensive Income

A summary of other comprehensive income and loss is provided below:

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Three Months Ended March 31, 2016			
Defined benefit plans:			
Amortization of actuarial losses	\$ 55,268	\$ (20,979)	\$ 34,289
Other comprehensive income	<u>\$ 55,268</u>	<u>\$ (20,979)</u>	<u>\$ 34,289</u>
Three Months Ended March 31, 2015			
Defined benefit plans:			
Amortization of actuarial losses	\$ 15,055	\$ (5,715)	\$ 9,340
Other comprehensive income	<u>\$ 15,055</u>	<u>\$ (5,715)</u>	<u>\$ 9,340</u>

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Six Months Ended March 31, 2016			
Defined benefit plans:			
Amortization of actuarial losses	\$ 110,536	\$ (41,958)	\$ 68,578
Other comprehensive income	\$ 110,536	\$ (41,958)	\$ 68,578
Six Months Ended March 31, 2015			
Defined benefit plans:			
Amortization of actuarial losses	30,110	(11,430)	18,680
Other comprehensive income	\$ 30,110	\$ (11,430)	\$ 18,680

The amortization of actuarial losses is included as a component of net periodic pension and postretirement benefit cost in operations and maintenance expense.

Reconciliation of Other Accumulated Comprehensive Income (Loss)

	Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2015	\$ (2,286,545)
Other comprehensive income	68,578
Balance at March 31, 2016	\$ (2,217,967)

7. Commitments and Contingencies

Roanoke Gas currently holds the only franchises and/or certificates of public convenience and necessity to distribute natural gas in its service area. The Company renewed the expiring franchises in December 2015 under similar terms and conditions. The new franchise agreements expire December 31, 2035. The Company's current certificates of public convenience and necessity are exclusive and are intended for perpetual duration.

Due to the nature of the natural gas distribution business, the Company has entered into agreements with both suppliers and pipelines for natural gas commodity purchases, storage capacity and pipeline delivery capacity. The Company obtains most of its regulated natural gas supply through an asset manager. The Company utilizes an asset manager to assist in optimizing the use of its transportation, storage rights, and gas supply in order to provide a secure and reliable source of natural gas to its customers. The Company also has storage and pipeline capacity contracts to store and deliver natural gas to the Company's distribution system. Roanoke Gas is served directly by two primary pipelines. These two pipelines deliver all of the natural gas supplied to the Company's customers. Depending on weather conditions and the level of customer demand, failure of one or both of these transmission pipelines could have a major adverse impact on the Company.

8. Earnings Per Share

Basic earnings per common share for the three months and six months ended March 31, 2016 and 2015 were calculated by dividing net income by the weighted average common shares outstanding during the period. Diluted earnings per common share were calculated by dividing net income by the weighted average common shares outstanding during the period plus potential dilutive common shares. A reconciliation of basic and diluted earnings per share is presented below:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Net Income	\$ 3,111,447	\$ 2,779,344	\$ 5,034,237	\$ 4,703,720
Weighted average common shares	4,759,918	4,724,548	4,754,067	4,723,002
Effect of dilutive securities:				
Options to purchase common stock	3,980	4,149	3,938	4,128
Diluted average common shares	4,763,898	4,728,697	4,758,005	4,727,130
Earnings Per Share of Common Stock:				
Basic	\$ 0.65	\$ 0.59	\$ 1.06	\$ 1.00
Diluted	\$ 0.65	\$ 0.59	\$ 1.06	\$ 1.00

9. Employee Benefit Plans

The Company has both a defined benefit pension plan (the “pension plan”) and a postretirement benefit plan (the “postretirement plan”). The pension plan covers substantially all of the Company’s employees and provides retirement income based on years of service and employee compensation. The postretirement plan provides certain health care and supplemental life insurance benefits to retired employees who meet specific age and service requirements. Net pension plan and postretirement plan expense recorded by the Company is detailed as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Components of net periodic pension cost:				
Service cost	\$ 173,594	\$ 163,696	\$ 347,188	\$ 327,392
Interest cost	283,194	256,477	566,388	512,954
Expected return on plan assets	(373,060)	(360,212)	(746,120)	(720,424)
Recognized loss	125,420	64,345	250,840	128,690
Net periodic pension cost	\$ 209,148	\$ 124,306	\$ 418,296	\$ 248,612

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Components of postretirement benefit cost:				
Service cost	\$ 37,005	\$ 41,895	\$ 74,010	\$ 83,790
Interest cost	156,145	150,024	312,290	300,048
Expected return on plan assets	(126,965)	(129,164)	(253,930)	(258,328)
Recognized loss	62,543	49,265	125,086	98,530
Net postretirement benefit cost	\$ 128,728	\$ 112,020	\$ 257,456	\$ 224,040

The Company contributed \$250,000 to its pension plan and \$250,000 to its postretirement medical plan during the six-month period ended March 31, 2016. The Company currently expects to contribute a minimum of an additional \$250,000 to its pension plan and an additional \$250,000 to its postretirement benefit plan prior to the end of its fiscal year.

10. Fair Value Measurements

FASB ASC No. 820, *Fair Value Measurements and Disclosures*, established a fair value hierarchy that prioritizes each input to the valuation method used to measure fair value of financial and nonfinancial assets and liabilities that are measured and reported on a fair value basis into one of the following three broad levels:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices in Level 1 that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The following table summarizes the Company’s financial assets and liabilities that are measured at fair value on a recurring basis as required by existing guidance and the fair value measurements by level within the fair value hierarchy as of March 31, 2016 and September 30, 2015:

	Fair Value Measurements - March 31, 2016			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Natural gas purchases	\$ 865,714	\$ —	\$ 865,714	\$ —
Total	\$ 865,714	\$ —	\$ 865,714	\$ —
Fair Value Measurements - September 30, 2015				
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Natural gas purchases	\$ 712,710	\$ —	\$ 712,710	\$ —
Total	\$ 712,710	\$ —	\$ 712,710	\$ —

Under the asset management contract, a timing difference can exist between the payment for natural gas purchases and the actual receipt of such purchases. Payments are made based on a predetermined monthly volume with the price based on weighted average first of the month index prices corresponding to the month of the scheduled payment. At March 31, 2016 and September 30, 2015, the Company had recorded in accounts payable the estimated fair value of the liability valued at the corresponding first of month index prices for which the liability is expected to be settled.

The Company’s nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis consist of its asset retirement obligations. The asset retirement obligations are measured at fair value at initial recognition based on expected future cash flows required to settle the obligation.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable (with the exception of the timing difference under the asset management contract), customer credit balances and customer deposits is a reasonable estimate of fair value due to the short-term nature of these financial instruments. The following table summarizes the fair value of the Company’s financial assets and liabilities that are not adjusted to fair value in the financial statements as of March 31, 2016 and September 30, 2015:

	Fair Value Measurements - March 31, 2016			
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Long-term debt	\$ 32,432,200	\$ —	\$ —	\$ 32,193,380
Total	\$ 32,432,200	\$ —	\$ —	\$ 32,193,380

	Fair Value Measurements - September 30, 2015			
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Long-term debt	\$ 30,500,000	\$ —	\$ —	\$ 28,570,585
Total	\$ 30,500,000	\$ —	\$ —	\$ 28,570,585

The fair value of long-term debt is estimated by discounting the future cash flows of the debt based on current market rates and corresponding interest rate spread.

FASB ASC 825, *Financial Instruments*, requires disclosures regarding concentrations of credit risk from financial instruments. Cash equivalents are investments in high-grade, short-term securities (original maturity less than three months), placed with financially sound institutions. Accounts receivable are from a diverse group of customers including individuals and small and large companies in various industries. As of March 31, 2016 and September 30, 2015, no single customer accounted for more than 5% of the total accounts receivable balance. The Company maintains certain credit standards with its customers and requires a customer deposit if such evaluation warrants.

11. Stock Options

On December 3, 2015, the Board of Directors granted 16,000 options to certain officers of the Company. In accordance with the Key Employee Stock Option Plan, the grant price of \$21.22 was the closing price of the Company's stock on the grant date. The options become exercisable six months from the grant date and expire after ten years from the date of issuance.

Fair value at the grant date was \$4.04 per option as calculated using the Black-Scholes option pricing model. Compensation expense is recognized over the vesting period. Total compensation expense recognized through March 31, 2016 was \$43,092.

12. Subsequent Events

The Company has evaluated subsequent events through the date the financial statements were issued. There were no items not otherwise disclosed which would have materially impacted the Company's condensed consolidated financial statements.

ITEM 2 – 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. 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 other 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” in the Company’s 2015 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,” “assume,” “indicate” 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.

The three-month and six-month earnings presented herein should not be considered as reflective of the Company’s consolidated financial results for the fiscal year ending September 30, 2016. The total revenues and margins realized during the first six months reflect higher billings due to the weather sensitive nature of the gas business.

Overview

Resources is an energy services company primarily engaged in the regulated sale and distribution of natural gas to approximately 60,500 residential, commercial and industrial customers in Roanoke, Virginia and the surrounding localities through its Roanoke Gas Company (“Roanoke Gas”) subsidiary. Natural gas service is provided at rates and for terms and conditions set by the Virginia State Corporation Commission (“SCC”).

Resources also provides certain unregulated services through Roanoke Gas and its other subsidiaries. Such unregulated operations represent less than 2% of total revenues and margin of Resources on an annual basis.

The Company’s utility operations are regulated by the 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 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.

Over 98% of the Company’s annual 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 variations in weather and the cost of natural gas, 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, 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. Under the WNA, the Company recovers from its customers the lost margin (excluding gas costs) for the impact of weather that was warmer than normal or refunds the excess margin earned for weather that was colder than normal. For the three months and six months ended March 31, 2016, the Company accrued approximately \$105,000 and \$1,181,000 in additional margin for weather that was 1% and 13% warmer than normal compared to the same periods last year, which reflected accrued refunds of approximately \$734,000 and \$843,000 for weather that was 15% and 10% colder than normal.

The Company also has an approved rate structure in place that mitigates the impact of financing costs associated with 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 the cost of 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 lower inventory balances, the Company recognizes less inventory carrying cost ("ICC") revenue as financing costs are lower. In addition, ICC revenues are impacted by the changes in the weighting of the components that are used to determine the weighted-average cost of capital. The average unit price of gas in storage during the first six months of the current fiscal year was \$1.30 per decatherm, or 28%, lower than the same period last year, while average inventory volumes during the period were nearly 6% higher. Correspondingly, ICC revenues decreased by more than \$34,000 for the quarter and \$115,000 for the six-month period. Based on current natural gas storage cost and the continuing low natural gas commodity prices, ICC revenues are projected to remain at levels below last year.

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 investments in qualified infrastructure projects 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 that 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 \$575,000 and \$1,037,000 in SAVE Plan revenues for the three-month and six-month periods ended March 31, 2016, compared to \$310,000 and \$549,000 for the same periods last year. These SAVE Plan 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.

Results of Operations

Three Months Ended March 31, 2016:

Net income increased by \$332,103 for the three months ended March 31, 2016, compared to the same period last year. Increase in SAVE Plan revenues and higher capitalized overheads were the primary contributors to the improvement in net income.

The tables below reflect operating revenues, volume activity and heating degree-days.

	Three Months Ended March 31,		Increase (Decrease)	Percentage
	2016	2015		
Operating Revenues				
Gas Utilities	\$ 21,569,485	\$ 26,069,150	\$ (4,499,665)	(17)%
Other	208,288	362,579	(154,291)	(43)%
Total Operating Revenues	<u>\$ 21,777,773</u>	<u>\$ 26,431,729</u>	<u>\$ (4,653,956)</u>	<u>(18)%</u>
Delivered Volumes				
Regulated Natural Gas (DTH)				
Residential and Commercial	3,155,915	3,506,983	(351,068)	(10)%
Transportation and Interruptible	796,581	786,651	9,930	1 %
Total Delivered Volumes	<u>3,952,496</u>	<u>4,293,634</u>	<u>(341,138)</u>	<u>(8)%</u>
Heating Degree Days (Unofficial)	2,070	2,398	(328)	(14)%

Total operating revenues for the three months ended March 31, 2016, compared to the same period last year, decreased primarily due to significantly lower delivered natural gas volumes combined with lower natural gas costs. Total natural gas deliveries declined by 8% due to a 14% decline in the number of heating degree days compared to the same period last year. Lower margin transportation and industrial volumes increased slightly over the same quarter last year following a decline in the first quarter. Much of the first quarter decline was attributable to the closing of a customer's operations during the prior fiscal year, which accounted for nearly 150,000 decatherms on an annual basis. Residential and commercial volumes declined by 10% due to weather that was 14% warmer than the prior year. The WNA provided margin relief related to the estimated 32,000 decatherms of gas not sold due to the warmer weather. In addition, the commodity price of natural gas declined by 30% per unit compared to the same period last year.

	Three Months Ended March 31,		Increase (Decrease)	Percentage
	2016	2015		
Gross Margin				
Gas Utilities	\$ 10,545,027	\$ 10,052,489	\$ 492,538	5 %
Other	104,242	161,281	(57,039)	(35)%
Total Gross Margin	<u>\$ 10,649,269</u>	<u>\$ 10,213,770</u>	<u>\$ 435,499</u>	<u>4 %</u>

Regulated natural gas margins from utility operations increased from the same period last year primarily as a result of higher SAVE Plan revenues and customer growth. SAVE revenues increased by \$265,264 due to the increasing investment in SAVE related projects. Volumetric margin, net of the WNA adjustment, increased by \$238,968 primarily due to customer growth and increased large commercial customer usage. Other margins declined from last year's levels due to reduced activity under the Company's non-gas contracts.

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

	Three Months Ended March 31,		Increase (Decrease)
	2016	2015	
Customer Base Charge	\$ 3,115,508	\$ 3,094,631	\$ 20,877
Carrying Cost	131,438	165,490	(34,052)
SAVE Plan	575,506	310,242	265,264
Volumetric	6,589,678	7,190,258	(600,580)
WNA	105,235	(734,313)	839,548
Other Gas Revenues	27,662	26,181	1,481
Total	<u>\$ 10,545,027</u>	<u>\$ 10,052,489</u>	<u>\$ 492,538</u>

Operation and maintenance expenses declined by \$247,131, or 7%, primarily due to increased overhead capitalization and lower bad debt expense partially offset by higher employee benefit costs. Capitalized overheads increased by more than

\$329,000 due to an 87% increase in capital expenditures during the quarter. Bad debt expense decreased by nearly \$58,000 due to reduced billings related to warmer weather and lower commodity price of natural gas. Total benefit costs increased by \$146,000 due to increased pension and postretirement medical costs related to the amortization of higher actuarial losses attributable to the adoption of new mortality tables. The remaining differences were related to various minor fluctuations in other expenses.

General taxes increased by \$14,569, or 3%, primarily due to higher property taxes associated with increases in utility property.

Depreciation expense increased by \$103,216, or 8%, on an 8% increase in utility plant investment.

Other expenses increased by \$21,502 primarily due to higher pipeline assessments and the level of corporate charitable giving.

Interest expense increased by \$30,778, or 8%, due to increased utilization of the Company's line-of-credit and the initial financing of the Company's investment in the Mountain Valley Pipeline. Total average debt balance during the quarter increased by 12%.

Income tax expense increased by \$214,308, which corresponds to the increase in pre-tax income for the quarter. The effective tax rate was 38% for the three months ended March 31, 2016 and 2015, respectively.

Six Months Ended March 31, 2016:

Net income increased by \$330,517 for the six months ended March 31, 2016, compared to the same period last year. Corresponding with the quarterly results, the increase in SAVE Plan revenues and higher capitalized overheads were the primary reasons for higher net income.

The tables below reflect operating revenues, volume activity and heating degree-days.

	Six Months Ended March 31,			
	2016	2015	Decrease	Percentage
Operating Revenues				
Gas Utilities	\$ 37,355,334	\$ 47,067,428	\$ (9,712,094)	(21)%
Other	432,495	614,366	(181,871)	(30)%
Total Operating Revenues	<u>\$ 37,787,829</u>	<u>\$ 47,681,794</u>	<u>\$ (9,893,965)</u>	<u>(21)%</u>
Delivered Volumes				
Regulated Natural Gas (DTH)				
Residential and Commercial	4,701,784	5,668,549	(966,765)	(17)%
Transportation and Interruptible	1,499,163	1,607,969	(108,806)	(7)%
Total Delivered Volumes	<u>6,200,947</u>	<u>7,276,518</u>	<u>(1,075,571)</u>	<u>(15)%</u>
Heating Degree Days (Unofficial)	3,152	3,954	(802)	(20)%

Total operating revenues for the six months ended March 31, 2016, compared to the same period last year, decreased due to a combination of reduced natural gas deliveries and lower natural gas costs. Total natural gas deliveries declined by 15% due to a 20% decline in the number of heating degree days compared to the same period last year and reduced industrial consumption during the first quarter. Transportation and industrial volumes declined due to reduced production activities in the first quarter at two of our largest customers and the closing of another customer's operations during the prior fiscal year. The lost customer accounted for approximately 55,000 decatherms of the decline in the volume of transportation gas delivered for the period. Residential and commercial volumes declined by 17% due to weather that was 20% warmer than the same period during the prior year.

	Six Months Ended March 31,		Increase (Decrease)	Percentage
	2016	2015		
Gross Margin				
Gas Utilities	\$ 19,151,042	\$ 18,536,173	\$ 614,869	3 %
Other	236,343	299,740	(63,397)	(21)%
Total Gross Margin	<u>\$ 19,387,385</u>	<u>\$ 18,835,913</u>	<u>\$ 551,472</u>	<u>3 %</u>

Regulated natural gas margins from utility operations increased from the same period last year primarily as a result of higher SAVE Plan revenues more than offsetting lower industrial volumes and a reduction in ICC revenues. SAVE revenues increased by \$488,326 due to the increasing investment in SAVE related projects. Volumetric margin, net of the WNA adjustment, increased by \$188,934 primarily due to customer growth. Other margins declined from last year's levels.

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

	Six Months Ended March 31,		Increase (Decrease)
	2016	2015	
Customer Base Charge	\$ 6,184,392	\$ 6,131,799	\$ 52,593
Carrying Cost	364,704	479,791	(115,087)
SAVE Plan	1,036,828	548,502	488,326
Volumetric	10,321,329	12,157,090	(1,835,761)
WNA	1,181,343	(843,352)	2,024,695
Other Gas Revenues	62,446	62,343	103
Total	<u>\$ 19,151,042</u>	<u>\$ 18,536,173</u>	<u>\$ 614,869</u>

Operation and maintenance expenses decreased by \$240,550, or 3%, due to the same reasons for the decline during the quarter: higher overhead capitalization and lower bad debt expense more than offsetting increased employee benefit costs. Capitalized overheads increased by more than \$365,000 due to a 20% increase in capital expenditures and the timing of liquified natural gas production during the year. Bad debt expense decreased by nearly \$71,000 due to reduced billings related to warmer weather and lower commodity price of natural gas. Total benefit costs increased by \$187,000 due to increased pension and postretirement medical costs related to the amortization of higher actuarial losses attributable to the adoption of new mortality tables.

General taxes increased by \$33,046, or 4%, primarily due to higher property taxes associated with increases in utility property.

Depreciation expense increased by \$210,431, or 8%, on an 8% increase in utility plant investment.

Other expenses increased by \$19,496 primarily due to higher pipeline assessments and the level of corporate charitable giving.

Interest expense increased by \$42,067, or 5%, due to a 7% increase in total average debt outstanding during the period related to the financing of the Company's operations and the investment in the Mountain Valley Pipeline.

Income tax expense increased by \$211,848, which corresponds to the higher pre-tax income for the period. The effective tax rate was 38% for the six months ended March 31, 2016 and 2015, respectively.

Critical Accounting Policies and Estimates

The consolidated financial statements of Resources are prepared in accordance with accounting principles generally accepted in the United States of America. The amounts of assets, liabilities, revenues and expenses reported in the Company's financial statements are affected by accounting policies, estimates and assumptions that are necessary to comply with generally accepted accounting principles. Estimates used in the financial statements are derived from prior experience, statistical analysis and management judgments. Actual results may differ significantly from these estimates and assumptions.

The Company considers an estimate to be critical if it is material to the financial statements and it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate are reasonably likely to occur from period to period. There have been no changes to the critical accounting policies as reflected in the Company's Annual Report on Form 10-K for the year ended September 30, 2015.

Asset Management

Roanoke Gas uses a third party asset manager to manage its pipeline transportation and storage rights and gas supply inventories and deliveries. In return for being able to utilize the excess capacities of the transportation and storage rights, the third party pays Roanoke Gas a monthly utilization fee, which is used to reduce the cost of gas for customers. The current agreement expires in March 2017.

Equity Investment in Mountain Valley Pipeline

On October 1, 2015, the Company through its newly formed wholly-owned subsidiary, RGC Midstream, LLC, entered into an agreement to become a 1% member in Mountain Valley Pipeline, LLC (the "LLC"). The purpose of the LLC is to construct and operate the Mountain Valley Pipeline ("MVP"), a natural gas pipeline connecting an existing transmission system in northern West Virginia to another interstate pipeline in south central Virginia. This project falls under the jurisdiction of FERC and is subject to its approval prior to beginning construction. In October 2015, the LLC filed the application with FERC to construct the pipeline with an expected decision in late 2016. Assuming a favorable response by FERC, the pipeline is expected to be in service by the end of calendar 2018. Management believes the investment in the LLC will be beneficial for the Company, its shareholders and southwest Virginia. In addition to the potential returns from the investment in the LLC, the Company will benefit from access to an additional source of natural gas to its distribution system, and the proposed pipeline path would provide the Company with a more economically feasible opportunity to provide natural gas service to previously unserved areas in southwest Virginia.

The total project cost is anticipated to be approximately \$3.5 billion. As a 1% member in the LLC, Midstream's contribution is expected to be approximately \$35 million. The agreement provides for a schedule of cash draws to fund the project. The initial payments are for the acquisition of land and materials related to the construction of the pipeline and other pre-construction costs. Once approved and construction begins, more significant cash draws will be required. Initial funding for the investment in the LLC is provided through the Midstream credit facility composed of a Credit Agreement ("Agreement") and related Promissory Notes (the "Notes"), under which Midstream may borrow up to a total of \$25 million, over a period of 5 years, with an interest rate of 30-day LIBOR plus 160 basis points. In accordance with the terms of the Agreement, at such point in time as Midstream has borrowed \$17.5 million under the Notes, Midstream is required to provide the next \$5 million in equity towards its capital contributions to the LLC. Once Midstream has completed its \$5 million in contributions, it may resume borrowing under the Notes up to the \$25 million limit.

The effect on the results of operation related to the investment in the LLC will not be significant until such time as the project is approved by FERC.

Regulatory

The Company currently holds the only franchises and/or certificates of public convenience and necessity to distribute natural gas in its service area. Certificates of public convenience and necessity are issued by the SCC to provide service in the counties in the Company's service territory. These certificates are intended for perpetual duration subject to compliance and regulatory standards. Franchises are granted by the local cities and towns served by the Company. The Company renewed the expiring franchise agreements with the City of Roanoke, the City of Salem and the Town of Vinton under terms and conditions similar to the expiring agreements. The new franchise agreements have a twenty year term and will expire December 31, 2035.

Since 2013, the Company has had in place the SAVE Plan Rider which allows the Company to recover the related depreciation and expenses and return on rate base attributable to the capital investment associated with the replacement of aging natural gas infrastructure. By virtue of the revenue generated by the SAVE Plan Rider, the Company has not filed for an increase in non-gas rates to recover increasing costs and the investment in natural gas infrastructure since 2013. The Company is in the process of compiling its SAVE Plan filing for 2017. This filing will allow the Company to continue to recover costs and a return on the existing SAVE infrastructure investments as well as provide for recovery of costs for new qualified SAVE projects. The SAVE Plan Rider will remain in effect until the Company applies for its next non-gas rate increase. At that time, the new non-gas rates would then incorporate the revenue generated through the SAVE Plan Rider. The Company has not yet determined if it will be filing for a non-gas rate increase later this year.

Capital Resources and Liquidity

Due to the capital intensive nature of the utility business, as well as the related weather sensitivity, the Company's primary capital needs are the funding of its continuing construction program, the seasonal funding of its natural gas inventories and accounts receivable and the payment of dividends. To meet these needs, the Company relies on its operating cash flows, line-of-credit agreement, long-term debt, and capital raised through the Company's stock plans.

Cash and cash equivalents decreased by \$285,930 for the six-month period ended March 31, 2016, compared to a \$28,548 increase for the same period last year. The following table summarizes the sources and uses of cash:

	Six Months Ended March 31,	
	2016	2015
Cash Flow Summary Six Months Ended:		
Provided by operating activities	\$ 10,912,873	\$ 14,898,163
Used in investing activities	(9,793,782)	(6,796,625)
Used in financing activities	(1,405,021)	(8,072,990)
Increase (Decrease) in cash and cash equivalents	\$ (285,930)	\$ 28,548

The seasonal nature of the natural gas business causes operating cash flows to fluctuate significantly during the year as well as from year to year. Factors including weather, energy prices, natural gas storage levels and customer collections contribute to working capital levels and the related cash flows. Generally, operating cash flows are positive during the second and third quarters as a combination of earnings, declining storage gas levels and collections on customer accounts all contribute to higher cash levels. During the first and fourth quarters, operating cash flows generally decrease due to increases in natural gas storage levels, rising customer receivable balances and construction activity.

Cash flow provided by operations is generally driven by net income, depreciation and reductions in natural gas storage inventory during the first six months of the year. Cash flow provided by operations decreased from last year by \$3,985,290, primarily due to a smaller increase in over-collection of gas costs and smaller reduction in storage gas balances partially offset by a smaller increase in accounts receivable balances. The Company increased over-collections on gas costs for the current year by nearly \$2,900,000 compared to an increase in over-collection for the corresponding period last year of \$5,400,000. During the prior year, the Company had a significant over-collection of gas costs during the second fiscal quarter due to rapidly declining natural gas commodity prices. The Company initially derived the gas cost component of its billing rates based on prices in December 2014 prior to the decline in commodity prices. The result was a significant over-collection of gas costs during the period as the billing rate component was much higher than the actual gas costs. The Company began refunding the prior year net over-collection in January 2016. In addition, the combination of lower natural gas commodity prices and warmer weather during the heating season resulted in smaller decreases in storage gas balances and smaller increases in accounts receivable. The average price of gas in storage was nearly \$1.20 per decatherm less for the current year compared to March 31, 2015. As a result, net withdrawals of gas during the current six month period was nearly \$5,300,000 compared to the same period last year of \$8,500,000 resulting in a \$3,200,000 reduction in cash. Correspondingly, accounts receivable balances increased by \$5,300,000 during the first six months of fiscal 2016 compared to an increase of \$7,600,000 for the same period last year providing an additional \$2,300,000 in cash.

	Six Months Ended March 31,		
	2016	2015	Increase (Decrease)
Cash Flow Provided by Operations:			
Net income	\$ 5,034,237	\$ 4,703,720	\$ 330,517
Depreciation	2,830,149	2,615,387	214,762
Increase in over-collections	2,861,834	5,368,880	(2,507,046)
Decrease in gas in storage	5,263,846	8,523,804	(3,259,958)
Increase in accounts receivable	(5,346,100)	(7,606,508)	2,260,408
Other	268,907	1,292,880	(1,023,973)
Net Cash Provided by Operations	\$ 10,912,873	\$ 14,898,163	\$ (3,985,290)

Investing activities are generally composed of expenditures under the Company's construction program, which primarily involves replacing aging bare steel and cast iron pipe with new plastic or coated steel pipe, improvements to the LNG plant and expanding its natural gas system to meet the demands of customer growth. Expenditures for infrastructure and equipment have continued at the higher levels experienced over the last few years as the Company continues its ongoing pipeline replacement program. Cash flows used for additions to utility property increased by \$1,362,849 for the six-months ended March 31, 2016 compared to the same period last year reflecting the continuation of the pipeline replacement program as well as initial work related to the replacement of two custody transfer stations connected to the East Tennessee transmission line. The Company currently expects to finish replacing the remaining bare steel and cast iron pipe within its natural gas distribution system in

calendar 2016 and then will shift efforts to replacing pre-1973 first generation plastic pipe with current polyethylene pipe, which is expected to be a three- to four-year project. The Company also plans to begin implementation of an automated meter reading system in fiscal 2017. As a result, capital expenditures are expected to remain at elevated levels over the near term. Operating cash flows and corporate borrowings are expected to provide the majority of the funding for these projects.

The Company also is continuing to fund its participation in the MVP project, with a total investment of \$1,630,098 through March 31, 2016. The Company expects to invest an estimated \$35 million over a three-year period to complete the project. Initial funding for the investment in the LLC is provided through the Midstream credit facility as discussed above and in Note 5 of the Condensed Consolidated Financial Statements.

Financing activities generally consist of long-term and short-term borrowings and repayments, issuance of stock and the payment of dividends. As discussed above, the Company uses its line-of-credit arrangement to fund seasonal working capital needs as well as provide temporary financing for capital projects. Cash flows used in financing activities decreased by \$6,667,969 compared to the same period last year primarily due to the current year borrowing related to the Company's investment in the MVP and a greater level of borrowing under the Company's line-of-credit. The Company borrowed \$1,932,200 under the credit facility related to its financing in the MVP project and associated costs. The Company will continue to draw against the Midstream credit facility as the financing needs of the project continue. Furthermore, due to the cash demands related to the Company's ongoing capital expenditures, the Company has increased its borrowing under the line-of-credit compared to the same period last year. As of March 31, 2016, the Company has \$7,453,433 outstanding under its line-of-credit compared to \$2,591,698 for the same period last year. The Company will continue to use the line-of-credit for bridge financing and will evaluate the need and timing to convert some of this debt to more permanent financing.

Effective March 31, 2016, the Company entered into a new line-of-credit agreement. The new agreement maintained the same terms and rates as provided for under the expired agreement. The interest rate is based on 30-day LIBOR plus 100 basis points and includes an availability fee of 15 basis points applied to the difference between the face amount of the note and the average outstanding balance during the period. The Company maintained multi-tiered borrowing limits to accommodate seasonal borrowing demand and minimize overall borrowing costs with available limits ranging from \$10,000,000 to \$24,000,000 during the term of the agreement. The line-of-credit will expire on March 31, 2017. The Company anticipates being able to extend or replace its current line-of-credit agreement upon expiration; however, there is no guarantee that the line-of-credit will be extended or replaced on terms comparable to those currently in place.

At March 31, 2016, the Company's consolidated long-term capitalization was 64% equity and 36% debt. The Company's total consolidated capitalization, including the line-of-credit, was 59% equity and 41% debt.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks associated with interest rates and commodity prices. Interest rate risk is related to the Company's outstanding short-term debt and the Midstream credit facility. Commodity price risk is experienced by the Company's regulated natural gas operations. The Company's risk management policy, as authorized by the Company's Board of Directors, allows management to enter into derivatives for the purpose of managing commodity and financial market risks of its business operations.

Interest Rate Risk

The Company is exposed to market risk related to changes in interest rates associated with its borrowing activities. At March 31, 2016, the Company had \$7,453,433 outstanding under its variable rate line-of-credit with an average balance outstanding during the six-month period of \$12,748,832. The Company also had \$1,932,200 outstanding under a 5-year variable rate term loan. A hypothetical 100 basis point increase in market interest rates applicable to the Company's variable-rate debt outstanding during the period would have resulted in an increase in interest expense for the current period of approximately \$69,000. The Company's other long-term debt is at fixed rates.

Commodity Price Risk

The Company manages the price risk associated with purchases of natural gas by using a combination of liquefied natural gas (LNG) storage, underground storage gas, fixed price contracts, spot market purchases and derivative commodity instruments including futures, price caps, swaps and collars.

At March 31, 2016, the Company had no outstanding derivative instruments to hedge the price of natural gas. The Company had 815,122 decatherms of gas in storage, including LNG, at an average price of \$3.55 per decatherm, compared to 602,940 decatherms at an average price of \$4.75 per decatherm last year. The SCC currently allows for full recovery of prudent costs associated with natural gas purchases, as any additional costs or benefits associated with the settlement of derivative contracts and other price hedging techniques are passed through to customers when realized through the PGA mechanism.

ITEM 4 – CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) that are designed to be effective in providing reasonable assurance that information required to be disclosed in reports under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to management to allow for timely decisions regarding required disclosure.

As of March 31, 2016, the Company completed an evaluation, under the supervision and with the participation of management, including the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company’s disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2016.

Management routinely reviews the Company’s internal control over financial reporting and makes changes, as necessary, to enhance the effectiveness of the internal controls over financial reporting. There were no changes in the internal controls over financial reporting during the fiscal quarter ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II – Other Information

ITEM 1 – LEGAL PROCEEDINGS

None.

ITEM 1A – RISK FACTORS

No changes.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

Number	Description
10.1*	First Amendment to Second Amended and Restated Limited Liability Company Agreement of Mountain Valley Pipeline, LLC, dated January 21, 2016.
10.2	Amendment to the Restricted Stock Plan for Outside Directors
10.3	Revolving Line of Credit Note in the original principal amount of \$24,000,000 by Roanoke Gas Company in favor of Wells Fargo Bank, N.A. dated March 31, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 4, 2016).
10.4	Credit Agreement by and between Roanoke Gas Company and Wells Fargo Bank, N.A. dated March 31, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 4, 2016).
10.5	Continuing Guaranty by RGC Resources, Inc. in favor of Wells Fargo Bank, N.A. dated March 31, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 4, 2016).
31.1	Rule 13a–14(a)/15d–14(a) Certification of Principal Executive Officer.
31.2	Rule 13a–14(a)/15d–14(a) Certification of Principal Financial Officer.
32.1**	Section 1350 Certification of Principal Executive Officer.
32.2**	Section 1350 Certification of Principal Financial Officer.
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at March 31, 2016 and September 30, 2015; (ii) Condensed Consolidated Statements of Income for the three months and six months ended March 31, 2016 and 2015; (iii) Condensed Consolidated Statements of Comprehensive Income for the three months and six months ended March 31, 2016 and 2015; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2016 and 2015, and (v) Condensed Notes to Condensed Consolidated Financial Statements.

* Confidential treatment has been requested with respect to portions of this exhibit, indicated by asterisks, which have been filed separately with the Securities and Exchange Commission.

** These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned there unto duly authorized.

RGC Resources, Inc.

Date: May 6, 2016

By: /s/ Paul W. Nester

Paul W. Nester

Vice President, Secretary, Treasurer and
CFO

*Portions of this Exhibit have been redacted pursuant to a request for confidential treatment under Rule 24b-2 of the General Rules and Regulations under the Securities Exchange Act. Omitted information marked “[***]” in this Exhibit has been filed with the Securities and Exchange Commission together with such request for confidential treatment.*

Exhibit 10.1

**FIRST AMENDMENT TO
SECOND AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF
MOUNTAIN VALLEY PIPELINE, LLC**

This FIRST AMENDMENT (this “*Amendment*”) TO SECOND AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT (the “*Second A&R Agreement*,” as modified by this Amendment, the “*Agreement*”) OF MOUNTAIN VALLEY PIPELINE, LLC, dated March 10, 2015, is adopted, executed and agreed to as of January 21, 2016 by MVP Holdco, LLC, a Delaware limited liability company (“*EQT*”), US Marcellus Gas Infrastructure, LLC, a Delaware limited liability company (“*USG*”), and Mountain Valley Pipeline, LLC, a Delaware limited liability company (the “*Company*”). EQT, USG and the Company are sometimes referred to herein collectively as the “*Parties*,” and each, a “*Party*.”

RECITALS

WHEREAS, concurrently with the execution of this Amendment, Con Edison Gas Midstream, LLC, a New York limited liability company (“*Con Edison*”), has executed and delivered to the Company a joinder to the Agreement (the “*Joinder*”), pursuant to which Con Edison has become a Member of the Company; and

WHEREAS, subject to Section 13.05 of the Second A&R Agreement, the Agreement may be amended by a written instrument executed by Supermajority Interest; and

WHEREAS, in connection with the execution and delivery of the Joinder by the parties thereto, EQT and USG, the holders of a Supermajority Interest, and the Company desire to enter into this Amendment to [***]; and

WHEREAS, capitalized terms used in this Amendment but not defined herein shall have the meanings ascribed to such terms in the Second A&R Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, EQT and USG, on behalf of themselves and the Members, and the Company agree as follows:

1. *Amendments*.

(a) The Agreement shall be amended to add the following as paragraph (e) of the definition of “Net Profit or Net Loss,” and paragraphs (e), (f) and (g) of that definition are hereby renumbered as paragraphs (f), (g) and (h), respectively:

“(e) to the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) of the Code is required pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts

as a result of a distribution other than in liquidation of a Member's Membership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account in computing Net Profits and Net Losses;"

(g): (b) The Agreement shall be amended to add the following as new Section 8.03

"(g) For any taxable year beginning on or after January 1, 2018, the Tax Matters Member shall be the Partnership Representative as that term is defined in Code Section 6223(a), as added by the Bipartisan Budget Act of 2015, and each Member shall take all actions necessary to cause the Tax Matters Member to be so designated in accordance with any procedures prescribed therefor. Each Party agrees that the Company shall, unless determined otherwise by the Management Committee in its reasonable discretion, elect the alternative method of paying any imputed underpayment resulting from any Company adjustment as provided by Code Section 6226, as added by the Bipartisan Budget Act of 2015, and each Member shall take any and all actions necessary to effect such election, including but not limited to the filing by each Member of amended returns and the payment of any tax, including any interest, penalties, or additions to such tax, resulting from the imputed underpayment."

(c) Section 13.11(c) of the Agreement is hereby amended and restated in its entirety as follows:

"(c) **Appraisal.** Duff & Phelps LLC or, if Duff & Phelps LLC does not exist or is unable or unwilling to act in the applicable capacity, another nationally recognized appraisal firm (the "**Appraiser**") is hereby appointed to resolve any dispute relating to the determination of Fair Market Value of a Membership Interest arising under Section 10.03 (e) and the foregoing Sections 13.11(a) or (b); provided, that if a Member disagrees with the appointment of such Appraiser (with notice of such disagreement being provided to the Company and each applicable Member within five (5) Business Days of the delivery of the FMV Notice), the applicable Members shall use their best efforts to appoint a mutually agreeable alternative Appraiser within five (5) Business Days following the delivery of the disagreement notice described above. Within 30 Days of the date on which one side gives notice (the "**FMV Notice**") to the other side and the Appraiser pursuant to Section 13.11(a) or (b), each side shall submit a proposed Fair Market Value to the Appraiser, together with any supporting documentation such side deems appropriate. The Appraiser shall consider such submissions and make a determination as to Fair Market Value as promptly as practicable and in any event on or before the 30th Day after submission by each side of its proposed Fair Market Value to the Appraiser. The determination of Fair Market Value by the Appraiser shall be final and binding on both sides. The cost of such appraisal shall be paid in equal portions by both sides. Each side shall provide to the other and, if applicable, the Appraiser, all information reasonably requested by them."

(d) The Agreement shall be amended to include the following as new Article 14:

“ARTICLE 14

[***]

14.01 Definitions. As used in this Article 14, the following terms have the respective meanings set forth below:

[***]

“*CECONY*” means Consolidated Edison Company of New York, Inc., a New York corporation.

“*Con Edison*” means Con Edison Gas Midstream, LLC, a New York limited liability company.

[***]

“*EQT Precedent Agreement*” means that certain Restated Precedent Agreement, dated October 20, 2015, between the Company and EQT Energy, LLC, as may be amended or otherwise modified from time to time.

[***]

“*Facilities Expansion*” means the expansion of the Facilities pursuant to clauses (b)-(d) in the definition of “Facilities”.

“*Initial Facilities*” means those Facilities described in clause (a) of the definition of Facilities.

“*IPO*” means the closing of the first firm commitment underwritten public offering and sale of securities of the Company (or any entity or entities created through any reorganization or designated by the Management Committee) pursuant to an effective registration statement (excluding any registration statement on Form S-4 or S-8 or their equivalent) filed by the Company under the Securities Act of 1933, as amended.

“*Loans*” means loans made to the Company pursuant to Section 4.02(a).

“*Supermajority Interest*” means the approval of the Representatives [***] of the Management Committee representing greater than [***]% of the aggregate Sharing Ratios of the Members represented by such Representatives.

“*USG Precedent Agreement*” means that certain Restated Precedent Agreement, dated October 20, 2015, between the Company and USG Properties Marcellus Holdings, LLC, as may be amended or otherwise modified from time to time.

14.02 [***].

(a) Subject to the provisions of this Section 14.02, the Company hereby grants to [***] the right to [***]. For the avoidance of doubt, [***].

(b) The Company shall give written notice ([***]“[***] **Notice**”) of any [***] within five Business Days of the approval of [***].

(c) If, within ten Business Days following the receipt of [***] Notice [***] shall have the right to [***].

(d) The Company may, in accordance with [***].

(e) [***]. Each party to the [***] shall take all such other actions as may be reasonably necessary to [***].

14.03 [***]. Notwithstanding anything to the contrary in [***]

[***]

14.04 Management Committee Observer; [***].

(a) **Observer.** Con Edison shall have the right to designate (i) one Management Committee observer (the “**Observer**”) and (ii) one alternate Management Committee observer (the “**Alternate Observer**”) that shall have the same rights as the Observer in the event that the Observer is unable to fulfill its duties as set forth herein. The term “Observer” shall also refer to the Alternate Observer when the Alternate Observer is actually performing the duties of the Observer. The initial Observer and Alternate Observer are [***] and [***], respectively, which may be changed by Con Edison from time to time with three Business Days prior written notice in advance of a meeting to the Company and the Founding Members; provided, that if giving such advance notice is not feasible, then any new Observer shall present written evidence of his or her authority at the commencement of such meeting.

(b) **Rights of Observer.** The Observer shall have the right to attend and participate in meetings of the Management Committee and to receive all information provided to the Management Committee (including minutes of the Management Committee meetings) [***].

(c) [***]. [***] shall have the right to [***] and the [***] agree to cause [***]. Solely to the extent necessary for [***] to exercise its rights under this Section 14.04 (c), all provisions of this Agreement applicable to [***] shall be applicable to [***].

(d) **Notice of Meetings.** [***], the Observer shall be entitled to receive notice of, and an agenda for, all Management Committee meetings at least five Days prior to the date of each meeting, together with proposed minutes of the previous Management Committee meeting (if such minutes have not been previously ratified), unless, with respect to special meetings of the Management Committee, such five Day period is shortened by the Management Committee pursuant to Section 6.02(d), in which case the Observer shall

be entitled to receive notice by such shortened time, which shall in no event be less than one Business Day before any special meeting. The Observer shall have the right to participate in all Management Committee meetings in accordance with Section 6.02(g)(i) regardless of whether all other participants are present at such meeting in person. For the avoidance of doubt, actions taken at any meeting where the Observer was not given proper notice shall be null and void; provided, that such actions may be reinstated and be of full force and effect if re-authorized by written consent of the Management Committee (such consent to be made available to the Observer in accordance with Section 14.04(e)).

(e) *Action by Written Consent.* [***], in the event the Management Committee takes any action by written consent pursuant to Section 6.02(g), the Management Committee shall cause to be delivered a copy of such written consent to the Observer when sent to the Representatives for execution.

(f) [***]. The provisions of [***] shall apply to [***].

(g) [***]. The provisions of [***] with respect to [***] shall apply to [***].

14.05 [***].

(a) [***]. If [***] EQT and [***] propose to [***] shall be permitted to [***]; provided, however, that [***] would not be subject to [***] (unless [***] in which case such transaction shall be [***]). For the avoidance of doubt, any transactions pursuant to [***] shall not constitute [***].

(b) [***]. Prior to [***] EQT and/or [***] shall deliver to [***].

(c) [***].

(i) [***] shall exercise its right to [***] by delivering [***]. If [***] does not approve [***] then [***] shall not [***].

(ii) If [***] does not [***], then [***] shall be deemed to have [***].

(iii) Each Member [***] shall [***].

(d) [***]. This Section 14.05 shall not apply to [***].

14.06 [***].

(a) [***]. If [***] a Member [***] desires to [***], then [***] shall be permitted to [***] on the terms and conditions set forth in this Section 14.06.

(b) [***]. Within [***] Business Days of [***].

- (c) [***].
- (iv) [***] shall [***].
- (v) If [***].
- (vi) Prior to the time the [***]. Promptly following [***]:
 - (1) such [***] shall [***]; and
 - (2) the Company shall [***].

14.07 [***].

- (a) Notwithstanding anything to the contrary in this Agreement, the Founding Members and the Company agree that [***].
- (b) Notwithstanding anything to the contrary in [***] EQT and [***] hereby [***].
- (c) Notwithstanding anything to the contrary in [***] EQT and [***] agree that [***].

14.08 [***]. [***] shall have the [***], which shall specifically include [***]. If [***] another [***] then [***] shall [***]; provided; however, that nothing herein shall be deemed to [***].

14.09 Confidential Information. Notwithstanding anything to the contrary in this Agreement, the Founding Members and the Company agree that Con Edison may disclose Confidential Information to an Affiliate of Con Edison, including the directors, officers, members, managers, employees, agents and advisors of such Affiliate, if such Affiliate has agreed to abide by the terms of Section 3.06; provided, however, that in no event shall Con Edison or any of its successors, assigns or Affiliates disclose Confidential Information to any Shipper that is an Affiliate of Con Edison [***].

14.10 [***]. Notwithstanding anything to the contrary in this Agreement, the Founding Members and the Company hereby agree that [***].

14.11 [***].

- (a) If the Company shall [***], the Company shall [***]. The Company shall use [***]; provided, that, in the event that the [***]. The Company shall have the right to [***].
- (b) In connection with its obligations under this Section 14.11, the Company shall:

- (i) [***]; and
- (ii) [***] such other actions as are [***].

14.12 [***]. Notwithstanding any provision of the Agreement to the contrary, in the event [***] shall have the right [***]; provided that, any [***] shall [***]. Upon such election [***]; provided that [***] shall not [***] and shall not [***], and no [***] shall be [***] as a consequence of [***].

14.13 [*]; Assignability; Joinder.** None of the Company, EQT or [***]. EQT and USG shall have the right to assign their obligations under this Article 14 without the prior written consent of any other Member only in connection with transfer of any Membership Interests to a third party [***]. This Article 14 will be binding upon, and inure to the benefit of, the respective successors and permitted assigns, as permitted by the terms of this Agreement, of the Members.

14.14 Waivers. None of EQT, USG [***] waives any right under this Article 14 by failure or delay in its exercise. A single or partial exercise of any right does not preclude its later or further exercise or the exercise of any other right. The rights and remedies in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

14.15 Representations and Warranties. Each of the Company, EQT and USG hereby represent and warrant to [***].

14.16 Conflicts. In the event of a conflict between the terms and provisions of this Article 14 and the other terms and provisions of this Agreement, the terms and provisions of this Article 14 shall govern and control.

14.17 Final Investment Decision. At any time prior to the earlier to occur of (a) the date that is 30 Days after the FERC's issuance of its final Environmental Impact Study related to the Facilities and (b) December 31, 2016, Con Edison shall have the option (the "***Con Edison Termination Option***"), exercisable in its sole discretion, to (a) re-assign its Membership Interests to EQT and USG *pro rata* based on the amounts by which EQT and USG were diluted in connection with their respective assignments of such Membership Interests to Con Edison and (b) be reimbursed (without interest) by EQT and USG (based on the same proportion by which the Membership Interests are re-assigned pursuant to clause (a) of this Section 14.17) for the amount of all Capital Contributions made by Con Edison in respect of such Membership Interests."

2. **Limited Effect.** Except as specified in this Amendment, all provisions, terms and conditions of the Agreement shall continue in full force and effect.

3. **Term.** The terms and provisions set forth in Section 1(d) of this Amendment shall automatically terminate and no longer be a part of the Agreement, without any further action on the part of any Person, if [***].

4. **Governing Law.** The laws of the State of Delaware govern this Amendment, and this Amendment shall be construed in accordance therewith, regardless of its choice of law principles. Jurisdiction and venue for any proceeding relating to this Amendment shall be as set forth in the Agreement.

5. **Representations and Warranties.** Each Party hereby represents and warrants that (a) such Party is duly formed, validly existing, and in good standing under the Laws of the jurisdiction of its formation; (b) if required by applicable Law, such Party is duly qualified and in good standing in the jurisdiction of its principal place of business, if different from its jurisdiction of formation; and (c) such Party has the requisite power and authority to execute and deliver this Amendment and to perform its obligations hereunder, and all necessary actions by the board of directors, management committee, officers, managers, members, partners or other applicable Persons necessary for the due authorization, execution, delivery, and performance of this Amendment by such Party have been duly taken.

6. **Counterparts.** This Amendment may be executed in any number of counterparts with the same effect as if all signing Parties had signed the same document. All counterparts shall be construed together and constitute the same instrument. A signature page to this Amendment or any other document prepared in connection with the transactions contemplated hereby which contains a copy of a Party's signature and which is sent by such Party or its agent with the apparent intention (as reasonably evidenced by the actions of such Party or its agent) that it constitute such Party's execution and delivery of this Amendment or such other document, including a document sent by facsimile transmission or by email in portable document format (pdf), shall have the same effect as if such Party had executed and delivered an original of this Amendment or such other document. Minor variations in the form of the signature page, including footers from earlier versions of this Amendment or any such other document, shall be disregarded in determining the Party's intent or the effectiveness of such signature.

[SIGNATURES APPEAR ON THE FOLLOWING PAGES]

IN WITNESS WHEREOF, the Parties have caused this Amendment to be executed by their duly authorized representatives as of the date first set forth above

Mountain Valley Pipeline, LLC

By: MVP Holdco, LLC,
its Member

By: /s/ Randall L. Crawford
Name: Randall L. Crawford
Title: President

By: US Marcellus Gas Infrastructure, LLC,
its Member

By: /s/ Matthew Schafer
Name: Matthew Schafer
Title: Vice President

MVP HOLDCO, LLC

By: /s/ Randall L. Crawford
Name: Randall L. Crawford
Title: President

**US MARCELLUS GAS INFRASTRUCTURE,
LLC**

By: /s/ Matthew Schafer
Name: Matthew Schafer
Title: Vice President

Amendment to the Restricted Stock Plan for Outside Directors

The Amended and Restated Restricted Stock Plan for Outside Directors of RGC Resources, Inc. (the "Plan"), is amended to add a new Section 2(m) to read as follows, with the subsequent definitions in Section 2 being re-lettered accordingly:

Family Trust means a trust for which the applicable Participant serves as a trustee and which is for the benefit of family members of the Participant.

Section 2(o) [formerly 2(n)] of the Plan is amended to read as follows:

Participant means a Member during the Plan Year (including any Family Trust to which Restricted Stock is transferred by him or her in accordance with Section 6 of this Plan).

Section 6 of the Plan is amended to add the following sentence at the end:

Notwithstanding the foregoing, a Participant may transfer Restricted Stock to a Family Trust.

This Amendment was adopted by the Board of Directors on March 28, 2016.

/s/ Paul W. Nester
Paul W. Nester
Secretary

CERTIFICATION

I, John S. D'Orazio, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RGC Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2016

/s/ John S. D'Orazio

President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Paul W. Nester, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RGC Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2016

/s/ Paul W. Nester

Vice President, Secretary, Treasurer
and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RGC Resources, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John S. D'Orazio, President and Chief Executive Officer of the Company, certify to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ John S. D'Orazio

John S. D'Orazio

President and Chief Executive Officer

(Principal Executive Officer)

Date: May 6, 2016

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RGC Resources, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Paul W. Nester, Vice President, Secretary, Treasurer and Chief Financial Officer of the Company, certify to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Paul W. Nester

Paul W. Nester

Vice President, Secretary, Treasurer
and Chief Financial Officer
(Principal Financial Officer)

Date: May 6, 2016