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PUCT Docket No. 58124

Aqua Texas (Essential Utilities, Inc.)

Customer Service Rate Request

CONSIDERATIONS:

The other document attached is a SEC 10K filing of Essential Utilities, Inc, parent owner of Aqua Texas. Within the document on page 64 you will see the revenue increase over the previous 3 years, with even more revenue growth over the last 5 years not included, but on any public market trading site . Within the document you will see operation costs decreasing over the last 3 years.

Revenue up, Profit up, Operating Cost down. Not agood reasons for a rate increase.

Proposal specifically for the “Fulbrook Subdivision Water Plant” is to increase rates from \$3.70 to \$15.12 per 1000 gallons depending on usage. Not charging a sliding scale where rates are based on tiered usage at different levels and charge usage for each level, but a entire charge for usage at the highest level of usage, so exceeding one tier by 1 gallon puts you in a much higher tier for the one gallon moving the customer into the next upward tier level of charge rate.

Aqua Base Rate at the “Fulbrook Subdivision Water Plant” for 807 service customers is \$87.50 per month. EVERYONE in the Fulbrook subdivision has their own individual septic system that is managed by the homeowner. No Aqua services needed, but many other Aqua districts get services for maintaining septic systems for the same price, “Fulbrook Subdivision Water Plant” customers need a decrease in base rate or keep rates at current prices of \$3.70/1000gallons.

Not to mention, many residents have a pool which requires adding water each week or more often. And all residents have an acre or more that must maintain their lawns in compliance with HOA. And the majority of the residents are senior citizens!!

In closing, for any Utility company to ask for an increase of this magnitude is appalling! It's not even a Texas company that sells Texas water to residents.

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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 or 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2024

Or

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

For the transition period from _____ to _____

Commission File number 1-6659

ESSENTIAL UTILITIES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

23-1702594

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

762 W Lancaster Avenue, Bryn Mawr, Pennsylvania

(Address of principal executive offices)

19010-3489

(Zip Code)

(610) 527-8000

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Small reporting company ☐

Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D.1(b). ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2024: \$10,196,364,496

The number of shares outstanding of the registrant's common stock as of February 24, 2025: 274,922,770

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the definitive Proxy Statement, relating to the 2025 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, have been incorporated by reference into Part III of this Form 10-K

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, or this Annual Report, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are made based upon, among other things, our current assumptions, expectations, plans, and beliefs concerning future events and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words “believes,” “expects,” “estimates,” “anticipates,” “plans,” “future,” “potential,” “probably,” “predictions,” “intends,” “will,” “continue,” “in the event” or the negative of such terms or similar expressions. Please refer to the Summary in Item 1A – Risk Factors in this Annual Report for a description of the types of forward-looking statements in this Annual Report. These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results.

Given these risks and uncertainties, you should not place undue reliance on any forward-looking statements. You should read this Annual Report completely and with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent assumptions, expectations, plans, and beliefs only as of the date of this Annual Report. Except for our ongoing obligations to disclose certain information under the federal securities laws, we are not obligated, and assume no obligation, to update these forward-looking statements, even though our situation may change in the future. For further information or other factors which could affect our financial results and such forward-looking statements, see Item 1A – Risk Factors. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. *Business*

The Company

Essential Utilities, Inc., referred to as “Essential Utilities”, “Essential”, the “Company”, “we”, “us”, or “our”, a Pennsylvania corporation, is the holding company for regulated utilities providing water, wastewater, or natural gas services to an estimated 5.5 million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, Virginia, and Kentucky under the Aqua and Peoples brands. One of our largest operating subsidiaries, Aqua Pennsylvania, Inc., or Aqua Pennsylvania, accounted for approximately 55% of operating revenues and approximately 67% of income for our Regulated Water segment in 2024. As of December 31, 2024, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of water and wastewater customers we serve. Aqua Pennsylvania’s service territory is located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated water or wastewater utility subsidiaries provide similar services in seven additional states. Our Peoples subsidiaries provide natural gas service to approximately 745,000 customers in western Pennsylvania and Kentucky. Approximately 95% of the total number of natural gas utility customers we serve are in western Pennsylvania. The Company also operates market-based activities, conducted through its non-regulated subsidiaries, that provide utility service line protection solutions and repair services to households and gas marketing and production activities. Currently, the Company seeks to acquire businesses in the U.S. regulated sector, focusing on water and wastewater utilities and to opportunistically pursue growth ventures in select market-based activities, such as infrastructure opportunities that are supplementary and complementary to our regulated water utility businesses.

In October 2023, the Company completed the sale of its regulated natural gas utility assets in West Virginia, which represented approximately two percent of the Company's regulated natural gas customers. The Company initially received net cash proceeds of \$39,965,000, subject to working capital and other adjustments. In March 2024, the Company received an additional \$1,213,000 from the buyer. In January 2024, the Company completed the sale of its interest in three non-utility local microgrid and distributed energy projects for \$165,000,000. These transactions are consistent with the Company's long-term strategy of focusing on its core business and will allow the Company to prioritize the growth of its utilities in states where it has scale. The Company used the proceeds from these transactions to finance its capital expenditures and water and wastewater acquisitions, in place of external funding from equity and debt issuances. See Note 3 – *Dispositions* in the *Notes to Consolidated Financial Statements*, which is contained in Item 8 of this Annual Report for additional information.

The following table reports our operating revenues, by principal state, for our Regulated Water segment, which includes both water and wastewater utility services, Regulated Natural Gas segment, and Other and eliminations for the year ended December 31, 2024:

	Operating Revenues (000's)	Operating Revenues (%)
Pennsylvania	\$ 674,051	32.3%
Ohio	136,600	6.5%
Texas	107,519	5.2%
Illinois	101,194	4.9%
North Carolina	88,604	4.2%
Other states (1)	113,912	5.5%
Regulated Water segment total	1,221,880	58.6%
Pennsylvania	786,722	37.7%
Kentucky	56,269	2.7%
Regulated Natural Gas segment total	842,991	40.4%
Other and eliminations	21,242	1.0%
Consolidated	\$ 2,086,113	100.0%

(1) Includes our water operating subsidiaries in the following states: New Jersey, Indiana, and Virginia.

The Company has identified eleven operating segments and has two reportable segments, the Regulated Water segment and the Regulated Natural Gas segment. The Regulated Water segment is comprised of eight operating segments for the Company's water and wastewater regulated utility companies, aligned with the states where we provide these services. These operating segments are aggregated into one reportable segment since each of the Company's operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. The Regulated Natural Gas segment is comprised of one operating segment representing natural gas utility companies, for which the Company provides natural gas distribution services. In addition to the Company's two reportable segments, the Company includes two of its operating segments in "Other". These businesses represent its non-regulated water, wastewater, and natural gas operations, which are not quantitatively significant to be reportable and therefore are included as a component of "Other". In addition, "Other" and eliminations include corporate costs that have not been allocated to the Regulated Water and Regulated Natural Gas segments, because they would not be recoverable as a cost of utility service, and intersegment eliminations. Information concerning revenues, net income, significant segment expenses and related financial information for the Regulated Water and Regulated Natural Gas segments and Other and eliminations for 2024, 2023, and 2022, is set forth in *Management's Discussion and Analysis of Financial Condition and Results of Operations* and in Note 18 – *Segment Information* in the *Notes to Consolidated Financial Statements* which is contained in Item 8 of this Annual Report.

The following table summarizes our operating revenues, by utility customer class, for the Regulated Water and Regulated Natural Gas segments and Other and eliminations for the year ended December 31, 2024:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	\$ 662,909	31.8%
Commercial water	186,534	8.9%
Fire protection	42,409	2.0%
Industrial water	34,831	1.7%
Other water	80,964	3.9%
Total water	1,007,647	48.3%
Wastewater	199,422	9.6%
Other utility	14,811	0.7%
Regulated Water segment total	1,221,880	58.6%
Residential gas	504,426	24.2%
Commercial gas	100,662	4.8%
Industrial gas	2,279	0.1%
Gas transportation	194,413	9.3%
Other utility	41,211	2.0%
Regulated Natural Gas segment total	842,991	40.4%
Other and eliminations	21,242	1.0%
Consolidated	\$ 2,086,113	100.0%

Customers and Seasonality of Business

Our water utility customer base is diversified among residential water, commercial water, fire protection, industrial water, other water, wastewater customers, and other utility customers (consisting of contracted services that are associated with the utility operations). Residential water and wastewater customers make up the largest component of our water utility customer base, with these customers representing approximately 67%, 69%, and 68%, of our water and wastewater revenues for 2024, 2023, and 2022, respectively. Substantially all of our water utility customers are metered, which allows us to measure and bill for our customers' water consumption. Water consumption per customer is affected by local weather conditions during the year, especially during late spring, summer, and early fall when discretionary and recreational use of water is at its highest. Consequently a higher proportion of annual Regulated Water segment operating revenues are realized in the second and third quarters. In general, during these seasons, an extended period of dry weather increases consumption, while above-average rainfall decreases consumption. Also, an increase in the average temperature generally causes an increase in water consumption. On occasion, abnormally dry weather in our service areas can result in governmental authorities declaring drought warnings and imposing water use restrictions in the affected areas, which could reduce water consumption. See "Business – Water Utility Supplies, and Facilities and Wastewater Utility Facilities" for a discussion of water use restrictions that may impact water consumption during abnormally dry weather. The geographic diversity of our water utility customer base reduces the effect of our exposure to extreme or unusual weather conditions in any one area of our service territories. During the year ended December 31, 2024, our operating revenues for our Regulated Water segment were derived principally from the following states: approximately 55% in Pennsylvania, 11% in Ohio, 9% in Texas, 8% in Illinois, and 7% in North Carolina. Water usage is also affected by changing consumption patterns by our customers, resulting from such causes as increased water conservation and the installation of water saving devices and appliances that can result in decreased water usage. It is estimated that, in the event we experience a 0.50% decrease in residential water consumption, it would result in a decrease in annual residential water revenue of approximately \$3,000,000, which would likely be partially offset by a reduction in incremental water production expenses such as chemicals and power.

Our natural gas utility customer base is diversified among residential gas, commercial gas, industrial gas, gas transportation, and other utility. Substantially all of our natural gas utility customers are metered, which allows us to measure and bill for our customers' natural gas usage. Natural gas usage per customer is affected by local weather conditions during the year, especially during the fall, winter, and early spring. These patterns reflect the higher demand for natural gas for heating purposes during the colder months. The impact on our natural gas sales resulting from weather temperatures that are above or below normal is offset partially through our weather normalization adjustment mechanisms in place in Kentucky and in Pennsylvania (effective beginning October 2024). During the year ended December 31, 2024, we experienced 4,288 actual heating degree days (HDDs), which was warmer by 18.2% than the average or normal HDDs for Pittsburgh, Pennsylvania, which we use as a proxy for our western Pennsylvania service territory. HDDs are used in the natural gas industry to measure the relative coldness of weather and to estimate the demand for natural gas. Our regulated natural gas revenues and expenses are also affected by the cost of gas. We are generally able to pass the cost of gas through to our customers using a purchased gas adjustment clause; therefore, fluctuations in the cost of purchased gas impact revenues on a dollar-for-dollar basis. Since regulated natural gas revenues are affected by the cost of gas, higher gas costs, as well as general economic conditions, may cause customers to conserve usage, or seek alternative energy sources. In addition, higher gas costs result in an increase to our purchased gas inventory, which requires additional borrowings under credit facilities, resulting in higher interest expense.

The Company's growth in revenues over the past five years is primarily a result of increases in water and wastewater rates, increase in the cost of natural gas in 2021 and 2022, customer growth, and its acquisition in 2020 of Peoples Natural Gas Company LLC and its affiliated companies, or the Peoples Gas Acquisition. See *Economic Regulation* for a discussion of water, wastewater, and natural gas rates. The increase in our utility customer base has been due to customers added through acquisitions, partnerships with developers, and organic growth (excluding dispositions) as shown below:

Year	Utility Customer Growth Rate
2024	0.6%
2023	1.0%
2022	1.7%
2021	1.2%
2020	42.9%

In 2024, 2023, 2022, 2021, and 2020, our customer count increased by 11,845, 5,875, 31,537, 21,246, and 772,099 customers, respectively, primarily due to the water and wastewater utility systems that we acquired, organic growth, and in 2020, due to the Peoples Gas Acquisition that resulted to the addition of approximately 750,000 natural gas utility customers. Overall, for the five year period of 2020 through 2024, our utility customer base, adjusted to exclude customers associated with utility system dispositions, increased at an annual compound rate of 12.9%. During the five year period ended December 31, 2024, our utility customer base including customers associated with utility system acquisitions and dispositions increased from 1,026,704 at January 1, 2020 to 1,869,306 at December 31, 2024.

Acquisitions and Other Growth Ventures

We believe that acquisitions will continue to be an important source of customer growth for us. We intend to continue to pursue acquisitions of government-owned and regulated water and wastewater systems that provide services in areas near our existing service territories or in new service areas. We engage in continuing activities with respect to potential acquisitions, including calling on prospective sellers, performing analyses of and due diligence on acquisition candidates, making preliminary acquisition proposals, and negotiating the terms of potential acquisitions. Further, we are also seeking other potential business opportunities, including but not limited to, partnering with public and regulated utilities to invest in infrastructure projects, growing our market-based activities by acquiring businesses that provide water and wastewater or other utility-related services, and investing in infrastructure projects.

Based on the 2023 U.S. Census American Housing Survey, approximately 89% of the U.S. population obtain their water from public or private water utility systems, and 11% of the U.S. population obtain their water from individual wells. With approximately 50,000 community water systems in the U.S. (approximately 81% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). The majority of these community water systems are government-owned. The nation's water systems

range in size from large government-owned systems, such as the New York City water system, which serves approximately 8.5 million people, to small systems, where a few customers share a common well. In the states where we operate regulated water utilities, we believe there are over 14,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. Based on the 2023 U.S. Census American Housing Survey, approximately 81% of the U.S. population relies on public or private sewer systems, and 19% of the U.S. population relies on septic tank, cesspool, or other sewer options. A majority of wastewater facilities are government-owned rather than regulated utilities. In the states where we operate regulated water utilities, we believe there are approximately 5,000 wastewater facilities in operation, with the majority of the population being served by government-owned wastewater systems.

Because of the fragmented nature of the water and wastewater utility industries, we believe there are many potential water and wastewater system acquisition candidates throughout the U.S. We believe the factors driving consolidation of these systems are:

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technical and managerial expertise;
- the desire to improve water quality and service;
- limited access to cost-effective financing;
- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and
- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our water and wastewater utility operations through acquisitions or other growth ventures. During the three-year period ended December 31, 2024, we expanded our utility operations by completing 12 acquisitions of water or wastewater utilities or other similar assets.

Capital Investment

One of the greatest challenges facing the United States is the rehabilitation of our nation's aging infrastructure. The Company expects to invest approximately \$7.8 billion from 2025 through 2029 to meet compliance requirements, improve water and natural gas systems, and better serve customers through improved information technology. These investments include replacing and expanding its water and wastewater utility infrastructure, construction of additional treatment facilities to comply with the latest water quality standards, and replacing and upgrading its natural gas utility infrastructure, with the latter leading to significant reductions in methane emissions that occur in aged gas pipes. These figures could change as plans for construction execution are refined. The capital investments made to rehabilitate and expand the infrastructure of the communities we serve is critical to our mission of safely and reliably delivering Earth's most essential resources.

Supply and Facilities

Water Utility Supplies and Facilities and Wastewater Utility Facilities - Our water utility operations obtain their water supplies from surface water sources, underground aquifers, and water purchased from other water suppliers. Our water supplies are primarily self-supplied and processed at twenty-four surface water treatment plants located in five states, and numerous well stations located in the states in which we conduct business. Approximately 6.6% of our water supplies are provided through water purchased from other water suppliers. It is our policy to obtain and maintain the permits necessary to obtain and treat the water we distribute.

We believe that the capacities of our sources of supply, and our water treatment, pumping and distribution facilities, are generally sufficient to meet the present requirements of our customers under normal conditions. We plan system improvements and additions to capacity in response to normal replacement and renewal needs, changing regulatory standards, changing patterns of consumption, and increased demand from customer growth. We also have long-term

planning processes and maintain contingency plans to minimize the potential impact on service caused by climate variability. The various state utility commissions have generally recognized the operating and capital costs associated with these improvements in setting water rates.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is more affected by drought warnings and restrictions because discretionary and recreational use of water is at its highest during the summer months. At other times of the year, warnings and restrictions generally have less of an effect on water consumption. Drought warnings and watches result in the public being asked to voluntarily reduce water consumption.

We believe that our wastewater treatment facilities are generally adequate to meet the present requirements of our customers under normal conditions. Additionally, we own several wastewater collection systems that convey the wastewater to municipally-owned facilities for treatment. Changes in regulatory requirements can be reflected in revised permit limits and conditions when permits are renewed, typically on a five year cycle, or when treatment capacity is expanded. Capital improvements are planned and budgeted to meet normal replacement and renewal needs, anticipated changes in regulations, needs for increased capacity related to projected growth, and to reduce inflow and infiltration to collection systems. The various state utility commissions have generally recognized the operating and capital costs associated with these improvements in setting wastewater rates for current and new customers. It is our policy to obtain and maintain the permits necessary for the treatment of the wastewater that we return to the environment.

Natural Gas Supply and Transportation Facilities - Our natural gas supply strategy is to ensure a dependable gas supply that is economically priced and which is available for delivery when needed. We purchase natural gas from intrastate, interstate, and local sources, and transport natural gas supplies through various intrastate and interstate pipelines under contracts with remaining terms, including extensions, varying from one month to 10 years. We anticipate that these gas supply and transportation contracts will be renewed or replaced prior to their expiration.

The regulations of the states in which we operate natural gas utilities allow us to pass through changes in the cost of natural gas to our customers under purchased gas adjustment provisions in our tariffs. Depending upon the jurisdiction, the purchased gas adjustment factors are updated periodically, ranging from quarterly to annually. The changes in the cost of gas billed to customers are subject to review by the applicable regulatory bodies.

We use various third-party storage services or owned natural gas storage facilities to meet peak-day requirements and to manage the daily changes in demand due to changes in weather.

We own and operate underground natural gas storage facilities with capacity of 10.5 billion cubic feet (Bcf). Total working capacity is 5.3 Bcf for use during the heating season with a maximum daily withdrawal rate of 115.5 million cubic feet (MMcf). Additionally, we have contracted for off-system storage from interstate pipelines. The total amount of off-system storage under contract is 34.9 Bcf with a maximum daily withdrawal rate of 588.9 MMcf. We perform studies of our underground natural gas storage facilities to identify capital improvements. It is possible that disruptions to the storage facilities could occur, including failure of the facilities.

On an ongoing basis, we enter into contracts to provide sufficient supplies and pipeline capacity to meet our customers' natural gas requirements. However, it is possible for limited service disruptions to occur from time to time due to weather conditions, transportation constraints, and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time, or prices may increase rapidly in response to temporary supply constraints or other factors. We enter into firm agreements with suppliers, including major producers and marketers, intended to provide flexibility to meet the temperature-sensitive needs of its customers. In Pennsylvania, our distribution system is connected to six interstate pipelines, where we maintain capacity we believe is sufficient to meet our customers' gas requirements. In Kentucky, our distribution system is connected to four interstate pipelines, where we maintain capacity we believe is sufficient to meet our customers' gas requirements.

Natural Gas Gathering - Our Pennsylvania Regulated Natural Gas service territory is situated in the Marcellus Shale production region. Approximately 27% of the natural gas supply on the system is from locally produced gas, which we gather and transport into our distribution system. Our gathering system is regulated by the Pennsylvania Public Utility Commission which includes various safety, environmental and, in some circumstances, anti-discrimination requirements, and in some instances complaint-based rate regulation. Our gathering operations may be subject to ratable take and common purchaser statutes in the states in which we operate.

Our Regulated Natural Gas gathering operations could be adversely affected should they be subject in the future to the application of state or federal regulation of rates and services. Our gathering operations could also be subject to additional safety and operational regulations relating to the design, construction, testing, operation, replacement, and maintenance of gathering facilities. We cannot predict what effect, if any, such changes might have on our operations, but our Regulated Natural Gas segment could be required to incur additional capital expenditures and increased costs depending on future legislative and regulatory changes. Refer to further discussion below in the *Environmental, Health and Safety Regulation and Compliance* section.

Economic Regulation

Most of our utility operations are subject to regulation by their respective state utility commissions, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions, and authorize the issuance of securities. The utility commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, and loans and other financings. The policies of the utility commissions often differ from state to state and may change over time. A small number of our water and wastewater utility operations are subject to rate regulation by county or city governments. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances we are granted by the respective utility commissions or authorities in the various states in which we operate.

Rate Case Management Capability – We maintain a rate case management capability, the objective of which is to provide that the tariffs of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital expenditures, interest expense, taxes, energy, materials, and compliance with environmental regulations as well as a return on equity. We file rate increase requests to recover and earn a fair return on the infrastructure investments that we make in improving or replacing our facilities and to recover expense increases. In the states in which we operate, we are primarily subject to economic regulation by the following state utility commissions:

<u>State</u>	<u>Utility Commission</u>
Pennsylvania	Pennsylvania Public Utility Commission
Ohio	Public Utilities Commission of Ohio
North Carolina	North Carolina Utilities Commission
Texas	Public Utility Commission of Texas
Illinois	Illinois Commerce Commission
New Jersey	New Jersey Board of Public Utilities
Kentucky	Public Service Commission of Kentucky
Virginia	Virginia State Corporation Commission
Indiana	Indiana Utility Regulatory Commission

Our water and wastewater operations are comprised of 38 rate divisions, and our natural gas operations are comprised of two rate divisions. Each of our utility rate divisions requires a separate rate filing for the evaluation of the cost of service, including the recovery of investments, in connection with the establishment of rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval from the applicable state regulatory commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All eight states in which we operate permit us to file a revenue requirement for some form of consolidated rates for all, or some, of the rate divisions in that state.

In Ohio, Virginia, North Carolina, Texas, and Kentucky, we may bill our utility customers, in certain circumstances, in accordance with a base rate filing that is pending before the respective regulatory commission, which would allow for interim rates. As of December 31, 2024, we have no billings under interim rate arrangements for base rate case filings in progress. Furthermore, some utility commissions authorize the use of expense deferrals and amortization to provide for an impact on our operating income by an amount that approximates the requested amount in a rate request. In these states, the additional revenue billed and collected prior to the final regulatory commission ruling is subject to refund to customers based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate as to the final outcome of the ruling. If the request is denied completely or in part, we could be required to refund to customers some or all of the revenue billed to date and write-off some or all of the deferred expenses.

Revenue Surcharges – Eight states in which we operate water and wastewater utilities, and two states in which we operate natural gas utilities, permit us to add an infrastructure rehabilitation surcharge to their respective bills to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems. Without this surcharge, a utility absorbs all of the depreciation and capital costs of these projects between base rate increases. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. This surcharge is intended to substantially reduce regulatory lag, which could act as a disincentive for utilities to rehabilitate their infrastructure. In addition, our subsidiaries in some states use a surcharge or credit on their bills to reflect changes in costs, such as changes in state tax rates, other taxes and purchased water costs, until such time as the new cost levels are incorporated into base rates.

The infrastructure rehabilitation surcharge typically adjusts periodically based on additional qualified capital expenditures completed or anticipated in a future period, and is capped at a percentage of base rates, generally at 5% to 12.75%, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. These surcharges provided revenues of \$45,749,987 in 2024, \$20,260,881 in 2023, and \$26,902,294 in 2022.

In the majority of our natural gas service territories, the public utility commissions have authorized bare steel and cast-iron replacement programs. In Pennsylvania, we filed a Long-Term Infrastructure Replacement program with the Pennsylvania Public Utility Commission where we have committed to the replacement of bare steel and cast-iron pipe. In Kentucky, we have a pipe replacement program tariff, which allows adjustment of regulated rates annually to earn a return on capital expenditures incurred subsequent to our last rate case which were associated with the replacement of bare steel and vintage plastic pipe.

Gas costs incurred to serve our natural gas customers represent a significant operating expense. Our regulated natural gas rates, in all jurisdictions, contain a Purchased Gas Adjustment (PGA), which is reflected in our tariffs. The PGA allows us to timely charge for changes in the cost of purchased gas, inclusive of unaccounted for gas expense based on actual experience. PGA procedures involve periodic filings and hearings before the state regulatory commissions to establish price adjustments for a designated future period. The procedures also provide for inclusion in later periods of any variances between actual recoveries representing the estimated costs and actual costs incurred. The PGA is subject to periodic review and audit by the state regulatory commissions who also have the authority to disallow previously incurred costs.

In Pennsylvania, the gas cost component of uncollectible accounts expense, gas procurement costs, and certain costs to maintain a supplier choice program, where customers can elect their natural gas supplier, are recovered by mechanisms outside of typical base rate recovery. Additionally, in Pennsylvania, we recover the costs related to universal service programs, whereby customers who meet certain income guidelines receive assistance toward paying their monthly bill, weatherization services, and other programs. In Kentucky, the gas cost component of uncollectible accounts expense is recovered by a recovery mechanism outside of base rate recovery.

Income Tax Accounting Method Change – The Company uses the flow-through method to account for the repairs tax deduction for qualifying utility infrastructure at its regulated Pennsylvania and New Jersey subsidiaries. The flow-through method of recording income tax benefits results in a reduction to current income tax expense and is included in utility customers' rates, which generally is subject to a collar mechanism.

In April 2023, the Internal Revenue Service issued Revenue Procedure 2023-15 which provides a safe harbor method of accounting that taxpayers may use to determine whether expenses to repair, maintain, replace, or improve natural gas transmission and distribution property must be capitalized for tax purposes. The Company adopted the methodology on its 2023 tax return. In the second quarter of 2023, based on the tax legislative guidance that was issued, the Company reevaluated the uncertain tax positions related to the Regulated Water Segment and ultimately released a portion of its historical income tax reserves. Concurrently, the Company deferred this tax benefit from the reserve release as a regulatory liability. The accounting treatment has been determined in the rate order issued on February 7, 2025, by the Pennsylvania Public Utility Commission. Please refer to Note 7 – *Income Taxes* for more detail.

Fair Market Value Legislation – In April 2016, Pennsylvania enacted legislation allowing the public utility commission to utilize fair market value to set ratemaking rate base instead of the depreciated original cost of water or wastewater assets for certain qualifying municipal acquisitions. The legislation includes a process for engaging two independent utility valuation experts to perform appraisals that are filed with the public utility commission and then averaged and compared to the purchase price. The ratemaking rate base is the lower of the average of the appraisals or the purchase price and is subject to regulatory approval. Illinois, Indiana, New Jersey, North Carolina, Ohio, Virginia, and Texas also have legislation that allows the use of fair market value under varying rules and circumstances. We believe that this legislation encourages consolidation in the water and wastewater industry, providing municipalities with an option for exiting the business if they are dealing with challenges associated with their aging, deteriorating water and wastewater assets, do not have the expertise or technical capabilities to continue to comply with ever-increasing environmental regulations, or simply want to focus on other community priorities.

In June 2024, the Pennsylvania public utility commission updated existing procedures and guidelines designed to increase public involvement and ensure greater consistency in the process for reviewing and evaluating the acquisition and valuation of municipal-owned or authority-owned water and wastewater systems in Pennsylvania. This includes requirements for public notice and meetings, requires a rate impact notice, and provides other measures to improve the fair market value process when investor-owned utilities acquire water and wastewater utilities in Pennsylvania.

Revenue Stability Mechanisms – Revenue stability mechanisms separate the volume of water sold from our ability to meet our cost of service and infrastructure costs. These mechanisms allow us to recognize revenue based on a target amount established in the last rate case, and then record either a regulatory asset or liability based on the cumulative difference over time, which results in either a refund due to customers or a payment from customers. In Illinois, our operating subsidiary utilizes a revenue stability mechanism. Additionally, a weather-normalization adjustment (WNA) mechanism is in place for our natural gas customers served in Kentucky, and effective October 2024, to our natural gas customers in Pennsylvania. The WNA serves to minimize the effects of weather on the Company's results for its residential and small commercial natural gas customers. This regulatory mechanism adjusts revenues earned for the variance between actual and normal weather and can have either positive (warmer than normal) or negative (colder than normal) effects on revenues. Customer bills are adjusted during the December through April heating season for our natural gas customers in Kentucky, and the October to May heating season for our natural gas customers in Pennsylvania, with rates adjusted for the difference between actual revenues and revenues calculated under this mechanism billed to the customers.

Competition

In general, we believe that Essential Utilities and its water, wastewater, and natural gas subsidiaries have valid authority, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the franchised or contracted areas we now serve. The rights to provide water, wastewater, or natural gas service to customers in a particular franchised service territory are generally non-exclusive, although the applicable utility commissions usually allow only one regulated utility to provide service to customers in a given area. In some instances, another water utility provides service to a separate area within the same political subdivision served by one of our subsidiaries. Additionally, our larger natural gas customers may bypass gas distribution services by gaining distribution directly from interstate pipelines, other gas distributors, or other energy sources. As a regulated utility, we believe there is little competition for the daily water, wastewater, and natural gas service we provide to our customers.

Although our natural gas subsidiaries are not currently in significant direct competition with any other distributors of natural gas in its service areas, we do compete with suppliers of other forms of energy such as fuel oil, electricity, propane, coal, wind, and solar. Competition can be intense among the energy sources with price being the primary consideration. This is particularly true for industrial customers who have the ability to switch to alternative fuels. Natural gas generally benefits from a competitive price advantage over oil, electricity, and propane. Competition from renewable energy sources such as solar and wind is likely to increase as the political environment currently favors these energy sources through incentives or by placing restrictions on emissions from the burning of fossil fuels.

Water and wastewater utilities may compete for the acquisition of other water and wastewater utilities or for acquiring new customers in new service territories. Competition for these acquisitions generally comes from nearby utilities, either other regulated utilities or municipal-owned utilities, and sometimes from strategic or financial purchasers seeking to enter or expand in the water and wastewater industry. We compete for new service territories and the acquisition of other utilities on the following bases:

- economic value;
- economies of scale;
- our ability to provide quality water, wastewater, and natural gas service;
- our existing infrastructure network;
- our ability to perform infrastructure improvements;
- our ability to comply with environmental, health, and safety regulations;
- our technical, regulatory, and operational expertise;
- our ability to access capital markets; and
- our cost of capital.

The addition of new service territories and the acquisition of other utilities by regulated utilities such as the Company are generally subject to review and approval by the applicable state utility commissions.

In a very small number of instances in one of our southern states, where there are municipally-owned water or wastewater systems near our operating divisions, the municipally-owned system may either have water distribution or wastewater collection mains that are located adjacent to our division's mains or may construct new mains that parallel our mains. In these rare circumstances, the municipally-owned system may attempt to voluntarily offer service to customers who are connected to our mains, resulting in our mains becoming surplus or underutilized without compensation.

In the states where our water subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- eminent domain;
- the right of purchase given to or reserved by a municipality or political subdivision when the original franchise was granted; and,
- the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties, or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries would be entitled to fair market value for any assets that are condemned, and we believe the fair market value would be in excess of the book value for such assets.

Despite maintaining a program to monitor condemnation interests and activities that may affect us over time, one of our primary strategies continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a business or a strategic benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations, particularly for less than the fair market value of our operations or where the municipal government seeks to acquire more than it is entitled to under the applicable law or agreement. On occasion, we may

voluntarily agree to sell systems or portions of systems in order to help focus our efforts in areas where we have more critical mass and economies of scale or for other strategic reasons.

Environmental, Health and Safety Regulation and Compliance

The Company's mission is "to sustain life and improve economic prosperity by safely and reliably delivering Earth's most essential resources to customers and communities". We are committed to protecting the environment and the health and safety of our employees, customers, and the public and continue to adhere to applicable regulatory standards. We integrate environmental, health, and safety requirements into planning, decision-making, construction, operations, and maintenance activities that we perform.

Provision of water and wastewater services is subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act, and related state laws, and under federal and state regulations issued under these laws. These laws and regulations establish criteria and standards for drinking water and for wastewater discharges. In addition, we are subject to federal and state laws and other regulations relating to solid waste disposal, dam safety, and other aspects of our operations.

From time to time, Essential Utilities has acquired, and may acquire, systems that have environmental compliance issues. Environmental compliance issues also arise in the course of normal operations or as a result of regulatory changes. Essential Utilities attempts to align capital budgeting and expenditures to address these issues in due course. We estimate the capital expenditures required to address outstanding environmental compliance issues in our water and wastewater systems and budgeted in our capital program to be approximately \$104,000,000, or less than 3% of our expected total water and wastewater capital expenditures over the next five years (2025-2029). These capital expenditures do not include the amounts related to compliance with the final National Primary Drinking Water Regulation (NPDWR) and Lead and Copper Rule Improvements (LCRI), discussed below, which are budgeted separately. We are also parties to agreements with regulatory agencies in Pennsylvania, Texas, and Illinois under which we have committed to make improvements for environmental compliance. These agreements are intended to provide the regulators with assurance that problems covered by these agreements will be addressed, and the agreements generally provide protection from fines, penalties, and other actions while corrective measures are being implemented. We are working with state environmental officials in Pennsylvania, Texas, and Illinois to implement or amend regulatory agreements as necessary.

Our Regulated Natural Gas utility operations are subject to stringent and complex laws and regulations pertaining to the environment. Legislative and regulatory actions to address climate change are in various phases of review or implementation in the United States. These measures could include emissions limits, reporting requirements, carbon taxes, and incentives or mandates to conserve energy or use renewable energy sources. As an owner or operator of natural gas pipelines, distribution systems and storage, and the facilities that support these systems, we must comply with these laws and regulations at the federal, state, and local levels. Failure to comply with these laws and regulations may trigger a variety of administrative, civil, and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial actions, and the issuance of orders enjoining future operations. Certain environmental statutes impose strict, joint and several liability for costs required to assess, clean up, and restore sites where hazardous substances have been stored, disposed or released.

Safe Drinking Water Act - The Safe Drinking Water Act establishes criteria and procedures for the U.S. Environmental Protection Agency (EPA) to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act set standards regarding the amount of microbial and chemical contaminants and radionuclides in drinking water.

On April 10, 2024, the EPA announced the final NPDWR for the treatment of six per- and polyfluoroalkyl substances or compounds (PFAS). The NPDWR established the maximum contaminant levels (MCLs) in drinking water and allows for a five-year window to comply. The Company performed its analysis of the NPDWR and estimated an investment of at least \$450,000,000 of capital expenditures to install additional treatment facilities over the Compliance Period in order to comply (i.e., 2029 pending no delays due to lawsuits). This figure could increase as plans for construction execution are refined or if additional sites require treatment in the future. Additionally, the Company estimates annual operating expenses of approximately five percent of the installed capital expenditures, in today's dollars, related to testing,

treatment, and disposal. These are preliminary estimates and actual capital expenditures and expenses may differ based upon a variety of factors, including supply chain issues and site-by-site requirements.

On April 19, 2024, the EPA announced a final rule that designated two PFAS chemicals, perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS), as hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), also known as Superfund. This final action will address PFOA and PFOS contamination by enabling investigation and cleanup of these harmful chemicals and ensuring that leaks, spills, and other releases are reported. In addition to the final rule, the EPA issued a separate CERCLA enforcement discretion policy that makes it clear that EPA will focus enforcement on parties who significantly contributed to the release of PFAS chemicals into the environment, including parties that have manufactured PFAS or used PFAS in the manufacturing process, federal facilities, and other industrial parties. The policy identifies examples for operators of public water systems and wastewater systems or entities performing a public service role in providing safe drinking water, handling municipal solid waste, treating or managing stormwater and wastewater, disposing of pollution control residuals, or ensuring beneficial application of wastewater products as a fertilizer substitute. The potential liabilities to the Company, if any, resulting from this rule are currently being evaluated. Multiple lawsuits were filed by various companies and industry groups against the EPA's PFAS rule and are awaiting court action.

The Company continues to advocate for actions to hold polluters accountable and is part of the Multi-District Litigation and other legal actions against multiple PFAS manufacturers and polluters to attempt to ensure that the ultimate responsibility for the cleanup of these contaminants is attributed to the polluters and is seeking damages and other costs to address the contamination of its public water supply systems by PFAS. Capital expenditures and operating costs required as a result of water quality standards have been traditionally recognized by state utility commissions as appropriate for inclusion in establishing rates; however, we are also actively applying for grants and low interest loans, whenever possible, to reduce the overall cost to customers. The Company is also monitoring ongoing litigation and settlement activity with manufacturers of PFAS in these proceedings. For more information, see Item 8 - Note 9 to the Company's Notes to Consolidated Financial Statements.

Clean Water Act - The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams, and groundwater. It is our policy to obtain and maintain all required permits and approvals for the discharges from our water and wastewater facilities, and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor facilities for compliance with permitting, monitoring and reporting for wastewater discharges. We are continuously modernizing wastewater treatment methods, ensuring our systems protect the surrounding environment and adhere to current standards. From time to time, discharge violations may occur which may result in fines. These fines and penalties, if any, are not expected to have a material impact on our business, financial condition, or results of operations. We are also parties to agreements with regulatory agencies in several states where we operate while improvements are being made to address wastewater discharge issues. The EPA has identified leveraging wastewater discharge permitting and application of biosolids, or sewage sludge, containing PFAS as areas of focus in its PFAS Strategic Roadmap.

Solid Waste Disposal - The handling and disposal of waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we are not aware of any significant environmental remediation costs necessary from our handling and disposal of waste material from our water and wastewater operations.

Dam Safety - Our subsidiaries own 32 dams, of which 18 are classified as high hazard dams that are subject to the requirements of the federal and state regulations related to dam safety, which undergo regular inspections and an annual engineering inspection. After a thorough review and inspection of our dams by professional outside engineering firms, we believe that all 18 dams are structurally sound and well-maintained, except as described below. These inspections provide recommendations for ongoing rehabilitation which we include in our capital improvement program. The Company has approximately \$39,000,000 in capital improvements budgeted between 2025 and 2029 for dam improvements.

We performed studies of our dams that identified five high hazard dams in Pennsylvania and one high hazard dam in Ohio requiring capital improvements. These capital improvements result from the adoption by state regulatory agencies of revised formulas for calculating the magnitude of a possible maximum flood event. The most significant capital improvement remaining to be performed in our dam improvement program is on one dam in Pennsylvania at a total

estimated cost of \$15,400,000. Design for this dam commenced in 2013 and construction is expected to be completed in 2030. An additional four high hazard dams in Pennsylvania were recently added due to an acquisition in 2023. These dams are undergoing additional evaluations but have capital improvements budgeted for currently identified needs in the 2025 to 2029 period.

Lead and Copper Rule – On October 30, 2024, the EPA issued the final LCRI which require water systems to identify and replace lead pipes by 2037, lowers the lead action level threshold, and requires more proactive communications about lead pipes and plans for replacements, among other items. The LCRI builds upon the Lead and Copper Rule Revisions (LCRR) issued in 2021 and the Lead and Copper Rule (LCR) issued in 1992. The Company has been replacing lead service lines as part of its ongoing water main replacement and service line renewal programs, and in accordance with applicable state regulations. Pursuant to the LCRR, the Company completed the submission of its initial lead service line inventories on October 14, 2024. The Company estimates that approximately 6% of its regulated water service systems contain some lead or galvanized service lines requiring replacement. The Company currently has budgeted approximately \$210,000,000 of capital expenditures over the next five years for lead and galvanized service line replacement. Management is still reviewing the final LCRI and its impact to the Company.

Partnership for Safe Water Program – Essential Utilities is a proud participant in the American Water Works Association's (AWWA) Partnership for Safe Water Program. This voluntary program is a commitment to excellence within the drinking water community above and beyond the EPA's stringent treatment goals. All of our active surface water treatment plants within Pennsylvania, Ohio, Virginia, and Illinois maintain good standing in the program which includes many awards of achievement. The honors include the "Director's Award" (achieved at eight systems) which recognizes plants that have: 1) completed a comprehensive self-assessment report, 2) created an action plan for continuous improvement, and 3) provided several evaluations of performance demonstrating operational excellence. Several of our systems have met these criteria annually and have received 5-, 10-, 15-, and 20-year subscriber awards. Furthermore, our Roaring Creek Pennsylvania treatment plant has received the Phase IV Excellence Award, the highest honor achieved in the Partnership Program.

Safety Standards - Our facilities and operations may be subject to inspections by representatives of the Occupational Safety and Health Administration from time to time. We maintain safety policies and procedures to comply with the Occupational Safety and Health Administration's rules and regulations, but violations may occur from time to time, which may result in fines and penalties, which are not expected to have a material impact on our business, financial condition, or results of operations. We endeavor to correct such violations promptly when they come to our attention.

Pipeline and Hazardous Materials Safety Administration (PHMSA) Regulations – Under the Protecting Our Infrastructure of Pipelines and Enhancing Safety (PIPES) Act of 2020, PHMSA, an agency of the U.S. Department of Transportation (DOT), has revised, and continues to revise, the pipeline safety regulations to require operators to update, as needed, their existing distribution integrity management plans, emergency response plans, and operations and maintenance plans.

In May 2023, PHMSA proposed numerous regulatory revisions to minimize methane emissions and improve public safety. Under these proposed revisions, we would be required to increase the frequency of leak detection surveys, accelerate the repair of leaks found, and expand our existing advanced leak detection program. The final rule is expected to be published in the first or second quarter of 2025, with an implementation period of 24 months. In September 2023, PHMSA proposed additional regulatory revisions to enhance distribution system safety through equipment and procedural expectations. Operators will be required to incorporate additional protections for low pressure distribution systems that prevent over-pressurization, amend construction procedures designed to minimize the risk of incidents caused by system over-pressurization, and update distribution integrity management programs to cover and prepare for over-pressurization incidents. On November 30, 2023, the House Transportation & Infrastructure Committee introduced new pipeline safety reauthorization legislation known as the PIPES Act of 2023 to reauthorize and finalize PHMSA's safety programs for the next four years.

Peoples has in place integrity programs designed to maintain the safe storage and delivery of natural gas through transmission and distribution systems in order to ensure the safety of its employees, customers, and the community. These include a Transmission Integrity Management Program which outlines methods for handling threats and maintaining the integrity of the pipeline; a Distribution Integrity Management Program which is dedicated to the safe operation of the distribution system that delivers natural gas to customers; and, a Storage Integrity Management Plan that

governs the safe operation, maintenance, and integrity testing of company-owned storage facilities. To the extent new laws or regulations adopted by PHMSA, like those summarized above, impose more stringent requirements on our facilities and operations, we may be required to incur capital and operating costs that may be material. In addition, we may be subject to the DOT's enforcement actions and penalties if the Company fails to comply with pipeline regulations.

Physical Security

We maintain security measures at our facilities, and collaborate with federal, state and local authorities and industry trade associations regarding information on possible threats and physical security measures for water, wastewater, and natural gas utility operations. The costs incurred are expected to be recoverable in customer rates and are not expected to have a material impact on our business, financial condition, or results of operations.

Environmental Stewardship

The way we do business at Essential reflects our commitment to a sustainable, safe, and healthy environment for all our stakeholders. Sustainability is deeply engrained in our business strategy. We ensure environmental stewardship remains a priority for management by factoring several benchmarks into executive compensation. In 2024, for the third consecutive year, the Company has been named to Newsweek's list of America's Most Responsible Companies, which celebrates public companies that have demonstrated meaningful and impactful environmental, social and corporate governance business practices.

Early in 2021, we announced an enterprise-wide commitment that by 2035, we will reduce our Scope 1 and 2 greenhouse gas (GHG) emissions by 60% from our 2019 baseline. This will be achieved by extensive gas pipeline replacement, renewable energy purchasing, accelerated methane leak detection and repair, and various other currently planned initiatives that are highly feasible with proven technology. Of our Scope 1 and 2 GHG emissions, 89% are driven by our gas distribution business. We have replaced 268 miles of gas pipeline in 2024 and over 930 since 2021. We also began procuring nearly 100% renewable electricity to power our water and wastewater operations in Illinois, New Jersey, Ohio, and Pennsylvania in 2022. We estimated that as of December 31, 2023, we have achieved 25% emissions reduction from our 2019 baseline.

The Company manages climate-change matters through significant board-level oversight. At the management level, there is an oversight committee, which is a group of about a dozen of the Company's senior leaders across the organization and the Chief Executive Officer, that meet at least once each quarter to discuss these topics. The Company's environmental sustainability initiatives and strategy are discussed further in our sustainability reporting, which can be found on our website at <https://esg.essential.co>. Such reports are not incorporated by reference and should not be considered part of this Annual Report.

Human Capital Management

The Company values its workforce as one of its most important assets. The Company is dedicated to creating a sustainable working atmosphere for its employees to attract and retain the best employees. Human capital measures and objectives that the Company focuses on in managing its business include the health and safety of its employees, succession planning, voluntary attrition rate, and diversity, equity and inclusion initiatives.

As of December 31, 2024, we employed a total of 3,291 full-time employees. Our subsidiaries are parties to 23 labor agreements with labor unions covering 1,664 employees. The labor agreements expire at various times up until 2028.

Health and Safety - Safety is the foundation of our business and guides all our employees' actions. The Company continues to invest in safety improvements, implement policies and procedures, develop technical training and guidelines for our employees, and leverage new tools and technology to improve our maps, records and infrastructure performance. The Company's Senior Leadership Safety Council leads our safety efforts and is supported by the Safety Steering Committee, state and facility committees and leaders that operate at the local site level. Hazards in the workplace are actively identified, and management tracks incidents so remedial actions can be taken to improve workplace safety. To encourage managers to promote a safe environment, related metrics are incorporated in management's incentive compensation plans.

The Company provides free access to an employee assistance program, which offers a variety of innovative, flexible, and convenient employee health and wellness programs. Through our partnership with our benefit services provider, personalized mental health assistance is available to all employees and their family members; support is available 24/7 via in-person, phone or virtual visits with a licensed counselor.

Employee Development and Training - The Company continues to invest in training and development programs for employees so that they may evolve and enhance their skills in their areas of expertise. The Company offers several learning opportunities through partnerships with one of the leading online learning providers, business school certificate programs, tuition reimbursement for post-secondary degree granting programs, and individual career coaching. At Essential, we believe in an integrated talent development approach. We utilize the “70/20/10 model” for development, which holds that 70% of learning happens on the job through stretch goals and critical assignments, 20% of learning occurs through mentoring and coaching and involvement in professional and industry related activities, and 10% of learning occurs within a virtual or live learning environment. We align our development model to support our vision, mission, and competencies, with a balanced approach to developing our workforce that leads us to the development of a confident, committed, and high-performance culture.

Succession Planning – Essential has organizational workforce analysis and planning programs to ensure the Company has the talent it needs for the future. By conducting stay interviews with key performers, the Company learns where talent risks may arise. Under the Company’s Corporate Governance Guidelines, the Board of Directors is responsible for the development and periodic review of a management succession plan for the Chief Executive Officer and other executives. Annually, the Board of Directors reviews the Company’s succession planning process for the Chief Executive Officer and the named executive officers. During this review, the directors review succession candidates on an immediate basis and more developmental candidates to ensure that the Company is well-prepared for the future.

Voluntary Attrition and Turnover - The Company measures turnover rates of its employees in assessing the Company’s overall human capital. The Company’s voluntary attrition rate (not including retirements) for 2024 was 5.3% at the executive and senior management level, 4.5% at the mid-level manager level, 8.0% at the professional level, and 7.0% across all other employees. Our overall voluntary attrition rate of 6.7% in 2024 was lower than last year’s voluntary attrition rate of 7.6%. We believe our low voluntary attrition rate is in part a result of the Company’s continued commitment to employee development, competitive pay and benefits, and our culture.

Diversity, Equity and Inclusion - Diversity of backgrounds, ideas, thoughts, and experiences is essential to our culture and the way we do business. Creating an environment where our differences are valued and where every person feels a sense of belonging and engagement supports a thriving organization that cares about our customers and ensures our continued long-term success. In order to promote a culture of diversity and inclusion, we have conducted educational workshops to foster better understanding of different points of view and how pre-conceived notions impact relationships at work. We also support diverse segments of our workforce through employee resource groups, such as the Black Resource Group, LGBTQ+ Pride Resource Group, and Women’s Resource Group. These groups welcome participation from all employees in order to learn from a cultural perspective and support each other through allyship.

We also believe diversity in our Board of Directors is critical for effective governance. Candidates for nomination to the Board are considered by the Corporate Governance Committee based on their personal abilities, qualifications, independence, knowledge, judgment, character, leadership skills, education, background, and their expertise and experience in fields and disciplines relevant to the Company. In October 2024, we were recognized as a Champion of Board Diversity by The Forum of Executive Women for having one-third of our board comprised of women for the sixth year since 2016.

Total Rewards - We invest in our workforce by offering a total rewards package that is targeted to be competitive with the market in which we compete for talent, while allowing individual pay to vary equitably based on performance, skills and experience. Our total rewards package includes a combination of salaries, short and long-term incentives, health and wellness benefits, retirement benefits, and other benefits which we regularly assess against the current business environment and labor market to ensure they are competitive.

Communication and Engagement –We believe that our employees are critical to our business, and it is essential to have an environment of high engagement and inclusivity in which employees thrive. We use a variety of communication channels to help employees stay informed and to facilitate direct dialogue, including open forums with our executives, town halls, regular engagement surveys, employee resource groups, and regular performance feedback sessions between employees and their supervisors. We value feedback from our employees, as it helps us gain a deeper understanding of areas where we are doing well and where we need improvement. Periodically, employees are requested to participate in a culture assessment by completing an anonymous survey. We have worked with various functional areas to create and implement action plans to address areas of employee concern. Executive management also regularly conducts town hall-style meetings with employees, where they have the opportunity to ask questions, voice opinions, and share feedback.

Citizenship – As a mission-based organization, we are driven to improve the quality of life and livelihood of our customers and the communities we serve. Through our charitable giving program, employees are encouraged to engage in philanthropy through the United Way campaign and matching gift program. Essential matches 100%, up to a maximum of \$500 per calendar year per employee, for personal contributions made by an employee or their spouse or domestic partner to qualifying nonprofit organizations. At various times throughout the year, the Company supports its employees in volunteering their time and talents to give back to their communities.

Management and Board Oversight

Our Board of Directors has various committees including an audit committee, an executive compensation committee, a corporate governance committee, and a risk mitigation and investment policy committee. Each of these committees has a formal charter. We also have Corporate Governance Guidelines and a Code of Ethical Business Conduct. Copies of these charters, guidelines, and codes can be obtained free of charge from our *Investor Relations* page on our web site, www.essential.co. In the event we amend or waive any portion of the Code of Ethical Business Conduct that applies to any of our directors, executive officers, or senior financial officers, we will post that information on our web site.

Available Information

We file annual, quarterly, current reports, proxy statements, and other information with the Securities and Exchange Commission (SEC). You may obtain our SEC filings from the SEC's web site at www.sec.gov.

Our internet web site address is www.essential.co. We make available free of charge through our web site's *Investor Relations* page all of our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other information. These reports and information are available as soon as reasonably practicable after such material is electronically filed with the SEC.

In addition, you may request a copy of the foregoing filings, at no cost by writing or telephoning us at the following address or telephone number:

Investor Relations Department
Essential Utilities, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Telephone: 610-527-8000

The references to our web site and the SEC's web site are intended to be inactive textual references only, and the contents of those web sites are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

Item 1A. *Risk Factors*

In addition to the other information included in this Annual Report, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially harm our business, financial condition, and results of operations. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our business, financial condition, and results of operations could be materially harmed.

Risk Factor Summary

Our business is subject to many risks and uncertainties. The following are the types of forward-looking statements we make throughout this Annual Report, including in these Risk Factors, and a summary of the types of risks that could impact us and cause actual results to differ from those described in such forward-looking statements:

opportunities for future acquisitions, both within and outside the water and wastewater industries, the success of pending acquisitions and the impact of future acquisitions;
acquisition-related costs and synergies;
the impact of decisions of governmental and regulatory bodies, including decisions to raise or lower rates and decisions regarding potential acquisitions;
the sale of water, wastewater, and gas subsidiaries;
the impact of conservation awareness of customers and more efficient fixtures and appliances on water and natural gas usage per customer;
the impact of our business on the environment, and our ability to meet our environmental, social, and governance goals;
our authority to carry on our business and successfully achieve our operational growth projections without unduly burdensome restrictions;
our capability to pursue timely rate increase requests;
the capacity of our water supplies, water facilities, wastewater facilities, and natural gas supplies and storage facilities;
the impact of public health threats, or the measures implemented by the Company as a result of these threats;
the impact of cybersecurity attacks or other cyber-related events;
developments, trends and consolidation in the water, wastewater, and natural gas utility and infrastructure industries;
the impact of changes in and compliance with governmental laws, regulations and policies, including those dealing with the environment, health and water quality, taxation, and public utility regulation;
the development of new services and technologies by us or our competitors;
the availability of qualified personnel;
the condition of our assets, including the risk of explosion from our natural gas operations and the failure of our natural gas storage facilities;
recovery of capital expenditures and expenses in rates;
projected capital expenditures and related funding requirements;
the availability and cost of capital financing, including impacts of increasing financing costs and interest rates;
dividend payment projections;
the impact of geographic diversity on our exposure to unusual weather;
the continuation of investments in strategic ventures;
our ability to obtain fair market value for condemned assets;
the impact of fines and penalties;
the impact of legal proceedings;
general economic conditions, including inflation;
the impairment of goodwill resulting in a non-cash charge to earnings;
the impact of federal and/or state tax policies and the regulatory treatment of the effects of those policies; and

the amount of income tax deductions for qualifying utility asset improvements and the Internal Revenue Service's ultimate acceptance of the deduction methodology.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

the success in the closing of, and the profitability of future acquisitions;
changes in general economic, political, business, credit, and financial market conditions and interest rates;
our ability to manage the expansion of our business;
changes in environmental conditions, including the effects of climate change;
our ability to integrate and otherwise realize all of the anticipated benefits of businesses, technologies or services which we may acquire;
the decisions of governmental and regulatory bodies, including decisions on regulatory filings, such as rate increase requests and decisions regarding potential acquisitions;
our ability to file rate cases on a timely basis to minimize regulatory lag;
the impact of inflation on our business and on our customers and potential opposition to rate increases;
abnormal weather conditions and natural disasters, including those that result in water use restrictions or reduced or elevated natural gas consumption;
the seasonality of our business;
our ability to source, treat, and supply water, including in times of drought, or collect and treat wastewater;
our ability to source sufficient natural gas to meet customer demand in a timely manner;
the continuous and reliable operation of our information technology systems, including the impact of cybersecurity attacks or other cyber-related events, and risks associated with new systems implementation or integration;
impacts from public health threats, including on consumption, usage, supply chain, and collections;
changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, data and consumer privacy, and public utility regulation;
the extent to which we are able to develop and market new and improved services;
the effect of the loss of major customers;
our ability to retain the services of key personnel and to hire qualified personnel as we expand;
labor disputes;
increasing difficulties in obtaining insurance and increased cost of insurance;
cost overruns relating to improvements to, or the expansion of, our operations;
inflation and potential impact of proposed tariffs on the availability and costs of goods and services;
the effect of natural gas price volatility, including the potential impact of high commodity prices on usage or rate case outcomes;
civil disturbance or terroristic threats or acts;
changes to the rules or our assumptions underlying our determination of what qualifies for an income tax deduction for qualifying utility asset improvements;
changes in, or unanticipated, capital requirements;
changes in our credit rating or outlook of credit rating agencies with respect to our Company and subsidiaries, or the market price of our common stock;
changes in valuation of strategic ventures;
changes in accounting pronouncements;
litigation and claims; and
restrictions on our subsidiaries' ability to make dividend payments and other distributions.

Risks Related to the Operation and Regulation of our Business

General economic conditions may affect our financial condition and results of operations.

A general economic downturn may lead to a number of impacts on our business and may affect our financial condition and results of operations. Such impacts may include:

- a reduction in discretionary and recreational water use by our residential water customers, particularly during the summer months when such discretionary usage is normally at its highest;
- a reduction in natural gas use by our residential customers, particularly during the winter months when such usage is normally at its highest;
- a decline in usage by industrial and commercial customers as a result of decreased business activity or a shift to alternative energy sources;
- an increased incidence of customers' inability to pay or delays in paying their utility bills, or an increase in customer bankruptcies, which may lead to higher bad debt expense, increased financing costs, and reduced cash flow;
- opposition by customers and statutory advocates to rate increases;
- a lower natural customer growth rate due to a decline in new housing starts; and
- a decline in the number of active customers due to housing vacancies.

General economic turmoil may also lead to an investment market downturn, which may result in our pension and other post-retirement plans' asset market values suffering a decline and significant volatility. A decline in our plans' asset market values could increase our required cash contributions to the plans and increased expense in subsequent years. Inflation levels in excess of historical levels could also lead to regulatory lag and thus impact our earned returns and financial results.

Moreover, in recent years, inflation and higher interest rates have become areas of increasing economic concern. Changes in the cost of providing our products and services, including price increases in operating and capital costs, as well as increases in labor costs or borrowing costs, have negatively impacted our financial condition and results of operations. We review the adequacy of our rates as approved by public utility commissions in relation to the increasing cost of providing services and the inherent regulatory lag in adjusting those rates. Rate increases are not retroactive and often lag increases in costs caused by inflation. On occasion, our regulated utility companies may enter into rate settlement agreements, which require us to wait for a period of time to file the next base rate increase request. These agreements may result in regulatory lag whereby inflationary increases in expenses or higher borrowing costs may not be reflected in rates, and may not yet be requested, or a gap may exist between when a capital project is completed and the start of its recovery in rates. Even during periods of moderate inflation, the effects of inflation can have a negative impact on our operating results. The ability to control operating expenses is an important factor that will influence future results.

Inflation, and the potential impact of proposed tariffs, could adversely impact our ability to control costs, including operating expenses and capital costs.

The operation of our business and the execution of our capital projects require significant expenditures for labor, production costs, property and equipment, and services. Recent inflationary pressures have increased our expenses and capital costs, and those costs may continue to increase. To the extent inflation remains elevated and higher tariffs are imposed, we may experience further cost increases for our operations. We cannot predict any future trends in the rate of inflation and interest rates, and a significant increase in inflation, to the extent we are unable to recover higher costs through rate cases, could negatively impact our business, financial condition, and results of operation.

The rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate increases, or if approved rate increases are untimely or inadequate to recover and earn a return on our capital investments, to recover expenses or taxes, or to take into account changes in water, wastewater, or natural gas usage, our profitability may suffer.

The rates we charge our customers are subject to approval by utility commissions in the states in which we operate. We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Our ability to maintain and meet our financial objectives is dependent upon the recovery of, and return on, our capital investments and expenses through the rates we charge our customers. Once a rate increase petition is filed with a utility commission, the ensuing administrative and hearing process may be lengthy and costly, and our costs may not always be fully recoverable. The timing of our rate increase requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we expect to recover through the rate increase. In addition, the amount or frequency of rate increases may be decreased or lengthened as a result of many factors including changes in regulatory oversight in the states in which we operate utilities and income tax laws, including regulations regarding tax-basis depreciation as it applies to our capital expenditures or qualifying utility asset improvements. We can provide no assurances that any future rate increase request will be approved by the appropriate utility commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner.

In Virginia, North Carolina and Kentucky, we may bill our water utility customers, in certain circumstances, in accordance with a rate filing that is pending before the respective regulatory commission, which would allow for interim rates. Furthermore, some utility commissions authorize the use of expense deferrals and amortization in order to provide for an impact on our operating income by an amount that approximates the requested amount in a rate request. The additional revenue billed and collected prior to the final ruling is subject to refund to customers based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate as to the final outcome of the ruling. If the request is denied completely or in part, we could be required to refund to customers some or all of the revenue billed to date, and write-off some or all of the deferred expenses.

Changes in our earnings per share may differ from changes in our rate base.

Our business is capital intensive and requires significant capital investments for additions to or replacement of property, plant and equipment. These capital investments create assets that are used and useful in providing regulated utility service, and as a result, increase our rate base, on which we generate earnings through the regulatory process. Changes in our reported earnings per share, however, may differ from changes in our rate base in a given period due to several factors, including rate case timing and the terms of such rate cases; over-or under-earnings in a given period due to changes in operating costs; the effects of tax rates or tax treatment of capital investments, including the effect of repair tax; capital expenditures that are not eligible for a DSIC between rate cases; acquisitions which have not yet been included in rate base; unrecovered short-term interest costs; and issuances of equity. We anticipate that we may experience periods in which growth in earnings is less than growth in rate base; such differences may be material and may persist over multiple reporting periods.

Our ability to meet customers' natural gas requirements may be impaired if contracted natural gas supplies and interstate pipelines services are not available, are not delivered in a timely manner or if federal regulations decrease its available capacity, which may result in a loss of customers and an adverse effect on our financial conditions and results of operations.

We are responsible for acquiring sufficient natural gas supplies, interstate pipeline capacity and storage capacity to meet current and future customers' peak, annual and seasonal natural gas requirements. We rely on third-party service providers, as we purchase a portion of our natural gas supply from interstate sources and rely on interstate pipelines to transport natural gas to our distribution system, in addition to local production that is delivered directly into our pipeline system. The Federal Energy Regulatory Commission (FERC) regulates the transportation of the natural gas received from interstate sources, and any change in regulatory policies could increase our transportation costs or decrease our available pipeline capacity. A decrease in interstate pipeline capacity available, an increase in competition for interstate pipeline transportation service or other interruptions to pipeline gas supplies could reduce our normal interstate supply of natural gas. Additionally, federal or state legislation could restrict or limit natural gas drilling, which could decrease the supply of available natural gas. If we are unable to maintain access to a reliable and adequate natural gas supply or sufficient

pipeline capacity to deliver that supply, we may be unable to meet our customers' requirements, resulting in a loss of customers and an adverse effect on our financial conditions and results of operations.

Peoples has traditionally used local production as a source of supply to fulfill a portion of its supply requirements. In order to absorb local gas into its system, Peoples has in place a network of pipelines and related facilities that move the gas either to customers located where gas is produced or to the more populated areas of the service territory where the greatest level of consumption occurs, and, in summer months, to Peoples' on-system and off-system storage facilities. This network of facilities includes gathering lines, compressor stations, and transmission lines. Peoples has entered into gas purchase agreements with various producers to supply this local production. A decrease in this supply could occur, for example, if the local gas producers no longer drill wells to offset natural well production decline or if such producers decide to cease production or produce into another pipeline. State and federal legislation or regulations could also limit drilling activities and in turn limit gas supply. If supply is limited, we would be faced with purchasing gas supplies likely at a higher cost, may be unable to find alternative gas supply, and accordingly, may be unable to meet customer requirements, resulting in a loss of customers and an adverse effect on our financial condition and results of operations.

Any failure of our water and wastewater treatment plants, network of water and wastewater pipes, or water reservoirs could result in damages that may harm our business, financial condition, and results of operations.

Our operating subsidiaries treat water and wastewater, distribute water, and collect wastewater through an extensive network of pipes, and store water in reservoirs. A failure of a major treatment plant, pipe, or reservoir could result in claims for injuries or property damage. The failure of a major treatment plant, pipe, or reservoir may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quality and quantities to our customers or collect and treat wastewater in accordance with standards prescribed by governmental regulators, including state utility commissions, and may harm our business, financial condition, and results of operations. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

Our facilities could be the target of a possible terrorist or other deliberate attack which could harm our business, financial condition and results of operations.

In addition to the potential contamination of our water supply or deliberate gas explosions as described in separate risk factors herein, we maintain security measures at our facilities and have heightened employee and public safety official awareness of potential threats to our utility systems. We have and will continue to bear increases in costs for security precautions to protect our facilities, operations, and supplies, most of which have been recoverable under state regulatory policies. While the costs of increases in security, including capital expenditures, may be significant, we expect these costs to continue to be recoverable in utility rates. Despite our security measures, we may not be in a position to control the outcome of terrorist events, or other attacks on our utility systems, should they occur. Such an event could harm our business, financial condition, and results of operations.

We are increasingly dependent on the continuous and reliable operation of our information technology systems, including those of our third-party vendors, and a disruption of these systems, resulting from cybersecurity attacks, risks associated with new systems implementation or integration, or other events, could harm our business.

We rely on our information technology systems, including those of our third-party vendors, in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities, and our natural gas pipelines. In addition, we rely on our systems to track our utility assets and to manage maintenance and construction projects, materials and supplies, and our human resource functions. A loss of these systems, or major problems with the operation of these systems, could harm our business, financial condition, and results of operations. We could also be adversely affected by system or network disruptions if new or upgraded information technology systems are defective, not installed properly, or not properly integrated into operations. In addition, our information technology systems may be vulnerable to damage or interruption from the following types of cybersecurity attacks or other events:

power loss, computer systems failures, and internet, telecommunications or data network failures;
operator negligence or improper operation by, or supervision of, employees;

physical and electronic loss of data;
computer viruses, cybersecurity attacks, intentional security breaches, hacking, denial of service actions, misappropriation of data and similar events;
difficulties in the implementation of upgrades or modification to our information technology systems; and
hurricanes, fires, floods, earthquakes and other natural disasters.

Although we do not believe that our systems are at a materially greater risk of cybersecurity attacks than other similar organizations, our information technology systems may be vulnerable to damage or interruption from the types of cybersecurity attacks or other events listed above or other similar actions, and such incidents may go undetected for a period of time. Such cybersecurity attacks or other events may result in:

the loss or compromise of customer, financial, employee, or operational data;
disruption of billing, collections, payments, or normal field service activities;
disruption of electronic monitoring and control of operational systems;
delays in financial reporting and other normal management functions; and
disruption in normal system operations.

Possible impacts associated with a cybersecurity attack or other events may include: remediation costs related to lost, stolen, or compromised data; repairs to data processing or physical systems; increased cybersecurity protection costs; adverse effects on our compliance with regulatory and environmental laws and regulation, including standards for drinking water; litigation; loss of revenue; and reputational damage. We maintain insurance to help defray costs associated with cybersecurity attacks or other events, but we cannot provide assurance that such insurance will provide coverage for any particular type of incident or event or that such insurance will be adequate, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates.

We have a cybersecurity controls framework in place. We monitor our control effectiveness in an increasing threat landscape and continuously take action to improve our security posture. We cannot assure you that, despite such measures, a form of system failure or data security breach will not have a material adverse effect on our financial condition and results of operations.

Our business is impacted by weather conditions and is subject to seasonal fluctuations, which could harm demand for water and natural gas services and our business, financial condition, and results of operations.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems, and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature, rainfall levels, and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, if there is more rainfall than normal, or rainfall is more frequent than normal, the demand for our water may decrease and harm our business, financial condition, and results of operations. In Illinois, our operating subsidiary has adopted a revenue stability mechanism which allows us to recognize state public utility commission (PUC) authorized revenue for a period which is not based upon the volume of water sold during that period, and effectively reduces the impact of weather and consumption variability.

Peoples' revenues are seasonal and temperature sensitive and vary from year-to-year, depending on weather conditions, with a substantial portion of Peoples' revenue occurring in the first and fourth quarters of the year due to colder temperatures and increased heating needs. In 2024, this amounted to 73%, for the first and fourth quarters. This has the effect of reducing our quarterly revenues in the spring and summer months. In addition, warmer-than-normal-weather conditions can decrease the amount of natural gas Peoples sells in any year, which could adversely affect our business, financial condition, and results of operations. Finally, significantly colder-than-normal weather conditions can materially increase natural gas usage, resulting in challenges for our operations and our ability to serve our customers. Effective October 2024, the weather impact on cash flow is mitigated by a weather normalization adjustment ("WNA") in Peoples' Pennsylvania rate jurisdiction. This mechanism is designed to help stabilize collection of fixed costs by adjusting customer billings based on temperature variances from average weather.

Decreased residential customer water and natural gas usage as a result of conservation efforts, and the impact of more efficient appliances and furnaces, may harm demand for our utility services and may reduce our revenues and earnings.

There has been a general decline in water usage per residential customer as a result of an increase in conservation awareness, and the impact of an increased use of more efficient plumbing fixtures and appliances. These gradual, long-term changes are normally taken into account by the utility commissions in setting rates, whereas short-term changes in water usage, if significant, may not be fully reflected in the rates we charge. We are dependent upon the revenue generated from rates charged to our residential customers for the volume of water used. If we are unable to obtain future rate increases to offset decreased residential customer water consumption to cover our investments, expenses, and return for which we initially sought the rate increase, our business, financial condition, and results of operations may be harmed.

In addition, over time, average customer gas consumption has declined, as more energy efficient appliances and furnaces have been installed, and conservation programs have been implemented. If we are unable to compete effectively or if customers further reduce their gas needs, we may lose existing customers, sell less gas to our customers and/or fail to acquire new customers, which could have a material adverse effect on our business, financial condition, and results of operations.

Drought conditions and government-imposed water use restrictions may impact our ability to serve our current and future customers, and may impact our customers' use of our water, which may harm our business, financial condition, and results of operations.

We depend on an adequate water supply to meet the present and future demands of our customers. Drought conditions could interfere with our sources of water supply and could harm our ability to supply water in sufficient quantities to our existing and future customers. An interruption in our water supply could harm our business, financial condition, and results of operations. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water supplies are sufficient to serve our customers during these drought conditions, which may harm our business, financial condition, and results of operations.

The failure of, or the requirement to repair, upgrade or dismantle any of our dams or reservoirs may harm our business, financial condition, and results of operations.

Several of our water systems include impounding dams and reservoirs of various sizes. Although we believe our dam review program, which includes regular inspections and other engineering studies, will ensure our dams are structurally sound and well-maintained, the failure of a dam could result in significant downstream damage and could result in claims for property damage or for injuries or fatalities. We periodically inspect our dams and purchase liability insurance to cover such risks, but depending on the nature of the downstream damage and cause of the failure, the policy limits of insurance coverage may not be sufficient, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates. A dam failure could also result in damage to, or disruption of, our water treatment and pumping facilities that are often located downstream from our dams and reservoirs. Significant damage to these facilities, or a significant decline in the storage of the raw water impoundment, could affect our ability to provide water to our customers until the facilities and a sufficient raw water impoundment can be restored. The estimated costs to maintain our dams are included in our capital budget projections and, although such costs to date have been recoverable in rates, there can be no assurance that rate increases will be granted in a timely or sufficient manner to recover such costs in the future, if at all.

Our operations are geographically concentrated in Pennsylvania, which make us susceptible to risks affecting Pennsylvania.

Although we operate water, wastewater, and natural gas utility infrastructure in a number of states, our operations are concentrated in Pennsylvania. As a result, our financial results are largely subject to political, resource supply, labor, utility cost and regulatory risks, economic conditions, natural disasters, and other risks affecting Pennsylvania.

Federal and state environmental laws and regulations impose substantial compliance requirements on our operations. Our operating costs could be significantly increased in order to comply with new or stricter regulatory standards imposed by federal and state environmental agencies.

Our water, wastewater, and natural gas services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act, Clean Air Act, Resource Conservation and Recovery Act and similar state laws, and federal and state regulations issued under these laws by the EPA and state environmental regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the U.S. as well as dam safety, air emissions, and residuals management. Pursuant to these laws, we are required to obtain various environmental permits from environmental regulatory agencies for our operations. The Company routinely seeks to acquire wastewater systems, some of which may have combined wastewater and stormwater systems which may overflow and be subject to increased regulation by the U.S. EPA. We cannot assure you that we will be at all times in total compliance with these laws, regulations and permits. If we fail to comply with these laws, regulations, or permits, we could be fined or otherwise sanctioned by regulators and such noncompliance could result in civil suits. Environmental laws and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to comply with these laws and our permits, it is possible that new or stricter standards could be imposed that will require additional capital expenditures or raise our operating costs. Although these expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that regulate our business would approve rate increases to enable us to recover such expenditures and costs. In summary, we cannot assure you that our costs of complying with, current and future environmental and health and safety laws will not harm our business, financial condition, and results of operations.

Additionally, the discovery of presently unknown environmental conditions, including former manufactured gas plant sites, and claims under environmental laws and regulations may result in expenditures and liabilities, which could be material, and could materially harm our business, financial condition and results of operations.

Our water or wastewater utility systems may be subject to condemnations or other methods of taking by governmental entities.

In the states where our subsidiaries operate water or wastewater utility systems, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- eminent domain;
- the right of purchase given to or reserved by a municipality or political subdivision when the original franchise was granted; and
- the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties, or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries would be entitled to receive fair market value for any assets that are condemned. However, there is no assurance that the fair market value received for assets condemned would be in excess of book value.

In a very small number of instances, in one of our southern states where there are municipally-owned water or wastewater systems near our operating divisions, the municipally-owned system may either have water distribution or wastewater collection mains that are located adjacent to our division's mains or may construct new mains that parallel our mains. In these circumstances, on occasion, the municipally-owned system may attempt to offer service to customers who are connected to our mains, resulting in our mains becoming surplus or underutilized without compensation.

The final determination of our income tax liability may be materially different from our income tax provision.

Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable business tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service and other taxing authorities. Some of our subsidiaries use a tax method of accounting that permits the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. Our determination of what qualifies as a capital cost versus a tax deduction for utility asset improvements is subject to subsequent adjustment and may impact the income tax benefits that have been recognized.

Although we believe our income tax estimates, including any tax reserves for uncertain tax positions or valuation allowances on deferred tax assets are appropriate, there is no assurance that the final determination of our income tax liability will not be materially different; either higher or lower, from what is reflected in our income tax provision. In the event we are assessed additional income taxes, our business, financial condition, and results of operations could be harmed.

Wastewater operations entail significant risks and may impose significant costs.

Wastewater collection and treatment involve various unique risks. If collection or treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. These risks are most acute during periods of substantial rainfall or flooding, which are the main causes of wastewater overflow and system failure. Liabilities resulting from such damages and injuries could harm our business, financial condition, and results of operations.

Work stoppages and other labor relations matters could harm our operating results.

Approximately 50% of our Regulated Water and Regulated Natural Gas segments' workforce is unionized under 23 labor contracts with labor unions, which expire at various times up until 2028. In light of rising costs for healthcare and retirement benefits, contract negotiations in the future may be difficult. We are subject to a risk of work stoppages and other labor actions as we negotiate with the unions to address these issues, which could harm our business, financial condition, and results of operations. We cannot assure you that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

Workforce-related risks may affect our results of operations.

We are subject to various workforce-related risks, including the risk that we will be unable to attract and retain qualified personnel for our water, wastewater, and natural gas operations, that we will be unable to effectively transfer the knowledge and expertise of an aging workforce to new personnel as those workers retire, and that we will be unable to reach collective bargaining arrangements with the unions that represent certain of our workers, which could result in work stoppages. Additionally, we rely on outside resources to supplement our workforce, including construction crews which are key to our infrastructure replacement program. We face the same risks associated with these outside resources as we do with our own workforce. As a result, we may be unable to hire or retain an adequate number of individuals who are knowledgeable about public utilities, water or the natural gas industry or face a lengthy time period associated with skill development and knowledge transfer. Failure to address these risks may result in increased operational and safety risks as well as increased costs. Even with reasonable plans in place to address succession planning and workforce training, we cannot control the future availability of qualified labor. If we are unable to successfully attract and retain an appropriately qualified workforce, it could adversely affect our financial condition and results of operations.

Significant or prolonged disruptions in the supply of important goods or services from third parties could harm our business, financial condition, and results of operations.

We are dependent on a continuing flow of important goods and services from suppliers for our businesses. A disruption or prolonged delays in obtaining important supplies or services, such as maintenance services, purchased water, chemicals, utility pipe, valves, hydrants, electricity, or other materials, could harm our utility services and our ability to

operate in compliance with all regulatory requirements, which could harm our business, financial condition, and results of operations. In some circumstances, we rely on third parties to provide important services (such as customer bill print and mail activities, payment processing, or utility service operations in some of our divisions) and a disruption in these services could harm our business, financial condition, and results of operations. Some possible reasons for a delay or disruption in the supply of important goods and services include:

- our suppliers may not provide materials that meet our specifications in sufficient quantities;
- our suppliers may provide us with water that does not meet applicable quality standards or is contaminated;
- our suppliers may provide us with natural gas not meeting quality standards or is of insufficient volume or pressure;
- our suppliers may face production or shipping delays due to public health threats, natural disasters, strikes, lock-outs, geopolitical or trade disputes, or other such actions;
- one or more suppliers could make strategic changes in the lines of products and services they offer; and
- some of our suppliers, such as small companies, may be more likely to experience financial and operational difficulties than larger, well-established companies, because of their limited financial and other resources;

proposed tariffs could result in supply chain disruptions.

As a result of any of these factors, we may be required to find alternative suppliers for the materials and services on which we rely. Accordingly, we may experience delays in obtaining appropriate materials and services on a timely basis and in sufficient quantities from such alternative suppliers at a reasonable price, which could interrupt services to our customers and harm our business, financial condition, and results of operations.

We depend significantly on the services of the members of our management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member of our management team or the inability to hire and retain experienced management personnel could harm our business, financial condition, and results of operations.

We may incur significant costs and liabilities resulting from pipeline integrity and other similar programs and related repairs.

Certain of Peoples' pipeline operations are subject to pipeline safety laws and regulations. The Department of Transportation's Pipeline and Hazardous Materials Safety Administration has adopted regulations requiring pipeline operators to develop integrity management programs, including more frequent inspections and other measures, for transmission pipelines located in "high consequence areas," which are those areas where a leak or rupture could do the most harm. The regulations require pipeline operators, including Peoples, to, among other things:

- perform ongoing assessments of pipeline integrity;
- develop a baseline plan to prioritize the assessment of a covered pipeline segment;
- identify and characterize applicable threats that could impact a high consequence area;
- improve data collection, integration, and analysis;
- develop processes for performance management, record keeping, management of change and communication;
- repair and remediate pipelines as necessary; and
- implement preventative and mitigating action.

We are required to maintain pipeline integrity testing programs that are intended to assess pipeline integrity. Peoples is also required to establish and maintain a Distribution Integrity Management Program for all distribution assets. This program requires protocols for identifying risks and threats to the distribution systems. The program incorporates a relative risk model to measure risk reduction to these threats. Any repair, remediation, preventative or mitigating actions may require significant capital and operating expenditures. Should we fail to comply with applicable statutes and related rules, regulations and orders, we could be subject to significant penalties and fines.

Our liquidity and, in certain circumstances, results of operations may be adversely affected by the cost of purchasing natural gas during periods in which natural gas prices are rising significantly.

The Peoples' regulated companies purchase their natural gas supply primarily through a combination of requirements contracts, some of which contain minimum purchase obligations, monthly spot purchase contracts, and forward purchase contracts. The price paid for natural gas acquired under forward purchase contracts is fixed prior to the delivery of the natural gas. Additionally, a portion of natural gas purchases is injected into natural gas storage facilities in the non-heating months and withdrawn from storage for delivery to customers during the heating months.

Our short-term borrowing requirements and liquidity are also significantly affected by the seasonal nature of the natural gas business. Extreme weather events, geopolitical forces, or regulatory policy changes, and the amount of natural gas needed to supply customers' needs due to, for example, colder than expected seasonal temperatures, could significantly affect the price and amount of natural gas we are required to purchase and the timing of such purchases, and, in turn, affect our borrowing requirements and liquidity position. If we fail to secure sufficient natural gas supplies at appropriate prices (due to, for example, more extreme winter conditions), we may be required to purchase additional natural gas supplies or purchase natural gas at elevated prices, which could adversely affect our borrowing levels, liquidity, and financial condition.

Peoples' tariff rate schedules contain Purchased Gas Adjustment (PGA) clauses that permit filings for rate adjustments to recover the cost of purchased gas. Subject to regulatory approval, as described below, changes in the cost of purchased gas are flowed through to customers and may affect uncollectible amounts and cash flows and can therefore impact our financial condition and results of operations.

The state regulatory commissions approve the PGA changes on an interim basis, subject to refund and the outcome of a subsequent audit and prudence review. Due to such review process, there is a risk of a disallowance of full recovery of these costs. We are also subject to regulations and standards regarding the amount of lost and unaccounted for gas that may be recovered from customers. Any material disallowance of purchased gas costs would adversely affect our financial condition and results of operations.

Increases in the prices that we charge for gas may also adversely affect our business because increased prices could lead customers to reduce usage and cause some customers to have difficulty paying the resulting higher bills. These higher prices may increase bad debt expenses and ultimately reduce earnings. Additionally, rapid increases in the price of purchased gas may result in an increase in short-term debt.

Our non-regulated natural gas operations purchase natural gas utilizing a combination of requirements contracts, some of which contain minimum purchase obligations, monthly spot purchase contracts, and forward purchase contracts. Although price risk for the non-regulated companies is mitigated to a degree by efforts aimed at balancing supply and demand, there are practical limitations on the ability to accurately predict demand, and any failure to do so could adversely affect our financial condition and results of operations.

An impairment in the carrying value of our goodwill could negatively impact our consolidated results of operations and net worth.

We have significant amounts of goodwill resulting from the acquisition of utility systems and businesses. As of December 31, 2024, the net carrying value of goodwill amounted to \$2,340,713,000 or 13.0% of our total assets. Of the balance, \$2,277,447,000 relates to our Regulated Natural Gas reporting unit. Goodwill is initially recorded at fair value, not amortized and reviewed for impairment at least annually or more frequently if impairment indicators arise. Indicators that are considered significant include changes in performance relative to expected operating results, significant negative industry or economic trends, including rising interest rates, or a significant decline in our stock price and/or market capitalization for a sustained period of time. If certain factors arise, we may be required to record a significant non-cash charge to earnings in our consolidated financial statements during the period in which an impairment of our goodwill is determined. Any such non-cash charge could have a material adverse impact on our results of operations and stockholders' equity.

Risks Related to Health and Safety and Environmental Concerns

Worsening weather conditions, natural disasters, public health threats, or other catastrophic events, could negatively affect our business, outlook, financial condition, results of operations and liquidity.

The issue of climate change is receiving ever increasing attention worldwide. Many climate change predictions, if true, present several potential challenges to utilities, such as: increased frequency and duration of droughts, increased precipitation and flooding, potential degradation of water quality, and changes in demand for services. We maintain an ongoing facility planning process, and this planning or the enactment of new standards may result in the need for additional capital expenditures or raise our operating costs, including the cost of insurance. Because of the uncertainty of weather volatility related to climate change, we cannot predict its potential impact on our business, financial condition, or results of operations.

Natural disasters, catastrophic events and public health threats could also, in the future, materially impact our business in numerous ways, including, but not limited to, those outlined below:

- reduced demand from our commercial customers and shifts in demand for our regulated utility services;
- delay the timeliness of our service to customers because of shutdowns and/or illness and travel restrictions among our employees or employees of other companies on whom we rely;
- negatively impact the financial condition of our customers and their ability to pay for our products and services, and our ability to disconnect service for non-payment may be limited, and state regulators may impose bill deferral programs;
- may limit or curtail significantly or entirely the ability of public utility commissions to approve or authorize applications and other requests we may make with respect to our regulated water and natural gas businesses; and
- delays in our supply chain and our ability to complete maintenance, repairs, and capital programs, which could result in disruptions and increased costs.

These and other impacts of global or regional health pandemics, epidemics or similar public health threats could also have the effect of heightening many of the other risks described in “Risk Factors” in this Annual Report and the other reports we file from time to time with the SEC. We might not be able to predict or respond to all impacts on a timely basis to prevent near- or long-term adverse impacts to our results of operations, financial condition and liquidity. Although any potential expenditures and operating costs may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs.

Climate change laws and regulations have been passed and are being proposed that require compliance with greenhouse gas emissions standards, as well as other climate change initiatives and reporting, which could impact our business, financial condition or results of operations.

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators, and others attribute global warming to increased levels of greenhouse gases (GHG), including carbon dioxide. Climate change laws and regulations enacted and proposed could limit and impose costs tied to GHG emissions from covered entities and require additional monitoring/reporting. A number of states have also adopted energy strategies or plans with goals that include the reduction of GHG. For example, Pennsylvania has a methane reduction framework for the natural gas industry, which has resulted in permitting changes with the stated goal of reducing methane emissions from well sites, compressor stations, and pipelines. At this time, the existing GHG laws and regulations are not expected to materially harm the Company’s operations or capital expenditures; however, the uncertainty of future climate change regulatory requirements still remains. We cannot predict the potential impact of future laws and regulations on our business, financial condition, or results of operations. Although these future expenditures and costs for regulatory compliance may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs. Competition from renewable energy sources may reduce the demand for natural gas, which could impact our future earnings and cash flows. Another potential risk related to climate change could be more frequent and more severe weather events, which could increase our costs to repair damaged facilities and restore service to our customers. If we are unable to provide utility services to our customers, our financial results would be impacted by lost revenues, and we would have to seek regulatory approval to recover restoration costs.

Climate change and other sustainability matters are increasingly important to many investors, and we may fail to provide information desired by all investors or achieve our sustainability goals.

Climate change and other sustainability matters are increasingly important to many investors, including our current investors. We have focused attention on these matters and the communication of our goals, targets, and activities to investors. These goals and targets reflect our current plans and aspirations. Our ability to achieve such goals and aspirations is subject to numerous risks and uncertainties, many of which rely on the collective efforts of others or may be outside of our control. As such, we cannot offer assurances that the results reflected or implied by any such statements will be realized or achieved. Moreover, standards and expectations for sustainability matters continue to evolve and may be subject to varying interpretations, which may result in significant revisions to our goals or progress. We may also be unable to satisfactorily meet evolving standards, regulations, and disclosure requirements related to sustainability. Any failure, or perceived failure, to meet evolving stakeholder expectations, additional regulations and industry standards and disclosures, or achieve our sustainability goals and targets could have an adverse effect on our business, results of operations, financial condition, or stock price.

Our water supply, including water provided to our customers, is subject to various potential contaminants which may result in disruption in our services, additional costs, loss of revenue, fines, laws and/or regulations, and litigation which could harm our business, reputation, financial condition, and results of operations.

Our water supplies, including water provided to our customers, are subject to possible contaminants, including those from:

- naturally occurring compounds or man-made substances;
- chemicals and other hazardous materials;
- lead and other materials;
- manufactured sources, such as pharmaceuticals and personal care products;
- unprotected cross-connections with our customers' processes, irrigation systems, or swimming pools; and
- possible deliberate or terrorist attacks.

Depending on the nature of the water contamination, we may have to interrupt the use of that water supply until we are able to substitute, where feasible, the flow of water from an uncontaminated water source, including if practicable, the purchase of water from other suppliers, or continue the water supply under restrictions on use for drinking or broader restrictions against all use except for basic sanitation and essential fire protection. We may experience a loss of revenue and incur significant costs, including, but not limited to, costs for water quality testing and monitoring, "do not consume" expenses, treatment of the contaminated source through modification of our current treatment facilities or development of new treatment methods, the purchase of alternative water supplies, or litigation related matters, including governmental enforcement actions. In addition, the costs we could incur to decontaminate a water source or our water distribution system and dispose of waste could also be significant. The costs resulting from the contamination may not be recoverable in rates we charge our customer, or may not be recoverable in a timely manner. Further, we may incur a loss of revenue in the event we elect to waive customers' water and wastewater charges. If we are unable to adequately treat the contaminated water supply or substitute a water supply from an uncontaminated water source in a timely or cost-effective manner, there may be an adverse effect on our business, reputation, financial condition, and results of operations. We could also be subject to:

- claims for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies, including toxic torts;
- claims for other environmental damage;
- claims for customers' business interruption as a result of an interruption in water service;
- claims for breach of contract;
- criminal enforcement actions;
- regulatory fines; or
- other claims.

We incur substantial costs on an ongoing basis to comply with all laws and regulations. New or stricter laws and/or regulations could increase our costs. Although we may seek to recover these costs through an increase in customer rates, there is no guarantee that the various state regulators would approve such an increase.

We have been working to prevent lead leaching from home plumbing sources by reducing water corrosivity and adding chemicals that can prevent leaching of lead in pipes and homes. We have a program to evaluate all changes in water sources prior to initiating a change in water supply. We also focus on identifying and removing lead service lines and encouraging customers to replace the customer-owned portion of the service line if it is lead as they are identified during our main replacement program or during other maintenance activities.

We are devoting our attention to various emerging contaminants, including the Per- and Polyfluoroalkyl Substances (PFAS) family of chemicals and other chemicals and substances that do not have any federal regulatory standard in drinking water. We comply with governmental agency guidance that recommends the standard of protection from these contaminants, and we monitor proposed standards and other governmental agency guidance regarding these contaminants. On April 10, 2024, the EPA announced the final National Primary Drinking Water Regulation (NPDWR) for the treatment of six per- and polyfluoroalkyl substances or compounds (PFAS). The NPDWR established the maximum contaminant levels (MCLs) in drinking water and allows for a five-year window to comply. The Company performed its analysis of the NPDWR and estimated an investment of at least \$450,000,000 of capital expenditures to install additional treatment facilities over the Compliance Period in order to comply (i.e., 2029 pending no delays due to lawsuits). This figure could increase as plans for construction execution are refined or if additional sites require treatment in the future. Additionally, the Company estimates annual operating expenses of approximately five percent of the installed capital expenditures, in today's dollars, related to testing, treatment, and disposal. These are preliminary estimates and actual capital expenditures and expenses may differ based upon a variety of factors, including supply chain issues and site-by-site requirements.

We may incur costs to defend our position and/or incur reputational damage even if we are not liable for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies, other environmental damage, or our customer's business interruption. Our insurance policies may not be sufficient to cover the costs of our defense or, in the event we are liable, these claims, and losses incurred, may make it difficult for us to secure insurance in the future at acceptable rates. Such claims or actions could harm our business, reputation, financial condition, and results of operations.

Transporting, distributing and storing natural gas involves numerous risks that may result in accidents and other operating risks and costs.

Natural gas transportation, distribution and storage activities inherently involve a variety of hazards and operational risks, such as leaks, accidental explosions, well failure, damage caused by third parties and mechanical problems, which could cause substantial financial losses. These risks could result in serious personal injury, loss of human life, significant damage to property, environmental pollution, impairment of operations, and substantial losses. The location of pipelines and storage facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. These activities may also subject the Company to litigation or administrative proceedings. Such litigation or proceedings could result in substantial monetary judgments, fines or penalties against the Company or otherwise be resolved on unfavorable terms.

We are subject to federal and state laws and regulations requiring the Company to maintain certain safety and system integrity measures by identifying and managing storage and pipeline risks. In addition, companies that supply and transport gas to Peoples are also subject to similar regulations and other restrictions related to their activities. Compliance with these laws and regulations, or future changes in these laws and regulations, may, directly or indirectly, result in increased capital, operating, and other costs which may not be recoverable in a timely manner or at all from customers in rates. In accordance with customary industry practices, we maintain insurance against a significant portion, but not all, of these risks and losses. To the extent any of these events occur or regulations change, it could adversely affect our business, reputation, financial condition, and results of operations.

Risks Related to the Company's Capital Needs and Common Stock

We have substantial indebtedness, as a result, it may be more difficult for the Company to pay or refinance its debts or take other actions, and the Company may need to divert cash to fund debt service payments.

As of December 31, 2024, our aggregate long-term and short-term debt balance was \$7,745,638,000. The substantial indebtedness could:

make it more difficult and/or costly for the Company to pay or refinance its debts as they become due, particularly during adverse economic and industry conditions, because a decrease in revenues or increase in costs could cause cash flow from operations to be insufficient to make scheduled debt service payments;

limit the Company's flexibility to pursue other strategic opportunities or react to changes in its business and the industry sectors in which it operates and, consequently, put the Company at a competitive disadvantage to its competitors that have less debt;

require a substantial portion of the Company's available cash to be used for debt service payments, thereby reducing the availability of its cash to fund working capital, capital expenditures, development projects, acquisitions, dividend payments, and other general corporate purposes, which could harm the Company's prospects for growth;

result in a downgrade in the credit ratings on the Company's indebtedness, which could limit the Company's ability to borrow additional funds on favorable terms or at all and increase the interest rates under its credit facilities and under any new indebtedness it may incur;

make it more difficult for the Company to raise capital to fund working capital, make capital expenditures, pay dividends, pursue strategic initiatives or for other purposes;

result in higher interest expense, which could be further increased in the event of increases in interest rates on the Company's current or future borrowings; and

require that additional materially adverse terms, conditions or covenants be placed on the Company under its debt instruments, which covenants might include, for example, limitations on additional borrowings and specific restrictions on uses of its assets, as well as prohibitions or limitations on its ability to create liens, pay dividends, receive distributions from its subsidiaries, redeem or repurchase its stock or make investments, any of which could hinder its access to capital markets and limit or delay its ability to carry out its capital expenditure program or otherwise limit its flexibility in the conduct of its business and make it more vulnerable to economic downturns and adverse competitive and industry conditions.

Based on the current and expected results of operations and financial condition of the Company, the Company believes that its cash flows from operations, together with the proceeds from borrowings, and issuances of equity and debt securities in the capital markets will generate sufficient cash on a consolidated basis to make all of the principal and interest payments when such payments are due under the Company's and its current subsidiaries' existing credit facilities, indentures and other instruments governing their outstanding indebtedness. However, the Company's expectation is based upon numerous estimates and assumptions and is subject to numerous uncertainties.

Our business requires significant capital expenditures that are partially dependent on our ability to secure appropriate funding. Disruptions in the capital markets may limit our access to capital. If we are unable to obtain sufficient capital, or if the cost of borrowing increases, it may harm our business, financial condition, results of operations, and our ability to pay dividends.

Our business is capital intensive. In addition to the capital required to fund customer growth through our acquisition strategy, on an annual basis, we invest significant sums for additions to or replacement of property, plant and equipment. We obtain funds for our capital expenditures from operations, contributions and advances by developers and others, debt issuances, and equity issuances. We have paid dividends consecutively for 80 years, and our Board of Directors recognizes the value that our common shareholders place on both our historical payment record and on our future anticipated dividend payments. Our ability to continue our growth through acquisitions and to maintain and meet our financial objectives is dependent upon the availability of adequate capital, and we may not be able to access the capital markets on favorable terms or at all. Additionally, if in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would need to seek alternative financing sources; however, there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are

unable to obtain sufficient capital, we may need to take steps to conserve cash by reducing our capital expenditures or dividend payments and our ability to pursue acquisitions may be limited. The reduction in capital expenditures may result in reduced potential earnings growth, affect our ability to meet environmental laws and regulations, and limit our ability to improve or expand our utility systems to the level we believe appropriate. There is no guarantee that we will be able to obtain sufficient capital in the future on reasonable terms and conditions for expansion, construction, and maintenance. In addition, delays in completing major capital projects could delay the recovery of the capital expenditures associated with such projects through rates.

If the cost of borrowing continues to increase, we might not be able to recover increases in our cost of capital through rates. The inability to recover higher borrowing costs through rates, or the regulatory lag associated with the time that it takes to begin recovery, may harm our business, financial condition, results of operations and cash flows.

Our inability to comply with debt covenants under our loan and debt agreements could result in prepayment obligations.

We are obligated to comply with debt covenants under some of our loan and debt agreements. Failure to comply with covenants under our loan and debt agreements could result in an event of default, which if not cured or waived, could result in us being required to repay or finance these borrowings before their due date, limit future borrowings, cause us to default on other obligations, and increase borrowing costs. If we are forced to repay or refinance (on less favorable terms) these borrowings, our business, financial condition, and results of operations could be harmed by reduced access to capital and increased costs and rates.

The price of our common stock may be volatile. This volatility may affect the price at which one could sell our common stock, and the sale or resale of substantial amounts of our common stock could adversely affect the market price of our common stock.

The sale or issuance of substantial amounts of our common stock, or the perception that additional sales or issuances could occur, could adversely affect the market price of our common stock, even if the business is doing well. In addition, the availability for sale of substantial amounts of our common stock could adversely impact its market price. Any of the foregoing may also impair our ability to raise additional capital through the sale of our equity securities or could result in incremental dilution due to issuing equity at a lower share price.

Risks Related to Acquisitions

One of the important elements of our growth strategy is the acquisition of regulated utility systems. Any acquisition we decide to undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business. Lastly, competition and industry trends could impact our ability to retain existing customers or acquire new customers, which could have an adverse impact on our business, results of operations and financial condition.

One important element of our growth strategy is the acquisition and integration of regulated utility systems in order to broaden our service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. Investing in and integrating acquisitions could require us to incur significant costs and cause diversion of our management's time and resources, and we may be unable to successfully integrate our business with acquired businesses or to realize anticipated benefits of acquisitions. Acquisitions by us could also result in:

- dilutive issuances of our equity securities;
- incurrence of debt, contingent liabilities, and environmental liabilities;
- unanticipated capital expenditures;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets for which we may never realize their full value and may result in an asset impairment that may negatively affect our results of operations;
- fluctuations in quarterly and/or annual results;

other acquisition related expenses; and
exposure to unknown or unexpected risks and liabilities.

Some or all of these items could harm our business, financial condition, results of operations, and cash flows, and our ability to finance our business and to comply with regulatory requirements. The businesses we acquire may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and harm our internal controls.

Some states in which we operate allow the respective public utility commissions to use fair market value to set ratemaking rate base instead of the traditional depreciated original cost of water or wastewater assets for certain qualifying municipal acquisitions. Depending on the state, there are varying rules and circumstances in which fair value is determined. A number of states' regulations allow ratemaking rate base to equal the lower of the average of the appraisals or the purchase price, subject to regulatory approval. There may be situations where we may pay more than the ultimate fair value of the utility assets as set by the regulatory commission, despite the fair value legislation suggesting its full recovery. In these situations, goodwill may be recognized to the extent there is an excess purchase price over the fair value of net tangible and identifiable intangible assets acquired through a business acquisition. Our financial condition and results of operations could be harmed by an inability to earn a return on, and recover our purchase price as a component of rate base. Regulatory actions or changes in significant assumptions, including discount and growth rates, utility sector market performance and comparable transaction multiples, projected operating and capital cash flows, and fair value of debt, could also potentially result in future impairments which could be material.

We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. As consolidation becomes more prevalent in the utility industry and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. In addition, our competitors may impede our growth by purchasing utilities near our existing operations, thereby preventing us from acquiring them. Governmental entities or environmental / social activist groups have challenged, and may in the future challenge our efforts to acquire new service territories, particularly from municipalities or municipal authorities. Additionally, on occasion we have entered into agreements to acquire water or wastewater utility systems that have been challenged by municipalities or other parties, or where referenda are required, which may impact our ability to complete the acquisition. Higher purchase prices and resulting rates may limit our ability to invest additional capital for system maintenance and upgrades in an optimal manner. Our growth could be hindered if we are not able to compete effectively for new companies and/or service territories with other companies or strategic and financial buyers that have lower costs of operations or capital, or that submit more attractive bids. Any of these risks may harm our business, financial condition, and results of operations.

We face the risk that large natural gas customers may bypass gas distribution services by gaining distribution directly from interstate pipelines, other gas distributors, or other energy sources. Increased competition or other changes in legislation, regulation, or policies could have a material adverse effect on our business, financial condition, or results of operations. Moreover, changes in wholesale natural gas prices compared with prices for electricity, fuel oil, coal, propane, or other energy sources may affect the retention of natural gas customers and may adversely impact our future financial condition and results of operations.

The integration of acquisitions can be a multi-year activity depending upon the complexity and significance of the acquisition.

One element of our strategic plans is our growth through acquisition strategy. Acquisitions in the utility industry are time consuming and complex, with the number of regulatory approvals needed. A significant acquisition can require significant time and resources, including devotion of management time, to integrate the acquired business.

Item 1B *Unresolved Staff Comments*

None

Item 1C *Cybersecurity*

Risk Management and Strategy

In connection with our enterprise risk management process, we identify, prioritize and monitor key risks that may affect the Company, including risks from cyber threats. Our cybersecurity program is aligned to the National Institute of Standards and Technology (NIST) Cybersecurity Framework. We have enterprise-wide security policies, standards and controls that incorporate best practices in security engineering, technology architecture and data protection, which support regulatory compliance. Our program includes encryption, data masking technology, data loss prevention technology, authentication technology, entitlement management, access control, anti-malware software and transmission of data over private networks, among other procedures designed to protect against unauthorized access to information. We also implemented specialized programs, such as enterprise-wide communications, presentations, phishing simulations and focused training for specific roles, as well as a general cybersecurity training program required for all employees. We also engage third parties to perform regular reviews of our security framework controls to promote objectivity. Our processes to identify, assess and manage material risks of cyber threats include risks associated with third party service providers, including cloud-based platforms. We believe that these processes provide us with a comprehensive assessment of potential cyber threats.

We maintain cybersecurity protection measures with respect to our information technology, including our customer data, and, in some cases, the monitoring and operation of our treatment, storage, pumping, and pipeline infrastructure. We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage, pumping, and pipeline infrastructure. In addition, we rely on our systems to track our utility assets and to manage maintenance and construction projects, materials and supplies, and our human resource functions.

To date, risks from cybersecurity threats and incidents have not materially affected the Company, including its business strategy, financial condition, or results of operations. Refer to Item 1A – *Risk Factors* for additional information.

Governance

Role of Management - Our cybersecurity program is overseen by a cross-functional committee of senior business leaders and led by our Chief Information Officer. This management committee meets bimonthly and is charged with overseeing our cybersecurity strategy, ensuring that cyber risk is managed, and that the program is aligned to business goals and objectives. Our Chief Information Officer has formal education in information technology; has multi-year experience working in the Company’s information and technology function; and receives periodic training and education on cybersecurity-related topics.

Role of the Board of Directors - The Board of Directors has a Risk and Investment Policy Committee (“RP Committee”) whose primary purpose is to assist the Board of Directors in fulfilling its oversight responsibilities. The RP Committee oversees a number of the Company’s risk management practices, including cybersecurity risks. Our Chief Information Officer provides updates on cybersecurity risks, threats, key developments in policies and practices, and related risk exposures to the RP Committee at least quarterly, and more often as needed. When covered during an RP Committee meeting, the Chairperson of the RP Committee reports on its discussions to the full Board of Directors. Additionally, management provides an update to the full Board of Directors at least once a year, and more often as needed. The Board of Directors annually reviews and approves the capital and operating budgets, ultimately reviewing and approving the amount spent on cybersecurity measures.

Item 2. *Properties*

Our Regulated Water properties consist of water transmission and distribution mains and wastewater collection pipelines, water and wastewater treatment plants, pumping facilities, wells, tanks, meters, pipes, dams, reservoirs, buildings, vehicles, land, easements, rights-of-way, and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage, and distribution of water and the collection and treatment of wastewater. Substantially all of our treatment, storage, and distribution properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of mortgage or indentures. These liens secure bonds, notes and other evidences of long-term indebtedness of our subsidiaries. For some properties that we acquired through the exercise of the power of eminent domain and other properties we purchased, we hold title for water supply purposes only. We own, operate and maintain approximately 14,500 miles of transmission and distribution mains, 24 surface water treatment plants, many well treatment stations, and 203 wastewater treatment plants. A small portion of the properties are leased under long-term leases.

Our Regulated Natural Gas properties consist of approximately 15,000 miles of natural gas distribution mains, varying in size from one-half inch to 30 inches in diameter, 1,700 miles of gathering pipeline, 300 miles of intrastate transmission/storage pipeline, and both active and inactive gas storage wells. Further, in each of the cities, towns, and rural areas where we serve natural gas customers, we own the underground gas mains and service lines, metering, and regulating equipment located on customers' premises and the district regulating equipment necessary for pressure maintenance. With a few exceptions, the measuring stations at which we receive gas from third parties are owned, operated, and maintained by others, and our distribution facilities begin at the outlet of the measuring equipment. These facilities, including odorizing equipment, are usually located on land owned by suppliers.

The following table indicates our net property, plant and equipment, in thousands of dollars, as of December 31, 2024 in the principal states where we operate:

	Net Property, Plant and Equipment	
Pennsylvania	\$ 9,305,441	70.8%
Ohio	756,201	5.8%
Illinois	699,938	5.3%
North Carolina	590,991	4.5%
Texas	806,382	6.1%
Other (1)	984,523	7.5%
Consolidated	<u>\$ 13,143,476</u>	<u>100.0%</u>

(1) Consists primarily of our operating subsidiaries in the following states: New Jersey, Indiana, Virginia, and Kentucky.

We believe that our properties are generally maintained in good condition and in accordance with current standards of good water, wastewater, and natural gas industry practice. We believe that our facilities are adequate and suitable for the conduct of our business and to meet customer requirements under normal circumstances.

Our corporate offices are leased from our subsidiary, Aqua Pennsylvania, and are located in Bryn Mawr, Pennsylvania.

Item 3. *Legal Proceedings*

There are various legal proceedings in which we are involved. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to materially harm our business, operating results, reputation, or financial condition.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for the Registrant's Common Stock, Related Stockholder Matters and Purchases of Equity Securities*

Our common stock is traded on the New York Stock Exchange under the ticker symbol WTRG. As of February 24, 2025, there were approximately 17,045 holders of record of our common stock.

The following table shows the cash dividends per share for the periods indicated:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2024					
Dividend paid per common share	\$ 0.3071	\$ 0.3071	\$ 0.3255	\$ 0.3255	\$ 1.2652
Dividend declared per common share	0.3071	\$ -	0.3255	0.6510 *	1.2836
2023					
Dividend paid per common share	\$ 0.2870	\$ 0.2870	\$ 0.3071	\$ 0.3071	\$ 1.1882
Dividend declared per common share	0.2870	-	0.3071	0.6142 **	1.2083

* includes dividends declared in December 2024 that are payable to shareholders on March 3 of the subsequent year

**includes dividends declared in December 2023 that are payable to shareholders on March 1 of the subsequent year

We have paid dividends consecutively for 80 years. On July 31, 2024, our Board of Directors authorized an increase of 6.0% in the September 3, 2024 quarterly dividend over the dividend Essential Utilities paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2024, the annualized dividend rate increased to \$1.302 per share. This is the 34th dividend increase in the past 33 years and the 26th consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1, and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements, and such other factors as our Board of Directors may deem relevant. In 2024, our dividends paid represented 58.2% of net income.

Information with respect to restrictions set forth in our debt instruments is disclosed in Note 11 – *Long-term Debt and Loans Payable* in the *Notes to Consolidated Financial Statements* which is contained in Item 8 of this Annual Report.

During the fourth quarter of 2024, the Company did not repurchase any of its equity securities under any repurchase plan or program.

Item 6. *[RESERVED]*

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read together with our Consolidated Financial Statements and accompanying Notes included in this Annual Report. This discussion contains forward-looking statements that are based on management's current expectations, estimates, and projections about our business, operations, and financial performance. All dollar amounts are in thousands of dollars, except per share amounts.

The Company

Essential Utilities, Inc., (Essential Utilities, the Company, we, us, or our), a Pennsylvania corporation, is the holding company for regulated utilities providing water, wastewater, or natural gas services to an estimated 5.5 million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, Virginia, and Kentucky under the Aqua and Peoples brands. One of our largest operating subsidiaries, Aqua Pennsylvania, Inc. (Aqua Pennsylvania), provides water or wastewater services to approximately one-half of the total number of water or wastewater customers we serve. These customers are located in the suburban areas in counties north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. Our other regulated water or wastewater utility subsidiaries provide similar services in seven additional states. Our Peoples subsidiaries provide natural gas service to approximately 745,000 customers in western Pennsylvania and Kentucky. Approximately 95% of the total number of natural gas utility customers we serve are in western Pennsylvania. Lastly, the Company's market-based activities are conducted through Aqua Resources, Inc. and certain other non-regulated subsidiaries of Peoples. Aqua Resources offers, through a third-party, water and sewer service line protection solutions and repair services to households. Other non-regulated subsidiaries of Peoples provide utility service line protection services to households and operate gas marketing and production businesses.

In October 2023, the Company completed the sale of its regulated natural gas utility assets in West Virginia, which represented approximately two percent of the Company's regulated natural gas customers. The Company initially received net cash proceeds of \$39,965, subject to working capital and other adjustments. In March 2024, the Company received an additional \$1,213 from the buyer. In January 2024, the Company completed the sale of its interest in three non-utility local microgrid and distributed energy projects for \$165,000. These transactions are consistent with the Company's long-term strategy of focusing on its core business and will allow the Company to prioritize the growth of its utilities in states where it has scale. The Company used the proceeds from these transactions to finance its capital expenditures and water and wastewater acquisitions, in place of external funding from equity and debt issuances. See Note 3 – *Dispositions* in the *Notes to Consolidated Financial Statements* which is contained in Item 8 of this Annual Report for additional information.

Recent Developments

Water Quality Standards

On April 10, 2024, the U.S. Environmental Protection Agency ("EPA") announced the final National Primary Drinking Water Regulation (NPDWR) for the treatment of six per- and polyfluoroalkyl substances or compounds ("PFAS"). The NPDWR established the maximum contaminant levels (MCLs) in drinking water and allows for a five-year window to comply (Compliance Period). The Company performed its analysis of the NPDWR and estimated an investment of at least \$450,000 of capital expenditures to install additional treatment facilities over the Compliance Period in order to comply (i.e., 2029 pending no delays due to lawsuits). This figure could increase as plans for construction execution are refined or if additional sites require treatment in the future. Additionally, the Company estimates annual operating expenses of approximately five percent of the installed capital expenditures, in today's dollars, related to testing, treatment, and disposal. These were preliminary estimates and actual capital expenditures and expenses may differ based upon a variety of factors, including supply chain issues and site-by-site requirements.

On October 30, 2024, the EPA issued the final Lead and Copper Rule Improvements (LCRI) which requires water systems to identify and replace lead pipes by 2037, lowers the lead action level threshold, and requires more proactive communications about lead pipes and plans for replacements, among other items. The LCRI builds upon the Lead and Copper Rule Revisions (LCRR) issued in 2021 and the Lead and Copper Rule (LCR) issued in 1992. The Company has been replacing lead service lines as part of its ongoing water main replacement and service line renewal programs, and in accordance with applicable state regulations. Pursuant to the LCRR, the Company completed the submission of its initial lead service line inventories on October 14, 2024. The Company estimates that approximately 6% of its regulated water service systems contain some lead or galvanized service lines requiring replacement. The Company currently has budgeted approximately \$210,000 of capital expenditures over the next five years for lead and galvanized service line replacement. Management is still reviewing the final LCRI and its impact to the Company.

Capital expenditures and operating costs required as a result of water quality standards have traditionally been recognized by state utility commissions as appropriate for inclusion in establishing rates. Various federal and state funding programs are also available to help reduce costs for rate payers. The Company has been actively applying for grants and low interest loans, whenever possible, to reduce the overall cost to customers.

Comprehensive Environmental Response, Compensation, and Liability Act

On April 19, 2024, the EPA announced a final rule that designated two PFAS chemicals, perfluorooctanoic acid (“PFOA”) and perfluorooctanesulfonic acid (“PFOS”), as hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”), also known as Superfund. This final action will address PFOA and PFOS contamination by enabling investigation and cleanup of these harmful chemicals and ensuring that leaks, spills, and other releases are reported. In addition to the final rule, the EPA issued a separate CERCLA enforcement discretion policy that makes it clear that the EPA will focus enforcement on parties who significantly contributed to the release of PFAS chemicals into the environment, including parties that have manufactured PFAS or used PFAS in the manufacturing process, federal facilities, and other industrial parties. The policy identifies examples for operators of public water systems and wastewater systems or entities performing a public service role in providing safe drinking water, handling municipal solid waste, treating or managing stormwater and wastewater, disposing of pollution control residuals, or ensuring beneficial application of wastewater products as a fertilizer substitute. The potential liabilities to the Company, if any, resulting from this rule are currently being evaluated. Multiple lawsuits were filed by various companies and industry groups against the EPA’s PFAS rule and are awaiting court action.

The Company continues to advocate for actions to hold polluters accountable and is part of the Multi-District Litigation and other legal actions against multiple PFAS manufacturers and polluters to attempt to ensure that the ultimate responsibility for the cleanup of these contaminants is attributed to the polluters and is seeking damages and other costs to address the contamination of its public water supply systems by PFAS. The Company is also monitoring ongoing litigation and settlement activity with manufacturers of PFAS in these proceedings. For more information, see Note 9 – *Commitments*, in the *Notes to Consolidated Financial Statements*, which is contained in Item 8 of this Annual Report for the year ended December 31, 2024.

Economic Regulation

Most of our utility operations are subject to regulation by their respective state utility commissions, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions, and authorize the issuance of securities. The utility commissions also generally establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, and loans and other financings. The policies of the utility commissions often differ from state to state and may change over time. A small number of our operations are subject to rate regulation by county or city government. Over time, the regulatory party in a particular state may change. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. One consideration we may undertake in evaluating on which states to focus our growth and investment strategy is whether a state provides for consolidated rates, a surcharge for replacing and rehabilitating infrastructure, fair value treatment of

acquired utility systems, and other regulatory policies that promote infrastructure investment and efficiency in processing rate cases.

The mission of the regulated utility industry is to provide quality and reliable utility service at reasonable rates to customers, while earning a fair return for shareholders. We strive to achieve the industry's mission by effective planning, efficient investments, and productive use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving our distribution system, treatment plants, information technology systems, and other infrastructure. This capital investment creates assets that are used and useful in providing utility service and is commonly referred to as rate base. In pursuing our rate case strategy, we consider the amount of net utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in our capital structure, and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state utility commissions or local regulatory authorities. In general, as a regulated enterprise, our utility rates are established to provide full recovery of utility operating costs, taxes, interest on debt used to finance capital investments, and a return on equity used to finance capital investments. There may be a regulatory lag between the time when operating costs increases, customer usage changes, and capital investments occur and when those items are incorporated into rates. On occasion, our regulated utility companies may enter into rate settlement agreements, which require us to wait for a period of time to file the next base rate increase request.

Presented below are some of the approved constructive regulatory practices that are available in the states in which we operate:

Regulatory Mechanism	States Allowed
Consolidated Tariff ^(a)	IL, IN, KY, NC, NJ, OH, PA, TX, VA
Future or Fully Projected Test Year ^(b)	IL, IN, KY, NC, NJ, OH, PA, VA
Infrastructure Surcharge Mechanism ^(c)	IL, IN, KY, NC, NJ, OH, PA, TX, VA
Purchased Gas Riders ^(d)	KY, PA
Revenue Stability Mechanism ^(e)	KY, PA, IL
Deferred Accounting ^(f)	IL, IN, KY, NC, NJ, OH, PA, TX, VA

(a) Our water and wastewater operations are comprised of 38 rate divisions, and our natural gas operations are comprised of two rate divisions. Each of our utility rate divisions requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we have sought approval from the applicable state utility commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All eight states in which we operate water and wastewater utilities currently permit us to file a revenue requirement using some form of consolidated rates for some or all of the rate divisions in that state.

(b) Most of the states in which we operate allow us to use a future or fully projected test year in our rate filings, which allows current or projected revenues, expenses and capital investments to be collected on a more timely basis. In some cases, interim rate relief is allowed in the event of regulatory lag. Some states also permit our subsidiaries to use a surcharge or credit on their bills to reflect allowable changes in costs, such as changes in state tax rates, other taxes, and purchased water costs, until such time as the new costs are fully incorporated in base rates.

(c) Each of the states in which we operate water, wastewater, and natural gas utilities, permit us to add an infrastructure rehabilitation surcharge to their respective bills, between rate cases, to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems.

(d) Our natural gas utility business is affected by the cost of natural gas, and we are able to generally pass the cost of gas to our customers without markup under purchased gas cost adjustment mechanisms; consequently, increases in the cost of gas are offset by a corresponding increase in revenues.

(e) The natural gas utility business is subject to seasonal fluctuations with the peak usage period occurring in the heating season, which generally runs from October to March. We have in place a weather-normalization adjustment (WNA) mechanism for our natural gas customers served in Kentucky, and, beginning in October 2024, for our natural gas customers in Pennsylvania. The WNA serves to minimize the effects of weather on the Company's results for its residential and small commercial natural gas customers. This regulatory mechanism reduces the delivery charge component of customers' bills for the additional volumes used when actual heating degree days (HDDs) exceed normalized HDDs and increases the delivery charge component of customers' bills for the reduced volumes when actual HDDs are less than normal HDDs. For a given day, the number of HDDs is calculated by subtracting the average of the high and low temperatures for the day from 65 degrees Fahrenheit. Normal HDDs are established through rate proceedings in each of our jurisdictions.

In Illinois, our operating subsidiary has a revenue stability mechanism which allows us to recognize state PUC-authorized revenue for a period which is not based upon the volume of water sold during that period, thereby reducing the impact of weather and consumption variability.

(f) We are permitted to apply for deferred cost accounting treatment and set up a regulatory asset for future recovery of certain costs until the next base rate case.

Timely and adequate rate relief is important to our continued profitability and in providing a fair return to our shareholders. We continue to pursue enhancements to our regulatory practices to facilitate the efficient recovery of the increased cost of providing services and infrastructure improvements in our rates and mitigate the inherent regulatory lag associated with traditional rate making processes.

Presented in the table below are annualized incremental revenues by state, assuming a constant sales volume and customer count, resulting from base rate case authorizations that became effective in 2024:

State	Segment	Effective Date	Annualized Revenue Increase
Ohio	Water	1/1/2024; 8/1/2024	\$ 1,637
	Wastewater	7/1/2024	490
North Carolina*	Water	1/1/2024	2,632
	Wastewater	1/1/2024	1,111
Virginia	Water	2/5/2024	4,830
	Wastewater	2/5/2024	660
Pennsylvania	Gas	9/27/2024	93,000
New Jersey	Water	10/15/2024	2,250
Illinois	Water	12/5/2024	4,726
	Wastewater	12/5/2024	6,906
Total Base Rate Case Authorizations in 2024			<u>\$ 118,242</u>

* Base rate case - step increase for Year 2

On February 7, 2025, the Pennsylvania Public Utility Commission ("PAPUC") issued an order approving, with certain minor modifications, the joint petition for non-unanimous partial settlement filed by Aqua Pennsylvania, Office of Consumer Advocate, and other groups, that allowed a base rate increase designed to increase total annual operating revenues by \$73,000. New rates went into effect on February 22, 2025. At the time the rate order was received, the rates in effect also included \$37,940 in Distribution System Improvement Charges ("DSIC"), which was 6.73% above prior base rates. Consequently, the aggregate annual base rates increased by \$110,940 since the last base rate increase and DSIC was reset to zero.

Our operating subsidiaries received rate increases representing estimated annualized revenues of \$118,242 in 2024 resulting from twelve base rate decisions, \$28,426 in 2023 resulting from seven base rate decisions, and \$81,610 in 2022 resulting from seven base rate decisions. Annualized revenues in aggregate from all of the rate increases realized in the year of grant were \$34,832 in 2024, \$10,109 in 2023, and \$51,163 in 2022. Refer to Note 17 – *Rate Activity* in this Annual Report for further information.

Growth Through Acquisitions and Capital Investment

The Company continues to focus on rate base growth opportunities to create a resilient and sustainable future. This is achieved through (i) acquisitions to expand the Company's service areas and increase customers, and (ii) delivering on its environmental reliability commitments through continued investment in replacing aging infrastructure, contaminant mitigation, and emissions reductions, among others.

Acquisitions

Part of our strategy to meet the industry challenges is to actively explore opportunities to expand our utility operations through acquisitions of water, wastewater, and other utilities either in areas adjacent to our existing service areas or in new service areas, and to explore acquiring market-based businesses that are complementary to our regulated utility operations. To complement our growth strategy, we routinely evaluate the operating performance of our individual utility systems, and in instances where limited economic growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable, we will seek to sell the utility system and reinvest the proceeds in other utility systems. Consistent with this strategy, we are focusing our acquisitions and resources in states where we have critical mass of operations in an effort to achieve economies of scale and increased efficiency. Our growth-through-acquisition strategy allows us to operate more efficiently by sharing operating expenses over more utility customers and provides new locations for future earnings growth through capital investment. Another element of our growth strategy is the consideration of opportunities to expand by acquiring other utilities, including those that may be in a new state if they provide promising economic growth opportunities and a return on equity that we consider acceptable. Our ability to successfully execute this strategy historically and to meet the industry challenges has largely been due to our core competencies, financial position, and our qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

During 2024, we completed two acquisitions of water and wastewater systems, which along with the organic growth in our existing systems, represent 9,391 new customers. During 2023, we completed seven acquisitions of water and wastewater systems, which along with the organic growth in our existing systems, represents 19,659 new customers. During 2022, we completed three acquisitions of water and wastewater systems, which along with the organic growth in our existing systems, represents 31,537 new customers..

As of December 31, 2024, the Company has seven signed purchase agreements for additional water and wastewater systems that are expected to serve approximately 213,000 equivalent retail customers or equivalent dwelling units and total approximately \$362,000 in purchase price in three of our existing states. This includes the Company's agreement to acquire the Delaware County Regional Water Quality Control Authority (DELCORA) for \$276,000. DELCORA, a Pennsylvania sewer authority, serves approximately 198,000 equivalent dwelling units in the Philadelphia suburbs. Refer to Note 2 – *Acquisitions* in this Annual Report for further discussion.

As of December 31, 2024, the pipeline of potential water and wastewater municipal acquisitions the company is actively pursuing represents approximately 400,000 total customers or equivalent dwelling units. The Company remains on track to, over the long term, annually increase customers between 2% and 3% through acquisitions and organic customer growth.

On January 31, 2025, the Company closed on the acquisition of Greenville Sanitary Authority's wastewater utility assets, which serves approximately 2,300 customers in Greenville, Pennsylvania for \$18,000.

Capital Investment

In 2024, the Company invested \$1,329,747 to improve its regulated water and natural gas infrastructure systems and to enhance customer service across its operations. From 2025 through 2029, the company plans to invest approximately \$7,800,000 to improve water and natural gas systems and better serve customers through improved information technology. The Company's investments include addressing PFAS with at least \$450,000 in capital projects, replacing and expanding its water and wastewater utility infrastructure, and replacing and upgrading its natural gas utility infrastructure, with the latter leading to significant reductions in methane emissions that occur in aged gas pipes. The capital investments made to rehabilitate and expand the infrastructure of the communities the Company serves are critical to its mission of safely and reliably delivering Earth's most essential resources.

Rate Base Growth

Since 2020, the Company's combined rate base grew by 44%. The Company expects its regulated water and natural gas rate bases to grow at a compound annual rate of around 6% and 11%, respectively, through 2029. The combined rate base is expected to grow at a compound annual rate of 8% through 2029.

As of December 31, 2024, the Company's rate base is estimated to be \$11,500,000, which is comprised of:

\$7,300,000 in the Regulated Water segment; and
\$4,200,000 in the Regulated Natural Gas segment.

As of December 31, 2024, the regulatory status of the Company's rate base is estimated to be as follows:

\$10,300,000 filed with respective state utility commissions or local regulatory authorities; and
\$1,200,000 not yet filed with respective state utility commissions or local regulatory authorities.

RESULTS OF OPERATIONS

Consolidated financial and operational highlights for the years ended December 31, 2024, 2023, and 2022 are presented below. For discussion of our results of operations and cash flows for 2023 compared with 2022, refer to Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on [Form 10-K for our fiscal year ended December 31, 2023](#), filed with the SEC on February 29, 2024.

Years ended December 31,	2024	2023	2022	2024 vs. 2023	2023 vs. 2022
Operating revenues:					
Regulated water segment	\$ 1,221,880	\$ 1,153,376	\$ 1,082,972	\$ 68,504	\$ 70,404
Regulated natural gas segment	842,991	863,759	1,143,362	(20,768)	(279,603)
Other and eliminations	21,242	36,689	61,698	(15,447)	(25,009)
Consolidated operating revenues	\$ 2,086,113	\$ 2,053,824	\$ 2,288,032	\$ 32,289	\$ (234,208)
Operations and maintenance expense	\$ 587,250	\$ 575,518	\$ 613,649	\$ 11,732	\$ (38,131)
Net income	\$ 595,314	\$ 498,226	\$ 465,237	\$ 97,088	\$ 32,989
Capital expenditures	\$ 1,329,747	\$ 1,199,103	\$ 1,062,763	\$ 130,644	\$ 136,340
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	28.2%	28.0%	26.8%	0.2%	1.2%
Depreciation and amortization	17.7%	16.7%	14.0%	1.0%	2.7%
Taxes other than income taxes	4.5%	4.4%	3.9%	0.1%	0.5%
Interest expense, net of interest income	14.3%	13.6%	10.2%	0.7%	3.4%
Net income	28.5%	24.3%	20.3%	4.2%	4.0%
Return on Essential Utilities stockholders' equity	9.6%	8.4%	8.7%	1.2%	-0.3%
Ratio of capital expenditures to depreciation expense	3.7	3.5	3.4	0.2	0.1
Effective tax rate	(3.8%)	(15.4%)	(3.2%)	11.6%	(12.2%)

Consolidated Results of Operations Comparison for 2024 and 2023

Operating revenues - Operating revenues increased by \$32,289 or 1.6% for the year ended December 31, 2024 compared to the year ended December 31, 2023. Revenues from our Regulated Water segment increased by \$68,504, Regulated Natural Gas segment revenues decreased by \$20,768 and Other business segment revenues decreased by \$15,447. A detailed discussion of the factors contributing to the changes in segment operating revenues is included below under the section, Segment Results of Operations.

Our Other business segment revenues consist of market-based revenues at Aqua Resources and our non-regulated natural gas operations amounting to \$21,242 in 2024, \$36,689 in 2023, and \$61,698 in 2022. The decrease in Other business segment revenues in 2024 compared to 2023 is primarily due to lower revenues from our non-regulated natural gas operations as a result of lower average gas prices and lower gas usage in the current period as compared to the prior period.

Operating expenses - Operations and maintenance expenses increased in 2024, as compared to 2023, by \$11,732 or 2.0%, primarily due to:

- an increase in customer assistance surcharge costs of \$8,140 in our Regulated Natural Gas segment, which has an equivalent offsetting amount in revenues;
- an increase in employee related costs of \$7,828, primarily resulting from higher salary costs, healthcare costs, and contributions to the Company's defined contribution plan, offset by lower pension cost;
- an increase in production costs for water and wastewater operations of \$5,880, primarily due to higher purchased water, wastewater, and power costs;
- additional operating costs associated with acquired and pending acquisitions of water and wastewater utility systems and higher customer base of \$2,788;
- an insurance recovery of \$2,448 in 2023 associated with clean-up costs and other expenses incurred during Hurricane Ida; and,
- an increase in materials and supplies of \$2,026; offset by
- a decrease in legal expenses of \$4,137;
- a decrease in bad debt expense of \$1,344;
- a decrease in transportation expenses of \$1,548; and,
- lower operations and maintenance expense of \$12,411 as a result of our sale of the assets of Peoples West Virginia in October 2023 and our interest in three non-utility local microgrid and distributed energy projects in January 2024.

Purchased gas decreased by \$75,297 or 21.4% in 2024 compared to 2023. Purchased gas represents the cost of gas sold by Peoples for the regulated and non-regulated gas business and has a corresponding offset in revenue. This expense decreased for the regulated natural gas business and non-regulated business by \$60,322 and \$14,975, respectively. The decrease in 2024 is the result of the impact of lower average cost of gas of \$55,236, lower gas usage of \$11,380 due to warmer weather conditions, and a decrease of \$8,681 from the sale of Peoples West Virginia in October 2023 and our three non-utility local microgrid and distributed energy projects in January 2024.

Depreciation and amortization expense increased by \$25,857 or 7.5%, in 2024 over 2023, principally due to continued capital expenditures to expand and improve our utility facilities, upgrade our information systems, our acquisitions of new utility systems, and additional rate case filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes other than income taxes increased by \$4,426 or 4.9% in 2024 as compared to 2023 largely due to an increase in property taxes, payroll taxes, and pumping fees.

Other expense, net - Interest expense, net of interest income, increased by \$15,406 in our Regulated Water segment and by \$668 for our Regulated Natural Gas segment. Refer to Segment Results of Operations below for further details. Interest expense, net of interest income, in Other relates to our corporate operations, and this increased by \$3,114. The weighted average cost of fixed rate long-term debt was 4.03% at December 31, 2024 and 3.86% at December 31, 2023. The weighted average cost of fixed and variable rate long-term debt was 4.14% at December 31, 2024 and 4.14% at December 31, 2023.

Allowance for funds used during construction (AFUDC) was \$21,310 in 2024 and \$16,967 in 2023, and varies as a result of changes in the average balance of utility plant construction work in progress, to which AFUDC is applied, changes in the AFUDC rate which is based predominantly on short-term interest rates, changes in the balance of short term-debt, and changes in the amount of AFUDC related to equity. The increase in 2024 is primarily due to an increase in the average balance of utility plant construction work in progress, to which AFUDC is applied. The amount of AFUDC related to equity was \$13,938 in 2024 and \$11,726 in 2023.

Gain on sale of other assets totaled \$92,224 in 2024 and \$65 in 2023. During the first quarter of 2024, the Company completed the sale of its interest in three non-utility local microgrid and distributed energy projects and recognized a gain of \$91,236.

Other, net was income of \$1,425 in 2024 and \$2,613 in 2023, and largely consists of the non-service cost component of our net benefit cost for our pension and post-retirement benefits and unrealized gains and losses on investments associated with our non-qualified pension plan. The change is primarily due to the increase in the pension and post-retirement benefit non-service cost component of net periodic benefit expense in 2024 in our Regulated Water segment.

Income tax benefit - Our effective income tax rate was a benefit of 3.8% in 2024 and 15.4% in 2023. The Company's provision for income taxes represents an income tax benefit due to the effects of tax deductions recognized for certain qualifying infrastructure investments. The decrease in the income tax benefit is primarily attributed to the gain recognized from the sale of the Company's interest in three non-utility local microgrid and distributed energy projects in the first quarter of 2024 and decrease in tax benefit associated with the repairs tax deduction for qualifying utility infrastructure investments in our Regulated Natural Gas segment.

Net income -

	Years ended December 31,		
	2024	2023	2022
Operating income	\$ 757,668	\$ 692,097	\$ 661,187
Net income	\$ 595,314	\$ 498,226	\$ 465,237
Diluted net income per share	\$ 2.17	\$ 1.86	\$ 1.77

The changes in diluted net income per share in 2024 over the previous year were due to the aforementioned changes.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital improvements are important to the future realization of improved profitability.

Segment Results of Operations Comparison for 2024 and 2023

We have identified eleven operating segments, and we have two reportable segments based on the following:

Eight segments are composed of our water and wastewater regulated utility operations in the eight states where we provide these services. These operating segments are aggregated into one reportable segment, Regulated Water, since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution and/or wastewater collection methods, and the nature of the regulatory environment.

Our Regulated Natural Gas segment is composed of natural gas utility companies in three states acquired in the Peoples Gas Acquisition. These utilities provide natural gas distribution services, and their operating results subsequent to the March 16, 2020 acquisition date are reported in the Regulated Natural Gas segment. In October 2023, the Company sold its regulated natural gas utility assets in West Virginia, which represented approximately two percent of the Company's regulated natural gas customers. The sale concluded the Company's regulated utility operations in West Virginia.

Two segments are not quantitatively significant to be reportable and are composed of our non-regulated natural gas operations and Aqua Resources. These segments are included as a component of “Other,” in addition to corporate costs that have not been allocated to the Regulated Water and Regulated Natural Gas segments, because they would not be recoverable as a cost of utility service, and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

Regulated Water Segment

The following tables present the selected operating results and customers served for our Regulated Water segment, for the year ended December 31:

	2024	2023	2022	2024 vs. 2023	2023 vs. 2022
Sendout^(a) (in millions of gallons)					
Pennsylvania	43,794	42,525	42,666	1,269	(141)
Ohio	13,979	13,560	14,604	419	(1,044)
Illinois	8,774	8,421	8,784	353	(363)
Texas	8,038	8,703	8,606	(665)	97
North Carolina	5,809	5,824	5,934	(15)	(110)
Other states	6,705	6,526	6,272	179	254
Subtotal	87,099	85,559	86,866	1,540	(1,307)
Elimination	(94)	(122)	(141)	28	19
Total sendout by state	87,005	85,437	86,725	1,568	(1,288)
Utility customers:					
Residential water	865,028	859,331	850,673	5,697	8,658
Commercial water	43,969	43,853	43,119	116	734
Industrial water	1,275	1,283	1,286	(8)	(3)
Other water	19,774	19,123	18,446	651	677
Wastewater	193,821	190,119	181,721	3,702	8,398
Total water and wastewater utility customers	1,123,867	1,113,709	1,095,245	10,158	18,464
Operating revenues:					
Residential water	\$ 662,909	\$ 641,351	\$ 607,473	\$ 21,558	\$ 33,878
Commercial water	186,534	180,731	168,460	5,803	12,271
Industrial water	34,831	33,949	32,581	882	1,368
Other water	123,373	92,784	94,359	30,589	(1,575)
Wastewater	199,157	187,462	165,312	11,695	22,150
Other utility	15,076	17,099	14,787	(2,023)	2,312
Total operating revenues	\$ 1,221,880	\$ 1,153,376	\$ 1,082,972	\$ 68,504	\$ 70,404
Operating expenses:					
Operations and maintenance expense	\$ 381,088	\$ 368,843	\$ 370,850	\$ 12,245	\$ (2,007)
Depreciation and amortization	232,338	217,593	201,392	14,745	16,201
Taxes other than income taxes	68,006	62,759	64,472	5,247	(1,713)
Other expense, net	121,292	105,674	84,396	15,618	21,278
Provision for income taxes	68,851	57,546	47,510	11,305	10,036
Segment net income	\$ 350,305	\$ 340,961	\$ 314,352	\$ 9,344	\$ 26,609

(a) Sendout represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand.

Operating revenues - The growth in our Regulated Water segment’s revenues over the past three years is primarily a result of increases in our water and wastewater rates and our customer base. Water and wastewater rate increases, including infrastructure rehabilitation surcharges, implemented during the past three years have provided additional operating revenues of \$50,639 in 2024, \$57,924 in 2023, and \$63,367 in 2022. The number of customers increased at an annual compound rate of 1.8% over the past three years due to acquisitions and organic growth, adjusted to exclude customers associated with utility system dispositions. Acquisitions in our Regulated Water segment have provided additional water and wastewater revenues of \$4,182 in 2024, \$9,646 in 2023, and \$16,145 in 2022.

Our Regulated Water segment also includes operating revenues of \$11,226 in 2024, \$14,863 in 2023, and \$11,477 in 2022, associated with revenues earned primarily from fees received from telecommunication operators that have put cellular antennas on our water towers, fees earned from municipalities for our operation of their water or wastewater treatment services or to perform billing services, and fees earned from developers for accessing our water mains.

Operating expenses - Operations and maintenance expense increased by \$12,245 or 3.3% primarily due to the following:

- an increase in production costs for water and wastewater operations of \$5,880;
- an insurance recovery of \$2,448 in 2023 associated with clean-up costs and other expenses incurred during Hurricane Ida;
- an increase in employee related costs of \$2,529 resulting from higher salary costs, healthcare costs, and contributions to the Company's defined contribution plan, offset by lower pension cost;
- additional operating costs resulting from acquired water and wastewater utility systems and higher customer base of \$2,788; offset by a decrease in legal fees of \$1,192; and,
- a decrease in bad debt expense of \$467.

Depreciation and amortization increased by \$14,745 or 6.8% primarily due to continued capital investment to expand and improve our utility facilities and our acquisitions of new utility systems.

Taxes other than income taxes increased by \$5,247 or 8.4% in 2024 as compared to 2023 largely due to an increase in property taxes, payroll taxes and pumping fees.

Other expense, net - Interest expense, net of interest income, increased by \$15,406 or 12.4% primarily due to the increase in average borrowings and increased borrowing costs.

AFUDC increased by \$1,927 or 13.0% due to the increase in the average balance of utility plant construction work in progress, to which AFUDC is applied.

Other, net, was an income of \$1,445 in 2024 and an income of \$3,596 in 2023, and largely consists of the non-service cost component of our net benefit cost for pension and post-retirement benefits, and unrealized gains and losses on investments associated with our non-qualified pension plan. The change is primarily due to the increase in the pension and post-retirement benefit non-service cost component of net periodic benefit expense in 2024. The credit arising from the expected return of plan assets assumption was lower in 2024 as compared to 2023.

Provision for income tax - The effective income tax rate for our Regulated Water segment was an expense of 16.4% in 2024, compared to an expense of 14.4% in 2023. The increase in the effective tax rate is primarily the result of changes in the jurisdictional earnings mix, decrease in the amortization of certain regulatory liabilities associated with deferred taxes, and decrease in the income tax benefit associated with the repairs tax deduction for qualifying utility infrastructure investments.

Regulated Natural Gas Segment

The following tables present the selected operating results and customers served for our Regulated Natural Gas segment for and as of the year ended December 31:

	2024	2023	2022	2024 vs. 2023	2023 vs. 2022
Gas utility customers:					
Residential gas	685,591	683,811	695,198	1,780	(11,387)
Commercial gas	59,296	59,384	59,684	(88)	(300)
Industrial gas	552	551	1,459	1	(908)
Total gas utility customers	745,439	743,746	756,341	1,693	(12,595)
Delivered volumes - retail and transportation (thousand cubic feet)					
Residential gas	50,669,829	51,698,440	61,093,372	(1,028,611)	(9,394,932)
Commercial gas	33,641,589	33,151,308	37,240,382	490,281	(4,089,074)
Industrial gas	47,959,164	48,323,846	49,017,036	(364,682)	(693,190)
Total delivered volumes	132,270,582	133,173,594	147,350,790	(903,012)	(14,177,196)
Heating Degree Days ^(a)	4,288	4,558	5,648	(270)	(1,090)
Average Heating Degree Days ^(b)	5,240	5,427	5,438	(187)	(11)
Operating revenues:					
Residential gas	\$ 504,426	\$ 519,406	\$ 720,490	\$ (14,980)	\$ (201,084)
Commercial gas	100,662	111,272	149,653	(10,610)	(38,381)
Industrial gas	2,279	3,232	5,636	(953)	(2,404)
Gas transportation	194,413	184,598	205,825	9,815	(21,227)
Other utility	41,211	45,251	61,758	(4,040)	(16,507)
Total operating revenues	\$ 842,991	\$ 863,759	\$ 1,143,362	\$ (20,768)	\$ (279,603)
Operating expenses:					
Operations and maintenance expense	\$ 207,176	\$ 209,073	\$ 239,506	\$ (1,897)	\$ (30,433)
Purchased gas	\$ 267,226	\$ 327,548	\$ 551,009	\$ (60,322)	\$ (223,461)
Depreciation and amortization	\$ 135,814	\$ 125,263	\$ 118,955	\$ 10,551	\$ 6,308
Taxes other than income taxes	\$ 22,985	\$ 23,846	\$ 22,642	\$ (861)	\$ 1,204
Other expense, net	\$ (3,834)	\$ 90,819	\$ 87,916	\$ (94,653)	\$ 2,903
Income tax benefit	\$ (79,993)	\$ (113,353)	\$ (61,942)	\$ 33,360	\$ (51,411)
Segment net income	\$ 293,617	\$ 200,563	\$ 185,276	\$ 93,054	\$ 15,287

^(a) Unit of measure reflecting temperature-sensitive natural gas consumption, calculated by subtracting the average of a day's high and low temperatures from 65 degrees Fahrenheit; measured at Pittsburgh, PA.

^(b) Based on historical twenty-year average heating degree days, as calculated from data provided by the National Weather Service for the same geographic location.

Operating revenues – Operating revenues from the Regulated Natural Gas segment decreased by \$20,768 or 2.4% primarily due to:

- a decrease in purchased gas costs of \$60,322; refer to purchased gas costs discussion below for further information;
- the decrease in distribution revenues of \$4,043 as a result of our sale of the assets of Peoples West Virginia;
- a decrease in other utility revenues of \$7,100 resulting from the sale of the Company's interest in three non-utility local microgrid and distributed energy projects; offset by
 - an increase of \$32,432 due to higher rates and other surcharges;
 - an increase in customer assistance surcharge of \$8,140, which has an equivalent offsetting amount in operations and maintenance expense; and
 - a weather normalization adjustment of \$9,243, which had the effect of increasing revenues.

The Regulated Natural Gas segment is subject to seasonal fluctuations with the peak usage period occurring in the heating season which generally runs from October to March. A heating degree day (HDD) is each degree that the average of the high and low temperatures for a day is below 65 degrees Fahrenheit in a specific geographic location. Particularly during the heating season, this measure is used to reflect the demand for natural gas needed for heating based on the extent to which the average temperature falls below a reference temperature above which no heating is required (65 degrees Fahrenheit). During the year ended December 31, 2024, we experienced actual HDDs of 4,288 days, which was warmer by 5.9% than the actual HDDs of 4,558 days in 2023 for Pittsburgh, Pennsylvania, which we use as a proxy for our western Pennsylvania service territory. A weather normalization adjustment (“WNA”) mechanism is in place for our natural gas customers served in Kentucky, and, beginning in October 2024, for our natural gas customers in Pennsylvania. The WNA serves to minimize the effects of weather on the Company’s ability to collect revenues to cover operating expenses for its residential and small commercial natural gas customers.

Operating expenses – Operations and maintenance expense for the year ended December 31, 2024 decreased by \$1,897 or 0.9% primarily due to the following:

- lower operations and maintenance expense of \$12,411 as a result of our sale of the assets of Peoples West Virginia in October 2023 and our interest in three non-utility local microgrid and distributed energy projects in January 2024;
- a decrease in legal fees of \$3,266;
- a decrease in transportation expense of \$1,429;
- a decrease in bad debt expense of \$905; offset by
- an increase in customer assistance surcharge costs of \$8,140, which has an equivalent offsetting amount in revenues;
- an increase in materials and supplies of \$1,805; and
- an increase in labor and employee benefits of \$5,719 resulting from higher salary costs, healthcare costs, and contributions to the Company’s defined contribution plan, offset by lower pension cost.

Our Regulated Natural Gas segment is affected by the cost of natural gas, which is passed through to customers using a purchased gas adjustment clause and includes commodity price, transportation and storage costs. These costs are reflected in the consolidated statement of operations and comprehensive income as purchased gas expenses. Therefore, fluctuations in the cost of purchased gas impact operating revenues on dollar-for-dollar basis. Purchased gas decreased by \$60,322 or 18.4% in 2024 compared to 2023. The decrease is the result of lower average cost of gas of \$44,044, and lower gas usage of \$10,761 due to warmer weather conditions and \$5,517 due to the sale of Peoples West Virginia in October 2023 and our three non-utility local microgrid and distributed energy projects in January 2024.

Depreciation and amortization increased by \$10,551 or 8.4% primarily due to continued capital investment in pipe replacement.

Taxes other than income taxes decreased by \$861 or 3.6% mainly due to lower sales and use taxes during the period.

Other expense, net – Interest expense, net of interest income, increased by \$668 or 0.7% for 2024 compared to 2023.

AFUDC increased by \$2,416 or 110.8% due to the increase in the average balance of utility plant construction work in progress, to which AFUDC is applied.

Gain on sale of assets was \$91,581 for the year ended December 31, 2024 and a loss on sale of assets was \$559 for the year ended December 31, 2023. During the first quarter of 2024, the Company completed the sale of its interest in three non-utility local microgrid and distributed energy projects and recognized a gain of \$91,236.

Income tax benefit – The effective income tax rate was a benefit of 37.4% in 2024, compared to a benefit of 130.0% in 2023. The decrease in the income tax benefit is primarily attributed to the gain recognized from the sale of the Company’s interest in three non-utility local microgrid and distributed energy projects in the first quarter of 2024 and a

decrease in tax benefit associated with the repairs tax deduction for qualifying utility infrastructure investments in our Regulated Natural Gas segment.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Cash Flow and Capital Expenditures

Net operating cash flows, dividends paid on common stock, capital expenditures, including allowances for funds used during construction, and expenditures for acquiring utility systems were as follows for the years ended December 31:

	Net Operating Cash Flows	Dividends	Capital Expenditures	Acquisitions
2022	\$ 600,306	\$ 288,632	\$ 1,062,763	\$ 116,891
2023	933,587	316,806	1,199,103	45,303
2024	770,343	346,392	1,329,747	665
	<u>\$ 2,304,236</u>	<u>\$ 951,830</u>	<u>\$ 3,591,613</u>	<u>\$ 162,859</u>

Net cash provided by operating activities decreased by \$163,244 during the year ended December 31, 2024, when compared to the same period in 2023. Our operating cash flow can be significantly affected by changes in operating working capital, especially during periods with significant changes in natural gas commodity prices and also the timing of our natural gas inventory purchases. The net change in working capital and other assets and liabilities resulted in a decrease in cash from operations of \$96,799 in 2024 and an increase in cash from operations of \$157,387 in 2023. The decrease in cash flows from operations associated with working capital during 2024, when compared to 2023, was primarily due to higher gas cost collections from customers brought about by higher average gas prices in 2023. In addition, accounts receivable and unbilled receivables were higher as of December 31, 2024 as compared with the same period in 2023 due to increased billings as a result of greater heating degree days for the month of December 2024 as compared with 2023.

Included in capital expenditures for the three year period are: expenditures for the rehabilitation of existing utility systems, the expansion of our utility systems, modernization and replacement of existing treatment facilities, meters, office facilities, information technology, vehicles, and equipment. During this three year period, we received \$55,259 of customer advances and contributions in aid of construction to finance new utility mains and related facilities that are not included in the capital expenditures presented in the above table. In addition, during this period, we have made repayments of debt, which includes the net effect of borrowings and repayments under our long-term revolving credit facility of \$1,732,026 and have refunded \$22,041 of customers' advances for construction. Dividends increased during the past three years as a result of annual increases in the dividends declared and paid and increases in the number of shares outstanding.

Our planned 2025 capital program, excluding the costs of new mains financed by advances and contributions in aid of construction is estimated to be approximately \$1,469,000 in infrastructure improvements for the communities we serve. The 2025 capital program is expected to include approximately \$1,037,000 for infrastructure rehabilitation surcharge qualified projects. Our planned 2025 capital program in Pennsylvania for our water and natural gas utilities is estimated to be approximately \$1,032,000, a portion of which is expected to be eligible as a deduction for qualifying utility asset improvements for Federal income tax purposes. Our overall 2025 capital program along with \$142,807 of debt repayments and \$454,049 of other contractual cash obligations, as reported in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations – *Contractual Obligations*", has been, or is expected to be, financed through internally-generated funds, our revolving credit facilities, and the issuance of long-term debt and equity.

Future utility construction in the period 2026 through 2027, including addressing PFAS, lead and galvanized services line replacement, and recurring programs, such as the ongoing replacement or rehabilitation of utility meters and mains, water treatment plant upgrades, storage facility renovations, pipes, service lines, and additional transmission mains to meet customer demands, excluding the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$3,042,000. We anticipate that more than one half of these expenditures will require external financing. We expect to refinance \$1,173,486 of long-term debt during this period as it

becomes due with funds from new issues of long-term debt, issuances of equity, internally-generated funds, and our revolving credit facilities. The estimates discussed above do not include any amounts for possible future acquisitions of utility systems or the financing necessary to support them.

Our primary sources of liquidity are cash flows from operations (including the allowed deferral of Federal income tax payments), borrowings under various short-term and long-term credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief, utility operating revenues, and changes in Federal tax laws, and accelerated tax depreciation or deductions for utility construction projects. We fund our capital and typical acquisitions through internally-generated funds, supplemented by short-term or long term credit facilities. Over time, we partially repay or pay-down our short-term lines of credit with long-term debt. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external debt and equity financing and maintain internally-generated funds. Timely rate orders permitting compensatory rates of return on invested capital will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

Acquisitions

As part of the Company's growth-through-acquisition strategy, as of December 31, 2024, the Company has entered into purchase agreements to acquire the water or wastewater utility system assets of six municipalities and a private company for a total combined purchase price in cash of approximately \$362,000. The purchase price for these pending acquisitions is subject to certain adjustments at closing, and the pending acquisitions are subject to regulatory approvals, including the final determination of the fair value of the rate base acquired. This includes the Company's agreement to acquire the Delaware County Regional Water Quality Control Authority (DELCORA) for \$276,000. DELCORA, a Pennsylvania sewer authority, serves approximately 198,000 equivalent dwelling units in the Philadelphia suburbs.

Aside from DELCORA, closings for these acquisitions, which occurred or are expected to occur in 2025, are subject to the timing of the various regulatory approval processes and are expected to add approximately 15,000 equivalent retail customers in three of the states in which the Company operates.

In January 2025, the Company acquired Greenville Sanitary Authority's wastewater utility assets, which serves approximately 2,300 customers in Greenville, Pennsylvania for \$18,000.

In October 2024, the Company acquired wastewater utility assets in Morgan County, Indiana, which serves approximately 100 customers for \$500. In May 2024, the Company acquired the wastewater utility assets of Westfield HOA, which serves approximately 200 customers within Westfield Homeowners Subdivision in Glenview, Illinois for a cash purchase price of \$67.

In July 2023, the Company completed the following water utility asset acquisitions: Shenandoah Borough, Pennsylvania, which serves approximately 2,900 customers for \$12,291; La Rue, an Ohio municipality, which serves approximately 300 customers for \$2,253; and, Southern Oaks Water System, which serves approximately 800 customers in Texas for \$3,321. In July 2023, the Company completed their acquisition of a portion of the water and wastewater utility assets of the Village of Frankfort, an Illinois municipality, which serves approximately 1,500 customers for \$1,424. In June 2023, the Company acquired the wastewater utility assets of Union Rome, Ohio, which serves approximately 4,300 customers for a cash purchase price of \$25,547. Additionally, in March 2023, the Company acquired the North Heidelberg Sewer Company in Berks County, Pennsylvania, which serves approximately 300 customer connections for a cash purchase price of \$136.

In November 2022, the Company acquired the water system of Oak Brook, DuPage County, Illinois, which serves 2,037 customers, for a cash purchase price of \$12,500. In August 2022, the Company acquired the municipal wastewater assets of East Whiteland Township, Chester County, Pennsylvania, which serves 4,018 customers, for a cash purchase price of \$54,374. In March 2022, the Company acquired the wastewater system of Lower Makefield Township, which serves 11,323 customer connections in Lower Makefield, Falls, and Middletown townships, and Yardley Borough, Bucks County, Pennsylvania, for a cash purchase price of \$53,000.

Subsequent to the August 2022 closing on the acquisition of the municipal wastewater assets of East Whiteland Township, a party filed an appeal to the Pennsylvania Public Utility Commission's order of approval. On July 31, 2023, a decision was issued by the Pennsylvania Commonwealth Court that agreed with the party's appeal and reversed the order which approved the acquisition. In an effort to resolve the matter, the Company pursued and is continuing to pursue certain legal actions. Management believes the final resolution of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations or cash flows. Refer to Note 2 – *Acquisitions* in this Annual Report for additional information.

During the past three years, we have expended cash of \$162,859 related to the acquisition of both water and wastewater utility systems. We continue to pursue the acquisition of water and wastewater utility systems and explore other utility acquisitions that may be in a new state. Our typical acquisitions are expected to be financed with short-term debt with subsequent repayment from the proceeds of long-term debt, retained earnings, or equity issuances.

Dispositions

We routinely review and evaluate areas of our business and operating divisions and, over time, may sell utility systems or portions of systems. In October 2023, the Company completed the sale of its regulated natural gas utility assets in West Virginia, which represented approximately two percent of the Company's regulated natural gas customers. The Company initially received net cash proceeds of \$39,965, subject to working capital and other adjustments. In March 2024, the Company received an additional \$1,213 from the buyer. In January 2024, the Company completed the sale of its interest in three non-utility local microgrid and distributed energy projects for \$165,000. This sale resulted in the recognition of a gain of \$91,236 during 2024 which is included in other expense (income) in the consolidated statement of operations. These transactions are consistent with the Company's long-term strategy of focusing on its core business and will allow the Company to prioritize the growth of its utilities in states where it has scale. The Company used the proceeds from these transactions to finance its capital expenditures and water and wastewater acquisitions, in place of external funding from equity and debt issuances. Refer to Note 3 – *Dispositions* in this Annual Report for additional information.

Sources of Capital

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund our cash requirements including capital expenditures and our growth through acquisitions program, we issued \$3,377,430 of long-term debt, and obtained other short-term borrowings during the past three years. At December 31, 2024, we have a \$1,000,000 unsecured long-term revolving credit facility that expires in December 2027, of which \$16,774 was designated for letter of credit usage, \$570,226 was available for borrowing, and \$413,000 of borrowings were outstanding at December 31, 2024. In addition, Aqua Pennsylvania has a \$100,000 364-day unsecured revolving credit facility and Peoples Natural Gas has a \$300,000 364-day unsecured revolving credit facility. These short-term lines of credit are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

On August 15, 2024, the Company issued \$500,000 of senior notes, less expenses of \$3,015, due in 2027, with an interest rate of 4.80%. On January 8, 2024, the Company issued \$500,000 of long-term debt, less expenses of \$4,610, due in 2034 with an interest rate of 5.375%. The Company used the net proceeds from the issuance of these notes (1) to repay a portion of the borrowings under the Company's existing five year unsecured revolving credit facility, and (2) for general corporate purposes.

In August 2023, the Company's subsidiary, Aqua Pennsylvania, issued \$225,000 in aggregate principal amount of first mortgage bonds. The bonds consisted of \$175,000 of 5.48% first mortgage bonds due in 2053; and \$50,000 of 5.56% first mortgage bonds due in 2061. In January 2023 and October 2022, Aqua Pennsylvania issued \$75,000 and \$125,000 of first mortgage bonds, due in 2043 and 2052, and with interest rates of 5.60% and 4.50%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

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

On August 13, 2024, the Company filed a prospectus supplement under the 2024 universal shelf registration statement relating to a new at-the-market equity sales program (“ATM”), under which it may issue and sell shares of its common stock up to an aggregate offering price of \$1,000,000 (“2024 ATM”). This 2024 ATM replaced the Company’s previous ATM filed on October 14, 2022 (“2022 ATM”). During the year ended December 31, 2024, the Company issued 925,497 shares of common stock for net proceeds of \$36,134 under the 2024 ATM. As of December 31, 2024, the 2024 ATM had approximately \$964,000 of equity available for issuance. During the year ended December 31, 2023, the Company issued 8,938,839 shares of common stock for net proceeds of \$322,983 under the 2022 ATM. During the year ended December 31, 2022, the Company issued 1,321,994 shares of common stock for net proceeds of \$63,040 under the 2022 ATM. There were no common stock sales under the 2022 ATM in 2024. The Company used the net proceeds from the sales of shares through the 2022 and 2024 ATMs for working capital, capital expenditures, water and wastewater utility acquisitions, and repaying a portion of outstanding indebtedness.

On June 12, 2024, Aqua Pennsylvania and Peoples Natural Gas Companies amended the terms of its respective \$100,000 and \$300,000 364-day revolving credit agreements by extending the maturity dates to June 10, 2025 and revised the interest rate index from the Bloomberg Short-Term Bank Yield Index (BSBY) to the Secured Overnight Financing Rate (SOFR).

Our regulated water and gas business is capital intensive and requires a significant level of capital spending. Our consolidated balance sheet historically has had a negative working capital position, whereby routinely our current liabilities exceed our current assets. Management believes that internally-generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt and common equity will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

Our loan and debt agreements require us to comply with certain financial covenants, which among other things, subject to specific exceptions, limit the Company’s ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2024, we were in compliance with our debt covenants under our credit facilities. Failure to comply with our debt covenants could result in an event of default, which could result in us being required to repay or refinance our borrowings before their due date, possibly limiting our future borrowings, and increasing our borrowing costs.

In March 2024, the Company filed a new universal shelf registration with the Securities and Exchange Commission (SEC) to allow for the potential future offer and sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices. This registration statement is effective for three years and replaces a similar filing that expired in the second quarter of 2024. During the past three years, we issued common stock and long-term debt in offerings under this shelf registration statement. Refer to Note 11 – *Long-term Debt and Loans Payable* and Note 13 – *Stockholders’ Equity* in this Annual Report for further information regarding these financings.

In addition, we have an acquisition shelf registration statement, which was filed with the SEC on February 27, 2015, to permit the offering from time to time of an aggregate of \$500,000 of our common stock and shares of preferred stock in connection with acquisitions. The balance remaining available for use under the acquisition shelf registration as of December 31, 2024 is \$487,155.

We will determine the form and terms of any further securities issued under the universal shelf registration statement and the acquisition shelf registration statement at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (the Plan) that provides a convenient and economical way to purchase shares of the Company. Under the direct stock purchase portion of the Plan, shares are issued throughout the year. The dividend reinvestment portion of the Plan offers a five percent discount on the purchase of shares of common stock with reinvested dividends. As of the December 2024 dividend payment, holders of 4.0% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During the past three years, we have sold 1,232,453 original issue shares of common stock for net proceeds of \$48,099 through the dividend reinvestment portion of the Plan, and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes. In 2024, 2023, and 2022, we sold 433,688, 430,487, and 368,278 original issues shares of common stock for net proceeds of \$15,476, \$16,005, and \$16,619, respectively, through the dividend reinvestment portion of the plan.

Credit Risk

As of December 31, 2024, our credit ratings remained at investment grade levels. On March 19, 2024, S&P Global Ratings ("S&P") lowered its credit rating for the Company, Aqua Pennsylvania, and PNG Companies, LLC from A to A-, citing weakening financial measures as a result of inflationary pressures and our significant capital spending; and revised its outlook from negative to stable for the companies. However, as can be noted in their report, S&P continues to assess our business risk profile as excellent, considering our low-risk and rate-regulated water and gas distribution operations in credit-supportive regulatory environments, our geographic and regulatory diversity, our large and stable residential and commercial customer base, and our solid and reliable operations. On October 3, 2024, Moody's Investors Service ("Moody's") affirmed the Company's senior unsecured notes rating of Baa2 and changed its outlook from stable to negative; and, changed PNG Companies, LLC's senior secured notes rating from Baa1 to Baa2 and maintained a negative outlook. The Company's ability to maintain its credit rating depends, among other things, on adequate and timely rate relief, its ability to fund capital expenditures in a balanced manner using both debt and equity, and its ability to generate cash flow. A material downgrade of our credit rating may result in the imposition of additional financial and/or other covenants, impact the market prices of equity and debt securities, increase our borrowing costs, and adversely affect our liquidity, among other things. Management continues to enhance our regulatory practices to address regulatory lag and recover capital project costs and increases in operating costs efficiently and timely through various rate-making mechanisms.

Off-Balance Sheet Financing Arrangements

We do not engage in any off-balance sheet financing arrangements. We do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2024:

	Total	Payments Due by Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt	\$ 7,559,096	\$ 142,807	\$ 1,173,486	\$ 412,869	\$ 5,829,934
Interest on fixed-rate, long-term debt (1)	286,400	6,819	34,020	14,693	230,868
Operating leases (2)	44,694	9,144	14,777	7,946	12,827
Unconditional purchase obligations (3)	14,049	5,404	3,143	2,475	3,027
Gas purchase obligations (4)	2,148,368	238,353	485,193	474,767	950,055
Other purchase obligations (5)	138,438	138,438	-	-	-
Pension plan obligations (6)	3,945	3,945	-	-	-
Other obligations (7)	56,661	51,946	2,401	1,325	989
Total	\$ 10,251,651	\$ 596,856	\$ 1,713,020	\$ 914,075	\$ 7,027,700

(1) Represents interest payable on fixed rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.

- (2) Represents minimum lease payments for long-term operating leases of land, office facilities, office equipment, and vehicles.
- (3) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. Our actual purchases may exceed the minimum required levels.
- (4) Represents our commitment to purchase minimum quantities of natural gas stipulated in agreements with various producers of natural gas to meet regulated customers' natural gas requirements.
- (5) Represents an approximation of the open purchase orders for goods and services purchased in the ordinary course of business.
- (6) Represents contributions to be made to the Company's retirement plans.
- (7) Represents expenditures estimated to be required under legal and binding contractual obligations.

In addition to the contractual obligations table above, we have the following obligations:

Refunds of customer's advances for construction – We pay refunds on customers' advances for construction over a specific period of time based on operating revenues related to developer-installed utility mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to contributions in aid of construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2034 and amounts not paid by the contract expiration dates become non-refundable.

Asset Retirement Obligations – We recognize asset retirement obligations associated with retirements of production, storage wells and other pipeline components at fair value, as incurred, or when sufficient information becomes available to determine a reasonable estimate of the fair value of the retirement activities to be performed. Expected obligations are not included in the above table because the amounts and timing are dependent upon several variables, which cannot be accurately estimated.

Uncertain tax positions – We have uncertain tax positions of \$8,207. Although we believe our tax positions comply with applicable law, we have made judgments as to the sustainability of each uncertain tax position based on its technical merits. Due to the uncertainty of future cash outflows, if any, associated with our uncertain tax positions, we are unable to make a reasonable estimate of the timing or amounts that may be paid. See Note 7 – *Income Taxes* in this Annual Report for further information on our uncertain tax positions.

We will fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

The Company is routinely involved in legal matters, including both asserted and unasserted legal claims, during the ordinary course of business. See Note 9 – *Commitments and Contingencies* in this Annual Report for a discussion of the Company's legal matters. It is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation. Also, unanticipated changes in circumstances and/or revisions to the assessed probability of the outcomes of legal matters could result in expenses being incurred in future periods as well as an increase in actual cash required to resolve the legal matter.

Capitalization

The following table summarizes our capitalization as of December 31, 2024 and 2023:

December 31,	2024	2023
Long-term debt (1)	54.9%	54.1%
Essential Utilities stockholders' equity	45.1%	45.9%
	100.0%	100.0%

(1) Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of \$413,000 at December 31, 2024, and \$720,000 at December 31, 2023.

Over the past two years, the changes in the capitalization ratios primarily resulted from the issuance of debt to finance our acquisitions and capital program, changes in net income, the issuance of common stock, and the declaration of dividends.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include the use of regulatory assets and liabilities, revenue recognition, the valuation of our long-lived assets (which consist primarily of utility plant in service, regulatory assets, and goodwill), our accounting for post-retirement benefits, and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Regulatory Assets and Liabilities — We defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the consolidated statement of operations in the same period that they are reflected in our rates charged for utility service. We make significant judgments and estimates to record regulatory assets and liabilities, such as for amounts related to income taxes, pension and postretirement benefits, acquisitions and capital projects. For each regulatory jurisdiction with regulated operations, we evaluate at the end of each reporting period, whether the regulatory assets and liabilities continue to meet the probable criteria for future recovery or refund. The evaluation considers factors such as regulatory orders or guidelines, in the same regulatory jurisdiction, of a specific matter or a similar matter, as provided to us in the past or to other regulated utilities. In addition, the evaluation may be impacted by changes in the regulatory environment and pending or new legislation that could impact the ability to recover costs through regulated rates. There may be multiple participants to rate or transactional regulatory proceedings who might offer different views on various aspects of such proceedings, and in these instances may challenge our prudence of business policies and practices, seek cost disallowances or request other relief.

In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Revenue Recognition — Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgment and assumptions; our actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to our estimates is determined.

In Virginia, North Carolina, and Kentucky, we may bill our utility customers, in certain circumstances, in accordance with a rate filing that is pending before the respective regulatory commission, which would allow interim rates before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the commission's ruling. We monitor the applicable facts and circumstances regularly and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the commission's final ruling.

Valuation of Long-Lived Assets, Goodwill and Intangible Assets — We review our long-lived assets for impairment, including utility plant in service. We also review regulatory assets for the continued application of the FASB accounting guidance for regulated operations. Our review determines whether there have been changes in circumstances or events, such as regulatory disallowances, or abandonments, that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is not probable. For utility plant in service, we would recognize an impairment loss for any amount disallowed by the respective utility commission.

Our long-lived assets, which consist primarily of utility plant in service, operating lease right-of-use assets and intangible assets, are reviewed for impairment when changes in circumstances or events occur. These circumstances or events could include a decline in the market value or physical condition of a long-lived asset, an adverse change in the manner in which long-lived assets are used or planned to be used, a change in historical trends, operating cash flows associated with the long-lived assets, changes in macroeconomic conditions, industry and market conditions, or overall financial performance. When these circumstances or events occur, we determine whether it is more likely than not that the fair value of those assets is less than their carrying amount. If we determine that it is more likely than not (that is, the likelihood of more than 50 percent), we would recognize an impairment charge if it is determined that the carrying amount of an asset exceeds the sum of the undiscounted estimated cash flows. In this circumstance, we would recognize an impairment charge equal to the difference between the carrying amount and the fair value of the asset. Fair value is estimated to be the present value of future net cash flows associated with the asset, discounted using a discount rate commensurate with the risk and remaining life of the asset. This assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. These estimates include significant inherent uncertainties, since they involve forecasting future events. If changes in circumstances or events occur, or estimates and assumptions that were used in this review are changed, we may be required to record an impairment charge on our long-lived assets. Refer to Note 1 – *Summary of Significant Accounting Policies – Impairment of Long-Lived Assets* in this Annual Report for additional information regarding the review of long-lived assets for impairment.

We test the goodwill attributable to each of our reporting units for impairment at least annually, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors, including macroeconomic conditions, industry and market considerations, changes to regulatory environment, recent regulatory and legislative proceedings, cost factors, overall financial performance, and entity specific events, for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on our assessment of the qualitative factors previously noted, or at our discretion, we may perform a quantitative goodwill impairment test by determining the fair value of a reporting unit by weighting the results from the income approach and the market approach. These valuation approaches consider a number of factors that include, but are not limited to, prospective financial information (which includes projected operating income, expected future capital expenditures, and projected regulatory rate base, among others), growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in our industry and require us to make certain assumptions and estimates regarding industry economic factors and future profitability of our business. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would record an impairment loss for the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of goodwill. The assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions that were used in our impairment test change, we may be required to record an impairment charge for goodwill. Refer to Note 1 – *Summary of Significant Accounting Policies – Goodwill* in this Annual Report for further information.

As part of the October 1, 2024 annual goodwill assessment, we elected to perform qualitative assessments for our Regulated Water, Regulated Natural Gas, and Other reporting units. Based on our analysis, we determined that it is more likely than not that the fair value of our reporting units is greater than their carrying amounts, and none of the goodwill of our reporting units was impaired.

Accounting for Post-Retirement Benefits — We maintain a qualified and a non-qualified defined benefit pension plan and plans that provide for post-retirement benefits other than pensions. Accounting for pension and other post-retirement benefits requires an extensive use of assumptions including the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant, who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefits expense that we recognize.

Our discount rate assumption, which is used to calculate the present value of the projected benefit payments of our post-retirement benefits, was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to match the projected benefit payments of the plans. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds. The discount rate was then developed as the rate that equates the market value of the bonds purchased to the discounted value of the projected benefit payments of the plans. A decrease in the discount rate would generally increase our post-retirement benefits expense and benefit obligation. After reviewing the hypothetical portfolio of bonds, we selected a discount rate of 5.64% for our pension plan, and 5.65% for our other post-retirement benefit plans as of December 31, 2024, which represent a 47 and 56 basis-point decrease as compared to the discount rates selected at December 31, 2023, respectively. Our post-retirement benefits expense under these plans is determined using the discount rate as of the beginning of the year, which was 5.17% for our pension plan and 5.09% for our other-postretirement benefit plan for 2024.

Our expected return on plan assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. The Company's market-related value of plan assets is equal to the fair value of the plans' assets as of the last day of its fiscal year and is a determinant for the expected return on plan assets, which is a component of post-retirement benefits expense. The allocation of our plans' assets impacts our expected return on plan assets. As of December 31, 2024, the expected return on plan assets is based on a targeted allocation of 20% to 40% return seeking assets and 60% to 80% liability hedging assets for our pension plan, and a targeted allocation of 50% to 70% return seeking assets and 30% to 50% liability hedging assets for our other post-retirement benefit plans. Our post-retirement benefits expense increases as the expected return on plan assets decreases. We believe that our actual long-term asset allocations on average will approximate our targeted allocations. Our targeted allocations are driven by our investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. For 2024, we used a 6.2% expected return on plan assets assumption and are currently reviewing this assumption for 2025.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2025 our pension contribution is expected to be \$3,945. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates.

Accounting for Income Taxes — We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of specific items, such as depreciation, for tax and financial statement reporting. Generally, these differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments, we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

Our determination of what qualifies as a capital cost versus a tax deduction, for qualifying utility asset improvements, as it relates to our income tax accounting method, is subject to subsequent adjustment as well as IRS audits, changes in income tax laws, including regulations regarding tax-basis depreciation as it applies to our capital expenditures, or qualifying utility asset improvements, the expiration of a statute of limitations, or other unforeseen matters could impact the tax benefits that have already been recognized. We establish reserves for uncertain tax positions based upon management's

judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. We believe our tax positions comply with applicable law and that we have adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than our estimates recorded, we would then need to adjust our tax reserves which could result in additional income tax expense or benefits in the period that this information is known.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

We describe the impact of recent accounting pronouncements in Note 1 – *Summary of Significant Accounting Policies* in this Annual Report.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We are subject to market risks in the normal course of business, including changes in interest rates, gas commodity prices and equity prices. The exposure to changes in interest rates is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates; short-term debt, which is at floating interest rates; and at times in the past interest rate swap agreements. As of December 31, 2024, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	2025	2026	2027	2028	2029	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$ 142,807	\$ 24,089	\$ 736,398	\$ 8,036	\$ 404,832	\$ 5,829,934	\$ 7,146,096	\$ 6,018,777
Variable rate	-	-	413,000	-	-	-	413,000	413,000
Total	\$ 142,807	\$ 24,089	\$ 1,149,398	\$ 8,036	\$ 404,832	\$ 5,829,934	\$ 7,559,096	\$ 6,431,777
Weighted average interest rate	4.77%	7.27%	5.02%	3.83%	3.55%	3.94%	4.14%	

Volatile equity market conditions arising from macroeconomic dynamics, public health threats, global conflicts, and sanctions imposed in response thereto, may result in our pension and other post-retirement plans' assets market values suffering a decline, which could increase our required cash contributions to the plans and expense in subsequent years. The Company reduces this risk through fixed income investments to manage interest rate exposures that impact the valuation of liabilities and through the diversification of investments across and within various asset categories. The Company's risk is also reduced through its ability to recover pension and other benefit costs through rates.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the marketable equity securities. As of December 31, 2024, we have assets of, in thousands of dollars, \$31,324 to fund our deferred compensation and non-qualified pension plan liabilities. The market risk of the deferred compensation plan assets are borne by the participants in the deferred compensation plan.

Our natural gas commodity price risk, driven mainly by price fluctuations of natural gas, is mitigated by our purchased-gas cost adjustment mechanisms, which provide a dollar-for-dollar offset to increases or decreases in the cost of natural gas and allows for recovery of purchased gas costs fluctuations on an ongoing basis without filing a rate case. We also use derivative instruments to economically hedge the cost of anticipated natural gas purchases during the winter heating months that seeks to offset the risk to our customers from upward market price volatility. These instruments include requirements contracts and spot purchase contracts to meet our regulated customers' natural gas requirements and these instruments may have fixed or variable pricing. The variable price contracts qualify as derivative instruments; however, because the contract price is the prevailing price at the future transaction date the contract has no determinable fair value. The fixed price contracts and firm commitments to purchase a fixed quantity of gas in the future qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business and, as such, are accounted for under the accrual basis and not recorded at fair value in the Company's consolidated financial statements. We also manage gas commodity price risk and supply risk by injecting natural gas into storage during the summer months and withdrawing the natural gas during the winter heating season.

Item 8. *Financial Statements and Supplementary Data*

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Essential Utilities, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets, including the consolidated statements of capitalization, of Essential Utilities, Inc. and its subsidiaries (the “Company”) as of December 31, 2024 and 2023, and the related consolidated statements of operations and comprehensive income, of equity and of cash flows for each of the three years in the period ended December 31, 2024, including the related notes and schedule of condensed parent company financial statements as of December 31, 2024 and 2023 and for each of the three years in the period ended December 31, 2024 appearing after the signature pages (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2024 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Accounting for the Effects of Regulatory Matters

As described in Notes 1 and 6 to the consolidated financial statements, most of the operating companies of the Company that are regulated public utilities are subject to regulation by the utility commissions of the states in which they operate. Some of the operating companies that are regulated public utilities are also subject to rate regulation by county or city government. As of December 31, 2024, regulatory assets were \$1.94 billion and regulatory liabilities were \$0.77 billion. Regulated public utilities follow the accounting guidance for regulated operations, which provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets represent costs that are probable to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in the Company's rates charged for utility service. If, as a result of a change in circumstances, it is determined that a regulated operating company no longer meets the criteria to apply regulatory accounting, the operating company would have to discontinue regulatory accounting and write-off the respective regulatory assets and liabilities.

The principal considerations for our determination that performing procedures relating to accounting for the effects of regulatory matters is a critical audit matter are a high degree of auditor effort in performing procedures and evaluating audit evidence related to the probability of recovery of regulatory assets and refund of regulatory liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of regulatory proceedings, including controls over the probability of recovery of regulatory assets, refund of regulatory liabilities, and the related accounting and disclosure impacts. These procedures also included, among others (i) evaluating the reasonableness of management's assessment regarding the probability of recovery of regulatory assets and refund of regulatory liabilities and (ii) testing, on a sample basis, regulatory assets and regulatory liabilities, based on the provisions and formulas outlined in rate orders and other regulatory proceedings and correspondence, as well as application of relevant regulatory precedents.

/s/ PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
February 27, 2025

We have served as the Company's auditor since 2000.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)

	December 31,	
	2024	2023
Assets		
Property, plant and equipment, at cost	\$ 16,275,377	\$ 14,977,021
Less: accumulated depreciation	3,131,901	2,879,949
Net property, plant and equipment	13,143,476	12,097,072
Current assets:		
Cash and cash equivalents	9,156	4,612
Accounts receivable, net	166,522	144,300
Unbilled revenues	142,310	101,436
Inventory - materials and supplies	48,619	47,494
Inventory - gas stored	45,311	65,173
Prepayments and other current assets	41,139	99,884
Regulatory assets	32,854	29,080
Total current assets	485,911	491,979
Regulatory assets	1,907,786	1,766,892
Deferred charges and other assets, net	112,712	102,388
Funds restricted for construction activity	1,420	1,381
Goodwill	2,340,713	2,340,738
Operating lease right-of-use assets	31,263	37,416
Intangible assets	3,273	3,593
Total assets	\$ 18,026,554	\$ 16,841,459

See accompanying notes to consolidated financial statements.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
(In thousands of dollars, except per share amounts)

	December 31,	
	2024	2023
Liabilities and Equity		
Essential Utilities stockholders' equity:		
Common stock at \$0.50 par value, authorized 600,000,000 shares, issued 278,209,660 and 276,595,228 as of December 31, 2024 and December 31, 2023	\$ 139,105	\$ 138,297
Capital in excess of par value	4,199,836	4,137,696
Retained earnings	1,949,492	1,706,675
Treasury stock, at cost, 3,386,069 and 3,299,191 shares as of December 31, 2024 and December 31, 2023	(89,624)	(86,485)
Total stockholders' equity	6,198,809	5,896,183
Long-term debt, excluding current portion	7,416,289	6,870,593
Less: debt issuance costs	47,908	44,508
Long-term debt, excluding current portion, net of debt issuance costs	7,368,381	6,826,085
Commitments and contingencies (See Note 9)		
Current liabilities:		
Current portion of long-term debt	142,807	67,415
Loans payable	186,542	160,123
Accounts payable	258,615	221,191
Book overdraft	47,714	13,358
Accrued interest	72,281	53,084
Accrued taxes	38,219	40,641
Regulatory liabilities	1,770	31,270
Dividends payable	89,441	83,929
Other accrued liabilities	137,279	126,916
Total current liabilities	974,668	797,927
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	1,831,868	1,628,324
Customers' advances for construction	113,323	128,755
Regulatory liabilities	764,745	820,910
Asset retirement obligations	860	848
Operating lease liabilities	27,447	34,425
Pension and other postretirement benefit liabilities	33,680	38,850
Other	23,928	24,086
Total deferred credits and other liabilities	2,795,851	2,676,198
Contributions in aid of construction	688,845	645,066
Total liabilities and equity	\$ 18,026,554	\$ 16,841,459

See accompanying notes to consolidated financial statements.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)

	Years ended December 31,		
	2024	2023	2022
Operating revenues	\$ 2,086,113	\$ 2,053,824	\$ 2,288,032
Operating expenses:			
Operations and maintenance	587,250	575,518	613,649
Purchased gas	277,009	352,306	601,995
Depreciation	363,906	338,655	315,811
Amortization	5,646	5,040	5,366
Taxes other than income taxes	94,634	90,208	90,024
Total operating expenses	1,328,445	1,361,727	1,626,845
Operating income	757,668	692,097	661,187
Other expense (income):			
Interest expense	302,467	283,362	238,116
Interest income	(3,318)	(3,401)	(3,675)
Allowance for funds used during construction	(21,310)	(16,967)	(23,665)
Gain on sale of other assets	(92,224)	(65)	(991)
Other	(1,425)	(2,613)	494
Income before income taxes	573,478	431,781	450,908
Income tax benefit	(21,836)	(66,445)	(14,329)
Net income	\$ 595,314	\$ 498,226	\$ 465,237
Comprehensive income	\$ 595,314	\$ 498,226	\$ 465,237
Net income per common share:			
Basic	\$ 2.17	\$ 1.86	\$ 1.77
Diluted	\$ 2.17	\$ 1.86	\$ 1.77
Average common shares outstanding during the period:			
Basic	273,914	267,171	262,246
Diluted	274,421	267,659	262,868

See accompanying notes to consolidated financial statements.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)

	December 31,	
	2024	2023
Stockholders' equity:		
Common stock, \$0.50 par value	\$ 139,105	\$ 138,297
Capital in excess of par value	4,199,836	4,137,696
Retained earnings	1,949,492	1,706,675
Treasury stock, at cost	(89,624)	(86,485)
Total stockholders' equity	6,198,809	5,896,183
Long-term debt of subsidiaries (substantially collateralized by utility plant):		
<u>Interest Rate Range</u>	<u>Maturity Date Range</u>	
0.00% to 0.99%	2024 to 2053	2,637
1.00% to 1.99%	2030 to 2046	11,732
2.00% to 2.99%	2024 to 2058	206,297
3.00% to 3.99%	2024 to 2056	1,258,003
4.00% to 4.99%	2024 to 2059	1,239,032
5.00% to 5.99%	2028 to 2061	312,260
6.00% to 6.99%	2026 to 2036	31,000
7.00% to 7.99%	2025 to 2027	27,888
8.00% to 8.99%	2025	447
9.00% to 9.99%	2026	11,800
		3,101,096
Notes payable to bank under revolving credit agreement, variable rate, due 2027	413,000	720,000
Unsecured notes payable:		
Notes at 2.40% due 2031	400,000	400,000
Notes at 2.704% due 2030	500,000	500,000
Notes ranging from 3.01% to 3.59%, due 2029 through 2050	1,125,000	1,125,000
Notes at 4.276%, due 2049	500,000	500,000
Notes at 4.80%, due 2027	500,000	-
Notes at 5.30%, due 2052	500,000	500,000
Notes at 5.375%, due 2034	500,000	-
Notes at 5.95%, due 2024 through 2034	20,000	30,000
Total long-term debt	7,559,096	6,938,008
Current portion of long-term debt	142,807	67,415
Long-term debt, excluding current portion	7,416,289	6,870,593
Less: debt issuance costs	47,908	44,508
Long-term debt, excluding current portion, net of debt issuance costs	7,368,381	6,826,085
Total capitalization	\$ 13,567,190	\$ 12,722,268

See accompanying notes to consolidated financial statements.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands of dollars, except per share amounts)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total
Balance at December 31, 2021	\$ 128,050	\$ 3,705,814	\$ 1,434,201	\$ (83,615)	\$ 5,184,450
Net income	-	-	465,237	-	465,237
Dividends declared and paid (\$1.1104 per share)	-	-	(288,632)	-	(288,632)
Dividends of March 1, 2023 declared (\$0.287 per share)	-	-	(75,808)	-	(75,808)
Issuance of common stock from stock purchase contracts (9,029,461 shares)	4,515	(4,515)	-	-	-
Issuance of common stock under dividend reinvestment plan (368,278 shares)	184	16,435	-	-	16,619
Issuance of common stock from at-the-market sale agreements (1,321,994 shares)	661	62,379	-	-	63,040
Repurchase of stock (25,037 shares)	-	-	-	(1,192)	(1,192)
Equity compensation plan (81,516 shares)	41	(41)	-	-	-
Exercise of stock options (69,684 shares)	35	2,440	-	-	2,475
Stock-based compensation	-	12,094	(667)	-	11,427
Other	-	(1,344)	-	1,114	(230)
Balance at December 31, 2022	\$ 133,486	\$ 3,793,262	\$ 1,534,331	\$ (83,693)	\$ 5,377,386
Net income	-	-	498,226	-	498,226
Dividends declared and paid (\$1.1882 per share)	-	-	(240,999)	-	(240,999)
Dividends of March 1, 2024 declared (\$0.3071 per share)	-	-	(83,929)	-	(83,929)
Issuance of common stock under dividend reinvestment plan (430,487 shares)	215	15,790	-	-	16,005
Issuance of common stock from at-the-market sale agreements (8,938,839 shares)	4,470	318,513	-	-	322,983
Repurchase of stock (89,785 shares)	-	-	-	(3,981)	(3,981)
Equity compensation plan (244,407 shares)	122	(122)	-	-	-
Exercise of stock options (8,174 shares)	4	283	-	-	287
Stock-based compensation	-	11,330	(954)	-	10,376
Other	-	(1,360)	-	1,189	(171)
Balance at December 31, 2023	\$ 138,297	\$ 4,137,696	\$ 1,706,675	\$ (86,485)	\$ 5,896,183
Net income	-	-	595,314	-	595,314
Dividends declared and paid (\$1.2652 per share)	-	-	(262,462)	-	(262,462)
Dividends of March 1, 2025 declared (\$0.3255 per share)	-	-	(89,441)	-	(89,441)
Issuance of common stock under dividend reinvestment plan (433,688 shares)	217	15,259	-	-	15,476
Issuance of common stock from at-the-market sale agreements (925,497 shares)	463	35,671	-	-	36,134
Repurchase of stock (111,955 shares)	-	-	-	(4,048)	(4,048)
Equity compensation plan (185,927 shares)	93	(93)	-	-	-
Exercise of stock options (69,320 shares)	35	2,436	-	-	2,471
Stock-based compensation	-	9,781	(594)	-	9,187
Other	-	(914)	-	909	(5)
Balance at December 31, 2024	\$ 139,105	\$ 4,199,836	\$ 1,949,492	\$ (89,624)	\$ 6,198,809

See accompanying notes to consolidated financial statements.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of dollars, except per share amounts)

	Years ended December 31,		
	2024	2023	2022
Cash flows from operating activities:			
Net income	\$ 595,314	\$ 498,226	\$ 465,237
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	369,552	343,695	321,177
Deferred income taxes	(27,756)	(79,845)	(23,045)
Provision for doubtful accounts	21,865	23,209	27,631
Stock-based compensation	9,785	11,323	12,206
Gain on sale of utility system and other assets	(92,224)	(65)	(991)
Net change in receivables, deferred purchased gas costs, inventory and prepayments	(103,335)	189,989	(223,335)
Net change in payables, accrued interest, accrued taxes and other accrued liabilities	26,963	(14,559)	53,761
Pension and other postretirement benefits contributions	(9,394)	(20,343)	(22,027)
Other	(20,427)	(18,043)	(10,308)
Net cash flows from operating activities	770,343	933,587	600,306
Cash flows from investing activities:			
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of \$7,372, \$5,241 and \$6,047	(1,329,747)	(1,199,103)	(1,062,763)
Acquisitions of utility systems and other, net	(665)	(45,303)	(116,891)
Net proceeds from the sale of utility systems and other assets	167,470	41,758	1,081
Other	(339)	(19,080)	271
Net cash flows used in investing activities	(1,163,281)	(1,221,728)	(1,178,302)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	19,563	23,982	11,714
Repayments of customers' advances	(8,564)	(8,471)	(5,006)
Net proceeds (repayments) of short-term debt	26,418	(68,377)	163,500
Proceeds from long-term debt	1,649,546	1,207,619	1,646,742
Repayments of long-term debt	(1,027,473)	(876,379)	(977,175)
Change in cash overdraft position	34,356	(15,336)	(53,028)
Proceeds from issuance of common stock under dividend reinvestment plan	15,476	16,005	16,619
Proceeds from issuance of common stock from at-the-market sale agreement	36,134	322,983	63,040
Proceeds from exercised stock options	2,471	287	2,475
Repurchase of common stock	(4,048)	(3,981)	(1,192)
Dividends paid on common stock	(346,392)	(316,806)	(288,632)
Other	(5)	(171)	(230)
Net cash flows from financing activities	397,482	281,355	578,827
Net increase (decrease) in cash and cash equivalents	4,544	(6,786)	831
Cash and cash equivalents at beginning of year	4,612	11,398	10,567
Cash and cash equivalents at end of year	\$ 9,156	\$ 4,612	\$ 11,398
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 275,898	\$ 272,532	\$ 225,820
Income taxes	6,698	7,839	11,269
Non-cash investing activities:			
Property, plant and equipment additions purchased at the period end, but not yet paid	\$ 135,331	\$ 102,770	\$ 102,129
Non-cash utility property contributions	38,840	56,297	35,698

See accompanying notes to consolidated financial statements.

Refer to Note 15 – *Employee Stock and Incentive Plan* for a description of non-cash activities.

Note 1 – Summary of Significant Accounting Policies

Nature of Operations — Essential Utilities, Inc. (“Essential Utilities,” the “Company,” “we,” “our”, or “us”) is the holding company for regulated utilities providing water, wastewater, or natural gas services concentrated in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, Virginia, and Kentucky under the Aqua and Peoples brands. One of our largest operating subsidiaries is Aqua Pennsylvania, Inc., which accounted for approximately 55% of our Regulated Water segment’s operating revenues and approximately 67% of our Regulated Water segment’s income for 2024. Aqua Pennsylvania’s service territory is located in the suburban areas north and west of the City of Philadelphia and in 27 other counties in Pennsylvania. The Company’s other regulated water or wastewater utility subsidiaries provide similar services in seven additional states. Our Peoples subsidiaries provide natural gas service to approximately 745,000 customers in western Pennsylvania and Kentucky. Approximately 95% of the total number of natural gas utility customers we serve are in western Pennsylvania. The Company also operates market-based activities, conducted through its non-regulated subsidiaries, that provide utility service line protection solutions and repair services to households and gas marketing and production activities.

In October 2023, the Company closed on the sale of its regulated natural gas utility assets in West Virginia. In January 2024, the Company closed on the sale of its interest in three non-utility local microgrid and distributed energy projects. These transactions are consistent with the Company’s long-term strategy of focusing on its core business and will allow the Company to prioritize the growth of its utilities in states where it has scale. See Note 3 – *Dispositions* for further information.

Regulation — Most of the operating companies that are regulated public utilities are subject to regulation by the utility commissions of the states in which they operate. The respective utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow the Financial Accounting Standards Board’s (“FASB”) accounting guidance for regulated operations, which provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. Costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with the FASB’s accounting guidance for regulated operations. Conversely, excess recovery of costs or amounts collected in rates to recover costs expected to be incurred in the future or to be refunded in the future are recorded as regulatory liabilities. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in Company’s rates charged for utility service. If, as a result of a change in circumstances, it is determined that a regulated operating company no longer meets the criteria to apply regulatory accounting, the operating company would have to discontinue regulatory accounting and write-off the respective regulatory assets and liabilities. See Note 6 – *Regulatory Assets and Liabilities* for further information.

The Company makes significant judgments and estimates to record regulatory assets and liabilities. For each regulatory jurisdiction with regulated operations, the Company evaluates at the end of each reporting period, whether the regulatory assets and liabilities continue to meet the probable criteria for future recovery or refund. The evaluation considers factors such as regulatory orders or guidelines, in the same regulatory jurisdiction, of a specific matter or a similar matter, as provided to the Company in the past or to other regulated utilities. In addition, the evaluation may be impacted by changes in the regulatory environment and pending or new legislation that could impact the ability to recover costs through regulated rates. There may be multiple participants to rate or transactional regulatory proceedings who might offer different views on various aspects of such proceedings, and in these instances, may challenge the prudence of our business policies and practices, seek cost disallowances or request other relief.

Use of Estimates in Preparation of Consolidated Financial Statements — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates include the application of regulatory accounting principles and estimation of regulatory assets and liabilities, estimates used in impairment testing of goodwill and other long-lived assets, allowance for doubtful accounts, unbilled revenues, pension and other post-retirement benefit obligations, and income taxes. Actual results could differ from those estimates.

Basis of Presentation — The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

Property, Plant and Equipment and Depreciation — Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads, and for additions meeting certain criteria, allowance for funds used during construction. Utility systems acquired are typically recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. Further, utility systems acquired under fair value regulations would be recorded based on the valuation of the utility plant as approved by the respective utility commission. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price may be recorded as an acquisition adjustment within utility plant as permitted by the applicable regulatory jurisdiction. At December 31, 2024 and 2023, utility plant includes a net credit acquisition adjustment of \$5,627 and \$6,444, respectively, which is generally being amortized from 10 to 53 years. Amortization of the acquisition adjustments totaled \$787 in 2024, \$2,103 in 2023, and \$2,788 in 2022.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and are presented in net property, plant and equipment in accordance with the FASB's accounting guidance for regulated operations. As of December 31, 2024, \$1,635 of these costs have been incurred since the last respective rate proceeding and are considered probable of being included in future rates.

The cost of software upgrades and enhancements are capitalized if they result in added functionality, which enables the software to perform tasks it was previously incapable of performing. Information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are deferred as a regulatory asset if it is probable that such costs are recoverable in future rates. If these costs are not deferred, then these costs are charged to operating expenses when incurred. As of December 31, 2024, \$18,107 of these costs have been deferred since the last respective rate proceeding as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company anticipates recovery of the cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded as those costs are incurred. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts, which are not yet utilized, result in a regulatory liability being reported based on the amounts previously recovered through customer rates.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

Impairment of Long-Lived Assets - Long-lived assets of the Company, which consist primarily of utility plant in service, operating lease right-of-use assets and intangible assets, are reviewed for impairment when changes in circumstances or

events occur. These circumstances or events could include a decline in the market value or physical condition of a long-lived asset, an adverse change in the manner in which long-lived assets are used or planned to be used, a change in historical trends, operating cash flows associated with the long-lived assets, changes in macroeconomic conditions, industry and market conditions, or overall financial performance. When these circumstances or events occur, the Company determines whether it is more likely than not that the fair value of those assets is less than their carrying amount. If the Company determines that it is more likely than not (that is, the likelihood of more than 50 percent), the Company would recognize an impairment charge if it is determined that the carrying amount of an asset exceeds the sum of the undiscounted estimated cash flows. In this circumstance, the Company would recognize an impairment charge equal to the difference between the carrying amount and the fair value of the asset. Fair value is estimated to be the present value of future net cash flows associated with the asset, discounted using a discount rate commensurate with the risk and remaining life of the asset. During the year ended December 31, 2022, the Company recorded an impairment loss to write down a portion of the operating lease right-of-use asset for office space not used in operations to fair value. Refer to Note 10 – *Leases*, for further details.

Regulatory assets are reviewed for the continued application of the FASB accounting guidance for regulated operations. The Company's review determines whether there have been changes in circumstances or events, such as regulatory disallowances, or abandonments, that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is unlikely. For utility plant in service, we would recognize an impairment loss for any amount disallowed by the respective utility commission.

Allowance for Funds Used During Construction — The allowance for funds used during construction ("AFUDC") represents the capitalized cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used and is recovered through rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2024 was \$13,938, 2023 was \$11,726, and 2022 was \$17,618. No interest was capitalized by our market-based businesses.

Lease Accounting — The Company evaluates the contracts it enters into to determine whether such contracts contain leases. A contract contains a lease if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. We enter into operating lease contracts for the right to utilize certain land, office facilities, office equipment, and vehicles from third parties. For contracts that extend for a period greater than 12 months, we recognize a right of use asset and a corresponding lease liability on our consolidated balance sheet. The present value of each lease is based on the future minimum lease payments in accordance with Accounting Standards Codification ("ASC") 842 and is determined by discounting these payments using an incremental borrowing rate or the rate implicit in the lease, if available.

Recognition of Revenues — The Company recognizes revenue as utility services are provided to our customers, which happens over time as the services are delivered and the performance obligation is satisfied. The Company's utility revenues recognized in an accounting period includes amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. Unbilled amounts are calculated by deriving estimates based on average customer usage. The Company's actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to our estimates are determined.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Generally, payment is due within 30 days once a bill is issued to a customer. Sales tax and other taxes we collect on behalf of government authorities, concurrent with our revenue-producing activities, are primarily excluded from revenue. The following table presents our revenues disaggregated by major source and customer class for the years ended December 31:

2024	Water Revenues	Wastewater Revenues	Natural Gas Revenues	Other Revenues
Revenues from contracts with customers:				
Residential	\$ 662,909	\$ 146,849	\$ 504,426	\$ -
Commercial	186,534	36,951	100,662	-
Fire protection	42,409	-	-	-
Industrial	34,831	2,724	2,279	-
Gas transportation & storage	-	-	194,413	-
Other water	80,964	-	-	-
Other wastewater	-	12,898	-	-
Other utility	-	-	30,436	11,226
Revenues from contracts with customers	1,007,647	199,422	832,216	11,226
Alternative revenue program	3,850	(265)	10,775	-
Other and eliminations	-	-	-	21,242
Consolidated	\$ 1,011,497	\$ 199,157	\$ 842,991	\$ 32,468

2023	Water Revenues	Wastewater Revenues	Natural Gas Revenues	Other Revenues
Revenues from contracts with customers:				
Residential	\$ 641,351	\$ 139,188	\$ 519,406	\$ -
Commercial	180,731	35,530	111,272	-
Fire protection	41,257	-	-	-
Industrial	33,949	2,087	3,232	-
Gas transportation & storage	-	-	184,598	-
Other water	51,527	-	-	-
Other wastewater	-	10,589	-	-
Other utility	-	-	43,163	14,863
Revenues from contracts with customers	948,815	187,394	861,671	14,863
Alternative revenue program	2,236	68	2,088	-
Other and eliminations	-	-	-	36,689
Consolidated	\$ 951,051	\$ 187,462	\$ 863,759	\$ 51,552

2022	Water Revenues	Wastewater Revenues	Natural Gas Revenues	Other Revenues
Revenues from contracts with customers:				
Residential	\$ 607,473	\$ 122,612	\$ 720,490	\$ -
Commercial	168,460	30,340	149,653	-
Fire protection	38,970	-	-	-
Industrial	32,581	1,755	5,636	-
Gas transportation & storage	-	-	205,825	-
Other water	55,389	-	-	-
Other wastewater	-	10,676	-	-
Other utility	-	-	61,393	11,478
Revenues from contracts with customers	902,873	165,383	1,142,997	11,478
Alternative revenue program	3,309	(71)	365	-
Other and eliminations	-	-	-	61,698
Consolidated	\$ 906,182	\$ 165,312	\$ 1,143,362	\$ 73,176

Revenues from Contracts with Customers – These revenues are composed of four main categories: water, wastewater, natural gas, and other. Water revenues represent revenues earned for supplying customers with water service. Wastewater revenues represent revenues earned for treating wastewater and releasing it into the environment. Natural gas revenues represent revenues earned for the gas commodity and delivery of natural gas to customers. Other revenues are associated fees that relate to our utility businesses but are not water, wastewater, or natural gas revenues. Refer to the description below for a discussion of the performance obligation for each of these revenue streams.

Tariff Revenues – These revenues are categorized by customer class: residential, commercial, fire protection, industrial, gas transportation, other water, and other wastewater. The rates that generate these revenues are approved by the respective state utility commission, and revenues are billed cyclically and accrued for when unbilled. The regulated natural gas rates are set and adjusted for increases or decreases in our purchased gas costs through purchased gas adjustment mechanisms. Purchased gas adjustment mechanisms provide us with a means to recover purchased gas costs on an ongoing basis without filing a rate case. Other water and other wastewater revenues consists primarily of fines, penalties, surcharges, and availability lot fees. Our performance obligation for tariff revenues is to provide potable water, wastewater treatment service, or delivery and sale of natural gas to customers. This performance obligation is satisfied over time as the services are rendered. The amounts that the Company has a right to invoice for tariff revenues reflect the right to consideration from the customers in an amount that corresponds directly with the value transferred to the customer for the performance completed to date.

Other Utility Revenues – Other utility revenues represent revenues earned primarily from: antenna revenues, which represents fees received from telecommunication operators that have put cellular antennas on our water towers; operation and maintenance and billing contracts, which represent fees earned from municipalities for our operation of their water or wastewater treatment services or performing billing services; and fees earned from developers for accessing our water mains, miscellaneous service revenue from gas distribution operations, gas processing and handling revenue, sales of natural gas at market-based rates and contracted fixed prices, sales of gas purchased from third parties, and other gas marketing activities. The performance obligations vary for these revenues, but all are primarily recognized over time as the service is delivered.

Alternative Revenue Program:

- **Water / Wastewater Revenues** – These revenues represent the difference between the actual billed utility volumetric water and wastewater revenues for Aqua Illinois and the revenues set in the last Aqua Illinois rate case. In accordance with the Illinois Commerce Commission, we recognize revenues based on the target amount established in the last rate case, and then record either a regulatory asset or liability based on the cumulative annual difference between the target and actual amounts billed, which results in either a payment from customers or a refund due to customers. The cumulative annual difference is either refunded to customers or collected from customers over a nine-month period.
- **Natural Gas Revenues** – These revenues represent the weather-normalization adjustment (“WNA”) mechanism in place for our natural gas customers served in Kentucky and, beginning in October 2024, for our natural gas customers in Pennsylvania. The WNA serves to minimize the effects of weather on the Company’s results for its residential and small commercial natural gas customers. This regulatory mechanism adjusts revenues earned for the variance between actual and normal weather and can have either positive (warmer than normal) or negative (colder than normal) effects on revenues. Customer bills are adjusted in the heating season billing months, with rates adjusted for the difference between actual revenues and revenues calculated under this mechanism billed to the customers.

These revenue programs represent a contract between the utility and its regulators, not customers, and therefore are not within the scope of the FASB’s accounting guidance for recognizing revenue from contracts with customers.

Other and Eliminations – Other and eliminations consist of market-based revenues, which are earned through our non-regulated natural gas operations and Aqua Resources, and intercompany activities for revenue billed between our subsidiaries. Our non-regulated natural gas operations consist of utility service line protection solutions and repair services for households and the operation of gas marketing and production entities. Revenue is recognized and the performance obligation is satisfied over time as the service is delivered. Aqua Resources earned revenues and continues to earn revenue through third-party water and sewer service line protection and repair services. For the service line protection business, the performance obligations are allowing the use of our logo to a third-party water and sewer service line repair provider. Revenues are primarily recognized over time as service is delivered.

Cash and Cash Equivalents – The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

Under our cash management system, checks issued but not yet presented to banks would result in a negative bank balance or a book overdraft. The Company funds its book overdraft from its line of credit and operating cash flows. The balance of the book overdraft is reported as book overdraft, and the change in the book overdraft balance is reported as cash flows from financing activities, due to our ability to fund the overdraft with the Company's credit facility.

Accounts Receivable – Accounts receivable are recorded at the invoiced amounts, which consists of billed and unbilled revenues. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in our existing accounts receivable and is determined based on lifetime expected credit losses, the aging of account balances, and consideration of current and expected future conditions. The Company reviews the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered. When utility customers request extended payment terms, credit is extended based on regulatory guidelines, and collateral is not required.

Inventories – Materials and Supplies – Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method.

Inventory – Gas Stored – The Company accounts for gas in storage inventory using the weighted average cost of gas method.

Goodwill – Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors, including macroeconomic conditions, industry and market considerations, changes to regulatory environment, recent regulatory and legislative proceedings, cost factors, overall financial performance, and entity specific events, for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, based on our assessment of the qualitative factors previously noted or at our discretion, we may perform a quantitative goodwill impairment test by determining the fair value of a reporting unit. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would record an impairment loss for the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the reporting unit's carrying amount of goodwill.

Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (also known as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component. We assigned assets and liabilities to each reporting unit based on either specific identification or by using judgment for the remaining assets and liabilities that are not specific to a reporting unit. Goodwill was assigned to the reporting units based on a combination of specific identification and relative fair values.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Determining the fair value of our reporting units involves the use of significant estimates and assumptions and considerable management judgment. We base our fair value estimates on assumptions we believe to be reasonable at the time, but such assumptions are subject to inherent uncertainty. We estimated the fair value of reporting units by weighting results from the market approach and the income approach. These valuation approaches consider a number of factors that include, but are not limited to, prospective financial information, growth rates, terminal value, discount rates, and comparable multiples from publicly traded companies in our industry. Changes in market conditions, changes in the regulatory environment, pending or new legislation that could impact the ability to recover costs through regulated rates or other factors outside of our control, could cause us to change key assumptions and our judgment about a reporting unit's prospects. Similarly, in a specific period, a reporting unit could significantly underperform relative to its historical or projected future operating results. Either situation could result in a meaningfully different estimate of the fair value of our reporting units, and a consequent future impairment charge.

During the fourth quarter of 2024, as part of the annual goodwill assessment as of October 1, 2024, we elected to perform qualitative goodwill impairment assessments on the goodwill attributable to our Regulated Natural Gas, our Regulated Water, and Other reporting units. Based on our analysis, we determined that none of the goodwill of our reporting units were impaired.

The following table summarizes the changes in the Company's goodwill:

	Regulated Water	Regulated Natural Gas	Other	Consolidated
Balance at December 31, 2022	\$ 58,504	\$ 2,277,447	\$ 4,841	\$ 2,340,792
Goodwill acquired	-	-	-	-
Reclassifications to utility plant acquisition adjustment	(54)	-	-	(54)
Balance at December 31, 2023	58,450	2,277,447	4,841	2,340,738
Goodwill acquired	-	-	-	-
Reclassifications to utility plant acquisition adjustment	(25)	-	-	(25)
Balance at December 31, 2024	\$ 58,425	\$ 2,277,447	\$ 4,841	\$ 2,340,713

The reclassification of goodwill to utility plant acquisition adjustment results from either a regulatory order or a mechanism approved by the applicable utility commission. A regulatory order may provide for the one-time transfer of certain acquired goodwill. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisitions upon achieving specific objectives.

Intangible assets – The Company's intangible assets consist of customer relationships for our non-regulated natural gas operations and non-compete agreements with certain former employees of Peoples. These intangible assets are amortized on a straight-line basis over their estimated useful lives of fifteen years for the customer relationships and five years for the non-compete agreements.

Derivative Instruments – The Company's natural gas commodity price risk, driven mainly by price fluctuations of natural gas, is mitigated by its purchased-gas cost adjustment mechanisms. The Company also uses derivative instruments to economically hedge the cost of anticipated natural gas purchases during the winter heating months that seeks to offset the risk to the Company's utility customers from upward market price volatility. These strategies include requirements contracts, spot purchase contracts and underground storage to meet regulated customers' natural gas requirements that may have fixed or variable pricing. The variable price contracts qualify as derivative instruments; however, because the contract price is the prevailing price at the future transaction date the contract has no determinable fair value. The fixed price contracts and firm commitments to purchase a fixed quantity of gas in the future qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business and, as such, are accounted for under the accrual basis and are not recorded at fair value in the Company's consolidated financial statements.

Deferred Charges and Other Assets — Deferred charges and other assets consist primarily of assets held to compensate employees in the future who participate in the Company's deferred compensation plan, and prepaid pension and other post-retirement benefit plans assets, which amounted to \$31,324 and \$45,983 as of December 31, 2024; and \$26,442 and \$43,025 as of December 31, 2023, respectively. The assets of the deferred compensation plan are invested in mutual funds which are carried on the consolidated balance sheet at fair market value, and changes in fair value are included in other expense (income), refer to Note 12 – *Fair Value of Financial Instruments* for further details. Refer to Note 16 – *Pension Plans and Other Post-Retirement Benefit Plans* for further information on the prepaid pension and other post-retirement benefit plan assets.

Income Taxes — The Company accounts for some income and expense items in different time periods for financial and tax reporting purposes. Deferred income taxes are provided on specific temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not currently included in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties. Judgment is required in evaluating the Company's Federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company establishes reserves when it believes that its tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company's provision for income taxes includes interest, penalties and reserves for uncertain tax positions.

Customers' Advances for Construction and Contributions in Aid of Construction — Utility mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct utility mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as customers' advances for construction. Over time, the amount of non-cash contributed property will vary based on the timing of the contribution of the non-cash property and the volume of non-cash contributed property received in connection with development in our service territories. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the applicable water main. After all refunds are made, any remaining balance is transferred to contributions in aid of construction for our regulated water business. Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable. For our regulated gas business, non-refundable contributions are netted against the cost of the related utility mains or other utility property.

Based on regulatory conventions in states where the Company operates, generally our subsidiaries depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Contributions in aid of construction and customers' advances for construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property.

Stock-Based Compensation — The Company records compensation expense in the financial statements for stock-based awards based on the grant date fair value of those awards. Stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on either a straight-line basis, or the graded vesting method, which is generally commensurate with the vesting term.

Fair Value Measurements – The Company follows the FASB’s accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;

Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, assets that are measured at fair value using the net asset value (“NAV”) per share practical expedient are not classified in the fair value hierarchy. There have been no changes in the valuation techniques used to measure fair value or asset or liability transfers between the levels of the fair value hierarchy for the years ended December 31, 2024 and 2023.

Recent Accounting Pronouncements –

Pronouncements to be adopted upon the effective date:

In November 2024, the FASB issued ASU 2024-03, “*Income Statement Reporting–Comprehensive Income–Expense Disaggregation Disclosures (Subtopic 220-40), Disaggregation of Income Statement Expenses*”. The standard update improves the disclosures about a public business entity’s expenses by requiring more detailed information about the types of expenses (including purchases of inventory, employee compensation, depreciation and amortization) included within income statement expense captions. The guidance will be effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The standard updates are to be applied prospectively with the option for retrospective application. The Company is currently evaluating the impact of adoption of the standard update on its financial statement disclosures.

In December 2023, the FASB issued ASU 2023-09, “*Income Taxes (Topic 740): Improvements to Income Tax Disclosures*”. The ASU enhances the transparency and decision usefulness of income tax disclosures and is effective for annual periods beginning after December 15, 2024 on a prospective basis. Early adoption is permitted. The Company plans to adopt the standard in its 2025 annual report on Form 10-K. The Company does not expect this ASU to have a significant impact to its current disclosures.

In March 2024, the U.S. Securities and Exchange Commission (SEC) issued its final climate disclosure rule, which requires the disclosure of Scope 1 and Scope 2 greenhouse gas emissions and other climate-related topics in annual reports and registration statements, when material. A number of petitions have been filed in federal courts seeking to challenge the SEC’s climate disclosure rule. As a result, in April 2024, the SEC placed a pause on its implementation of the new rule. We are evaluating the impact of the new rule and, depending on the outcome of the proceedings, will include the required disclosures once it becomes effective.

Pronouncements adopted during the fiscal year:

In November 2023, the FASB issued ASU 2023-07 *Segment Reporting - Improving Reportable Segment Disclosures (Topic 280)*. The update is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant expenses. The ASU requires disclosures to include significant segment expenses that are regularly provided to the chief operating decision maker (CODM), a description of other segment items by reportable segment, and any additional measures of a segment's profit or loss used by the CODM when deciding how to allocate resources. The ASU also requires certain annual disclosures currently required by Topic 280 to be included in interim periods. The update is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted, and requires retrospective application to all prior periods presented in the financial statements. The Company adopted the updated provisions in this 2024 annual report on Form 10-K.

Recently issued accounting standards or pronouncements not disclosed above have been excluded as they are not relevant to the Company.

Note 2 – Acquisitions

Water and Wastewater Utility Acquisitions – Completed

In January 2025, the Company acquired Greenville Sanitary Authority's wastewater utility assets, which serves approximately 2,300 customers in Greenville, Pennsylvania for \$18,000.

In October 2024, the Company acquired wastewater utility assets in Morgan County, Indiana, which serve approximately 100 customers for \$500.

In May 2024, the Company acquired the wastewater utility assets of Westfield HOA, which serves approximately 200 customers within Westfield Homeowners Subdivision in Glenview, Illinois for a cash purchase price of \$67.

In July 2023, the Company completed the following water utility asset acquisitions: Shenandoah Borough, Pennsylvania, which serves approximately 2,900 customers for \$12,291; La Rue, an Ohio municipality, which serves approximately 300 customers for \$2,253; and, Southern Oaks Water System, which serves approximately 800 customers in Texas for \$3,321. Additionally, in July 2023, the Company completed their acquisition of a portion of the water and wastewater utility assets of the Village of Frankfort, an Illinois municipality, which serves approximately 1,500 customers for \$1,424.

In June 2023, the Company acquired the wastewater utility assets of Union Rome, Ohio, which serves approximately 4,300 customers for a cash purchase price of \$25,547.

In March 2023, the Company acquired the North Heidelberg Sewer Company in Berks County, Pennsylvania, which serves approximately 300 customer connections for a cash purchase price of \$136.

In November 2022, the Company acquired certain water utility assets of Oak Brook, Illinois, which serve 2,037 customers for a cash purchase price of \$12,500.

In March 2022, the Company acquired the wastewater system of Lower Makefield Township, which serves 11,323 customer connections in Lower Makefield, Falls, and Middletown townships, and Yardley Borough, Bucks County, Pennsylvania, for a cash purchase price of \$53,000.

The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for these utility systems acquired in 2024 are \$32.

The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for these utility systems acquired in 2023 were \$7,715 in 2024 and \$3,290 in 2023.

The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for the utility systems acquired in 2022 were \$19,013 in 2024, \$18,039 in 2023 and \$11,393 in 2022.

The purchase price allocation for these acquisitions consisted primarily of property, plant and equipment. The pro forma effect of the utility systems acquired is not material either individually or collectively to the Company's results of operations.

Water and Wastewater Utility Acquisitions – Pending Completion

In October 2024, the Company entered into a purchase agreement to acquire Integra Water Texas, LLC's wastewater system assets in Bastrop County, Texas, which serves approximately 1,100 customers for \$4,400.

In August 2024, the Company entered into a purchase agreement to acquire the Village of Midvale's water system in Ohio, which serves approximately 900 customers for \$2,950.

In June 2024, the Company entered into a purchase agreement to acquire private water and wastewater utility assets in Harris County, Texas, which serves approximately 400 equivalent retail customers for \$1,125.

In December 2023, the Company entered into a purchase agreement to acquire North Versailles wastewater assets in North Versailles Township, Pennsylvania which serves approximately 4,400 customers for between \$25,000 and \$30,000. In August 2024, the purchase agreement was terminated mutually by the Company and the Authority.

In September 2023, the Company entered into a purchase agreement to acquire Greenville Municipal Water Authority's water system in Greenville, Pennsylvania which serves approximately 3,000 customers for \$18,000.

In October 2021, the Company entered into a purchase agreement to acquire the wastewater utility assets of the City of Beaver Falls, Pennsylvania which consists of approximately 7,600 customers for \$41,250.

The purchase price for each of these pending acquisitions is subject to certain adjustments at closing, and is subject to regulatory approval, including the final determination of the fair value of the rate base acquired. We plan to finance the purchase price of these acquisitions by utilizing our revolving credit facility until permanent debt and common equity are secured. These pending acquisitions are expected to close in 2025. Closing for our utility acquisitions are subject to the timing of the respective regulatory approval processes.

East Whiteland Purchase Agreement

On July 29, 2022, the Pennsylvania Public Utility Commission issued an order (the "PUC Order") approving the Company's acquisition of the municipal wastewater assets of East Whiteland Township, Chester County, Pennsylvania, which serves 4,018 customers (the "East Whiteland Wastewater Assets"). On August 12, 2022, the Company acquired the East Whiteland Wastewater Assets for a cash purchase price of \$54,374. Subsequently on August 25, 2022, the Office of Consumer Advocate ("OCA") filed an appeal of the PUC Order to the Pennsylvania Commonwealth Court. On July 31, 2023, a decision was issued by the Pennsylvania Commonwealth Court, in which the Pennsylvania Commonwealth Court agreed with the OCA and reversed the PUC order which approved the acquisition. On September 26, 2023, the Pennsylvania Commonwealth Court denied our motion for reargument. On October 26, 2023, the Company, the Pennsylvania Public Utility Commission, and East Whiteland Township filed an appeal to the Pennsylvania Supreme Court. East Whiteland Township filed to Supplement its Petition for Allowance of Appeal on January 2, 2024. On January 16, 2024, the Company, the OCA and the PUC filed Answers to East Whiteland Township's Petition. On June 14, 2024, the Pennsylvania Supreme Court granted the Petitions for Allowance of Appeal of the Pennsylvania Public Utility Commission, the Company, and East Whiteland Township. The Company, the Pennsylvania Public Utility

Commission, East Whiteland Township, and several Amicus Curiae filed Initial Briefs on September 26, 2024. The OCA submitted its Brief on December 10, 2024. The Company, the Pennsylvania Public Utility Commission, and East Whiteland Township submitted Reply Briefs on January 10, 2025. Management believes the final resolution of this matter is not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

DELCORA Purchase Agreement

In 2019, the Company entered into a purchase agreement to acquire the wastewater utility system assets of the Delaware County Regional Water Quality Control Authority ("DELCORA"), which consists of approximately 16,000 customers, or the equivalent of 198,000 retail customers, in 42 municipalities in Southeast Pennsylvania for \$276,500. There are several legal proceedings involving the Company as a result of the purchase agreement that are on-going. On January 25, 2023, DELCORA filed in the Delaware Court of Common Pleas a complaint for Declaratory Judgment seeking resolution of whether the County Ordinance dissolving DELCORA is a final action prohibiting DELCORA from carrying out the material transaction of the Asset Purchase Agreement and, in the event that DELCORA retains the ability to close the transaction, whether DELCORA is permitted to exist as a trust. On February 14, 2023, the Company filed preliminary objections to DELCORA's complaint. DELCORA filed an answer and new matter to the Company's preliminary objections on February 21, 2023. On December 3, 2024, the Delaware County Court of Common Pleas issued an order that sustained Aqua's preliminary objections and dismissed DELCORA's complaint. The purchase price for this pending acquisition is subject to certain adjustments at closing, and is subject to regulatory approval, including the final determination of the fair value of the rate base acquired. We plan to finance the purchase price of this acquisition with a mix of equity and debt financing, utilizing our revolving credit facility until permanent debt is secured. Closing of our acquisition of DELCORA is subject to regulatory approval and on-going litigation.

Note 3 – Dispositions

In October 2023, the Company closed on the sale of its regulated natural gas utility assets in West Virginia, which served approximately 13,000 customers or about two percent of the Company's regulated natural gas customers ("Peoples Gas West Virginia"). Initially the sale closed for an estimated purchase price of \$39,965, subject to working capital and other adjustments. In March 2024, the Company received an additional \$1,213 from the buyer. The additional proceeds were based on finalizing closing working capital and other adjustments, resulting in a final purchase price of \$41,178 and a loss of an inconsequential amount. The sale concluded the Company's regulated utility operations in West Virginia. The sale of the Peoples Gas West Virginia utility assets had no major effect on the Company's operations and did not meet the requirements to be classified as discontinued operations.

In October 2023, the Company entered into an agreement to sell its interest in three non-utility local microgrid and distributed energy projects for \$165,000. As of December 31, 2023, balances associated with these projects of \$63,182 were included in prepayments and other current assets in the condensed consolidated balance sheets. The sale was completed in January 2024, and the Company recognized a gain of \$91,236 during the first quarter of 2024, which is included in other expense (income) in the accompanying consolidated statement of operations.

The Company used the proceeds from these transactions to finance its capital expenditures and water and wastewater acquisitions, in place of external funding from equity and debt issuances.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 4 – Property, Plant and Equipment

	December 31,		Approximate Range of Useful Lives	Weighted Average Useful Life
	2024	2023		
Regulated Water segment:				
Utility plant and equipment:				
Mains and accessories	\$ 4,781,229	\$ 4,523,718	26-90 years	73 years
Services, hydrants, treatment plants and reservoirs	3,315,076	3,140,497	5-89 years	56 years
Operations structures and water tanks	448,040	413,147	15-80 years	48 years
Miscellaneous pumping and purification equipment	1,328,806	1,237,967	7-76 years	42 years
Meters, transportation and other operating equipment	1,152,416	1,104,643	5-84 years	28 years
Land and other non-depreciable assets	141,835	143,752	-	-
Utility plant and equipment - regulated water segment	11,167,402	10,563,724		
Utility construction work in progress	405,751	315,973	-	-
Net utility plant acquisition adjustment	(5,627)	(6,444)	10-53 years	22 years
Non-utility plant and equipment	20,073	20,019	17-64 years	58 years
Property, Plant and Equipment - Regulated Water segment	11,587,599	10,893,272		
Regulated Natural Gas segment:				
Natural gas transmission	444,560	429,465	29-97 years	61 years
Natural gas storage	62,706	62,157	30-89 years	44 years
Natural gas gathering and processing	155,470	147,700	22-96 years	47 years
Natural gas distribution	3,279,497	2,733,054	21-81 years	53 years
Meters, transportation and other operating equipment	637,712	613,653	5-61 years	24 years
Land and other non-depreciable assets	4,839	4,139	-	-
Utility plant and equipment - Regulated Natural Gas segment	4,584,784	3,990,168		
Utility construction work-in-progress	102,994	93,581	-	-
Property, plant and equipment - Regulated Natural Gas segment	4,687,778	4,083,749		
Total property, plant and equipment	\$ 16,275,377	\$ 14,977,021		

Note 5 – Accounts Receivable

	December 31,	
	2024	2023
Billed utility revenue	\$ 211,168	\$ 199,986
Other	14,295	4,887
	225,463	204,873
Less allowance for doubtful accounts	58,941	60,573
Net accounts receivable	\$ 166,522	\$ 144,300

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

As of December 31, 2024, the Company's utility customers are located principally in the following states: 66% in Pennsylvania, 9% in Ohio, 6% in North Carolina, 5% in Texas, and 5% in Illinois. No single customer accounted for more than one percent of the Company's utility operating revenues during the years ended December 31, 2024, 2023, and 2022. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2024	2023	2022
Balance at January 1,	\$ 60,573	\$ 63,981	\$ 58,073
Amounts charged to expense	21,865	23,209	27,631
Accounts written off	(24,190)	(27,759)	(22,507)
Recoveries of accounts written off and other	693	1,142	784
Balance at December 31,	<u>\$ 58,941</u>	<u>\$ 60,573</u>	<u>\$ 63,981</u>

Note 6 – Regulatory Assets and Liabilities

Regulatory assets represent costs that are probable to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes and utility plant retirement costs, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and regulatory liabilities are as follows:

	December 31, 2024		December 31, 2023	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	\$ 1,712,714	528,656	\$ 1,553,111	599,088
Purchased gas costs	21,366	413	21,019	29,807
Utility plant retirement costs	29,146	75,270	38,148	68,815
Post-retirement benefits	80,875	160,851	80,000	153,816
Accrued vacation	418	-	1,877	-
Water tank painting	11,242	-	17,044	-
Fair value adjustment of long-term debt assumed in acquisition	30,603	-	38,482	-
Debt refinancing	11,587	-	12,674	-
Rate case filing expenses and other	42,689	1,325	33,617	654
	<u>\$ 1,940,640</u>	<u>\$ 766,515</u>	<u>\$ 1,795,972</u>	<u>\$ 852,180</u>

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to specific differences between tax and book depreciation expense, are recognized in the rate setting process on a cash basis or as a reduction in current income tax expense and will be recovered as they reverse. Amounts include differences that arise between specific utility asset improvement costs capitalized for book and deducted as an expense for tax purposes. Additionally, the recording of AFUDC for equity funds results in the recognition of a regulatory asset for income taxes, which represents amounts due related to the revenue requirement. The Company records regulatory assets when a valuation allowance is recorded on deferred tax assets, associated with state NOLs that the Company does not believe are more likely than not to be realized, and are expected to be fully recovered from customers in future rates. Regulatory liabilities are refundable in future rate filings based on the difference between the amount of the income tax benefits that were incorporated into the Company's cost of service in its latest rate case as compared to the actual income tax benefits recognized.

A portion of the income taxes regulatory liability is related to Peoples Natural Gas' income tax accounting change for the tax benefits realized for the periods prior to adoption of a tax accounting method change for certain qualifying infrastructure investments. In May 2021, the Company received a regulatory order directing the Company to refund the catch-up adjustment to its utility customers over a five-year period, which was initiated by the Company in August 2021, and, in December 2024, extended this refund period to ten years or up to August 2031. In 2022, the Company made a similar change for its Peoples Gas and Aqua New Jersey subsidiaries, resulting in the recognition of a regulatory liability for each of these subsidiaries for the tax benefits prior to the year of adoption.

The regulatory asset or liability for purchased gas costs reflects the differences between actual purchased gas costs and the levels of recovery for these costs in current rates. The unrecovered costs are recovered and the over-recovered costs are refunded in future periods, typically within a year, through quarterly and annual filings with the applicable state regulatory agency.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that will be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

The regulatory asset for accrued vacation represents costs that would otherwise be charged to operations and maintenance expense for vacation that is earned by employees, which is recovered as a cost of service.

The regulatory asset for post-retirement benefits, which includes pension and other post-retirement benefits, primarily reflects a regulatory asset that has been recorded for the costs that would otherwise be charged to stockholders' equity for the underfunded status of the Company's pension and other post-retirement benefit plans. The Company also has a regulatory asset related to post-retirement benefits costs that represent costs already incurred which are now being or anticipated to be recovered in rates over a period ranging from approximately 10 to 37 years. The regulatory liability for post-retirement benefits represents costs recovered in rates in excess of post-retirement benefits expense.

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 10 to 20 years. The regulatory liability for water tank painting costs represents amounts recovered through rates and before the costs are incurred.

The Company recorded a fair value adjustment for fixed rate, long-term debt assumed in acquisitions that matures in various years ranging from 2024 to 2033. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

The regulatory asset for debt refinancing represents a portion of a make whole payment of \$25,237 incurred in 2019 for the Company's redemption of \$313,500 of the Company's outstanding notes that had maturities ranging from 2019 to 2037 and interest rates ranging from 3.57 to 5.83%. The Company deferred a portion of the make whole payment as it represents an amount by which we expect to receive prospective rate recovery.

The regulatory asset related to rate case filing expenses and other represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one year to five years, and costs incurred by the Company for which it has received or expects to receive rate recovery. Other regulatory assets also include the financial impacts of customer-owned lead service line replacement costs and regulatory balancing accounts. Regulatory balancing accounts represent the difference between revenues recognized and authorized revenue requirements until they are recovered from customers, and low-income customer assistance programs.

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 – *Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation*.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Note 7 – Income Taxes

Income tax benefit for the years ended December 31, is comprised of the following:

	Years Ended December 31,		
	2024	2023	2022
Current:			
Federal	\$ -	\$ 1,913	\$ -
State	5,920	11,487	8,716
	<u>5,920</u>	<u>13,400</u>	<u>8,716</u>
Deferred:			
Federal	(4,583)	(103,617)	(8,258)
State	(23,173)	23,772	(14,787)
	<u>(27,756)</u>	<u>(79,845)</u>	<u>(23,045)</u>
Total income tax benefit	<u>\$ (21,836)</u>	<u>\$ (66,445)</u>	<u>\$ (14,329)</u>

The statutory Federal tax rate is 21% for 2024, 2023, and 2022. For states with a corporate net income tax, the state corporate net income tax rates range from 2.5% to 9.99% for the years presented. The Company's effective income tax rate for 2024, 2023, and 2022 was (3.8)%, (15.4)%, and (3.2)%, respectively. The Company remains subject to examination by federal and state tax authorities for the tax years of 2021 through 2024.

The differences between income taxes expected at the federal statutory rate and the reported income tax benefit are described below:

	Years Ended December 31,		
	2024	2023	2022
Computed Federal tax expense at statutory rate	\$ 120,430	\$ 90,674	\$ 94,691
Decrease in Federal tax expense related to the flow through benefit of repair deductions	(107,853)	(117,370)	(72,302)
Amortization of deferred benefit from repair method changes	(18,454)	(18,454)	(21,012)
State income taxes, net of Federal tax benefit	(13,745)	(15,115)	(3,972)
Amortization of excess deferred income taxes	(5,971)	(8,324)	(8,425)
Net change in unrecognized tax benefit	288	(4,796)	718
Valuation allowance for deferred tax assets	4,747	8,148	-
Other, net	(1,278)	(1,208)	(4,027)
Actual income tax benefit	<u>\$ (21,836)</u>	<u>\$ (66,445)</u>	<u>\$ (14,329)</u>

As of December 31, 2024, and 2023, a change in valuation allowance for state deferred tax assets in the amounts of \$(4,206) and \$10,969, respectively, are included in state income taxes, net of federal tax benefit above.

The Company uses the flow-through method to account for the repairs tax deduction for qualifying utility infrastructure at its regulated Pennsylvania and New Jersey subsidiaries. The flow-through method of recording income tax benefits results in a reduction to current income tax expense and is included in utility customers' rates. The Company's regulated Pennsylvania subsidiaries are subject to a collar mechanism. Amounts recognized above or below the collar are required to be recorded as either a regulatory asset or liability, subject to disposition in the next base rate case.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In April 2023, the Internal Revenue Service issued Revenue Procedure 2023-15 which provides a safe harbor method of accounting that taxpayers may use to determine whether expenses to repair, maintain, replace, or improve natural gas transmission and distribution property must be capitalized for tax purposes. The Company adopted the methodology on its 2023 tax return. In the second quarter of 2023, based on the tax legislative guidance that was issued, the Company reevaluated the uncertain tax positions related to the Regulated Water Segment and ultimately released a portion of its historical income tax reserves. Concurrently, the Company deferred this tax benefit from the reserve release as a regulatory liability. Based on the rate order received by Aqua Pennsylvania in February 2025, the tax benefit of \$4,874 from the reserve release will be refunded to customers through base rates over a two-year period.

In September 2024, the Pennsylvania Public Utility Commission issued a rate order to Peoples Natural Gas approving several tax related settlements. Accordingly, in December 2024, the Company filed an updated Tax Repairs surcredit calculation with the Public Utility Commission to reflect the updated catch-up adjustment that should be returned to customers effective January 1, 2025, with extension of the original 481(a) amortization period from 5 to 10 years. Beginning January 1, 2025, no state tax benefit is being returned to customers in the approved base rates, as the state NOLs cannot be utilized presently.

The following table provides the changes in the Company's unrecognized tax benefits:

	2024	2023	2022
Balance at January 1,	\$ 7,898	\$ 18,217	\$ 20,201
Impact of current year activity	309	7,219	(900)
Effect of Pennsylvania tax rate change	-	-	(1,084)
Decrease for prior year tax positions	-	(17,538)	-
Balance at December 31,	\$ 8,207	\$ 7,898	\$ 18,217

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. From time to time, the Company may be assessed interest and penalties by taxing authorities, which would be recorded as income tax expense. During the years ended December 31, 2024, 2023, and 2022, there were expenses of \$216, \$23, and \$118 for interest and penalties related to uncertain tax positions. As of December 31, 2024, 2023 and 2022, the Company recognized liabilities of \$360, \$144, and \$620, respectively, for interest and penalties related to its uncertain tax positions.

The unrecognized tax benefits from uncertain tax positions are attributable to temporary differences. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. As a result of the regulatory treatment afforded by the income tax accounting change in Pennsylvania and despite this position being a temporary difference, as of December 31, 2024, 2023, and 2022, \$7,216, \$6,918, and \$35,267, respectively, of these tax benefits would have an impact on the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
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The following table provides the components of net deferred tax liability:

	December 31,	
	2024	2023
Deferred tax assets:		
Customers' advances for construction	\$ 26,394	\$ 20,332
Costs expensed for book not deducted for tax, principally accrued expenses	19,642	35,577
Post-retirement benefits	1,638	1,368
Tax effect of regulatory liabilities for post-retirement benefits	44,567	49,199
Tax attributes and credit carryforwards	494,318	458,001
Operating lease liabilities	9,532	11,529
Other	2,937	-
	599,028	576,006
Less valuation allowance	(166,249)	(149,486)
	432,779	426,520
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	1,820,785	1,662,741
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	408,624	348,646
Tax effect of regulatory assets for post-retirement benefits	22,151	28,092
Deferred investment tax credit	4,601	4,771
Operating lease right-of-use assets	8,486	10,301
Other	-	293
	2,264,647	2,054,844
Net deferred tax liability	\$ 1,831,868	\$ 1,628,324

Certain prior year amounts have been reclassified for consistency with the current year presentation.

The following table summarizes the changes in the Company's valuation allowance for deferred tax assets:

	2024	2023	2022
Balance at January 1,	\$ 149,486	\$ 38,940	\$ 36,662
Amounts charged to expense	542	16,311	2,278
Amounts charged to regulatory assets	16,221	94,235	-
Balance at December 31,	\$ 166,249	\$ 149,486	\$ 38,940

At December 31, 2024, the Company has a cumulative Federal NOL of \$1,425,886. The Company believes the Federal NOLs are more likely than not to be recovered and require no valuation allowance. The Company's Federal NOLs will begin to expire in 2032.

At December 31, 2024, the Company has a cumulative state NOL of \$2,811,033, a portion of which is offset by a valuation allowance. The Company believes a portion of its Regulated Natural Gas segment state NOLs is not likely to be realized due to its continuous investments in qualifying infrastructure resulting in the recording of a valuation allowance in 2023. The Company recorded a regulatory asset for the portion of the valuation allowance that is expected to be fully recovered from customers in future rates. At December 31, 2024, the Company has a cumulative state valuation allowance of \$2,282,663. The state NOL began expiring in 2023.

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Notes to Consolidated Financial Statements (continued)
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At December 31, 2024, the Company's Federal and state NOL carryforwards are reduced by an unrecognized tax position of \$19,549 and \$13,818, respectively, which results from the Company's presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amounts of the Company's Federal and state NOL carryforwards net of the unrecognized tax positions are \$1,406,337 and \$2,797,215, respectively. The Company records its unrecognized tax benefit as a component of its net deferred income tax liability.

At December 31, 2024, the Company has a cumulative Federal charitable contribution of \$61,404, on which a valuation allowance of \$61,404 has been recorded as the Company determined it is more likely than not they will expire before they are utilized within the carryforward period.

At December 31, 2024, the Company has a cumulative state charitable contribution of \$56,894 on which a valuation allowance of \$56,894 has been recorded as the Company does not believe these state charitable contributions are more likely than not to be realized.

On August 16, 2022, the Inflation Reduction Act of 2022 ("IRA") was enacted into law, which, among other things, implements a 15% minimum tax on book income of certain large corporations, and a 1% excise tax on net stock repurchases after December 31, 2022. The alternative minimum tax would not be applicable in our next fiscal year because it is based on a three-year average annual adjusted financial statement income in excess of \$1,000,000. We are continuing to assess the future impact of the provisions of the IRA on our consolidated financial statements. As a regulated utility, taxes have been traditionally recognized by state public utility commissions as appropriate for inclusion in establishing rates.

On July 8, 2022, Pennsylvania enacted House Bill 1342 into law, which, among other things, reduces Pennsylvania's corporate income tax rate from 9.99% to 8.99% beginning January 1, 2023, and an additional 0.5% annually through 2031, when it reaches to 4.99%. The Company evaluated the impacts of the tax rate change and recorded a reduction to our deferred tax liabilities with a corresponding reduction primarily to our regulatory assets.

Note 8 – Taxes Other than Income Taxes

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

	Years Ended December 31,		
	2024	2023	2022
Property	\$ 34,569	\$ 32,790	\$ 33,703
Gross receipts, excise and franchise	17,801	17,985	16,828
Payroll	22,930	21,628	21,343
Regulatory assessments	7,836	7,451	6,771
Pumping fees	8,049	6,405	7,881
Other	3,449	3,949	3,498
Total taxes other than income taxes	\$ 94,634	\$ 90,208	\$ 90,024

Note 9 – Commitments and Contingencies

Commitments –

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2032. The estimated annual commitments related to such purchases through 2029 are expected to average \$2,204, and the aggregate of the years remaining approximates \$3,027.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The Company has entered into purchase obligations, in the ordinary course of business, that include agreements for water treatment processes at some of its wells in a small number of its divisions. The 20 year term agreement provides for the use of treatment equipment and media used in the treatment process and are subject to adjustment based on changes in the Consumer Price Index. The future contractual cash obligations related to these agreements are as follows:

	2025		2026		2027		2028		2029		Thereafter
\$	1,157	\$	1,183	\$	1,209	\$	657	\$	668	\$	989

The Company's natural gas supply is provided by sources on the interstate pipeline system and from local western Pennsylvania gas well production. The Company has various interstate pipeline service agreements that provide for firm transportation capacity, firm storage capacity, and other services and include capacity reservation charges based upon the maximum daily and annual contract quantities set forth in the agreements. Some of these agreements have minimum volume obligations and are transacted at applicable tariff and negotiated rates to the year 2034. The estimated annual commitments related to such purchases through 2029 are expected to average \$239,663, and the aggregate of the years remaining beyond 2029 approximates \$950,055.

The purchased water, water treatment, and purchased gas expenses under these agreements were as follows:

	Years Ended December 31,		
	2024	2023	2022
Purchased water under long-term agreements	\$ 7,633	\$ 6,752	\$ 5,559
Water treatment expense under contractual agreement	1,125	1,103	1,061
Purchased natural gas under long-term agreements	277,009	352,306	601,995

Contingencies – The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of December 31, 2024, the aggregate amount of \$23,815 is accrued for loss contingencies and is reported in the Company's consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management's best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. Further, Essential Utilities has insurance coverage for certain of these loss contingencies, and as of December 31, 2024, estimates that approximately \$688 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company's consolidated balance sheet as deferred charges and other assets, net.

During a portion of 2019, the Company initiated a do not consume advisory for some of its customers in one division served by the Company's Illinois subsidiary. The do not consume advisory was lifted in 2019, and, in 2022, the water system was determined to be in compliance with the federal Lead and Copper Rule. The Company has accrued for the penalty and other fees that will be paid as a result of a settlement that was reached with the state and local regulators and approved by the Illinois court with jurisdiction over this matter in July 2024. In addition, on September 3, 2019, two individuals, on behalf of themselves and those similarly situated, commenced an action against the Company's Illinois subsidiary in the State court in Will County, Illinois related to this do not consume advisory. The complaint seeks class action certification, attorney's fees, and "damages, including, but not limited to, out of pocket damages, and discomfort, aggravation, and annoyance" based upon the water provided by the Company's subsidiary to a discrete service area in University Park, Illinois. The complaint contains allegations of damages as a result of supplied water. In December, 2024, the State court in Will County, Illinois dismissed the case against the Company, and plaintiffs have filed an appeal of that decision. The Company has an accrual for the amount of loss asserted in the complaint that we determined to be probable and estimable of being incurred. While the final outcome of this claim cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of this matter is not expected to have a material adverse effect on the Company's financial position, results of

operations or cash flows. Further, the Company submitted a claim for the expenses incurred to its insurance carrier for potential recovery of a portion of these costs, is currently in litigation with one of its carriers seeking to enforce its claims, and recently prevailed in the Third Circuit Court of Appeals which held that the insurance carrier possessed a duty to defend. The Company continues to assess the potential loss contingency on this matter.

A number of the Company's subsidiaries are parties to several lawsuits against manufacturers of certain per- and polyfluoroalkyl substances or compounds ("PFAS") for damages, contribution and reimbursement of costs incurred and continuing to be incurred to address the presence of such PFAS in public water supply systems owned and operated by these utility subsidiaries throughout its service area. One such suit to which the Company is a party is a multi-district litigation (the "MDL") lawsuit which commenced on December 7, 2018, in the United States District Court for the District of South Carolina. Several defendants in such lawsuit have agreed to settle. In February and April 2024, the MDL court issued its final approval of the DuPont and 3M class action settlements, respectively. In April 2024 and May 2024, Tyco Fire Products LP and BASF Corp, respectively, filed similar class action settlements in the MDL court to resolve claims, and, on November 11, 2024, received final approval from the MDL court. The Company submitted the phase one public water system claims requirements pursuant to the Dupont and 3M settlement agreements and will submit other requirements within the time period provided by the MDL court. The amount of recovery, if any, by the Company is uncertain.

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

In addition to the aforementioned loss contingencies, the Company self-insures a portion of its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company's reserve for these claims totaled \$2,295 and \$1,846 at December 31, 2024 and 2023, respectively, and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Note 10 – Leases

The Company leases land, office facilities, office equipment, and vehicles for use in its operations, which are accounted for as operating leases. Leases with a term of 12 months or less are not recorded on the balance sheet; rather, lease expense is recognized over the lease term. Our leases have remaining lives of 1 to 70 years.

Some of the Company's leases can be extended on a month-to-month basis, which allow us to terminate the lease at any given month without penalty while others include options to extend the leases for up to 50 years. The renewal of a month-to-month lease is at our sole discretion.

The Company accounts for lease and non-lease components of lease arrangements separately. For calculating lease liabilities, we may deem lease terms to include options to extend or terminate the lease when it's reasonably certain that we will exercise that option. The Company's lease agreements do not contain significant residual value guarantees, restrictions or covenants.

Lease liabilities and corresponding right-of-use assets are recorded based on the present value of the lease payments over the expected lease term, including leases with variable payments that are based on a market rate or an index and net of any impairment. All other variable payments are expensed as incurred. Since the Company's lease agreements do not provide an implicit interest rate, we utilize our incremental borrowing rate to determine the discount rate used to present value the lease payments.

On January 6, 2022, the Company entered into an amendment to an office lease that provided for the partial termination of the Company's obligations with respect to a portion of the leased premises of approximately 37,000 rentable square feet. The Company paid a termination fee of \$2,812, reduced its remaining lease payments by \$1,753 and recognized a loss on

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the partial termination of the lease of \$1,801 that is included within operations and maintenance expense in the consolidated statements of operations and comprehensive income.

	Years Ended December 31,		
	2024	2023	2022
Components of lease expense were as follows:			
Operating lease cost	\$ 9,821	\$ 9,307	\$ 9,359

	Years Ended December 31,	
	2024	2023
Supplemental cash flow information related to leases was as follows:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 8,148	\$ 9,149

	December 31,	
	2024	2023
Supplemental balance sheet information related to leases was as follows:		
Operating leases:		
Operating lease right-of-use assets	\$ 31,263	\$ 37,416
Other accrued liabilities	\$ 7,591	7,360
Operating lease liabilities	27,447	34,425
Total operating lease liabilities	\$ 35,038	\$ 41,785

	December 31,	
	2024	2023
Weighted average remaining lease term:		
Operating leases	10.2 years	10.1 years
Weighted average discount rate:		
Operating leases	5.15%	4.87%

Maturities of operating lease liabilities and a reconciliation of the operating lease liabilities reported on our consolidated balance sheets as of December 31, 2024 are as follows:

	Operating Leases
2025	\$ 9,144
2026	7,515
2027	7,262
2028	6,870
2029	1,075
Thereafter	12,827
Total operating lease payments	\$ 44,693
Total operating lease payments	\$ 44,693
Less operating lease liabilities	35,038
Present value adjustment	\$ 9,655

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Note 11 – Long-term Debt and Loans Payable

Long-term Debt – The consolidated statements of capitalization provide a summary of long-term debt as of December 31, 2024 and 2023. The supplemental indentures with respect to specific issues of the first mortgage bonds restrict the ability of Aqua Pennsylvania and other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. Loan agreements for Aqua Pennsylvania and other operating subsidiaries of the Company have restrictions on minimum net assets. As of December 31, 2024, restrictions on the net assets of the Company were \$4,886,450 of the total \$6,198,809 in net assets. Included in this amount were restrictions on Aqua Pennsylvania's net assets of \$1,817,084 of their total net assets of \$2,540,787. As of December 31, 2024, \$2,626,620 of Aqua Pennsylvania's retained earnings of \$2,646,620 and \$372,979 of the retained earnings of \$578,490 of other subsidiaries were free of these restrictions. Some supplemental indentures also prohibit Aqua Pennsylvania and some other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Sinking fund payments are required by the terms of specific issues of long-term debt. Excluding amounts due under the Company's revolving credit agreement, the future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2025	2026	2027	2028	2029	Thereafter
0.00% to 0.99%	\$ 250	\$ 232	\$ 199	\$ 199	\$ 199	\$ 1,558
1.00% to 1.99%	758	1,089	1,917	1,941	1,965	4,062
2.00% to 2.99%	1,427	1,304	1,111	906	774	1,100,775
3.00% to 3.99%	1,343	807	206,657	362	400,336	1,773,498
4.00% to 4.99%	115,621	3,818	501,626	1,628	1,558	1,614,781
5.00% to 5.99%	-	-	-	3,000	-	1,329,260
6.00% to 6.99%	-	5,000	20,000	-	-	6,000
7.00% to 7.99%	23,000	-	4,888	-	-	-
8.00% to 8.99%	408	39	-	-	-	-
9.00% to 9.99%	-	11,800	-	-	-	-
Total	\$ 142,807	\$ 24,089	\$ 736,398	\$ 8,036	\$ 404,832	\$ 5,829,934

On August 15, 2024, the Company issued \$500,000 of senior notes, less expenses of \$3,015, due in 2027, with an interest rate of 4.80%. On January 8, 2024, the Company issued \$500,000 of senior notes, less expenses of \$4,610, due in 2034 with an interest rate of 5.375%. The Company used the net proceeds from the issuance of these senior notes (1) to repay a portion of the borrowings under the Company's existing five year unsecured revolving credit facility, and (2) for general corporate purposes.

In August 2023, the Company's subsidiary, Aqua Pennsylvania, issued \$225,000 in aggregate principal amount of first mortgage bonds. The bonds consisted of \$175,000 of 5.48% first mortgage bonds due in 2053; and \$50,000 of 5.56% first mortgage bonds due in 2061. In January 2023, Aqua Pennsylvania issued \$75,000 of first mortgage bonds, due in 2043, and with an interest rate of 5.60%. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

The weighted average cost of long-term debt at December 31, 2024 and 2023 was 4.14% and 4.14%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2024 and 2023 was 4.03% and 3.86%, respectively.

On December 14, 2022, the Company entered into a five year \$1,000,000 unsecured revolving credit facility, which replaced the Company's prior five year \$1,000,000 unsecured revolving credit facility. The facility includes a \$100,000 sublimit for daily demand loan. Funds borrowed under this facility are classified as long-term debt and are used to provide working capital as well as support for letters of credit for insurance policies and other financing arrangements. As of December 31, 2024, the Company has the following sublimits and available capacity under the credit

facility: \$100,000 letter of credit sublimit, \$83,226 of letters of credit available capacity, \$0 borrowed under the swing-line commitment, \$570,226 was available for borrowing and \$413,000 of funds borrowed under the agreement. Interest under the facility is equal to either (i) Term simple secured overnight financing rate (SOFR), plus applicable margin; or (ii) an Alternate Base Rate (which is based at the highest of the (a) New York Federal Reserve Bank rate, plus 0.5%, (b) the prime rate, and, (c) the daily SOFR, plus 1.0%,) plus applicable margin. The applicable margin for an Alternate Base Rate loan will be up to 0.5% and for a SOFR loan will be up to 1.5%, in each case depending on the debt ratings in effect as of such date. The Company may elect either the Term SOFR or the Alternate Base Rate at the time of the drawdown, and loans may be converted from one rate to another at any time, subject to certain conditions. A facility fee is charged on the total commitment amount of the agreement. Under these facilities the average cost of borrowings was 6.17% and 6.30%, and the average borrowing was \$292,017 and \$537,983, during 2024 and 2023, respectively.

The Company is obligated to comply with covenants under some of its loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to specific exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2024, the Company was in compliance with its debt covenants under its loan and debt agreements. Failure to comply with the Company's debt covenants could result in an event of default, which could result in the Company being required to repay or finance its borrowings before their due date, possibly limiting the Company's future borrowings, and increasing its borrowing costs.

Loans Payable – On June 12, 2024, Aqua Pennsylvania and Peoples Natural Gas Companies amended the terms of their respective \$100,000 and \$300,000, 364-day revolving credit agreements, as follows: (1) extended the maturity dates to June 10, 2025; and (2) revised the interest rate index from the Bloomberg Short-Term Bank Yield Index (BSBY) to SOFR. The funds borrowed under these agreements are classified as loans payable and are used to provide working capital.

As of December 31, 2024 and 2023, funds borrowed under the Aqua Pennsylvania revolving credit agreement were \$31,158 and \$23,123, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted overnight bank funding rate, or, effective June 12, 2024, an adjusted SOFR (prior benchmark rate was an adjusted BSBY floating rate). A commitment fee of 0.05% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under the facility was 5.9% and 5.36%, and the average borrowing was \$29,074 and \$19,275, during 2024 and 2023, respectively. The maximum amount outstanding at the end of any one month was \$42,691 and \$54,472 in 2024 and 2023, respectively.

As of December 31, 2024 and 2023, funds borrowed under the Peoples Natural Gas Companies revolving credit agreement were \$155,384 and \$137,000, respectively. Interest under this facility is based, at the borrower's option, at the prime rate, an adjusted overnight bank funding rate, or, effective June 12, 2024, an adjusted SOFR (prior benchmark rate was an adjusted BSBY floating rate). A commitment fee of 0.08% is charged on the total commitment amount of Peoples' revolving credit agreement. The average cost of borrowing under the facility was 6.18% and 5.97%, and the average borrowing was \$96,609 and \$78,952, during 2024 and 2023, respectively. The maximum amount outstanding at the end of any one month was \$158,249 and \$161,500 in 2024 and 2023, respectively.

At December 31, 2023, the Company had other combined short-term lines of credit of \$35,500. During the third quarter of 2024, the Company terminated these lines as they were no longer needed. There were no funds borrowed under these short-term lines of credit in 2024 and 2023, and, if borrowings were outstanding, they would have been classified as loans payable and used to provide working capital.

Interest Income and Expense— Interest income of \$3,318, \$3,401, and \$3,675 was recognized for the years ended December 31, 2024, 2023, and 2022, respectively. Interest expense was \$302,467, \$283,362, and \$238,116 in 2024, 2023, and 2022, including amounts capitalized for borrowed funds of \$7,372, \$5,241, and \$6,047, respectively.

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Note 12 – Fair Value of Financial Instruments

Financial instruments are recorded at carrying value in the financial statements and approximate fair value, with the exception of long-term debt, as of the dates presented. The fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The fair value of loans payable is determined based on its carrying amount and utilizing Level 1 methods and assumptions. As of December 31, 2024 and 2023, the carrying amount of the Company's loans payable was \$186,542 and \$160,123, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents is determined based on Level 1 methods and assumptions. As of December 31, 2024 and 2023, the carrying amounts of the Company's cash and cash equivalents were \$9,156 and \$4,612, respectively, which equates to their fair value. The Company's assets underlying the deferred compensation and non-qualified pension plans are determined by the fair value of mutual funds, which are based on quoted market prices from active markets utilizing Level 1 methods and assumptions. As of December 31, 2024 and 2023, the carrying amount of these securities was \$31,324 and \$26,442, respectively, which equates to their fair value, and is reported in the consolidated balance sheet in deferred charges and other assets.

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

	Years ended December 31,		
	2024	2023	2022
Net gain (loss) recognized during the period on equity securities	\$ 1,158	\$ 582	\$ (895)
Less: net gain (loss) recognized during the period on equity securities sold during the period	-	-	-
Unrealized gain (loss) recognized during the reporting period on equity securities still held at the reporting date	\$ 1,158	\$ 582	\$ (895)

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

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

	December 31,	
	2024	2023
Carrying amount	\$ 7,559,096	\$ 6,938,008
Estimated fair value	\$ 6,431,777	\$ 5,980,722

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

Note 13 – Stockholders' Equity

At December 31, 2024, the Company had 600,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding and treasury shares held were as follows:

	December 31,		
	2024	2023	2022
Shares outstanding	274,823,591	273,296,037	263,737,084
Treasury shares	3,386,069	3,299,191	3,236,237

At December 31, 2024, the Company had 1,770,819 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

In March 2024, the Company filed a new universal shelf registration with the SEC to allow for the potential future offer and sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices. This registration statement is effective for three years and replaces a similar filing that expired in the second quarter of 2024.

The Company has an acquisition shelf registration statement on file with the SEC which permits the offering, from time to time, of an aggregate of \$500,000 in shares of common stock and shares of preferred stock in connection with acquisitions. The balance remaining available for use under the acquisition shelf registration statement as of December 31, 2024 is \$487,155.

The form and terms of any securities issued under the universal shelf registration statement and the acquisition shelf registration statement will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are issued throughout the year. The shares issued under the Plan are either shares purchased by the Company's transfer agent in the open-market or original issue shares. In 2024, 2023, and 2022, the Company sold 433,688, 430,487, and 368,278 original issue shares of common stock through the dividend reinvestment portion of the Plan, for net proceeds of \$15,476, \$16,005, and \$16,619, respectively.

The Company recorded a regulatory asset for the underfunded status of its pension and other post-retirement benefit plans that would otherwise be charged to other comprehensive income, as it anticipates recovery of its costs through customer rates.

At-the-Market Offering

On August 13, 2024, the Company filed a prospectus supplement under the 2024 universal shelf registration statement relating to a new at-the-market equity sales program ("ATM"), under which it may issue and sell shares of its common stock up to an aggregate offering price of \$1,000,000 ("2024 ATM"). This 2024 ATM replaced the Company's previous ATM filed on October 14, 2022 ("2022 ATM").

During year ended December 31, 2024, the Company issued 925,497 shares of common stock for net proceeds of \$36,134 under the 2024 ATM. As of December 31, 2024, the 2024 ATM had approximately \$964,000 of equity available for issuance. During the year ended December 31, 2023, the Company issued 8,938,839 shares of common stock for net proceeds of \$322,983 under the 2022 ATM. During the year ended December 31, 2022, the Company issued 1,321,994 shares of common stock for net proceeds of \$63,040 under the 2022 ATM. There were no common stock sales under the 2022 ATM in 2024. The Company used the net proceeds from the sales of shares through the 2022 and 2024 ATMs for working capital, capital expenditures, water and wastewater utility acquisitions, and repaying a portion of outstanding indebtedness.

Tangible Equity Unit Issuances

On April 23, 2019, the Company issued \$690,000, less expenses of \$16,358, of its tangible equity units (the “Units”), with a stated amount of \$50 per unit, as part of the financing of the Peoples Gas Acquisition. Each Unit consisted of a prepaid stock purchase contract and an amortizing note, each issued by the Company. The amortizing notes had an initial principal amount of \$8,629,099, or \$119,081 in aggregate, and yielded interest at a rate of 3.00% per year, and paid equal quarterly cash installments of \$0.75000 per amortizing note (except for the July 30, 2019 installment payment, which was \$0.80833 per amortizing note), that constituted a payment of interest and a partial repayment of principal. This cash payment in the aggregate was equivalent to 6.00% per year with respect to each \$50 stated amount of the Units. The amortizing notes represented unsecured senior obligations of the Company. During 2022, 981,919 stock purchase contracts were early settled by the holders of the contracts prior to the mandatory settlement date, resulting in the issuance of 1,166,107 shares of the Company’s common stock. On May 2, 2022, the remaining 6,621,315 stock purchase contracts were each mandatorily settled for 1.18758 shares of the Company’s common stock, and in the aggregate the Company issued 7,863,354 shares of its common stock. Additionally, the final quarterly installment payment was made, which resulted in the complete pay-off of the amortizing notes.

Note 14 – Net Income per Common Share and Equity per Common Share

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

	Years ended December 31,		
	2024	2023	2022
Average common shares outstanding during the period for basic computation	273,914	267,171	262,246
Effect of dilutive securities:			
Employee stock-based compensation	507	488	622
Average common shares outstanding during the period for diluted computation	274,421	267,659	262,868

The number of outstanding employee stock options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was 243,780, 148,725 and 77,506 for the years ended December 31, 2024, 2023 and 2022, respectively. Additionally, the dilutive effect of performance share units and restricted share units granted are included in the Company’s calculation of diluted net income per share.

On May 2, 2022, all of the remaining stock purchase contracts under the tangible equity units were mandatorily settled. For the year ended December 31, 2022, the weighted average impact of 2,932,010 shares was included in the basic computation of the average common shares outstanding based on the number of shares that were issued upon settlement of the stock purchase contracts under the tangible equity units.

ESSENTIAL UTILITIES, INC. AND SUBSIDIARIES
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Note 15 – Employee Stock and Incentive Plan

Under the Company’s Amended and Restated Equity Compensation Plan, (the “Plan”) approved by the Company’s shareholders on May 2, 2019, to replace the 2004 Equity Compensation Plan, stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 3,125,000 shares under the Plan may be issued pursuant to stock award, stock units and other stock-based awards, subject to adjustment as provided in the Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the Plan for more than 500,000 shares of common stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the Plan. Awards to employees and consultants under the Plan are made by a committee of the Board of Directors, except that with respect to awards to the Chief Executive Officer, the committee recommends those awards for approval by the non-employee directors of the Board of Directors. In the case of awards to non-employee directors, the Board of Directors makes such awards. At December 31, 2024, 1,197,122 shares were still available for issuance under the Plan. No further grants may be made under the Company’s 2004 Equity Compensation Plan.

Performance Share Units – During 2024, 2023, and 2022, the Company granted performance share units. A performance share unit (“PSU”) represents the right to receive a share of the Company’s common stock if specified performance goals are met over the three-year performance period specified in the grant, subject to exceptions through the respective vesting periods, which is generally three years. Each grantee is granted a target award of PSUs and may earn between 0% and 200% of the target amount depending on the Company’s performance against the performance goals.

The performance goals of the 2024, 2023, and 2022 PSU grants consisted of the following metrics:

Metric 1 – Company’s total shareholder return (“TSR”) compared to the TSR for a specific peer group of investor-owned utilities (a market-based condition)	38.46%
Metric 2 – Achievement of a targeted cumulative level of rate base growth as a result of acquisitions (a performance-based condition)	30.77%
Metric 3 – Achievement of targets for maintaining consolidated operations and maintenance expenses over the three-year measurement period (a performance-based condition)	30.77%

The following table provides the compensation expense and income tax benefit for PSUs:

	Years ended December 31,		
	2024	2023	2022
Stock-based compensation within operations and maintenance expense	\$ 5,787	\$ 6,942	\$ 7,950
Income tax benefit	\$ 1,450	\$ 1,741	\$ 1,997

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The following table summarizes nonvested PSU transactions for the year ended December 31, 2024:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	531,437	\$ 40.03
Granted	227,284	38.10
Performance criteria adjustment	(50,562)	39.47
Forfeited	(48,078)	41.37
Share units issued	(96,425)	43.40
Nonvested share units at end of period	<u>563,656</u>	<u>\$ 38.61</u>

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions associated with the PSUs using the Monte Carlo valuation method, which assesses the probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs associated with performance-based conditions was based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on an estimate of the final expected value of the award and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows. The following table provides the assumptions used in the pricing model for the grant, the resulting grant date fair value of PSUs, and the intrinsic value and fair value of PSUs that vested during the year:

	Years ended December 31,		
	2024	2023	2022
Expected term (years)	3.0	3.0	3.0
Risk-free interest rate	4.19%	4.43%	1.75%
Expected volatility	22.4%	33.8%	31.9%
Weighted average fair value of PSUs granted	\$ 38.10	\$ 45.06	\$ 42.33
Intrinsic value of vested PSUs	\$ 3,421	\$ 7,483	\$ -
Fair value of vested PSUs	\$ 4,168	\$ 9,692	\$ -

As of December 31, 2024, \$9,729 of unrecognized compensation costs related to PSUs is expected to be recognized over a weighted average period of approximately 1.8 years. The aggregate intrinsic value of PSUs as of December 31, 2024 was \$20,472. The aggregate intrinsic value of PSUs is based on the number of nonvested share units and the market value of the Company's common stock as of the period end date.