

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For Quarterly Period Ended June 30, 2021

OR

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

For Transition Period From _____ to _____

Commission File Number 000-26591

RGC Resources, Inc.

(Exact name of Registrant as Specified in its Charter)

Virginia
(State or Other Jurisdiction of
Incorporation or Organization)

54-1909697
(I.R.S. Employer
Identification No.)

519 Kimball Ave., N.E., Roanoke, VA
(Address of Principal Executive Offices)

24016
(Zip Code)

(540) 777-4427

(Registrant's Telephone Number, Including Area Code)

None

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

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

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$5 Par Value	RGCO	NASDAQ Global Market

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 an emerging growth company. See definitions of "large accelerated filer," "accelerated-filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

<u>Class</u>	<u>Outstanding at July 31, 2021</u>
Common Stock, \$5 Par Value	8,355,356

GLOSSARY OF TERMS

AFUDC	Allowance for Funds Used During Construction
AOCI/AOCL	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ARP	Alternative Revenue Program, regulatory or rate recovery mechanisms approved by the SCC that allow for the adjustment of revenues for certain broad, external factors, or for additional billings if the entity achieves certain performance targets
ASC	Accounting Standards Codification
ASU	Accounting Standards Update as issued by the FASB
ATM	At-the-market program whereby a Company can incrementally offer common stock through a broker at prevailing market prices and on an as-needed basis
CARES	The Coronavirus Aid, Relief, and Economic Security Act
Company	RGC Resources, Inc. or Roanoke Gas Company
COVID-19	Pandemic strain of Coronavirus that causes respiratory illness similar to the flu with symptoms such as coughing, fever, and in more severe cases, difficulty in breathing
CPCN	Certificate of Public Convenience and Necessity
Diversified Energy	Diversified Energy Company, a wholly-owned subsidiary of Resources
DRIP	Dividend Reinvestment and Stock Purchase Plan of RGC Resources, Inc.
DTH	Decatherm (a measure of energy used primarily to measure natural gas)
EPS	Earnings Per Share
ERISA	Employee Retirement Income Security Act of 1974
ESAC	Eligible Safety Activity Costs, a Virginia natural gas utility's operation and maintenance expenditures that are related to the development, implementation, or execution of the utility's integrity management plan or programs and measures implemented to comply with regulations issued by the SCC or a federal regulatory body with jurisdiction over pipeline safety
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation

FERC	Federal Energy Regulatory Commission
Fourth Circuit	U.S. Fourth Circuit Court of Appeals
GAAP	U.S. Generally Accepted Accounting Principles
HDD	Heating degree day, a measurement designed to quantify the demand for energy. It is the number of degrees that a day's average temperature falls below 65 degrees Fahrenheit
ICC	Inventory carrying cost revenue, an SCC approved rate structure that mitigates the impact of financing costs on natural gas inventory
IRS	Internal Revenue Service
KEYSOP	RGC Resources, Inc. Key Employee Stock Option Plan
LIBOR	London Inter-Bank Offered Rate
LLC	Mountain Valley Pipeline, L.L.C., a joint venture established to design, construct and operate the Mountain Valley Pipeline and MVP Southgate
LNG	Liquefied natural gas, the cryogenic liquid form of natural gas. Roanoke Gas operates and maintains a plant capable of producing and storing up to 200,000 dth of liquefied natural gas
MGP	Manufactured gas plant
Midstream	RGC Midstream, L.L.C., a wholly-owned subsidiary of Resources created to invest in pipeline projects including MVP and Southgate
MVP	Mountain Valley Pipeline, a FERC-regulated natural gas pipeline project intended to connect the Equitrans gathering and transmission system in northern West Virginia to the Transco interstate pipeline in south central Virginia with a planned interconnect to Roanoke Gas' natural gas distribution system
NQDC Plan	RGC Resources, Inc. Non-qualified Deferred Compensation Plan
Normal Weather	The average number of heating degree days over the most recent 30-year period
PBGC	Pension Benefit Guaranty Corporation
Pension Plan	Defined benefit plan that provides pension benefits to employees hired prior to January 1, 2017 who meet certain years of service criteria

PGA	Purchased Gas Adjustment, a regulatory mechanism, which adjusts natural gas customer rates to reflect changes in the forecasted cost of gas and actual gas costs
Postretirement Plan	Defined benefit plan that provides postretirement medical and life insurance benefits to eligible employees hired prior to January 1, 2000 who meet years of service and other criteria
R&D credit	Research and development federal tax credit defined under Internal Revenue Code section 41 and the related regulations
Resources	RGC Resources, Inc., parent company of Roanoke Gas, Midstream and Diversified Energy
RGCO	Trading symbol for RGC Resources, Inc. on the NASDAQ Global Stock Market
Roanoke Gas	Roanoke Gas Company, a wholly-owned subsidiary of Resources
RSPD	RGC Resources, Inc. Restricted Stock Plan for Outside Directors
RSPO	RGC Resources, Inc. Restricted Stock Plan
SAVE	Steps to Advance Virginia's Energy, a regulatory mechanism per Chapter 26 of Title 56 of the Code of Virginia that allows natural gas utilities to recover the investment, including related depreciation and expenses and provide return on rate base, in eligible infrastructure replacement projects without the filing of a formal base rate application
SAVE Plan	Steps to Advance Virginia's Energy Plan, the Company's proposed and approved operational replacement plan and related spending under the SAVE regulatory mechanism.
SAVE Rider	Steps to Advance Virginia's Energy Plan Rider, the rate component of the SAVE Plan as approved by the SCC that is billed monthly to the Company's customers to recover the costs associated with eligible infrastructure projects including the related depreciation and expenses and return on rate base of the investment
SCC	Virginia State Corporation Commission, the regulatory body with oversight responsibilities of the utility operations of Roanoke Gas
SEC	U.S. Securities and Exchange Commission
Southgate	Mountain Valley Pipeline, LLC's Southgate project, which extends from the MVP in south central Virginia to central North Carolina, of which Midstream holds less than a 1% investment
S&P 500 Index	Standard & Poor's 500 Stock Index
TCJA	Tax Cuts and Jobs Act of 2017
WNA	Weather Normalization Adjustment, an ARP mechanism which adjusts revenues for the effects of weather temperature variations as compared to the 30-year average

Some of the terms above may not be included in this filing

RGC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2021 Unaudited	September 30, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,268,411	\$ 291,066
Accounts receivable (less allowance for uncollectibles of \$935,604, and \$703,140, respectively)	4,791,296	3,404,044
Materials and supplies	1,008,615	1,027,191
Gas in storage	4,265,056	5,708,761
Prepaid income taxes	168,161	647,623
Regulatory assets	2,015,117	2,503,314
Other	1,346,225	854,562
Total current assets	14,862,881	14,436,561
UTILITY PROPERTY:		
In service	266,210,526	258,342,372
Accumulated depreciation and amortization	(75,293,450)	(71,386,537)
In service, net	190,917,076	186,955,835
Construction work in progress	17,076,443	11,489,258
Utility plant, net	207,993,519	198,445,093
OTHER ASSETS:		
Regulatory assets	10,994,375	10,970,094
Investment in unconsolidated affiliates	62,541,855	57,542,805
Other	469,102	284,954
Total other assets	74,005,332	68,797,853
TOTAL ASSETS	\$ 296,861,732	\$ 281,679,507

RGC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2021 Unaudited	September 30, 2020
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 7,000,000	\$ —
Dividends payable	1,543,131	1,428,268
Accounts payable	5,387,864	4,442,182
Capital contributions payable	1,853,381	2,512,437
Customer credit balances	842,992	1,587,061
Customer deposits	1,576,160	1,611,476
Accrued expenses	2,761,241	3,565,210
Interest rate swaps	368,141	533,795
Regulatory liabilities	272,907	890,313
Total current liabilities	21,605,817	16,570,742
LONG-TERM DEBT:		
Notes payable	113,925,200	114,975,200
Line-of-credit	9,482,600	9,143,606
Less unamortized debt issuance costs	(256,413)	(299,175)
Long-term debt, net	123,151,387	123,819,631
DEFERRED CREDITS AND OTHER LIABILITIES:		
Interest rate swaps	989,169	1,689,761
Asset retirement obligations	7,505,590	7,180,982
Regulatory cost of retirement obligations	13,439,053	12,678,043
Benefit plan liabilities	5,935,922	6,149,527
Deferred income taxes	14,853,364	13,973,762
Regulatory liabilities	10,542,692	10,729,082
Total deferred credits and other liabilities	53,265,790	52,401,157
STOCKHOLDERS' EQUITY:		
Common stock, \$5 par; authorized 20,000,000 shares; issued and outstanding 8,325,692 and 8,160,058 shares, respectively	41,628,460	40,800,290
Preferred stock, no par, authorized 5,000,000 shares; no shares issued and outstanding	—	—
Capital in excess of par value	18,764,700	15,847,121
Retained earnings	41,205,655	35,688,510
Accumulated other comprehensive loss	(2,760,077)	(3,447,944)
Total stockholders' equity	98,838,738	88,887,977
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 296,861,732	\$ 281,679,507

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
OPERATING REVENUES:				
Gas utility	\$ 14,016,681	\$ 10,856,453	\$ 61,721,455	\$ 52,757,778
Non utility	32,165	215,465	98,070	537,324
Total operating revenues	14,048,846	11,071,918	61,819,525	53,295,102
OPERATING EXPENSES:				
Cost of gas - utility	6,289,615	3,680,408	28,437,371	20,531,211
Cost of sales - non utility	4,427	113,693	14,394	269,029
Operations and maintenance	3,535,642	3,426,231	10,969,234	11,453,850
General taxes	561,071	527,418	1,777,920	1,658,528
Depreciation and amortization	2,115,758	1,988,505	6,397,460	5,965,226
Total operating expenses	12,506,513	9,736,255	47,596,379	39,877,844
OPERATING INCOME	1,542,333	1,335,663	14,223,146	13,417,258
Equity in earnings of unconsolidated affiliate	133,864	1,205,574	1,486,750	3,488,253
Other income, net	130,186	52,556	747,760	528,091
Interest expense	1,000,238	986,203	3,027,831	3,109,681
INCOME BEFORE INCOME TAXES	806,145	1,607,590	13,429,825	14,323,921
INCOME TAX EXPENSE	195,305	401,012	3,328,244	3,430,091
NET INCOME	\$ 610,840	\$ 1,206,578	\$ 10,101,581	\$ 10,893,830
BASIC EARNINGS PER COMMON SHARE	\$ 0.07	\$ 0.15	\$ 1.23	\$ 1.34
DILUTED EARNINGS PER COMMON SHARE	\$ 0.07	\$ 0.15	\$ 1.23	\$ 1.34
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.185	\$ 0.175	\$ 0.555	\$ 0.525

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

UNAUDITED

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
NET INCOME	\$ 610,840	\$ 1,206,578	\$ 10,101,581	\$ 10,893,830
Other comprehensive income (loss), net of tax:				
Interest rate swaps	(19,744)	(126,800)	643,275	(1,080,321)
Defined benefit plans	14,864	16,791	44,592	50,373
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	(4,880)	(110,009)	687,867	(1,029,948)
COMPREHENSIVE INCOME	\$ 605,960	\$ 1,096,569	\$ 10,789,448	\$ 9,863,882

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
UNAUDITED

	Nine Months Ended June 30, 2021				
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance - September 30, 2020	\$ 40,800,290	\$ 15,847,121	\$ 35,688,510	\$ (3,447,944)	\$ 88,887,977
Net Income	—	—	4,723,263	—	4,723,263
Other comprehensive income	—	—	—	183,589	183,589
Cash dividends declared (\$0.185 per share)	—	—	(1,519,670)	—	(1,519,670)
Issuance of common stock (11,979 shares)	59,895	214,487	—	—	274,382
Balance - December 31, 2020	\$ 40,860,185	\$ 16,061,608	\$ 38,892,103	\$ (3,264,355)	\$ 92,549,541
Net Income	—	—	4,767,478	—	4,767,478
Other comprehensive income	—	—	—	509,158	509,158
Cash dividends declared (\$0.185 per share)	—	—	(1,521,635)	—	(1,521,635)
Issuance of common stock (54,613 shares)	273,065	997,001	—	—	1,270,066
Balance - March 31, 2021	\$ 41,133,250	\$ 17,058,609	\$ 42,137,946	\$ (2,755,197)	\$ 97,574,608
Net Income	—	—	610,840	—	610,840
Other comprehensive loss	—	—	—	(4,880)	(4,880)
Stock option grants	—	2,775	—	—	2,775
Cash dividends declared (\$0.185 per share)	—	—	(1,543,131)	—	(1,543,131)
Issuance of common stock (99,042 shares)	495,210	1,703,316	—	—	2,198,526
Balance - June 30, 2021	\$ 41,628,460	\$ 18,764,700	\$ 41,205,655	\$ (2,760,077)	\$ 98,838,738

	Nine Months Ended June 30, 2020				
	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance - September 30, 2019	\$ 40,366,320	\$ 14,397,072	\$ 30,821,917	\$ (2,488,917)	\$ 83,096,392
Net Income	—	—	4,006,936	—	4,006,936
Other comprehensive income	—	—	—	279,844	279,844
Cash dividends declared (\$0.175 per share)	—	—	(1,419,236)	—	(1,419,236)
Issuance of common stock (18,053 shares)	90,265	304,934	—	—	395,199
Balance - December 31, 2019	\$ 40,456,585	\$ 14,702,006	\$ 33,409,617	\$ (2,209,073)	\$ 86,359,135
Net Income	—	—	5,680,316	—	5,680,316
Other comprehensive loss	—	—	—	(1,199,783)	(1,199,783)
Cash dividends declared (\$0.175 per share)	—	—	(1,424,192)	—	(1,424,192)
Issuance of common stock (45,628 shares)	228,140	673,731	—	—	901,871
Balance - March 31, 2020	\$ 40,684,725	\$ 15,375,737	\$ 37,665,741	\$ (3,408,856)	\$ 90,317,347
Net Income	—	—	1,206,578	—	1,206,578
Other comprehensive loss	—	—	—	(110,009)	(110,009)
Stock option grants	—	40,692	—	—	40,692
Cash dividends declared (\$0.175 per share)	—	—	(1,426,248)	—	(1,426,248)
Issuance of common stock (10,492 shares)	52,460	170,332	—	—	222,792
Balance - June 30, 2020	\$ 40,737,185	\$ 15,586,761	\$ 37,446,071	\$ (3,518,865)	\$ 90,251,152

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	Nine Months Ended June 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,101,581	\$ 10,893,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,583,841	6,143,085
Cost of retirement of utility plant, net	(424,628)	(391,297)
Stock option grants	2,775	40,692
Equity in earnings of unconsolidated affiliate	(1,486,750)	(3,488,253)
Allowance for funds used during construction	(55,981)	(272,108)
Changes in assets and liabilities which used cash, exclusive of changes and noncash transactions shown separately	(304,611)	(99,850)
Net cash provided by operating activities	14,416,227	12,826,099
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for utility property	(14,962,459)	(16,969,559)
Investment in unconsolidated affiliates	(4,171,356)	(6,590,424)
Proceeds from disposal of utility property	132,536	53,921
Net cash used in investing activities	(19,001,279)	(23,506,062)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of unsecured notes	5,950,000	18,298,000
Borrowings under line-of-credit	34,091,154	14,096,520
Repayments under line-of-credit	(33,752,160)	(19,410,863)
Debt issuance expenses	—	(70,750)
Proceeds from issuance of stock	3,742,974	1,519,862
Cash dividends paid	(4,469,571)	(4,182,949)
Net cash provided by financing activities	5,562,397	10,249,820
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	977,345	(430,143)
BEGINNING CASH AND CASH EQUIVALENTS	291,066	1,631,348
ENDING CASH AND CASH EQUIVALENTS	\$ 1,268,411	\$ 1,201,205

See notes to condensed consolidated financial statements.

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. Basis of Presentation

Resources is an energy services company primarily engaged in the sale and distribution of natural gas. The condensed consolidated financial statements include the accounts of Resources and its wholly-owned subsidiaries: Roanoke Gas, Diversified Energy and Midstream.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to fairly present Resources' financial position as of June 30, 2021, cash flows for the nine months ended June 30, 2021 and 2020, and the results of its operations, comprehensive income, and changes in stockholders' equity for the three and nine months ended June 30, 2021 and 2020. The results of operations for the three and nine months ended June 30, 2021 are not indicative of the results to be expected for the fiscal year ending September 30, 2021 as quarterly earnings are affected by the highly seasonal nature of the business and weather conditions generally result in greater earnings during the winter months.

The unaudited condensed consolidated financial statements and condensed notes are presented as permitted under the rules and regulations of the SEC. Pursuant to those rules, certain information and note disclosures normally included in the annual financial statements prepared in accordance with GAAP have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information not misleading. Therefore, the unaudited condensed consolidated financial statements and condensed notes should be read in conjunction with the financial statements and notes contained in the Company's Form 10-K for the year ended September 30, 2020. The September 30, 2020 consolidated balance sheet was included in the Company's audited financial statements included in Form 10-K.

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

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements contained in the Company's Form 10-K for the year ended September 30, 2020.

Recently Issued or Adopted Accounting Standards

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20) - Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU modifies disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The new guidance is effective for the Company for the annual reporting period ending September 30, 2021. The Company adopted the new guidance effective October 1, 2020. As this ASU only modifies disclosure requirements, the new guidance does not have a material effect on the Company's financial position, results of operations or cash flows.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In combination with ASU 2021-01, the ASU provides temporary optional guidance to ease the potential burden in accounting for and recognizing the effects of reference rate change on financial reporting. The new guidance applies specifically to contracts and hedging relationships that reference LIBOR, or any other referenced rate that is expected to be discontinued due to reference rate reform. The new guidance is effective for the Company through December 31, 2022. The Intercontinental Exchange (ICE) Benchmark Administration, the administrator for LIBOR and other inter-bank offered rates, announced that the LIBOR rates for one-day, one-month, six-month and one-year will cease publication in June 2023 and that no new financial contracts may use LIBOR after December 31, 2021. Currently, all of the Company's LIBOR based financial contracts are based on the one-month LIBOR rate. None of the holders of these financial contracts have indicated when a transition from LIBOR will occur. Accordingly, the Company does not anticipate adopting this guidance until fiscal 2022. The new guidance could result in a significant impact on the Company's financial position, results of operations, and cash flows when the reference rate is changed for related contracts.

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

2. Revenue

The Company assesses new contracts and identifies related performance obligations for promises to transfer distinct goods or services to the customer. Revenue is recognized when performance obligations have been satisfied. In the case of Roanoke Gas, the Company contracts with its customers for the sale and/or delivery of natural gas.

The following tables summarize revenue by customer, product and income statement classification:

	Three Months Ended June 30, 2021			Three Months Ended June 30, 2020		
	Gas utility	Non utility	Total operating revenues	Gas utility	Non utility	Total operating revenues
Natural Gas (Billed and Unbilled):						
Residential	\$ 7,755,301	\$ —	\$ 7,755,301	\$ 6,682,586	\$ —	\$ 6,682,586
Commercial	4,878,644	—	4,878,644	3,157,873	—	3,157,873
Industrial and Transportation	1,257,400	—	1,257,400	1,401,775	—	1,401,775
Other	113,342	32,165	145,507	56,723	215,465	272,188
Total contracts with customers	14,004,687	32,165	14,036,852	11,298,957	215,465	11,514,422
Alternative Revenue Programs	11,994	—	11,994	(442,504)	—	(442,504)
Total operating revenues	\$ 14,016,681	\$ 32,165	\$ 14,048,846	\$ 10,856,453	\$ 215,465	\$ 11,071,918

	Nine Months Ended June 30, 2021			Nine Months Ended June 30, 2020		
	Gas utility	Non utility	Total operating revenues	Gas utility	Non utility	Total operating revenues
Natural Gas (Billed and Unbilled):						
Residential	\$ 36,404,047	\$ —	\$ 36,404,047	\$ 31,859,828	\$ —	\$ 31,859,828
Commercial	20,133,275	—	20,133,275	15,260,652	—	15,260,652
Industrial and Transportation	3,733,544	—	3,733,544	3,972,444	—	3,972,444
Other	369,511	98,070	467,581	390,184	537,324	927,508
Total contracts with customers	60,640,377	98,070	60,738,447	51,483,108	537,324	52,020,432
Alternative Revenue Programs	1,081,078	—	1,081,078	1,274,670	—	1,274,670
Total operating revenues	\$ 61,721,455	\$ 98,070	\$ 61,819,525	\$ 52,757,778	\$ 537,324	\$ 53,295,102

Gas utility revenues

Substantially all of Roanoke Gas' revenues are derived from rates authorized by the SCC through its tariffs. Based on its evaluation, the Company has concluded that these tariff-based revenues fall within the scope of ASC 606. Tariff rates represent the transaction price. Performance obligations created under these tariff-based sales include commodity (the cost of natural gas sold to customers) and delivery (transporting natural gas through the Company's distribution system to customers). The delivery of natural gas to customers results in the satisfaction of the Company's respective performance obligations over time.

RGC RESOURCES, INC. AND SUBSIDIARIES

All customers are billed monthly based on consumption as measured by metered usage. Revenue is recognized as bills are issued for natural gas that has been delivered or transported. In addition, the Company utilizes the practical expedient that allows an entity to recognize the invoiced amount as revenue, if that amount corresponds to the value received by the customer. Since customers are billed tariff rates, there is no variable consideration in the transaction price.

Unbilled revenue is included in residential and commercial revenues in the preceding table. Natural gas consumption is estimated for the period subsequent to the last billed date and up through the last day of the month. Estimated volumes and approved tariff rates are utilized to calculate unbilled revenue. The following month, the unbilled estimate is reversed, the actual usage is billed and a new unbilled estimate is calculated. The Company obtains metered usage for industrial customers at the end of each month, thereby eliminating any unbilled consideration for these rate classes.

Other revenues

Other revenues primarily consist of miscellaneous fees and charges, utility-related revenues not directly billed to utility customers and billings for non-utility activities. Regarding these activities, the customer is invoiced monthly based on services provided. The Company utilizes the practical expedient allowing revenue to be recognized based on invoiced amounts. The transaction price is based on a contractually predetermined rate schedule; therefore, the transaction price represents total value to the customer and no variable price consideration exists.

Alternative Revenue Program revenues

ARPs, which fall outside the scope of ASC 606, are SCC approved mechanisms that allow for the adjustment of revenues for certain broad, external factors, or for additional billings if the entity achieves certain performance targets. The Company's ARPs include its WNA, which adjusts revenues for the effects of weather temperature variations as compared to the 30-year average, and the SAVE Plan over/under collection mechanism, which adjusts revenues for the differences between SAVE Plan revenues billed to customers and the revenue earned, as calculated based on the timing and extent of infrastructure replacement completed during the period. These amounts are ultimately collected from, or returned to, customers through future rate changes as approved by the SCC.

Customer Accounts Receivable

Accounts receivable, as reflected in the condensed consolidated balance sheets, includes both billed and unbilled customer revenues, as well as amounts that are not related to customers. The balances of customer receivables are provided below:

	Current Assets		Current Liabilities	
	Trade accounts receivable ⁽¹⁾	Unbilled revenue ⁽¹⁾	Customer credit balances	Customer deposits
Balance at September 30, 2020	\$ 2,343,492	\$ 1,041,518	\$ 1,587,061	\$ 1,611,476
Balance at June 30, 2021	3,665,023	1,079,046	842,992	1,576,160
Increase (decrease)	\$ 1,321,531	\$ 37,528	\$ (744,069)	\$ (35,316)

⁽¹⁾ Included in accounts receivable in the condensed consolidated balance sheet. Amounts shown net of reserve for bad debts.

The Company had no significant contract assets or liabilities during the period. Furthermore, the Company did not incur any significant costs to obtain contracts.

3. Income Taxes

A reconciliation of income tax expense from applying the federal statutory rates in effect for each period to total income tax expense is presented below:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Income before income taxes	\$ 806,145	\$ 1,607,590	\$ 13,429,825	\$ 14,323,921
Corporate federal tax rate	21.0%	21.0%	21.0%	21.0%
Income tax expense computed at the federal statutory rate	\$ 169,290	\$ 337,593	\$ 2,820,263	\$ 3,008,023
State income taxes, net of federal tax benefit	39,458	77,349	647,448	666,017
Net amortization of excess deferred taxes on regulated operations	(14,081)	(14,081)	(138,413)	(138,413)
Other, net	638	151	(1,054)	(105,536)
Total income tax expense	\$ 195,305	\$ 401,012	\$ 3,328,244	\$ 3,430,091
Effective tax rate	24.2%	24.9%	24.8%	23.9%

The Company is currently evaluating the R&D credit for fiscal years 2017 through 2020 and plans to amend its tax returns for open tax years to claim any qualifying credit. The R&D credit primarily relates to capital spending by the Company's Roanoke Gas subsidiary. The total potential available credit has not been determined as of the filing date of this report.

4. Rates and Regulatory Matters

Since March 16, 2020, in response to COVID-19, the Company has been operating under a moratorium that prohibits utilities from disconnecting residential customers for non-payment of their natural gas service and from assessing late payment fees; therefore, residential customers that would normally be disconnected for non-payment will continue incurring charges for gas service until the moratorium ends, resulting in higher potential write-offs. The moratorium is set to expire on August 30, 2021. Roanoke Gas continues to evaluate and adjust its provision for bad debts; however, the potential magnitude from the service moratorium continues to be uncertain.

In April 2020, the SCC issued an order allowing regulated utilities in Virginia to defer certain incremental, prudently incurred costs associated with the COVID-19 pandemic and to apply for recovery at a future date. Formal guidance has not been provided by the SCC at this time. Roanoke Gas began deferring certain COVID-19 related costs during fiscal 2021 and plans to seek recovery of these deferrals at the appropriate time.

In May 2021, Roanoke Gas filed its most recent SAVE application with the SCC to update the SAVE Rider for the period October 2021 through September 2022. The application requested the continued recovery of pre-1973 plastic pipe replacement costs, as well as inclusion of the replacement of several certain regulator stations and pre-1971 coated steel pipe as qualifying projects. The updated SAVE Rider is designed to collect approximately \$3.45 million in annual revenues, a \$1.1 million increase from the existing SAVE Rider rates. The Company expects a final order from the SCC on this application by September 30, 2021.

CARES Act funds have been provided to assist customers with past due balances. In December 2020, Roanoke Gas received over \$400,000 in CARES Act funds and was able to apply the funds to eligible customer accounts during the second and third fiscal quarters.

5. Other Investments

Midstream is an approximately 1% owner of the LLC constructing the MVP. Due to various legal and regulatory delays, the LLC changed its approach in seeking authorization to cross all remaining streams and wetlands on the project route. It requested individual permits from the U.S. Army Corps of Engineers to cross certain streams and wetlands utilizing open cut techniques and has applied to amend the MVP project's CPCN to seek FERC authority to cross certain streams and wetlands utilizing alternative trenchless construction methods. The LLC is targeting a full in-service date for the MVP project in summer 2022 at a total project cost of approximately \$6.2 billion, with Midstream's total cash contribution expected to approach \$65 million.

The LLC temporarily suspended accruing AFUDC on the project beginning January 1, 2021 and through March 31, 2021 due to a temporary reduction in growth construction activities. The LLC resumed accruing AFUDC beginning April 1, 2021 associated with certain growth construction activities resuming. The amount of AFUDC recognized during the current and prior period is included in the tables below.

Roanoke Gas will continue to suspend accruing AFUDC on its two gate stations that will interconnect with the MVP until such time as construction activities resume on the respective gate stations. Roanoke Gas recognized \$55,981 of AFUDC associated with these gate stations during the first fiscal quarter ended December 31, 2020.

Funding for Midstream's investments in the LLC for both the MVP and Southgate projects is being provided through two variable rate unsecured promissory notes, under a non-revolving credit agreement, maturing in December 2022, and two additional notes issued in June 2019. See Note 7 for a schedule of debt instruments.

The investments in the LLC are included in the accompanying financial statements as follows:

Balance Sheet location:	June 30, 2021	September 30, 2020
Other Assets:		
MVP	\$ 62,141,694	\$ 57,183,063
Southgate	400,161	359,742
Investment in unconsolidated affiliates	<u>\$ 62,541,855</u>	<u>\$ 57,542,805</u>
Current Liabilities:		
MVP	\$ 1,850,876	\$ 2,501,883
Southgate	2,505	10,554
Capital contributions payable	<u>\$ 1,853,381</u>	<u>\$ 2,512,437</u>

Income Statement location:	Three Months Ended		Nine Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Equity in earnings of unconsolidated affiliate	<u>\$ 133,864</u>	<u>\$ 1,205,574</u>	<u>\$ 1,486,750</u>	<u>\$ 3,488,253</u>

	June 30, 2021	September 30, 2020
Undistributed earnings, net of income taxes, of MVP in retained earnings	<u>\$ 7,946,763</u>	<u>\$ 6,842,702</u>

The change in the investment in unconsolidated affiliates is provided below:

	Nine Months Ended	
	June 30, 2021	June 30, 2020
Cash investment	\$ 4,171,356	\$ 6,590,424
Change in accrued capital calls	(659,056)	(2,597,426)
Equity in earnings of unconsolidated affiliate	1,486,750	3,488,253
Change in investment in unconsolidated affiliates	<u>\$ 4,999,050</u>	<u>\$ 7,481,251</u>

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Summary unaudited financial statements of MVP are presented below. Southgate financial statements, which are accounted for under the cost method, are not included:

	Income Statements			
	Three Months Ended		Nine Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
AFUDC	\$ 12,917,004	\$ 120,874,005	\$ 146,674,318	\$ 348,654,366
Other income (expense), net	(145,581)	(18,925)	(192,675)	680,682
Net income	<u>\$ 12,771,423</u>	<u>\$ 120,855,080</u>	<u>\$ 146,481,643</u>	<u>\$ 349,335,048</u>

	Balance Sheets	
	June 30, 2021	September 30, 2020
Assets:		
Current assets	\$ 230,303,657	\$ 513,713,429
Construction work in progress	6,098,744,245	5,536,248,668
Other assets	2,363,875	4,597,441
Total assets	<u>\$ 6,331,411,777</u>	<u>\$ 6,054,559,538</u>
Liabilities and Equity:		
Current liabilities	\$ 242,401,943	\$ 187,581,804
Noncurrent liabilities	—	245,000
Capital	6,089,009,834	5,866,732,734
Total liabilities and equity	<u>\$ 6,331,411,777</u>	<u>\$ 6,054,559,538</u>

6. Derivatives and Hedging

The Company's hedging and derivative policy allows management to enter into derivatives for the purpose of managing the commodity and financial market risks of its business operations, including the price of natural gas and the cost of borrowed funds. This policy specifically prohibits the use of derivatives for speculative purposes.

The Company has three interest rate swaps associated with its variable rate debt. Roanoke Gas has a swap agreement that effectively converts the \$7,000,000 term note based on LIBOR into fixed-rate debt with a 2.30% effective interest rate. Midstream has two swap agreements corresponding to the \$14,000,000 and \$10,000,000 variable rate term notes. The swap agreements convert these two notes into fixed rate instruments with effective interest rates of 3.24% and 3.14%, respectively. The swaps qualify as cash flow hedges with changes in fair value reported in other comprehensive income. No portion of the swaps were deemed ineffective during the periods presented.

The Company had no outstanding derivative instruments for the purchase of natural gas.

The fair value of the current and non-current portions of the interest rate swaps are reflected in the condensed consolidated balance sheets under the caption interest rate swaps. The table in Note 8 reflects the effect on income and other comprehensive income of the Company's cash flow hedges.

7. Long-Term Debt

On March 25, 2021, Roanoke Gas renewed its unsecured line-of-credit agreement for a two-year term expiring March 31, 2023 with a maximum borrowing limit of \$40,000,000. Amounts drawn against the agreement are considered to be non-current as the balance under the line-of-credit is not subject to repayment within the next 12-month period. The agreement has a variable-interest rate based on 30-day LIBOR plus 100 basis points and an availability fee of 15 basis points and provides multi-tiered borrowing limits associated with the seasonal borrowing demands of the Company. The Company's total available borrowing limits during the term of the agreement range from \$14,000,000 to \$40,000,000.

Long-term debt consists of the following:

	June 30, 2021		September 30, 2020	
	Principal	Unamortized Debt Issuance Costs	Principal	Unamortized Debt Issuance Costs
Roanoke Gas:				
Unsecured senior notes payable, at 4.26% due on September 18, 2034	\$ 30,500,000	\$ 127,917	\$ 30,500,000	\$ 135,157
Unsecured term note payable, at 30-day LIBOR plus 0.90%, due November 1, 2021	7,000,000	1,112	7,000,000	3,613
Unsecured term notes payable, at 3.58% due on October 2, 2027	8,000,000	30,100	8,000,000	33,712
Unsecured term notes payable, at 4.41% due on March 28, 2031	10,000,000	30,543	10,000,000	32,892
Unsecured term notes payable, at 3.60% due on December 6, 2029	10,000,000	29,943	10,000,000	32,585
Midstream:				
Unsecured term notes payable, at 30-day LIBOR plus 1.35%, due December 29, 2022	31,425,200	17,885	25,475,200	38,728
Unsecured term note payable, at 30-day LIBOR plus 1.15%, due June 12, 2026	14,000,000	12,038	14,000,000	13,844
Unsecured term note payable, at 30-day LIBOR plus 1.20%, due June 1, 2024	10,000,000	6,875	10,000,000	8,644
Total notes payable, current and non-current	120,925,200	256,413	114,975,200	299,175
Less: current maturities of long-term debt	(7,000,000)	—	—	—
Total notes payable	\$ 113,925,200	\$ 256,413	\$ 114,975,200	\$ 299,175
Line-of-credit, at 30-day LIBOR plus 1.00%, due March 31, 2023	9,482,600	-	9,143,606	-
Total long-term debt	<u>\$ 123,407,800</u>	<u>\$ 256,413</u>	<u>\$ 124,118,806</u>	<u>\$ 299,175</u>

All debt agreements set forth certain representations, warranties and covenants to which the Company is subject, including financial covenants that limit consolidated long-term indebtedness to not more than 65% of total capitalization. All of the debt agreements, except for the line-of-credit, provide for priority indebtedness to not exceed 15% of consolidated total assets. The Company was in compliance with all debt covenants as of June 30, 2021 and September 30, 2020.

8. Other Comprehensive Income (Loss)

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

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Three Months Ended June 30, 2021			
Interest rate swaps:			
Unrealized losses	\$ (166,066)	\$ 42,745	\$ (123,321)
Transfer of realized losses to interest expense	139,478	(35,901)	103,577
Net interest rate swaps	(26,588)	6,844	(19,744)
Defined benefit plans:			
Amortization of actuarial losses	20,017	(5,153)	14,864
Other comprehensive loss	<u>\$ (6,571)</u>	<u>\$ 1,691</u>	<u>\$ (4,880)</u>
Three Months Ended June 30, 2020			
Interest rate swaps:			
Unrealized losses	\$ (278,752)	\$ 71,751	\$ (207,001)
Transfer of realized losses to interest expense	108,002	(27,801)	80,201
Net interest rate swaps	(170,750)	43,950	(126,800)
Defined benefit plans:			
Amortization of actuarial losses	22,610	(5,819)	16,791
Other comprehensive loss	<u>\$ (148,140)</u>	<u>\$ 38,131</u>	<u>\$ (110,009)</u>
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Nine Months Ended June 30, 2021			
Interest rate swaps:			
Unrealized gains	\$ 453,060	\$ (116,619)	\$ 336,441
Transfer of realized losses to interest expense	413,186	(106,352)	306,834
Net interest rate swaps	866,246	(222,971)	643,275
Defined benefit plans:			
Amortization of actuarial losses	60,051	(15,459)	44,592
Other comprehensive income	<u>\$ 926,297</u>	<u>\$ (238,430)</u>	<u>\$ 687,867</u>
Nine Months Ended June 30, 2020			
Interest rate swaps:			
Unrealized losses	\$ (1,583,021)	\$ 407,469	\$ (1,175,552)
Transfer of realized losses to interest expense	128,240	(33,009)	95,231
Net interest rate swaps	(1,454,781)	374,460	(1,080,321)
Defined benefit plans:			
Amortization of actuarial losses	67,830	(17,457)	50,373
Other comprehensive loss	<u>\$ (1,386,951)</u>	<u>\$ 357,003</u>	<u>\$ (1,029,948)</u>

The amortization of actuarial gains and losses, reflected in the preceding table, relate to the unregulated operations of the Company. Actuarial gains and losses attributable to the regulated operations are included as a regulatory asset. See Note 14 for a schedule of regulatory assets. The amortization of actual gains and losses is recognized as a component of net periodic pension and postretirement benefit costs under other income, net.

Reconciliation of Accumulated Other Comprehensive Income (Loss)

	Interest Rate Swaps	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
Balance at September 30, 2020	\$ (1,651,213)	\$ (1,796,731)	\$ (3,447,944)
Other comprehensive income	643,275	44,592	687,867
Balance at June 30, 2021	<u>\$ (1,007,938)</u>	<u>\$ (1,752,139)</u>	<u>\$ (2,760,077)</u>

9. Commitments and Contingencies

The outbreak of COVID-19 continues to have an impact on businesses and individuals throughout the nation and the world. The COVID-19 pandemic forced all levels of government, as well as businesses and individuals, to take actions to limit the spread of the disease. This resulted in a significant disruption to normal activities as many businesses either shut down or are operating on a limited basis resulting in higher unemployment and government imposed social distancing mandates over the past year. With the increased distribution and acceptance of vaccines, many restrictions imposed to limit the spread and transmission of the virus have been reduced or eliminated allowing for some return to normalcy. However, the continuation of certain restrictions, such as the moratorium on the disconnection of gas service to delinquent customers, will continue to have a financial effect on the Company.

The existence of variant strains of the virus and reduced focus on safety measures may lead to a resurgence in infections and could result in additional restrictions. The extent to which COVID-19 will affect the Company over future periods will depend on ongoing developments, which are highly uncertain and cannot be reasonably predicted, including the continued easing of restrictions to businesses and individuals, the potential for a resurgence of the virus, including variants, and the effectiveness of and extent to which the population is vaccinated, among other factors.

10. Earnings Per Share

Basic earnings per common share for the three and nine months ended June 30, 2021 and 2020 were calculated by dividing net income by the weighted average common shares outstanding during the period. Diluted earnings per common share were calculated by dividing net income by the weighted average common shares outstanding during the period plus potential dilutive common shares.

A reconciliation of basic and diluted earnings per share is presented below:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Net income	\$ 610,840	\$ 1,206,578	\$ 10,101,581	\$ 10,893,830
Weighted average common shares	8,260,579	8,143,887	8,215,215	8,115,836
Effect of dilutive securities:				
Options to purchase common stock	12,624	15,437	13,287	23,178
Diluted average common shares	<u>8,273,203</u>	<u>8,159,324</u>	<u>8,228,502</u>	<u>8,139,014</u>
Earnings per share of common stock:				
Basic	\$ 0.07	\$ 0.15	\$ 1.23	\$ 1.34
Diluted	\$ 0.07	\$ 0.15	\$ 1.23	\$ 1.34

11. Employee Benefit Plans

The Company has both a pension plan and a postretirement plan. The pension plan covers the Company's employees hired before January 1, 2017 and provides retirement income based on years of service and employee compensation. The postretirement plan provides certain health care and supplemental life insurance benefits to retired employees who meet specific age and service requirements. Net pension plan and postretirement plan expense is detailed as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Components of net periodic pension cost:				
Service cost	\$ 183,570	\$ 172,902	\$ 550,710	\$ 518,706
Interest cost	243,785	265,557	731,355	796,671
Expected return on plan assets	(503,936)	(459,156)	(1,511,808)	(1,377,468)
Recognized loss	125,535	113,936	376,605	341,808
Net periodic pension cost	<u>\$ 48,954</u>	<u>\$ 93,239</u>	<u>\$ 146,862</u>	<u>\$ 279,717</u>
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Components of postretirement benefit cost:				
Service cost	\$ 35,172	\$ 41,970	\$ 105,516	\$ 125,910
Interest cost	107,623	132,869	322,869	398,607
Expected return on plan assets	(149,122)	(137,599)	(447,366)	(412,797)
Recognized loss	38,664	59,343	115,992	178,029
Net postretirement benefit cost	<u>\$ 32,337</u>	<u>\$ 96,583</u>	<u>\$ 97,011</u>	<u>\$ 289,749</u>

The components of net periodic benefit cost, other than the service cost component, are included in other income, net in the condensed consolidated statements of income. Service cost is included in operations and maintenance expense in the condensed consolidated statements of income.

The table below reflects the Company's actual contributions made fiscal year-to-date and the expected remaining contributions to be made during the balance of the current fiscal year. Management is currently evaluating its expected contributions for the current fiscal year; therefore, the amounts presented below may change.

	Fiscal Year-to-Date Contributions	Remaining Fiscal Year Contributions
Pension plan	\$ —	\$ 500,000
Postretirement plan	—	400,000
Total	<u>\$ —</u>	<u>\$ 900,000</u>

12. Fair Value Measurements

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

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

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

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

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

The following table summarizes the Company's financial assets and liabilities that are measured at fair value on a recurring basis as required by existing guidance and the fair value measurements by level within the fair value hierarchy:

Fair Value Measurements - June 30, 2021				
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Natural gas purchases	\$ 1,292,893	\$ —	\$ 1,292,893	\$ —
Interest rate swaps	1,357,310	—	1,357,310	—
Total	<u>\$ 2,650,203</u>	<u>\$ —</u>	<u>\$ 2,650,203</u>	<u>\$ —</u>
Fair Value Measurements - September 30, 2020				
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Natural gas purchases	\$ 470,755	\$ —	\$ 470,755	\$ —
Interest rate swaps	2,223,556	—	2,223,556	—
Total	<u>\$ 2,694,311</u>	<u>\$ —</u>	<u>\$ 2,694,311</u>	<u>\$ —</u>

The fair value of the interest rate swaps are determined by using the counterparty's proprietary models and certain assumptions regarding past, present and future market conditions.

Under the asset management contract, a timing difference can exist between the payment for natural gas purchases and the actual receipt of such purchases. Payments are made based on a predetermined monthly volume with the price based on weighted average first of the month index prices corresponding to the month of the scheduled payment. At June 30, 2021 and September 30, 2020, the Company had recorded in accounts payable the estimated fair value of the liability valued at the corresponding first of month index prices for which the liability is expected to be settled.

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

The carrying value of cash and cash equivalents, accounts receivable, borrowings under line-of-credit, accounts payable (with the exception of the timing difference under the asset management contract), customer credit balances and customer deposits is a reasonable estimate of fair value due to the short-term nature of these financial instruments. In addition, the carrying amount of the variable rate line-of-credit is a reasonable approximation of its fair value.

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The following table summarizes the fair value of the Company's financial assets and liabilities that are not adjusted to fair value in the financial statements:

Fair Value Measurements - June 30, 2021				
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Current maturities of long-term debt	\$ 7,000,000	—	—	\$ 7,000,000
Notes payable	113,925,200	\$ —	\$ —	123,206,721
Total	<u>\$ 120,925,200</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 130,206,721</u>
Fair Value Measurements - September 30, 2020				
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Notes payable	\$ 114,975,200	\$ —	\$ —	\$ 124,740,970
Total	<u>\$ 114,975,200</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 124,740,970</u>

The fair value of long-term debt is estimated by discounting the future cash flows of the fixed rate debt based on the underlying Treasury rate or other Treasury instruments with a corresponding maturity period and estimated credit spread extrapolated based on market conditions since the issuance of the debt.

FASB ASC 825, *Financial Instruments*, requires disclosures regarding concentrations of credit risk from financial instruments. Cash equivalents are investments in high-grade, short-term securities (original maturity less than three months), placed with financially sound institutions. Accounts receivable are from a diverse group of customers including individuals and small and large companies in various industries. As of June 30, 2021 and September 30, 2020, no single customer accounted for more than 5% of the total accounts receivable balance. The Company maintains certain credit standards with its customers and requires a customer deposit if such evaluation warrants.

13. Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the Company's chief operating decision maker in deciding how to allocate resources and assess performance. The Company uses operating income and equity in earnings to assess segment performance.

Intersegment transactions are recorded at cost.

The reportable segments disclosed herein are defined as follows:

Gas Utility - The natural gas segment of the Company generates revenue from its tariff rates and other regulatory mechanisms through which it provides the sale and distribution of natural gas to its residential, commercial and industrial customers.

Investment in Affiliates - The investment in affiliates segment reflects the income generated through the activities of the Company's investment in the MVP and Southgate projects.

Parent and Other - The category parent and other includes the unregulated activities of the Company as well as certain corporate eliminations.

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Information related to the segments of the Company are provided below:

Three Months Ended June 30, 2021				
	Gas Utility	Investment in Affiliates	Parent and Other	Consolidated Total
Operating revenues	\$ 14,016,681	\$ —	\$ 32,165	\$ 14,048,846
Depreciation	2,115,758	—	—	2,115,758
Operating income (loss)	1,563,436	(47,390)	26,287	1,542,333
Equity in earnings	—	133,864	—	133,864
Interest expense	693,265	306,973	—	1,000,238
Income (loss) before income taxes	998,342	(218,579)	26,382	806,145

Three Months Ended June 30, 2020				
	Gas Utility	Investment in Affiliates	Parent and Other	Consolidated Total
Operating revenues	\$ 10,856,453	\$ —	\$ 215,465	\$ 11,071,918
Depreciation	1,988,505	—	—	1,988,505
Operating income (loss)	1,291,678	(55,097)	99,082	1,335,663
Equity in earnings	—	1,205,574	—	1,205,574
Interest expense	667,702	318,501	—	986,203
Income before income taxes	674,351	834,054	99,185	1,607,590

Nine Months Ended June 30, 2021				
	Gas Utility	Investment in Affiliates	Parent and Other	Consolidated Total
Operating revenues	\$ 61,721,455	\$ —	\$ 98,070	\$ 61,819,525
Depreciation	6,397,460	—	—	6,397,460
Operating income (loss)	14,352,010	(200,532)	71,668	14,223,146
Equity in earnings	—	1,486,750	—	1,486,750
Interest expense	2,105,127	922,704	—	3,027,831
Income before income taxes	12,984,346	373,466	72,013	13,429,825

Nine Months Ended June 30, 2020				
	Gas Utility	Investment in Affiliates	Parent and Other	Consolidated Total
Operating revenues	\$ 52,757,778	\$ —	\$ 537,324	\$ 53,295,102
Depreciation	5,965,226	—	—	5,965,226
Operating income (loss)	13,321,691	(163,214)	258,781	13,417,258
Equity in earnings	—	3,488,253	—	3,488,253
Interest expense	2,048,552	1,061,129	—	3,109,681
Income before income taxes	11,795,644	2,269,106	259,171	14,323,921

June 30, 2021				
	Gas Utility	Investment in Affiliates	Parent and Other	Consolidated Total
Total assets	\$ 221,576,186	\$ 63,353,786	\$ 11,931,760	\$ 296,861,732

September 30, 2020				
	Gas Utility	Investment in Affiliates	Parent and Other	Consolidated Total
Total assets	\$ 211,994,364	\$ 57,660,105	\$ 12,025,038	\$ 281,679,507

14. Regulatory Assets and Liabilities

The Company's regulated operations follow the accounting and reporting requirements of FASB ASC No. 980, *Regulated Operations*. The economic effects of regulation can result in a regulated company deferring costs that have been or are expected to be recovered from customers in a period different from the period in which the costs would be charged to expense by an unregulated enterprise. When this situation occurs, costs are deferred as assets in the condensed consolidated balance sheet (regulatory assets) and amortized into expense over periods when such amounts are reflected in rates. Additionally, regulators can impose liabilities upon a regulated company for amounts previously collected from customers and for current collection in rates of costs that are expected to be incurred in the future (regulatory liabilities). In the event the provisions of FASB ASC No. 980 no longer apply to any or all regulatory assets or liabilities, the Company would write off such amounts and include the effects in the condensed consolidated statements of income and comprehensive income in the period which FASB ASC No. 980 no longer applied.

Regulatory assets included in the Company's accompanying balance sheets are as follows:

	June 30, 2021	September 30, 2020
Assets:		
Current Assets:		
Regulatory assets:		
Under-recovery of gas costs	\$ 1,663,017	\$ 1,733,718
Under-recovery of SAVE Plan revenues	123,603	108,550
Accrued pension and postretirement medical	144,182	576,731
Other deferred expenses	84,315	84,315
Total current	2,015,117	2,503,314
Utility Property:		
In service:		
Other	11,945	11,945
Construction work in progress:		
AFUDC	386,189	330,208
Other Assets:		
Regulatory assets:		
Premium on early retirement of debt	1,512,980	1,598,620
Accrued pension and postretirement medical	9,156,546	9,156,546
Other deferred expenses	324,849	214,928
Total non-current	10,994,375	10,970,094
Total regulatory assets	\$ 13,407,626	\$ 13,815,561

Regulatory liabilities included in the Company's accompanying balance sheets are as follows:

	June 30, 2021	September 30, 2020
Liabilities and Stockholders' Equity:		
Current Liabilities:		
Regulatory liabilities:		
WNA	\$ 64,275	\$ 601,784
Excess deferred income taxes	205,353	205,353
Other deferred liabilities	3,279	83,176
Total current	272,907	890,313
Deferred Credits and Other Liabilities:		
Asset retirement obligations	7,505,590	7,180,982
Regulatory cost of retirement obligations	13,439,053	12,678,043
Regulatory Liabilities:		
Excess deferred income taxes	10,542,692	10,729,082
Total non-current	31,487,335	30,588,107
Total regulatory liabilities	<u>\$ 31,760,242</u>	<u>\$ 31,478,420</u>

As of June 30, 2021 and September 30, 2020, the Company had regulatory assets in the amount of \$13,395,681 and \$13,803,616, respectively, on which the Company did not earn a return during the recovery period.

15. Subsequent Events

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

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements that relate to future transactions, events or expectations. In addition, Resources may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities, operational impacts and similar matters. These statements are based on management’s current expectations and information available at the time of such statements and are believed to be reasonable and are made in good faith. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company’s actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company’s forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company’s business include, but are not limited to those set forth in the following discussion and within Item 1A “Risk Factors” in the Company’s 2020 Annual Report on Form 10-K. All of these factors are difficult to predict and many are beyond the Company’s control. Accordingly, while the Company believes its forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in the Company’s documents or news releases, the words, “anticipate,” “believe,” “intend,” “plan,” “estimate,” “expect,” “objective,” “projection,” “forecast,” “budget,” “assume,” “indicate” or similar words or future or conditional verbs such as “will,” “would,” “should,” “can,” “could” or “may” are intended to identify forward-looking statements.

Forward-looking statements reflect the Company’s current expectations only as of the date they are made. The Company assumes no duty to update these statements should expectations change or actual results differ from current expectations except as required by applicable laws and regulations.

The three-month and nine-month earnings presented herein should not be considered as reflective of the Company’s consolidated financial results for the fiscal year ending September 30, 2021. The total revenues and margins realized during the first nine months reflect higher billings due to the weather sensitive nature of the natural gas business.

COVID-19

As was discussed under Item 1A "Risk Factors" in the Company's 2020 Annual Report on Form 10-K, COVID-19 and the resulting pandemic continues to impact the local, state, national and global economies. Significant progress was made in distributing and administering vaccines to the public through June 30, 2021, which has allowed a return to some form of normalcy. Most restrictions implemented as a result of the pandemic have been eased, including Virginia’s state of emergency, allowing for increased business, recreational and travel activities. Natural gas consumption by the Company’s commercial customers has largely returned to pre-pandemic levels. However, the easing of restrictions and the existence of variant strains of COVID-19 may lead to a rise in infections, which could result in the reinstatement of some or all of the restrictions previously in place. Management continues to monitor current conditions to ensure the continuation of safe and reliable service to customers and to maintain the safety of the Company's employees.

By statute, the service disconnection moratorium on residential customers, as discussed below under "Regulatory," is scheduled to lapse August 30, 2021. However, Virginia’s General Assembly convened for a special session beginning August 2, 2021, during which action could be taken to extend the service moratorium. As a result, management continues to closely monitor and evaluate its provision for bad debts. With the moratorium in place, delinquent account balances are continuing to build. Since February 2021, the Company applied more than \$400,000 of CARES Act funds to the delinquent balances of those customers impacted by COVID-19. Total bad debt expense that may be incurred by the Company remains unpredictable primarily due to the continuing and possible extension of the moratorium and a potential resurgence in the pandemic that may lead to reinstatement of restrictions or other similar measures, along with any related economic impact.

Overview

Resources is an energy services company primarily engaged in the regulated sale and distribution of natural gas to approximately 62,700 residential, commercial and industrial customers in Roanoke, Virginia and surrounding localities through its Roanoke Gas subsidiary. In addition, Resources is a more than 1% investor in the MVP through its Midstream subsidiary and a less than 1% investor in Southgate.

The Company's utility operations are regulated by the SCC, which oversees the terms, conditions, and rates to be charged to customers for natural gas service, safety standards, extension of service and depreciation. The Company is also subject to federal regulation from the Department of Transportation in regard to the construction, operation, maintenance, safety and integrity of its transmission and distribution pipelines. FERC regulates the prices for the transportation and delivery of natural gas to the Company's distribution system and underground storage. The Company is also subject to other regulations which are not necessarily industry specific.

Nearly all of the Company's revenues, excluding equity in earnings of MVP, are derived from the sale and delivery of natural gas to Roanoke Gas customers. The SCC authorizes the rates and fees the Company charges its customers for these services. These rates are designed to provide the Company with the opportunity to recover its gas and non-gas expenses and to earn a reasonable rate of return for shareholders based on normal weather.

On October 10, 2018, Roanoke Gas filed a general rate application requesting an annual increase in customer non-gas base rates. Roanoke Gas implemented the non-gas rates contained in its rate application (or the "interim rates") for natural gas service rendered to customers on or after January 1, 2019. On January 24, 2020, the SCC issued its final order on the general rate application, granting Roanoke Gas an annualized increase in non-gas base rates of \$7.25 million. In March 2020, the Company refunded \$3.8 million to its customers, representing the excess revenues collected plus interest for the difference between the final approved rates and the interim rates billed since January 1, 2019.

As the Company's business is seasonal in nature, volatility in winter weather and the commodity price of natural gas can impact the effectiveness of the Company's rates in recovering its costs and providing a reasonable return for its shareholders. In order to mitigate the effect of variations in weather and the cost of natural gas, the Company has certain approved rate mechanisms in place that help provide stability in earnings, adjust for volatility in the price of natural gas and provide a return on increased infrastructure investment. These mechanisms include SAVE, WNA, ICC and PGA.

The Company's non-gas base rates provide for the recovery of non-gas related expenses and a reasonable return to shareholders. These rates are determined based on the filing of a formal non-gas rate application with the SCC utilizing historical and proforma information, including investment in natural gas facilities. Generally, investments related to extending service to new customers are recovered through the non-gas base rates currently in place. The investment in replacing and upgrading existing infrastructure is generally not recoverable until a formal rate application is filed to include the additional investment, and new non-gas base rates are approved. The SAVE Plan and Rider provides the Company with a mechanism through which it recovers costs related to these SAVE qualified infrastructure investments on a prospective basis, until a formal rate application is filed to incorporate these investments in non-gas base rates. The SAVE Rider reset effective January 2019 with the implementation of new non-gas rates. Accordingly, SAVE Plan revenues increased by \$329,000 and \$914,000 for the three and nine month periods ended June 30, 2021, respectively, compared to the same periods last year. The increases in SAVE revenues reflect the Company's continued investment in qualified SAVE Plan infrastructure.

The WNA model reduces earnings volatility related to weather variability in the heating season. The WNA is based on the most recent 30-year temperature average and provides the Company with a level of earnings protection when weather is warmer than normal and provides its customers with price protection when weather is colder than normal. The WNA allows the Company to recover from its customers the lost margin (excluding gas costs) from the impact of weather that is warmer than normal and correspondingly requires the Company to refund the excess margin earned for weather that is colder than normal. The WNA mechanism used by the Company is based on a linear regression model that determines the value of a single heating degree day. For the three months ended June 30, 2021 and 2020, the Company accrued approximately \$72,000 and \$504,000 in refunds under the WNA model for weather that had 5% and 39% more heating degree days than normal, respectively. For the nine months ended June 30, 2021 and 2020, the Company accrued approximately \$1,124,000 and \$1,313,000 in additional revenues under the WNA model for weather that was 7% and 9% warmer than normal, respectively. For the WNA year ending March 31, 2021, the Company billed customers \$576,000 of margin for weather that was 4% warmer than normal.

RGC RESOURCES, INC. AND SUBSIDIARIES

The Company also has an approved rate structure in place that mitigates the impact of financing costs associated with its natural gas inventory. Under this rate structure, Roanoke Gas recognizes revenue for the financing costs, or “carrying costs,” of its inventory. This ICC factor applied to the cost of inventory is based on the Company’s weighted-average cost of capital, including interest rates on short-term and long-term debt, and the Company’s authorized return on equity.

During times of rising gas costs and rising inventory levels, Roanoke Gas recognizes ICC revenues to offset higher financing costs associated with higher inventory balances. Conversely, during times of decreasing gas costs and lower inventory balances, the Company recognizes less ICC revenue as financing costs are lower. In addition, ICC revenues are impacted by the changes in the weighted-average cost of capital. Total ICC revenues for the three month period ended June 30, 2021 compared to the corresponding period last year reflected a slight increase due to rising natural gas commodity prices as the Company began its summer storage refill in April 2021. ICC revenues declined by \$43,000 for the nine months ended June 30, 2021 compared to the same period last year due to a combination of lower average price of natural gas in storage and lower average inventory levels.

The Company's approved billing rates include a component designed to allow for the recovery of the cost of natural gas used by its customers. The cost of natural gas is a pass-through cost and is independent of the non-gas base rates of the Company. This rate component, referred to as the PGA, allows the Company to pass along to its customers increases and decreases in natural gas costs incurred by its regulated operations. On a quarterly basis, or more frequently if necessary, the Company files a PGA rate adjustment request with the SCC to adjust the gas cost component of its rates up or down depending on projected price and activity. Once administrative approval is received, the Company adjusts the gas cost component of its rates to reflect the approved amount. As actual costs will differ from projections used in establishing the PGA rate, the Company will either over-recover or under-recover its actual gas costs during the period. The difference between actual costs incurred and costs recovered through the application of the PGA is recorded as a regulatory asset or liability. At the end of the annual deferral period, the balance is amortized over an ensuing 12-month period as those amounts are reflected in customer billings.

The Company has recognized significant income from equity in earnings of MVP in the past, as AFUDC has been recorded. Effective January 1, 2021, the LLC suspended accruing AFUDC on the project due to a temporary reduction in growth construction activities as it changed its approach in seeking authorization to cross all remaining streams and wetlands on the project route. Beginning in April 2021, the LLC resumed accruing AFUDC associated with certain growth construction activities at an amount well below recent historical levels. AFUDC will continue as long as progress continues on completing the MVP, which would include receiving the necessary approvals for the stream crossings. Once MVP is placed in service, AFUDC will cease and future earnings will be derived from fees to transport natural gas on the pipeline.

Effective January 1, 2021, Roanoke Gas suspended AFUDC on its two gate stations that will connect to MVP until such time as construction activities on the stations resume.

Results of Operations

The analysis on the results of operations is based on the consolidated operations of the Company, which is primarily associated with the utility segment. Additional segment analysis is provided in areas where Midstream's investment in affiliates represents a significant component of the comparison.

Management believes that gross utility margin, a non-GAAP financial measure defined as the difference between condensed consolidated income statement line items gas utility revenues and cost of gas - utility, is a more useful and relevant measure to analyze financial performance. The term gross utility margin is not intended to represent or replace operating income, the most comparable GAAP financial measure, as an indicator of operating performance and is not necessarily comparable to similarly titled measures reported by other companies. The following results of operations analyses will reference gross utility margin.

Three Months Ended June 30, 2021:

Net income decreased by \$595,738, or 49%, for the three months ended June 30, 2021, compared to the same period last year, primarily due to lower AFUDC earnings on the investment in MVP.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,			
	2021	2020	Increase / (Decrease)	Percentage
Operating Revenues				
Gas utility	\$ 14,016,681	\$ 10,856,453	\$ 3,160,228	29%
Non utility	32,165	215,465	(183,300)	(85)%
Total Operating Revenues	<u>\$ 14,048,846</u>	<u>\$ 11,071,918</u>	<u>\$ 2,976,928</u>	<u>27%</u>
Delivered Volumes				
Regulated Natural Gas (DTH)				
Residential and Commercial	967,402	949,845	\$ 17,557	2%
Transportation and Interruptible	797,276	1,244,246	(446,970)	(36)%
Total Delivered Volumes	<u>1,764,678</u>	<u>2,194,091</u>	<u>\$ (429,413)</u>	<u>(20)%</u>
HDD	351	460	(109)	(24)%

Total operating revenues for the three months ended June 30, 2021, compared to the same period last year, increased by 27% due to a combination of significantly higher natural gas prices and pipeline and storage fees, an increase in SAVE revenues, and increasing residential and commercial natural gas consumption, partially offset by a decrease in transportation and interruptible volumes. As the country is emerging from the shut-downs and restrictions imposed as a result of COVID-19, improving economic activity has increased both the demand for and the price of natural gas. In addition to this upward pressure on natural gas commodity prices, two of the pipeline suppliers implemented rate increases on transportation fees for delivering natural gas into Roanoke's distribution system during the Company's second fiscal quarter. As a result of both events, the commodity price of natural gas increased by 64% per dth and total pipeline and storage fees increased by 75% for the quarter. These higher costs are passed on to customers through the PGA mechanism. Although the three months ended June 30, 2021 had 109, or 24%, fewer heating degree days than the same period last year, the weather sensitive residential and commercial volumes increased by 2% reflecting economic improvement as businesses and customers are beginning to return to pre-pandemic activities. SAVE Plan revenues increased by \$329,048 due to the ongoing investment in qualified SAVE infrastructure projects. The transportation and interruptible volumes, primarily driven by business activity rather than weather, declined by 36% due to a single multi-fuel customer that switched its primary fuel from natural gas to an alternate source in response to the rising natural gas commodity prices. Non-utility revenues decreased due to the completion of a significant long-term contract in fiscal 2020.

	Three Months Ended June 30,			
	2021	2020	Increase	Percentage
Gross Utility Margin				
Gas Utility Revenue	\$ 14,016,681	\$ 10,856,453	\$ 3,160,228	29%
Cost of Gas - Utility	6,289,615	3,680,408	2,609,207	71%
Gross Utility Margin	\$ 7,727,066	\$ 7,176,045	\$ 551,021	8%

Gross utility margin increased from the same period last year primarily as a result of the aforementioned higher SAVE revenues and increased economic activity, partially offset by the reduction in transportation and interruptible deliveries. The WNA-adjusted volumes associated with residential and commercial customers increased by 21% as compared to a 2% increase for the actual volumes. These increased volumes reflect improving economic conditions as discussed previously. The lower margin transportation and interruptible volumes declined by 36% related entirely to a single multi-fuel customer that switched its primary fuel from natural gas to an alternate source. Excluding the multi-fuel customer from both periods, total transportation and interruptible volumes would have increased by 17%, indicating the improving business environment. The higher customer base charge revenue reflects a combination of customer growth and the continuing service to delinquent customers as a result of the ongoing disconnection moratorium.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Increase /
	2021	2020	(Decrease)
Customer Base Charge	\$ 3,648,899	\$ 3,613,710	\$ 35,189
Carrying Cost	56,542	50,671	5,871
SAVE Plan	677,482	348,434	329,048
Volumetric	3,357,099	3,660,793	(303,694)
WNA	(72,181)	(503,615)	431,434
Other Gas Revenues	59,225	6,052	53,173
Total	<u>\$ 7,727,066</u>	<u>\$ 7,176,045</u>	<u>\$ 551,021</u>

Operations and maintenance expenses increased by \$109,411, or 3%, over the same period last year primarily due to higher compensation, contracted services costs and bad debt expense, partially offset by increased capitalized overheads. Compensation and contracted services increased by \$162,000 due to increased activity as a result of fewer COVID-19 related restrictions compared to last year. Bad debt expense increased by \$15,000 related to the continuation of the moratorium on service disconnections for customers with past due balances. The increase in bad debt expense would have been much higher if not for the application of \$194,000 in additional CARES Act funds to COVID-19 qualifying past-due customers in June. These funds were in addition to the \$209,000 applied during the second fiscal quarter. Total capitalized overheads increased by \$104,000 due to higher direct construction expenditures for the period on which the overheads are applied.

General taxes increased by \$33,653, or 6%, due to higher property taxes related to ongoing investments in infrastructure replacement, system reinforcements and customer growth.

Depreciation expense increased by \$127,253, or 6%, on a comparable increase in utility plant balances.

Equity in earnings of unconsolidated affiliate decreased by \$1,071,710, with limited growth construction activities resuming. As these activities were on a much smaller scale, the level of AFUDC recognized during the period was significantly lower than in the prior year but higher than the second fiscal quarter when AFUDC temporarily ceased. The amount of AFUDC recognized in future periods will be dependent on the level and timing of construction activities required to complete the MVP. See Equity Investment in Mountain Valley Pipeline section below for additional information.

Other income, net increased by \$77,630 primarily due to a \$112,000 decrease in the non-service cost components of net periodic benefit costs partially offset by the absence of the equity portion of AFUDC. The reduction in the non-service cost components is attributable to reduced interest cost related to a lower discount rate applied to the benefit plans' liabilities and higher projected earnings on plan assets attributable to asset growth. In the final order on the Company's non-gas rate application, the SCC allowed Roanoke Gas to defer financing costs related to the two natural gas transfer stations that will interconnect Roanoke Gas' distribution system with the MVP. As a result, the Company began recognizing AFUDC in the second quarter of fiscal 2020. Roanoke Gas suspended AFUDC on these two gate stations until such time as construction activities resume.

Interest expense increased by \$14,035, or 1%, as the total average debt outstanding increased by 11% between quarters. The higher borrowing levels, derived from the ongoing investment in MVP and financing expenditures in support of Roanoke Gas' capital budget, were offset by an 8% reduction in the weighted-average interest rate on the Company's debt. Interest expense was also impacted by the absence of the debt portion of AFUDC related to Roanoke Gas' two gate stations.

Roanoke Gas' interest expense increased by \$25,563 primarily due to a \$6.2 million increase in total average debt outstanding for the period, net of a reduction in the average interest rate from 3.84% to 3.60% associated with the higher borrowings under the variable rate line-of-credit.

Midstream's interest expense decreased by \$11,528. The decline in the average variable interest rate of Midstream's credit facility resulted in the average interest rate on total Midstream debt decreasing from 2.52% to 2.22%, more than offsetting an increase of \$6.4 million in total average debt outstanding.

Income tax expense decreased by \$205,707 corresponding to a reduction in taxable income. The effective tax rate was 24.2% and 24.9% for the three month periods ended June 30, 2021 and 2020, respectively.

Nine Months Ended June 30, 2021:

Net income decreased by \$792,249, or 7%, for the nine months ended June 30, 2021, compared to the same period last year due to reductions in non-cash AFUDC earnings in the MVP investment, net of higher natural gas margins and lower operation and maintenance expenses.

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

	Nine Months Ended June 30,		Increase /	
	2021	2020	(Decrease)	Percentage
Operating Revenues				
Gas utility	\$ 61,721,455	\$ 52,757,778	\$ 8,963,677	17%
Non utility	98,070	537,324	(439,254)	(82)%
Total Operating Revenues	<u>\$ 61,819,525</u>	<u>\$ 53,295,102</u>	<u>\$ 8,524,423</u>	<u>16%</u>
Delivered Volumes				
Regulated Natural Gas (DTH)				
Residential and Commercial	6,230,038	5,874,218	\$ 355,820	6%
Transportation and Interruptible	2,420,913	3,030,987	(610,074)	(20)%
Total Delivered Volumes	<u>8,650,951</u>	<u>8,905,205</u>	<u>\$ (254,254)</u>	<u>(3)%</u>
HDD	3,596	3,561	35	1%

Total operating revenues for the nine months ended June 30, 2021, compared to the same period last year, increased by 16% due to higher natural gas commodity prices and pipeline and storage fees, higher residential and commercial volumes and an increase in SAVE revenues, partially offset by lower transportation and interruptible volumes and a decrease in non-utility revenues. Rising natural gas demand combined with higher transportation fees implemented by the Company's pipeline suppliers have resulted in a 30% per dth increase in the average commodity price for natural gas and a 32% per dth increase in transportation and storage fees. Total residential and commercial volumes increased by 355,820 dth, or 6%, on a 1% increase in heating degree days. After adjusting for WNA, total residential and commercial volumes increased by nearly 5% reflecting greater demand for natural gas as economic conditions began to improve. SAVE Plan revenues increased by \$913,981 due to the ongoing investment in qualified SAVE infrastructure projects. Transportation and interruptible volumes, which are excluded from the WNA calculations, decreased by 20%, due to the single multi-fuel customer that switched its primary fuel from natural gas to an alternate source as referenced above. Excluding the multi-fuel customer's usage from both periods, total transportation and interruptible volumes would have increased by 4%. Non-utility revenues decreased due to the completion of a significant long-term contract in fiscal 2020, which accounted for more than 75% of total non-utility revenues.

	Nine Months Ended June 30,		Increase	Percentage
	2021	2020		
Gross Utility Margin				
Gas Utility Revenue	\$ 61,721,455	\$ 52,757,778	\$ 8,963,677	17%
Cost of Gas - Utility	28,437,371	20,531,211	7,906,160	39%
Gross Utility Margin	<u>\$ 33,284,084</u>	<u>\$ 32,226,567</u>	<u>\$ 1,057,517</u>	<u>3%</u>

Gross utility margin increased from the same period last year primarily as a result of SAVE revenues and increased residential and commercial volumes. Though total delivered volumes declined by 254,254 dth, increases in residential and commercial volumes more than offset the decreases in lower-margin interruptible and transportation volumes. The higher customer base charge revenues reflect customer growth and continuing service to delinquent customers as a result of the disconnection moratorium.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

	Nine Months Ended June 30,		Increase /
	2021	2020	(Decrease)
Customer Base Charge	\$ 10,923,419	\$ 10,805,138	\$ 118,281
Carrying Cost	248,744	291,712	(42,968)
SAVE Plan	1,733,027	819,046	913,981
Volumetric	19,131,582	18,898,658	232,924
WNA	1,124,120	1,313,540	(189,420)
Other Gas Revenues	123,192	98,473	24,719
Total	<u>\$ 33,284,084</u>	<u>\$ 32,226,567</u>	<u>\$ 1,057,517</u>

Operations and maintenance expenses decreased by \$484,616, or 4%, from the same period last year primarily due to the prior year write-down and amortization of ESAC regulatory assets, lower bad debt expense and compensation costs, partially offset by higher contracted services and lower capitalized overheads. In accordance with the SCC's final order on the non-gas base rate application, the Company wrote-down \$317,000 in ESAC assets last year that were not subject to recovery. In addition, \$198,000 of ESAC asset amortization was recorded in the first nine months of fiscal 2020. No ESAC amortization is included the current year as the Company fully amortized the remaining balance of all ESAC assets in September 2020. Bad debt expense declined by \$170,000 due to the application of more than \$400,000 in CARES Act funds to eligible customers with past due balances. If not for the CARES Act funds, bad debt expense would have increased by approximately \$230,000 compared to the same period last year. Compensation expense declined by \$205,000 primarily due to the accelerated vesting of restricted stock in the prior fiscal year. The reduction in compensation expense was more than offset by an increase of \$271,000 in contracted services to supplement increased operational needs. Total capitalized overheads declined by \$148,000 on \$2 million in reduced capital expenditures related to project timing.

General taxes increased by \$119,392, or 7%, due to higher property taxes related to ongoing investments in infrastructure replacement, system reinforcements and customer growth.

Depreciation expense increased by \$432,234, or 7%, on a comparable increase in utility plant balances.

Equity in earnings of unconsolidated affiliate decreased by \$2,001,503, or 57%, with limited growth construction activities resuming in the fiscal third quarter. As growth construction activities have been limited throughout the nine months ended June 30, 2021, the level of AFUDC recognized during the period was significantly lower than in the prior year.

Other income, net increased by \$219,669 primarily due to a \$337,000 decrease in the non-service cost components of net periodic benefit costs partially offset by \$163,000 reduction in the equity portion of AFUDC on Roanoke Gas' two gate stations that will interconnect with the MVP. Roanoke Gas temporarily stopped recognizing AFUDC effective January 2021 until the resumption of construction activities on these stations.

Interest expense decreased by \$81,850, or 3%, as a decline in the interest rate on the Company's variable rate debt more than offset higher total debt levels. Total average debt outstanding increased by 15% to meet the funding needs of Roanoke Gas' capital projects and Midstream's continuing investment in MVP. As a result of the declining interest rates on the Company's variable rate debt, the weighted-average interest rate fell by 13% compared to the same period last year. Furthermore, interest expense was also reduced by the absence of rate refund interest in the current year net of lower AFUDC associated with borrowed funds related to the delayed completion of the MVP project.

RGC RESOURCES, INC. AND SUBSIDIARIES

Roanoke Gas' interest expense increased by \$56,575 primarily due to the capitalization of \$53,000 less in AFUDC during the current year. Higher interest expense related to a more than \$9 million increase in average outstanding debt balances, net of an 8% reduction in the effective interest rate, offset the absence of interest on the rate refund from the prior year.

Midstream's interest expense decreased by \$138,425. The average interest rate on Midstream's debt declined from 2.92% to 2.25% due to significant reductions in the interest rate on its variable rate debt, which more than offset the \$6.9 million increase in total average debt outstanding during the period.

Income tax expense decreased by \$101,847 on a 6% decline in pre-tax income. The effective tax rate was 24.8% and 23.9% for the nine-month periods ended June 30, 2021 and 2020, respectively. A combination of accelerated vesting of restricted stock and the exercise of stock options provided additional tax benefits that resulted in a net lower effective tax rate during the prior year.

Critical Accounting Policies and Estimates

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

Allowance for Doubtful Accounts: The Company evaluates the collectability of its accounts receivable balances based on a variety of factors including loss history, level of delinquent account balances, collections on previously written off accounts and current economic conditions. The historical model used in valuing bad debt reserves has been consistently applied over the years and has produced reasonable estimates for valuing the potential loss on customer accounts receivable. With the arrival of COVID-19 and the widespread impact deriving from the pandemic, including the disconnection moratorium, the estimation of the Company's bad debt reserves became more subjective with greater reliance on qualitative assessments and judgments than on quantitative measures. The Company continues to analyze and evaluate available information related to the valuation allowance for bad debts. Nevertheless, the next several months could result in significant changes to the reserve balance and bad debt expense.

There have been no significant changes to the critical accounting policies as reflected in the Company's Annual Report on Form 10-K for the year ended September 30, 2020.

Asset Management

Roanoke Gas uses a third-party asset manager to oversee its pipeline transportation, storage rights and gas supply inventories and deliveries. In return for being able to utilize the excess capacities of the transportation and storage rights, the asset manager pays Roanoke Gas a monthly utilization fee. In accordance with an SCC order issued in 2018, a portion of the utilization fee is retained by the Company with the balance passed through to customers through reduced gas costs. The current asset manager contract has been extended through March 31, 2023.

Equity Investment in Mountain Valley Pipeline

While the total MVP project work is approximately 92% complete, recent construction activity has been limited based on legal and regulatory challenges. Although certain permits and authorizations were received in the fourth quarter of fiscal 2020 and the first quarter of fiscal 2021, there remain pending challenges and authorization requests impacting current progress.

Following a comprehensive review of all outstanding stream and wetland crossings across the approximately 300-mile MVP project route, on February 19, 2021, the LLC submitted (i) a joint application package to each of the Huntington, Pittsburgh and Norfolk Districts of the U.S. Army Corps of Engineers (Army Corps) that requests an individual permit from the Army Corps to cross certain streams and wetlands utilizing open cut techniques (the Army Corps Individual Permit) and (ii) an application to amend the MVP project's CPCN that seeks FERC authority to cross certain streams and wetlands utilizing alternative trenchless construction methods.

RGC RESOURCES, INC. AND SUBSIDIARIES

Related to seeking the Army Corps Individual Permit, on March 4, 2021, the LLC submitted applications to each of the West Virginia Department of Environmental Protection (WVDEP) and the Virginia Department of Environmental Quality (VADEQ) seeking Section 401 water quality certification approvals or waivers (such approvals or waivers, the State 401 Approvals). Both the WVDEP and VADEQ submitted requests to the Army Corps for additional time to address the applications, and in late June 2021, the Army Corps granted the WVDEP and the VADEQ additional review time through November 29, 2021 and December 31, 2021, respectively. In early June 2021, the FERC issued a notice of schedule for the LLC's CPCN amendment application and the FERC is preparing to issue an environmental assessment in mid-August 2021. Given that the expected permitting timelines for both the FERC and the Army Corps are in-line with the LLC's expectations, the LLC continues to target a full in-service date for the MVP project in summer 2022 at a total project cost of approximately \$6.2 billion (excluding AFUDC).

In order to complete the MVP project in accordance with the targeted full in-service date and cost, the LLC must, among other things, timely receive the Army Corps Individual Permit (as well as timely receive the State 401 Approvals and, as necessary, certain other state-level approvals) and timely receive authorization from the FERC to amend the CPCN to utilize alternative trenchless construction methods for certain stream and wetland crossings. The LLC also must (i) maintain and, as applicable, timely receive required authorizations, including authorization to proceed with construction, related to the Jefferson National Forest from the Bureau of Land Management, the U.S. Forest Service and the FERC; (ii) continue to have available the orders previously issued by the FERC modifying its prior stop work orders and extending the LLC's prescribed time to complete the MVP project; (iii) timely receive authorization from the FERC to complete construction work in the portion of the project route currently remaining subject to the FERC's previous stop work order; and (iv) continue to be authorized to work under the Biological Opinion and Incidental Take Statement issued by the United States Department of the Interior's Fish and Wildlife Service for the MVP project. In each case, any such foregoing or other authorizations must remain in effect notwithstanding any pending or future challenge thereto. Failure to achieve any one of the above items could lead to additional delays and higher project costs.

Resources' current earnings from the MVP investment are attributable to AFUDC income generated by the LLC. The LLC temporarily suspended the accrual of AFUDC on the project beginning January 1, 2021 (due to a temporary reduction in growth construction activities) through March 31, 2021. Limited growth construction activities resumed in April 2021, and the LLC began accruing AFUDC associated with those activities. Additionally, Roanoke Gas continues the suspension of AFUDC accruals on its two gate stations that will interconnect with the MVP until such time as construction activities resume on the respective gate stations.

Management conducted an assessment of its MVP investment in accordance with the provisions of ASC 323, *Investments - Equity Method and Joint Ventures*. This assessment included a third-party valuation. As a result of its evaluation, management has concluded that the investment is not currently impaired as of June 30, 2021. Furthermore, the LLC has conducted its own evaluation of the project and also concluded that no impairment exists as of June 30, 2021. Management will continue monitoring the status of the project for circumstances that may lead to future impairment, including any significant delays or denials of necessary permits and approvals. If necessary, the amount and timing of any future impairment would be dependent on the specific circumstances at the time of evaluation.

In April 2018, the LLC announced the MVP Southgate project and submitted Southgate's certificate application to the FERC in November 2018. The Final Environmental Impact Statement for the project was issued on February 14, 2020. In June 2020, the FERC issued the CPCN for the MVP Southgate; however, the FERC, while authorizing the project, directed the Office of Energy Projects not to issue a notice to proceed with construction until necessary federal permits are received for the MVP project and the Director of the Office of Energy Projects lifts the stop work order and authorizes the LLC to continue constructing the MVP. On August 11, 2020, the North Carolina Department of Environmental Quality (NCDEQ) denied Southgate's application for a Clean Water Act Section 401 Individual Water Quality Certification and Jordan Lake Riparian Buffer Authorization due to timing of the MVP project's completion. On March 11, 2021, the Fourth Circuit Court of Appeals, pursuant to an appeal filed by the LLC, vacated the NCDEQ's denial and remanded the matter to the NCDEQ for additional review. On April 29, 2021, the NCDEQ reissued its denial of Southgate's application. Based on the updated targeted full in-service date for the MVP and expectations regarding Southgate permit approval timing, the LLC is targeting commencing construction on the MVP Southgate project in 2022 and placing the MVP Southgate in-service during the spring of 2023.

Midstream has borrowing capacity of \$41 million under its current credit facility, which matures in December 2022. As of June 30, 2021, \$29.3 million had been utilized. This credit facility will provide additional financing capacity for MVP funding; however, due to ongoing delays, additional financing will be required. Management is working with the Company's lending institutions to secure the necessary funding. If the legal and regulatory challenges, including any future challenges, are not resolved in a timely manner and/or restrictions are imposed that impact future construction, the cost of the MVP and Midstream's capital contributions may increase above current projections.

Regulatory

On January 24, 2020, the SCC issued its final general rate case order awarding Roanoke Gas an annualized non-gas rate increase of \$7.25 million and providing for a 9.44% return on equity. The final order directed the Company to write-off a portion of ESAC assets that were excluded from recovery under the rate award. As a result, in the first quarter of fiscal 2020 Roanoke Gas expensed an additional \$317,000 of ESAC assets above the normal amortization amount. Rates authorized by the SCC's final order required the Company to issue customers \$3.8 million in rate refunds, which was completed in March 2020.

The final order also excluded from current rates a return on the investment of two interconnect stations with the MVP, but noted Roanoke Gas could defer the related financing costs of those investments for possible future recovery. As a result, the Company began recognizing AFUDC during the second quarter of fiscal 2020 to capitalize both the equity and debt financing costs incurred during the construction phases. During the first quarter of 2021, Roanoke Gas recognized a total of \$55,981 in AFUDC, \$41,978 and \$14,003 of equity and debt carrying costs, respectively. Beginning January 2021, Roanoke Gas temporarily ceased recording AFUDC on its related MVP interconnect construction projects until such time as construction activities resume.

On March 16, 2020, in response to COVID-19, the SCC issued an order applicable to all utilities operating in Virginia to suspend disconnection of service to all customers until May 15, 2020. The Commission extended the moratorium on disconnections through October 5, 2020. Subsequently, the Virginia General Assembly extended the moratorium for residential customers until the Governor determines that the economic and public health conditions have improved such that the prohibition does not need to remain in place, or until at least 60 days after such declared state of emergency ends, whichever is sooner. The state of emergency ended June 30, 2021 and, accordingly, the moratorium on residential disconnections is set to expire on August 30, 2021. However, Virginia's General Assembly is scheduled to convene a special session on August 2, 2021, during which action could be taken to extend the service moratorium.

While the moratorium is in place, utilities are prohibited from disconnecting residential customers for non-payment of their natural gas service and from assessing late payment fees; therefore, residential customers that would normally be disconnected for non-payment will continue incurring costs for gas service until the moratorium is removed, resulting in higher potential bad debt write-offs. In December 2020, Roanoke Gas received \$403,000 in CARES Act funds to assist customers with growing past due balances. Based on guidance provided by the SCC, the Company was able to apply the full amount to eligible customer accounts during the second and third fiscal quarters. Roanoke Gas continues to evaluate and adjust its provision for bad debts; however, the potential magnitude of the combined impact from the economy and the moratorium on bad debts continues to be uncertain.

In April 2020, the SCC issued an order allowing regulated utilities in Virginia to defer certain incremental, prudently incurred costs associated with the COVID-19 pandemic and to apply for recovery at a future date. Roanoke Gas continues to defer certain COVID-19 related costs during fiscal 2021 and plans to seek recovery of these deferrals at the appropriate time. Such deferrals are made under the provisions of FASB ASC No. 980, *Regulated Operations*. If the Company should determine that ASC 980 no longer applies to these deferrals, the Company would write-off any amount not subject to future rate recovery.

Roanoke Gas continues to recover the costs of its infrastructure replacement program through its SAVE Plan. In May 2021, the Company filed its most recent SAVE application with the SCC to update the SAVE Rider for the period October 2021 through September 2022. In its application, Roanoke Gas requested to continue to recover the costs of the replacement of pre-1973 plastic pipe. In addition, the Company requested to include the replacement of certain regulator stations and pre-1971 coated steel pipe as qualifying SAVE projects. The updated SAVE Rider is designed to collect approximately \$3.45 million in annual revenues, an increase of approximately \$1.1 million in annual revenues from the existing SAVE Rider rates. The Company expects a final order from the SCC on this application by September 30, 2021.

Capital Resources and Liquidity

Due to the capital intensive nature of the utility business, as well as the related weather sensitivity, the Company's primary capital needs are the funding of its utility plant capital projects, investment in the MVP, the seasonal funding of its natural gas inventories and accounts receivable and the payment of dividends. To meet these needs, the Company relies on its operating cash flows, available financing under short-term and long-term credit agreements and proceeds from its equity program.

Cash and cash equivalents increased by \$977,345 for the nine-month period ended June 30, 2021, compared to a \$430,143 decrease for the same period last year. The following table summarizes the sources and uses of cash:

Cash Flow Summary	Nine Months Ended June 30,	
	2021	2020
Net cash provided by operating activities	\$ 14,416,227	\$ 12,826,099
Net cash used in investing activities	(19,001,279)	(23,506,062)
Net cash provided by financing activities	5,562,397	10,249,820
Increase (decrease) in cash and cash equivalents	<u>\$ 977,345</u>	<u>\$ (430,143)</u>

Cash Flows Provided by Operating Activities:

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

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Cash flows from operating activities for the nine months ended June 30, 2021 increased by \$1,590,128 from the same period last year. The increase in cash flow provided by operations was primarily driven by the prior year rate refund and changes in accounts payable, accounts receivable and gas in storage balances.

The table below summarizes the significant operating cash flow components:

	Nine Months Ended June 30,		Increase /
	2021	2020	(Decrease)
Cash Flow From Operating Activities:			
Net income	\$ 10,101,581	\$ 10,893,830	\$ (792,249)
Non-cash adjustments:			
Depreciation	6,583,841	6,143,085	440,756
Equity in earnings	(1,486,750)	(3,488,253)	2,001,503
AFUDC	(55,981)	(272,108)	216,127
ESAC assets	—	515,114	(515,114)
Changes in working capital and regulatory assets and liabilities:			
Accounts receivable	(1,619,716)	122,005	(1,741,721)
Gas in storage	1,443,705	2,996,719	(1,553,014)
Prepaid income taxes (payable)	479,462	1,510,305	(1,030,843)
Accounts Payable	1,209,563	(22,445)	1,232,008
WNA	(537,509)	(1,313,541)	776,032
Customer credit balances	(744,069)	253,271	(997,340)
Rate refund	—	(3,827,588)	3,827,588
Deferred taxes	641,172	1,121,176	(480,004)
Other	(1,599,072)	(1,805,471)	206,399
Net cash provided by operating activities	<u>\$ 14,416,227</u>	<u>\$ 12,826,099</u>	<u>\$ 1,590,128</u>

Operating cash flow increased \$3.8 million related to the rate refund applied to customer accounts in the prior year. Current year gas commodity and demand cost increases have driven higher accounts payable balances, resulting in additional operating cash of approximately \$1.2 million when compared to the prior year. These significant increases in operating cash were partially offset by over \$3.2 million in operating cash decreases derived from higher accounts receivable and gas in storage balances attributed to the current year rise in commodity and demand costs.

Cash Flows Used in Investing Activities:

Investing activities are generally composed of expenditures related to investment in the Company's utility plant projects as well as the continued investment in the MVP. The Company is continuing its focus on SAVE infrastructure replacement projects, including the replacement of pre-1973 first generation plastic pipe and extending the natural gas distribution system to unserved developments within its existing service territory. Total capital expenditures for the nine months ended June 30, 2021 were \$15.0 million, compared to \$17.0 million during same period last year. Capital expenditures for fiscal 2021 are expected to remain consistent with the prior year levels.

Midstream's total cash investment in the MVP decreased 37% to \$4.2 million for the nine months ended June 30, 2021, as compared to the same period in the prior year, as a result of reduced pipeline construction activity.

Cash Flows Provided by Financing Activities:

Financing activities generally consist of long-term notes payable and line-of-credit borrowings and repayments, issuance of stock and the payment of dividends. Net cash flows provided by financing activities were \$5.6 million, for the nine months ended June 30, 2021, compared to \$10.2 million for the same period last year. The decrease in financing cash flows is primarily attributable to reduced borrowings, related to lower capital contribution requirements to fund Midstream's investment in the MVP and the fiscal 2020 placement of \$10 million in unsecured notes to provide financing for Roanoke Gas' capital budget, net of equity issued through the ATM program.

On March 25, 2021, Roanoke Gas renewed its unsecured line-of-credit agreement, which was scheduled to expire March 31, 2022. The new agreement is for a two-year term expiring March 31, 2023 with a maximum borrowing limit of \$40,000,000. Amounts drawn against the agreement are considered to be non-current as the balance under the line-of-credit is not subject to repayment within the next 12-month period. The agreement has a variable interest rate based on 30-day LIBOR plus 100 basis points and an availability fee of 15 basis points and provides multi-tiered borrowing limits associated with the seasonal borrowing demands of the Company. The Company's total available borrowing limits during the term of the agreement range from \$14,000,000 to \$40,000,000.

Management regularly evaluates the Company's liquidity through a review of its available financing resources including the impact of COVID-19 on its operating cash flows. Management believes it has positioned the Company with access to sufficient financing resources to meet its cash requirements over the next year. The line-of-credit agreement will continue to provide the needed working capital and the ATM program will allow for supplemental equity funding as market conditions allow. Furthermore, the Company can draw funds under one of its two private shelf facility credit agreements or adjust Roanoke Gas' capital spending to reduce funding requirements if necessary.

As of June 30, 2021, the Company had issued approximately 111,000 shares through its ATM program. This activity provided financing cash flows of more than \$2.5 million in net proceeds. Management plans to utilize the ATM program during the fourth fiscal quarter as market conditions allow.

Midstream has borrowing capacity of \$41 million under its current credit facility, which matures in December 2022. As of June 30, 2021, \$31.4 million had been utilized. This credit facility will provide additional financing capacity for MVP funding; however, due to ongoing delays, additional financing will be required. For further discussion regarding Midstream's borrowing capacity, see the "Equity Investment in Mountain Valley Pipeline" section above.

In combination, all of these factors should allow the Company to continue to operate effectively and meet its obligations as they occur.

As of June 30, 2021, Resources' long-term capitalization ratio was 43% equity and 57% debt.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4 – CONTROLS AND PROCEDURES

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

Through June 30, 2021, the Company has evaluated, under the supervision and with the participation of management, including the chief executive officer and the interim chief financial officer, the effectiveness of the design and operation of the Company’s disclosure controls and procedures. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company’s disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2021.

Management routinely reviews the Company’s internal control over financial reporting and makes changes, as necessary, to enhance the effectiveness of the internal controls. There were no control changes during the fiscal quarter ended June 30, 2021, that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II – Other Information

ITEM 1 – LEGAL PROCEEDINGS

No material proceedings.

ITEM 1A – RISK FACTORS

There have been no material changes from the risk factors previously disclosed in Resources' Annual Report on Form 10-K for the year ended September 30, 2020.

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

None.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

Roanoke Gas executed Amendment No. 2 to Natural Gas Asset Management Agreement with Sequent Energy Management, L.P., as of August 5, 2021. This Amendment No. 2 renews the term of the agreement for another 12 months through March 31, 2023.

ITEM 6 – EXHIBITS

Number	Description
10.1	<u>Amendment No. 2 to Natural Gas Asset Management Agreement dated August 5, 2021, by and between Roanoke Gas Company and Sequent Energy Management, L.P.</u>
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer</u>
32.1*	<u>Section 1350 Certification of Principal Executive Officer</u>
32.2*	<u>Section 1350 Certification of Principal Financial Officer</u>
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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

SIGNATURES

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

Date: August 6, 2021

RGC Resources, Inc.

By: /s/ Lawrence T. Oliver
Lawrence T. Oliver
Vice President, Interim Chief Financial Officer,
Corporate Secretary and Treasurer
(Principal Financial Officer)

**AMENDMENT NO. 2 TO
NATURAL GAS ASSET MANAGEMENT AGREEMENT**

THIS AMENDMENT NO. 2 TO NATURAL GAS ASSET MANAGEMENT AGREEMENT, dated August 5, 2021 (this "Amendment"), is by and between Roanoke Gas Company ("Counterparty"), a Virginia corporation, and Sequent Energy Management, L.P. ("Manager"), a Georgia limited partnership. Manager and Counterparty are sometimes referred to herein collectively as the "Parties."

RECITALS

WHEREAS, Manager and Counterparty are parties to that certain Natural Gas Asset Management Agreement, dated April 1, 2018, as amended by that certain Amendment No.1 to Natural Gas Asset Management Agreement, dated July 31, 2020 (the "Agreement");

WHEREAS, Manager and Counterparty desire to renew the Agreement for twelve (12) months at the end of the current Term pursuant to Section 9.01 of the Agreement; and

WHEREAS, in connection with such renewal, Manager and Counterparty desire to amend the Agreement on the terms and subject to the conditions set forth below.

AGREEMENT

NOW, THEREFORE, for and in consideration of the mutual premises, covenants and agreements hereinafter set forth, the Parties agree to amend the Agreement as follows:

1. **Defined Terms.** All initially capitalized terms used but not defined herein have the meanings set forth in the Agreement.
2. **Effective Date.** The effective date of this Amendment shall be April 1, 2022 (the "Effective Date").
3. **Renewal.** Subject to the terms set for herein, the Parties hereby agree that the Agreement will be renewed for twelve (12) months at the end of the current Term (through March 31, 2023) and that this Amendment constitutes each Party's written notification to the other Party of its intent to renew pursuant to Section 9.01 of the Agreement.
4. **Amendments to the Agreement.**

- (a) *As of the date hereof*, Section 15.10 is deleted in its entirety and replaced with the following:

"15.10 Notices

All notices required to be sent shall be sent to the Parties at the following addresses, telephone numbers, email addresses and fax numbers:

To Manager: Sequent Energy Management, L.P.
1200 Smith Street, Suite 900
Houston, TX 77002

Notices/Correspondence:
Attn: Contract Administration
Telephone: 832-397-1700
Email: confirms@sequentenergy.com

Invoices:
Attn: Gas Accounting
Telephone: 832-397-1700
Fax: 832-397-3711
Email: AccountingSettlement@Williams.com

To Counterparty: 519 Kimball Ave., N.E.
Roanoke, VA 24016
Telephone: 540-777-3800
Fax: 540-777-3957

Notices/Correspondence:
Attn: Paul Schneider
Email: paul_schneider@roanokegas.com

Invoices:
Attn: David Garcia
Email: David_Garcia@RGCResources.com

- (b) *As of the Effective Date*, Exhibit M (Utilization Fee) of the Agreement will be deleted in its entirety and be replaced with the attached Exhibit M (Utilization Fee).

5. **No Other Amendments.** Except as set forth herein, the Agreement remains in full force and effect on the terms expressed therein.
6. **Counterparts.** This Amendment may be executed and delivered in counterparts, each of which shall be deemed to be an original and which may be transmitted in an electronic format (such as a PDF file).

IN WITNESS WHEREOF, the undersigned Parties have caused this Amendment to be duly executed by their respective officers and representatives duly authorized as of the day and year first above written.

SEQUENT ENERGY MANAGEMENT, L.P.

By: /s/ Mark Rueff
Name: Mark Rueff
Title: Vice President - Gas Marketing

ROANOKE GAS COMPANY

By: /s/ Paul W. Nester
Name: Paul W. Nester
Title: President and CEO

CERTIFICATION

I, Paul W. Nester, certify that:

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

Date: August 6, 2021

/s/ Paul W. Nester

Paul W. Nester
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Lawrence T. Oliver, certify that:

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

Date: August 6, 2021

/s/ Lawrence T. Oliver

Lawrence T. Oliver
Vice President, Interim Chief Financial Officer, Corporate
Secretary and Treasurer
(Principal Financial Officer)

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

In connection with the Quarterly Report of RGC Resources, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul W. Nester, President and Chief Executive Officer of the Company, certify to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Paul W. Nester

Paul W. Nester
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 6, 2021

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

In connection with the Quarterly Report of RGC Resources, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Lawrence T. Oliver, Vice President, Interim Chief Financial Officer, Corporate Secretary and Treasurer of the Company, certify to my knowledge, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Lawrence T. Oliver

Lawrence T. Oliver

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

Date: August 6, 2021