

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-001**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

1. Please refer to the excel file DELTA\_R\_PSCDR1\_NUM054\_120924 and specifically tab 55 p2. Provide the actual capital expenditures by plant account in the same format as is contained within this tab for the period July 2024 – December 2024.

Response:

See attached.

**Delta Natural Gas Company, Inc**

Jul-Dec 2024 Capital Expenditures

FERC #	FERC Description	Total						Jul-Dec 2024 Actuals
		Jul 2024 Actuals	Aug 2024 Actuals	Sep 2024 Actuals	Oct 2024 Actuals	Nov 2024 Actuals	Dec 2024 Actuals	
3950	Laboratory Equipment	\$ 116,907	\$ 207,689	\$ 146,199	\$ 301,975	\$ 133,295	\$ 297,898	\$ 1,203,964
3030	Misc Intangible Plant (Software)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3900	General Structures and Improvements	\$ 132,285.38	\$ 77.36	\$ 24,428.63	\$ 138,827.70	\$ (10,649.12)	\$ 16,029.78	\$ 301,000
3910	Office Furniture and Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3912	Computer Hardware	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3920	Transportation Equipment	\$ 222,506.14	\$ -	\$ 52,353.40	\$ 118,743.01	\$ 295,659.17	\$ 112,134.30	\$ 801,396
3970	Communication Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3980	Miscellaneous Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3991	Computerized Office Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3992	Computer Software	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3993	Computer Hardware	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3999	Contingency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3310	Well Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3320	Gathering Lines	\$ -	\$ -	\$ 1,826	\$ 13,258	\$ 4,457	\$ (789)	\$ 18,753
3330	Gathering Compressor Station Equipment	\$ -	\$ -	\$ 536	\$ -	\$ 67,492	\$ -	\$ 68,028
3340	Gathering Measuring and Regulating Station Equip	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3520	Storage Wells	\$ 121,159	\$ 22,040	\$ 22,574	\$ 36,357	\$ 16,767	\$ (23,286)	\$ 195,611
3530	Storage Lines	\$ 36,765	\$ -	\$ 72,473	\$ 35,551	\$ 33,858	\$ 257,110	\$ 435,757
3540	Storage Compressor Station Equipment	\$ -	\$ 53,253	\$ 25,521	\$ (1,249)	\$ 45,416	\$ (679)	\$ 122,263
3550	Storage Measuring and Regulating Equipment	\$ -	\$ -	\$ 6,392	\$ 791	\$ 289	\$ -	\$ 7,472
3560	Purification Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3650	Transmission Rights of Way	\$ 7,152	\$ 285,132	\$ (21,660)	\$ 24,270	\$ 2,782	\$ 222,210	\$ 519,886
3660	Transmission Structures and Improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3670	Transmission Mains - NET	\$ (200,124)	\$ (240,775)	\$ 420,334	\$ 125,343	\$ 160,086	\$ 1,030,524	\$ 1,295,389
3680	Transmission Compressor Station Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3690	Transmission Measuring and Regulating Equip	\$ 2,540,713	\$ 99,417	\$ 71,000	\$ (25,961)	\$ 251,028	\$ 67,888	\$ 3,004,085
3710	Transmission Other Equipment (Telemetry)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3740	Distribution Land and Right of Way	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3750	Distribution Structures and Improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3760	Distribution Mains	\$ 1,405,296	\$ 678,449	\$ 2,513,878	\$ 1,772,664	\$ 184,882	\$ 915,300	\$ 7,470,470
3780	Distribution General Regulator Stations	\$ 25,175.38	\$ 11,339.07	\$ 63,481.43	\$ 40,760.26	\$ 7,588.98	\$ 75,427.69	\$ 223,773
3790	Distribution City Gate Regulator Stations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3800	Distribution Services	\$ 145,269.63	\$ 175,184.33	\$ 135,264.16	\$ 216,998.68	\$ 339,233.69	\$ 4,204.10	\$ 1,016,155
3810	Distribution Meters	\$ 27,531.70	\$ 28,639.39	\$ 111,370.07	\$ 49,903.54	\$ 97,408.92	\$ 21,623.86	\$ 336,477
3820	Distribution Meter and Regulator Installations	\$ -	\$ -	\$ -	\$ -	\$ 38,035.64	\$ -	\$ 38,036
3830	Distribution Regulators	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3850	Distribution Industrial Meter Set	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3940	Tools	\$ -	\$ -	\$ 5,816.12	\$ -	\$ 10,661.98	\$ (686.98)	\$ 15,791
3960	Power Operated Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
		<b>\$ 4,580,637</b>	<b>\$ 1,320,446</b>	<b>\$ 3,651,786</b>	<b>\$ 2,848,233</b>	<b>\$ 1,678,294</b>	<b>\$ 2,994,911</b>	<b>\$ 17,074,306</b>

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-002**

**Witness:** Wernert, Jeff

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUEST

DATED JANUARY 17, 2025

2. Provide a complete explanation, including the rationale for the inclusion of a balance of Prepayments in Rate Base on conjunction with the results of the lead lag study. This response should indicate whether items within the prepaid balance are also included in the measurement of their corresponding expense lead day calculation. For example, if Prepaid insurance is included as a prepayment, why is it also included within the lead/lag calculation?

Response:

Prepayments included in rate base are for items where Delta has been required to make cash payments for services or goods prior to the service being rendered or the good received. As such, those items are shown as a current asset on Delta's balance sheet. As the benefit for those items are received, then they would move to the appropriate expense account on the income statement.

The lead/lag study does not incorporate prepayments into the calculation of Cash Working Capital ("CWC") and only evaluates expenses on Delta's income statement. Including prepayments would constitute double counting of items in rate base if they were included in the calculation of CWC. As mentioned in the testimony of Jeffrey Wernert, the expense lead days and revenue lag days were calculated based on an evaluation of Delta's 2023 income statement. These lead/lag days were then applied to the forecasted expenses and revenues in this proceeding to determine the appropriate CWC to be included in the revenue requirement.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-003**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-000346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

3. Provide a complete explanation, including the rationale for the reduction in Rate Base associated with “AP in Prepaid and CWIP.”

Response:

In Case No. 2021-00185, AG Witness Bion C. Ostrander proposed a similar adjustment in his Direct Testimony:

“I am removing accounts payable from both the prepaids and CWIP accounts that are included in rate base because the Company has not financed this portion of prepaids or CWIP, it is the vendors that have financed this cost. Thus, it is appropriate to remove this portion of non-Company financed cost”. Mr. Ostrander said that the Commission adopted this position in the Kentucky Power Company rate case in Case No. 2020-00174.

Delta made the adjustment proposed by the AG Witness for the Stipulation in 2021. Delta calculated rate base in a consistent manner for Case No. 2024-00346.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-004**

**Witness:** Wernert, Jeff

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

4. Please refer to the excel file DELTA\_R\_PSCDR1\_NUM054\_120924 and specifically tab 55 p.6 and respond to the following:

- a. Provide support for the Meter Reading lag days of 15.21.
- b. Provide support for the Billing lag days of 7.0.
- c. The revenue lag days and expense lead days are identical for Sales Taxes, School Taxes and Franchise Fees, which implies that funds are remitted to taxing authorities simultaneously with receipt of funds from customers. Provide evidence in the months of July and November, 2024 that supports the implied claim that the Company remits such funds upon receipt of payment from customers.
- d. Provide support for the Purchase Gas expense lead days of 41.76.
- e. Provide support for the Property Tax expense lead days of 297.14.

Response:

- a. Meter Reading lag is based on meters being read 12 times a year and assumes the service is rendered evenly throughout these meter reading periods. Therefore, the calculation is:  $(365\text{days} / 12\text{ months}) = 15.21$  lag days for Meter Reading lag assuming each meter is read once per month and twelve times in a calendar year.
- b. Billing lag is calculated as the period between the time the meter is read and the time the bill is sent out (or scheduled to be sent out for mass billed accounts).

Delta currently operates with two billing cycles each month with batch billing done after each cycle is completed which comprises approximately 20,000 bills per cycle. This has been Delta's practice for many years and avoids the need for third-party vendors to read customer meters. The 7.0 Billing Lag days used in the lead/lag study constitutes the average amount of time it generally takes for Delta to read the customer's meter, upload that data into their billing system,

and process the batch billing for each billing cycle. This is the same Billing Lag value Delta submitted in the lead/lag study in their last rate proceeding.

c. Please see attachment for the receipts for Sales Tax, School Tax, and Franchise Fees paid in July and November 2024.

d. See attachment.

e. See attachment.



# DELTA NATURAL GAS COMPANY, INC.

**CBI**

0088670818

**Account Type**

Sales & Use Tax

**Account Number**

000045085

Period 07/01/2024 - 07/31/2024

**Total Receipts- do not include sales tax collected**

\$2,382,835.00

**Total Deductions**

\$1,576,898.00

**Cost of tangible personal property, digital property and extended taxable warranty services purchased without payment of the sales and use tax for business or personal use**

\$10,311.00

**Total taxable amount**

\$816,248.00

**Total tax**

\$48,974.88

**Vendor's Compensation**

\$50.00

**Tax prepayment**

Estimated



\$24,500.00

**Credit for Prior month's tax prepayment**

\$27,300.00

**Net tax due**

\$46,124.88

**Penalty due**

\$0.00

**Interest due**

\$0.00

**Total due**

\$46,124.88

<b>Description</b>	<b>Amount</b>
Sales for which resale certificates received (Revenue form 51A105)	\$0.00
Sales for which agricultural certificates received (Revenue forms 51A158 and 51A159)	\$0.00
Sales for which purchase exemption certificates received (Revenue forms 51A126 and 51A127)	\$0.00
Sales of tax exempt grocery store foods	\$0.00
Sales to government units	\$0.00
Sales in interstate commerce delivered to an out-of-state location by your vehicle, common carrier or U.S. mail	\$0.00
Sales of gasoline or special fuels on which Kentucky motor fuels tax has been paid	\$0.00
Trade-in allowances of like-kind property (Accrual filers only)	\$0.00
Non-retail service and installation included in total receipts. (Must be separately stated on customer's invoice). Service & installation charges with the sale of taxable property are taxable as of 7/1/18.	\$1,332.00



Description	Amount
Returned merchandise on which tax was previously reported in prior months	\$0.00
Bad debts and repossessions (Accrual filers only) – Deduct bad debts if tax was previously paid and the debt has been written off for income tax purposes	\$0.00
Cash discounts (Accrual filers only) – Taxable receipts must include the amount of taxable sales before discount	\$0.00
Sales of prescription medicines, medical oxygen, prosthetic devices, and certain medical items per KRS 139.472	\$0.00
Sales of motor vehicles and motorcycles if they are licensed for use on the public highway and the appropriate usage tax was paid under KRS 138.460, except out of state residents per KRS 139.470	\$0.00
Other Non-taxable sales	\$1,575,566.00
	\$0.00
	\$0.00

Return submitted on 8/19/2024

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Add New Payment

# Successful!

Your payment has been submitted successfully.

**Order Number** 1302841  
**Payment Date** 8/26/2024  
**Payment Time** 9:00 AM  
**EFT Account Name** Delta Natural Gas Company, Inc.  
**Period End Date** 7/31/2024  
**Paid For Business** Delta Natural Gas Company, Inc.  
**Tax Type Code** 041 - Sales & Use Tax  
**Taxpayer ID** 000045085  
**Last 4 Digits** 5745  
**Amount Paid** \$46,124.88

ADD ANOTHER PAYMENT



# DELTA NATURAL GAS COMPANY, INC.

**CBI**

0088670818

**Account Type**

Sales & Use Tax

**Account Number**

000045085

Period 11/01/2024 - 11/30/2024

**Total Receipts- do not include sales tax collected**

\$5,373,971.00

**Total Deductions**

\$4,194,335.00

**Cost of tangible personal property, digital property and extended taxable warranty services purchased without payment of the sales and use tax for business or personal use**

\$22,202.00

**Total taxable amount**

\$1,201,838.00

**Total tax**

\$72,110.28

**Vendor's Compensation**

\$50.00

**Tax prepayment**

Estimated



\$36,000.00

**Credit for Prior month's tax prepayment**

\$31,100.00

**Net tax due**

\$76,960.28

**Penalty due**

\$0.00

**Interest due**

\$0.00

**Total due**

\$76,960.28

Description	Amount
Sales for which resale certificates received (Revenue form 51A105)	\$0.00
Sales for which agricultural certificates received (Revenue forms 51A158 and 51A159)	\$0.00
Sales for which purchase exemption certificates received (Revenue forms 51A126 and 51A127)	\$0.00
Sales of tax exempt grocery store foods	\$0.00
Sales to government units	\$0.00
Sales in interstate commerce delivered to an out-of-state location by your vehicle, common carrier or U.S. mail	\$0.00
Sales of gasoline or special fuels on which Kentucky motor fuels tax has been paid	\$0.00
Trade-in allowances of like-kind property (Accrual filers only)	\$0.00
Non-retail service and installation included in total receipts. (Must be separately stated on customer's invoice). Service & installation charges with the sale of taxable property are taxable as of 7/1/18.	\$2,936.00

Description	Amount
Returned merchandise on which tax was previously reported in prior months	\$0.00
Bad debts and repossessions (Accrual filers only) – Deduct bad debts if tax was previously paid and the debt has been written off for income tax purposes	\$0.00
Cash discounts (Accrual filers only) – Taxable receipts must include the amount of taxable sales before discount	\$0.00
Sales of prescription medicines, medical oxygen, prosthetic devices, and certain medical items per KRS 139.472	\$0.00
Sales of motor vehicles and motorcycles if they are licensed for use on the public highway and the appropriate usage tax was paid under KRS 138.460, except out of state residents per KRS 139.470	\$0.00
Other Non-taxable sales	\$4,191,399.00
	\$0.00
	\$0.00

Return submitted on 12/19/2024

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# Successful!

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**Order Number** 1316038  
**Payment Date** 12/26/2024  
**Payment Time** 9:00 AM  
**EFT Account Name** Delta Natural Gas Company, Inc.  
**Period End Date** 11/30/2024  
**Paid For Business** Delta Natural Gas Company, Inc.  
**Tax Type Code** 041 - Sales & Use Tax  
**Taxpayer ID** 000045085  
**Last 4 Digits** 5745  
**Amount Paid** \$76,960.28

ADD ANOTHER PAYMENT

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 / [Tax Return Summary](#)

**Tax Return Summary****Account Number:** 000001010**Tax Period :** 07/01 - 07/31/2024**Account Name:** DELTA NATURAL GAS CO**Due Date :** 8/20/2024

<b>Total Gross Receipts</b>	\$2,045,562.33
<b>Deductions</b>	
<b>Prepaid Calling Services</b>	
<b>Interstate Telephone Services</b>	
<b>Internet Access</b>	
<b>Services Resold</b>	
<b>Federal and State Taxes</b>	
<b>Energy Direct Pay Receipts</b>	
<b>Other :</b>	
<b>Total Deductions</b>	\$0.00
<b>Gross Receipts Subject to Tax</b>	\$2,045,562.33
<b>Consumer Purchases</b>	\$0.00
<b>EDP Account Holder Purchases</b>	\$0.00
<b>Total Tax Due</b>	\$61,366.87
<b>Less Payments credited to the account</b>	\$0.00
<b>Interest (Estimated - additional interest may apply)</b>	\$0.00
<b>Penalties (Estimated - additional penalties may apply)</b>	\$0.00
<b>Total Amount Due</b>	\$61,366.87

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# Successful!

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**Order Number** 1302838  
**Payment Date** 8/20/2024  
**Payment Time** 9:00 AM  
**EFT Account Name** Delta Natural Gas Company, Inc.  
**Period End Date** 7/31/2024  
**Paid For Business** Delta Natural Gas Company, Inc.  
**Tax Type Code** 046 - KY UGRL  
**Taxpayer ID** 000001010  
**Last 4 Digits** 5745  
**Amount Paid** \$61,366.87

ADD ANOTHER PAYMENT

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/ [Tax Return Summary](#)

## Tax Return Summary

**Account Number:** 000001010

**Tax Period :** 11/01 - 11/30/2024

**Account Name:** DELTA NATURAL GAS CO

**Due Date :** 12/20/2024

<b>Total Gross Receipts</b>	\$3,085,717.33
<b>Deductions</b>	
<b>Prepaid Calling Services</b>	
<b>Interstate Telephone Services</b>	
<b>Internet Access</b>	
<b>Services Resold</b>	
<b>Federal and State Taxes</b>	
<b>Energy Direct Pay Receipts</b>	
<b>Other :</b>	
<b>Total Deductions</b>	\$0.00
<b>Gross Receipts Subject to Tax</b>	\$3,085,717.33
<b>Consumer Purchases</b>	\$0.00
<b>EDP Account Holder Purchases</b>	\$0.00
<b>Total Tax Due</b>	\$92,571.52
<b>Less Payments credited to the account</b>	\$0.00
<b>Interest (Estimated - additional interest may apply)</b>	\$0.00
<b>Penalties (Estimated - additional penalties may apply)</b>	\$0.00
<b>Total Amount Due</b>	\$92,571.52

- Allocation
- Amend Return
- Payment Summary
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Add New Payment

# Successful!

Your payment has been submitted successfully.

**Order Number** 1315791  
**Payment Date** 12/20/2024  
**Payment Time** 9:00 AM  
**EFT Account Name** Delta Natural Gas Company, Inc.  
**Period End Date** 11/30/2024  
**Paid For Business** Delta Natural Gas Company, Inc.  
**Tax Type Code** 046 - KY UGRL  
**Taxpayer ID** 000001010  
**Last 4 Digits** 5745  
**Amount Paid** \$92,571.52

ADD ANOTHER PAYMENT

# Franchise Tax Invoice

General Ledger #: 2139020  
Vendor #: 400017796  
Franchise Tax Code: FR14

Aug 20, 2024

CITY OF CAMARGO  
Camargo City Hall  
4406 Camargo Road  
Camargo, Ky. 40353

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## Franchise Fee

For the quarter ended: 2nd

### Name and Address of Taxpayer:

Delta Natural Gas Company  
3617 Lexington Road  
Winchester, KY 40391

	<b>Workbook</b>	<b>CIS</b>	<b>Total</b>
Total Receipts Subject to Tax:	\$4,871.67	\$0.00	\$4,871.67
Tax Amount Due (3%):	\$146.15	\$0.00	\$146.15

# Franchise Tax Invoice

General Ledger #: 2139020  
Vendor #: 400003773  
Franchise Tax Code: FR08

Aug 20, 2024

LEXINGTON FAYETTE URBAN CO GOVERNMENT

200 EAST MAIN STREET  
LEXINGTON, KY 40507

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## Franchise Fee

For the quarter ended: 2nd

### Name and Address of Taxpayer:

Delta Natural Gas Company  
3617 Lexington Road  
Winchester, KY 40391

	<b>Workbook</b>	<b>CIS</b>	<b>Total</b>
Total Receipts Subject to Tax:	\$0.00	\$27,447.67	\$27,447.67
Tax Amount Due (3%):	\$0.00	\$823.43	\$823.43

# Franchise Tax Invoice

General Ledger #: 2139020  
Vendor #: 400017796  
Franchise Tax Code: FR14

Dec 12, 2024

CITY OF CAMARGO  
Camargo City Hall  
4406 Camargo Road  
Camargo, Ky. 40353

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## Franchise Fee

For the quarter ended: 4th

### Name and Address of Taxpayer:

Delta Natural Gas Company  
3617 Lexington Road  
Winchester, KY 40391

	<b>Workbook</b>	<b>CIS</b>	<b>Total</b>
Total Receipts Subject to Tax:	\$7,624.00	\$0.00	\$7,624.00
Tax Amount Due (3%):	\$228.72	\$0.00	\$228.72

# Franchise Tax Invoice

General Ledger #: 2139020  
Vendor #: 400003773  
Franchise Tax Code: FR08

Dec 12, 2024

LEXINGTON FAYETTE URBAN CO GOVERNMENT

200 EAST MAIN STREET  
LEXINGTON, KY 40507

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## Franchise Fee

For the quarter ended: 4th

### Name and Address of Taxpayer:

Delta Natural Gas Company  
3617 Lexington Road  
Winchester, KY 40391

	<b>Workbook</b>	<b>CIS</b>	<b>Total</b>
Total Receipts Subject to Tax:	\$0.00	\$40,605.67	\$40,605.67
Tax Amount Due (3%):	\$0.00	\$1,218.17	\$1,218.17



**Delta Natural Gas Company**  
**Case No. 2024-00346**  
**For the Year Ended December 31, 2023**  
**Cash Working Capital - Purchased Gas and Transportation**

Line No.	Supplier Name	Invoice Number	Service Month	Midpoint/ Service Lead	Delta Payment Date	Payment Lead	Total Lead	Delta Payment Amount	Weighted Days
	(1)	(2)	(3)	(4)=(3)/2	(5)	(7)=(6-EOM(3))	(8)=(4+7)	(9)	(10)=(8*9)
	GAS								
1	Diversified Energy Marketing LLC.	KY_25437	Jan, 2023	15.50	3/28/2023	56.00	71.50	256,987.28	\$ 18,374,591
2	GREYSTONE	21623.18	Jan, 2023	15.50	2/23/2023	23.00	38.50	22,482.08	\$ 865,560
3	MIDWEST	230202	Jan, 2023	15.50	2/27/2023	27.00	42.50	1,504,827.33	\$ 63,955,162
4	SYMMETRY	1595679	Jan, 2023	15.50	2/27/2023	27.00	42.50	1,408,615.51	\$ 59,866,159
5	SYMMETRY	1595852	Jan, 2023	15.50	2/27/2023	27.00	42.50	2,029.55	\$ 86,256
6	SYMMETRY	1595677	Jan, 2023	15.50	2/27/2023	27.00	42.50	369,491.15	\$ 15,703,374
7	SYMMETRY	1595678	Jan, 2023	15.50	2/27/2023	27.00	42.50	794.98	\$ 33,787
8	VINLAND	DN022023	Jan, 2023	15.50	3/28/2023	56.00	71.50	22,067.68	\$ 1,577,839
9	Diversified Energy Marketing LLC.	04/21/2023	Feb, 2023	14.00	4/27/2023	58.00	72.00	66,627.02	\$ 4,797,145
10	GREYSTONE	30923.17	Feb, 2023	14.00	3/23/2023	23.00	37.00	10,702.01	\$ 395,974
11	SYMMETRY	1616295	Feb, 2023	14.00	3/23/2023	23.00	37.00	492.15	\$ 18,210
12	SYMMETRY	1616296	Feb, 2023	14.00	3/23/2023	23.00	37.00	568,833.14	\$ 21,046,826
13	SYMMETRY	1616294	Feb, 2023	14.00	3/23/2023	23.00	37.00	163,719.69	\$ 6,797,629
14	SYMMETRY	1611025	Feb, 2023	14.00	3/23/2023	23.00	37.00	1,706.96	\$ 63,158
15	VINLAND	DN032023	Feb, 2023	14.00	4/25/2023	56.00	70.00	16,228.07	\$ 1,135,965
16	Diversified Energy Marketing LLC.	03-2023_KY_30133	Mar, 2023	15.50	5/23/2023	53.00	68.50	163,589.48	\$ 11,205,879
17	GREYSTONE	41823.17	Mar, 2023	15.50	4/25/2023	25.00	40.50	7,257.59	\$ 293,932
18	SYMMETRY	1634578	Mar, 2023	15.50	4/24/2023	24.00	39.50	(637.23)	\$ (25,171)
19	SYMMETRY	1633047	Mar, 2023	15.50	4/24/2023	24.00	39.50	491,201.64	\$ 19,402,465
20	SYMMETRY	1633046	Mar, 2023	15.50	4/24/2023	24.00	39.50	442.03	\$ 17,460
21	SYMMETRY	1633045	Mar, 2023	15.50	4/24/2023	24.00	39.50	171,576.17	\$ 6,777,259
22	VINLAND	DN042023	Mar, 2023	15.50	5/23/2023	53.00	68.50	8,680.76	\$ 594,632
23	Diversified Energy Marketing LLC.	37909	Apr, 2023	15.00	6/22/2023	53.00	68.00	32,327.69	\$ 2,198,283
24	GREYSTONE	51623.18	Apr, 2023	15.00	5/25/2023	25.00	40.00	3,387.42	\$ 135,497
25	MIDWEST	230502	Apr, 2023	15.00	5/23/2023	23.00	38.00	325,050.00	\$ 12,351,900
26	SYMMETRY	1640194	Apr, 2023	15.00	5/23/2023	23.00	38.00	47,633.82	\$ 1,810,085
27	SYMMETRY	1640195	Apr, 2023	15.00	5/23/2023	23.00	38.00	357.54	\$ 13,587
28	SYMMETRY	1640196	Apr, 2023	15.00	5/23/2023	23.00	38.00	136,687.62	\$ 5,194,130
29	VINLAND	DN042023	Apr, 2023	15.00	6/22/2023	53.00	68.00	5,222.64	\$ 355,140
30	Diversified Energy Marketing LLC.	41941	May, 2023	15.50	7/25/2023	55.00	70.50	67,817.73	\$ 4,781,150
31	GREYSTONE	61923.18	May, 2023	15.50	6/22/2023	22.00	37.50	1,742.56	\$ 65,346
32	MIDWEST	230602	May, 2023	15.50	6/23/2023	23.00	38.50	1,085,000.00	\$ 41,772,500
33	VINLAND	DN062023	May, 2023	15.50	7/25/2023	55.00	70.50	804.79	\$ 56,738
34	SYMMETRY	1661983	May, 2023	15.50	6/23/2023	23.00	38.50	291,931.46	\$ 11,239,361
35	SYMMETRY	1661984	May, 2023	15.50	6/23/2023	23.00	38.50	37,771.88	\$ 1,454,217
36	SYMMETRY	1666276	May, 2023	15.50	6/23/2023	23.00	38.50	(12,906.88)	\$ (496,915)
37	SYMMETRY	1661985	May, 2023	15.50	6/23/2023	23.00	38.50	389.12	\$ 14,981
38	Diversified Energy Marketing LLC.	66096	Jun, 2023	15.00	8/22/2023	53.00	68.00	18,195.32	\$ 1,237,282
39	GREYSTONE	71923.18	Jun, 2023	15.00	7/25/2023	25.00	40.00	497.25	\$ 19,890
40	MIDWEST	230702	Jun, 2023	15.00	7/25/2023	25.00	40.00	343,710.00	\$ 13,748,400
41	SYMMETRY	1681739	Jun, 2023	15.00	7/25/2023	25.00	40.00	33,735.88	\$ 1,349,435
42	SYMMETRY	1681740	Jun, 2023	15.00	7/25/2023	25.00	40.00	386.22	\$ 15,449
43	SYMMETRY	1681741	Jun, 2023	15.00	7/25/2023	25.00	40.00	217,201.08	\$ 8,688,043
44	VINLAND	DN072023	Jun, 2023	15.00	8/22/2023	53.00	68.00	1,501.93	\$ 102,131
45	Diversified Energy Marketing LLC.	66530	Jul, 2023	15.50	10/3/2023	64.00	79.50	15,689.95	\$ 1,247,351
46	GREYSTONE	90923.17	Jul, 2023	15.50	8/22/2023	22.00	37.50	191.91	\$ 7,197
47	MIDWEST	230802	Jul, 2023	15.50	8/24/2023	24.00	39.50	189,100.00	\$ 7,469,450
48	SYMMETRY	1697571	Jul, 2023	15.50	8/24/2023	24.00	39.50	350,667.11	\$ 13,851,351
49	SYMMETRY	1697570	Jul, 2023	15.50	8/22/2023	22.00	37.50	464.93	\$ 17,435
50	SYMMETRY	1697569	Jul, 2023	15.50	8/22/2023	22.00	37.50	19,010.06	\$ 712,877
51	VINLAND	DN082023	Jul, 2023	15.50	9/26/2023	57.00	72.50	426.13	\$ 30,894
52	Diversified Energy Marketing LLC.	922777	Aug, 2023	15.50	10/24/2023	54.00	69.50	5,582.25	\$ 387,966
53	Diversified Energy Marketing LLC.	08-2023PEOPLESKY	Aug, 2023	15.50	11/30/2023	91.00	106.50	3,704.33	\$ 394,511
54	GREYSTONE	92023.18	Aug, 2023	15.50	9/26/2023	26.00	41.50	178.84	\$ 7,422
55	MIDWEST	230901	Aug, 2023	15.50	9/25/2023	25.00	40.50	118,265.00	\$ 4,789,733
56	SYMMETRY	1714913	Aug, 2023	15.50	9/25/2023	25.00	40.50	(1,793.22)	\$ (72,625)
57	SYMMETRY	1713307	Aug, 2023	15.50	9/25/2023	25.00	40.50	321,292.05	\$ 13,012,328
58	SYMMETRY	1713306	Aug, 2023	15.50	9/25/2023	25.00	40.50	447.62	\$ 18,129
59	SYMMETRY	1713305	Aug, 2023	15.50	9/25/2023	25.00	40.50	38,809.43	\$ 1,571,782
60	VINLAND	DN082023	Aug, 2023	15.50	9/15/2023	15.00	30.50	426.13	\$ 12,997
61	Diversified Energy Marketing LLC.	092023PEOPLESKY9	Sep, 2023	15.00	11/30/2023	61.00	76.00	7,861.76	\$ 597,494
62	GREYSTONE	101923.18	Sep, 2023	15.00	10/30/2023	30.00	45.00	385.12	\$ 17,330
63	MIDWEST	231003	Sep, 2023	15.00	10/25/2023	25.00	40.00	324,300.00	\$ 12,972,000
64	SYMMETRY	1728782	Sep, 2023	15.00	10/26/2023	26.00	41.00	35,156.21	\$ 1,441,405
65	SYMMETRY	1728783	Sep, 2023	15.00	10/25/2023	25.00	40.00	442.83	\$ 17,713
66	SYMMETRY	1728784	Sep, 2023	15.00	10/25/2023	25.00	40.00	190,527.18	\$ 7,621,087
67	VINLAND	DN092023	Sep, 2023	15.00	10/30/2023	30.00	45.00	925.27	\$ 41,637
68	Diversified Energy Marketing LLC.	102023PEOPLESKY9	Oct, 2023	15.50	12/19/2023	49.00	64.50	14,962.98	\$ 965,112
69	GREYSTONE	111223.17	Oct, 2023	15.50	11/22/2023	22.00	37.50	2,119.36	\$ 79,476
70	MIDWEST	231102	Oct, 2023	15.50	11/22/2023	22.00	37.50	756,400.00	\$ 28,365,000
71	SYMMETRY	1744127	Oct, 2023	15.50	11/22/2023	22.00	37.50	490.05	\$ 18,377
72	SYMMETRY	1744126	Oct, 2023	15.50	11/22/2023	22.00	37.50	60,205.08	\$ 2,257,691
73	SYMMETRY	1738903	Oct, 2023	15.50	11/22/2023	22.00	37.50	454,755.77	\$ 17,053,341
74	VINLAND	DN102023	Oct, 2023	15.50	12/7/2023	37.00	52.50	4,204.04	\$ 220,712
75	Diversified Energy Marketing LLC.	112023PEOPLESKY9	Nov, 2023	15.00	1/23/2024	54.00	69.00	36,356.09	\$ 2,508,570
76	GREYSTONE	121123.18	Nov, 2023	15.00	12/28/2023	28.00	43.00	7,712.83	\$ 331,652
77	SYMMETRY	1752766	Nov, 2023	15.00	12/21/2023	21.00	36.00	590,082.93	\$ 21,242,985
78	SYMMETRY	1752764	Nov, 2023	15.00	12/21/2023	21.00	36.00	162,797.04	\$ 5,860,693
79	SYMMETRY	1752765	Nov, 2023	15.00	12/21/2023	21.00	36.00	534.61	\$ 19,246
80	VINLAND	DN112023	Nov, 2023	15.00	1/2/2024	33.00	48.00	8,776.94	\$ 421,293
81	Diversified Energy Marketing LLC.	98585	Dec, 2023	15.50	2/20/2024	51.00	66.50	110,789.98	\$ 7,367,534
82	GREYSTONE	11824.17	Dec, 2023	15.50	1/25/2024	25.00	40.50	10,752.59	\$ 435,480
83	SYMMETRY	1776313	Dec, 2023	15.50	1/25/2024	25.00	40.50	849,424.27	\$ 34,401,683
84	SYMMETRY	1776312	Dec, 2023	15.50	1/25/2024	25.00	40.50	482.45	\$ 19,539
85	SYMMETRY	1776311	Dec, 2023	15.50	1/25/2024	25.00	40.50	182,322.22	\$ 7,384,050
86	VINLAND	DN122023	Dec, 2023	15.50	1/25/2024	25.00	40.50	16,192.70	\$ 655,804
87	Gas Average Lead Days						41.76	\$ 12,807,583	\$ 534,866,422

Delta Natural Gas Company  
Case No. 2024-00346  
For the Year Ended December 31, 2023  
Cash Working Capital - Property Taxes

Line No.	Taxing Authority	End of Tax Year	Midpoint of Tax Year	Payment Clearing Date	Total Lead	Amount Paid	Weighted Lead Days
	(1)	(2)	(3)	(4)	(5)=(4-3)	(6)	(7)=(5*6)
1	KENTUCKY STATE TREASURER	12/31/2023	7/1/2023	03/28/2024	270.50	\$ 376,407	\$ 101,818,104
2	CITY OF SALT LICK	12/31/2023	7/1/2023		(45,108.50)	\$	-
3	CITY OF OWINGSVILLE	12/31/2023	7/1/2023		(45,108.50)	\$	-
4	CITY OF SHARPSBURG	12/31/2023	7/1/2023		(45,108.50)	\$	-
5	CITY OF WILLIAMSBURG	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 7,088	\$ 2,158,305
6	CITY OF WILLIAMSBURG	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 1,241	\$ 377,891
7	CITY OF LONDON	12/31/2023	7/1/2023		(45,108.50)	\$	-
8	CITY OF RICHMOND	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 1,484	\$ 451,756
9	CITY OF RICHMOND	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 310	\$ 94,486
10	CITY OF CORBIN	12/31/2023	7/1/2023		(45,108.50)	\$	-
11	CITY OF WILMORE	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 1,048	\$ 318,976
12	CITY OF WILMORE	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 3,921	\$ 1,193,893
13	CITY OF MT OLIVET	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 1,457	\$ 443,696
14	CITY OF BEREA FINANCE DEPARTMENT	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 5,107	\$ 1,555,155
15	CITY OF LAKEVIEW HEIGHTS	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 251	\$ 76,366
16	CITY OF MANCHESTER	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 5,056	\$ 1,539,534
17	CITY OF BARBOURVILLE	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 27,092	\$ 8,249,453
18	CITY OF NICHOLASVILLE	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 17,549	\$ 5,343,543
19	CITY OF NICHOLASVILLE	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 1,933	\$ 588,729
20	CITY OF FRENCHBURG	12/31/2023	7/1/2023	05/06/2024	309.50	\$ 340	\$ 105,345
21	CITY OF STANTON	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 1,627	\$ 495,284
22	CITY OF STANTON	12/31/2023	7/1/2023	01/24/2024	206.50	\$ 2,287	\$ 472,261
23	SHERIFF OF LAUREL COUNTY	12/31/2023	7/1/2023		(45,108.50)	\$	-
24	SHERIFF OF ROBERTSON COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 14,283	\$ 4,349,244
25	SHERIFF OF BOURBON COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 3,663	\$ 1,115,268
26	SHERIFF OF CLAY COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 140,997	\$ 42,933,456
27	SHERIFF OF CLAY COUNTY	12/31/2023	7/1/2023	05/07/2024	310.50	\$ 140	\$ 43,476
28	SHERIFF OF MENEFEE COUNTY	12/31/2023	7/1/2023		(45,108.50)	\$	-
29	SHERIFF OF WHITLEY COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 82,408	\$ 25,093,224
30	SHERIFF OF GARRARD COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 2,847	\$ 866,778
31	SHERIFF OF BELL COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 408,035	\$ 124,246,706
32	SHERIFF OF BATH COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 37,306	\$ 11,359,747
33	SHERIFF OF LEE COUNTY	12/31/2023	7/1/2023		(45,108.50)	\$	-
34	SHERIFF OF CLARK COUNTY	12/31/2023	7/1/2023		(45,108.50)	\$	-
35	SHERIFF OF FLEMING COUNTY	12/31/2023	7/1/2023		(45,108.50)	\$	-
36	SHERIFF OF MASON COUNTY	12/31/2023	7/1/2023	05/10/2024	313.50	\$ 3,644	\$ 1,142,265
37	SHERIFF OF ROWAN COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 28,501	\$ 8,678,500
38	SHERIFF OF ESTILL COUNTY	12/31/2023	7/1/2023	05/10/2024	313.50	\$ 16,466	\$ 5,162,104
39	SHERIFF OF LESLIE COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 116	\$ 35,426
40	SHERIFF OF LINCOLN COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 32,613	\$ 9,930,616
41	SHERIFF OF LINCOLN COUNTY	12/31/2023	7/1/2023	01/11/2024	193.50	\$ 272	\$ 52,673
42	SHERIFF OF MADISON COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 171,555	\$ 52,238,440
43	SHERIFF OF JACKSON COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 15,491	\$ 4,716,900
44	SHERIFF OF FAYETTE COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 9,476	\$ 2,885,399
45	SHERIFF OF LAUREL COUNTY	12/31/2023	7/1/2023		(45,108.50)	\$	-
46	SHERIFF OF JESSAMINE COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 268,934	\$ 81,890,260
47	SHERIFF OF KNOTT COUNTY	12/31/2023	7/1/2023	05/07/2024	310.50	\$ 4,019	\$ 1,247,754
48	SHERIFF OF POWELL COUNTY	12/31/2023	7/1/2023	04/22/2024	295.50	\$ 33,276	\$ 9,833,043
49	SHERIFF OF FLOYD COUNTY	12/31/2023	7/1/2023	05/06/2024	309.50	\$ 14,743	\$ 4,562,835
50	SHERIFF OF JOHNSON COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 431	\$ 131,099
51	WILLIAMSBURG INDEPENDENT	12/31/2023	7/1/2023		(45,108.50)	\$	-
52	CORBIN SCHOOLS - WHITLEY COUNTY	12/31/2023	7/1/2023	05/01/2024	304.50	\$ 26,091	\$ 7,944,706
53	CORBIN SCHOOLS - KNOX COUNTY	12/31/2023	7/1/2023	05/06/2024	309.50	\$ 4,043	\$ 1,251,281
54	TREASURER CITY OF WILMORE	12/31/2023	7/1/2023		(45,108.50)	\$	-
55	TREASURER CITY OF WILMORE	12/31/2023	7/1/2023		(45,108.50)	\$	-
56	Total Property Tax Lead				297.14	\$ 1,773,544	\$ 526,993,974

Notes: All payments for 2023 service period are included.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-005**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

5. Please refer to the excel file DELTA\_R\_PSCDR1\_NUM054\_120924 and specifically tab 55 p5. Provide support for the expected debt issuance costs to be incurred at 12/31/24 and 6/30/25, respectively. Provide the actual 12/31/24 costs when known.

Response:

The Company anticipates incurring \$256,392 of issuance costs related to the additional \$15,111,111 of debt expected to be issued in the first quarter of 2025 (previously expected by December 31, 2024). The issuance costs are the pro-rata share of unamortized debt issuance costs associated with the underlying debt issued at Essential. Essential originally incurred \$4,195,934 of issuance costs on about \$247M of debt. PNG Companies (Delta's parent company) then received \$125M of that debt and \$2,120,889 of issuance costs of which \$256,392 will be allocated to Delta with the \$15,111,111, if the debt issuance is approved by the Commission.

The Company expects \$377,778 of issuance costs related to the additional \$18,888,889 of debt expected to be issued in June of 2025. These are estimated to be 2% of the debt amount. Essential incurred issuance costs that were about 1.7% on the \$247M of debt discussed above which shows the reasonableness of the 2% estimate used.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-006**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

6. Regarding forecasted regulatory costs, respond to the following:
  - a. Provide the anticipated regulatory costs by vendor/consultant.
  - b. Identify the proposed amortization period requested by the Company for recovery of regulatory costs.
  - c. Reconcile the information in part b with the pro-forma adjustment to regulatory expense included in the Company's Tab 57-D.2.2 schedule.

Response:

See attached.

AG Supplemental Data Request #6

a. Provide the anticipated regulatory costs by vendor/consultant.

Rate Case			Tax Repairs Project			TOTAL
Description of Expense	Vendor	Estimated Expense	Description of Expense	Vendor	Estimated Expense	
Case Preparation Assistance & Lead Lag Study	The Prime Group LLC.	45,000	Safe harbor consulting	Ernst & Young	128,926	
Billing Analysis/Rate Design	The Prime Group LLC.	45,000	Safe harbor consulting	Regulated Capital Consultants	34,028	
Depreciation Study	The Prime Group LLC.	50,000				
Rate of Return	Moul Associates	70,000				
Legal	Stoll Kennon & Ogden	480,000				
Cost of Service Study	The Prime Group LLC.	50,000				
Tax Consulting	Regulated Capital Consultants	70,000				
SAP / FERC Discovery	Utegration	70,000				
Case Preparation Assistance	Aqua Services, Inc.	15,000				
Notice Publication	Kentucky Press Service	100,000				
Supplies, printing, copying, postage	Delta Natural Gas Company	5,000				
Projected		1,000,000			162,954	

b. Identify the proposed amortization period requested by the Company for recovery of regulatory costs.

Amortization Period	<u>3</u>	<u>3</u>
Annual Rate Case Expense	<u>333,333</u>	<u>54,318</u>

c. Reconcile the information in part b with the pro-forma adjustment to regulatory expense included in the Company's Tab 57-D.2.2 schedule.

	<u>333,333</u>	<u>54,300</u>	<u>387,633</u>
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**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-007 AB**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

7. Refer to the response to OAG-DR-1-5. The response indicates the Company matches 100% of an employee's contribution up to 6%. Please respond to the following:

- a. Identify the amount of 401k contributions made by the Company in 2024.
- b. Indicate the effective ratio of Company 401k contributions to eligible contributions with the understanding that not all employees will contribute 6% of their wages to their 401k.

Response:

a. The Company's matching 401k contributions for 2024 totaled \$567,184.

b.

2024 Total Eligible Earnings \$10,534,649

2024 Actual Employee Contributions \$854,660 - 8.11%

2024 Company Matching Contributions \$567,184 - 5.38%

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-007 C**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

7. Refer to the response to OAG-DR-1-5. The response indicates the Company matches 100% of an employee's contribution up to 6%. Please respond to the following:

c. Identify and provide the support for the assumed level of Company 401k contributions in the forecast period, relative to the maximum Company 401k contribution if all employees contributed 6% of their eligible earnings to the 401k program.

Response:

c. The assumed Total forecasted 401k Contribution is \$610,426 (see AG 2-8d). If all employees contributed the maximum match of 6% of their eligible earnings, Total Forecasted 401k Contribution would be \$953,496 per the attached file.

FPFTP								
Description	Salary	Overtime	STI	LTI	Achievement	TOTAL	Assumed 401k Contribution	AG-II-007c: Maximum 401k Contribution
Delta Regular Employees	\$10,173,774	\$420,629	\$338,713	\$137,955	\$31,300	\$11,102,370	\$610,426	\$953,496
Delta Seasonal Employees	169,233	-	-	-	-	169,233	-	-
PNG Allocations	856,596	2,751	123,000	-	-	982,347	-	-
<b>Total</b>	<b>\$11,199,603</b>	<b>\$423,379</b>	<b>\$461,713</b>	<b>\$137,955</b>	<b>\$31,300</b>	<b>\$12,253,950</b>	<b>\$610,426</b>	<b>\$953,496</b>



**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-007 DE**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

7. Refer to the response to OAG-DR-1-5. The response indicates the Company matches 100% of an employee's contribution up to 6%. Please respond to the following:

d. Identify the number of employees: i) eligible to participate in the Company's 401k plan as of 12/31/24; and ii) the number of employees who did participate in the Company's 401k plan as of 12/31/24.

e. Identify the amount of eligible 401k employee contributions in 2024 versus the actual employee 401k contribution.

Response:

d: As of December 31, 2024, 147 employees were eligible to participate, 134 of which participated.

e: See part b.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-008 AB**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

8. Refer to the response to OAG-DR-1-5 and specifically to the portion of the response related to the annual employer contribution of up to 3% of eligible earnings.
  - a. Identify the criteria established by the Company that determines the level of additional 401k contribution that will be made.
  - b. Provide the underlying calculations supporting the level of additional contributions made to employees' 401k plans for 2024.

Response:

- a. While the 401(k) plan provides that the Company has the discretion to make or not make the 3% employer contribution to each employee's 401(k) account, the Company has not exercised that discretion. The Company does not currently have a defined criteria to determining when it would use its discretion to not make the 3% employer 401(k) contribution, but would consider the overall financial health of the organization when making that decision.
- b. See calculation attached to AG 2-7 C for 3% employer contribution for each employee. These amounts are for plan year 2024 and will be deposited into employee 401k accounts in Q1 2025. Additionally, in order to be eligible for the 3% employer contribution, an employee must be employed as of 12/31 of the calendar year in question.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-008 CD**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

8. Refer to the response to OAG-DR-1-5 and specifically to the portion of the response related to the annual employer contribution of up to 3% of eligible earnings.
  - c. What assumptions were made underlying the Company's forecasted level of 'additional contributions' included in the revenue requirement request.
  - d. Provide the level of 401k contributions included in the forecasted test period.

Response:

c. Some employees do not participate in the 401k plan and some of the employees that participate in the 401k plan do not contribute up to 6%. For forecasting purpose, Delta assumed 6% of Regular Earnings, excluding Seasonal Employees, to cover all employer related 401k contributions (6% Match and 3% Additional Contribution).

d. Delta assumed 6% of Regular Earnings, excluding Seasonal Employees - \$10,173,774 (See AG 1-25), Forecasted amount for the FPFTY is \$610,426.

FPFTP							
Description	Salary	Overtime	STI	LTI	Achievement	TOTAL	AG-II-008d: Forecasted 401k Contribution
Delta Regular Employees	\$10,173,774	\$420,629	\$338,713	\$137,955	\$31,300	\$11,102,370	\$610,426
Delta Seasonal Employees	169,233	-	-	-	-	169,233	-
PNG Allocations	856,596	2,751	123,000	-	-	982,347	-
<b>Total</b>	<b>\$11,199,603</b>	<b>\$423,379</b>	<b>\$461,713</b>	<b>\$137,955</b>	<b>\$31,300</b>	<b>\$12,253,950</b>	<b>\$610,426</b>

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-009 AB**

**Witness:** Brown, John **Title:** State President

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

9. Refer to the response to OAG-DR-1-17(d) and specifically the descriptions of the Lincoln-Rockcastle County Pipeline Project and the Extensions and New Services forecasted capital expenditures and respond to the following:

a. Regarding the Lincoln-Rockcastle project, indicate whether the Company has forecasted customer growth associated with this capital project and if so, how such projections were made.

b. Provide any internal documents that exist that identify the potential revenue impact to the Company from this expansion.

Response:

a. The Company has not forecasted customer growth associated with this project.

b. No such internal documents exist. See c. for a discussion of the potential for revenue growth.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-009 C**

**Witness:** Brown, John **Title:** State President

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

9. Refer to the response to OAG-DR-1-17(d) and specifically the descriptions of the Lincoln-Rockcastle County Pipeline Project and the Extensions and New Services forecasted capital expenditures and respond to the following:

c. If not provided in part b., identify the potential for revenue growth resulting from this investment along with the anticipated dates additional customer growth may occur.

Response:

Delta's primary focus during 2025 will be to complete the pipeline to Mt. Vernon. In addition to that, we hope to add a few customers prior to the 2025-2026 winter heating season. Twenty residents of Crab Orchard, the first community along the pipeline, indicated in an initial survey that they are very interested in obtaining natural gas service. There are also approximately 70 potential customers that could be served directly off the steel pipeline. We estimate being able to begin service to approximately half of these 90 potential customers prior to the 2025-2026 heating season. Starting in 2026 we plan to extend the distribution system by 48,000 feet per year, depending on demand, aiming to add 40-100 customers per year. The new Rockcastle County Middle School has committed to utilize natural gas for its heating, water heating, and cooking needs. This load will come on prior to the 2026-2027 heating season. Potential large natural gas users have been expressing interest in the 1,400 acre mega-site being developed in Rockcastle County.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-009 D**

**Witness:** Feltner, Larry

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

9. Refer to the response to OAG-DR-1-17(d) and specifically the descriptions of the Lincoln-Rockcastle County Pipeline Project and the Extensions and New Services forecasted capital expenditures and respond to the following:

d. Has Delta incorporated forecasted customer growth specific to the Extensions and New Services capital expenditures? If so, identify such growth and reconcile this growth to the forecasted costs for this function.

Response:

Delta includes extension and new services capital expenditures in forecasted costs, but those costs are not tied to a specific expected growth in customers. Those expenditures are typically stable from year to year with the exception of inflation, so the expenditure included in the forecast is based on what we typically include adjusted for any inflation Delta would expect.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-010 A**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

10. Refer to the response to Discovery request OAG 1-27. The response does not include the amount of PNG allocated costs included in the forecasted test period.

a. Provide the amount of forecasted PNG short-term incentive compensation costs included in i) Capital Expenditures and ii) O&M

Response:

Total Forecasted PNG STI is \$123,000. See AG 1-25 and PSC 2-41A.

i. Capitalized - \$30,258

ii. O&M - \$92,742



**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-010 B**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

10. Refer to the response to Discovery request OAG 1-27. The response does not include the amount of PNG allocated costs included in the forecasted test period.

b. Provide the amount of short-term PNG incentive compensation charged to construction for each respective period; 2021 – 2024, plus the forecasted test period. Provide calculations indicating how such amounts were determined.

Response:

See attached.

**Case No: 2024-00346****AG-II-10B**

<b>Description</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>FPFTY</b>
PNG's STI Allocation - O&M	\$ 83,473.59	\$ 68,513.62	\$ 110,577.09	\$ 130,687.31	\$ 92,742.00
PNG's STI Allocation - Capitalized	20,608.19	19,891.05	30,285.44	42,179.50	30,258.00
<b>PNG's STI Allocation - Total</b>	<b>\$ 104,081.78</b>	<b>\$ 88,404.67</b>	<b>\$ 140,862.53</b>	<b>\$ 172,866.81</b>	<b>\$ 123,000.00</b>

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-011 A**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

11. Refer to the response to Discovery Request OAG 1-46 (A) and respond to the following:
- a. The dates for the tax depreciation reviews of PNGC and PGC are defined. However, for Delta the scope of review is "To be determined based upon review of data." Why is the Delta review period uncertain, while the other utilities have date specific periods that will be reviewed?

Response:

Delta's date was shown as yet to be determined in the signed contract because the coverage years for the study had not yet been determined when the contract was signed. Eventually, Delta's study covered December 31, 2012 through December 31, 2023.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-011 B**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

11. Refer to the response to Discovery Request OAG 1-46 (A) and respond to the following:

b. Differentiate the work to be performed by EY and that of Regulated Capital Consultants (RRC). Is RRC an affiliate of EY?

Response:

Natural Gas Safe Harbor Method – Revenue Procedure 2023-15 was issued in April 2023 and it provided a safe harbor method of accounting that taxpayers may use in determining whether certain expenditures to maintain, repair, replace or improve natural gas transmission and distribution property can be deducted as a repair or must be capitalized for tax purposes. E&Y was engaged to evaluate how repairs were defined and deducted in past periods for Essential's three Gas Utilities (Peoples Natural Gas, Peoples Gas and Delta), and work with Essential to adopt a revised method based on the newer "Safe Harbor" guidance which provides protection in audits for historical periods.

RCC was engaged to update our Tax Reporting Software (PowerTax) to provide the detailed tax records to support the election for each of the three Gas utilities.

No, RCC is not an affiliate of E&Y. They are two distinct Consulting firms.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-011 C**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

11. Refer to the response to Discovery Request OAG 1-46 (A) and respond to the following:

c. Provide a copy of the study results that were to be provided to Delta in December 2024.

Response:

See attached.



October 30, 2024

To: Linda C. Bridwell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd.  
Frankfort, KY 40601

Pursuant to Internal Revenue Bulletin 2024-23 Section 3.12(3)(c)(iii), Delta is providing a copy of its completed Form 3115 to the Kentucky Public Service Commission.

Thank You,

A handwritten signature in blue ink, appearing to read "John Brown".

John Brown  
President

Form **3115**

(Rev. December 2022)

Department of the Treasury  
Internal Revenue Service

### Application for Change in Accounting Method

Go to [www.irs.gov/Form3115](http://www.irs.gov/Form3115) for instructions and the latest information.

OMB No. 1545-207D

Attachment  
Sequence No. **315**

Name of filer (name of parent corporation if a consolidated group) (see instructions)

Identification number (see instructions)

23-1702594

**Essential Utilities, Inc.**

Principal business activity code number (see instructions)

812999

Number, street, and room or suite no. If a P.O. box, see the instructions.

Tax year of change begins (MM/DD/YYYY) 1/1/2023

**762 W Lancaster Ave**

Tax year of change ends (MM/DD/YYYY) 12/31/2023

City or town, state, and ZIP code

Name of contact person (see instructions)

**Bryn Mawr, PA, 19010**

**Susan Grals**

Name of applicant(s) (if different than filer) and identification number(s) (see instructions)

Contact person's telephone number

**SEE STATEMENT**

(202) 327-8782

Does the filer want to receive a copy of the change in method of accounting letter ruling or other correspondence related to this Form 3115 by fax or encrypted email attachment? If "Yes," see instructions  Yes  No

If the applicant is a member of a consolidated group, check this box

If Form 2848, Power of Attorney and Declaration of Representative, is attached (see instructions for when Form 2848 is required), check this box

Check the box to indicate the type of applicant.

Check the appropriate box to indicate the type of accounting method change being requested. See instructions.

- Individual
- Corporation
- Controlled foreign corporation (Sec. 957)
- 10/50 corporation (Sec. 904(d)(2)(E))
- Qualified personal service corporation (Sec. 448(d)(2))
- Exempt organization. Enter Code section: \_\_\_\_\_
- Cooperative (Sec. 1381)
- Partnership
- S corporation
- Insurance co. (Sec. 816(a))
- Insurance co. (Sec. 831)
- Other (specify): \_\_\_\_\_

- Depreciation or Amortization
- Financial Products and/or Financial Activities of Financial Institutions
- Other (specify): \_\_\_\_\_

**Caution:** To be eligible for approval of the requested change in method of accounting, the taxpayer must provide all information that is relevant to the taxpayer or to the taxpayer's requested change in method of accounting. This includes (1) all relevant information requested on this Form 3115 (including its instructions), and (2) any other relevant information, even if not specifically requested on Form 3115.

The taxpayer must attach all applicable statements requested throughout this form.

#### Part I Information for Automatic Change Request

- 1 Enter the applicable designated automatic accounting method change number ("DCN") for the requested automatic change. Enter only one DCN, except as provided for in guidance published by the IRS. If the requested change has no DCN, check "Other," and provide both a description of the change and a citation of the IRS guidance providing the automatic change. See instructions.
- a (1) DCN: 269 (2) DCN: \_\_\_\_\_ (3) DCN: \_\_\_\_\_ (4) DCN: \_\_\_\_\_ (5) DCN: \_\_\_\_\_ (6) DCN: \_\_\_\_\_  
 (7) DCN: \_\_\_\_\_ (8) DCN: \_\_\_\_\_ (9) DCN: \_\_\_\_\_ (10) DCN: \_\_\_\_\_ (11) DCN: \_\_\_\_\_ (12) DCN: \_\_\_\_\_
- b Other  Description: \_\_\_\_\_

Yes	No
	<input checked="" type="checkbox"/>
<input checked="" type="checkbox"/>	

2 Do any of the eligibility rules restrict the applicant from filing the requested change using the automatic change procedures (see instructions)? If "Yes," attach an explanation

3 Has the filer provided all the information and statements required (a) on this form and (b) by the List of Automatic Changes under which the applicant is requesting a change? See instructions

Note: Complete Part II and Part IV of this form, and, Schedules A through E, if applicable.

#### Part II Information for All Requests

4 During the tax year of change, did or will the applicant (a) cease to engage in the trade or business to which the requested change relates, or (b) terminate its existence? See instructions

5 Is the applicant requesting to change to the principal method in the tax year of change under Regulations section 1.381(c)(4)-1(d)(1) or 1.381(c)(5)-1(d)(1)?

If "No," go to line 6a.

If "Yes," the applicant cannot file a Form 3115 for this change. See instructions.

Yes	No
	<input checked="" type="checkbox"/>
	<input checked="" type="checkbox"/>

**Sign Here**

Under penalties of perjury, I declare that I have examined this application, including accompanying schedules and statements, and to the best of my knowledge and belief, the application contains all the relevant facts relating to the application, and it is true, correct, and complete. Declaration of preparer (other than applicant) is based on all information of which preparer has any knowledge.

Signature of filer (and spouse, if joint return)

Date

Name and title (print or type)

*Zhaohui Jiang*

10/9/24

Zhaohui Jiang, VP of Tax

**Preparer (other than filer/applicant)**

Print/Type preparer's name

Preparer's signature

Date

Julia Thompson

*Julia Thompson*

10/9/2024

Firm's name Ernst & Young LLP

<b>Part II Information for All Requests (continued)</b>		Yes	No
<b>6a</b>	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) under examination (see instructions)? If "No," go to line 7a.		✓
<b>b</b>	Is the method of accounting the applicant is requesting to change an issue under consideration (with respect to either the applicant or any present or former consolidated group in which the applicant was a member during the applicable tax year(s))? See instructions	N/A	
<b>c</b>	Enter the name and telephone number of the examining agent and the tax year(s) under examination. Name <u>N/A</u> Telephone number <u>N/A</u> Tax year(s) <u>N/A</u>		
<b>d</b>	Has a copy of this Form 3115 been provided to the examining agent identified on line 6c?	N/A	
<b>7a</b>	Does audit protection apply to the applicant's requested change in method of accounting? See instructions If "No," attach an explanation.	✓	
<b>b</b>	If "Yes," check the applicable box and attach the required statement. <input checked="" type="checkbox"/> Not under exam <input type="checkbox"/> 3-month window <input type="checkbox"/> 120 day: Date examination ended _____ <input type="checkbox"/> Method not before director <input type="checkbox"/> Negative adjustment <input type="checkbox"/> CAP: Date member joined group _____ <input type="checkbox"/> Audit protection at end of exam <input type="checkbox"/> Other		
<b>8a</b>	Does the applicant (or any present or former consolidated group in which the applicant was a member during the applicable tax year(s)) have any federal income tax return(s) before Appeals and/or a federal court? If "No," go to line 9.		✓
<b>b</b>	Is the method of accounting the applicant is requesting to change an issue under consideration by Appeals and/or a federal court (for either the applicant or any present or former consolidated group in which the applicant was a member for the tax year(s) the applicant was a member)? See instructions If "Yes," attach an explanation.	N/A	
<b>c</b>	If "Yes," enter the name of the (check the box) <input type="checkbox"/> Appeals officer and/or <input type="checkbox"/> counsel for the government, telephone number, and the tax year(s) before Appeals and/or a federal court. Name <u>N/A</u> Telephone number <u>N/A</u> Tax year(s) <u>N/A</u>		
<b>d</b>	Has a copy of this Form 3115 been provided to the Appeals officer and/or counsel for the government identified on line 8c?	N/A	
<b>9</b>	If the applicant answered "Yes" to line 6a and/or 8a with respect to any present or former consolidated group, attach a statement that provides each parent corporation's (a) name, (b) identification number, (c) address, and (d) tax year(s) during which the applicant was a member that is under examination, before an Appeals office, and/or before a federal court. <b>N/A</b>		
<b>10</b>	If for federal income tax purposes, the applicant is either an entity (including a limited liability company) treated as a partnership or an S corporation, is it requesting a change from a method of accounting that is an issue under consideration in an examination, before Appeals, or before a federal court, with respect to a federal income tax return of a partner, member, or shareholder of that entity?	N/A	
<b>11a</b>	Has the applicant, its predecessor, or a related party requested or made (under either an automatic or non-automatic change procedure) a change in method of accounting within any of the 5 tax years ending with the tax year of change? If "No," go to line 12.	✓	
<b>b</b>	If "Yes," for each trade or business, attach a description of each requested change in method of accounting (including the tax year of change) and state whether the applicant received consent. <b>SEE STATEMENT</b>		
<b>c</b>	If any application was withdrawn, not perfected, or denied, or if a Consent Agreement granting a change was not signed and returned to the IRS, or the change was not made or not made in the requested year of change, attach an explanation. <b>N/A</b>		
<b>12</b>	Does the applicant, its predecessor, or a related party currently have pending any request (including any concurrently filed request) for a private letter ruling, change in method of accounting, or technical advice? If "Yes," for each request attach a statement providing (a) the name(s) of the taxpayer, (b) identification number(s), (c) the type of request (private letter ruling, change in method of accounting, or technical advice), and (d) the specific issue(s) in the request(s). <b>SEE STATEMENT</b>	✓	
<b>13</b>	Is the applicant requesting to change its overall method of accounting? If "Yes," complete Schedule A on page 4 of the form.		✓



<b>Part II</b> Information for All Requests <i>(continued)</i>	Yes	No												
<p><b>14</b> If the applicant is either (i) <b>not</b> changing its overall method of accounting, or (ii) changing its overall method of accounting <b>and</b> changing to a special method of accounting for one or more items, attach a detailed and complete description for each of the following (see instructions):</p> <p><b>a</b> The item(s) being changed. <b>SEE STATEMENT</b></p> <p><b>b</b> The applicant's present method for the item(s) being changed. <b>SEE STATEMENT</b></p> <p><b>c</b> The applicant's proposed method for the item(s) being changed. <b>SEE STATEMENT</b></p> <p><b>d</b> The applicant's present overall method of accounting (cash, accrual, or hybrid). <b>SEE STATEMENT SEE</b></p> <p><b>15a</b> Attach a detailed and complete description of the applicant's trade(s) or business(es). See section 446(d). <b>STMT</b></p> <p><b>b</b> If the applicant has more than one trade or business, as defined in Regulations section 1.446-1(d), describe (i) whether each trade or business is accounted for separately; (ii) the goods and services provided by each trade or business and any other types of activities engaged in that generate gross income; (iii) the overall method of accounting for each trade or business; and (iv) which trade or business is requesting to change its accounting method as part of this application or a separate application. <b>N/A</b></p> <p><b>Note:</b> If you are requesting an automatic method change, see the instructions to see if you are required to complete lines 16a-16c.</p> <p><b>16a</b> Attach a full explanation of the legal basis supporting the proposed method for the item being changed. Include a detailed and complete description of the facts that explains how the law specifically applies to the applicant's situation and that demonstrates that the applicant is authorized to use the proposed method. <b>N/A</b></p> <p><b>b</b> Include all authority (statutes, regulations, published rulings, court cases, etc.) supporting the proposed method. <b>N/A</b></p> <p><b>c</b> Include either a discussion of the contrary authorities or a statement that no contrary authority exists. <b>N/A</b></p> <p><b>17</b> Will the proposed method of accounting be used for the applicant's books and records and financial statements? For insurance companies, see the instructions . . . . . <input checked="" type="checkbox"/></p> <p>If "No," attach an explanation. <b>SEE STATEMENT</b></p> <p><b>18</b> Does the applicant request a conference with the IRS National Office if the IRS National Office proposes an adverse response? . . . . . <input checked="" type="checkbox"/></p> <p><b>19a</b> If the applicant is changing to either the overall cash method, an overall accrual method, or is changing its method of accounting for any property subject to section 263A, any long-term contract subject to section 460 (see 19b), or inventories subject to section 471 or 474, enter the applicant's gross receipts for the 3 tax years preceding the tax year of change.</p> <table style="width:100%; border-collapse: collapse; margin-bottom: 5px;"> <tr> <td style="width: 25%;">1st preceding</td> <td style="width: 25%;">2nd preceding</td> <td style="width: 25%;">3rd preceding</td> <td style="width: 25%;"></td> </tr> <tr> <td>year ended: mo. <u>N/A</u> yr. <u>N/A</u></td> <td>year ended: mo. <u>N/A</u> yr. <u>N/A</u></td> <td>year ended: mo. <u>N/A</u> yr. <u>N/A</u></td> <td></td> </tr> <tr> <td style="text-align: right;">\$ <u>N/A</u></td> <td style="text-align: right;">\$ <u>N/A</u></td> <td style="text-align: right;">\$ <u>N/A</u></td> <td style="text-align: right;"><u>N/A</u></td> </tr> </table> <p><b>b</b> If the applicant is changing its method of accounting for any long-term contract subject to section 460, in addition to completing 19a, enter the applicant's gross receipts for the 4th tax year preceding the tax year of change:</p> <p>4th preceding year ended: mo. <u>N/A</u> yr. <u>N/A</u> \$ <u>N/A</u></p>	1st preceding	2nd preceding	3rd preceding		year ended: mo. <u>N/A</u> yr. <u>N/A</u>	year ended: mo. <u>N/A</u> yr. <u>N/A</u>	year ended: mo. <u>N/A</u> yr. <u>N/A</u>		\$ <u>N/A</u>	\$ <u>N/A</u>	\$ <u>N/A</u>	<u>N/A</u>		
1st preceding	2nd preceding	3rd preceding												
year ended: mo. <u>N/A</u> yr. <u>N/A</u>	year ended: mo. <u>N/A</u> yr. <u>N/A</u>	year ended: mo. <u>N/A</u> yr. <u>N/A</u>												
\$ <u>N/A</u>	\$ <u>N/A</u>	\$ <u>N/A</u>	<u>N/A</u>											
<b>Part III</b> Information for Non-Automatic Change Request	N/A	Yes No												
<p><b>20</b> Is the applicant's requested change described in any revenue procedure, revenue ruling, notice, regulation, or other published guidance as an automatic change request? . . . . .</p> <p>If "Yes," attach an explanation describing why the applicant is submitting its request under the non-automatic change procedures.</p> <p><b>21</b> Attach a copy of all documents related to the proposed change (see instructions).</p> <p><b>22</b> Attach a statement of the applicant's reasons for the proposed change.</p> <p><b>23</b> If the applicant is a member of a consolidated group for the year of change, do all other members of the consolidated group use the proposed method of accounting for the item being changed? . . . . .</p> <p>If "No," attach an explanation.</p> <p><b>24a</b> Enter the amount of <b>user fee</b> attached to this application (see instructions) . . . . . \$ _____</p> <p><b>b</b> If the applicant qualifies for a reduced user fee, attach the required information or certification (see instructions).</p>														

<b>Part IV Section 481(a) Adjustment</b>		Yes	No
25	Does published guidance require the applicant (or permit the applicant and the applicant is electing) to implement the requested change in method of accounting on a cut-off basis? . . . . . If "Yes," attach an explanation and do not complete lines 26, 27, 28, and 29 below.		✓
26	Enter the section 481(a) adjustment. Indicate whether the adjustment is an increase (+) or a decrease (-) in income. \$ <u>SEE STATEMENT</u> Attach a summary of the computation and an explanation of the methodology used to determine the section 481(a) adjustment. If it is based on more than one component, show the computation for each component. If the applicant waived any deductions with respect to the method of accounting pursuant to Regulations section 1.59A-3(c)(6)(i), include a summary of the waived deductions. If more than one applicant is applying for the method change on the application, attach a list of the (a) name, (b) identification number, and (c) the amount of the section 481(a) adjustment attributable to each applicant.		
27	Is the applicant required to take into account in the year of change any remaining portion of a section 481(a) adjustment from a prior change (see instructions)? If "Yes," enter the amount. \$ _____	N/A	
28	Is the applicant making an election to take the entire amount of the adjustment into account in the tax year of change? If "Yes," check the box for the applicable elective provision used to make the election (see instructions). <input type="checkbox"/> \$50,000 de minimis election <input type="checkbox"/> Eligible acquisition transaction election	N/A	
29	Is any part of the section 481(a) adjustment attributable to transactions between members of an affiliated group, a consolidated group, a controlled group, or other related parties? . . . . . If "Yes," attach an explanation.		✓

**Schedule A—Change in Overall Method of Accounting (If Schedule A applies, Part I below must be completed.)** N/A

**Part I Change in Overall Method (see instructions)** N/A

- Check the appropriate boxes below to indicate the applicant's present and proposed methods of accounting.  
**Present method:**       Cash                       Accrual                       Hybrid (attach description)  
**Proposed method:**       Cash                       Accrual                       Hybrid (attach description)
- Enter the following amounts as of the close of the tax year preceding the year of change. If none, state "None." Also, attach a statement providing a breakdown of the amounts entered on lines 2a through 2g.

	Amount
a	\$ _____
b	_____
c	_____
d	_____
e	_____
f	_____
g	_____
h	\$ _____
- Is the applicant also requesting the recurring item exception under section 461(h)(3)? . . . . .  Yes     No
- Attach copies of the profit and loss statement (Schedule F (Form 1040) for farmers) and the balance sheet, if applicable, as of the close of the tax year preceding the year of change. Also attach a statement specifying the accounting method used when preparing the balance sheet. If books of account are not kept, attach a copy of the business schedules submitted with the federal income tax return or other return (such as tax-exempt organization returns) for that period. If the amounts in Part I, lines 2a through 2g, do not agree with the amounts shown on the balance sheet, attach a statement explaining the differences.
- Is the applicant making a change to the overall cash method or to a method in which a taxpayer uses an accrual method for purchases and sales of inventory and uses the cash method for computing all other items of income and expense (see instructions)? . . . . .  Yes     No

**Part II Change to the Cash Method for Non-Automatic Change Request (see instructions)** N/A

- Applicants requesting a change to the cash method must attach the following information:
- A description of inventory items (items whose production, purchase, or sale is an income-producing factor) and materials and supplies used in carrying out the business.
  - An explanation as to whether the applicant is required to use an accrual method under any section of the Code or regulations.

**Schedule B—Changes Related to the Deferral Method for Advance Payments, Cost Offset Methods, and/or the Applicable Financial Statement Income Inclusion Rule (see instructions)** **N/A**

- 1 If the applicant is requesting to change to the deferral method for advance payments under Regulations section 1.451-8(c) or (d), as described in the instructions, attach the information specified in the instructions.
- 2 If the applicant is requesting to change to or within a cost offset method under Regulations section 1.451-3(c) and/or Regulations section 1.451-8(e), as described in the instructions, attach the information specified in the instructions.
- 3 If the applicant is requesting to change to or within a method to conform to the applicable financial statement (AFS) income inclusion rule under section 451(b) and Regulations section 1.451-3, as described in the instructions, attach a detailed description of the proposed method including the information specified in the instructions.

**Schedule C—Changes Within the LIFO Inventory Method (see instructions)** **N/A****Part I General LIFO Information** **N/A**

Complete this section if the requested change involves changes within the LIFO inventory method. Also, attach a copy of all **Forms 970, Application To Use LIFO Inventory Method**, filed to adopt or expand the use of the LIFO method.

- 1 Attach a description of the applicant's present and proposed LIFO methods and submethods for each of the following items:
  - a Valuing inventory (for example, unit method or dollar-value method).
  - b Pooling (for example, by line or type or class of goods, natural business unit, multiple pools, raw material content, simplified dollar-value method, inventory price index computation (IPIC) pools, vehicle-pool method, etc.).
  - c Pricing dollar-value pools (for example, double-extension, index, link-chain, link-chain index, IPIC method, etc.).
  - d Determining the current-year cost of goods in the ending inventory (such as, most recent acquisitions, earliest acquisitions during the current year, average cost of current-year acquisitions, rolling-average cost, or other permitted method).
- 2 If any present method or submethod used by the applicant is not the same as indicated on Form(s) 970 filed to adopt or expand the use of the method, attach an explanation.
- 3 If the proposed change is not requested for all the LIFO inventory, attach a statement specifying the inventory to which the change is and is not applicable.
- 4 If the proposed change is not requested for all of the LIFO pools, attach a statement specifying the LIFO pool(s) to which the change is applicable.
- 5 Attach a statement addressing whether the applicant values any of its LIFO inventory on a method other than cost. For example, if the applicant values some of its LIFO inventory at retail and the remainder at cost, identify which inventory items are valued under each method.
- 6 If changing to the IPIC method, attach a completed Form 970.

**Part II Change in Pooling Inventories** **N/A**

- 1 If the applicant is proposing to change its pooling method or the number of pools, attach a description of the contents of, and state the base year for, each dollar-value pool the applicant presently uses and proposes to use.
- 2 If the applicant is proposing to use natural business unit (NBU) pools or requesting to change the number of NBU pools, attach the following information (to the extent not already provided) in sufficient detail to show that each proposed NBU was determined under Regulations sections 1.472-8(b)(1) and (2):
  - a A description of the types of products produced by the applicant. If possible, attach a brochure.
  - b A description of the types of processes and raw materials used to produce the products in each proposed pool.
  - c If all of the products to be included in the proposed NBU pool(s) are not produced at one facility, state the reasons for the separate facilities, the location of each facility, and a description of the products each facility produces.
  - d A description of the natural business divisions adopted by the taxpayer. State whether separate cost centers are maintained and if separate profit and loss statements are prepared.
  - e A statement addressing whether the applicant has inventories of items purchased and held for resale that are not further processed by the applicant, including whether such items, if any, will be included in any proposed NBU pool.
  - f A statement addressing whether all items including raw materials, goods-in-process, and finished goods entering into the entire inventory investment for each proposed NBU pool are presently valued under the LIFO method. Describe any items that are not presently valued under the LIFO method that are to be included in each proposed pool.
  - g A statement addressing whether, within the proposed NBU pool(s), there are items both sold to unrelated parties and transferred to a different unit of the applicant to be used as a component part of another product prior to final processing.
- 3 If the applicant is engaged in manufacturing and is proposing to use the multiple pooling method or raw material content pools, attach information to show that each proposed pool will consist of a group of items that are substantially similar. See Regulations section 1.472-8(b)(3).
- 4 If the applicant is engaged in the wholesaling or retailing of goods and is requesting to change the number of pools used, attach information to show that each of the proposed pools is based on customary business classifications of the applicant's trade or business. See Regulations section 1.472-8(c).

Schedule D—Change in the Treatment of Long-Term Contracts Under Section 460, Inventories, or Other Section 263A Assets (see instructions)

N/A

Part I Change in Reporting Income From Long-Term Contracts (Also complete Part III on pages 7 and 8.) N/A

- 1 To the extent not already provided, attach a description of the applicant's present and proposed methods for reporting income and expenses from long-term contracts. Also, attach a representative actual contract (without any deletions) for the requested change. If the applicant is a construction contractor, attach a detailed description of its construction activities.
2a Are the applicant's contracts long-term contracts as defined in section 460(f)(1) (see instructions)?
b If "Yes," do all the contracts qualify for the exception under section 460(e) (see instructions)?
c Is the applicant requesting to use the percentage-of-completion method using cost-to-cost under Regulations section 1.460-4(b)?
d If line 2c is "Yes," in computing the completion factor of a contract, will the applicant use the simplified cost-to-cost method described in Regulations section 1.460-5(c)?
e If line 2c is "No," is the applicant requesting to use the exempt-contract percentage-of-completion method under Regulations section 1.460-4(c)(2)?
3a Does the applicant have long-term manufacturing contracts as defined in section 460(f)(2)?
b If "Yes," attach a description of the applicant's manufacturing activities, including any required installation of manufactured goods.
4a Does the applicant enter into cost-plus long-term contracts?
b Does the applicant enter into federal long-term contracts?

Part II Change in Valuing Inventories Including Cost Allocation Changes (Also complete Part III on pages 7 and 8.) N/A

- 1 Attach a description of the inventory goods being changed.
2 Attach a description of the inventory goods (if any) NOT being changed.
3a Is the applicant subject to section 263A? If "No," go to line 4a
b Is the applicant's present inventory valuation method in compliance with section 263A (see instructions)? If "No," attach a detailed explanation

4a Check the appropriate boxes in the chart.

Identification methods:

- Specific identification
FIFO
LIFO
Other (attach explanation)

Valuation methods:

- Cost
Cost or market, whichever is lower
Retail cost
Retail, lower of cost or market
Other (attach explanation)

Table with 3 columns: Inventory Method Being Changed (Present method, Proposed method), and Inventory Method Not Being Changed (Present method). Rows correspond to identification and valuation methods.

- b Enter the value at the end of the tax year preceding the year of change.
5 If the applicant is changing from the LIFO inventory method to a non-LIFO method, attach the following information (see instructions).
a Copies of Form(s) 970 filed to adopt or expand the use of the method.
b Only for applicants requesting a non-automatic change. A statement describing whether the applicant is changing to the method required by Regulations section 1.472-6(a) or (b), or whether the applicant is proposing a different method.
c Only for applicants requesting an automatic change. The statement required by section 23.01(5) of Rev. Proc. 2022-14 (or its successor).
6 Is the applicant presently using the AFS cost offset method as described in Regulations section 1.451-3(c) and/or the advance payment cost offset method described in Regulations section 1.451-8(e), or is the applicant changing to such methods for the same year of change as the requested change in inventory method? If "Yes," see the instructions for rules regarding concurrent changes

**Part III Method of Cost Allocation** (Complete this part if the requested change involves either property subject to section 263A or long-term contracts as described in section 460.) See instructions. **N/A**

**Section A—Allocation and Capitalization Methods**

**N/A**

Attach a description (including sample computations) of the present and proposed method(s) the applicant uses to capitalize direct and indirect costs properly allocable to real or tangible personal property produced and property acquired for resale, or to allocate direct and indirect costs required to be allocated to long-term contracts. Include a description of the method(s) used for allocating indirect costs to intermediate cost objectives such as departments or activities prior to the allocation of such costs to long-term contracts, real or tangible personal property produced, and property acquired for resale. The description must include the following:

- 1 The method of allocating direct and indirect costs (for example, specific identification, burden rate, standard cost, or other reasonable allocation method).
- 2 The method of allocating mixed service costs (for example, direct reallocation, step-allocation, simplified service cost using the labor-based allocation ratio, simplified service cost using the production cost allocation ratio, or other reasonable allocation method).
- 3 Except for long-term contract accounting methods, the method of capitalizing additional section 263A costs (for example, simplified production with or without the historic absorption ratio election, modified simplified production with or without the historic absorption ratio election, simplified resale with or without the historic absorption ratio election including permissible variations, the U.S. ratio, or other reasonable allocation method).

**Section B—Direct and Indirect Costs Required To Be Allocated**

**N/A**

Check the appropriate boxes showing the costs that are or will be fully included, to the extent required, in the cost of real or tangible personal property produced or property acquired for resale under section 263A or allocated to long-term contracts under section 460. Mark "N/A" in a box if those costs are not incurred by the applicant. If a box is not checked, it is assumed that those costs are not fully included to the extent required. Attach an explanation for boxes that are not checked.

	Present method	Proposed method
1 Direct material		
2 Direct labor		
3 Indirect labor		
4 Officers' compensation (not including selling activities)		
5 Pension and other related costs		
6 Employee benefits		
7 Indirect materials and supplies		
8 Purchasing costs		
9 Handling, processing, assembly, and repackaging costs		
10 Offsite storage and warehousing costs		
11 Depreciation, amortization, and cost recovery allowance for equipment and facilities placed in service and not temporarily idle		
12 Depletion		
13 Rent		
14 Taxes other than state, local, and foreign income taxes		
15 Insurance		
16 Utilities		
17 Maintenance and repairs that relate to a production, resale, or long-term contract activity		
18 Engineering and design costs (not including section 174 research and experimental expenses)		
19 Rework labor, scrap, and spoilage		
20 Tools and equipment		
21 Quality control and inspection		
22 Bidding expenses incurred in the solicitation of contracts awarded to the applicant		
23 Licensing and franchise costs		
24 Capitalizable service costs (including mixed service costs)		
25 Administrative costs (not including any costs of selling or any return on capital)		
26 Research and experimental expenses attributable to long-term contracts		
27 Interest		
28 Other costs (Attach a list of these costs.)		

Part III Method of Cost Allocation (continued) See instructions.

N/A

Section C—Other Costs Not Required To Be Allocated (Complete Section C only if the applicant is requesting to change its method for these costs.)

N/A

Table with 3 columns: Line number, Description, Present method, Proposed method. Rows 1-11 list various cost categories like Marketing, Research, Bidding, etc.

Schedule E—Change in Depreciation or Amortization (see instructions)

Applicants requesting approval to change their method of accounting for depreciation or amortization complete this section. Applicants must provide this information for each item or class of property for which a change is requested.

Note: See the Summary of the List of Automatic Accounting Method Changes in the instructions for information regarding automatic changes under sections 56, 167, 168, or 197, or former sections 168, 1400I, or 1400L. Do not file Form 3115 with respect to certain late elections and election revocations. See Instructions.

- 1 Is depreciation for the property determined under Regulations section 1.167(a)-11 (CLADR)?
2 Is any of the depreciation or amortization required to be capitalized under any Code section, such as section 263A?
3 Has a depreciation, amortization, expense, or disposition election been made for the property, such as the election under sections 168(f)(1), 168(l)(4), 179, 179C, or Regulations section 1.168(l)-8(d)?
4a Attach a statement describing the property subject to the change.
b If the property is residential rental property, did the applicant live in the property before renting it?
c Is the property public utility property?
5 To the extent not already provided in the applicant's description of its present method, attach a statement explaining how the property is treated under the applicant's present method...
6 If the property is not currently treated as depreciable or amortizable property, attach a statement of the facts supporting the proposed change to depreciate or amortize the property.
7 If the property is currently treated and/or will be treated as depreciable or amortizable property, provide the following information for both the present (if applicable) and proposed methods:
a The Code section under which the property is or will be depreciated or amortized...
b The applicable asset class from Rev. Proc. 87-56, 1987-2 C.B. 674, for each asset depreciated under section 168 (MACRS) or under former section 1400L...
c The facts to support the asset class for the proposed method.
d The depreciation or amortization method of the property, including the applicable Code section...
e The useful life, recovery period, or amortization period of the property.
f The applicable convention of the property.
g Whether the additional first-year special depreciation allowance...
h Whether the property was or will be in a single asset account, a multiple asset account, or a general asset account.

Essential Utilities, Inc.  
Attachment to Form 3115

EIN: 23-1702594  
TYE: 12/31/2023

Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor  
Filed under Rev. Proc. 2015-13 and Rev. Proc. 2024-23, Section 3.12

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### Page 1, Name of Applicant

Essential Utilities, Inc. (EIN: 23-1702594) ("Filer"), the parent of an affiliated group of corporations filing a consolidated federal income tax return, is requesting to make a change in accounting method on behalf of the entity listed below, which is a member of the Filer's consolidated group. Unless otherwise specified, a reference to the "Taxpayer" or "Applicant" in this document refers to the following applicant:

Name	EIN	Principal Business Activity Code ("PBAC")
Delta Natural Gas Company Inc.	61- 0458329	221210

Refer to the Page 3, Part II, Line 15a statement for trade or business information for the Applicant.

### Statement Required by Section 6.02(5) of Rev. Proc. 2015-13

The Filer represents, to the best of its knowledge, that the Applicant listed above and the applicants to the concurrently filed change in accounting method (described in response to Line 12), are the only members of the consolidated group that have the specific item that is the subject of this method change.

### Request for Faxed Documents

In accordance with the procedures set forth in Section 9.04(3) of Rev. Proc. 2024-1, the Taxpayer requests that a copy of any document related to this request (e.g., a request for additional information and IRS ruling letter) be provided to the Taxpayer's authorized representatives via fax at the numbers below:

Authorized Representatives'

Fax Numbers:

Susan Grais

(866) 260-9004

Julia Thompson

(866) 958-0483

Essential Utilities, Inc.  
Attachment to Form 3115

EIN: 23-1702594  
TYE: 12/31/2023

**Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor**

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**Page 2, Part II, Lines 11(b) and 12**

The applicant, its predecessor, or a related party has requested or made (under either an automatic or non-automatic change procedure) a change in method in accounting within any of the 5 tax years ending with the tax year of change:

Taxpayer and EIN	Description of Change	Tax Year Ended	Type of Change	Status of Change
Essential Utilities, Inc. (EIN: 23-1702594) on behalf of Peoples Gas Company LLC (EIN: 25-1266604) and Peoples Natural Gas LLC (EIN: 25-0720790)	Change in method of accounting for certain expenditures to maintain, repair, replace, or improve natural gas linear transmission and linear distribution, to the natural gas transmission and distribution property safe harbor method of accounting ("NGSH Method"), as set forth in Rev. Proc. 2023-15.  DCN: 269	12/31/2023	Automatic	Deemed Consent
Essential Utilities, Inc. (EIN: 23-1702594) on behalf of Peoples Gas Company LLC (EIN: 25-1266604) and Peoples Natural Gas LLC (EIN: 25-0720790)	Change in method of accounting for the deduction of repair and maintenance expenditures for mandatory relocation property pursuant to Section 11.08 of Rev. Proc. 2023-24  DCN: 184	12/31/2022	Automatic	Deemed Consent
Essential Utilities, Inc. (EIN: 23-1702594) on behalf of Aqua New Jersey, Inc. (EIN: 22-1914760)	Change in method of accounting for the deduction of repair and maintenance expenditures and the identification of the appropriate unit of property pursuant to Section 11.08 of Rev. Proc. 2023-24	12/31/2022	Automatic	Deemed Consent



Essential Utilities, Inc.  
Attachment to Form 3115

EIN: 23-1702594  
TYE: 12/31/2023

**Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor**

Filed under Rev. Proc. 2015-13 and Rev. Proc. 2024-23, Section 3.12

	DCN: 184			
Essential Utilities, Inc. (EIN: 23-1702594)	Change in method of accounting for specified research and experimental expenditures (§ 174) pursuant to Section 7.02 of Rev. Proc. 2023-24	12/31/2022	Automatic	Deemed Consent
Essential Utilities, Inc. (EIN: 23-1702594) on behalf of Peoples Gas Company LLC (EIN: 25-1266604)	Change in method of accounting for the deduction of repair and maintenance expenditures (other than mandatory relocations at issue herein) and the identification of the appropriate unit of property pursuant to Section 11.08 of Rev. Proc. 2019-43	12/31/2021	Automatic	Deemed Consent
	DCN: 184			
Essential Utilities, Inc. (EIN: 23-1702594) on behalf of Peoples Natural Gas LLC (EIN: 25- 0720790)	Change in method of accounting for the deduction of repair and maintenance expenditures (other than mandatory relocations at issue herein) and the identification of the appropriate unit of property pursuant to Section 11.08 of Rev. Proc. 2019-43	12/31/2020	Automatic	Deemed Consent
	DCN: 184			

Pursuant to Section 3.12(2)(a) of Rev. Proc. 2024-23, the eligibility rule in section 5.01(1)(f) of Rev. Proc. 2015-13 does not apply to a taxpayer that changes to the NGS Method for its first, second, or third taxable year ending after May 1, 2023.

**Page 3, Part II, Line 14**

**Page 8, Schedule E, Lines 4a and 5, 7a-7h**

**a) The item being changed**

The Taxpayer is changing its method of accounting for certain expenditures to maintain,

Essential Utilities, Inc.  
Attachment to Form 3115

EIN: 23-1702594  
TYE: 12/31/2023

**Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor**

**Filed under Rev. Proc. 2015-13 and Rev. Proc. 2024-23, Section 3.12**

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repair, replace, or improve natural gas linear transmission and linear distribution property, as well as distribution service line property to the natural gas transmission and distribution property safe harbor method of accounting ("NGSH Method"), as set forth in Rev. Proc. 2023-15.

This change in method of accounting applies to all qualified natural gas linear transmission and linear distribution property, and distribution service line property, owned by the Taxpayer.

**b) The applicant's present method for the item being changed:**

Under the Taxpayer's present method of accounting, the Taxpayer defines the unit of property for purposes of applying the improvement rules to network assets, using a reasonable facts and circumstances method. Specifically, as it relates to linear property (i.e., main pipelines, and services pipelines ("services")), the Taxpayer defines the unit of property based on hydraulic subsystem.

Under the Taxpayer's present method of accounting, the Taxpayer utilizes the standards described in Treas. Reg. Section 1.263(a)-3 (i.e., the betterment standards as provided in Treas. Reg. Section 1.263(a)-3(l), the routine maintenance safe harbor standards as provided in Treas. Reg. Section 1.263(a)-3(i) and the removal cost standards for property not disposed of for tax purposes as provided in Treas. Reg. Section 1.263(a)-3(g)(2)) for purposes of determining whether an expenditure on a unit of property results in a deductible repair or a capital improvement.

The repair versus improvement determination is made by applying the standards provided in Treas. Reg. Section 1.263(a)-3(g)(1), requiring the capitalization of all direct costs of an improvement and all indirect costs that directly benefit or are incurred by reason of an improvement. Whether amounts are related to the same improvement depends on the facts and circumstances of the activities being performed." Eligible repair and maintenance expenses are currently deducted.

For repair and maintenance costs subject to capitalization under the present method of accounting, once capitalized as an improvement, the costs at issue are recovered as follows:

1. Gas Utility Trunk Pipelines are recovered over a recovery period of 15 years (Section 168(c) and asset Class 49.24 of Rev. Proc. 87-56) utilizing the 150% declining balance method (Section 168(b)(2)(A)) and the half-year convention (Section 168(d)(1)). Each asset is accounted for principally in a general asset account. The Taxpayer did not claim bonus depreciation in non-eligible years as the Taxpayer is an electing utility business under Section 163(j) and thus bonus depreciation is not

Essential Utilities, Inc.  
Attachment to Form 3115

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**Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor**

**Filed under Rev. Proc. 2015-13 and Rev. Proc. 2024-23, Section 3.12**

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applicable.

2. Gas Utility Distribution Facilities are recovered over a recovery period of 20 years (Section 168(c) and Asset Class 49.21 of Rev. Proc. 87-56) utilizing the 150% declining balance method (Section 168(b)(2)(A)) and the half-year convention (Section 168(d)(1)). Each asset is accounted for principally in a general asset account. The Taxpayer did not claim bonus depreciation in non-eligible years as the Taxpayer is an electing utility business under Section 163(j) and thus bonus depreciation is not applicable.

**c) The applicant's proposed method for the item(s) being changed.**

Under the Taxpayer's proposed method of accounting, the Taxpayer will use the NGSH Method set forth in Rev. Proc. 2023-15 to determine whether certain expenditures to maintain, repair, replace, or improve linear natural gas transmission and distribution property must be capitalized as improvements under Section 263(a) or, alternatively, are allowable as current deductions under Section 162. The Taxpayer will place any capitalized natural gas transmission and distribution property in a general asset account and depreciate the property as appropriate.

Under the proposed method of accounting, in accordance with Sections 5.02 and 5.03 of Rev. Proc. 2023-15, the Taxpayer will determine whether the replacement of linear transmission or distribution property should be capitalized under Section 263(a) based on the length of the transmission line or distribution main replaced. For linear transmission property, if more than 10% of the length of the unit of transmission property is replaced, the cost of the replacement will be capitalized. For linear distribution property, if more than four miles of distribution main are replaced, the cost of the replacement will be capitalized.

Additionally, under the proposed method of accounting and in accordance with the NGSH Method, the Taxpayer will also capitalize any per se capital expenditures identified under Section 5.05 of Rev. Proc. 2023-15.

For repair and maintenance costs subject to capitalization under the proposed method of accounting, once capitalized as an improvement, the costs at issue will be recovered as follows:

1. Gas Utility Trunk Pipelines will continue to be recovered over a recovery period of 15 years (Section 168(c) and asset Class 49.24 of Rev. Proc. 87-56) utilizing the 150% declining balance method (Section 168(b)(2)(A)) and the half-year convention

Essential Utilities, Inc.  
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**Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor**

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(Section 168(d)(1)). Such assets will be held in general asset accounts in accordance with late general asset account election included in this filing. The Taxpayer will not claim bonus depreciation in non-eligible years as the Taxpayer is an electing utility business under Section 163(j) and thus bonus depreciation is not applicable.

2. Gas Utility Distribution Facilities will continue to be recovered over a recovery period of 20 years (Section 168(c) and Asset Class 49.21 of Rev. Proc. 87-56) utilizing the 150% declining balance method (Section 168(b)(2)(A)) and the half-year convention (Section 168(d)(1)). Such assets will be held in general asset accounts in accordance with late general asset account election included in this filing. The Taxpayer will not claim bonus depreciation in non-eligible years as the Taxpayer is an electing utility business under Section 163(j) and thus bonus depreciation is not applicable.

The Taxpayer is not changing its method of accounting for its non-linear natural gas distribution property. Section 5.04 of Rev. Proc. 2023-15 specifies that a Taxpayer is not required to apply the safe harbor method for non-linear property if it uses the safe harbor method for linear property. The Taxpayer will continue to apply Sections 162 and 263(a), and the regulations thereunder, to determine the appropriate units of property for its non-linear property and to determine whether amounts paid or incurred to repair, maintain, replace, or improve these units of property must be capitalized.

Additionally, attached to this Form 3115 is the late general asset account election provided under Section 5.08(2) of Rev. Proc. 2023-15. The Taxpayer represents that it will make a late general asset account election for certain natural gas transmission and distribution property that is capitalized under the NGS Method because of this method change as required under Section 5.08(2)(a)(i) of Rev. Proc. 2023-15.

**d) The applicant's present overall method of accounting**

The Taxpayer's overall method of accounting is an accrual method.

**Page 3, Part II, Line 15a**

Applicant	EIN	Principal Business Activity Code	Description of Trade or Business
Delta Natural Gas Company Inc.	61-0458329	221210	The Applicant is a Natural Gas Distribution Company

The applicant has only one trade or business as defined in Treas. Reg. § 1.446-1(d).

Essential Utilities, Inc.  
Attachment to Form 3115

EIN: 23-1702594  
TYE: 12/31/2023

Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor

Filed under Rev. Proc. 2015-13 and Rev. Proc. 2024-23, Section 3.12

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Page 3, Part II, Line 17

The proposed method of accounting will not be used for the Taxpayer's book and records and financial statements. Such method may or may not conform with generally accepted accounting principles (GAAP). However, the proposed method of accounting clearly reflects income for federal income tax purposes.

Essential Utilities, Inc.  
Attachment to Form 3115

EIN: 23-1702594  
TYE: 12/31/2023

Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor  
Filed under Rev. Proc. 2015-13 and Rev. Proc. 2024-23, Section 3.12

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Page 4, Part IV, Line 26

Applicant	EIN	Amount Deducted Under Present Method	Amount Deductible Under Proposed Method	Section 481(a) Adjustment
Delta Natural Gas Company Inc.	61-0458329	\$31,919,422	\$31,122,012	\$797,410

The Section 481(a) adjustment has been calculated as the difference between the amount deducted for the taxable years prior to the year of change under the Taxpayer's present method of accounting and the amount that would have been deducted for the taxable years prior to the year of the change under the Taxpayer's proposed method of accounting, ensuring that there are no omissions or duplication of income or expense, resulting in a net positive Section 481(a) adjustment. This amount will be recognized ratably over four taxable years starting in the taxable year of change.

Essential Utilities, Inc.  
Attachment to Form 3115

EIN: 23-1702594  
TYE: 12/31/2023

**Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor**

Filed under Rev. Proc. 2015-13 and Rev. Proc. 2024-23, Section 3.12

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**Section 168(i)(4) Election Statement (Treas. Reg. Section 1.168(i)-1**

The Taxpayer is making the late general asset account election as required under Section 5.08(2) of Rev. Proc. 2023-15 for natural gas linear transmission and linear distribution property, as well as distribution service line property. The Taxpayer will make the late general asset account election change in accordance with the procedures outlined under Section 3.12 of Rev. Proc. 2024-23 using a modified cut-off method under which the unadjusted depreciable basis and the depreciation reserve of the asset as of the beginning of the year of change are accounted for using the proposed method of accounting. Each general asset account will include a beginning balance for both the unadjusted depreciable basis and the depreciation reserve. The beginning balance for the unadjusted depreciable basis of each general asset account will be equal to the sum of the unadjusted depreciable basis as of the beginning of the year of change for all assets included in that general asset account. The beginning balance of the depreciation reserve of each general asset account will be equal to the sum of the greater of the depreciation allowed or allowable as of the beginning of the year of change for all assets included in that general asset account.

As required by Section 3.12 of Rev. Proc. 2024-23, the Taxpayer agrees to the following additional terms and conditions:

- A) The Taxpayer consents to, and agrees to apply, all the provisions of- Treas. Reg. Section 1.168(i)-1 to the assets that are subject to the election specified in section 5.08(2) of Rev. Proc. 2023-15; and
- (B) Except as provided in Treas. Reg. Section 1.168(i)-1(c)(1)(ii)(A), (e)(3), (g), or (h), the election made by the Taxpayer under section 5.08(2) of Rev. Proc. 2023-15 is irrevocable and will be binding on the Taxpayer for computing taxable income for the year of change and for all subsequent taxable years with respect to the assets that are subject to this election.

**Public Utility Property**

As required by Section 3.12 of Rev. Proc. 2024-23, the Taxpayer agrees to the following additional terms and conditions:

- (A) A normalization method of accounting (within the meaning of section 168(i)(9)) will be used for the public utility property subject to the Form 3115;
- (B) As of the beginning of the year of change, the Taxpayer will adjust its deferred tax reserve account or similar account in the taxpayer's regulatory books of account by the amount of the deferral of federal income tax liability associated with the section 481(a) adjustment applicable to the public utility property subject to the Form 3115 if such amount is no longer being normalized for regulatory purposes by the taxpayer; and

**Essential Utilities, Inc.**  
**Attachment to Form 3115**

**EIN: 23-1702594**  
**TYE: 12/31/2023**

**Automatic Method Change for Natural Gas Transmission and Distribution Property Safe Harbor**

**Filed under Rev. Proc. 2015-13 and Rev. Proc. 2024-23, Section 3.12**

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(C) Within 30 calendar days of filing the federal income tax return for the year of change, the Taxpayer will provide a copy of the completed Form 3115 to any regulatory body having jurisdiction over the public utility property subject to the Form 3115.



**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-011 D**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

11. Refer to the response to Discovery Request OAG 1-46 (A) and respond to the following:

d. Does Delta believe the study results should be incorporated into the current proceeding? Provide the support for your response.

Response:

Yes, the study results should be and have been incorporated into the current proceeding because the study results are based on the application of the IRS rules stated in Revenue Procedure 2023-15. These same rules need to be followed for prospective calculations in order to receive audit protection. The 2025-2026 estimated repairs calculations were done using the repairs percentage which was based on the methodology of the repairs study. For support see the response to AG 2-17.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-012 AB**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

12. Refer generally to the confidential attachment entitled:

“DELTA\_R\_AGDR1\_NUM025\_010325\_CONF.” Provide the personal 2025 goals that will factor into the determination of Short Term Incentive Compensation for the following employees {Begin Confidential}:

- a. P-66543 – Construction Tech
- b. P-103134 – Controller III

Response:

a. Construction Techs are not eligible for Short Term Incentive Compensation.

b. The Controller III's Personal Goals are:

- Contribute to the Corporate goal of shortening the Month-End Close process.
  - o Eliminate delays and ensure that Delta is always ready to close the books by the 7th Business Day.
    - \* Improve the process of generating needed data, issuing invoices and booking entries for Delta On-System & Delta Off-System Transportation Customers and Delta Non-Regulated Customers.
    - \* Reduce (and standardize) the number of days it takes to completely and accurately process all the needed data after the meters are read.
- Effectively coordinate and support Delta's Rate Case filing.
  - o Work with the President and other team members to ensure effective and timely completion of Delta's Rate Case within stated deadlines.

- Timely filing of required annual Regulatory Reports.
  - o Coordinate the generation and timely submission of PSC Annual Report and Annual Property Tax filing.
  
- Ensure adequate training and backups for all roles in the Delta Accounting & Finance team.
  - o Ensure the provision of the necessary training to develop team members.
  - o Ensure that all key functions have adequate backups.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-012 CD**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

12. Refer generally to the confidential attachment entitled:

“DELTA\_R\_AGDR1\_NUM025\_010325\_CONF.” Provide the personal 2025 goals that will factor into the determination of Short Term Incentive Compensation for the following employees {Begin Confidential}:

- c. P-65990 – Director Gas Operations
- d. P-65921 – State President {End Confidential}

Response:

See attached for the personal goals determining 50% of the STI to be paid out in 2025.

<b>% of Total</b>	<b>Objective</b>	<b>Scale</b>	<b>High 110%</b>	<b>Med 100%</b>	<b>Low 90%</b>
5%	GOAL OF (0), RESPONSIBLE VEHICLE ACCIDENT RATE	# RVA'S INDIVIDUAL 0 RVA'S =10; >0=0 POINTS	10	10	0
5%	GOAL OF (0), LOST/RESTRICTED TIME RATE	INDIVIDUAL 0 LD/RD = 10 :0 = 0	10	10	0
5%	PIPELINE REPLACEMENT PROGRAM	% OF 16 MILES. HI > 17.6 MILES MED 16-17.5 MILES; LOW 14.4	11	10	9
5%	0 PSC REPORTABLE INTERRUPTIONS IN SERVICE	HI 0; MED 2; LOW 4	11	10	9
5%	0 END OF YEAR CLASS 1 AND 2 NATURAL GAS LEAKS	0 LEAKS = 11; 5 LEAKS = 10; 10 LEAKS = 9 POINTS	11	10	9
5%	0 OSHA REPORTABLE SAFETY INCIDENTS (WHOLE COMPANY)	HI 2; MED 4; LOW 6	11	10	9
5%	MEET ALL REQUIRED TIMELINES FOR COMPLIANCE (WHOLE COMPANY)	HI 0; MED 1; LOW 2	11	10	9
5%	COMPLETE O&M SCHEDULE BY 12-31-2024	11=100%; 10=99%; 9=LESS THAN 99%	11	10	9
5%	SELECT ONE TRAFFIC PLAN FOR INCLUSION IN 2025 BUDGET	11 =APR 30; 10 =MAY 31; 9 =JUNE 30	11	10	9
5%	ASSIST WITH DEVELOPING CONSTRUCTION-READY PRP PROJECTS	11= 10 MILES; 10= 8MILES; 9= 6MILES	11	10	9
5%	CONSTRUCTION OF LINCOLN/ROCKCASTLE PIPELINE	11= 11 MILES; 10= 10 MILES; 9= 9 MILES	11	10	9
5%	ENBRIDGE SITE PROCURED/HALF ROW SECURED	11=BOTH BY NOV 1 10=BOTH BY DEC 31 9=ONE ACHIEVED	11	10	9
5%	LINCOLN/ROCKCASTLE RIGHT OF WAY ACQUISITION/INITIAL CONSTRUCTION STARTED ON PHASE 2	11=BOTH ACHIEVED; 10=ONE OR OTHER; 9=% ROW ACHIEVED	11	10	9
5%	CAPITAL SPENDING WITHIN 2024 BUDGET	11= WITHIN 2.5% OF BUDGET; 10= WITHIN 5% OF BUDGET; 9= WITHIN 7.5% OF BUDGET	11	10	9
5%	VISIONRNG FACILITIES COMPLETE	11= BY SEPT. 30; 10= BY OCT. 31; 9= BY NOV. 30	11	10	9
5%	RESPOND TO ALL PSC REQUESTS IN A TIMELY/COMPLETE MANNER	11=100% 10=95% 9=90% OF QUESTIONS	11	10	9
5%	IMPROVE EMPLOYEE SATISFACTION SCORES-GLINT SURVEY	11= 80% SAT SCORE; 10= BENCHMARK; 9= 70%	11	10	9
5%	HOLD START/STOP/CONTINUE SESSIONS ABOUT COMMUNICATION WITH FIELD EMPLOYEES	11= ALL LOCATIONS BY 12/31/24; 10= 75% ALL LOCATIONS BY 12/31/24; 9= 50% ALL LOCATIONS BY 12/31/24	11	10	9
5%	SUCCESSION PLAN UPDATE DRAFTED	JUNE 30 =11; JULY 31 = 10; AUG 31 = 9	11	10	9
5%	NICHOLASVILLE PIPELINE CONSTRUCTION	11= 3 MILES; 10= 2 MILES; 9= 1 MILE	11	10	9
<b>100%</b>			<b>218</b>	<b>200</b>	<b>162</b>

% of Total	Objective	Scale	High 110%	Med 100%	Low 90%
5%	GOAL OF (0), RESPONSIBLE VEHICLE ACCIDENT RATE	# RVA'S INDIVIDUAL 0 RVA'S =10; >0=0 POINTS	10	10	0
5%	GOAL OF (0), LOST/RESTRICTED TIME RATE	INDIVIDUAL 0 LD/RD = 10 :0 = 0	10	10	0
5%	PIPELINE REPLACEMENT PROGRAM	% OF 16 MILES. HI > 17.6 MILES MED 16-17.5 MILES; LOW 14.4	11	10	9
5%	0 PSC REPORTABLE INTERRUPTIONS IN SERVICE	HI 0; MED 2; LOW 4	11	10	9
5%	0 END OF YEAR CLASS 1 AND 2 NATURAL GAS LEAKS	0 LEAKS = 11; 5 LEAKS = 10; 10 LEAKS = 9 POINTS	11	10	9
5%	0 OSHA REPORTABLE SAFETY INCIDENTS (WHOLE COMPANY)	HI 2; MED 4; LOW 6	11	10	9
5%	MEET ALL REQUIRED TIMELINES FOR COMPLIANCE (WHOLE COMPANY)	HI 0; MED 1; LOW 2	11	10	9
5%	TEST 2 REMAINING WELLS BY 12/31/24	11=MAY 31; 10=OCT 31; 9=DEC 31	11	10	9
5%	SELECT ONE TRAFFIC PLAN FOR INCLUSION IN 2025 BUDGET	11 =APR 30; 10 =MAY 31; 9 =JUNE 30	11	10	9
5%	CONTINUE SCHEDULE OF COMBINING GCR PER PSC REQUIREMENTS	11=NO PSC INQUIRY; 10=CASE CLOSED; 9=CASE OPEN	11	10	9
5%	CAPITAL SPENDING WITHIN 2024 BUDGET	11= WITHIN 2.5% OF BUDGET; 10= WITHIN 5% OF BUDGET; 9= WITHIN 7.5% OF BUDGET	11	10	9
5%	HOST EMPLOYEE APPRECIATION EVENT, EARTH DAY AND COMMUNICATION TRAINING	11=3 OF 3; 10=2 OF 3; 9=1 OF 3	11	10	9
5%	DIVERSIFIED CONTRACT BY 12/31/24	11=BY OCT 31; 10= BY NOV 30; 9=BY DEC 31	11	10	9
5%	VISIONRNG FACILITIES COMPLETE	11= BY SEPT. 30; 10= BY OCT. 31; 9= BY NOV. 30	11	10	9
5%	NEW CUSTOMER GROWTH	11=1.5% 10=1% 9=.5%	11	10	9
5%	TOOLS NEEDED FROM ACCOUNTING/IT; SYSTEM TO QUERY EXPENSE DETAIL BY FERC ACCOUNT, TRACK FINANCIAL METRICS BY MONTH/CORP ALLOCATIONS	11=3 OF 3; 10=2 OF 3; 9=1 OF 3	11	10	9
5%	RESPOND TO ALL PSC REQUESTS IN A TIMELY/COMPLETE MANNER	11=100% 10=95% 9=90% OF QUESTIONS	11	10	9
5%	IMPROVE EMPLOYEE SATISFACTION SCORES-GLINT SURVEY	11= 80% SAT SCORE; 10= BENCHMARK; 9= 70%	11	10	9
5%	HOLD START/STOP/CONTINUE SESSIONS ABOUT COMMUNICATION WITH FIELD EMPLOYEES	11= ALL LOCATIONS BY 12/31/24; 10= 75% ALL LOCATIONS BY 12/31/24; 9= 50% ALL LOCATIONS BY 12/31/24	11	10	9
5%	SUCCESSION PLAN UPDATE DRAFTED	JUNE 30 =11; JULY 31 = 10; AUG 31 = 9	11	10	9
<b>100%</b>			<b>218</b>	<b>200</b>	<b>162</b>

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-013**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

13. Refer to the Short-Term Incentive Compensation goals for 2024 contained in Response to OAG 1-35. Indicate whether the short-term incentive goals identified in this response, beginning on attachment page 69 apply to the 2024 PNG allocated short-term incentive compensation allocated to Delta. If not, provide the documentation identifying the metrics and methods of calculating short-term incentive compensation costs for PNG employees whose costs are allocated to Delta.

Response:

No, please see the attached.



**2024 Short Term Incentive Plan  
Metric: PNG - Administration**

Dear Participants:

I am pleased to introduce to you our updated Short-Term Incentive Plan (“Plan”). The purpose of the Plan is to reward and align all our efforts to operate efficiently while sustaining our mission of reliability and safely delivering gas, water and wastewater treatment services to our customers in the many communities we service.

The Plan is designed to focus our collective efforts on business metrics that are core to our mission and reward our performance when achieving these metrics. The five areas that will be measured in the Plan are Financial, Safety, Customer Satisfaction, Environmental Stewardship and Individual Goals – all measured with our customers in mind.

The Company succeeds when everyone works together as a team to achieve our short and long-term business goals. Thank you for all your continuing efforts and hard work on behalf of our Company, and for your focus on making Essential Utilities, Inc. successful.

Chris Franklin  
President and Chief Executive Officer



## Plan Goals

Essential provides a short-term incentive plan (STI) to reward and align efforts to operate efficiently, while sustaining our mission of reliably and safely delivering gas, water and wastewater treatment services to our customers. This incentive is a bonus payment and is measured and paid by March 15 following the end of the Plan year.

The short-term incentive plan is designed to focus the company's collective efforts on metrics that are core to our mission and reward our performance in achieving these metrics. The five metrics in this plan are financial, safety, customer satisfaction, environmental stewardship and diversity - all measured with our customers in mind. These metrics may change, and levels or targets will be updated at least every year. If achievement of the goals falls below a defined threshold outlined in the company's annual proxy statement, participants will not receive a bonus payment.

Although one-time events can impact the company's business, any modifications or adjustments to the short-term incentive plan must be approved by the Essential Utilities Board of Directors' Executive Compensation Committee. The tables below detail the Short-Term Incentive Plan goals:

### Essential – Administration PNG

Metric	Metric Component	Weight	Threshold		
			50%	Target 100%	Maximum 150%
Financial (50%)	Essential Earning Per Share (EPS)	35.00%	\$1.93	\$ 1.98	\$ 2.03
	Essential ROE	15.00%	8.04%	9.54%	11.04%
Safety (20%)	Essential Lost Time/Restricted Time	5.00%	1.70	1.20	0.85
	Essential Responsible Vehicle Accident Rate	5.00%	3.00	2.50	2.00
	Gas Damage Prevention	10.00%	3.33	3.22	3.11
Customer Satisfaction (10%)	Peoples Service Level	10.00%	83.30%	84.30%	85.30%
Environmental Stewardship (10%)	Aqua Water Compliance	2.50%	99.65%	99.75%	100.00%
	Aqua Wastewater Compliance	2.50%	94.00%	96.50%	99.50%
	Peoples Gas Leaks	2.50%	180	165	150
	Peoples Gas LTIP	2.50%	97.50%	100.00%	102.50%
Individual Goals (10%)	Individual Goals #1	5.00%			
	Individual Goals #2	5.00%			

## Plan Design

The Plan design assigns a weight and a payout range for each metric. They are as follows:

Metric	Weight	Payout Range
Financial	50%	0% - 150%
Safety	20%	0% - 150%
Customer Satisfaction	10%	0% - 150%
Environmental Stewardship	10%	0% - 150%
Individual Goals	10%	0% - 150%

Metric target goals were established utilizing recent historical statistics, industry standards, and desired performance.

## Plan Definitions

### **Financial Metrics (50%)**

**Earnings Per Share (EPS)** - The financial metric is based on the Company's final earnings per share (EPS). The annualized amount is forecasted for each quarter until final at year-end. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. The final determination may be non-GAAP and may include certain management adjustments.

**Return on Equity (ROE)** - Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The financial metric compares Actual ROE vs. Approved Average ROE (including certain management adjustments).

### **Safety Metrics (20%)**

**Lost Time Incidents/Restricted Time Incidents (LTI/RTI)** - An OSHA recordable incident in which an employee is not able to return to work on the day or shift following the incident.

**Responsible Vehicle Accidents (RVA)** - Number of Responsible Vehicle Accidents (RVA) or the number of Moving Vehicle Accidents during which the driver failed to do everything reasonable to avoid the accident per million miles driven. The determination of the preventability is based on criteria similar to that found in the National Safety Council's Guide to Determine Motor Vehicle Accident Preventability Report.

**Gas Safety** – Based on Inspections completed within Department of Transportation (DOT) compliance dates. Includes the following items weighted at 25% each: Regulating Station inspections, Leak Surveys, Critical Valve Inspections and Corrosion Test Station reads.

### **Customer Satisfaction Metric (10%)**

**Service Level** - Service level (as a performance measure) is denoted simply as the percentage of calls that were answered by the call center in the predetermined time threshold as well as those calls that were serviced through interactive voice response (IVR) automation.

### **Environmental Stewardship Metrics (10%)**

**Water Stewardship: Water Compliance Rate (WCR)** - A Water event causing the operating system to be out of compliance for at least 1 day. The compliance rate is the number of days all water systems are in compliance versus all available days (365 days per system) in 2023. Systems purchased within 1 year of the reporting period that are out of compliance are excluded. Includes Action Level Exceedance (ALE) for lead.

**Wastewater Stewardship: Wastewater Compliance Rate (WWCR)** - A Wastewater event causing the operating system to be out of compliance for at least 1 day. The compliance rate is the amount of days all wastewater systems are in compliance versus all available days (365 days per system) in 2023. Systems purchased within 1 year of the reporting period that are out of compliance are excluded.

**Gas Environmental Stewardship: Reduction – Leaks Outstanding** – The number of leaks outstanding at year end 2023 as reported in the Department of Transportation (DOT) reports. Reduction is measured as a three-year average 2020 – 2023 (estimated).

**Gas Environmental Stewardship: LTIIP Mileage Replacement** – LTIIP mileage replacement is planned mileage as included in the LTIIP for Mains. It measures the percent complete of the Approved LTIIP.

### **Individual Goals (10%)**

**Individual Performance Factor:** Annually, participants will have a minimum of two Individual Short Term Incentive Goals that align with the broader Company goals. The goals will be mutually determined by the participant and their management team. Communication relative to performance against these goals will be discussed throughout the year. At the end of the performance period, the participant will be given a score between 0 and 15 to indicate how they performed relative to achieving the goals.

## **Plan Payment, Eligibility & General Information**

### **Incentive Pay**

Incentive pay under this Short-Term Incentive Plan (“Plan”) is the portion of an employee’s total compensation that is based on achievement of financial, safety, customer satisfaction, environmental stewardship and individual goals. If all or a portion of the established goals are achieved,

eligible employees of Essential Utilities, Inc. (the “Company”) may receive a full or partial bonus payment under the Plan. If the goals are not achieved, participants will not receive a bonus payment.

### **Plan Eligibility**

#### Full Payout Eligibility

To be a participant in the Plan eligible for a full incentive payout, an employee must:

- Be a full or part time employee of the Company in a position eligible for participation in the program.
- Be continuously employed by the Company for the entire Plan year and at the time of the incentive payout.

#### Prorated Payout Eligibility

If an employee is otherwise eligible for a full incentive payout but is not employed by the Company for the entire Plan year, the employee will be eligible for a prorated payout based on the percentage of time worked in each eligible position during the Plan year in the following situations:

- An employee hired on or before September 30 of the Plan Year.
  - An employee hired into an eligible position on and after October 1, will be eligible to participate in the following Plan year.
- An employee who has transferred to or between eligible positions during the Plan year.

#### Retirement

Retirement means an employee’s termination of employment on or after the date the employee first satisfies the conditions for early retirement or normal retirement benefits under the company policy.

If an eligible employee officially retires, they will receive a prorated payment on the scheduled payment date.

- If retirement is within the first ten months of the Plan year, the employee will receive 100% on the Individual Performance Factor portion of their metric.
- If retirement is in November or December of the Plan year, the employee’s manager assigns the Individual Performance Factor percent to their metric.

Payment will be made at the same time as payment is made to active employees, but no later than March 15 of the following year.

#### Death

If an eligible employee dies prior to the incentive payout date, the Company will pay the deceased employee’s estate the portion of the incentive bonus the deceased employee would otherwise have been entitled to receive assuming a 100% combined Company and Individual Factor, but prorated for the number of days of employment the employee completed in the Plan year before his/her death. Payment will be made at the same time as payment is made to active employees, but no later than March 15 of the following year.

#### Ineligibility

Employees will not be eligible for incentive payouts under the Plan, if they:

- Voluntarily terminate employment prior to the incentive payout date.
- Are terminated by the Company with or without cause at any time prior to the incentive payout date.

**Target Incentive Payout**

Eligible employees will be assigned a “Target Bonus Percentage” depending on duties and responsibilities. The Board of Directors will approve the Target Bonus Percentage for the CEO and the Senior Officers recommended by the Compensation Committee each year. The Executive Compensation Committee must review and approve final bonus payouts for the Company before payments are made.

The Target Bonus Percentage is a percentage of an employee’s annual base rate of pay in effect on the close of the Plan year (December 31<sup>st</sup>).

**Plan Year**

The Plan year begins on January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

**Incentive Payouts**

If the performance goals are achieved during the Plan year, eligible participants will receive incentive payouts as described above in March of the following year, and no later than March 15. If a participant is eligible to participate in a deferral Plan of the Company and the employee makes a deferral election with respect to an incentive payout, the incentive payout will be paid in accordance with the terms of the deferral Plan.

Achievement of the performance goals will be reviewed by the Internal Audit Department of the Company before any payment under the Plan is made.

**Plan Administration**

The Plan will be administered by the Administrator in its sole discretion. The Administrator is (1) for employees who are designated by the Company as “Section 16 officers,” the Executive Compensation Committee of the Board of Directors (the “Compensation Committee”) and (2) for all other eligible employees, the Senior Vice President, Chief Human Resources Officer of the Company, in consultation with the President & CEO of the Company.

The Administrator has full power and discretionary authority to interpret and administer the Plan, to make all decisions under the Plan, and to take all actions as the Administrator deems necessary or advisable to carry out the Plan. Any action required of the Administrator under the Plan shall be made in the Administrator’s sole discretion and not in a fiduciary capacity. All decisions of the Administrator shall be final and binding on the Company, the participants, and any other persons claiming an interest under the Plan. All incentive payouts will be awarded conditional upon the participant’s acknowledgement, by continuing in employment with the Company, that all decisions of the Administrator shall be final and binding on the participant and any other person claiming an interest in the Plan. The Administrator may delegate such administrative duties as it deems advisable.

**Tax Matters**

All payments under the Plan will be made subject to applicable federal, state, and local tax withholding requirements. The Plan is intended to comply with the short-term deferral rule set forth in the regulations under Section 409A of the Internal Revenue Code (“Section 409A”). If and to the extent that any payment under the Plan is deemed to be deferred compensation subject to the requirements of Section 409A, the Plan shall be administered so that such payments are made in accordance with the requirements of Section 409A, including the six-month delay for specified employees, if applicable. An employee may not designate the calendar year of payment except in accordance with Section 409A. If any payout is subject to Section 409A, (i) the timing of the employee’s execution of a release shall not, directly or indirectly, result in the employee designating

the calendar year of payment, and if a payment that is subject to execution of a release could be made in more than one taxable year, based on timing of the execution of the release, payment shall be made in the later taxable year, and (ii) any payout upon termination of employment (other than death) shall be made at the same time as incentive payouts are made to other participants under the Plan, and not at the date of termination of employment.

### **Incentive Award Recoupment Policy**

In the event of a significant restatement of our financial results caused by fraud or willful misconduct, the Company reserves the right to review the incentive compensation received by the eligible employee(s) with respect to the period to which the restatement relates, recalculate the Company's results for the period to which the restatement relates and seek reimbursement of the portion of the incentive compensation that was based on the misstated financial results from the eligible employee whose fraud or willful misconduct was the cause of the restatement.

Further, any Incentive Award Recoupment Policy that may be adopted from time to time by the Company's Board of Directors will apply to the incentive compensation awarded under this Plan to any of the employees covered by such Policy.

### **Goal Establishment and Achievement**

The Compensation Committee will establish all performance goals under the Plan which relate to Company performance. Each year, the Plan will be reviewed in accordance with the Compensation Committee's Charter.

### **Applicable Law**

The Plan will be construed and governed in accordance with the laws of the Commonwealth of Pennsylvania.

### **Amendment and Termination**

The Executive Compensation Committee may amend or terminate the Plan at any time.

### **Additional Information**

Payments under this Plan may not be transferred, assigned, pledged or encumbered by a participant. The Plan is an unfunded incentive compensation arrangement. Each participant's right to receive a payment under the Plan shall be no greater than the right of an unsecured general creditor of the Company. Nothing in the Plan, and no action taken under the Plan shall confer upon a participant the right to continue in the employ of the Company, or affect the right of the Company's right to terminate a participant's employment at any time for any reason. Unless otherwise specifically provided in an employee benefit plan of the Company, payments under the Plan shall not constitute compensation for purposes of any employee benefit plan.

### **Final STI Calculations**

Calculations for STI are finalized once the Company goals have been completed and all metric calculations are reviewed and approved by management and the Executive Compensation Committee. Proration and other multipliers used in the final STI calculation may be based on an individual's entry into the respective STI Plans and other factors.

Any questions regarding the STI plan may be directed to your Human Resources representative as well as your manager.



**2024 Short Term Incentive Plan  
Metric: Peoples PA and WV**

Dear Participants:

I am pleased to introduce to you our updated Short-Term Incentive Plan (“Plan”). The purpose of the Plan is to reward and align all our efforts to operate efficiently while sustaining our mission of reliability and safely delivering gas, water and wastewater treatment services to our customers in the many communities we service.

The Plan is designed to focus our collective efforts on business metrics that are core to our mission and reward our performance when achieving these metrics. The five areas that will be measured in the Plan are Financial, Safety, Customer Satisfaction, Environmental Stewardship and Individual Diversity – all measured with our customers in mind.

The Company succeeds when everyone works together as a team to achieve our short and long-term business goals. Thank you for all your continuing efforts and hard work on behalf of our Company, and for your focus on making Essential Utilities, Inc. successful.

Chris Franklin  
President and Chief Executive Officer

## Plan Goals

Essential provides a short-term incentive plan (STI) to reward and align efforts to operate efficiently, while sustaining our mission of reliably and safely delivering gas, water and wastewater treatment services to our customers. This incentive is a bonus payment and is measured and paid by March 15 following the end of the Plan year.

The short-term incentive plan is designed to focus the company's collective efforts on metrics that are core to our mission and reward our performance in achieving these metrics. The five metrics in this plan are financial, safety, customer satisfaction, environmental stewardship and diversity - all measured with our customers in mind. These metrics may change, and levels or targets will be updated at least every year. If achievement of the goals falls below a defined threshold outlined in the company's annual proxy statement, participants will not receive a bonus payment.

Although one-time events can impact the company's business, any modifications or adjustments to the short-term incentive plan must be approved by the Essential Utilities Board of Directors' Executive Compensation Committee. The tables below detail the Short-Term Incentive Plan goals:

### Peoples PA and WV

Metric	Metric Component	Weight	Threshold	50%	Target 100%	Maximum 150%
Financial (50%)	Essential Earning Per Share (EPS)	15.00%	\$ 1.93	\$ 1.98	\$ 2.03	
	Essential ROE	7.50%	8.04%	9.54%	11.04%	
	Peoples EBITD	10.00%	\$ 335,078,696.92	\$ 352,714,417.81	\$ 370,350,138.70	
	State EBITD	17.50%	\$ 316,856,301.41	\$ 333,532,948.85	\$ 350,209,596.29	
Safety (25%)	State Lost Time/Restricted Time Rate	10.00%	1.36	0.93	0.57	
	State Responsible Vehicle Accident Rate	5.00%	2.79	2.30	1.80	
	Gas Damage Prevention	10.00%	3.34	3.32	3.05	
Customer Satisfaction (10%)	Essential Service Level	10.00%	83.30%	84.30%	85.30%	
Environmental Stewardship (5%)	Reduction - Leaks Outstanding	2.50%	170	160	150	
	LTIIIP Mileage Replacement	2.50%	97.50%	100.00%	102.50%	
Individual Goals (10%)	Individual Goal 1	5.00%				
	Individual Goal 2	5.00%				



## Plan Design

The Plan design assigns a weight and a payout range for each metric. They are as follows:

Metric	Weight	Payout Range
Financial	50%	0% - 150%
Safety	20%	0% - 150%
Customer Satisfaction	10%	0% - 150%
Environmental Stewardship	10%	0% - 150%
Individual Goals	10%	0% - 150%

Metric target goals were established utilizing recent historical statistics, industry standards, and desired performance.

## Plan Definitions

### **Financial Metrics (50%)**

**Earnings Per Share (EPS)** - The financial metric is based on the Company's final earnings per share (EPS). The annualized amount is forecasted for each quarter until final at year-end. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. The final determination may be non-GAAP and may include certain management adjustments.

**Return on Equity (ROE)** - Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The financial metric compares Actual ROE vs. Approved Average ROE (including certain management adjustments).

### **Safety Metrics (20%)**

**Lost Time Incidents/Restricted Time Incidents (LTI/RTI)** - An OSHA recordable incident in which an employee is not able to return to work on the day or shift following the incident.

**Responsible Vehicle Accidents (RVA)** - Number of Responsible Vehicle Accidents (RVA) or the number of Moving Vehicle Accidents during which the driver failed to do everything reasonable to avoid the accident per million miles driven. The determination of the preventability is based on criteria similar to that found in the National Safety Council's Guide to Determine Motor Vehicle Accident Preventability Report.

**Gas Safety** – Based on Inspections completed within Department of Transportation (DOT) compliance dates. Includes the following items weighted at 25% each: Regulating Station inspections, Leak Surveys, Critical Valve Inspections and Corrosion Test Station reads.

### **Customer Satisfaction Metric (10%)**

**Service Level** - Service level (as a performance measure) is denoted simply as the percentage of calls that were answered by the call center in the predetermined time threshold as well as those calls that were serviced through interactive voice response (IVR) automation.

### **Environmental Stewardship Metrics (10%)**

**Water Stewardship: Water Compliance Rate (WCR)** - A Water event causing the operating system to be out of compliance for at least 1 day. The compliance rate is the number of days all water systems are in compliance versus all available days (365 days per system) in 2023. Systems purchased within 1 year of the reporting period that are out of compliance are excluded. Includes Action Level Exceedance (ALE) for lead.

**Wastewater Stewardship: Wastewater Compliance Rate (WWCR)** - A Wastewater event causing the operating system to be out of compliance for at least 1 day. The compliance rate is the amount of days all wastewater systems are in compliance versus all available days (365 days per system) in 2023. Systems purchased within 1 year of the reporting period that are out of compliance are excluded.

**Gas Environmental Stewardship: Reduction – Leaks Outstanding** – The number of leaks outstanding at year end 2023 as reported in the Department of Transportation (DOT) reports. Reduction is measured as a three-year average 2020 – 2023 (estimated).

**Gas Environmental Stewardship: LTIIP Mileage Replacement** – LTIIP mileage replacement is planned mileage as included in the LTIIP for Mains. It measures the percent complete of the Approved LTIIP.

### **Individual Goals (10%)**

**Individual Performance Factor:** Annually, participants will have a minimum of two Individual Short Term Incentive Goals that align with the broader Company goals. The goals will be mutually determined by the participant and their management team. Communication relative to performance against these goals will be discussed throughout the year. At the end of the performance period, the participant will be given a score between 0 and 15 to indicate how they performed relative to achieving the goals.

## **Plan Payment, Eligibility & General Information**

### **Incentive Pay**

Incentive pay under this Short-Term Incentive Plan (“Plan”) is the portion of an employee’s total compensation that is based on achievement of financial, safety, customer satisfaction, environmental stewardship and individual goals. If all or a portion of the established goals are achieved,

eligible employees of Essential Utilities, Inc. (the “Company”) may receive a full or partial bonus payment under the Plan. If the goals are not achieved, participants will not receive a bonus payment.

### **Plan Eligibility**

#### Full Payout Eligibility

To be a participant in the Plan eligible for a full incentive payout, an employee must:

- Be a full or part time employee of the Company in a position eligible for participation in the program.
- Be continuously employed by the Company for the entire Plan year and at the time of the incentive payout.

#### Prorated Payout Eligibility

If an employee is otherwise eligible for a full incentive payout but is not employed by the Company for the entire Plan year, the employee will be eligible for a prorated payout based on the percentage of time worked in each eligible position during the Plan year in the following situations:

- An employee hired on or before September 30 of the Plan Year.
  - An employee hired into an eligible position on and after October 1, will be eligible to participate in the following Plan year.
- An employee who has transferred to or between eligible positions during the Plan year.

#### Retirement

Retirement means an employee’s termination of employment on or after the date the employee first satisfies the conditions for early retirement or normal retirement benefits under the company policy.

If an eligible employee officially retires, they will receive a prorated payment on the scheduled payment date.

- If retirement is within the first ten months of the Plan year, the employee will receive 100% on the Individual Performance Factor portion of their metric.
- If retirement is in November or December of the Plan year, the employee’s manager assigns the Individual Performance Factor percent to their metric.

Payment will be made at the same time as payment is made to active employees, but no later than March 15 of the following year.

#### Death

If an eligible employee dies prior to the incentive payout date, the Company will pay the deceased employee’s estate the portion of the incentive bonus the deceased employee would otherwise have been entitled to receive assuming a 100% combined Company and Individual Factor, but prorated for the number of days of employment the employee completed in the Plan year before his/her death. Payment will be made at the same time as payment is made to active employees, but no later than March 15 of the following year.

#### Ineligibility

Employees will not be eligible for incentive payouts under the Plan, if they:

- Voluntarily terminate employment prior to the incentive payout date.
- Are terminated by the Company with or without cause at any time prior to the incentive payout date.

**Target Incentive Payout**

Eligible employees will be assigned a “Target Bonus Percentage” depending on duties and responsibilities. The Board of Directors will approve the Target Bonus Percentage for the CEO and the Senior Officers recommended by the Compensation Committee each year. The Executive Compensation Committee must review and approve final bonus payouts for the Company before payments are made.

The Target Bonus Percentage is a percentage of an employee’s annual base rate of pay in effect on the close of the Plan year (December 31<sup>st</sup>).

**Plan Year**

The Plan year begins on January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

**Incentive Payouts**

If the performance goals are achieved during the Plan year, eligible participants will receive incentive payouts as described above in March of the following year, and no later than March 15. If a participant is eligible to participate in a deferral Plan of the Company and the employee makes a deferral election with respect to an incentive payout, the incentive payout will be paid in accordance with the terms of the deferral Plan.

Achievement of the performance goals will be reviewed by the Internal Audit Department of the Company before any payment under the Plan is made.

**Plan Administration**

The Plan will be administered by the Administrator in its sole discretion. The Administrator is (1) for employees who are designated by the Company as “Section 16 officers,” the Executive Compensation Committee of the Board of Directors (the “Compensation Committee”) and (2) for all other eligible employees, the Senior Vice President, Chief Human Resources Officer of the Company, in consultation with the President & CEO of the Company.

The Administrator has full power and discretionary authority to interpret and administer the Plan, to make all decisions under the Plan, and to take all actions as the Administrator deems necessary or advisable to carry out the Plan. Any action required of the Administrator under the Plan shall be made in the Administrator’s sole discretion and not in a fiduciary capacity. All decisions of the Administrator shall be final and binding on the Company, the participants, and any other persons claiming an interest under the Plan. All incentive payouts will be awarded conditional upon the participant’s acknowledgement, by continuing in employment with the Company, that all decisions of the Administrator shall be final and binding on the participant and any other person claiming an interest in the Plan. The Administrator may delegate such administrative duties as it deems advisable.

**Tax Matters**

All payments under the Plan will be made subject to applicable federal, state, and local tax withholding requirements. The Plan is intended to comply with the short-term deferral rule set forth in the regulations under Section 409A of the Internal Revenue Code (“Section 409A”). If and to the extent that any payment under the Plan is deemed to be deferred compensation subject to the requirements of Section 409A, the Plan shall be administered so that such payments are made in accordance with the requirements of Section 409A, including the six-month delay for specified employees, if applicable. An employee may not designate the calendar year of payment except in accordance with Section 409A. If any payout is subject to Section 409A, (i) the timing of the employee’s execution of a release shall not, directly or indirectly, result in the employee designating

the calendar year of payment, and if a payment that is subject to execution of a release could be made in more than one taxable year, based on timing of the execution of the release, payment shall be made in the later taxable year, and (ii) any payout upon termination of employment (other than death) shall be made at the same time as incentive payouts are made to other participants under the Plan, and not at the date of termination of employment.

### **Incentive Award Recoupment Policy**

In the event of a significant restatement of our financial results caused by fraud or willful misconduct, the Company reserves the right to review the incentive compensation received by the eligible employee(s) with respect to the period to which the restatement relates, recalculate the Company's results for the period to which the restatement relates and seek reimbursement of the portion of the incentive compensation that was based on the misstated financial results from the eligible employee whose fraud or willful misconduct was the cause of the restatement.

Further, any Incentive Award Recoupment Policy that may be adopted from time to time by the Company's Board of Directors will apply to the incentive compensation awarded under this Plan to any of the employees covered by such Policy.

### **Goal Establishment and Achievement**

The Compensation Committee will establish all performance goals under the Plan which relate to Company performance. Each year, the Plan will be reviewed in accordance with the Compensation Committee's Charter.

### **Applicable Law**

The Plan will be construed and governed in accordance with the laws of the Commonwealth of Pennsylvania.

### **Amendment and Termination**

The Executive Compensation Committee may amend or terminate the Plan at any time.

### **Additional Information**

Payments under this Plan may not be transferred, assigned, pledged or encumbered by a participant. The Plan is an unfunded incentive compensation arrangement. Each participant's right to receive a payment under the Plan shall be no greater than the right of an unsecured general creditor of the Company. Nothing in the Plan, and no action taken under the Plan shall confer upon a participant the right to continue in the employ of the Company, or affect the right of the Company's right to terminate a participant's employment at any time for any reason. Unless otherwise specifically provided in an employee benefit plan of the Company, payments under the Plan shall not constitute compensation for purposes of any employee benefit plan.

### **Final STI Calculations**

Calculations for STI are finalized once the Company goals have been completed and all metric calculations are reviewed and approved by management and the Executive Compensation Committee. Proration and other multipliers used in the final STI calculation may be based on an individual's entry into the respective STI Plans and other factors.

Any questions regarding the STI plan may be directed to your Human Resources representative as well as your manager.



**2024 Short Term Incentive Plan**  
**Metric: Peoples – Presidents and Staff**

Dear Participants:

I am pleased to introduce to you our updated Short-Term Incentive Plan (“Plan”). The purpose of the Plan is to reward and align all our efforts to operate efficiently while sustaining our mission of reliability and safely delivering gas, water and wastewater treatment services to our customers in the many communities we service.

The Plan is designed to focus our collective efforts on business metrics that are core to our mission and reward our performance when achieving these metrics. The five areas that will be measured in the Plan are Financial, Safety, Customer Satisfaction, Environmental Stewardship and Individual Goals – all measured with our customers in mind.

The Company succeeds when everyone works together as a team to achieve our short and long-term business goals. Thank you for all your continuing efforts and hard work on behalf of our Company, and for your focus on making Essential Utilities, Inc. successful.

Chris Franklin  
President and Chief Executive Officer

## Plan Goals

Essential provides a short-term incentive plan (STI) to reward and align efforts to operate efficiently, while sustaining our mission of reliably and safely delivering gas, water and wastewater treatment services to our customers. This incentive is a bonus payment and is measured and paid by March 15 following the end of the Plan year.

The short-term incentive plan is designed to focus the company's collective efforts on metrics that are core to our mission and reward our performance in achieving these metrics. The five metrics in this plan are financial, safety, customer satisfaction, environmental stewardship and diversity - all measured with our customers in mind. These metrics may change, and levels or targets will be updated at least every year. If achievement of the goals falls below a defined threshold outlined in the company's annual proxy statement, participants will not receive a bonus payment.

Although one-time events can impact the company's business, any modifications or adjustments to the short-term incentive plan must be approved by the Essential Utilities Board of Directors' Executive Compensation Committee. The tables below detail the Short-Term Incentive Plan goals:

### Peoples – Presidents and Staff

Metric	Metric Component	Weight	Threshold	50%	Target 100%	Maximum 150%
Financial (50%)	Essential Earning Per Share (EPS)	25.00%	\$	1.93	\$ 1.98	\$ 2.03
	Essential ROE	10.00%		8.04%	9.54%	11.04%
	Peoples EBITD	15.00%	\$	335,078,696.92	\$ 352,714,417.81	\$ 370,350,138.70
Safety (25%)	Lost Time/Restricted Time Rate	10.00%		1.44	0.98	0.59
	Responsible Vehicle Accident Rate	5.00%		2.85	2.36	1.88
	Gas Damage Prevention	10.00%		3.33	3.22	3.11
Customer Satisfaction (10%)	Peoples Service Level	10.00%		83.30%	83.30%	85.30%
Environmental Stewardship (5%)	Reduction - Leaks Outstanding	2.50%		180	165	150
	LTIP Mileage Replacement	2.50%		97.50%	100.00%	102.50%
Individual Goals (10%)		5.00%				
		5.00%				

## Plan Design

The Plan design assigns a weight and a payout range for each metric. They are as follows:

Metric	Weight	Payout Range
Financial	50%	0% - 150%
Safety	20%	0% - 150%
Customer Satisfaction	10%	0% - 150%
Environmental Stewardship	10%	0% - 150%
Individual Goals	10%	0% - 150%

Metric target goals were established utilizing recent historical statistics, industry standards, and desired performance.

## Plan Definitions

### **Financial Metrics (50%)**

**Earnings Per Share (EPS)** - The financial metric is based on the Company's final earnings per share (EPS). The annualized amount is forecasted for each quarter until final at year-end. Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. The final determination may be non-GAAP and may include certain management adjustments.

**Return on Equity (ROE)** - Return on equity (ROE) is the amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. The financial metric compares Actual ROE vs. Approved Average ROE (including certain management adjustments).

### **Safety Metrics (20%)**

**Lost Time Incidents/Restricted Time Incidents (LTI/RTI)** - An OSHA recordable incident in which an employee is not able to return to work on the day or shift following the incident.

**Responsible Vehicle Accidents (RVA)** - Number of Responsible Vehicle Accidents (RVA) or the number of Moving Vehicle Accidents during which the driver failed to do everything reasonable to avoid the accident per million miles driven. The determination of the preventability is based on criteria similar to that found in the National Safety Council's Guide to Determine Motor Vehicle Accident Preventability Report.



**Gas Safety** – Based on Inspections completed within Department of Transportation (DOT) compliance dates. Includes the following items weighted at 25% each: Regulating Station inspections, Leak Surveys, Critical Valve Inspections and Corrosion Test Station reads.

### **Customer Satisfaction Metric (10%)**

**Service Level** - Service level (as a performance measure) is denoted simply as the percentage of calls that were answered by the call center in the predetermined time threshold as well as those calls that were serviced through interactive voice response (IVR) automation.

### **Environmental Stewardship Metrics (10%)**

**Water Stewardship: Water Compliance Rate (WCR)** - A Water event causing the operating system to be out of compliance for at least 1 day. The compliance rate is the number of days all water systems are in compliance versus all available days (365 days per system) in 2023. Systems purchased within 1 year of the reporting period that are out of compliance are excluded. Includes Action Level Exceedance (ALE) for lead.

**Wastewater Stewardship: Wastewater Compliance Rate (WWCR)** - A Wastewater event causing the operating system to be out of compliance for at least 1 day. The compliance rate is the amount of days all wastewater systems are in compliance versus all available days (365 days per system) in 2023. Systems purchased within 1 year of the reporting period that are out of compliance are excluded.

**Gas Environmental Stewardship: Reduction – Leaks Outstanding** – The number of leaks outstanding at year end 2023 as reported in the Department of Transportation (DOT) reports. Reduction is measured as a three-year average 2020 – 2023 (estimated).

**Gas Environmental Stewardship: LTIIP Mileage Replacement** – LTIIP mileage replacement is planned mileage as included in the LTIIP for Mains. It measures the percent complete of the Approved LTIIP.

### **Individual Goals (10%)**

**Individual Performance Factor:** Annually, participants will have a minimum of two Individual Short Term Incentive Goals that align with the broader Company goals. The goals will be mutually determined by the participant and their management team. Communication relative to performance against these goals will be discussed throughout the year. At the end of the performance period, the participant will be given a score between 0 and 15 to indicate how they performed relative to achieving the goals.

## **Plan Payment, Eligibility & General Information**

### **Incentive Pay**

Incentive pay under this Short-Term Incentive Plan (“Plan”) is the portion of an employee’s total compensation that is based on achievement of financial, safety, customer satisfaction, environmental stewardship and individual goals. If all or a portion of the established goals are achieved,

eligible employees of Essential Utilities, Inc. (the “Company”) may receive a full or partial bonus payment under the Plan. If the goals are not achieved, participants will not receive a bonus payment.

### **Plan Eligibility**

#### Full Payout Eligibility

To be a participant in the Plan eligible for a full incentive payout, an employee must:

- Be a full or part time employee of the Company in a position eligible for participation in the program.
- Be continuously employed by the Company for the entire Plan year and at the time of the incentive payout.

#### Prorated Payout Eligibility

If an employee is otherwise eligible for a full incentive payout but is not employed by the Company for the entire Plan year, the employee will be eligible for a prorated payout based on the percentage of time worked in each eligible position during the Plan year in the following situations:

- An employee hired on or before September 30 of the Plan Year.
  - An employee hired into an eligible position on and after October 1, will be eligible to participate in the following Plan year.
- An employee who has transferred to or between eligible positions during the Plan year.

#### Retirement

Retirement means an employee’s termination of employment on or after the date the employee first satisfies the conditions for early retirement or normal retirement benefits under the company policy.

If an eligible employee officially retires, they will receive a prorated payment on the scheduled payment date.

- If retirement is within the first ten months of the Plan year, the employee will receive 100% on the Individual Performance Factor portion of their metric.
- If retirement is in November or December of the Plan year, the employee’s manager assigns the Individual Performance Factor percent to their metric.

Payment will be made at the same time as payment is made to active employees, but no later than March 15 of the following year.

#### Death

If an eligible employee dies prior to the incentive payout date, the Company will pay the deceased employee’s estate the portion of the incentive bonus the deceased employee would otherwise have been entitled to receive assuming a 100% combined Company and Individual Factor, but prorated for the number of days of employment the employee completed in the Plan year before his/her death. Payment will be made at the same time as payment is made to active employees, but no later than March 15 of the following year.

#### Ineligibility

Employees will not be eligible for incentive payouts under the Plan, if they:

- Voluntarily terminate employment prior to the incentive payout date.
- Are terminated by the Company with or without cause at any time prior to the incentive payout date.

**Target Incentive Payout**

Eligible employees will be assigned a “Target Bonus Percentage” depending on duties and responsibilities. The Board of Directors will approve the Target Bonus Percentage for the CEO and the Senior Officers recommended by the Compensation Committee each year. The Executive Compensation Committee must review and approve final bonus payouts for the Company before payments are made.

The Target Bonus Percentage is a percentage of an employee’s annual base rate of pay in effect on the close of the Plan year (December 31<sup>st</sup>).

**Plan Year**

The Plan year begins on January 1<sup>st</sup> and ends on December 31<sup>st</sup>.

**Incentive Payouts**

If the performance goals are achieved during the Plan year, eligible participants will receive incentive payouts as described above in March of the following year, and no later than March 15. If a participant is eligible to participate in a deferral Plan of the Company and the employee makes a deferral election with respect to an incentive payout, the incentive payout will be paid in accordance with the terms of the deferral Plan.

Achievement of the performance goals will be reviewed by the Internal Audit Department of the Company before any payment under the Plan is made.

**Plan Administration**

The Plan will be administered by the Administrator in its sole discretion. The Administrator is (1) for employees who are designated by the Company as “Section 16 officers,” the Executive Compensation Committee of the Board of Directors (the “Compensation Committee”) and (2) for all other eligible employees, the Senior Vice President, Chief Human Resources Officer of the Company, in consultation with the President & CEO of the Company.

The Administrator has full power and discretionary authority to interpret and administer the Plan, to make all decisions under the Plan, and to take all actions as the Administrator deems necessary or advisable to carry out the Plan. Any action required of the Administrator under the Plan shall be made in the Administrator’s sole discretion and not in a fiduciary capacity. All decisions of the Administrator shall be final and binding on the Company, the participants, and any other persons claiming an interest under the Plan. All incentive payouts will be awarded conditional upon the participant’s acknowledgement, by continuing in employment with the Company, that all decisions of the Administrator shall be final and binding on the participant and any other person claiming an interest in the Plan. The Administrator may delegate such administrative duties as it deems advisable.

**Tax Matters**

All payments under the Plan will be made subject to applicable federal, state, and local tax withholding requirements. The Plan is intended to comply with the short-term deferral rule set forth in the regulations under Section 409A of the Internal Revenue Code (“Section 409A”). If and to the extent that any payment under the Plan is deemed to be deferred compensation subject to the requirements of Section 409A, the Plan shall be administered so that such payments are made in accordance with the requirements of Section 409A, including the six-month delay for specified employees, if applicable. An employee may not designate the calendar year of payment except in accordance with Section 409A. If any payout is subject to Section 409A, (i) the timing of the employee’s execution of a release shall not, directly or indirectly, result in the employee designating

the calendar year of payment, and if a payment that is subject to execution of a release could be made in more than one taxable year, based on timing of the execution of the release, payment shall be made in the later taxable year, and (ii) any payout upon termination of employment (other than death) shall be made at the same time as incentive payouts are made to other participants under the Plan, and not at the date of termination of employment.

### **Incentive Award Recoupment Policy**

In the event of a significant restatement of our financial results caused by fraud or willful misconduct, the Company reserves the right to review the incentive compensation received by the eligible employee(s) with respect to the period to which the restatement relates, recalculate the Company's results for the period to which the restatement relates and seek reimbursement of the portion of the incentive compensation that was based on the misstated financial results from the eligible employee whose fraud or willful misconduct was the cause of the restatement.

Further, any Incentive Award Recoupment Policy that may be adopted from time to time by the Company's Board of Directors will apply to the incentive compensation awarded under this Plan to any of the employees covered by such Policy.

### **Goal Establishment and Achievement**

The Compensation Committee will establish all performance goals under the Plan which relate to Company performance. Each year, the Plan will be reviewed in accordance with the Compensation Committee's Charter.

### **Applicable Law**

The Plan will be construed and governed in accordance with the laws of the Commonwealth of Pennsylvania.

### **Amendment and Termination**

The Executive Compensation Committee may amend or terminate the Plan at any time.

### **Additional Information**

Payments under this Plan may not be transferred, assigned, pledged or encumbered by a participant. The Plan is an unfunded incentive compensation arrangement. Each participant's right to receive a payment under the Plan shall be no greater than the right of an unsecured general creditor of the Company. Nothing in the Plan, and no action taken under the Plan shall confer upon a participant the right to continue in the employ of the Company, or affect the right of the Company's right to terminate a participant's employment at any time for any reason. Unless otherwise specifically provided in an employee benefit plan of the Company, payments under the Plan shall not constitute compensation for purposes of any employee benefit plan.

### **Final STI Calculations**

Calculations for STI are finalized once the Company goals have been completed and all metric calculations are reviewed and approved by management and the Executive Compensation Committee. Proration and other multipliers used in the final STI calculation may be based on an individual's entry into the respective STI Plans and other factors.

Any questions regarding the STI plan may be directed to your Human Resources representative as well as your manager.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-014**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

14. Provide the initial 2024 capital expenditure budget by either project, or FERC Account (whichever format is used by the Company) compared with the Company's actual 2024 capital expenditures.

Response:

See attached.

**Delta Natural Gas Company, Inc**

## 2024 Capital Expenditure Budget

<b>FERC</b>	<b>Description</b>	<b>Budget</b>	<b>Actuals</b>
3950	Laboratory Equipment	\$ 10,000	\$ -
3030	Misc Intangible Plant (Software)	\$ 979,932	\$ 1,986,561
3900	General Structures and Improvements	\$ 410,000	\$ 375,534
3910	Office Furniture and Equipment	\$ 78,000	\$ -
3920	Transportation Equipment	\$ 421,491	\$ 1,199,964
3310	Enpro Well Equipment	\$ 24,000	\$ -
3320	Gathering Lines	\$ 42,000	\$ 25,073
3330	Gathering Compressor Station Equipment	\$ 40,000	\$ 119,780
3340	Gathering Measuring and Regulating Station Equip	\$ 20,000	\$ -
3520	Storage Wells	\$ 130,000	\$ 1,470,573
3530	Storage Lines	\$ 10,500	\$ 435,757
3540	Storage Compressor Station Equipment	\$ 40,000	\$ 122,263
3550	Storage Measuring and Regulating Equipment	\$ 10,000	\$ 7,472
3560	Purification Equipment	\$ 25,000	\$ -
3650	Transmission Rights of Way	\$ -	\$ 776,680
3670	Transmission Mains	\$ 7,700,000	\$ 2,677,128
3680	Transmission Compressor Station Equipment	\$ 20,000	\$ -
3690	Transmission Measuring and Regulating Equip	\$ 2,700,000	\$ 2,725,305
3710	Transmission Other Equipment (Telemetry)	\$ 10,000	\$ -
3740	Distribution Land and Right of Way	\$ 5,557	\$ -
3750	Distribution Structures and Improvements	\$ 5,000	\$ -
3760	Distribution Mains	\$ 8,834,300	\$ 10,124,498
3780	Distribution General Regulator Stations	\$ 50,000	\$ 332,298
3790	Distribution City Gate Regulator Stations	\$ 145	\$ -
3800	Distribution Services	\$ 2,107,200	\$ 1,689,294
3810	Distribution Meters	\$ 525,000	\$ 437,956
3820	Distribution Meter and Regulator Installations	\$ 200,000	\$ 40,708
3830	Distribution Regulators	\$ 155,000	\$ -
3850	Distribution Industrial Meter Set	\$ 50,000	\$ -
3940	Tools	\$ 30,000	\$ 221,704
3960	Power Operated Equipment	\$ 390,629	\$ -
<b>TOTAL</b>		<b>\$ 25,023,754</b>	<b>\$ 24,768,548</b>

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-015 AB**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

15. Refer to the Response to OAG 53 (A) and respond to the following:
- a. Provide a comprehensive description of the nature of the transactions recorded as Pipeline Exchange Gas Imbalance – Receivable.
  - b. Can the balance of Pipeline Exchange Gas Imbalance – Receivable, just as likely be negative in a given year as positive? Discuss the anticipated balance of such account in any given year.

Response:

- a. Pipeline Exchange Gas Imbalance – Receivable is an asset account that records the “pre-paid undelivered gas”, making up one-half of the imbalance account. Pre-paid undelivered gas represents the total dollars receivable to Delta from suppliers. Pipeline Exchange Gas Imbalance – Purchases, records the cost of gas payable to suppliers. Together they represent the imbalance account.
- b. Pipeline Exchange Gas Imbalance – Receivable cannot be negative because it accounts for the dollars receivable to Delta from suppliers. This account will fluctuate in any given year.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-015 C**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

15. Refer to the Response to OAG 53 (A) and respond to the following:

c. For each of the prepayment items identified in OAG 1-53 (A), identify those amounts which will eventually be charged to expense. For these accounts, indicate where the corresponding expense item has been eliminated from the lead lag study.

Response:

c. Based on our review of the prepayment amounts, none of those accounts are included in expenses for the forecasted test period.



**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-016**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

16. Refer to the Response to OAG-DR-1-54 (c) and respond to the following:
- a. Indicate whether the estimated ADIT on allocated assets of \$587,000 has been included within the forecasted ADIT balance included in this rate proceeding.
  - b. Provide the underlying calculations supporting the \$587,000 estimate.
  - c. If such balance of ADIT has been included in the ADIT balance included in the forecasted test year rate base balance, provide the reconciliation of such amounts in the overall ADIT balance.

Response:

- a. Yes the estimated ADIT on allocated assets has been included in the forecasted ADIT balance in this case.
- b. Upon preparing this response, it was discovered that there was a misclassification of capital spend attributed to 2024 that should have been reflected as 2023 capital spend and the total spend was under by \$11,210. This changes the estimated ADIT from \$587,000 to \$592,000. The attachment AG-2-16 shows the calculation.
- c. The balance of ADIT on allocated assets is part of the total of ADIT in the lines described as "PT-FED M/L-NORM" and "PT-KY M/L-NORM" in the attachment from the ADIT balance at 6-30-2026 included in the case.

Company	Code	Mark #	Description	Ln #	2023	2024	2025	2026 (six months)	Jan 1, 2023- June 30, 2026
	1600	3030	Misc Intangible Plant (Software)	3030 - Misc Intangible Plant (Software) - Original	1,185,097	1,838,577	860,120	680,735	4,564,529
	1600	3912	Computer Hardware	1 3030 - Misc Intangible Plant (Software) - Revised	2,358,659	676,225	860,120	680,735	4,575,739
									11,210
				Tax Depreciation (based on MACRS rates and Yr in service):					
				2 Yr1-2023	786,141				
				3 Yr2-2024	1,048,424	225,386			
				4 Yr3-2025	349,317	300,582	286,678		
				5 Yr4-2026 6 mos.	87,388	50,074	191,162	113,444	
				6 Accum Tax Depr (Ln2+Ln3+Ln4+Ln5)	2,271,271	576,042	477,840	113,444	\$ 3,438,597
				7 Net Tax (Ln1 - Ln6)					\$ 1,125,932
				8 Accum Book Depr (assuming avg 10 yr life)	414,784	368,026	129,018	34,037	\$ 945,865
				9 Net Book (Ln 1 - Ln8)					\$ 3,629,874
				10 Difference/Net Book vs Net Tax (Ln 7 - Ln9)					\$ (2,503,942)
				11 ETR					24.95%
				12 Estimated ADIT (Ln 10 X Ln 11)					\$ (624,733)
				13 Estimated ADIT at 6-30-25 [(Ln8 - Ln7)*Ln11]					\$ (558,609)
				14 Average ADIT 6-30-25 to 6-30-26 (Ln12 + Ln13)/2					\$ (591,671)

Source: Provision report 51051 Q2 2024

Source: PowerTax 257 Forecast case

**ACCUMULATED DEFERRED TAXES**

6/30/2026

SAP A/C#	PowerTax Description	Rate Base	Non Rate Base	Total
<b>242</b>				
T89020	ANNUAL PERFORM INCENT PLN		8,739	8,739
T89020	ANNUAL PERFORM INCENT PLN (2141200)		74,010	74,010
T86000	BAD DEBTS (1136101)		6,737	6,737
T86000	BAD DEBTS (1138010)		156,481	156,481
TCF	CHARITABLE CONTRIB LIMIT - FED		20,064	20,064
TCF	CHARITABLE CONTRIB LIMIT - KY		3,772	3,772
T80000	GOODWILL AMORTIZATION - TAX		(42,128)	(42,128)
T6214D	LOSS-DEBT EXTINGUISHMENT (1242150)		(275,886)	(275,886)
TCF	NET OPER LOSS - FED	1,113,547	-	1,113,547
TCF	NET OPER LOSS - KY	145,210	-	145,210
T71010	OPEB (2192037)		1,348	1,348
T71010	OPEB (2291510)		42,651	42,651
PLH	OTHER: DEFERRED DIFF FED		298,198	298,198
PLH	OTHER: REG DIFF - RA		(2,452)	(2,452)
T70010	PENSION (2291508)		498,277	498,277
T63120	PERFORMANCE STOCK UNITS		17,970	17,970
		1,258,758	807,781	2,066,539
<b>282</b>				
PLT	PT-FED BASIS DIFFS 481A-NORM	(1,066,958)	-	(1,066,958)
PLT	PT-FED BASIS DIFFS-NORM	2,294,134	-	2,294,134
PLT	PT-FED M/L-NORM	(16,058,531)	-	(16,058,531)
PLT	PT-FED REPAIRS-NORM	(11,643,617)	-	(11,643,617)
PLT	PT-FED RSG AMORT		2,987,621	2,987,621
PLT	PT-KY BASIS DIFFS 481A-NORM	(200,690)	-	(200,690)
PLT	PT-KY BASIS DIFFS-NORM	431,946	-	431,946
PLT	PT-KY M/L-NORM	(2,836,989)	-	(2,836,989)
PLT	PT-KY REPAIRS-NORM	(2,190,109)	-	(2,190,109)
PLT	PT-KY RSG AMORT		137,335	137,335
				-
		(31,270,813)	3,124,956	(28,145,857)
<b>283</b>				
T89067	PURCHASE GAS ADJ-CUR PER (1194010)		(1,278,403)	(1,278,403)
T89067	PURCHASE GAS ADJ-CUR PER (1194060)		61,422	61,422
T63140	RESTRICTED STOCK AWARDS		3,893	3,893
T63110	RESTRICTED STOCK UNITS		4,482	4,482
T70030	SUPPLEMENTAL EXEC RET PLN (2291080)		329,073	329,073
T82040	TAX AMORTIZATION	(9,250)	-	(9,250)
T2602N	UNICAP 263A	15,869	-	15,869
T89060	VACATION (1242204)		(212,727)	(212,727)
T89060	VACATION (2141100)		212,727	212,727
VAL	VALUATION ALLOWANCE-CHAR CONT-FED		(20,064)	(20,064)
VAL	VALUATION ALLOWANCE-CHAR CONT-KY		(3,772)	(3,772)
		6,619	(903,370)	(896,752)
<b>254</b>				
2220110	REGULATORY LIABILITY EXCESS - FED/STATE (NET)	(9,433,851)	-	(9,433,851)
2220120	REGULATORY LIABILITY EXCESS - FED/STATE (GROS	-	(3,136,237)	(3,136,237)
<b>Total</b>		<b>(39,439,288)</b>	<b>(106,871)</b>	<b>(39,546,159)</b>

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-017**

**Witness:** Packer, Jr., William

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

17. Refer to the Response to OAG-DR-1-61. Provide the underlying assumptions and calculations used in arriving at the qualifying Repair Deductions assumed for 2025 and the first six months of 2026.

Response:

The Repair Deductions included in the case are based on the repairs percentage from 2024, which was then applied to the 2025 and 2026 estimated capital spend included in the case. These amounts agree to the response to AG-1-50 which shows similar calculations. See the attached table for the assumptions and calculations.

AG-2-17

Ln#		
1	2024 Repairs Deduction (included in case)	\$ 7,390,000
2	2024 Capital Spend - n1	\$ 23,946,240
3	2024 Repairs Percentage (Ln1/Ln2)	30.86079%
4	2025 Estimated Capital Spend included in case	\$ 29,225,307
5	Repairs Percentage (Ln3)	30.86079%
6	2025 Repairs Deduction (Ln4 X Ln5)	\$ 9,019,162
7	2026 Estimated Capital Spend-6 mos. included in case	\$ 17,482,741
8	Repairs Percentage (Ln3)	30.86079%
9	2026 Repairs Deduction -6 mos. (Ln7 X Ln8)	\$ 5,395,313
n1	adjusted for non repairs eligible spend i.e. land, computer software	

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-018**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

18. Refer to OAG-DR-1-62. Confirm whether the support for the \$19,314,155 of Plant in Service was provided as indicated in the attachment to the response to OAG-DR-1-51 (a). If this is not confirmed, provide the support for the Rate Base amount of \$13,570,947 as contained in the response to OAG-DR-1-51 (a). If the above is confirmed, identify where the \$19,314,155 may be found.

Response:

Delta's response to OAG-DR-1-62 incorrectly reflected the \$19,314,155 amount. The correct amount of PRP 6/30/26 Plant in Service as reflected on the second tab of the Excel attachment to the response to OAG-DR-1-51 is \$22,141,091. Support for the PRP Rate Base amount of \$13,570,947 is on the referenced Excel attachment as well. Delta will supplement its response to AG 1-62 to make this correction.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-019 A**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

19. Refer to the response to OAG-DR-1-64.
  - a. Provide a comprehensive explanation of the Company's overhead capitalization process.

Response:

The capitalization process is outlined in the attached document.

## OVERHEAD SURCHARGES AND ASSESSMENTS PROCESS

### Overview:

PNG utilizes a compilation of surcharges and cost assessments to capitalize costs that are not directly charged to a specific capital project. These costs are associated with direct and indirect labor, materials, non-labor G&A expenses and restoration charges. The accountant uses an excel spreadsheet to calculate all surcharge and assessment rates. The rates are calculated on a per company basis and are allocated based on the total monthly costs. The surcharges and assessments applied to the projects are controlled by the “costing sheet” that is assigned upon creation of the projects as determined by Fixed Assets, Engineering or Finance. The costing sheets are unique to each company which allows for the application of distinct rates by company.

### The following are the various surcharges and cost assessments calculated by PNG:

#### General & Administrative (G&A) Surcharge:

This surcharge is designed to capitalize a portion of Corporate or Administrative support costs, both labor and non-labor. The surcharge is applied to all capital expenses charged directly to a project. To calculate the G&A surcharge, all indirect labor (i.e. labor from all corporate departments) and non-labor (i.e. office supplies, software maintenance, rents, utility costs, etc.), direct O&M labor and O&M non-labor as well as the capital budget amount (less surcharges, assessments, meters, general & IT capital) need to be determined. The total indirect expenses are divided by the total direct expenses to get the G&A rate. The calculation spreadsheet, which is prepared by the accountant, includes checks to ensure that total O&M ties back to the financial statements and total capital ties back to the capital budget reports. Also, upon arriving at the G&A rate, a targeted G&A total is produced by taking the G&A rate by the total “Net Capex” (Capital subject to G&A less embedded G&A, Fixed asset labor, and G&A in material handling). To maintain accurate G&A capitalization against target, the Accountant monitors the rate and compiles monthly forecasts to determine reasonability of the rate and the forecasted target, communicating rate changes to the IT department for loading to SAP.

$$\text{G\&A} = \frac{\text{Indirect Labor} + \text{Aqua Mgmt Fee} + \text{Indirect Non Labor}}{\text{O\&M Direct Labor} + \text{O\&M Direct Non Labor} + \text{Capital}}$$

#### Material Handling Surcharge:

The material handling surcharge capitalizes a portion of warehouse and supply chain related expenses. It gets applied to both stock material and meter purchases.

$$\text{Materials Handling} = \frac{\text{Warehouse O\&M} + \text{Supply Chain L\&B}}{\text{All Stock Material} + \text{Meter Purchases}}$$



**Construction Assessment:**

This assessment is designed to capitalize 100% of the construction group costs that are not directly charged to capital or O&M projects. These other costs include management related labor costs, residual union labor related costs, construction group non-labor expenses (ex. personal expenses, office supplies, etc.) as well as 3<sup>rd</sup> party engineering design costs and materials. The construction group is identified by a specific group of cost centers. Each month this group of cost centers is reviewed by the Accountant to calculate the over/under cleared amount that is deferred onto the balance sheet in CWIP. Accounting also reviews this group of cost centers as part of their monthly closing process (as performed in CP-3).

$$\text{CG Rate} = \frac{\text{Construction Group Expenses} + \text{Engineering} + \text{Bin Stock}}{\text{Capital work managed by the CG}}$$

**Surcharges and Assessments:**

**Calculations used to determine surcharges and assessments are done at the beginning of the year and reviewed quarterly to determine whether any rate adjustments are necessary. A year-end true up entry of surcharges and assessments will be completed if necessary. These adjustments could be needed if any of the inputs to the rate calculations vary significantly from the plan, such as overall capital spend, total indirect costs, or total direct costs. After the calculations have been completed by the accountant, they are reviewed by the Accounting Manager and Controller (Key Control: PNG-SURCH-CP-1).** When the Accountant completes the calculations, they will send out an email with support attached to the calculation to the Manager of Accounting for review. The manager's review consists of assessing each calculation in the file and confirming that the equations are pulling the appropriate values. The Manager also assesses the spreadsheet for mathematical accuracy by footing and cross footing the spreadsheet. They then will tie back the numbers to their original data sources. Lastly, they will check the recalculation of total O&M and tie it back to the O&M detail file.

**The Accountant sends the rates to the IT department, who will load them into SAP and perform tests to verify whether they are being calculated and applied appropriately. This is all done within an SAP test environment. The results of the testing are reviewed by the Accountant, who then determines whether the surcharges are ready to be transported in SAP to production (Key Control: PNG-SURCH-CP-2).** When IT uploads these rates, they will compile support which include screenshots of inputs as well as a review checklist. This checklist is a template that is used by PNG specifically for the rate uploads. The support also includes screenshots of IT's testing in the test environment, which is used in the Accountant's review. The Accountant's review will consist of tying back the inputs to the data that was sent with the new rates. Once the Accountant confirms that the data transfer to SAP was successful, and that there are no concerns in the testing, the Accountant will notify IT that these can go live in the SAP production environment.

**Surcharges and assessments are executed in SAP as part of the monthly closing process. Once the application is complete, Accounting will review and verify whether the amount appears in line with expectations for current month capital spend (Key Control: PNG-SURCH-CP-3).** The Accountant evaluates the support received from the Manager of Accounting and Reporting. The Accountant will perform a reasonableness check to ensure that the surcharges are in line with the capital spend for the month. The Accountant uses his judgement to assess the reasonableness of the calculation. If they believe that there may be a significant variance, the Accountant will investigate the difference using their calculation spreadsheets.

**Probing Question:** What are common reasons for variances? *There are normally fluctuations in capital spend per project. When there is a variation in the actual spend to budgeted, this will drive the variance between the budgeted and actual surcharge amount.*

**SAP is configured so that any changes made to surcharge rates would require testing of the rates and final approval before they can be transported into the production environment (Non-Key: PNG-SURCH-CP-4).** When updates are made during the year, the newly calculated rate will go back through the appropriate levels of review at CP-1 and CP-2.

**The ET notes that this control is non-key since the same LSPMs are addressed through the execution of CP-1 and CP-2. As such, the ET deems this control as non-key.**

**The system also maintains an audit log showing all changes made to rates and the user who made the adjustment (Non-Key: PNG-SURCH-CP-5).** IT performs this function in order to maintain proper segregation of duties with Accounting. The audit log is updated and real time and referenced as needed.

**The ET notes that this control is non-key since the same LSPMs are addressed through the execution of CP-1 and CP-2. As such, the ET deems this control as non-key.**

**Key Spreadsheets:**

- PNG Estimated G&A Surcharge
- Construction Assessment Rate calculation spreadsheet

**Key Systems:**

- SAP

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-019 B**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

19. Refer to the response to OAG-DR-1-64.
  - b. Provide all supporting documentation and calculations supporting the adjustments to accounts 8400000 and 84020004.

Response:

See attached.

The \$1.1m increase from "FPFTY O&M Delta\_R\_PSCDR1\_NUM054\_120924 Tab 57 and specifically Schedule D-2.2" referenced in OAG-DR-1-64 showed a reconciliation from our 2025 budget to the Forecasted Test Year.

Tabs "8402004-G&A FPFTY" and "8400000-M&S FPFTY" in the attached "AG-II-019b" file show the monthly overhead capitalization amounts for our 2025 Budget, 2026 Budget and the Forecasted Test Year (Jul 2025 to Jun 2026). From the 2025 Budget to the Forecasted Test Year, GL # 8402004 - G&A Overhead Capitalization decreased by \$997.2k (from -\$6.3m to -\$5.3m) while GL 840000 - Materials & Supplies Overhead Capitalization decreased by \$109.9k (from -\$461.9k to -\$352k), as a result of the decrease in our projected Capital Expenditure from \$38.7m in our 2025 budget to \$17.5m in our 2026 budget.

"8402004 - G&A Calculation", "8400000 - G&A Calculation" and the monthly Surcharge tabs reflect the calculations of the monthly overhead allocations.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-020**

**Witness:** Wernert, Jeff

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

20. Refer to the Trial Balance provided in OAG-DR-1-74 and specifically to account 2111520; Accounts Payable- Revenue Related, Budget Billing Credit Balance and respond to the following:

- a. Has the Company's Budget Balance program been factored into the lead-lag study results? If so, provide an explanation of how this programs' results have been incorporated into the study.
- b. If such results have not been incorporated into the study, provide the rationale for the exclusion of the transactions resulting from this program.

Response:

a. No.

b. A lead lag study estimates the funds needed by a utility to cover the timing differences between when a utility expends cash for costs required to provide service and when it receives payment from customers for said service. The results of the study represent the cash that the utility and its investors have invested in or committed to cover the day-to-day operations of the business in the form of Cash Working Capital ("CWC").

Account 2111520 contains liabilities and not expenses, therefore it was not factored into the lead/lag study.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-021 A**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

21. Refer to the Trial Balance provided in OAG-DR-1-74 and specifically to account 2115210, Sales Tax Payable and respond to the following:

a. Provide the monthly balance of this account for the calendar year 2024.

Response:

a. See attached.

Please note that GL # 2115210 is restricted from posting journal entries for our tax remittances. It is an SAP Customer Relationship & Billing System Interface account that only allows for system generated entries based on our customer collections or adjustments. Because we are not able to book our Sales Tax remittances into this GL, we use GL# 2131010 to book our Sales Tax payments, hence the \$3.4m debit balance in GL# 2131010 as at Nov 2024 per the Trial Balance submitted for OAG-DR-1-74. To know our true Sales & Use Tax position, we always have to net 2115210 and 2131010 together.

	<u>Jan-24</u>	<u>Feb-24</u>	<u>Mar-24</u>	<u>Apr-24</u>	<u>May-24</u>	<u>Jun-24</u>	<u>Jul-24</u>	<u>Aug-24</u>	<u>Sep-24</u>	<u>Oct-24</u>	<u>Nov-24</u>	<u>Dec-24</u>
<b>2115210</b>	\$ (3,041,633)	\$ (3,222,712)	\$ (3,325,568)	\$ (3,405,282)	\$ (3,466,406)	\$ (3,503,386)	\$ (3,536,857)	\$ (3,573,667)	\$ (3,607,601)	\$ (3,648,137)	\$ (3,699,517)	\$ (3,773,488)
<b>2131010</b>	\$ 2,699,904	\$ 2,675,832	\$ 3,052,969	\$ 3,117,729	\$ 3,184,311	\$ 3,243,070	\$ 3,267,344	\$ 3,297,247	\$ 3,334,799	\$ 3,363,024	\$ 3,410,788	\$ 3,460,799
<b>Net Total</b>	<u>\$ (341,729)</u>	<u>\$ (546,880)</u>	<u>\$ (272,599)</u>	<u>\$ (287,553)</u>	<u>\$ (282,095)</u>	<u>\$ (260,316)</u>	<u>\$ (269,513)</u>	<u>\$ (276,420)</u>	<u>\$ (272,802)</u>	<u>\$ (285,113)</u>	<u>\$ (288,729)</u>	<u>\$ (312,688)</u>

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-021 B**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

CASE NO. 2024-00346

AG SUPPLEMENTAL DATA REQUESTS

DATED JANUARY 17, 2025

21. Refer to the Trial Balance provided in OAG-DR-1-74 and specifically to account 2115210, Sales Tax Payable and respond to the following:

b. Confirm that Delta collects these amounts throughout each billing period in conjunction with its normal cash collections.

Response:

b. Confirmed.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-021 C**

**Witness:** Odusanya, Abdul-Azeez **Title:** Controller III

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21. Refer to the Trial Balance provided in OAG-DR-1-74 and specifically to account 2115210, Sales Tax Payable and respond to the following:

c. Identify the dates throughout 2024 in which Delta remitted sales tax collection to the state of Kentucky.

Response:

c. See attached.



Document Number	Period End Date	Payment Date	Reference	Amount
1700000013			000045085	283.55
1900008639			000045085	-283.55
1900008518	12/31/2023	1/25/2024	000045085	-187,385.30
1900008843	1/31/2024	2/26/2024	000045085	-171,914.64
1900009102	2/29/2024	3/25/2024	000045085	-228,730.12
1900009392	3/31/2024	4/25/2024	000045085	-88,427.52
1900009691	4/30/2024	5/28/2024	000045085	-84,520.74
1900010002	5/31/2024	6/25/2024	000045085	-76,550.60
1900010207	6/30/2024	7/25/2024	000045085	-39,811.30
1900010568	7/31/2024	8/26/2024	0000458085	-46,124.88
1900010829	8/31/2024	9/25/2024	000045085	-55,257.16
1900011213	9/30/2024	10/25/2024	000045085	-50,357.80
1900011435	10/31/2024	11/25/2024	000045085	-67,499.80
1900011759	11/30/2024	12/26/2024	000045085	-76,960.28
Account 400003688				-1,173,540.14
Kentucky State Treasurer				

Dates in which Delta remitted sales tax collection to the state of Kentucky (2024)

Period-End Date	12/31/2023	1/31/2024	2/29/2024	3/31/2024	4/30/2024	5/31/2024	6/30/2024	7/31/2024	8/31/2024	9/30/2024	10/31/2024	11/30/2024	Total
Payment Date	1/25/2024	2/26/2024	3/25/2024	4/25/2024	5/28/2024	6/25/2024	7/25/2024	8/26/2024	9/25/2024	10/25/2024	11/25/2024	12/26/2024	
Payment Amount	\$ 187,385.30	\$ 171,914.64	\$ 228,730.12	\$ 88,427.52	\$ 84,520.74	\$ 76,550.60	\$ 39,811.30	\$ 46,124.88	\$ 55,257.16	\$ 50,357.80	\$ 67,499.80	\$ 76,960.28	\$ 1,173,540.14

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-022**

**Witness:** Brown, John **Title:** State President

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22. Reference the Brown Direct Testimony at 11:21 through 12:1-7, wherein he states, inter alia, that as an efficiency measure, Delta in 2023 closed 5 of its business offices and began using a “centralized contact center for customer inquiries.” Explain where the centralized contact center for customer inquiries is located.

- a. Does the Company allow customers to make payments there? If not, explain why not.
- b. Has Delta received any customer complaints regarding any inability to make in-person payments and to address other customer service issues?
- c. Explain if Delta is aware that some other Kentucky investor-owned utilities have contractual arrangements with other businesses to accept payments on behalf of the utility’s customers. Has Delta considered any such arrangements, if the need exists?

Response:

The centralized contact center is located in Pittsburgh, PA.

- a. The Company does not allow customers to make payments at the centralized contact center as the office is located inside of a secured building. Delta customers can make payments via mail, over the phone, online, and in person at Western-Union locations or utilize one of the six drop boxes open across the state at Delta work locations.
- b. The Company received customer complaints at the time the offices were closed and some customers have recently reiterated their preference for in-person customer service in letters regarding the current proceeding.
- c. The Company is currently in contract with ACI to accept customer payments.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-023**

**Witness:** Brown, John **Title:** State President

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23. Reference the Brown Direct Testimony at 12:6-7, wherein Mr. Brown states "Delta has also shifted certain billing, remittance, credit, and collection tasks to a centralized center." Explain if this is the same center referenced in the Brown testimony at 12:5. Explain also the types of billing, remittance, credit, and collection tasks that have been shifted to the billing center referenced in lines 6-7.

Response:

The management and systems for billing, remittance, credit and collection are located in Pittsburgh. The two employees primarily responsible for the completion of these tasks are located in Kentucky.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-024 (i)**

**Witness:** Brown, John **Title:** State President

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24. Reference the Morphew Direct Testimony at p. 11. Provide a detailed discussion of the steps and measures the Company follows, and the notices it provides to customers prior to disconnecting their service for non-payment. Include in your discussion: (i) how much advance notice is provided prior to disconnection; and

Response:

i. Customers are given 10 days notice prior to disconnection.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-024 (ii)**

**Witness:** Brown, John **Title:** State President

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24. (ii) whether the steps and measures taken, and the notices issued are any different for those customers whose service is disconnected via the ERT module integrated into the Intelis 250 meters.

- a. Will remote disconnect shut off 100% of the gas flow, so as to preclude a slow leak situation?
- b. Explain what indications the Company will receive verifying that the flow of gas has in fact stopped.
- c. Confirm that Delta field representatives will continue to perform all reconnects in person on the customer premises.

Response:

(ii) The steps and measures taken, as well as the issued notices, are performed the same on all applicable delinquent situations regardless of the meter type at the premises.

- a. Yes, a remote disconnect will shut off 100% of gas flow.
- b. The programmer can utilize the handheld unit to observe that the valve is closed. This unit presents the status as being open or closed. Delta personnel can also physically look on the ERT and see if the valve is in the closed position. Additionally, a plug located on the meter riser plumbing can be removed to assure the gas is off.
- c. All reconnects will be made by a qualified Delta Field Service Representative on the customer's premises.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-025**

**Witness:** Brown, John **Title:** State President

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25. Provide the names and contact information for the individuals in the Company who respond to customer complaints forwarded and handled by the OAG.

Response:

Delta directs all customer complaints to legal@peoples-gas.com. In addition to this departmental email, Andrew Weisner (Andrew.r.weisner@peoples-gas.com) and Page Bingham (jbingham@deltagas.com) assist in responding to customer complaints. Depending on the nature of the complaint, others within the Company may assist in addressing the customer complaint.

**Company: Delta Natural Gas Company, Inc.**

**Question Number: AG-II-025 ABC**

**Witness:** Brown, John **Title:** State President

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25.

- a. Provide the total number of complaints the OAG has forwarded to Delta over the past two (2) years.
- b. Explain the Company's retention policy for customer complaints, including those forwarded by the OAG.
- c. Regarding complaints forwarded by the OAG, provide the number of responses the Company returned to the OAG over that same time frame.

Response:

(a) To the best of our information, knowledge, and belief, the Company has received 3 OAG complaints over the past two years.

(b) The Company retains customer complaint files for 6 years after resolution of the matter.

(c) 3