UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON DC 20549

FORM 10-Q

(Mark One)
S QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended June 30, 2022

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from_______________ to _______________

Commission File Number 1-6659

ESSENTIAL UTILITIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-1702594 (I.R.S. Employer Identification No.)
762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania (Address of principal executive offices)	19010 -3489 (Zip Code)

(610) 527-8000
(Registrant’s telephone number, including area code)
N/A
(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 **S** No **£**

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes **S** No **£**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12(b)-2 of the Exchange Act.:

Large Accelerated Filer **S**	Accelerated Filer **£**
Non-Accelerated Filer **£**	Smaller Reporting Company **£**
Emerging Growth Company **£**	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. **£**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes **£** No **S**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.50 par value	WTRG	New York Stock Exchange

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 22, 2022**:** 262,170,763

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

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ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Assets	June 30, 2022	December 31, 2021
Property, plant and equipment, at cost	$ 13,111,170	$ 12,610,376
Less: accumulated depreciation	2,518,805	2,358,510
Net property, plant and equipment	10,592,365	10,251,866
Current assets:		
Cash and cash equivalents	12,976	10,567
Accounts receivable, net	143,385	141,025
Unbilled revenues	79,394	119,896
Inventory - materials and supplies	38,193	33,756
Inventory - gas stored	90,417	75,804
Prepayments and other current assets	31,722	36,597
Regulatory assets	17,208	20,150
Total current assets	413,295	437,795
Regulatory assets	1,511,541	1,429,840
Deferred charges and other assets, net	136,764	141,955
Funds restricted for construction activity	1,313	1,313
Goodwill	2,340,792	2,340,815
Operating lease right-of-use assets	44,713	48,930
Intangible assets	5,381	5,764
Total assets	$ 15,046,164	$ 14,658,278

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (continued)
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Liabilities and Equity	June 30, 2022	December 31, 2021
Stockholders' equity:		
Common stock at $0.50 par value, authorized 600,000,000 shares, issued 265,415,337 and 256,102,388 as of June 30, 2022 and December 31, 2021	$ 132,707	$ 128,050
Capital in excess of par value	3,715,975	3,705,814
Retained earnings	1,577,442	1,434,201
Treasury stock, at cost, 3,244,664 and 3,234,765 shares as of June 30, 2022 and December 31, 2021	(84,092)	(83,615)
Total stockholders' equity	5,342,032	5,184,450
Long-term debt, excluding current portion	6,135,390	5,815,211
Less: debt issuance costs	47,654	35,707
Long-term debt, excluding current portion, net of debt issuance costs	6,087,736	5,779,504
Commitments and contingencies (See Note 13)		
Current liabilities:		
Current portion of long-term debt	120,931	132,146
Loans payable	4,703	65,000
Accounts payable	194,105	192,932
Book overdraft	20,659	81,722
Accrued interest	43,384	40,815
Accrued taxes	34,457	37,924
Regulatory liabilities	1,878	384
Other accrued liabilities	124,008	124,140
Total current liabilities	544,125	675,063
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	1,511,182	1,406,537
Customers' advances for construction	109,457	103,619
Regulatory liabilities	755,651	769,617
Asset retirement obligations	1,268	1,256
Operating lease liabilities	41,736	48,230
Pension and other postretirement benefit liabilities	28,698	50,226
Other	28,328	43,666
Total deferred credits and other liabilities	2,476,320	2,423,151
Contributions in aid of construction	595,951	596,110
Total liabilities and equity	$ 15,046,164	$ 14,658,278

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	Three Months Ended June 30,	
	2022	2021
Operating revenues	$ 448,756	$ 397,032
Operating expenses:		
Operations and maintenance	134,981	127,515
Purchased gas	75,143	44,897
Depreciation	77,425	72,764
Amortization	1,751	1,408
Taxes other than income taxes	21,720	21,120
Total operating expenses	311,020	267,704
Operating income	137,736	129,328
Other expense (income):		
Interest expense	55,221	52,036
Interest income	(824)	(338)
Allowance for funds used during construction	(6,151)	(4,906)
Gain on sale of other assets	(478)	(223)
Other	(423)	(1,941)
Income before income taxes	90,391	84,700
Provision for income taxes	8,100	3,786
Net income	$ 82,291	$ 80,914
Comprehensive income	$ 82,291	$ 80,914
Net income per common share:		
Basic	$ 0.31	$ 0.32
Diluted	$ 0.31	$ 0.32
Average common shares outstanding during the period:		
Basic	262,099	254,769
Diluted	262,558	255,441

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	Six Months Ended June 30,	
	2022	2021
Operating revenues	$ 1,148,031	$ 980,597
Operating expenses:		
Operations and maintenance	277,562	252,590
Purchased gas	302,855	177,050
Depreciation	155,303	144,401
Amortization	2,219	2,715
Taxes other than income taxes	44,727	42,161
Total operating expenses	782,666	618,917
Operating income	365,365	361,680
Other expense (income):		
Interest expense	108,857	102,805
Interest income	(1,433)	(725)
Allowance for funds used during construction	(11,990)	(7,840)
Gain on sale of other assets	(478)	(303)
Other	(2,125)	(5,412)
Income before income taxes	272,534	273,155
Provision for income taxes (benefit)	(9,133)	8,552
Net income	$ 281,667	$ 264,603
Comprehensive income	$ 281,667	$ 264,603
Net income per common share:		
Basic	$ 1.08	$ 1.04
Diluted	$ 1.07	$ 1.04
Average common shares outstanding during the period:		
Basic	262,026	254,667
Diluted	262,545	255,268

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
(UNAUDITED)

			June 30, 2022		December 31, 2021
Stockholders' equity:					
Common stock, $0.50 par value		$	132,707	$	128,050
Capital in excess of par value			3,715,975		3,705,814
Retained earnings			1,577,442		1,434,201
Treasury stock, at cost			(84,092)		(83,615)
Total stockholders' equity			5,342,032		5,184,450
Long-term debt of subsidiaries (substantially collateralized by utility plant):					
Interest Rate Range	Maturity Date Range				
0.00% to 0.99%	2023 to 2033		2,029		2,341
1.00% to 1.99%	2023 to 2039		8,892		9,341
2.00% to 2.99%	2022 to 2058		311,075		312,751
3.00% to 3.99%	2022 to 2056		1,355,474		1,359,284
4.00% to 4.99%	2023 to 2059		1,282,991		1,286,024
5.00% to 5.99%	2023 to 2043		15,715		16,119
6.00% to 6.99%	2022 to 2036		32,417		32,475
7.00% to 7.99%	2022 to 2027		28,504		28,980
8.00% to 8.99%	2025 to 2025		2,424		2,772
9.00% to 9.99%	2026 to 2026		11,800		11,800
			3,051,321		3,061,887
Notes payable to bank under revolving credit agreement, variable rate, due 2023			140,000		300,000
Unsecured notes payable:					
Amortizing notes at 3.00% due 2022			-		20,470
Notes at 2.40% due 2031			400,000		400,000
Notes at 2.704% due 2030			500,000		500,000
Notes ranging from 3.01% to 3.59% due 2029 through 2050			1,125,000		1,125,000
Notes at 4.28%, due 2049			500,000		500,000
Notes at 5.30%, due 2052			500,000		-
Notes ranging from 5.64% to 5.95%, due 2022 through 2034			40,000		40,000
Total long-term debt			6,256,321		5,947,357
Current portion of long-term debt			120,931		132,146
Long-term debt, excluding current portion			6,135,390		5,815,211
Less: debt issuance costs			47,654		35,707
Long-term debt, excluding current portion, net of debt issuance costs			6,087,736		5,779,504
Total capitalization		$	11,429,768	$	10,963,954

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2021	$ 128,050	$ 3,705,814	$ 1,434,201	$ (83,615)	$ 5,184,450
Net income	-	-	199,376	-	199,376
Dividends of March 1, 2022 ($0.2682 per share)	-	-	(67,821)	-	(67,821)
Dividends of June 1, 2022 ($0.2682 per share)	-	-	(67,863)	-	(67,863)
Issuance of common stock under dividend reinvestment plan (93,833 shares)	47	4,070	-	-	4,117
Repurchase of stock (21,290 shares)	-	-	-	(1,012)	(1,012)
Equity compensation plan (57,052 shares)	29	(29)	-	-	-
Exercise of stock options (28,516 shares)	14	998	-	-	1,012
Stock-based compensation	-	2,716	(136)	-	2,580
Other	-	(9)	-	270	261
Balance at March 31, 2022	$ 128,140	$ 3,713,560	$ 1,497,757	$ (84,357)	$ 5,255,100
Net income	-	-	82,291	-	82,291
Dividends of June 1, 2022 ($0.2682 per share)	-	-	(2,424)	-	(2,424)
Issuance of common stock from stock purchase contracts (9,029,461 shares)	4,515	(4,515)	-	-	-
Issuance of common stock under dividend reinvestment plan (92,889 shares)	47	4,007	-	-	4,054
Repurchase of stock (305 shares)	-	-	-	(15)	(15)
Equity compensation plan (4,736 shares)	2	(2)	-	-	-
Exercise of stock options (6,462 shares)	3	224	-	-	227
Stock-based compensation	-	2,725	(182)	-	2,543
Other	-	(24)	-	280	256
Balance at June 30, 2022	$ 132,707	$ 3,715,975	$ 1,577,442	$ (84,092)	$ 5,342,032

The accompanying notes are an integral part of these consolidated financial statements

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ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY
(In thousands of dollars, except per share amounts)
(UNAUDITED)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2020	$ 124,285	$ 3,379,057	$ 1,261,862	$ (81,327)	$ 4,683,877
Net income	-	-	183,689	-	183,689
Dividends of March 1, 2021 ($0.2507 per share)	-	-	(61,520)	-	(61,520)
Issuance of common stock under dividend reinvestment plan (98,904 shares)	49	4,112	-	-	4,161
Repurchase of stock (76,105 shares)	-	-	-	(3,262)	(3,262)
Equity compensation plan (192,407 shares)	97	(97)	-	-	-
Exercise of stock options (20,201 shares)	10	704	-	-	714
Stock-based compensation	-	2,631	(174)	-	2,457
Other	-	(31)	-	256	225
Balance at March 31, 2021	$ 124,441	$ 3,386,376	$ 1,383,857	$ (84,333)	$ 4,810,341
Net income	-	-	80,914	-	80,914
Dividends of June 1, 2021 ($0.2507 per share)	-	-	(61,584)	-	(61,584)
Issuance of common stock under dividend reinvestment plan (90,654 shares)	46	4,049	-	-	4,095
Repurchase of stock (364 shares)	-	-	-	(17)	(17)
Equity compensation plan (4,874 shares)	2	(2)	-	-	-
Exercise of stock options (22,786 shares)	11	781	-	-	792
Stock-based compensation	-	2,316	(146)	-	2,170
Other	-	(148)	-	252	104
Balance at June 30, 2021	$ 124,500	$ 3,393,372	$ 1,403,041	$ (84,098)	$ 4,836,815

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)
(UNAUDITED)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash flows from operating activities:		
Net income	$ 281,667	$ 264,603
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	157,522	147,116
Deferred income taxes	(13,810)	19,594
Provision for doubtful accounts	12,793	16,511
Stock-based compensation	5,471	5,053
Gain on sale of other assets	(478)	(808)
Net change in receivables, inventory and prepayments	6,742	55,561
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	(4,222)	(78,587)
Pension and other postretirement benefits contributions	(14,564)	(12,971)
Other	(14,819)	(3,204)
Net cash flows from operating activities	416,302	412,868
Cash flows from investing activities:		
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of $3,013 and $1,393	(424,645)	(404,557)
Acquisitions of utility systems, net	(50,010)	-
Net proceeds from the sale of other assets	485	960
Other	157	(184)
Net cash flows used in investing activities	(474,013)	(403,781)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	5,796	8,988
Repayments of customers' advances	(901)	(1,961)
Net repayments of short-term debt	(60,297)	(6,349)
Proceeds from long-term debt	770,376	760,176
Repayments of long-term debt	(464,585)	(619,477)
Change in cash overdraft position	(61,061)	(30,595)
Proceeds from issuance of common stock under dividend reinvestment plan	8,171	8,256
Proceeds from exercised stock options	1,239	1,506
Repurchase of common stock	(1,027)	(3,279)
Dividends paid on common stock	(138,108)	(123,104)
Other	517	329
Net cash flows from (used in) financing activities	60,120	(5,510)
Net change in cash and cash equivalents	2,409	3,577
Cash and cash equivalents at beginning of period	10,567	4,827
Cash and cash equivalents at end of period	$ 12,976	$ 8,404
Non-cash investing activities:		
Property, plant and equipment additions purchased at the period end, but not yet paid for	$ 94,473	$ 74,752
Non-cash customer advances and contributions in aid of construction	8,789	17,651

The accompanying notes are an integral part of these consolidated financial statements

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of dollars, except per share amounts)
(UNAUDITED)

Note 1 – *Basis of Presentation*

The accompanying unaudited consolidated balance sheets and statements of capitalization of Essential Utilities, Inc. and subsidiaries (collectively, the "Company", "we", "us" or "our") at June 30, 2022, the unaudited consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2022 and 2021, and the consolidated statements of cash flows and of equity for the six months ended June 30, 2022 and 2021, have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim reporting and the rules and regulations for reporting on Quarterly Reports on Form 10-Q. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2021. Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments, consisting of only recurring accruals, which are necessary to present a fair statement of its consolidated balance sheets, consolidated statements of equity, consolidated statements of operations and comprehensive income, and consolidated cash flow for the periods presented, have been made.

The preparation of financial statements often requires the selection of specific accounting methods and policies. Further, significant estimates and judgments may be required in selecting and applying those methods and policies in the recognition of the assets and liabilities in its consolidated balance sheets, the revenues and expenses in its consolidated statements of operations and comprehensive income, and the information that is contained in its summary of significant accounting policies and notes to consolidated financial statements. Making these estimates and judgments requires the analysis of information concerning events that may not yet be complete and of facts and circumstances that may change over time. Accordingly, actual amounts or future results can differ materially from those estimates that the Company includes currently in its consolidated financial statements, summary of significant accounting policies, and notes.

In the preparation of these financial statements and related disclosures, we have assessed the impact that the COVID-19 pandemic and the global geopolitical uncertainties ("major events") has had on our estimates, assumptions, forecasts, and accounting policies. Because of the essential nature of our business, we do not believe these major events had a material impact on our estimates, assumptions and forecasts used in the preparation of our financial statements, although we continue to monitor this closely. As these major events are continuing to evolve, future events and effects related to these major events cannot be determined with precision, and actual results could significantly differ from our estimates or forecasts.

There have been no changes to the summary of significant accounting policies previously identified in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

(In thousands of dollars, except per share amounts)

Note 2 – *Revenue Recognition*

The following table presents our revenues disaggregated by major source and customer class:

	Three Months Ended June 30, 2022				Three Months Ended June 30, 2021			
	Water Revenues	Wastewater Revenues	Natural Gas Revenues	Other Revenues	Water Revenues	Wastewater Revenues	Natural Gas Revenues	Other Revenues
Revenues from contracts with customers:								
Residential	$ 149,542	30,653	95,942	-	$ 144,415	$ 24,312	$ 83,760	$ -
Commercial	41,025	6,973	18,853	-	37,967	5,268	14,850	-
Fire protection	9,547	-	-	-	8,919	-	-	-
Industrial	7,604	432	957	-	7,747	410	521	-
Gas transportation & storage	-	-	40,573	-	-	-	37,789	-
Other water	15,899	-	-	-	12,714	-	-	-
Other wastewater	-	3,507	-	-	-	2,564	-	-
Other utility	-	-	11,840	3,325	-	-	5,971	3,489
Revenues from contracts with customers	223,617	41,565	168,165	3,325	211,762	32,554	142,891	3,489
Alternative revenue program	1,109	(161)	176	-	421	(50)	(5)	-
Other and eliminations	(545)	-	-	11,505	-	-	-	5,970
Consolidated	$ 224,181	$ 41,404	$ 168,341	$ 14,830	$ 212,183	$ 32,504	$ 142,886	$ 9,459

	Six Months Ended June 30, 2022				Six Months Ended June 30, 2021			
	Water Revenues	Wastewater Revenues	Natural Gas Revenues	Other Revenues	Water Revenues	Wastewater Revenues	Natural Gas Revenues	Other Revenues
Revenues from contracts with customers:								
Residential	$ 280,830	$ 57,148	381,048	$ -	$ 277,272	$ 48,673	$ 297,953	$ -
Commercial	76,145	13,038	75,893	-	71,155	10,263	55,871	-
Fire protection	18,740	-	-	-	17,964	-	-	-
Industrial	14,785	776	2,799	-	14,736	854	1,478	-
Gas transportation & storage	-	-	119,747	-	-	-	115,593	-
Other water	33,250	-	-	-	23,157	-	-	-
Other wastewater	-	6,005	-	-	-	4,314	-	-
Other utility	-	-	35,066	6,240	-	-	15,151	7,315
Revenues from contracts with customers	423,750	76,967	614,553	6,240	404,284	64,104	486,046	7,315
Alternative revenue program	1,724	(188)	-	-	830	(4)	206	-
Other and eliminations	(545)	-	-	25,530	-	-	-	17,816
Consolidated	$ 424,929	$ 76,779	$ 614,553	$ 31,770	$ 405,114	$ 64,100	$ 486,252	$ 25,131

Note 3 – *Acquisitions*

Water and Wastewater Utility Acquisitions - Completed

In March 2022, the Company acquired the wastewater system of Lower Makefield Township, which serves approximately 11,000 customer connections in Lower Makefield, Falls and Middletown townships, and Yardley Borough, Bucks County, Pennsylvania, for a cash purchase price of $53,000.

In August 2021, the Company acquired the water utility system assets of The Commons Water Supply, Inc., which serves 992 customers in Harris County, Texas, and the wastewater utility system assets of the Village of Bourbonnais, which serves approximately 6,500 customers in Kankakee County, Illinois. The total cash purchase prices for these utility systems were $4,000 and $32,100, respectively.

The purchase price allocation for these acquisitions consisted primarily of acquired property, plant and equipment.

The pro forma effect of the utility systems acquired is not material either individually or collectively to the Company's results of operations.

Water and Wastewater Utility Acquisitions – Pending Completion

In July 2022, the Company's subsidiary, Aqua Pennsylvania Wastewater, was granted a one-year exclusivity agreement by the board of the Bucks County Water and Sewer Authority ("BCWSA") regarding the sale of the county's wastewater assets. Aqua Pennsylvania Wastewater made an offer to purchase the BCWSA's wastewater assets for a purchase price of $885,000 plus adjustments for additional utility assets acquired by BCWSA, and capital expenditures prior to closing. In addition, an agreement is proposed where Aqua Pennsylvania Wastewater will continue to make payments to the seller after closing to acquire additional wastewater treatment capacity as required by customer growth over time. The award is conditioned upon several items, including a final vote by the BCWSA and entering into a definitive agreement in which Aqua will buy and BCWSA will sell the wastewater assets.

In December 2021, the Company entered into a purchase agreement to acquire the water utility assets of the Southern Oaks Water System, which serves approximately 740 customers for $3,300. In October 2021, the Company entered into a purchase agreement to acquire the wastewater utility assets of the City of Beaver Falls, Pennsylvania which consists of approximately 7,600 customers for $41,250. In July 2021, the Company entered into a purchase agreement to acquire the water utility assets of Shenandoah Borough, Pennsylvania which consists of approximately 2,930 customers for $12,000. In April 2021, the Company entered into a purchase agreement to acquire certain water or wastewater utility assets of Oak Brook, Illinois which consists of approximately 4,000 customers for $12,500. In January 2021, the Company entered into purchase agreements to acquire, in separate transactions, the wastewater utility system assets of East Whiteland Township, Pennsylvania and Willistown Township, Pennsylvania which consist of approximately 10,500 customers for $72,400.

The purchase price for these pending acquisitions are subject to certain adjustments at closing, and are subject to regulatory approval, including the final determination of the fair value of the rate base acquired. We plan to finance the purchase price of these acquisitions by utilizing our revolving credit facility until permanent debt and common equity are secured. The closings of our acquisitions of East Whiteland Township and Willistown Township are expected to occur during the third quarter of 2022, while the Oak Brook acquisition is expected to occur during the fourth quarter of 2022. The closings of our Shenandoah Borough, Beaver Falls, and Southern Oaks acquisitions are expected to occur in the first half of 2023. Closing for our utility acquisitions are subject to the timing of the respective regulatory approval processes.

DELCORA Purchase Agreement

In September 2019, the Company entered into a purchase agreement to acquire the wastewater utility system assets of the Delaware County Regional Water Quality Control Authority ("DELCORA"), which consists of approximately 16,000 customers, or the equivalent of 198,000 retail customers, in 42 municipalities in Southeast Pennsylvania for $276,500. In May 2020, Delaware County, Pennsylvania filed a lawsuit alleging that DELCORA does not have the legal authority to establish and fund a customer trust with the net proceeds of the transaction. In December 2020, the judge in the Delaware County Court lawsuit issued an order that (1) the County cannot interfere with the purchase agreement between DELCORA and the Company; (2) the County cannot terminate DELCORA prior to the closing of the transaction; and (3) the establishment of the customer trust was valid. Delaware County appealed this decision to Commonwealth Court of Pennsylvania. On March 3, 2022, the Commonwealth Court issued a decision finding that Delaware County can dissolve the Authority if it so chooses, but the purchase agreement must be upheld regardless of who is operating the system. The case was remanded back to the trial court for the entry of an order consistent with the Commonwealth Court's opinion.

The administrative law judges in the regulatory approval process recommended that the Company's application be denied, and subsequently, the Company provided exceptions to the recommended decision. On March 30, 2021, the Pennsylvania Public Utility Commission ("PUC") ruled that the case be remanded back to the Office of Administrative Law Judge ("ALJ") and vacated the original administrative law judges' recommended decision ("2021 Order"). This 2021 Order was also appealed to the Commonwealth Court by Delaware County, and a decision is expected in the next several months.

After the PUC issued the 2021 Order, on April 16, 2021, the administrative law judge issued an order staying the proceeding until the Delaware County Court lawsuit is final and unappealable. On March 25, 2022, the Company sent a letter notifying the PUC of the March 3, 2022 Commonwealth Court decision and requested that the PUC move forward with processing the application. Several parties responded to the Company's letter and referenced the issues in the second appeal before Commonwealth Court regarding the 2021 Order. On July 14, 2022, the Commission moved to lift the stay imposed by the ALJ, and required the ALJ to establish a schedule on remand for the proceeding.

The purchase price for this pending acquisition is subject to certain adjustments at closing, and is subject to regulatory approval, including the final determination of the fair value of the rate base acquired. We plan to finance the purchase price of this acquisition by the issuance of common stock and by utilizing our revolving credit facility until permanent debt is secured. Closing of our acquisition of DELCORA is expected to occur in late 2022 or early 2023, subject to the timing of the regulatory approval process and Delaware County's on-going litigation.

(In thousands of dollars, except per share amounts)

Note 4 – *Goodwill*

The following table summarizes the changes in the Company's goodwill, by business segment:

	Regulated Water	Regulated Natural Gas	Other	Consolidated
Balance at December 31, 2021	$ 58,527	$ 2,277,447	$ 4,841	$ 2,340,815
Reclassification to utility plant acquisition adjustment	(23)	-	-	(23)
Balance at June 30, 2022	$ 58,504	$ 2,277,447	$ 4,841	$ 2,340,792

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisitions upon achieving specific objectives.

Note 5 – *Capitalization*

Forward Equity Sale

In August 2020, the Company entered into a forward equity sale agreement for 6,700,000 shares of common stock with a third party (the "forward purchaser"). In connection with the forward equity sale agreement, the forward purchaser borrowed an equal number of shares of the Company's common stock from stock lenders and sold the borrowed shares to the public. The Company did not receive any proceeds from the sale of its common stock by the forward purchaser until settlement of the shares underlying the forward equity sale agreement. The actual proceeds to be received by the Company would have varied depending upon the settlement date, the number of shares designated for settlement on that settlement date, and the method of settlement. The forward equity sale agreement was accounted for as an equity instrument and was recorded at a fair value of $0 at inception. The fair value was not adjusted as the Company continued to meet the accounting requirements for equity instruments.

On August 9, 2021, the Company settled the forward equity sale agreement in full by physical share settlement. The Company issued 6,700,000 shares and received cash proceeds of $299,739 at a forward price of $44.74 per share. Pursuant to the agreement, the forward price was computed based upon the initial forward price of $46.00 per share, adjusted for a floating interest rate factor equal to a specified daily rate less a spread and scheduled dividends during the term of the agreement. The Company used the proceeds received upon settlement of the forward equity sale agreement to fund general corporate purposes, including for water and wastewater utility acquisitions, working capital and capital expenditures. The forward equity sale agreement has now been completely settled, and there are no additional shares subject to the forward equity sale agreement.

Tangible Equity Units

On April 23, 2019, the Company issued $690,000, less expenses of $16,358, of its tangible equity units (the "Units"), with a stated amount of $50.00 per unit. This issuance was part of the permanent financing to close the Peoples Gas Acquisition. Each Unit consisted of a prepaid stock purchase contract and an amortizing note, each issued by the Company. The amortizing notes had an initial principal amount of $8.62909, or $119,081 in aggregate, and yielded interest at a rate of 3.00% per year, and paid equal quarterly per unit cash installments of $0.75 per amortizing note (except for the July 30, 2019 installment payment, which was $0.80833 per amortizing note), that constituted a payment of interest and a partial repayment of principal. This cash payment in the aggregate was equivalent to 6.00% per year with respect to each $50.00 stated amount of the Units. The amortizing notes represented unsecured senior obligations of the Company.

Certain holders of the tangible equity units had early settled their prepaid stock purchase contracts prior to the due date, and, in exchange, the Company issued shares of its common stock. During April 2022, 981,919 stock purchase contracts were early settled by the holders of the contracts, resulting in the issuance of 1,166,107 shares of the Company's common stock. On May 2, 2022, the remaining 6,621,315 stock purchase contracts were each mandatorily settled for 1.18758 shares of the Company's common stock, and in the aggregate the Company issued 7,863,354 shares of its common stock. Additionally, the final quarterly installment payment was made, which resulted in the complete pay-off of the amortizing notes.

Long-term Debt and Loans Payable

On May 20, 2022, the Company issued $500,000 of long-term debt (the "Senior Notes"), less expenses of $5,815, due in 2052 with an interest rate of 5.30%. The Company used the net proceeds from the issuance of Senior Notes to (1) to repay $49,700 of borrowings under the Aqua Pennsylvania's 364-day revolving credit facility and $410,000 of borrowings under the Company's existing five-year unsecured revolving credit facility, and (2) for general corporate purposes.

On June 30, 2022, the following debt amendments were executed: (1) Peoples Natural Gas Companies amended its 364-day revolving credit agreement primarily to increase the amount of the facility from $100,000 to $300,000 and to update the termination date of the facility to June 29, 2023, and (2) Aqua Pennsylvania amended its 364-day revolving credit agreement primarily to update the termination date of the facility to June 29, 2023 to coincide with the term of the Peoples Natural Gas Companies' facility.

On April 15, 2021, the Company's operating subsidiary, Aqua Ohio, Inc., issued $100,000 of first mortgage bonds, of which $50,000 is due in 2031 and $50,000 is due in 2051, with interest rates of 2.37% and 3.35%, respectively. The proceeds from these bonds were used for general corporate purposes and to repay existing indebtedness. Further, on April 19, 2021, the Company issued $400,000 of long-term debt, less expenses of $4,010, which is due in 2031, with an interest rate of 2.40%. The Company used the proceeds from this issuance to repay $50,000 of borrowings under the Aqua Pennsylvania revolving credit facility, and the balance was used to repay in full the borrowings under its existing five year unsecured revolving credit agreement.

(In thousands of dollars, except per share amounts)

Note 6 – *Financial Instruments*

Financial instruments are recorded at carrying value in the financial statements and approximate fair value as of the dates presented. The fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments. There have been no changes in the valuation techniques used to measure fair value, or asset or liability transfers between the levels of the fair value hierarchy for the three and six months ended June 30, 2022 and 2021.

The fair value of loans payable is determined based on its carrying amount and utilizing Level 1 methods and assumptions. As of June 30, 2022 and December 31, 2021, the carrying amount of the Company's loans payable was $4,703 and $65,000, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents, is determined based on Level 1 methods and assumptions. As of June 30, 2022 and December 31, 2021, the carrying amounts of the Company's cash and cash equivalents was $12,976 and $10,567, respectively, which equates to their fair value. The Company's assets underlying the deferred compensation and non-qualified pension plans are determined by the fair value of mutual funds, which are based on quoted market prices from active markets utilizing Level 1 methods and assumptions. As of June 30, 2022 and December 31, 2021, the carrying amount of these securities was $25,630 and $28,576, respectively, which equates to their fair value, and is reported in the consolidated balance sheet in deferred charges and other assets.

Unrealized gain and losses on equity securities held in conjunction with our non-qualified pension plan is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net gain (loss) recognized during the period on equity securities	$ (459)	$ 251	$ (737)	$ 499
Less: net gain / loss recognized during the period on equity securities sold during the period	-	-	-	-
Unrealized gain (loss) recognized during the reporting period on equity securities still held at the reporting date	$ (459)	$ 251	$ (737)	$ 499

The net gain (loss) recognized on equity securities is presented on the consolidated statements of operations and comprehensive income on the line item "Other."

The carrying amounts and estimated fair values of the Company's long-term debt is as follows:

	June 30, 2022	December 31, 2021
Carrying amount	$ 6,256,321	$ 5,947,357
Estimated fair value	5,545,498	6,482,499

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing Level 2 methods and assumptions.

The Company's customers' advances for construction have a carrying value of $109,457 as of June 30, 2022, and $103,619 as of December 31, 2021. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels, and future rates. Portions of these non-interest-bearing instruments are payable annually through 2032, and amounts not paid by the respective contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest-bearing feature.

Note 7 – *Net Income per Common Share*

Basic net income per common share is based on the weighted average number of common shares outstanding and the weighted average minimum number of shares issued upon settlement of the stock purchase contracts issued under the tangible equity units. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation and shares issuable under the forward equity sale agreement (from the date the Company entered into the forward equity sale agreement to the settlement date) are included in the computation of diluted net income per common share. The dilutive effect of stock-based compensation and shares issuable under the forward equity sale agreement are calculated using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation and settlement of the forward equity sale agreement. The treasury stock method assumes that the proceeds from stock-based compensation and settlement of the forward equity sale agreement are used to purchase the Company's common stock at the average market price during the period. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per common share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Average common shares outstanding during the period for basic computation	262,099	254,769	262,026	254,667
Effect of dilutive securities:				
Forward equity sale agreement	-	285	-	147
Tangible equity units	-	-	-	-
Employee stock-based compensation	459	387	519	454
Average common shares outstanding during the period for diluted computation	262,558	255,441	262,545	255,268

For the three and six months ended June 30, 2022, the weighted average impact of 2,830,021 and 5,912,617 shares, respectively, were included in the basic computation of the average common shares outstanding based on the number of shares that were issued upon settlement of the stock purchase contracts under the tangible equity units. For both the three and six months ended June 30, 2021, the minimum settlement amount of the stock purchase contracts under the tangible equity units of 9,091,179 shares were considered outstanding for the basic computation of the average common shares outstanding.

(In thousands of dollars, except per share amounts)

The number of outstanding employee stock options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was 83,080 for the three and six months ended June 30, 2022. For the three and six months ended June 30, 2021, all of the Company's outstanding employee stock options were included in the calculations of diluted net income per share as there were no anti-dilutive employee stock options. Additionally, the dilutive effect of performance share units and restricted share units granted are included in the Company's calculation of diluted net income per share.

Note 8 – *Stock-based Compensation*

Under the Company's Amended and Restated Equity Compensation Plan (the "Plan") approved by the Company's shareholders on May 2, 2019, to replace the 2004 Equity Compensation Plan, stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The Plan authorizes 6,250,000 shares for issuance under the Plan. A maximum of 3,125,000 shares under the Plan may be issued pursuant to stock awards, stock units and other stock-based awards, subject to adjustment as provided in the Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the Plan for more than 500,000 shares of Company stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the Plan. Awards to employees and consultants under the Plan are made by a committee of the Board of Directors of the Company, except that with respect to awards to the Chief Executive Officer, the committee recommends those awards for approval by the non-employee directors of the Board of Directors. In the case of awards to non-employee directors, the Board of Directors makes such awards. At June 30, 2022, 1,804,222 shares were still available for issuance under the Plan. No further grants may be made under the Company's 2004 Equity Compensation Plan.

Performance Share Units – A performance share unit ("PSU") represents the right to receive a share of the Company's common stock if specified performance goals are met over the three year performance period specified in the grant, subject to exceptions through the respective vesting period, which is generally three years. Each grantee is granted a target award of PSUs and may earn between 0% and 200% of the target amount depending on the Company's performance against the performance goals. The following table provides compensation expense for PSUs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Stock-based compensation within operations and maintenance expenses	$ 1,692	$ 1,290	$ 3,342	$ 2,931
Income tax benefit	485	364	952	826

(In thousands of dollars, except per share amounts)

The following table summarizes the PSU transactions for the six months ended June 30, 2022:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	355,384	$ 42.19
Granted	160,245	42.31
Forfeited	(18,150)	44.46
Nonvested share units at end of period	497,479	42.15

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions using the Monte Carlo valuation method, which assesses probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs is based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The per unit weighted-average fair value at the date of grant for PSUs granted during the six months ended June 30, 2022 and 2021 was $42.31 and $43.18, respectively. The fair value of each PSU grant is amortized monthly into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on the Company's estimate of the final expected value of the award and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows.

Restricted Stock Units – A restricted stock unit ("RSU") represents the right to receive a share of the Company's common stock. RSUs are eligible to be earned at the end of a specified restricted period, which is generally three years, beginning on the date of grant. The Company assumes that forfeitures will be minimal and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the RSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the RSUs. The following table provides the compensation expense and income tax benefit for RSUs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Stock-based compensation within operations and maintenance expenses	$ 727	$ 761	$ 1,504	$ 1,365
Income tax benefit	209	212	428	381

(In thousands of dollars, except per share amounts)

The following table summarizes the RSU transactions for the six months ended June 30, 2022:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	193,687	$ 43.76
Granted	71,376	45.10
Stock units vested and issued	(54,926)	36.76
Forfeited	(6,621)	44.77
Nonvested stock units at end of period	203,516	46.12

The per unit weighted-average fair value at the date of grant for RSUs granted during the six months ended June 30, 2022 and 2021 was $45.10 and $44.44, respectively.

Stock Options – A stock option represents the option to purchase a number of shares of common stock of the Company as specified in the stock option grant agreement at the exercise price per share as determined by the closing market price of our common stock on the grant date. Stock options are exercisable in installments of 33% annually, starting one year from the grant date and expire 10 years from the grant date, subject to satisfaction of designated performance goals. The fair value of each stock option is amortized into compensation expense using the graded-vesting method, which results in the recognition of compensation costs over the requisite service period for each separately vesting tranche of the stock options as though the stock options were, in substance, multiple stock option grants. The following table provides the compensation cost and income tax benefit for stock-based compensation related to stock options:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Stock-based compensation within operations and maintenance expenses	$ 141	$ 90	$ 241	$ 301
Income tax benefit	41	26	69	86

The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model. The following assumptions were used in the application of this valuation model:

	2022
Expected term (years)	5.48
Risk-free interest rate	1.92%
Expected volatility	26.50%
Dividend yield	2.37%
Grant date fair value per option	$ 9.34

The Company did not grant stock options for the six months ended June 30, 2021.

(In thousands of dollars, except per share amounts)

Historical information was the principal basis for the selection of the expected term and dividend yield. The expected volatility is based on a weighted-average combination of historical and implied volatilities over a time period that approximates the expected term of the option. The risk-free interest rate was selected based upon the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option.

The following table summarizes stock option transactions for the six months ended June 30, 2022:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding at beginning of period	813,492	$ 35.37		
Granted	84,296	45.19		
Forfeited	(2,344)	41.78		
Expired	(125)	35.94		
Exercised	(34,978)	35.42		
Outstanding at end of period	860,341	$ 36.32	6.7	$ 8,199
Exercisable at end of period	777,449	$ 35.37	6.4	$ 8,144

Restricted Stock – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense that is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis. The following table provides the compensation cost and income tax benefit for stock-based compensation related to restricted stock:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Stock-based compensation within operations and maintenance expenses	$ 13	$ 12	$ 25	$ 106
Income tax benefit	3	4	7	31

(In thousands of dollars, except per share amounts)

The following table summarizes restricted stock transactions for the six months ended June 30, 2022:

	Number of Shares	Weighted Average Fair Value
Nonvested restricted stock at beginning of period	1,068	$ 46.83
Granted	-	-
Vested	-	-
Nonvested restricted stock at end of period	1,068	$ 46.83

The Company did not grant restricted stock for the six months ended June 30, 2022.

Stock Awards – Stock awards represent the issuance of the Company's common stock, without restriction. The issuance of stock awards results in compensation expense that is equal to the fair market value of the stock on the grant date and is expensed immediately upon grant. The following table provides the compensation cost and income tax benefit for stock-based compensation related to stock awards:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Stock-based compensation within operations and maintenance expenses	$ 165	$ 175	$ 357	$ 350
Income tax benefit	47	51	103	101

The following table summarizes stock award transactions for the six months ended June 30, 2022:

	Number of Stock Awards	Weighted Average Fair Value
Nonvested stock awards at beginning of period	-	$ -
Granted	7,660	46.66
Vested	(7,660)	(46.66)
Nonvested stock awards at end of period	-	-

The weighted-average fair value at the date of grant for stock awards granted during the six months ended June 30, 2022 and 2021 was $46.66 and $45.28, respectively.

(In thousands of dollars, except per share amounts)

Note 9 – *Pension Plans and Other Postretirement Benefits*

The Company maintains a qualified defined benefit pension plan (the “Pension Plan”), a nonqualified pension plan, and other postretirement benefit plans for certain of its employees.

The following tables provide the components of net periodic benefit (credit) cost for the Company’s pension and other postretirement benefit plans:

	Pension Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Service cost	$ 707	$ 876	$ 1,414	$ 1,953
Interest cost	3,202	3,255	6,403	6,316
Expected return on plan assets	(5,894)	(5,791)	(11,789)	(11,698)
Amortization of prior service cost	134	140	268	280
Amortization of actuarial loss	436	727	871	1,797
Net periodic benefit cost (credit)	$ (1,415)	$ (793)	$ (2,833)	$ (1,352)

	Other Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Service cost	$ 477	$ 699	$ 955	$ 1,398
Interest cost	843	839	1,685	1,678
Expected return on plan assets	(1,126)	(1,039)	(2,251)	(2,078)
Amortization of prior service credit	-	(108)	-	(216)
Amortization of actuarial loss	(334)	55	(668)	110
Net periodic benefit cost	$ (140)	$ 446	$ (279)	$ 892

The net periodic benefit (credit) cost is based on estimated values and an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company’s employees, mortality, turnover, and medical costs. The Company presents the components of net periodic benefit (credit) cost other than service cost in the consolidated statements of operations and comprehensive income on the line item “Other”.

There were $14,564 cash contributions made to the Pension Plan during the first six months of 2022.

Note 10 – ***Rate Activity***

On May 16, 2022, the Company’s regulated water and wastewater operating subsidiary in Pennsylvania, Aqua Pennsylvania, received an order from the Pennsylvania Public Utility Commission that allowed base rate increases that would increase total annual operating revenues by $69,251. New rates went into effect on May 19, 2022. At the time the rate order was received, the rates in effect also included $35,470 in Distribution System Improvement Charges (“DSIC”), which was 7.2% above prior base rates. Consequently, the aggregate base rates increased by $104,721 since the last base rate increase and DSIC was reset to zero.

On January 3, 2022, the Company’s natural gas operating division in Kentucky received an order from the Kentucky Public Service Commission resulting in an increase of $5,238 in annual revenues, and new rates went into effect on January 4, 2022. On June 7, 2022, an additional $260 was approved and made effective by the Commission, resulting from a rehearing requested by the operating division.

On June 30, 2022, the Company’s regulated water and wastewater operating subsidiary in North Carolina, Aqua North Carolina, filed an application with the North Carolina Utilities Commission designed to increase rates by $18,064 in the first year of new rates being implemented, then an additional $4,303 and $4,577 in the second and third years, respectively.

A base rate case is also underway for our water and wastewater utility operating divisions in Ohio which is expected to increase operating revenues by $5,483 annually based on a settlement agreement that remains subject to approval by the Public Utilities Commission of Ohio. New rates are expected to be effective in the third or fourth quarter of 2022.

During the first six months of 2022, the Company’s two other water utility operating divisions in Ohio were granted base rate increases designed to increase total operating revenues on an annual basis by $1,378. Further, during the first six months of 2022, the Company received approval to bill infrastructure rehabilitation surcharges designed to increase total operating revenues on an annual basis by $6,789 in its water and wastewater utility operating divisions in Pennsylvania, North Carolina, and Illinois.

(In thousands of dollars, except per share amounts)

Note 11 – *Taxes Other than Income Taxes*

The following table provides the components of taxes other than income taxes:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Property	$ 8,239	$ 9,570	$ 16,253	$ 17,284
Gross receipts, excise and franchise	4,017	3,949	8,117	7,633
Payroll	4,778	4,718	11,439	11,474
Regulatory assessments	1,812	847	3,577	1,685
Pumping fees	1,947	1,464	3,323	2,590
Other	927	572	2,018	1,495
Total taxes other than income	$ 21,720	$ 21,120	$ 44,727	$ 42,161

Note 12 – *Segment Information*

The Company has twelve operating segments and two reportable segments. The Regulated Water segment is comprised of eight operating segments representing its water and wastewater regulated utility companies, which are organized by the states where the Company provides water and wastewater services. The eight water and wastewater utility operating segments are aggregated into one reportable segment, because each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. The Regulated Natural Gas segment is comprised of one operating segment representing natural gas utility companies, acquired in the Peoples Gas Acquisition, for which the Company provides natural gas distribution services.

In addition to the Company's two reportable segments, we include three of our operating segments within the Other category below. These segments are not quantitatively significant and are comprised of our non-regulated natural gas operations, Aqua Infrastructure, and Aqua Resources. Our non-regulated natural gas operations consist of utility service line protection solutions and repair services to households and the operation of gas marketing and production entities. Prior to the October 30, 2020 sale of our investment in joint venture, Aqua Infrastructure provided non-utility raw water supply services for firms in the natural gas drilling industry. Aqua Resources offers, through a third party, water and sewer service line protection solutions and repair services to households. In addition to these segments, Other is comprised of business activities not included in the reportable segments, corporate costs that have not been allocated to the Regulated Water and Regulated Natural Gas segments, and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense. The Company reports these corporate costs within Other as they relate to corporate-focused responsibilities and decisions and are not included in internal measures of segment operating performance used by the Company to measure the underlying performance of the operating segments. The Regulated Water and Regulated Natural Gas segments report interest expense that includes long-term debt that was pushed-down to the regulated operating subsidiaries from Essential Utilities, Inc.

(In thousands of dollars, except per share amounts)

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The following table presents information about the Company's reportable segments:

	Three Months Ended June 30, 2022				Three Months Ended June 30, 2021			
	Regulated Water	Regulated Natural Gas	Other	Consolidated	Regulated Water	Regulated Natural Gas	Other	Consolidated
Operating revenues	$ 269,355	$ 167,729	$ 11,672	$ 448,756	$ 248,177	$ 141,562	$ 7,293	$ 397,032
Operations and maintenance expense	92,815	44,907	(2,741)	134,981	77,801	52,334	(2,620)	127,515
Purchased gas	-	63,392	11,751	75,143	-	39,788	5,109	44,897
Depreciation and amortization	50,260	29,131	(215)	79,176	45,546	28,121	505	74,172
Taxes other than income taxes	15,562	5,614	544	21,720	16,044	4,638	438	21,120
Operating income	110,718	24,685	2,333	137,736	108,786	16,681	3,861	129,328
Interest expense, net (a)	27,604	19,171	7,622	54,397	27,122	20,422	4,154	51,698
Allowance for funds used during construction	(5,347)	(804)	-	(6,151)	(4,438)	(468)	-	(4,906)
Other	(1,728)	10	817	(901)	(1,940)	(439)	215	(2,164)
Income before income taxes	90,189	6,308	(6,106)	90,391	88,042	(2,834)	(508)	84,700
Provision for income taxes (benefit)	13,847	(5,170)	(577)	8,100	9,193	(4,739)	(668)	3,786
Net income (loss)	$ 76,342	$ 11,478	$ (5,529)	$ 82,291	$ 78,849	$ 1,905	$ 160	$ 80,914

	Six Months Ended June 30, 2022				Six Months Ended June 30, 2021			
	Regulated Water	Regulated Natural Gas	Other	Consolidated	Regulated Water	Regulated Natural Gas	Other	Consolidated
Operating revenues	$ 508,553	$ 612,912	$ 26,566	$ 1,148,031	$ 476,530	$ 484,677	$ 19,390	$ 980,597
Operations and maintenance expense	178,903	104,359	(5,700)	277,562	156,148	103,660	(7,218)	252,590
Purchased gas	-	280,698	22,157	302,855	-	162,676	14,374	177,050
Depreciation and amortization	98,976	58,835	(289)	157,522	90,684	55,711	721	147,116
Taxes other than income taxes	31,453	11,805	1,469	44,727	31,465	9,085	1,611	42,161
Operating income (loss)	199,221	157,215	8,929	365,365	198,233	153,545	9,902	361,680
Interest expense, net	55,159	39,823	12,442	107,424	53,582	37,719	10,779	102,080
Allowance for funds used during construction	(10,496)	(1,493)	(1)	(11,990)	(7,685)	(155)	-	(7,840)
Other	(3,673)	(434)	1,504	(2,603)	(3,369)	(867)	(1,479)	(5,715)
Income before income taxes	158,231	119,319	(5,016)	272,534	155,705	116,848	602	273,155
Provision for income taxes (benefit)	21,346	(31,645)	1,166	(9,133)	12,826	(4,307)	33	8,552
Net income (loss)	$ 136,885	$ 150,964	$ (6,182)	$ 281,667	$ 142,879	$ 121,155	$ 569	$ 264,603
Capital expenditures	$ 216,612	$ 207,394	$ 639	$ 424,645	$ 247,911	$ 156,252	$ 394	$ 404,557

[a] The regulated water and regulated natural gas segments report interest expense that includes long-term debt that was pushed-down to the regulated operating subsidiaries from Essential Utilities, Inc.

	June 30, 2022	December 31, 2021
Total assets:		
Regulated water	$ 8,645,314	$ 8,403,586
Regulated natural gas	6,121,964	5,960,602
Other	278,886	294,090
Consolidated	$ 15,046,164	$ 14,658,278

Note 13 – *Commitments and Contingencies*

The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of June 30, 2022, the aggregate amount of $16,941 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. Further, the Company has insurance coverage for certain of these loss contingencies, and as of June 30, 2022, estimates that approximately $2,255 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

During a portion of 2019, the Company initiated a do not consume advisory for some of its water customers in one division served by the Company's Illinois subsidiary. The do not consume advisory was lifted in 2019 and, in 2022, the water system was determined to be in compliance with the federal Lead and Copper Rule. During the second quarter of 2021, an immaterial amount was accrued for the portion of the fine or penalty that we determined to be probable and estimable of being incurred. In addition, on September 3, 2019, two individuals, on behalf of themselves and those similarly situated, commenced an action against the Company's Illinois subsidiary in the State court in Will County, Illinois related to this do not consume advisory. The complaint seeks class action certification, attorney's fees, and "damages, including, but not limited to, out of pocket damages, and discomfort, aggravation, and annoyance" based upon the water provided by the Company's subsidiary to a discrete service area in University Park, Illinois. The complaint contains allegations of damages as a result of supplied water that exceeded the standards established by the federal Lead and Copper Rule. The complaint is in the discovery phase and class certification has not been granted. The Company is vigorously defending against this claim. A claim for the expenses incurred has been submitted to the Company's insurance carrier for potential recovery of a portion of these costs, and on August 3, 2020, the Company received $2,874 in insurance proceeds. The Company continues to assess the potential loss contingency on this matter. While the final outcome of this claim cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows.

Although the results of legal proceedings cannot be predicted with certainty, other than disclosed above, there are no other pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company's financial position, results of operations, or cash flows.

In addition to the aforementioned loss contingencies, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled $2,470 at June 30, 2022 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Note 14 – ***Income Taxes***

The Company’s effective tax rate was 9.0% and (3.4)% for the three and six months ended June 30, 2022, respectively. The Company’s effective tax rate was 4.5% and 3.1% for the three and six months ended June 30, 2021, respectively. The increase in the effective tax rate for the second quarter of the year is primarily attributed to a decrease in the amortization of certain regulatory liabilities associated with deferred taxes. The decrease in the effective tax rate for the first half of the year is primarily attributed to an increase in our income tax benefit associated with the tax deduction for qualifying infrastructure and the amortization of the customer surcredit tax repair catch-up adjustment during 2022 in our Regulated Natural Gas segment. The statutory Federal tax rate is 21% for the three and six months ended June 30, 2022 and 2021. For states with a corporate net income tax, the state corporate net income tax rates range from 2.5% to 9.99% for all periods presented. In determining its interim tax provision, the Company reflects its estimated permanent and flow-through tax differences for the taxable year.

The Company uses a method of tax accounting for certain qualifying infrastructure investments at its Peoples Natural Gas subsidiary, its largest natural gas subsidiary in Pennsylvania that allows a tax deduction for qualifying utility asset improvement costs. Consistent with the Company’s accounting for differences between book and tax expenditures in Pennsylvania in its other regulated subsidiaries, the Company uses the flow-through method to account for this timing difference. In addition, the Company calculated the income tax benefits for qualifying capital expenditures made prior to the date of its acquisition in March 16, 2020 (“catch-up adjustment”) and recognized a regulatory liability for $160,655 for these income tax benefits. On May 6, 2021, the Pennsylvania Public Utility Commission approved a settlement order which stipulates, among other points, that the catch-up adjustment be provided by a surcredit to utility customers over a five-year period beginning August 2021, and the Company can continue to use flow-through accounting for the current tax repair benefit until its next base rate case. During the second quarter and the first six months of 2022, $4,751 and $17,238, respectively, of income tax benefits were amortized as refunds to Peoples Natural Gas customers.

Note 15 – ***Recent Accounting Pronouncements***

Pronouncements to be adopted upon the effective date:

In October 2021, the FASB issued accounting guidance on accounting for acquired revenue contracts with customers in a business combination. The guidance specifies for all acquired revenue contracts, regardless of their timing of payment, the circumstances in which the acquirer should recognize contract assets and contract liabilities that are acquired in a business combination, as well as how to measure those contract assets and contract liabilities. The updated accounting guidance is effective for fiscal years beginning after December 15, 2022 with early adoption permitted. The Company is evaluating the requirements of the updated guidance to determine the impact of adoption.

Pronouncement adopted during the year:

In August 2020, the FASB issued updated accounting guidance on accounting for convertible instruments and contracts in an entity's own equity. The updated guidance reduces the number of accounting models for convertible debt and convertible preferred stock instruments and makes certain disclosure amendments intended to improve the information provided to users. Additionally, the guidance also amends the derivative guidance for the "own stock" scope exception, which exempts qualifying instruments from being accounted for as derivatives if certain criteria are met. Further, the standard changes the way certain convertible instruments are treated when calculating earnings per share. As permitted, we adopted this updated guidance on January 1, 2022, which did not have a material impact on our consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In thousands of dollars, except per share amounts)

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: the expected timing of closing of our acquisitions; the projected impact of various legal proceedings; the projected effects of recent accounting pronouncements; prospects, plans, objectives, expectations and beliefs of management, as well as information contained in this report where statements are preceded by, followed by or include the words "believes," "expects," "estimates," "anticipates," "plans," "future," "potential," "probably," "predictions," "intends," "will," "continue," "in the event" or the negative of such terms or similar expressions. Forward-looking statements are based on a number of assumptions concerning future events, and are subject to a number of risks, uncertainties and other factors, many of which are outside our control, which could cause actual results to differ materially from those expressed or implied by such statements. These risks and uncertainties include, among others, the effects of the COVID-19 pandemic, the effects of regulation, abnormal weather, geopolitical forces, changes in capital requirements and funding, our ability to close acquisitions, changes to the capital markets, and our ability to assimilate acquired operations, as well as those risks, uncertainties and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in such report and those included under the captions "Risk Factors" and this Quarterly Report. As a result, readers are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Essential Utilities, Inc. (formerly known as Aqua America, Inc.) ("we", "us", "our" or the "Company"), a Pennsylvania corporation, is the holding company for regulated utilities providing water, wastewater, or natural gas services to an estimated five million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, Virginia, West Virginia, and Kentucky under the Aqua and Peoples brands. One of our largest operating subsidiaries, Aqua Pennsylvania, Inc. ("Aqua Pennsylvania"), provides water or wastewater services to approximately one-half of the total number of water or wastewater customers we serve, who are located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated water or wastewater utility subsidiaries provide similar services in seven additional states. Additionally, pursuant to the Company's growth strategy, commencing on March 16, 2020, with the completion of the Peoples Gas Acquisition, the Company began to provide natural gas distribution services to customers in western Pennsylvania, Kentucky, and West Virginia. Approximately 93% of the total number of natural gas utility customers we serve are in western Pennsylvania. The Company also operates market-based businesses, conducted through its non-regulated subsidiaries, that provide utility service line protection solutions and repair services to households and gas marketing and production activities.

For many years, starting in the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and have extended our regulated operations from southeastern Pennsylvania to include our current regulated utility operations in seven other states. On March 16, 2020, the Company completed the Peoples Gas Acquisition, a natural gas distribution utility, marking its entrance into the regulated natural gas business. The Company seeks to acquire businesses in the U.S. regulated sector, focusing on water and wastewater utilities and to opportunistically pursue growth ventures in select market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated utility businesses.

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes.

COVID-19 Pandemic

We provide a critical service to our customers, which means that it is paramount that we keep our employees who operate the business safe and informed while supporting our customers and assuring the continuity of our operations. We continue to monitor the COVID-19 pandemic and take steps to mitigate the potential risks to our business. Since the start of the COVID-19 pandemic, we have implemented protective measures in the field, our plants, and within our offices, which we continuously update for changes in conditions and emerging trends and align with the recommendations of the Centers for Disease Control and Prevention and Federal, State and local health authorities. Our office employees returned to the workplace safely in 2021 and remain working in a hybrid flex schedule as positions allow. We also encouraged employees to become vaccinated. In addition, we are monitoring collections of customer utility accounts, risks present in our supply chain, and increased expenses for costs associated with workforce-related supplies, security and cleaning of company offices and operating facilities, as well as other one-time expenses above the expense amounts included in general rates.

Inflationary Cost Environment

During the six months ended June 30, 2022, we experienced inflationary cost increases in our materials, labor and other operating costs, as well as supply chain pressures as a result of the COVID-19 pandemic and global uncertainties associated with the current conflict in Ukraine and sanctions imposed in response to this conflict. The price of natural gas substantially increased and resulted in the significant increase in the revenue and expenses of our Regulated Natural Gas business during the six month period ended June 30, 2022, as compared to the same period a year earlier. We expect these pressures to continue throughout 2022. We continue to review the adequacy of our rates as approved by public utility commissions in relation to the increasing cost of providing services and the inherent regulatory lag in adjusting those rates. We also continue to work with our suppliers to monitor and address the risks present in our supply chain. While we have experienced some delays in certain materials, we have been able to adjust our purchasing procedures to secure and stock the necessary materials without materially impacting our operations or capital investment program.

Financial Condition

The Company’s consolidated balance sheet historically has had a negative working capital position whereby our current liabilities routinely exceed our current assets. Management believes that internally generated funds along with existing credit facilities, and the proceeds from the issuance of long-term debt and equity will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

During the first six months of 2022, we incurred $424,645 of capital expenditures, expended $50,010 for the acquisition of a wastewater utility system, issued $770,376 of long-term debt, and repaid debt and made sinking fund contributions and other loan repayments of $524,882. The capital expenditures were related to new and replacement water, wastewater, and natural gas mains, improvements to treatment plants, tanks, hydrants, and service lines, well and booster improvements, information technology improvements, and other enhancements and improvements. The issuance of long-term debt was for funds borrowed under our revolving credit facility and used for capital expenditures and general corporate purposes, including a municipal acquisition.

On May 20, 2022, the Company issued $500,000 of long-term debt (the “Senior Notes”), less expenses of $5,815, due in 2052 with an interest rate of 5.30%. The Company used the net proceeds from the issuance of Senior Notes to (1) to repay $49,700 of borrowings under the Aqua Pennsylvania’s 364-day revolving credit facility and $410,000 of borrowings under the Company’s existing five-year unsecured revolving credit facility, and (2) for general corporate purposes.

On April 15, 2021, the Company’s operating subsidiary Aqua Ohio, Inc. issued $100,000 of first mortgage bonds, of which $50,000 is due in 2031 and $50,000 is due in 2051, with interest rates of 2.37% and 3.35%, respectively. The proceeds from these bonds were used for general corporate purposes and to repay existing indebtedness. Further on April 19, 2021, the Company issued $400,000 of long-term debt, less expenses of $4,010, which is due in 2031 with an interest rate of 2.40%. The Company used the proceeds from this issuance to repay $50,000 of borrowings under our Aqua Pennsylvania five- year revolving credit facility, and the balance was used to repay in full the borrowings under its existing five-year unsecured revolving credit agreement.

At June 30, 2022, we had $12,976 of cash and cash equivalents compared to $10,567 at December 31, 2021. During the first six months of 2022, we used the proceeds from long-term debt and internally generated funds to fund the cash requirements discussed above and to pay dividends.

(In thousands of dollars, except per share amounts)

At June 30, 2022 our $1,000,000 unsecured revolving credit facility, which expires in December 2023, had $840,117 available for borrowing. Additionally, at June 30, 2022, we had short-term lines of credit of $435,500, primarily used for working capital, of which $430,797 was available for borrowing. One of our short-term lines of credit is a Peoples Natural Gas Companies' 364-day unsecured revolving credit facility, which as of June 30, 2022, was amended to increase the amount available on the facility from $100,000 to $300,000 and to update the termination date to June 29, 2023. Another one of our short-term lines of credit is an Aqua Pennsylvania $100,000 364-day unsecured revolving credit facility, which was also amended on June 30, 2022, to update its termination date to June 29, 2023 to coincide with the Peoples Natural Gas Companies revolving credit facility. As of June 30, 2022, $300,000 and $95,297 were available for borrowing from the Peoples Natural Gas Companies and Aqua Pennsylvania 364-day revolving credit facilities, respectively. Our short-term lines of credit of $435,500 are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

Results of Operations

Consolidated Results of Operations

Consolidated financial and operational highlights for the periods ended June 30, 2022 and 2021 are presented below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues	$ 448,756	$ 397,032	$ 1,148,031	$ 980,597
Operations and maintenance expense	$ 134,981	$ 127,515	$ 277,562	$ 252,590
Purchased gas	$ 75,143	$ 44,897	$ 302,855	$ 177,050
Net income	$ 82,291	$ 80,914	$ 281,667	$ 264,603
Operating Statistics				
Selected operating results as a percentage of operating revenues:				
Operations and maintenance	30.1%	32.1%	24.2%	25.8%
Purchased gas	16.7%	11.3%	26.4%	18.1%
Depreciation and amortization	17.6%	18.7%	13.7%	15.0%
Taxes other than income taxes	4.8%	5.3%	3.9%	4.3%
Interest expense, net of interest income	12.1%	13.0%	9.4%	10.4%
Net income	18.3%	20.4%	24.5%	27.0%
Effective tax rate	9.0%	4.5%	-3.4%	3.1%

Three months ended June 30, 2022 compared with three months ended June 30, 2021

For the three months ended June 30, 2022, consolidated operating revenues increased by $51,724 or 13.0% as compared to the same period in 2021. Revenues from our Regulated Water segment, Regulated Natural Gas segment and Other business segment increased by $21,178, $26,167 and $4,379, respectively. Refer below for further details on the changes on Regulated Water and Regulated Natural Gas segment revenues. The increase in our Other business segment revenue is due to higher revenues from our non-regulated natural gas operations.

Consolidated operations and maintenance increased by $7,466 or 5.9%, primarily due to:

- increase in production costs for water and wastewater operations of $1,475;
- increase in customer assistance surcharge costs of $606 in our Regulated Natural Gas segment, which has an equivalent offsetting amount in revenues. These revenues and offsetting expenses increased mainly due to the increase in average gas prices as compared to the prior period;
- additional operating costs associated with acquired and pending acquisitions of water and wastewater utility systems of $2,239;
- increase in insurance expense of $1,424 due to higher insurance claims;
- increase in legal expenses of $1,467;
- increase in outside services and maintenance expenses of $7,962 in our Regulated Water segment; and,
- expenses of $164, associated with remediating an advisory for some of our water utility customers served by our Illinois subsidiary. We expect the expenses associated with remediating the advisory to continue through 2022;
- offset by the decrease in bad debt expense of $788; and,
- a decrease in expenses of $6,149 in our Regulated Gas Segment primarily driven by higher capitalization of general and administrative costs as a result of greater capital spend in the current period.

Purchased gas increased by $30,246 or 67.4%. Purchased gas represents the cost of gas sold by Peoples for the regulated and non-regulated gas business and has a corresponding offset in revenue. The expense increased primarily due to the 190.7% increase in the average gas commodity prices in the second quarter of 2022 as compared to the same period in the prior year.

Depreciation and amortization expense increased by $5,004 or 6.7% principally due to continued capital expenditures to expand and improve our utility facilities and our acquisitions of new utility systems.

Interest expense, net of interest income increased by $2,699 or 5.2% for the quarter primarily due to the increase in average borrowings.

Allowance for funds used during construction (“AFUDC”) increased by $1,245 or by 25.4% due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied.

Other income, inclusive of gain on sale of other assets, decreased by $1,263 or by 58.4% due to lower credits recognized from postretirement benefits as compared with the same period in the prior year.

Our effective income tax rate was 9.0% in the second quarter of 2022 and 4.5% in the second quarter of 2021. The increase is primarily attributed to a decrease in the amortization of certain regulatory liabilities associated with deferred taxes.

Six months ended June 30, 2022 compared with six months ended June 30, 2021

Consolidated operating revenues increased by $167,434 or 17.1% for the six months ended June 30, 2022, as compared to the same period in 2021. Revenues from our Regulated Water segment, Regulated Natural Gas segment and Other business segment increased by $32,023, $128,235 and $7,176, respectively. A detailed discussion of the factors contributing to the changes in segment net revenue is included below under the section, Segment Results of Operations. The increase in our Other business segment revenue is due to higher revenues from our non-regulated natural gas operations.

Consolidated operations and maintenance increased by $24,972 or 9.9%, primarily due to:

- increase in employee related costs of $9,002;
- increase in production costs for water and wastewater operations of $3,001;
- increase in customer assistance surcharge costs of $7,367 in our Regulated Natural Gas segment, which has an equivalent offsetting amount in revenues. These revenues and offsetting expenses increased mainly due to the increase in average gas prices during the first six months of 2022 compared to the prior period;
- additional operating costs associated with acquired and pending acquisitions of water and wastewater utility systems of $3,582;
- increase in insurance expense of $4,685, which includes the impact of a favorable insurance reserve adjustment of $2,426 during the first quarter of 2021;
- increase in legal expenses of $1,280,
- increase in outside services and maintenance expenses of $7,962 in our Regulated Water segment; and,
- expenses of $376, associated with remediating an advisory for some of our water utility customers served by our Illinois subsidiary. We expect the expenses associated with remediating the advisory to continue through 2022;
- offset by the decrease in bad debt expense of $3,718; and,

- a decrease in expenses of $6,149 in our Regulated Gas Segment due to higher capitalization as a result of greater capital spend in the current period.

Purchased gas increased by $125,805 or 71.1%. Purchased gas represents the cost of gas sold by Peoples for the regulated and non-regulated gas business and has a corresponding offset in revenue. The expense increased primarily due to the 103.7% increase in the average gas commodity prices during the first six months of 2022 as compared to the same period in the prior year.

Depreciation and amortization expense increased by $10,406 or 7.1% principally due to continued capital expenditures to expand and improve our utility facilities and our acquisitions of new utility systems.

Taxes other than income taxes increased by $2,566 or 6.1% largely due to an increase in sales and use taxes and regulatory fees in our Regulated Natural Gas segment and pumping fees in our Aqua Texas subsidiary, offset by the decrease in property taxes during the period as compared with prior period.

Interest expense, net of interest income, increased by $5,344 or 5.2% for the quarter primarily due to the increase in average borrowings.

Allowance for funds used during construction (“AFUDC”) increased by $4,150 or by 52.9% due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied.

Other income, inclusive of gain on sale of assets, decreased by $3,112 or by 54.5% compared to the same period in the prior year. The first quarter of 2021 included a recovery of a previously incurred cost of $1,917 that resulted in a recognition of a regulatory asset in the prior period. Additionally, during the first half of 2022, there were lower credits recognized from postretirement benefits as compared with the same period in the prior year.

Our effective income tax rate was (3.4)% in the first six months of 2022 and 3.1% in the first six months of 2021. The decrease in the effective tax rate for the first half of the year is primarily attributed to an increase in our income tax benefit associated with the tax deduction for qualifying infrastructure and the amortization of the customer surcredit tax repair catch-up adjustment during the first six months of 2022 in our Regulated Natural Gas segment.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Segment Results of Operations

Regulated Water Segment

Our Regulated Water segment is comprised of eight operating segments representing its water and wastewater regulated utility companies which are organized by the states where the Company provides water and wastewater services. The Regulated Water segment is aggregated into one reportable segment.

The following tables present selected operating results and statistics for our Regulated Water segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues	$ 269,355	$ 248,177	$ 508,553	$ 476,530
Operations and maintenance expense	$ 92,815	$ 77,801	$ 178,903	$ 156,148
Net income	$ 76,342	$ 78,849	$ 136,885	$ 142,879
Operating Statistics				
Selected operating results as a percentage of operating revenues:				
Operations and maintenance	34.5%	31.3%	35.2%	32.8%
Depreciation and amortization	18.7%	18.4%	19.5%	19.0%
Taxes other than income taxes	5.8%	6.5%	6.2%	6.6%
Interest expense, net of interest income	10.2%	10.9%	10.8%	11.2%
Net income	28.3%	31.8%	26.9%	30.0%
Effective tax rate	15.4%	10.4%	13.5%	8.2%

Three months ended June 30, 2022 compared with three months ended June 30, 2021

Revenues from our Regulated Water segment increased by $21,178 or 8.5% for the second quarter of 2022 as compared to the same period in 2021, mainly due to the following:

- an increase in water and wastewater rates, including infrastructure rehabilitation surcharges, of $10,044;
- increase in volume consumption of $3,943, and,
- additional water and wastewater revenues of $6,215 associated with a larger customer base due to utility acquisitions and organic growth.

Operations and maintenance expense for the three months ended June 30, 2022 increased by $15,014 or 19.3% was primarily due to the following:

- additional operating costs resulting from acquired water and wastewater utility systems and higher customer base of $2,239;
- increase in production costs for water and wastewater operations of $1,475;

- expenses of $164, associated with remediating an advisory for some of our water utility customers served by our Illinois subsidiary. We expect the expenses associated with remediating the advisory to continue through 2022;
- increase in legal expense of $1,266; and,
- increase in outside services and maintenance expenses of $7,962 in our Regulated Water segment

Depreciation and amortization increased by $4,714 or 10.3% primarily due to continued capital spend.

AFUDC increased by $909 or by 20.5% due to the increase in the average balance of utility plant construction work in progress, to which AFUDC is applied.

Our effective income tax rate for our Regulated Water Segment was 15.4% in the second quarter of 2022 and 10.4% in the second quarter of 2021. The increase in the effective tax rate is primarily the result of lower income tax benefit associated with the tax deduction for qualifying infrastructure in the second quarter of 2022 as compared to 2021.

Six months ended June 30, 2022 compared with six months ended June 30, 2021

Revenues increased by $32,023 or 6.7%% for the first six months of 2022 as compared to the same period in 2021, mainly due to the following:

- an increase in water and wastewater rates, including infrastructure rehabilitation surcharges, of $15,904;
- increase in volume consumption of $4,226, and,
- additional water and wastewater revenues of $10,557 associated with a larger customer base due to utility acquisitions and organic growth.

Operations and maintenance expense for the six months ended June 30, 2022 increased by $22,755 or 14.6% was primarily due to the following:

- additional operating costs resulting from acquired water and wastewater utility systems and higher customer base of $3,582;
- increase in employee related costs of $3,781;
- increase in production costs for water and wastewater operations of $3,001;
- expenses of $376, associated with remediating an advisory for some of our water utility customers served by our Illinois subsidiary. We expect the expenses associated with remediating the advisory to continue through 2022;

- increase in legal expenses of $1,073; and,
- increase in outside services and maintenance expenses of $7,962 in our Regulated Water segment during the second quarter of 2022 as compared with the prior period.

Depreciation and amortization increased by $8,292 or 9.1% primarily due to continued capital spend, offset by a change in the amortization of a regulated liability in 2022.

Interest expense, net, increased by $1,576 or 2.9% for the quarter primarily due to an increase in average borrowings.

AFUDC increased by $2,811 or 36.6% due to the increase in the average balance of utility plant construction work in progress, to which AFUDC is applied.

Our effective income tax rate for our Regulated Water Segment was 13.5% in the first six months of 2022 and 8.2% in the first six months of 2021. The increase in the effective tax rate is primarily the result of lower income tax benefit associated with the tax deduction for qualifying infrastructure in the first six months of 2022 as compared to 2021.

Regulated Natural Gas Segment

Our Regulated Natural Gas segment recognizes revenues by selling gas directly to customers at approved rates or by transporting gas through our pipelines at approved rates to customers that have purchased gas directly from other producers, brokers, or marketers. Natural gas sales to residential, commercial and industrial customers are seasonal, which results in higher demand for natural gas for heating purposes during the colder months.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

The following tables present selected operating results and statistics for our Regulated Natural Gas segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues	$ 167,729	$ 141,562	$ 612,912	$ 484,677
Operations and maintenance expense	$ 44,907	$ 52,334	$ 104,359	$ 103,660
Purchased gas	$ 63,392	$ 39,788	$ 280,698	$ 162,676
Net income	$ 11,478	$ 1,905	$ 150,964	$ 121,155
Operating Statistics				
Selected operating results as a percentage of operating revenues:				
Operations and maintenance	26.8%	37.0%	17.0%	21.4%
Purchased gas	37.8%	28.1%	45.8%	33.6%
Depreciation and amortization	17.4%	19.9%	9.6%	11.5%
Taxes other than income taxes	3.3%	3.3%	1.9%	1.9%
Interest expense, net of interest income	11.4%	14.4%	6.5%	7.8%
Net income	6.8%	1.3%	24.6%	25.0%
Effective tax rate	-82.0%	167.2%	-26.5%	-3.7%

Our Regulated Natural Gas segment is affected by the cost of natural gas, which is passed through to customers using a purchased gas adjustment clause and includes commodity price, transportation and storage costs. These costs are reflected in the consolidated statement of operations and comprehensive income as purchased gas expenses. Therefore, fluctuations in the cost of purchased gas impact operating revenues on a dollar-for-dollar basis, but do not impact gross margin. Management uses gross margin, a non-GAAP financial measure, defined as operating revenues less purchased gas expense, to analyze the financial performance of our Regulated Natural Gas segment, as management believes gross margin provides a meaningful basis for evaluating our natural gas utility operations since purchased gas expenses are included in operating revenues and passed through to customers. The following table shows the reconciliation of gross margin (non-GAAP) to operating revenues (GAAP):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating revenues (GAAP)	$ 167,729	$ 141,562	$ 612,912	$ 484,677
Purchased gas	63,392	39,788	280,698	162,676
Gross margin (non-GAAP)	$ 104,337	101,774	$ 332,214	$ 322,001

The term gross margin is not intended to represent operating revenues, the most comparable GAAP financial measure, as an indicator of operating performance. In addition, our measurement of gross margin is not necessarily comparable to similarly titled measures reported by other companies.

Three months ended June 30, 2022 compared with three months ended June 30, 2021

Operating revenues from the Regulated Natural Gas segment increased by $26,167 or 18.5% due to:

- impact of higher gas cost of $23,604 during the quarter as compared to the prior period;
- higher gas consumption of $2,332;
- increase in customer assistance surcharge of $606, which has an equivalent offsetting amount in operations and maintenance expense. These revenues and offsetting expenses increased mainly due to the increase in average gas prices during the second quarter of 2022 compared to the prior period; and,
- increase of $2,601 due to higher rates and other surcharges;
- offset by the tax repair surcredits to customers of $4,751.

Operations and maintenance expense for the three months ended June 30, 2022 decreased by $7,427 or 14.2% primarily due to the following:

- increase in customer assistance surcharge costs of $606, which has an equivalent offsetting amount in revenues;
- offset by a decrease in bad debt expense of $1,156; and,
- a decrease in expenses of $6,149 in our Regulated Gas Segment primarily driven by higher capitalization as a result of greater capital spend in the current period.

Purchased gas increased by $23,604 or 59.3%. The increase is largely due to the 190.7% increase in the average gas commodity prices in the second quarter of 2022 as compared to the prior period.

Depreciation and amortization increased by $1,010 or 3.6% primarily due to continued capital spend.

Taxes other than income taxes increased by $976 or 21.0% largely due to increase in sales and use taxes and regulatory fees.

Interest expense, net, decreased by $1,251 or 6.1% for the quarter due to higher interest expense during the second quarter in 2021 that did not continue in 2022.

Our effective income tax rate was (82.0)% in the second quarter of 2022 and 167.2% in the second quarter of 2021. The decrease in the effective tax rate is primarily attributed to the increase in the income tax benefit associated with the tax deduction for qualifying infrastructure and the amortization of the catch-up adjustment during the second quarter of 2022 in our Regulated Natural Gas segment.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Six months ended June 30, 2022 compared with six months ended June 30, 2021

Operating revenues from the Regulated Natural Gas segment increased by $128,235 or 26.5% due to:

- impact of higher gas cost of $118,023 during the period compared to the prior period;
- higher usage of $10,990 due to colder than normal weather during the first half of 2022 as compared to the same period in 2021;
- increase in customer assistance surcharge of $7,367, which has an equivalent offsetting amount in operations and maintenance expense. These revenues and offsetting expenses increased mainly due to the increase in average gas prices during the first half of 2022 compared to the prior period; and,
- increase of $5,968 due to higher rates and other surcharges;
- offset by the tax repair surcredits to customers of $17,238.

Operations and maintenance expense for the six months ended June 30, 2022 increased by $699 or 0.7% primarily due to the following:

- increase in employee related costs of $4,259; and,
- increase in customer assistance surcharge costs of $7,367, which has an equivalent offsetting amount in revenues;
- offset by a decrease in bad debt expense of $1,785; and,
- a decrease in expenses of $6,149 during the second quarter of 2022 in our Regulated Gas Segment primarily driven by higher capitalization as a result of greater capital spend in the current period.

Purchased gas increased by $118,022 or 72.6%. The increase is largely due to the 103.7% increase in the average gas commodity prices in the first six months of 2022 as compared to the prior period.

Depreciation and amortization increased by $3,124 or 5.6% primarily due to continued capital spend.

Taxes other than income taxes increased by $2,720 or 29.9% mainly due to an increase in sales and use taxes and regulatory fees during the first quarter of 2022 as compared to the same period in 2021.

Interest expense, net, increased by $2,104 or 5.6% due to additional borrowings pushed down by Essential Utilities, Inc.

AFUDC increased by $1,339 due to the increase in the average balance of utility plant construction work in progress, to which AFUDC is applied.

Our effective income tax rate was (26.5)% in the first half of 2022 and (3.7)% in the first half of 2021. The decrease in the effective tax rate is primarily attributed to the increase in the income tax benefit associated with the tax deduction for qualifying infrastructure and the amortization of the catch-up adjustment during the first half of 2022 in our Regulated Natural Gas segment.

Impact of Recent Accounting Pronouncements

We describe the impact of recent accounting pronouncements in Note 15, *Recent Accounting Pronouncements*, to the consolidated financial statements in this report.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. Refer to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed March 1, 2022, for additional information on market risks.

Item 4 – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective such that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

(b) Changes in Internal Control over Financial Reporting

We have implemented a new enterprise resource planning (ERP) system for our Regulated Water business segment that enhances our business and financial processes and standardizes some of our information technology systems with our other segments. In connection with this new ERP implementation, we have updated our internal controls over financial reporting, as necessary, to accommodate modifications in our Regulated Water business processes and accounting procedures.

Except as described above, there were no changes in our internal control over financial reporting, during the quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1 – Legal Proceedings

We are party to various legal proceedings in the ordinary course of business. Although the results of these legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A – Risk Factors

Please review the risks disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021, under "Part 1, Item 1A – Risk Factors."

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the Company’s purchases of its common stock for the quarter ended June 30, 2022:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be Purchased Under the Plan or Programs
April 1 - 30, 2022	47	$	51.75	-	-
May 1 -31, 2022	66	$	49.31	-	-
June 1 - 30, 2022	192	$	47.01	-	-
Total	305	$	48.24	-	-

(1) These amounts consist of 305 shares we acquired from employees associated with the withholding of shares to pay certain withholding taxes upon the vesting of stock-based compensation. This feature of our equity compensation plan is available to all employees who receive stock-based compensation under the plan. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the award vesting.

Item 6 – Exhibits

Exhibit No.	Description
4.1	Fifth Supplemental Indenture, dated April 19, 2021, between Essential Utilities, Inc. and U.S. Bank N.A., as trustee (incorporated by reference to Exhibit 4.3 to the Company’s Current Report on Form 8-K, filed with the SEC on April 19, 2021)
4.2	Sixth Supplemental Indenture, dated May 20,2022, between Essential Utilities, Inc. and U.S. Bank Trust Company National Association, as trustee (incorporated by reference to Exhibit 4.3 to the Company’s Current Report on Form 8-K, filed with the SEC on May 20, 2022)
10.1*	Second Amendment to Credit Agreement, dated June 30, 2022, by and between PNG Companies, LLC and PNC Bank, National Association, TD Bank, N.A., and Citizens Bank N.A
10.2*	Sixth Amendment to Credit Agreement, dated June 30, 2022, between Aqua Pennsylvania and PNC Bank, National Association, Citizens Bank, N.A., TD Bank, N.A., and The Huntington National Bank
31.1*	Certification of Chief Executive Officer, filed pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
31.2*	Certification of Chief Financial Officer, filed pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
32.1*	Certification of Chief Executive Officer, furnished pursuant to 18 U.S.C. Section 1350
32.2*	Certification of Chief Financial Officer, furnished pursuant to 18 U.S.C. Section 1350
101.INS	Inline XBRL Instance Document – The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRES	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL (included in Exhibit 101)

*Filed herewith

SIGNATURES

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

August 9, 2022

Essential Utilities, Inc.
Registrant

/s/ Christopher H. Franklin
Christopher H. Franklin
Chairman, President and
Chief Executive Officer

/s/ Daniel J. Schuller
Daniel J. Schuller
Executive Vice President and
Chief Financial Officer

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (this "Agreement") is made as of this 30th day of June, 2022, by and among (i) PNG COMPANIES LLC, a Delaware limited liability company ("Borrower"), (ii) the several banks and other financial institutions or entities parties on the date hereof to the Existing Credit Agreement (as defined below) and listed on the signature pages hereto as an "Existing Lender" (each an "Existing Lender" and, collectively, the "Existing Lenders"), (iii) the new lender joining the Existing Credit Agreement on the date hereof and listed on the signature pages hereto as the "New Lender" (the "New Lender" and, together with the Existing Lenders, each a "Lender" and collectively, the "Lenders") and (iv) PNC BANK, NATIONAL ASSOCIATION in its capacity as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

BACKGROUND

A. The Borrower, the Administrative Agent and the Existing Lenders are parties to a Credit Agreement, dated as of November 25, 2020 (as heretofore amended, supplemented, modified, or restated, including by the First Amendment to Credit Agreement, dated as of November 5, 2021, the "Existing Credit Agreement"; the Existing Credit Agreement, as amended by this Agreement and as may be further amended, supplemented, modified or restated from time to time, the "Amended Credit Agreement"), pursuant to which the Lenders have made available to the Borrower a revolving credit facility in an aggregate amount of $100,000,000 (the "Existing Facility"). The loans under the Existing Facility are evidenced by the Borrower's Notes to the Lenders in the aggregate principal amount of $100,000,000.

B. The Borrower has requested that the New Lender join the Existing Credit Agreement as a Lender.

C. In addition, the Borrower, the Administrative Agent and the Lenders desire to (i) extend the Revolving Commitment Termination Date; (ii) increase the aggregate amount of the Revolving Commitments to $300,000,000; and (iii) modify certain other provisions of the Existing Credit Agreement, all on the terms and subject to the conditions herein set forth.

NOW THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

AGREEMENT

1. Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Amended Credit Agreement.

2. Amendments to Existing Credit Agreement. Effective on June 30, 2022 (the "Second Amendment Effective Date"), the Existing Credit Agreement shall be amended as follows:

(a) The Cover Page shall be amended to insert in the upper right hand corner the following:

> CUSIP No. 69349CAP3
> REVOLVER CUSIP No. 69349CAQ15.

(b) The first WHEREAS clause shall be amended and restated to read in full as follows:

> WHEREAS, the Borrower has requested, and the Lenders have agreed, to make available a revolving facility in an aggregate amount, as of the Second Amendment Effective Date, of $300,000,000, the proceeds of which shall be used for (i) purchases of natural gas inventory and/or (ii) other working capital needs and general corporate purposes of the Borrower and its Subsidiaries.

(c) The following definitions in Section 1.1 shall be amended and restated to read in full as follows:

> "<u>Anti-Corruption Laws</u>": all laws, rules and regulations of any jurisdiction applicable to the Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption, including without limitation, the Foreign Corrupt Practices Act of 1977 and the U.K. Bribery Act of 2010 and the rules and regulations thereunder.

> "<u>Borrowing Request</u>": with respect to any request for borrowing of Revolving Loans hereunder, a notice from the Borrower, substantially in the form of, and containing the information prescribed by, <u>Exhibit F</u> (or such other form approved by the Administrative Agent) delivered to the Administrative Agent, which Borrowing Request shall, unless otherwise agreed by the Administrative Agent and the Borrower, detail whether the proceeds of such Revolving Loan are being used for (a) purchases of natural gas inventory or (b) other working capital needs and general corporate purposes.

> "<u>Revolving Commitment Termination Date</u>": June 29, 2023.

> "<u>Sanctioned Country</u>": any country, territory, or region that is the subject of sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury, which countries, territories, and regions include,

as of the Second Amendment Effective Date, the Crimea region of Ukraine, Cuba, Iran, North Korea, Syria, and the separatist-controlled portions of the Donetsk and Luhansk regions of Ukraine.

“Sanctioned Person”: at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State or by the United Nations Security Council, the European Union, the United Kingdom or any European Union member state, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person controlled by any such Person described in the foregoing clauses (a) and (b).

“Sanctions”: economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State or (b) the United Nations Security Council, the European Union or Her Majesty’s Treasury of the United Kingdom, or other relevant sanctions authority with jurisdiction over any Lender, the Borrower or any of its or their Subsidiaries.

“Swingline Sublimit”: 30,000,000.

“Total Revolving Commitments”: at any time, the aggregate amount of the Revolving Commitments then in effect. The amount of the Total Revolving Commitments as of the Second Amendment Effective Date is $300,000,000.

(d) The following definitions are hereby added to Section 1.1 in the appropriate alphabetical order:

“Second Amendment”: the Second Amendment to Credit Agreement by and among the Borrower, the Lenders party thereto and the Administrative Agent, dated as of the Second Amendment Effective Date.

“Second Amendment Effective Date” means June 30, 2022.

(e) Section 2.8 shall be amended by deleting the phrase "six (6) Borrowing Tranches" the one time it appears therein and inserting in lieu thereof the phrase "eight (8) Borrowing Tranches".

(f) Section 2.13 shall be amended to insert at the end of such Section a new clause (d) reading in full as follows:

> (d) Notwithstanding any other provision of this Agreement, if any Lender shall notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful or impracticable, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its lending office to perform its obligations hereunder to make BSBY Rate Loans or to fund or maintain BSBY Rate Loans hereunder, (i) each BSBY Rate Loan will automatically, upon such demand, convert into a ABR Loan and (ii) the obligation of the Lenders to make BSBY Rate Loans or to convert Loans into BSBY Rate Loans shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist; <u>provided</u>, <u>however</u>, that before making any such demand, each Lender agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different lending office if the making of such a designation would allow such Lender or its lending office to continue to perform its obligations to continue to fund or maintain BSBY Rate Loans and would not, in the judgment of such Lender, subject such Lender to any unreimbursed cost or expense or otherwise be disadvantageous to such Lender.

(g) Section 4.21(a) shall be amended by (i) deleting the word "and" immediately after the phrase "the Bank Secrecy Act, 31, U.S.C. §5311 <u>et</u>. <u>seq</u>.," and (ii) inserting at the end of such Section immediately after the words "Public Law 107-56" the following:

> , the International Emergency Economic Powers Act, 50 U.S.C. 1701, *et seq.*, the Trading with the Enemy Act, 50 U.S.C. App. 1, *et seq.*, 18 U.S.C. § 2332d, and 18 U.S.C. § 2339B and the laws administered by the United States Treasury Department's Office of Foreign Asset Control, and any regulation, order or directive promulgated, issued or enforced pursuant to any such law (as any of the foregoing may from time to time be amended, renewed, extended, or replaced).

(h) Section 6.9 shall be amended and restated to read in full as follows:

> 6.9 Use of Proceeds. Ensure that proceeds of Loans shall be used for (i) the purchase of natural gas inventory and/or (ii) other working capital needs and other general corporate purposes of the Borrower and its Subsidiaries.

(i) Section 9 shall be amended by inserting at the end thereto a new Section 9.13 which shall read in full as follows:

> 9.13 No Advisory or Fiduciary Relationship. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees, and acknowledges its Affiliates' understanding, that: (a) (i) no fiduciary, advisory or agency relationship between the Borrower and its Subsidiaries and any Arranger, any Bookrunner, the Administrative Agent or any Lender is intended to be or has been created in respect of the transactions contemplated hereby or by the other Loan Documents, irrespective of whether any Arranger, any Bookrunner, the Administrative Agent, or any Lender has advised or is advising the Borrower or any Subsidiary on other matters, (ii) the arranging and other services regarding this Agreement provided by any Arranger, any Bookrunner, the Administrative Agent, and the Lenders are arm's-length commercial transactions between the Borrower and its Affiliates, on the one hand, and the Arrangers, the Bookrunners, the Administrative Agent, and the Lenders, on the other hand, (iii) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent that it has deemed appropriate and (iv) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; and (b) (i) each of the Arrangers, the Bookrunners, the Agent, and the Lenders is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower or any of its Affiliates, or any other Person; (ii) none of the Arrangers, the Bookrunners, the Administrative Agent, and the Lenders has any obligation to the Borrower or any of the Borrower's Affiliates with respect to the transactions contemplated hereby except those obligations

expressly set forth herein and in the other Loan Documents; and (iii) the Arrangers, the Bookrunners, the Administrative Agent, and the Lenders and their respective Affiliates may be engaged, for their own accounts or the accounts of customers, in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and none of the Arrangers, the Bookrunners, the Administrative Agent, and the Lenders has any obligation to disclose any of such interests to the Borrower or its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against any of the Arrangers, the Bookrunners, the Administrative Agent, and the Lenders with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

(j) The address for the Borrower in Section 10.2 shall be amended and restated to read in full as follows:

Borrower: PNG Companies LLC
375 North Shore Drive, Suite 600
Pittsburgh, PA 15212
Attention: Kim Edvardsson, Vice President, Finance
Email: kim.edvardsson@peoples-gas.com

(k) Schedule 1.1(A) to the Existing Credit Agreement shall be amended and restated to read in full as set forth on Exhibit A hereto.

(l) Exhibit F to the Existing Credit Agreement (Form of Borrowing Request) shall be amended and restated to read in full as set forth on Exhibit B hereto.

(m) Exhibit H to the Existing Credit Agreement (Form of Conversion/Continuation Notice) shall be amended and restated to read in full as set forth on Exhibit C hereto.

3. New Notes; Second Amendment Documents. The Borrower shall execute and deliver to the Administrative Agent on the Second Amendment Effective Date (a)(i) for each Existing Lender whose Revolving Commitment is changing, an amended and restated revolving note and (ii) for the New Lender, a revolving note, in each case, in an amount equal to the amount of such Lender's Revolving Commitment after giving effect to this Agreement (the revolving notes referred to in clauses (i) and (ii) being collectively referred to herein as the "Revolving Notes" and each as a "Revolving Note") and (b) an amended and restated swingline note in favor of PNC, as the Swing Line Lender (the "Swingline Note" and together with the Revolving Notes, collectively, the "New Notes"). This Agreement, together with the New Notes, are collectively referred to

herein as the "<u>Second Amendment Documents</u>" and, individually, as a "<u>Second Amendment Document</u>".

4. <u>New Lender</u>. The New Lender (i) confirms that a copy of the Existing Credit Agreement and the other applicable Loan Documents, together with copies of the financial statements referred to therein and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Agreement and provide a Revolving Commitment, have been made available to the New Lender, (ii) agrees that it will, independently and without reliance upon the Administrative Agent, any other agent or arranger listed on the cover page to the Amended Credit Agreement or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Amended Credit Agreement and the other Loan Documents, including this Agreement and the other Second Amendment Documents, (iii) appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under the Amended Credit Agreement and the other Loan Documents as are delegated to the Administrative Agent by the terms thereof, together with such powers as are reasonably incidental thereto, and (iv) acknowledges and agrees that effective on and as the Second Amendment Effective Date, the New Lender shall be a "Lender" under, and for all purposes of, the Amended Credit Agreement and the other Loan Documents, and shall be subject to and bound by the terms thereof, and shall perform all the obligations of and shall have all rights of a Lender thereunder.

5. <u>Second Amendment Effective Date Reallocations; Treatment of Outstanding Loans</u>.

(a) On the Second Amendment Effective Date (i) all "Revolving Loans" (as defined in the Existing Credit Agreement) made under the Existing Credit Agreement which are outstanding on the Second Amendment Effective Date shall continue as Revolving Loans under (and shall be governed by the terms of) the Amended Credit Agreement and shall have the same Interest Periods as in effect under the Existing Credit Agreement, (ii) all obligations constituting "Obligations" under and as defined in the Existing Credit Agreement or any Loan Document with any Lender which are outstanding on the Second Amendment Effective Date and are not being paid on such date shall continue as Obligations under the Amended Credit Agreement and the other Loan Documents and (iii) the Administrative Agent shall make such reallocations, sales, assignments or other relevant actions in respect of each Lender's credit and loan exposure under the Existing Credit Agreement as are necessary in order that such Lender's pro rata share of the outstanding Loans thereunder reflect such Lender's pro rata share of the outstanding aggregate Loans on the Second Amendment Effective Date based on its Revolving Percentage, provided, however, that for the avoidance of doubt, each Existing Lender under this Agreement agrees to waive any right to compensation under Section 2.15 of the Amended Credit Agreement in connection with the reallocation and transactions described above.

(b) On the Second Amendment Effective Date, to the extent necessary, each Lender (including the New Lender) shall fund Revolving Loans (or receive payment of its "Revolving Loans", as defined in the Existing Credit Agreement) such that immediately after giving effect to this Agreement, the Revolving Loans of each of the Lenders on the Second Amendment Effective Date are equal to its Revolving Percentage of the Revolving Loans of all of the Lenders outstanding on the Second Amendment Effective Date. The requirements in respect of minimum borrowing, pro rata borrowing and pro rata payment requirements contained in the Amended Credit Agreement shall not apply to the transactions effect pursuant to this Section 4.

6. No Novation. This Agreement shall not constitute a termination of the Existing Credit Agreement nor a novation of any indebtedness or other obligations owing to the Administrative Agent or any Lender under the Existing Credit Agreement.

7. Borrower's Ratification. The Borrower agrees that it has no defenses, set-offs, counterclaim or challenge against the Lenders or the Administrative Agent or their respective officers, directors, employees, agents or attorneys, with respect to the Loan Documents, all of which are in full force and effect, and that all of the terms and conditions of the Loan Documents not inconsistent herewith shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms. The Borrower hereby ratifies and confirms its obligations under the Loan Documents as amended hereby and agrees that the execution and delivery of this Agreement does not in any way diminish or invalidate any of its obligations thereunder.

8. Representations and Warranties. The Borrower hereby represents and warrants to the Administrative Agent and the Lenders that:

(a) Immediately before giving effect to this Agreement, the representations and warranties of the Borrower set forth in the Existing Credit Agreement, and immediately after giving effect to this Agreement, the representations and warranties of the Borrower set forth in the Amended Credit Agreement and the other Loan Documents, are in each case true and correct in all material respects (it being understood that the materiality qualifier shall not be applicable with respect to any clause of any representation or warranty which itself contains a materiality qualification) as of the Second Amendment Effective Date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct in all material respects (or all respects, as applicable) on and as of the specific dates or times referred to therein);

(b) Immediately before giving effect to this Agreement, there exists no Default or Event of Default under the Existing Credit Agreement, and immediately after giving effect to this Agreement there exists no Default or Event of Default under the Amended Credit Agreement;

(c) Each of this Agreement (including the Amended Credit Agreement) and each New Note has been duly authorized, executed and delivered and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms; and

(d) No consent, approval or authorization of, filing, registration or recording with, notice to or other act by or in respect of, any Governmental Authority or any other

Person is required in connection with the execution, delivery or performance by the Borrower of this Agreement, the Amended Credit Agreement or the New Notes (except for those which have been obtained on or prior to the date hereof).

All of the above representations and warranties shall survive the making of this Agreement.

9. Conditions Precedent. The effectiveness of the amendments set forth herein is subject to the fulfillment, to the satisfaction of the Administrative Agent and its counsel, of the following conditions precedent on or before the Second Amendment Effective Date:

(a) The Administrative Agent shall have received the following, all of which shall be in form and substance satisfactory to the Administrative Agent and shall be duly completed and executed by the Borrower, the Administrative Agent and the Lenders, as applicable:

(i) This Agreement;

(ii) The New Notes;

(iii) Copies, certified by an officer of the Borrower as of a recent date, of resolutions of the board of directors of the Borrower in effect on the date hereof authorizing the execution, delivery and performance of this Agreement, the New Notes and the other documents and transactions contemplated hereby and the performance of the Amended Credit Agreement;

(iv) Copies, certified by an officer of the Borrower as of a recent date, of the certificate of formation and limited liability company agreement of the Borrower as in effect on the Second Amendment Effective Date, or a certificate stating that there have been no changes to any such documents since the most recent date true and correct copies thereof were delivered to the Administrative Agent;

(v) A good standing certificate for the Borrower in the State of its formation dated as of a recent date;

(vi) State-level Uniform Commercial Code lien searches with respect to the Borrower in its jurisdiction of organization and with results reasonably acceptable to the Administrative Agent;

(vii) Insurance certificates satisfying the requirements of Section 4.2 of the Security Agreement and evidencing that all necessary insurance is in place or will be in effect by the

Second Amendment Effective Date, so long as such insurance is reasonably available in the commercial insurance market and typically maintained by similarly situated companies in the same industry;

(viii) An executed legal opinion of counsel to the Borrower, reasonably satisfactory in form and substance to the Administrative Agent and its counsel;

(ix) If the Borrower qualifies as a legal entity customer under the Beneficial Ownership Regulations, an executed Certificate of Beneficial Ownership for the Borrower and, in any case, such other documentation and other information requested by the Administrative Agent and the Lenders in connection with applicable "know your customer" and anti-money laundering rules and regulations, including the USA Patriot Act; and

(x) Such additional documents, certificates and information as the Administrative Agent or the Lenders may require pursuant to the terms hereof or otherwise reasonably request.

(b) The Administrative Agent shall have received such fees as shall have been agreed.

(c) The Administrative Agent shall have received, to the extent invoiced, reimbursement of all fees and expenses of counsel to the Administrative Agent required to be paid or reimbursed by the Borrower hereunder.

All of the foregoing fees shall be in all respects, fully earned, due and payable on the Second Amendment Effective Date and non-refundable and non-creditable thereafter.

10. Integration. This Agreement constitutes the sole agreement of the parties hereto with respect to the transactions contemplated hereby and shall supersede all oral negotiations and the terms of prior writings with respect thereto. From and after the Second Amendment Effective Date, all references in the Amended Credit Agreement and each of the other Loan Documents to the Credit Agreement or the other Loan Documents modified hereby shall be deemed to be references to the Amended Credit Agreement and such other Loan Documents as modified hereby. This Agreement and the New Notes shall each constitute a Loan Document for all purposes under the Amended Credit Agreement and each of the other Loan Documents.

11. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such

prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

12. Miscellaneous.

(a) The Borrower agrees to pay all of the Administrative Agent's reasonable out-of-pocket fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby, including, without limitation, the reasonable fees and expenses of counsel to the Administrative Agent.

(b) All terms, conditions, provisions and covenants in the Loan Documents and all other documents delivered to the Administrative Agent and the Lenders in connection therewith shall remain unaltered and in full force and effect except as expressly modified or amended hereby. To the extent that any term or provision of this Agreement is or may be deemed expressly inconsistent with any term or provision in any Loan Document or any other document executed in connection therewith, the terms and provisions hereof shall control.

(c) The execution, delivery and effectiveness of this Agreement and the New Notes shall neither operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders under any of the Loan Documents nor constitute a waiver of any Default or Event of Default thereunder.

(d) In consideration of the Administrative Agent's and the Lenders' agreement to amend the existing revolving credit facility on the terms hereof, the Borrower hereby waives and releases the Administrative Agent and the Lenders and their respective officers, attorneys, agents and employees from any liability, suit, damage, claim, loss or expense of any kind or failure whatsoever and howsoever arising that it ever had up until, or has as of, the date of this Agreement.

(e) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements.

(f) This Agreement shall be governed by and construed according to the laws of the State of New York.

(g) This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns.

(h) The headings used in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement.

(i) This Agreement may be executed in one or more counterparts, each of which counterparts when executed and delivered shall be deemed to be an original, and all of which shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or other electronic transmission will be effective as delivery of a manually executed counterpart hereof.

(j) No modification hereof or any agreement referred to herein shall be binding or enforceable unless in writing and signed on behalf of the party against whom enforcement is sought.

IN WITNESS WHEREOF, the Borrower, the Administrative Agent and the Lenders have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

PNG COMPANIES LLC
By: /s/ Stan Szczygiel
Name: Stan Szczygiel
Title: SVP Finance and Treasurer

PNC BANK, NATIONAL ASSOCIATION,
as Administrative Agent

By: /s/ Domenic D'Ginto
Name: Domenic D'Ginto
Title: Managing Director

EXISTING LENDER PNC BANK, NATIONAL ASSOCIATION,

as Swing Line Lender and as a Lender

By: /s/ Domenic D’Ginto
Name: Domenic D’Ginto
Title: Managing Director

Signature Page to Second Amendment to Credit Agreement

EXISTING LENDER

TD BANK, N.A.

By: /s/ Jennifer L. Suspenski
Name: Jennifer L. Suspenski
Title: Vice President

Signature Page to Second Amendment to Credit Agreement

NEW LENDER

CITIZENS BANK, N.A.

By: /s/ Leslie D. Broderick
Name: Leslie D. Broderick
Title: Senior Vice President

Signature Page to Second Amendment to Credit Agreement

<u>**EXHIBIT A TO SECOND AMENDMENT**</u>

<u>**SCHEDULE 1.1A TO CREDIT AGREEMENT**</u>

Revolving Commitments

Name of Lender	Revolving Commitment
PNC Bank, National Association	$116,666,667.00
TD Bank, N.A.	$116,666,667.00
Citizens Bank, N.A.	$66,666,666.00
Total:	**$300,000,000.00**

EXHIBIT B TO SECOND AMENDMENT

FORM OF BORROWING REQUEST

EXHIBIT F

FORM OF BORROWING REQUEST

PNC Bank, National Association,
as Administrative Agent
for the Lenders referred to below

Agency Services
PNC Bank, National Association
Mail Stop: P7-PFSC-05-W
500 First Avenue
Pittsburgh, PA 15219
Attention: Agency Services
Telecopy: (412) 768-0423
Telephone: (412) 715-2006

[Date]

Dear Ladies and Gentlemen:

Reference is made to the Credit Agreement dated as of November 25, 2020 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among PNG Companies LLC, the Lenders party thereto, and PNC Bank, National Association, as administrative agent for the Lenders (in such capacity, the "Administrative Agent"). Terms defined in the Credit Agreement are used herein with the same meanings. The Borrower hereby requests to borrow Revolving Loans under the Credit Agreement, and in that connection the Borrower specifies the following information with respect to such borrowing of Revolving Loans requested hereby:

1. Principal amount of Revolving Loan :____________________

2. Date of Revolving Loan (which is a Business Day) :__________________

3. Type of Revolving Loan :____________________

4. Interest Period :____________________

5. Location and number of Borrower’s account at Administrative Agent to which proceeds of borrowing are to be disbursed:_____________________

6. The proceeds of the Revolving Loan will be used:

☐ For purchases of natural gas inventory

☐ For other working capital needs and general corporate purposes

The Borrower hereby represents and warrants as of the date of the making of such Revolving Loan, that the conditions set forth in Section 5.2 of the Credit Agreement have been satisfied or waived.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Borrower has executed and delivered this Borrowing Request as of the date first written above.

Very truly yours,
PNG COMPANIES LLC

By:______________________________
Name:
Title:

EXHIBIT C TO SECOND AMENDMENT

FORM OF CONVERSION/CONTINUATION NOTICE

EXHIBIT H

FORM OF CONVERSION/CONTINUATION NOTICE

PNC Bank, National Association,
as Administrative Agent
under the Credit Agreement
referred to below

Agency Services
PNC Bank, National Association
Mail Stop: P7-PFSC-05-W
500 First Avenue
Pittsburgh, PA 15219
Attention: Agency Services
Telecopy: (412) 768-0423
Telephone: (412) 715-2006

Date: [•]

The undersigned, PNG Companies LLC (the "Borrower") refers to the Credit Agreement, dated as of November 25, 2020 (as amended, restated, amended and restated, supplemented or otherwise modified from time to time, the "Credit Agreement"), among the Borrower, the Lenders party thereto, and PNC Bank, National Association, as administrative agent for the Lenders (in such capacity, the "Administrative Agent"). Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

The undersigned hereby requests (select one):

a conversion of a BSBY Rate Loan to an ABR Loan,

a conversion of an ABR Loan to a BSBY Rate Loan, or

a continuation of a BSBY Rate Loan

1. on ____________________ (a Business Day),

2. [and in the amount of $_____________ to be converted into an ABR Loan.] [in the amount of $_____________ to be converted into or continued as a BSBY Rate Loan, and]

3. [with an Interest Period of ______________ months.]

4. The original proceeds of the Revolving Loan that are being continued or converted hereby were used for:

The purchase natural gas inventory

Other working capital needs and general corporate purposes.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Borrower has executed and delivered this Conversion/Continuation Notice as of the date first written above.

PNG COMPANIES LLC

By:
Name:
Title:

SIXTH AMENDMENT TO CREDIT AGREEMENT

THIS SIXTH AMENDMENT TO CREDIT AGREEMENT (this "Agreement") is made as of this 30th day of June, 2022, by and among AQUA PENNSYLVANIA, INC., a Pennsylvania corporation ("Borrower"), the several banks and financial institutions which are parties to this Agreement (each a "Bank" and collectively, the "Banks") and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for the Banks (in such capacity, the "Agent").

BACKGROUND

A. The Borrower, the Agent and the Banks are parties to an Amended and Restated Credit Agreement, dated as of November 17, 2016 (as heretofore amended, supplemented, modified, or restated, the "Credit Agreement"), pursuant to which the Banks have made available to the Borrower a revolving credit facility in an aggregate amount of $100,000,000 (the "Facility"). The loans under the Facility are evidenced by the Borrower's Notes to the Banks in the aggregate principal amount of $100,000,000.

B. The Borrower, the Agent and the Banks desire to extend the Termination Date of the Facility and modify certain other provisions of the Credit Agreement, all on the terms and subject to the conditions herein set forth.

NOW THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

AGREEMENT

1. Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

2. Amendments to Credit Agreement. Effective on June 30, 2022 (the "Effective Date"), the Credit Agreement is hereby amended as follows:

(a) The following definitions in Section 1.1 shall be amended and restated to read in full as follows:

> "Sanctioned Country": any country, territory, or region that is the subject of sanctions administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury, which countries, territories, and regions include, as of the Sixth Amendment Effective Date, the Crimea region of Ukraine, Cuba, Iran, North Korea, Syria, and the separatist-controlled portions of the Donetsk and Luhansk regions of Ukraine.

"Sanctioned Person": at any time, (a) any Person listed in any Sanctions-related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State or by the United Nations Security Council, the European Union, the United Kingdom or any European Union member state, (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person controlled by any such Person described in the foregoing clauses (a) and (b).

"Sanctions": economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State or (b) the United Nations Security Council, the European Union or Her Majesty's Treasury of the United Kingdom, or other relevant sanctions authority with jurisdiction over any Bank, the Borrower or any of its or their Subsidiaries.

"Termination Date": the earlier of (a) June 29, 2023 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein.

(b) The following definitions are hereby added to Section 1.1 in the appropriate alphabetical order:

"Sixth Amendment": the Sixth Amendment to Credit Agreement by and among the Borrower, the Banks party thereto and the Agent, dated as of the Sixth Amendment Effective Date.

"Sixth Amendment Effective Date" means June 30, 2022.

(c) Section 8 shall be amended by inserting at the end thereto a new Section 8.14 which shall read in full as follows:

8.14 No Advisory or Fiduciary Relationship. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees, and acknowledges its Affiliates' understanding, that: (a) (i) no fiduciary, advisory or agency relationship between the Borrower and its Subsidiaries and any arranger, any bookrunner, the Agent or any Bank is intended to be or has been created in respect of the transactions contemplated hereby or by the other Loan Documents, irrespective of whether any arranger, any bookrunner, the Agent, or any Bank has advised or is advising the Borrower or any Subsidiary on other matters, (ii) the arranging and other services regarding this Agreement provided by any arranger, any bookrunner, the Agent, and the Banks are arm's-length commercial transactions between the Borrower and its Affiliates, on the one hand, and any arranger, any bookrunner, the Agent, and the Banks, on the other hand, (iii) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent that it has deemed appropriate and (iv) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; and (b) (i) each of any arranger, any bookrunner, the Agent, and the Banks is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower or any of its Affiliates, or any other Person; (ii) none of any arranger, any bookrunner, the Agent, and the Banks has any obligation to the Borrower or any of the Borrower's Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) any arranger, any bookrunner, the Agent, and the Banks and their respective Affiliates may be engaged, for their own accounts or the accounts of customers, in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and none of any arranger, any bookrunner, the Agent, and the Banks has any obligation to disclose any of such interests to the Borrower or its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against any of any arrangers, any bookrunner, the Agent, and the Banks with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

(d) The address for the Borrower in Section 9.2 shall be amended and restated to read in full as follows:

Borrower:	Aqua Pennsylvania, Inc. 762 W. Lancaster Avenue Bryn Mawr, PA 19010-3489 Attention: Daniel J. Schuller, Executive Vice President and Chief Financial Officer Email: djschuller@essential.com
With a copy to	Aqua Pennsylvania, Inc. 762 West Lancaster Avenue Bryn Mawr, PA 19010 Attention: Christopher P. Luning Senior Vice President and General Counsel

3. Loan Documents. Except where the context clearly requires otherwise, all references to the Credit Agreement in any of the Loan Documents or any other document delivered to the Banks or the Agent in connection therewith shall be to the Credit Agreement as amended by this Agreement.

4. Borrower's Ratification. The Borrower agrees that it has no defenses, set-offs, counterclaims or challenges against the Banks or the Agent or their respective officers, directors, employees, agents or attorneys, with respect to the Loan Documents, all of which are in full force and effect, and that all of the terms and conditions of the Loan Documents not inconsistent herewith shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms. The Borrower hereby ratifies and confirms its obligations under the Loan Documents as amended hereby and agrees that the execution and delivery of this Agreement does not in any way diminish or invalidate any of its obligations thereunder.

5. Representations and Warranties. The Borrower hereby represents and warrants to the Agent and the Banks that:

(a) The representations and warranties made in the Credit Agreement are true and correct in all material respects as of the date hereof; provided, however, that for purposes of the representations in Section 3.1 thereof, the annual and quarterly financial information referred to in such Section shall be deemed to be the most recent such information furnished to each Bank;

(b) No Default or Event of Default under the Credit Agreement exists on the date hereof; and

(c) This Agreement has been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms; and

(d) No consent, approval or authorization of, filing, registration or recording with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the execution, delivery or performance by the Borrower of this Agreement (except for those which have been obtained on or prior to the date hereof).

All of the above representations and warranties shall survive the making of this Agreement.

6. Conditions Precedent. The effectiveness of the amendments set forth herein is subject to the fulfillment, to the satisfaction of the Agent and its counsel, of the following conditions precedent on or before the Effective Date:

(a) The Agent shall have received the following, all of which shall be in form and substance satisfactory to the Agent and shall be duly completed and executed by the Borrower, the Agent and the Banks, as applicable:

(i) This Agreement;

(ii) Copies, certified by the Secretary or an Assistant Secretary of the Borrower as of a recent date, of resolutions of the board of directors of the Borrower in effect on the date hereof authorizing the execution, delivery and performance of this Agreement and the other documents and transactions contemplated hereby;

(iii) Copies, certified by its corporate secretary as of a recent date, of the articles of incorporation, certificate of formation, and by-laws of the Borrower as in effect, or a certificate stating that there have been no changes to any such documents since the most recent date, true and correct copies thereof were delivered to the Agent;

(iv) If the Borrower qualifies as a legal entity customer under the Beneficial Ownership Regulations, an executed Certificate of Beneficial Ownership for the Borrower and such other documentation and other information requested by the Agent and the Banks in connection with applicable “know your customer” and anti-money laundering rules and regulations, including the USA Patriot Act;

(v) A good standing certificate for the Borrower in the State of its formation dated as of a recent date; and

(vi) Such additional documents, certificates and information as the Agent or the Banks may require pursuant to the terms hereof or otherwise reasonably request.

(b) After giving effect to this Agreement, the representations and warranties set forth in the Credit Agreement shall be true and correct in all material respects on and as of the date hereof; provided, however, that for purposes of the representations in Section 3.1 thereof, the annual and quarterly financial information referred to in such Section shall be deemed to be the most recent such information furnished to each Bank.

(c) No Default or Event of Default shall have occurred and be continuing as of the date hereof.

(d) The Agent shall have received such fees as shall have been agreed.

(e) The Agent shall have received, to the extent invoiced, reimbursement of all fees and expenses of counsel to the Agent required to be paid or reimbursed by the Borrower hereunder.

All of the foregoing fees shall be in all respects, fully earned, due and payable on the Effective Date and non-refundable and non- creditable thereafter.

7. Integration. This Agreement constitutes the sole agreement of the parties hereto with respect to the transactions contemplated hereby and shall supersede all oral negotiations and the terms of prior writings with respect thereto. From and after the Effective Date, all references in the Credit Agreement and each of the other Loan Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby. This Agreement shall constitute a Loan Document for all purposes under the Credit Agreement and each of the other Loan Documents.

8. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9. Miscellaneous.

(a) The Borrower agrees to pay all of the Agent's reasonable out-of-pocket fees and expenses incurred in connection with this Agreement and the transactions contemplated hereby, including, without limitation, the reasonable fees and expenses of counsel to the Agent.

(b) All terms, conditions, provisions and covenants in the Loan Documents and all other documents delivered to the Agent and the Banks in connection therewith shall remain unaltered and in full force and effect except as expressly modified or amended hereby. To the extent that any term or provision of this Agreement is or may be deemed expressly inconsistent with any term or provision in any Loan Document or any other document executed in connection therewith, the terms and provisions hereof shall control.

(c) The execution, delivery and effectiveness of this Agreement shall neither operate as a waiver of any right, power or remedy of the Agent or the Banks under any of the Loan Documents nor constitute a waiver of any Default or Event of Default thereunder.

(d) In consideration of the Agent's and the Banks' agreement to amend the existing revolving credit facility, the Borrower hereby waives and releases the Agent and the Banks and their respective officers, attorneys, agents and employees from any liability, suit, damage, claim, loss or expense of any kind or failure whatsoever and howsoever arising that it ever had up until, or has as of, the date of this Agreement.

(e) This Agreement shall be governed by and construed according to the laws of the Commonwealth of Pennsylvania.

(f) This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns.

(g) The headings used in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement.

(h) This Agreement may be executed in one or more counterparts, each of which counterparts when executed and delivered shall be deemed to be an original, and all of which shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or other electronic transmission will be effective as delivery of a manually executed counterpart hereof.

IN WITNESS WHEREOF, the Borrower, the Agent and the Banks have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

AQUA PENNSYLVANIA, INC.
By: /s/ Stan Szczygiel
Name: Stan Szczygiel
Title: SVP Finance and Treasurer

PNC BANK, NATIONAL ASSOCIATION,
as Agent and as a Bank

By: /s/ Domenic D'Ginto
Name: Domenic D'Ginto
Title: Managing Director

CITIZENS BANK, N.A., as a Bank
By: /s/ Leslie D. Broderick
Name: Leslie D. Broderick
Title: Senior Vice President

TD BANK, N.A., as a Bank

By: /s/ Jennifer L. Suspenski
Name: Jennifer L. Suspenski
Title: Vice President

THE HUNTINGTON NATIONAL BANK,
as a Bank

By: /s/ Marcel Fournier
Name: Marcel Fournier
Title: Vice President

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER, PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

I, Christopher H. Franklin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Essential Utilities, 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.

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer
August 9, 2022

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER, PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

I, Daniel J. Schuller, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Essential Utilities, 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.

/s/ Daniel J. Schuller
Daniel J. Schuller
Executive Vice President and Chief Financial Officer
August 9, 2022

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2022 of Essential Utilities, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher H. Franklin, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or Section 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Christopher H. Franklin
Christopher H. Franklin
President and Chief Executive Officer
August 9, 2022

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2022 of Essential Utilities, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daniel J. Schuller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m or Section 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Daniel J. Schuller
Daniel J. Schuller
Executive Vice President and Chief Financial Officer
August 9, 2022