

**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, 2022

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)

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

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

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, 2022</u> |
|-----------------------------|-------------------------------------|
| Common Stock, \$5 Par Value | 9,806,045 |

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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 |
| ARPA | American Rescue Plan Act of 2021 |
| 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/CARES Act | The Coronavirus Aid, Relief, and Economic Security Act |
| Company | RGC Resources, Inc. or Roanoke Gas Company |
| COVID-19 or Coronavirus | A pandemic disease 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 |
| FASB | Financial Accounting Standards Board |
| FDIC | Federal Deposit Insurance Corporation |

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| | |
|----------------|---|
| FERC | Federal Energy Regulatory Commission |
| Fourth Circuit | U.S. Fourth Circuit Court of Appeals |
| GAAP | Generally Accepted Accounting Principles in the United States |
| 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 |
| LDI | Liability Driven Investment approach, a strategy which reduces the volatility in the pension plan's funded status and expense by matching the duration of the fixed income investments with the duration of the corresponding pension liabilities |
| LIBOR | London Inter-Bank Offered Rate |
| LLC | Mountain Valley Pipeline, L.L.C., a joint venture established to design, construct and operate MVP and 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 Equitran's 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 |

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| | |
|---------------------|--|
| 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 for Officers |
| 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 |
| SOFR | Secured Overnight Financing Rate |
| 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 |
| 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

RGIC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2022 Unaudited | September 30, 2021 |
|--|----------------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 13,811,422 | \$ 1,518,317 |
| Accounts receivable (less allowance for credit losses of \$806,492, and \$242,010, respectively) | 6,828,205 | 4,949,900 |
| Materials and supplies | 1,045,748 | 1,031,666 |
| Gas in storage | 7,799,775 | 7,867,470 |
| Prepaid income taxes | 2,341,197 | 3,104,950 |
| Regulatory assets | 1,295,384 | 5,656,453 |
| Interest rate swap | 667,713 | — |
| Other | 1,800,442 | 1,015,099 |
| Total current assets | <u>35,589,886</u> | <u>25,143,855</u> |
| UTILITY PROPERTY: | | |
| In service | 283,203,693 | 272,382,539 |
| Accumulated depreciation and amortization | (80,152,761) | (76,038,433) |
| In service, net | <u>203,050,932</u> | <u>196,344,106</u> |
| Construction work in progress | 21,094,218 | 15,305,578 |
| Utility plant, net | <u>224,145,150</u> | <u>211,649,684</u> |
| OTHER ASSETS: | | |
| Regulatory assets | 6,666,754 | 6,769,759 |
| Investment in unconsolidated affiliates | 28,163,348 | 64,867,319 |
| Benefit plan assets | 1,387,250 | 1,259,639 |
| Deferred income taxes | 235,640 | — |
| Interest rate swap | 2,213,109 | — |
| Other | 342,356 | 418,937 |
| Total other assets | <u>39,008,457</u> | <u>73,315,654</u> |
| TOTAL ASSETS | <u>\$ 298,743,493</u> | <u>\$ 310,109,193</u> |

RGC RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2022 Unaudited | September 30, 2021 |
|--|------------------------------|------------------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt | \$ 900,000 | \$ 7,000,000 |
| Dividends payable | 1,912,178 | 1,549,841 |
| Accounts payable | 9,119,710 | 7,729,707 |
| Capital contributions payable | 841,250 | 2,140,637 |
| Customer credit balances | 710,764 | 1,539,680 |
| Customer deposits | 1,527,019 | 1,571,342 |
| Accrued expenses | 2,837,596 | 3,819,977 |
| Interest rate swaps | — | 332,389 |
| Regulatory liabilities | 3,214,956 | 329,959 |
| Total current liabilities | <u>21,063,473</u> | <u>26,013,532</u> |
| LONG-TERM DEBT: | | |
| Notes payable | 130,549,200 | 116,110,200 |
| Line-of-credit | — | 17,628,897 |
| Less unamortized debt issuance costs | (284,130) | (267,670) |
| Long-term debt, net | <u>130,265,070</u> | <u>133,471,427</u> |
| DEFERRED CREDITS AND OTHER LIABILITIES: | | |
| Interest rate swaps | — | 863,694 |
| Asset retirement obligations | 7,988,323 | 7,628,958 |
| Regulatory cost of retirement obligations | 14,332,274 | 13,640,567 |
| Benefit plan liabilities | 848,794 | 949,851 |
| Deferred income taxes | 6,007,131 | 14,948,213 |
| Regulatory liabilities | 12,655,804 | 12,891,242 |
| Total deferred credits and other liabilities | <u>41,832,326</u> | <u>50,922,525</u> |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, \$5 par; authorized 20,000,000 shares; issued and outstanding 9,804,415 and 8,375,092 shares, respectively | 49,022,075 | 41,875,460 |
| Preferred stock, no par, authorized 5,000,000 shares; no shares issued and outstanding | — | — |
| Capital in excess of par value | 41,227,343 | 19,705,387 |
| Retained earnings | 13,874,704 | 39,656,296 |
| Accumulated other comprehensive income (loss) | 1,458,502 | (1,535,434) |
| Total stockholders' equity | <u>105,582,624</u> | <u>99,701,709</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u><u>\$ 298,743,493</u></u> | <u><u>\$ 310,109,193</u></u> |

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, | |
|--|-----------------------------|-------------------|----------------------------|----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| OPERATING REVENUES: | | | | |
| Gas utility | \$ 17,226,649 | \$ 14,016,681 | \$ 69,957,523 | \$ 61,721,455 |
| Non utility | 33,250 | 32,165 | 95,139 | 98,070 |
| Total operating revenues | <u>17,259,899</u> | <u>14,048,846</u> | <u>70,052,662</u> | <u>61,819,525</u> |
| OPERATING EXPENSES: | | | | |
| Cost of gas - utility | 9,221,968 | 6,289,615 | 35,461,948 | 28,437,371 |
| Cost of sales - non utility | 6,626 | 4,427 | 15,417 | 14,394 |
| Operations and maintenance | 3,593,102 | 3,535,642 | 11,525,423 | 10,969,234 |
| General taxes | 579,709 | 561,071 | 1,830,171 | 1,777,920 |
| Depreciation and amortization | 2,218,322 | 2,115,758 | 6,757,720 | 6,397,460 |
| Total operating expenses | <u>15,619,727</u> | <u>12,506,513</u> | <u>55,590,679</u> | <u>47,596,379</u> |
| OPERATING INCOME | 1,640,172 | 1,542,333 | 14,461,983 | 14,223,146 |
| Equity in earnings of unconsolidated affiliate | 235 | 133,864 | 71,917 | 1,486,750 |
| Impairment of unconsolidated affiliates | — | — | (39,822,213) | — |
| Other income, net | 221,141 | 130,186 | 888,090 | 747,760 |
| Interest expense | 1,102,214 | 1,000,238 | 3,310,914 | 3,027,831 |
| INCOME (LOSS) BEFORE INCOME TAXES | 759,334 | 806,145 | (27,711,137) | 13,429,825 |
| INCOME TAX EXPENSE (BENEFIT) | 166,807 | 195,305 | (7,393,764) | 3,328,244 |
| NET INCOME (LOSS) | <u>\$ 592,527</u> | <u>\$ 610,840</u> | <u>\$ (20,317,373)</u> | <u>\$ 10,101,581</u> |
| BASIC EARNINGS (LOSS) PER COMMON SHARE | <u>\$ 0.06</u> | <u>\$ 0.07</u> | <u>\$ (2.29)</u> | <u>\$ 1.23</u> |
| DILUTED EARNINGS (LOSS) PER COMMON SHARE | <u>\$ 0.06</u> | <u>\$ 0.07</u> | <u>\$ (2.29)</u> | <u>\$ 1.23</u> |
| DIVIDENDS DECLARED PER COMMON SHARE | <u>\$ 0.195</u> | <u>\$ 0.185</u> | <u>\$ 0.585</u> | <u>\$ 0.555</u> |

See notes to condensed consolidated financial statements.

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

| | <u>Three Months Ended June 30,</u> | | <u>Nine Months Ended June 30,</u> | |
|--|------------------------------------|-------------------|-----------------------------------|----------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| NET INCOME (LOSS) | \$ 592,527 | \$ 610,840 | \$ (20,317,373) | \$ 10,101,581 |
| Other comprehensive income (loss), net of tax: | | | | |
| Interest rate swaps | 1,129,736 | (19,744) | 3,027,509 | 643,275 |
| Defined benefit plans | (11,191) | 14,864 | (33,573) | 44,592 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX | 1,118,545 | (4,880) | 2,993,936 | 687,867 |
| COMPREHENSIVE INCOME (LOSS) | \$ 1,711,072 | \$ 605,960 | \$ (17,323,437) | \$ 10,789,448 |

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, 2022

| | Common Stock | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|-----------------|--------------------------------------|----------------------|--|----------------------------------|
| Balance - September 30, 2021 | \$ 41,875,460 | \$ 19,705,387 | \$ 39,656,296 | \$ (1,535,434) | \$ 99,701,709 |
| Net Income | — | — | 3,584,529 | — | 3,584,529 |
| Other comprehensive income | — | — | — | 351,083 | 351,083 |
| Cash dividends declared (\$0.195 per share) | — | — | (1,642,324) | — | (1,642,324) |
| Issuance of common stock (13,914 shares) | 69,570 | 230,278 | — | — | 299,848 |
| Balance - December 31, 2021 | \$ 41,945,030 | \$ 19,935,665 | \$ 41,598,501 | \$ (1,184,351) | \$102,294,845 |
| Net Loss | — | — | (24,494,429) | — | (24,494,429) |
| Other comprehensive income | — | — | — | 1,524,308 | 1,524,308 |
| Cash dividends declared (\$0.195 per share) | — | — | (1,909,717) | — | (1,909,717) |
| Issuance of common stock (1,400,889 shares) | 7,004,445 | 21,043,277 | — | — | 28,047,722 |
| Balance - March 31, 2022 | \$ 48,949,475 | \$ 40,978,942 | \$ 15,194,355 | \$ 339,957 | \$105,462,729 |
| Net Income | — | — | 592,527 | — | 592,527 |
| Other comprehensive income | — | — | — | 1,118,545 | 1,118,545 |
| Cash dividends declared (\$0.195 per share) | — | — | (1,912,178) | — | (1,912,178) |
| Issuance of common stock (14,520 shares) | 72,600 | 248,401 | — | — | 321,001 |
| Balance - June 30, 2022 | \$ 49,022,075 | \$ 41,227,343 | \$ 13,874,704 | \$ 1,458,502 | \$105,582,624 |

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 |

See notes to condensed consolidated financial statements.

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

| | Nine Months Ended June 30, | |
|---|----------------------------|---------------------|
| | 2022 | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (20,317,373) | \$ 10,101,581 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 6,933,866 | 6,583,841 |
| Cost of retirement of utility plant, net | (466,898) | (424,628) |
| Stock option grants | 5,550 | 2,775 |
| Equity in earnings of unconsolidated affiliate | (71,917) | (1,486,750) |
| Impairment of unconsolidated affiliates | 39,822,213 | — |
| Allowance for funds used during construction | — | (55,981) |
| Changes in assets and liabilities which used cash, exclusive of changes and noncash transactions shown separately | (6,108,461) | (304,611) |
| Net cash provided by operating activities | <u>19,796,980</u> | <u>14,416,227</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Expenditures for utility property | (17,430,913) | (14,962,459) |
| Investment in unconsolidated affiliates | (4,345,712) | (4,171,356) |
| Proceeds from disposal of utility property | 53,239 | 132,536 |
| Net cash used in investing activities | <u>(21,723,386)</u> | <u>(19,001,279)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of unsecured notes | 33,339,000 | 5,950,000 |
| Retirement of notes payable | (25,000,000) | — |
| Borrowings under line-of-credit | 34,423,129 | 34,091,154 |
| Repayments under line-of-credit | (52,052,026) | (33,752,160) |
| Debt issuance expenses | (51,732) | — |
| Proceeds from issuance of stock | 28,663,021 | 3,742,974 |
| Cash dividends paid | (5,101,881) | (4,469,571) |
| Net cash provided by financing activities | <u>14,219,511</u> | <u>5,562,397</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 12,293,105 | 977,345 |
| BEGINNING CASH AND CASH EQUIVALENTS | 1,518,317 | 291,066 |
| ENDING CASH AND CASH EQUIVALENTS | <u>\$ 13,811,422</u> | <u>\$ 1,268,411</u> |

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

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, 2022, cash flows for the nine months ended June 30, 2022 and 2021, and the results of its operations, comprehensive income, and changes in stockholders' equity for the three and nine months ended June 30, 2022 and 2021. The results of operations for the three and nine months ended June 30, 2022 are not indicative of the results to be expected for the fiscal year ending September 30, 2022 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 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, 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, 2021. The September 30, 2021 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, 2021.

Recently Issued or Adopted Accounting Standards

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 later in 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.

RGC RESOURCES, INC. AND SUBSIDIARIES**2. Stock Issue**

In March 2022, the Company issued 1,350,000 shares of common stock in an equity offering resulting in net proceeds of nearly \$27 million. The Company issued the common stock to strengthen its balance sheet by increasing its cash position and lowering its outstanding debt. The net proceeds were invested in Roanoke Gas to supplement the funding of its infrastructure improvement and replacement program and in Midstream to reduce its outstanding debt. An additional 79,323 shares of common stock have been issued during fiscal 2022 related to the DRIP, Restricted Stock, stock option exercises and ATM activity.

3. 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, 2022 | | | Three Months Ended June 30, 2021 | | |
|---|----------------------------------|------------------|--------------------------|----------------------------------|------------------|--------------------------|
| | Gas utility | Non utility | Total operating revenues | Gas utility | Non utility | Total operating revenues |
| Natural Gas (Billed and Unbilled): | | | | | | |
| Residential | \$ 9,065,659 | \$ — | \$ 9,065,659 | \$ 7,755,301 | \$ — | \$ 7,755,301 |
| Commercial | 6,340,569 | — | 6,340,569 | 4,878,644 | — | 4,878,644 |
| Industrial and Transportation | 1,557,090 | — | 1,557,090 | 1,257,400 | — | 1,257,400 |
| Other | 128,540 | 33,250 | 161,790 | 113,342 | 32,165 | 145,507 |
| Total contracts with customers | 17,091,858 | 33,250 | 17,125,108 | 14,004,687 | 32,165 | 14,036,852 |
| Alternative Revenue Programs | 134,791 | — | 134,791 | 11,994 | — | 11,994 |
| Total operating revenues | <u>\$ 17,226,649</u> | <u>\$ 33,250</u> | <u>\$ 17,259,899</u> | <u>\$ 14,016,681</u> | <u>\$ 32,165</u> | <u>\$ 14,048,846</u> |
| | Nine Months Ended June 30, 2022 | | | Nine Months Ended June 30, 2021 | | |
| | Gas utility | Non utility | Total operating revenues | Gas utility | Non utility | Total operating revenues |
| Natural Gas (Billed and Unbilled): | | | | | | |
| Residential | \$ 40,382,660 | \$ — | \$ 40,382,660 | \$ 36,404,047 | \$ — | \$ 36,404,047 |
| Commercial | 23,213,599 | — | 23,213,599 | 20,133,275 | — | 20,133,275 |
| Industrial and Transportation | 4,222,342 | — | 4,222,342 | 3,733,544 | — | 3,733,544 |
| Other | 490,403 | 95,139 | 585,542 | 369,511 | 98,070 | 467,581 |
| Total contracts with customers | 68,309,004 | 95,139 | 68,404,143 | 60,640,377 | 98,070 | 60,738,447 |
| Alternative Revenue Programs | 1,648,519 | — | 1,648,519 | 1,081,078 | — | 1,081,078 |
| Total operating revenues | <u>\$ 69,957,523</u> | <u>\$ 95,139</u> | <u>\$ 70,052,662</u> | <u>\$ 61,721,455</u> | <u>\$ 98,070</u> | <u>\$ 61,819,525</u> |

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 the cost of natural gas sold to customers (commodity) and the cost of transporting natural gas through the Company's distribution system to customers (delivery). The delivery of natural gas to customers results in the satisfaction of the Company's respective performance obligations over time.

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.

RGC RESOURCES, INC. AND SUBSIDIARIES

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 and Liabilities

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, 2021 | \$ 3,722,916 | \$ 1,191,227 | \$ 1,539,680 | \$ 1,571,342 |
| Balance at June 30, 2022 | 5,400,213 | 1,408,460 | 710,764 | 1,527,019 |
| Increase (decrease) | \$ 1,677,297 | \$ 217,233 | \$ (828,916) | \$ (44,323) |

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

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

4. Income Taxes

The effective tax rate for the three month period ended June 30, 2022 reflected in the table below is less than the corresponding period in fiscal 2021 and the combined federal and state statutory rate of 25.74%. The decline in the effective tax rate was due to additional tax deductions from the amortization of R&D tax credits deferred as a regulatory liability and the exercise of stock options.

The effective tax rate for the nine month period ended June 30, 2022 reflected in the table below is higher than the corresponding period in fiscal 2021 and the combined federal and state statutory rate of 25.74%. The increase in the effective tax rate corresponds to the recognition of a deferred tax asset associated with the impairment of the Company's investment in the LLC. Excluding the effect of the impairment, the effective tax rate for the nine month period ended June 30, 2022 would have been 23.6% compared to 24.8% for the corresponding period in fiscal 2021. The adjusted lower effective tax rate reflects the impact of additional tax deductions from the amortization of R&D tax credits deferred as a regulatory liability and the exercise of stock options. The recognition of the impairment resulted in a net loss position for the nine month period ended June 30, 2022 thereby generating a higher effective tax rate as compared to the effective tax rate on the income position from the corresponding period in fiscal 2021.

RGC RESOURCES, INC. AND SUBSIDIARIES

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|-----------------------------|-------|----------------------------|-------|
| | 2022 | 2021 | 2022 | 2021 |
| Effective tax rate | 22.0% | 24.2% | 26.7% | 24.8% |
| Effective tax rate - LLC impairment | - | - | 25.7% | - |
| Effective tax rate excluding LLC impairment | 22.0% | 24.2% | 23.6% | 24.8% |

5. Rates and Regulatory Matters

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 deferred certain COVID-19 related costs during the first three quarters of fiscal 2022.

In October 2021, Roanoke Gas received notification that its application for ARPA funds had been approved. This notification allowed the pending receipt of these funds to be considered in the valuation of the estimated allowance for credit losses as of September 30, 2021. In November 2021, Roanoke Gas received over \$850,000 in ARPA funds to assist customers with growing past due balances based on arrearage balances as of August 31, 2021. The Company applied the full amount to eligible customer accounts in December 2021.

In May 2022, Roanoke Gas filed its most recent SAVE application with the SCC to update the SAVE Plan and Rider for the period October 2022 through September 2023. The updated SAVE Rider is designed to collect approximately \$4.1 million in annual revenues representing approximately a \$650,000 increase over the current SAVE Rider. The Company anticipates a final order from the SCC on the SAVE Rider application in September 2022.

6. Other Investments

Midstream is an approximately 1% equity investment owner of the LLC constructing the MVP, a 303 mile natural gas interstate pipeline from northern West Virginia to southern Virginia. Since inception, the MVP has encountered various legal and regulatory issues that continue to delay the completion of the project. While under construction, AFUDC has provided the majority of the income recognized by Midstream. AFUDC accruals were suspended in November 2021 until such time when growth construction activities are allowed to resume.

Midstream is also a less than 1% investor in Southgate, which is being accounted for under the cost method.

On January 25, 2022, the Fourth Circuit vacated and remanded on specific issues certain permits issued by the Bureau of Land Management and the U.S. Forest Service to the LLC in respect of the Jefferson National Forest. On February 3, 2022, the Fourth Circuit vacated and remanded on specific issues the Biological Opinion and Incidental Take Statement issued by the U.S. Fish and Wildlife Service for MVP. Primarily due to these unfavorable decisions by the Fourth Circuit, Midstream identified as an indicator of an other-than-temporary decline in value the increased uncertainty of the completion and commercial operation of MVP and Southgate. As a result, Midstream assessed the value of its investment in the LLC as of February 22, 2022 to determine if its investment's carrying value exceeded the fair value.

Midstream estimated the fair value of its investment in the LLC, with the assistance of a valuation specialist, using an income based approach that primarily considered probability-weighted scenarios of discounted future cash flows based on the estimated project costs at completion and projected revenues. These scenarios reflected assumptions and judgments regarding the ultimate outcome of further matters relating to, or resulting from, the January and February 2022 Fourth Circuit rulings, as well as various other ongoing legal and regulatory matters affecting MVP and Southgate. Such assumptions and judgments also included certain additional potential delays and related cost increases that could result from unfavorable decisions on these proceedings and matters. Midstream's analysis also took into account, among other things, probability weighted growth expectations from additional compression expansion opportunities. This analysis also considered scenarios under which ongoing or new legal and regulatory matters further delay the completion and increase the total costs of the project; all required legal and regulatory approvals and authorizations and certain compression expansion opportunities are realized; and MVP and Southgate are canceled. As a result of the assessment, Midstream recognized a pre-tax impairment loss of approximately \$39.8 million in the second quarter of fiscal 2022.

RGC RESOURCES, INC. AND SUBSIDIARIES

Midstream reassesses the value of its investment in the LLC on at least a quarterly basis. With the assistance of a valuation specialist, Midstream conducted the quarterly evaluation of its investment in the LLC as of June 30, 2022 and determined that its investment was fairly stated and no further impairment was required. The fair value of the investment in the LLC was determined under a Level 3 measurement considering the significant assumptions and judgments required in estimating the fair value of the Company's investment in the LLC. Investment balances of MVP and Southgate, as of June 30, 2022, are reflected in the table below.

There is risk that Midstream's equity investment in the LLC may be further impaired in the future. There are continuing, and potential future legal and regulatory matters related to MVP, any of which could affect the ability to complete or operate the project, as well as potential macroeconomic factors, changes in interest rates, cost increases, other unanticipated events and legal and regulatory matters related to Southgate that must be resolved. Assumptions and estimates utilized in assessing the fair value of Midstream's investment in the LLC may change depending on the nature or timing of resolutions to the legal and regulatory matters or based on other relevant developments. Adverse changes in circumstances relevant to the likelihood of project or expansion completion could prompt Midstream, in future assessments, to apply lower probability of project or expansion completion and such changes in assumptions or estimates, including discount rates, could have a material adverse effect on the fair value of Midstream's investment in the LLC and potentially result in an additional impairment, which could have a material adverse effect on the results of operations and financial position of Midstream and the Company as a whole.

Funding for Midstream's investments in the LLC for both MVP and Southgate is being provided through two variable rate unsecured promissory notes, under a non-revolving credit agreement, maturing in December 2023, and three additional notes as detailed in Note 9, as well as the equity infusion from Resources.

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

| Balance Sheet location: | | June 30, 2022 | September 30, 2021 | | | | | | | | | | | | | | | |
|--|--------------------|---|----------------------|---------------------|--------------------|--|-------------------|--|--|---------------|---------------|---------------|---------------|--|---------------|-------------------|------------------|---------------------|
| Other Assets: | | | | | | | | | | | | | | | | | | |
| MVP | | \$ 28,078,885 | \$ 64,462,194 | | | | | | | | | | | | | | | |
| Southgate | | 84,463 | 405,125 | | | | | | | | | | | | | | | |
| Investment in unconsolidated affiliates | | <u>\$ 28,163,348</u> | <u>\$ 64,867,319</u> | | | | | | | | | | | | | | | |
| Current Liabilities: | | | | | | | | | | | | | | | | | | |
| MVP | | \$ 840,763 | \$ 2,139,696 | | | | | | | | | | | | | | | |
| Southgate | | 487 | 941 | | | | | | | | | | | | | | | |
| Capital contributions payable | | <u>\$ 841,250</u> | <u>\$ 2,140,637</u> | | | | | | | | | | | | | | | |
| Income Statement location: | | <table> <thead> <tr> <th></th> <th colspan="2">Three Months Ended</th> <th colspan="2">Nine Months Ended</th> </tr> <tr> <th></th> <th>June 30, 2022</th> <th>June 30, 2021</th> <th>June 30, 2022</th> <th>June 30, 2021</th> </tr> </thead> <tbody> <tr> <td>Equity in earnings of unconsolidated affiliate</td> <td><u>\$ 235</u></td> <td><u>\$ 133,864</u></td> <td><u>\$ 71,917</u></td> <td><u>\$ 1,486,750</u></td> </tr> </tbody> </table> | | | Three Months Ended | | Nine Months Ended | | | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 | Equity in earnings of unconsolidated affiliate | <u>\$ 235</u> | <u>\$ 133,864</u> | <u>\$ 71,917</u> | <u>\$ 1,486,750</u> |
| | Three Months Ended | | Nine Months Ended | | | | | | | | | | | | | | | |
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 | | | | | | | | | | | | | | |
| Equity in earnings of unconsolidated affiliate | <u>\$ 235</u> | <u>\$ 133,864</u> | <u>\$ 71,917</u> | <u>\$ 1,486,750</u> | | | | | | | | | | | | | | |
| Undistributed earnings, net of income taxes, of MVP in retained earnings | | <u>\$ 8,134,434</u> | <u>\$ 8,081,027</u> | | | | | | | | | | | | | | | |

The undistributed earnings does not include the impairment of the investment in the LLC.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

| | Nine Months Ended | |
|---|------------------------|---------------------|
| | June 30, 2022 | June 30, 2021 |
| Cash investment | \$ 4,345,712 | \$ 4,171,356 |
| Change in accrued capital calls | (1,299,387) | (659,056) |
| Pre-tax impairment | (39,822,213) | — |
| Equity in earnings of unconsolidated affiliate | 71,917 | 1,486,750 |
| Change in investment in unconsolidated affiliates | <u>\$ (36,703,971)</u> | <u>\$ 4,999,050</u> |

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, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| AFUDC | \$ — | \$ 12,917,004 | \$ 6,883,069 | \$ 146,674,318 |
| Other income (expense), net | 82,394 | (145,581) | 46,576 | (192,675) |
| Net income | <u>\$ 82,394</u> | <u>\$ 12,771,423</u> | <u>\$ 6,929,645</u> | <u>\$ 146,481,643</u> |

| | Balance Sheets | |
|--------------------------------|-------------------------|-------------------------|
| | June 30, 2022 | September 30, 2021 |
| Assets: | | |
| Current assets | \$ 97,498,599 | \$ 208,961,113 |
| Construction work in progress | 6,587,971,421 | 6,281,991,035 |
| Other assets | 1,190,042 | 980,410 |
| Total assets | <u>\$ 6,686,660,062</u> | <u>\$ 6,491,932,558</u> |
| Liabilities and Equity: | | |
| Current liabilities | \$ 126,848,091 | \$ 200,441,027 |
| Noncurrent liabilities | — | 13,000 |
| Capital | 6,559,811,971 | 6,291,478,531 |
| Total liabilities and equity | <u>\$ 6,686,660,062</u> | <u>\$ 6,491,932,558</u> |

7. 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 five interest rate swaps associated with its variable rate debt as of June 30, 2022. During fiscal 2021, Roanoke Gas entered into two delayed draw variable-rate term notes in the amounts of \$15 million and \$10 million, with corresponding swap agreements to convert the variable interest rates into fixed rates of 2.00% and 2.49%, respectively. Proceeds of \$5 million associated with the \$10 million delayed draw note were received on April 1, 2022. Midstream has two swap agreements corresponding to the \$14 million and \$10 million 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. In addition, on November 1, 2021, Midstream entered into a promissory note in the amount of \$8 million, with a corresponding swap agreement to convert the variable interest rate into a fixed rate of 2.443%. 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.

RGC RESOURCES, INC. AND SUBSIDIARIES

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 10 reflects the effect on income and other comprehensive income of the Company's cash flow hedges.

8. Short-Term Debt

On March 31, 2022, Roanoke Gas entered into an unsecured line-of-credit agreement replacing the line-of-credit agreement dated March 25, 2021. The agreement provides for a variable interest rate based upon Daily Simple SOFR plus 1.10% and multiple tier borrowing limits to accommodate seasonal borrowing demands. The Company's total available borrowing limits during the term of the line-of-credit agreement range from \$21 million to \$33 million. The line-of-credit agreement will expire on March 31, 2023, unless extended. The Company anticipates being able to extend or replace the credit line upon expiration. As of June 30, 2022, the Company had no outstanding balance under its line-of-credit agreement.

In connection with the line-of-credit, the Company also entered into the Seventh Amendment to Credit Agreement as of March 31, 2022, which amends the original Credit Agreement dated March 31, 2016 and all subsequent amendments. The Amendment aligns the termination date, maximum principal amount available under the line-of-credit, amends certain financial conditions required of Resources, and retains all other terms and requirements of prior credit agreements.

9. Long-Term Debt

On November 1, 2021 Midstream entered into an unsecured promissory note in the principal amount of \$8 million with an interest rate based on 30-day LIBOR plus 115 basis points maturing January 1, 2028. Related to this note, Midstream also entered into an interest rate swap agreement that effectively converts the variable rate note into a fixed rate instrument with an effective annual interest rate of 2.443%. The loan will convert into an installment loan with principal pay-down beginning in fiscal 2023. In addition, this note reduces the borrowing capacity defined by the Third Amendment to Credit Agreement and related Promissory Notes. The total borrowing capacity declined from \$41 million to \$33 million effective with the new promissory note. On March 31, 2022, Midstream applied \$10 million from a cash infusion received from Resources to pay down a corresponding amount on the non-revolving credit facility which in turn reduced the total borrowing capacity from \$33 million to \$23 million. On June 30, 2022 Midstream entered into the Fourth Amendment to Credit Agreement and related Promissory Notes. The Amendment modifies the original Credit Agreement and prior amendments by replacing the 30-day LIBOR plus 1.35% interest on the Promissory Notes with Term SOFR plus 1.50% as well as extends the maturity date to December 31, 2023. All other terms of the Fourth Amendment to Credit Agreement remain unchanged.

On September 24, 2021, Roanoke Gas entered into a Loan Agreement ("Agreement") and an unsecured Delayed Draw Promissory Note in the principal amount of \$10 million ("Promissory Note"). Under the provisions of the Agreement, Roanoke Gas received the first advance of \$5 million on April 1, 2022 with the remaining \$5 million to be received on or about October 1, 2022. The Promissory Note has an interest rate of 30-day LIBOR plus 100 basis points and a maturity date of October 1, 2028. The proceeds from this Promissory Note will be used to finance Roanoke Gas' infrastructure enhancement and replacement projects. Also, on September 24, 2021, Roanoke Gas entered into an interest rate swap agreement for \$10 million corresponding to the term and draw provisions of the Agreement, which effectively converts the variable rate Promissory Note to a fixed instrument with an effective annual interest rate of 2.49%.

On August 20, 2021, Roanoke Gas entered into an unsecured Delayed Draw Term Note in the principal amount of \$15 million ("Term Note") with an interest rate of 1.20% above 30-day SOFR Average per annum maturing on August 20, 2026. In connection with the Term Note, Roanoke Gas also entered into the Sixth Amendment to its Credit Agreement ("Amendment"), which amends the original Credit Agreement with the corresponding bank dated March 31, 2016 and all subsequent amendments. The Amendment aligns the termination date and the maximum principal amount available under the Term Note and retains all other terms and requirements of prior credit agreements. The proceeds from this Term Note will be used to finance Roanoke Gas' infrastructure enhancement and replacement projects, as well as to refinance a portion of its existing debt. Also, on August 20, 2021, Roanoke Gas entered into an interest rate swap agreement for \$15 million corresponding to the duration of the Term Note, which effectively converts the variable rate note to a fixed rate instrument with an effective annual interest rate of 2.00%. The Term Note funded in full on October 1, 2021.

RGC RESOURCES, INC. AND SUBSIDIARIES

Long-term debt consists of the following:

| | June 30, 2022 | | September 30, 2021 | |
|---|-----------------------|---------------------------------------|-----------------------|---------------------------------------|
| | Principal | Unamortized Debt Issuance Costs | Principal | Unamortized Debt Issuance Costs |
| Roanoke Gas: | | | | |
| Unsecured senior notes payable, at 4.26%, due September 18, 2034 | \$ 30,500,000 | \$ 118,262 | \$ 30,500,000 | \$ 125,502 |
| Unsecured term note payable, at 30-day LIBOR plus 0.90%, due November 1, 2021 | — | — | 7,000,000 | 278 |
| Unsecured term notes payable, at 3.58%, due October 2, 2027 | 8,000,000 | 25,284 | 8,000,000 | 28,896 |
| Unsecured term notes payable, at 4.41%, due March 28, 2031 | 10,000,000 | 27,410 | 10,000,000 | 29,760 |
| Unsecured term notes payable, at 3.60%, due December 6, 2029 | 10,000,000 | 26,420 | 10,000,000 | 29,062 |
| Unsecured term note payable, at 30-day SOFR plus 1.20%, due August 20, 2026 | 15,000,000 | — | — | — |
| Unsecured term note payable, at 30-day LIBOR plus 1.00%, due October 1, 2028 | 5,000,000 | 29,869 | — | 21,545 |
| Midstream: | | | | |
| Unsecured term notes payable, at Term SOFR plus 1.50%, due December 31, 2023 | 20,949,200 | 17,962 | 33,610,200 | 14,904 |
| Unsecured term note payable, at 30-day LIBOR plus 1.15%, due June 12, 2026 | 14,000,000 | 9,631 | 14,000,000 | 11,437 |
| Unsecured term note payable, at 30-day LIBOR plus 1.20%, due June 1, 2024 | 10,000,000 | 4,518 | 10,000,000 | 6,286 |
| Unsecured term note payable, at 30-day LIBOR plus 1.15%, due January 1, 2028 | 8,000,000 | 24,774 | — | — |
| Total notes payable, current and non-current | 131,449,200 | 284,130 | 123,110,200 | 267,670 |
| Line-of-credit, at 30-day LIBOR plus 1.00%, due March 31, 2023 | — | — | 17,628,897 | — |
| Total long-term debt | 131,449,200 | 284,130 | 140,739,097 | 267,670 |
| Less: current maturities of long-term debt | (900,000) | — | (7,000,000) | — |
| Total long-term debt, net current maturities | <u>\$ 130,549,200</u> | <u>\$ 284,130</u> | <u>\$ 133,739,097</u> | <u>\$ 267,670</u> |

The line-of-credit referenced in the table above was replaced in March 2022 and is now classified as a short-term instrument. See Note 8 for additional information.

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 \$15 million note and the line-of-credit have an interest coverage ratio requirement of 1.5 which excludes the effect of a non cash impairment on the LLC investments up to the total investment as of December 31, 2021 as revised by the Seventh Amendment to the Credit Agreement. The Company was in compliance with all debt covenants as of June 30, 2022 and September 30, 2021.

RGC RESOURCES, INC. AND SUBSIDIARIES
10. 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, 2022 | | | |
| Interest rate swaps: | | | |
| Unrealized gains | \$ 1,409,027 | \$ (362,683) | \$ 1,046,344 |
| Transfer of realized losses to interest expense | 112,297 | (28,905) | 83,392 |
| Net interest rate swaps | <u>1,521,324</u> | <u>(391,588)</u> | <u>1,129,736</u> |
| Defined benefit plans: | | | |
| Amortization of actuarial gains | (15,070) | 3,879 | (11,191) |
| Other comprehensive income | <u>\$ 1,506,254</u> | <u>\$ (387,709)</u> | <u>\$ 1,118,545</u> |
| 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 | <u>(26,588)</u> | <u>6,844</u> | <u>(19,744)</u> |
| 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> |
| | Before-Tax Amount | Tax (Expense) or Benefit | Net-of-Tax Amount |
| Nine Months Ended June 30, 2022 | | | |
| Interest rate swaps: | | | |
| Unrealized gains | \$ 3,628,885 | \$ (934,073) | \$ 2,694,812 |
| Transfer of realized losses to interest expense | 448,020 | (115,323) | 332,697 |
| Net interest rate swaps | <u>4,076,905</u> | <u>(1,049,396)</u> | <u>3,027,509</u> |
| Defined benefit plans: | | | |
| Amortization of actuarial gains | (45,210) | 11,637 | (33,573) |
| Other comprehensive income | <u>\$ 4,031,695</u> | <u>\$ (1,037,759)</u> | <u>\$ 2,993,936</u> |
| 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 | <u>866,246</u> | <u>(222,971)</u> | <u>643,275</u> |
| 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> |

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 16 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.

RGC RESOURCES, INC. AND SUBSIDIARIES**Reconciliation of Accumulated Other Comprehensive Income (Loss)**

| | Interest Rate Swaps | Defined Benefit Plans | Accumulated Other Comprehensive Income (Loss) |
|-----------------------------------|------------------------|--------------------------|--|
| Balance at September 30, 2021 | \$ (888,210) | \$ (647,224) | \$ (1,535,434) |
| Other comprehensive income (loss) | 3,027,509 | (33,573) | 2,993,936 |
| Balance at June 30, 2022 | \$ 2,139,299 | \$ (680,797) | \$ 1,458,502 |

11. Commitments and Contingencies

COVID-19 and the related pandemic continues to impact local, state, national and global economies. Supply chain disruptions, labor shortages and inflation have supplanted quarantines and government restrictions as the primary examples of matters impacting economic conditions. Significant progress was made in distributing and administering vaccines to the public, which has allowed a return to mostly normal operating conditions. Restrictions implemented as a result of the pandemic have eased, allowing for increased business, recreational and travel activities. Natural gas consumption by the Company's commercial customers has returned to pre-pandemic levels. However, future surges in COVID-19 infections 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.

12. Earnings Per Share

Basic earnings per common share for the three and nine months ended June 30, 2022 and 2021 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, | |
|--|-----------------------------|------------|----------------------------|---------------|
| | 2022 | 2021 | 2022 | 2021 |
| Net income (loss) | \$ 592,527 | \$ 610,840 | \$ (20,317,373) | \$ 10,101,581 |
| Weighted average common shares | 9,798,700 | 8,260,579 | 8,889,359 | 8,215,215 |
| Effect of dilutive securities: | | | | |
| Options to purchase common stock | 5,589 | 12,624 | — | 13,287 |
| Diluted average common shares | 9,804,289 | 8,273,203 | 8,889,359 | 8,228,502 |
| Earnings (loss) per share of common stock: | | | | |
| Basic | \$ 0.06 | \$ 0.07 | \$ (2.29) | \$ 1.23 |
| Diluted | \$ 0.06 | \$ 0.07 | \$ (2.29) | \$ 1.23 |

RGC RESOURCES, INC. AND SUBSIDIARIES
13. 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, | |
|---|--------------------------------|------------------|-------------------------------|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Components of net periodic pension cost: | | | | |
| Service cost | \$ 162,072 | \$ 183,570 | \$ 486,216 | \$ 550,710 |
| Interest cost | 253,279 | 243,785 | 759,837 | 731,355 |
| Expected return on plan assets | (457,888) | (503,936) | (1,373,664) | (1,511,808) |
| Recognized loss | 36,600 | 125,535 | 109,800 | 376,605 |
| Net periodic pension cost (benefit) | <u>\$ (5,937)</u> | <u>\$ 48,954</u> | <u>\$ (17,811)</u> | <u>\$ 146,862</u> |
| | | | | |
| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Components of postretirement benefit cost: | | | | |
| Service cost | \$ 24,450 | \$ 35,172 | \$ 73,350 | \$ 105,516 |
| Interest cost | 110,930 | 107,623 | 332,790 | 322,869 |
| Expected return on plan assets | (166,541) | (149,122) | (499,623) | (447,366) |
| Recognized loss | — | 38,664 | — | 115,992 |
| Net postretirement benefit cost (benefit) | <u>\$ (31,161)</u> | <u>\$ 32,337</u> | <u>\$ (93,483)</u> | <u>\$ 97,011</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.

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

14. 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.

RGC RESOURCES, INC. AND SUBSIDIARIES

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, 2022 | | | |
|-----------------------|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Interest rate swaps | \$ 2,880,822 | \$ — | \$ 2,880,822 | \$ — |
| Total | \$ 2,880,822 | \$ — | \$ 2,880,822 | \$ — |
| Liabilities: | | | | |
| Natural gas purchases | \$ 817,779 | \$ — | \$ 817,779 | \$ — |
| Total | \$ 817,779 | \$ — | \$ 817,779 | \$ — |

| | Fair Value Measurements - September 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 | \$ 2,728,935 | \$ — | \$ 2,728,935 | \$ — |
| Interest rate swaps | 1,196,083 | — | 1,196,083 | — |
| Total | \$ 3,925,018 | \$ — | \$ 3,925,018 | \$ — |

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.

See footnote 6 for discussion on the fair value assumptions of the Company's investment in the LLC.

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, 2022 and September 30, 2021, 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.

RGC RESOURCES, INC. AND SUBSIDIARIES

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.

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, 2022 | | | |
|--------------------------------------|--|---|---|---|
| | 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 | \$ 900,000 | \$ — | \$ — | \$ 900,000 |
| Notes payable | 130,549,200 | — | — | 128,363,468 |
| Total | <u>\$ 131,449,200</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 129,263,468</u> |
| | Fair Value Measurements - September 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 | 116,110,200 | — | — | 124,691,896 |
| Total | <u>\$ 123,110,200</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 131,691,896</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, 2022 and September 30, 2021, 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.

15. 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.

RGC RESOURCES, INC. AND SUBSIDIARIES

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 activities of the Company's investment in the LLC.

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

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

| | Three Months Ended June 30, 2022 | | | |
|-----------------------------------|----------------------------------|--------------------------|------------------|--------------------|
| | Gas Utility | Investment in Affiliates | Parent and Other | Consolidated Total |
| Operating revenues | \$ 17,226,649 | \$ — | \$ 33,250 | \$ 17,259,899 |
| Depreciation | 2,218,322 | — | — | 2,218,322 |
| Operating income (loss) | 1,677,714 | (62,722) | 25,180 | 1,640,172 |
| Equity in earnings | — | 235 | — | 235 |
| Interest expense | 748,020 | 354,194 | — | 1,102,214 |
| Income (loss) before income taxes | 1,147,894 | (413,857) | 25,297 | 759,334 |

| | 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 |

| | Nine Months Ended June 30, 2022 | | | |
|---|---------------------------------|--------------------------|------------------|--------------------|
| | Gas Utility | Investment in Affiliates | Parent and Other | Consolidated Total |
| Operating revenues | \$ 69,957,523 | \$ — | \$ 95,139 | \$ 70,052,662 |
| Depreciation | 6,757,720 | — | — | 6,757,720 |
| Operating income (loss) | 14,610,869 | (223,269) | 74,383 | 14,461,983 |
| Equity in earnings | — | 71,917 | — | 71,917 |
| Impairment of investments in affiliates | — | (39,822,213) | — | (39,822,213) |
| Interest expense | 2,263,921 | 1,046,993 | — | 3,310,914 |
| Income (loss) before income taxes | 13,224,278 | (41,010,233) | 74,818 | (27,711,137) |

| | 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 |

RGC RESOURCES, INC. AND SUBSIDIARIES

| | June 30, 2022 | | | Consolidated Total |
|--------------|----------------|--|---------------------|-----------------------|
| | Gas Utility | Investment in Affiliates ⁽¹⁾ | Parent and Other | |
| Total assets | \$ 251,432,872 | \$ 28,719,990 | \$ 18,590,631 | \$ 298,743,493 |

(1) Decrease in total assets resulted from the MVP and Southgate impairment. See Note 6 for additional information.

| | September 30, 2021 | | | Consolidated Total |
|--------------|--------------------|-----------------------------|---------------------|-----------------------|
| | Gas Utility | Investment in Affiliates | Parent and Other | |
| Total assets | \$ 231,737,427 | \$ 65,686,376 | \$ 12,685,390 | \$ 310,109,193 |

16. 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 ordinarily 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, 2022 | September 30, 2021 |
|--|---------------|--------------------|
| Assets: | | |
| Current Assets: | | |
| Regulatory assets: | | |
| WNA revenues | \$ 799,592 | \$ 8,104 |
| Under-recovery of gas costs | 359,809 | 5,048,164 |
| Under-recovery of SAVE Plan revenues | — | 305,502 |
| Accrued pension and postretirement medical | 51,669 | 206,679 |
| Other deferred expenses | 84,314 | 88,004 |
| Total current | 1,295,384 | 5,656,453 |
| Utility Property: | | |
| In service: | | |
| Other | 11,945 | 11,945 |
| Construction work in progress: | | |
| AFUDC | 386,189 | 386,189 |
| Other Assets: | | |
| Regulatory assets: | | |
| Premium on early retirement of debt | 1,398,793 | 1,484,433 |
| Accrued pension and postretirement medical | 5,154,713 | 5,154,713 |
| Other deferred expenses | 113,248 | 130,613 |
| Total non-current | 6,666,754 | 6,769,759 |
| Total regulatory assets | \$ 8,360,272 | \$ 12,824,346 |

RGC RESOURCES, INC. AND SUBSIDIARIES

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

| | June 30, 2022 | September 30, 2021 |
|--|----------------------|----------------------|
| Liabilities and Stockholders' Equity: | | |
| Current Liabilities: | | |
| Regulatory liabilities: | | |
| Over-recovery of SAVE Plan revenues | \$ 222,449 | \$ — |
| Deferred income taxes | 332,361 | 329,959 |
| Supplier refunds | 2,660,146 | — |
| Total current | 3,214,956 | 329,959 |
| Deferred Credits and Other Liabilities: | | |
| Asset retirement obligations | 7,988,323 | 7,628,958 |
| Regulatory cost of retirement obligations | 14,332,274 | 13,640,567 |
| Regulatory Liabilities: | | |
| Deferred income taxes | 12,655,804 | 12,891,242 |
| Total non-current | 34,976,401 | 34,160,767 |
| Total regulatory liabilities | <u>\$ 38,191,357</u> | <u>\$ 34,490,726</u> |

As of June 30, 2022 and September 30, 2021, the Company had regulatory assets in the amount of \$8,348,327 and \$12,812,401, respectively, on which the Company did not earn a return during the recovery period.

17. Subsequent Events

On August 4, 2022, a local housing authority transferred to Roanoke Gas certain assets related to the delivery of natural gas within two apartment complexes located in the Company's service territory. In exchange for these assets as approved by the SCC, Roanoke Gas will assume responsibility for their operation and maintenance. This transaction is expected to result in a fourth quarter pre-tax gain of approximately \$200,000.

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.

RGC RESOURCES, INC. AND SUBSIDIARIES

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 2021 Annual Report on Form 10-K and this Form 10-Q. 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, 2022. 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 discussed under Item 1A "Risk Factors" in the Company’s 2021 Annual Report on Form 10-K, COVID-19 and the resulting pandemic continues to have a lingering impact on local, state, national and global economies. Supply chain disruptions, labor shortages and inflation, compounded by other world events, including the Russia/Ukraine conflict and its impact on natural gas commodity prices, have continued as the primary examples of matters impacting economic conditions. Significant portions of the population have been vaccinated, which has contributed to a return to mostly normal operating conditions. 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 returned to pre-pandemic levels. However, the easing of restrictions and the evolution of variant strains of COVID-19 may lead to a rise in infections nationally and throughout the Company’s service territory. 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.

The extent to which the COVID-19 pandemic will continue to impact the Company depends on future developments, which are highly uncertain and cannot be reasonably predicted, including the increase or reduction in governmental restrictions to businesses and individuals, the potential resurgence of the virus, including variants, as well as efficacy of the vaccines.

RGC RESOURCES, INC. AND SUBSIDIARIES

Overview

Resources is an energy services company primarily engaged in the regulated sale and distribution of natural gas to approximately 62,400 residential, commercial and industrial customers in Roanoke, Virginia and surrounding localities through its Roanoke Gas subsidiary. As a wholly-owned subsidiary of Resources, Midstream is a more than 1% investor in MVP and a less than 1% investor in Southgate.

Due primarily to decisions in January and February 2022 by the Fourth Circuit vacating and remanding certain permits necessary for the completion of MVP construction and commercial operation, and the greater uncertainty that now exists given the Court's actions, as well as the consequent actions by project partners to impair their respective investments and revocation of the previously noted summer 2022 in-service target date, Midstream determined that its investment in the LLC experienced an other-than-temporary decline in value. Accordingly, management recorded a \$39.8 million write-down of the value of its investments in the second quarter of fiscal 2022. The Company, with the assistance of a third party valuation specialist, conducted an evaluation of Midstream's investment in the LLC as of June 30, 2022 and determined that its investment was fairly stated and no further impairment was required. Midstream's total investment in the LLC was \$28.2 million as of June 30, 2022. More information regarding the investment in the LLC is provided under the Equity Investment in Mountain Valley Pipeline section below.

The utility operations of Roanoke Gas are regulated by the SCC, which oversees the terms, conditions, and rates charged to customers for natural gas service, safety standards, extension of service and depreciation. 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 based on rates and fees authorized by the SCC. 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 on investment based on normal weather. These rates are determined based on the filing of a formal non-gas rate application with the SCC. Generally, investments related to extending service to new customers are recovered through the additional revenues generated by the non-gas base rates in place at that time. The investment in replacing and upgrading existing infrastructure, as well as recovering increases in non-gas expenses due to inflationary pressures, regulatory requirements or operation needs, are generally not recoverable until a formal rate application is filed to include the additional investment and higher costs, and new non-gas base rates are approved.

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 services. In addition, Roanoke Gas is subject to other regulations which are not necessarily industry specific.

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 weather variations and other factors not provided for in the Company's base rates, Roanoke Gas 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 qualified infrastructure investment. These mechanisms include the SAVE Rider, WNA, ICC and PGA.

The SAVE Rider provides the Company with a mechanism through which it recovers costs related to 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 Plan and Rider were last reset effective January 2019, when the recovery of all prior SAVE Plan investment was incorporated into the current non-gas rates. Accordingly, SAVE Plan revenues increased by approximately \$143,000 and \$559,000 for the three and nine month periods ended June 30, 2022, respectively, compared to the same periods last year, reflecting the Company's cumulative investment in qualified SAVE Plan infrastructure since 2019.

The WNA mechanism reduces the volatility in earnings due to the variability in temperatures during 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 and thereby estimates the revenue adjustment based on weather variance from normal. Any billings or refunds related to the WNA are completed following each WNA year, which extends for the 12-month period from April to March. For the three and nine months ended June 30, 2022, the Company accrued approximately \$194,000 and \$1,994,000 in additional revenues under the WNA model for weather that was 14% and 13% warmer than normal, respectively, compared to approximately \$72,000 refund and \$1,124,000 in additional revenue for weather that was 5% cooler and 7% warmer than normal during the corresponding periods last year. The current WNA year ended on March 31, 2022 and the 12 month cumulative WNA balance is being billed over a three month period that began in May 2022.

The Company also has an approved rate structure in place that mitigates the impact of the financing costs of its natural gas inventory. Under this rate structure, Roanoke Gas recognizes revenue by applying the ICC factor, 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, to the average cost of natural gas inventory during the period. Total ICC revenues increased by approximately \$28,000 and \$111,000, respectively, for the three month and nine month periods ended June 30, 2022, compared to the corresponding periods last year, as much higher natural gas commodity prices during the most recent quarter contributed significantly to the 48% increase in the nine month average price of gas in storage. If natural gas commodity futures prices remain at much higher levels compared to the prior fiscal year, the cost of natural gas will also remain at elevated levels for the remainder of the current fiscal year including the volumes delivered into storage.

The cost of natural gas is a pass-through cost and is independent of the non-gas rates of the Company. Accordingly, 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. This rate component, referred to as the PGA, allows the Company to pass along to its customers increases and decreases in natural gas costs based on a quarterly filing, or more frequent if necessary, with the SCC. Once administrative approval is received, the Company adjusts the gas cost component of its rates to reflect the approved amount. As actual costs will differ from the projections used in establishing the PGA rate, the Company will either over-recover or under-recover its actual gas costs during the period. The difference between actual costs incurred and costs recovered through the application of the PGA is recorded as a regulatory asset or liability. At the end of the annual deferral period, the balance is amortized over an ensuing 12-month period as amounts are reflected in customer billings.

Prior to January 2021, the Company recognized significant non-cash income from equity in earnings of MVP through recording of AFUDC. Due to various legal and regulatory challenges, construction on the pipeline has been halted as has the recognition of AFUDC. If or when the permits are reinstated, construction on MVP could resume and AFUDC could again be recognized until such time as MVP is placed in service. Once in service, cash earnings will be derived from fees charged by the LLC to transport natural gas on the pipeline.

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 when Midstream's investment in affiliates represents a significant component of the comparison.

The Company's operating revenues are affected by the cost of natural gas, as reflected in the consolidated income statement under the line item cost of gas - utility. The cost of natural gas, which includes commodity price, transportation, storage, injection and withdrawal fees with any increase or decrease offset by a correlating change in revenue through the PGA, is passed through to customers at cost. Accordingly, management believes that gross utility margin, a non-GAAP financial measure defined as utility revenues less cost of gas, 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.

RGC RESOURCES, INC. AND SUBSIDIARIES**Three Months Ended June 30, 2022:**

Net income decreased by \$18,313 for the three months ended June 30, 2022, compared to the same period last year as higher expenses more than offset increased SAVE and ICC revenues.

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

| | Three Months Ended June 30, | | Increase/ (Decrease) | Percentage |
|----------------------------------|-----------------------------|---------------|-------------------------|------------|
| | 2022 | 2021 | | |
| Operating Revenues | | | | |
| Gas Utility | \$ 17,226,649 | \$ 14,016,681 | \$ 3,209,968 | 23% |
| Non Utility | 33,250 | 32,165 | 1,085 | 3% |
| Total Operating Revenues | \$ 17,259,899 | \$ 14,048,846 | \$ 3,211,053 | 23% |
| Delivered Volumes | | | | |
| Regulated Natural Gas (DTH) | | | | |
| Residential and Commercial | 897,316 | 967,402 | (70,086) | (7)% |
| Transportation and Interruptible | 1,058,104 | 797,276 | 260,828 | 33% |
| Total Delivered Volumes | 1,955,420 | 1,764,678 | 190,742 | 11% |
| HDD | 288 | 351 | (63) | (18)% |

Total operating revenues for the three months ended June 30, 2022, compared to the same period last year, increased by 23% due to sharply higher natural gas commodity prices, increases in SAVE and ICC revenues and higher transportation volume deliveries. Natural gas commodity prices averaged nearly \$7.00 per dekatherm during the quarter compared to \$2.80 per dekatherm for the corresponding quarter last year. The Company increased the PGA component of its rates during the quarter to incorporate the rising commodity prices, resulting in higher revenues and customer bills. SAVE Plan revenues continued their upward trend as Roanoke Gas continues to invest in qualified SAVE infrastructure projects. With 63, or 18%, fewer HDD during the quarter, the weather sensitive residential and commercial volumes declined by 7% from the same period last year. After accounting for the application of the WNA model for the warmer weather, the WNA adjusted residential and commercial volumes would have increased by nearly 2% resulting in \$266,000 in additional WNA revenues. Transportation and interruptible volumes, primarily driven by business activity rather than weather, increased by 33% due to a single, multi-fuel customer that has continued its increased utilization of natural gas during the quarter. Excluding the multi-fuel customer's usage from both periods, total transportation and interruptible volumes would have been nearly unchanged for the quarter.

| | Three Months Ended June 30, | | Increase | Percentage |
|-----------------------------|-----------------------------|---------------|--------------|------------|
| | 2022 | 2021 | | |
| Gross Utility Margin | | | | |
| Gas Utility Revenues | \$ 17,226,649 | \$ 14,016,681 | \$ 3,209,968 | 23% |
| Cost of Gas - Utility | 9,221,968 | 6,289,615 | 2,932,353 | 47% |
| Gross Utility Margin | \$ 8,004,681 | \$ 7,727,066 | \$ 277,615 | 4% |

Gross utility margin increased from the same period last year as a result of the aforementioned higher SAVE revenues, transportation and WNA adjusted residential and commercial volumes, as well as higher ICC revenues as summarized below.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

| | Three Months Ended June 30, | | Increase/ (Decrease) |
|----------------------|-----------------------------|---------------------|-------------------------|
| | 2022 | 2021 | |
| Customer Base Charge | \$ 3,650,419 | \$ 3,648,899 | \$ 1,520 |
| Carrying Cost | 84,258 | 56,542 | 27,716 |
| SAVE Plan | 820,297 | 677,482 | 142,815 |
| Volumetric | 3,211,907 | 3,357,099 | (145,192) |
| WNA | 193,517 | (72,181) | 265,698 |
| Other Revenues | 44,283 | 59,225 | (14,942) |
| Total | \$ 8,004,681 | \$ 7,727,066 | \$ 277,615 |

Operations and maintenance expenses increased by \$57,460, or 2%, over the same period last year primarily due to higher corporate insurance premiums, professional services and bad debt expense, net of higher capitalized overheads. Corporate insurance premiums related to property and liability insurance increased by nearly \$36,000, or 14%, due to insurance market conditions. Professional services increased by \$70,000 primarily due to costs incurred to determine the fair value of the LLC investment and expenses related to the R&D tax credit. Bad debt expense increased by \$9,000 for the quarter due to higher billings related to rising natural gas prices and delinquent balances. Total capitalized overheads increased by \$45,000 due to higher direct construction expenditures related to Roanoke Gas capital projects.

General taxes increased by \$18,638, or 3%, primarily due to higher property taxes related to ongoing investments in infrastructure replacement, system reinforcements and customer growth.

Depreciation expense increased by \$102,564, or nearly 5%, on a comparable increase in utility plant balances.

Equity in earnings of unconsolidated affiliate declined by \$133,629 due to the absence of growth construction activities during the quarter. All earnings during the current quarter relate to income earned on available cash balances, net of expenses. See Equity Investment in Mountain Valley Pipeline section below for additional information.

Other income, net increased by \$90,955, or 70%, primarily due to an approximately \$86,000 decrease in the non-service cost components of net periodic benefit costs. The reduction in the non-service cost component is attributable to the reduction in the amortization of the actuarial losses due to the improved funded position of the defined benefit plans.

Interest expense increased by \$101,976, or 10%, as the total daily average debt outstanding increased by 4% between quarters combined with an increase in the weighted-average interest rate from 3.01% to 3.19%. The increase in the weighted average interest rate was due to the pay-down on Roanoke Gas' lower rate line-of-credit balance at the end of March 2022. The higher borrowing levels resulted from the ongoing investment in the LLC and financing expenditures in support of Roanoke Gas' capital budget, net of the equity infusion from Resources.

Roanoke Gas' interest expense increased by \$54,755 primarily due to a \$6.5 million increase in total daily average debt outstanding for the period, net of a reduction in the average interest rate from 3.60% to 3.55% primarily driven by the issuance of the \$15 million note on October 1, 2021 with a 2.00% swap adjusted rate.

RGC RESOURCES, INC. AND SUBSIDIARIES

Midstream's interest expense increased by \$47,221 primarily due to a nearly 0.50% increase in the weighted-average interest rate due to rising rates on Midstream's credit facility. Total average outstanding debt during the quarter declined by \$2.1 million due to the equity infusion from Resources more than offsetting the ongoing funding of MVP and Southgate.

Income tax expense decreased by \$28,498 corresponding to a reduction in taxable income. The effective tax rate was 22.0% and 24.2% for the three month periods ended June 30, 2022 and 2021, respectively. The reduction in the adjusted effective tax rate is attributable to the amortization of the deferred R&D tax credit associated with the tax credit study and the exercise of stock options.

Nine Months Ended June 30, 2022:

Net income decreased by \$30,418,954 to a net loss of \$20,317,373 for the nine months ended June 30, 2022, compared to the same period last year, primarily due to the impairment of the Company's investment in the LLC.

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

| | Nine Months Ended June 30, | | Increase/ (Decrease) | Percentage |
|----------------------------------|----------------------------|---------------|-------------------------|------------|
| | 2022 | 2021 | | |
| Operating Revenues | | | | |
| Gas Utility | \$ 69,957,523 | \$ 61,721,455 | \$ 8,236,068 | 13% |
| Non Utility | 95,139 | 98,070 | (2,931) | (3)% |
| Total Operating Revenues | \$ 70,052,662 | \$ 61,819,525 | \$ 8,233,137 | 13% |
| Delivered Volumes | | | | |
| Regulated Natural Gas (DTH) | | | | |
| Residential and Commercial | 6,029,608 | 6,230,038 | (200,430) | (3)% |
| Transportation and Interruptible | 2,856,005 | 2,420,913 | 435,092 | 18% |
| Total Delivered Volumes | 8,885,613 | 8,650,951 | 234,662 | 3% |
| HDD | 3,367 | 3,596 | (229) | (6)% |

Total operating revenues for the nine months ended June 30, 2022, compared to the same period last year, increased by 13% due to a combination of higher natural gas commodity prices and pipeline and storage fees, increases in SAVE and WNA revenues and transportation volume deliveries. Natural gas commodity prices increased significantly during the current quarter, combined with rate increases implemented in the second quarter of fiscal 2021 from the interstate pipelines and underground natural gas storage operators who deliver and store natural gas, resulted in a 25% increase in total gas costs. These higher costs were incorporated into the PGA component of rates and passed on to customers resulting in the primary contributor to revenue growth. SAVE Plan revenues increased by approximately \$559,000 due to the continuing investment in qualified SAVE infrastructure projects. The nine months ended June 30, 2022 had 6% fewer heating degree days than the same period last year, which resulted in a corresponding 3% reduction in the weather sensitive residential and commercial volumes. If adjusted for the WNA effect of the shortfall in heating degree days, the residential and commercial volumes would have been nearly 2% higher than the WNA adjusted volumes in the prior year, reflecting growth and improved economic activity in a post-pandemic environment. Furthermore, transportation and interruptible volumes increased by 18% due to the increased utilization of natural gas by a single, multi-fuel customer during the year. This customer accounted for 436,000 dekatherms of the increase in volumes over last year and 701,000 of the total volumes for the current year.

| | Nine Months Ended June 30, | | Increase | Percentage |
|-----------------------------|----------------------------|---------------|--------------|------------|
| | 2022 | 2021 | | |
| Gross Utility Margin | | | | |
| Gas Utility Revenues | \$ 69,957,523 | \$ 61,721,455 | \$ 8,236,068 | 13% |
| Cost of Gas - Utility | 35,461,948 | 28,437,371 | 7,024,577 | 25% |
| Gross Utility Margin | \$ 34,495,575 | \$ 33,284,084 | \$ 1,211,491 | 4% |

Gross utility margin increased from the same period last year as a result of the higher SAVE revenues and WNA, in addition to the increase in ICC revenues as reflected in the table below. ICC revenues increased by approximately \$111,000 due to higher natural gas inventory balances attributable to rising natural gas commodity prices.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

| | Nine Months Ended June 30, | | Increase/ (Decrease) |
|----------------------|----------------------------|----------------------|-------------------------|
| | 2022 | 2021 | |
| Customer Base Charge | \$ 10,953,414 | \$ 10,923,419 | \$ 29,995 |
| Carrying Cost | 360,100 | 248,744 | 111,356 |
| SAVE Plan | 2,291,662 | 1,733,027 | 558,635 |
| Volumetric | 18,766,158 | 19,131,582 | (365,424) |
| WNA | 1,993,938 | 1,124,120 | 869,818 |
| Other Revenues | 130,303 | 123,192 | 7,111 |
| Total | \$ 34,495,575 | \$ 33,284,084 | \$ 1,211,491 |

Operations and maintenance expenses increased by \$556,189, or 5%, over the same period last year primarily due to higher bad debt expense, corporate insurance premiums and professional and contracted services, net of higher capitalized overheads. Bad debt expense increased by \$276,000 due to higher billings related to rising natural gas prices and delinquencies attributed to the prior year moratorium that prevented service disconnections for non-payment of gas service. Since March 31, 2022, the Company has disconnected 629 customers for non-payment. Corporate insurance premiums increased by \$127,000 due to insurance market conditions. Professional services increased by \$130,000 primarily due to costs incurred to evaluate the Company's investment in the LLC and assess the level of impairment, as well as costs related to the R&D tax credits. Contracted services increased by \$167,000 due to repairs on LNG equipment and higher costs for the outsourced customer call center. Natural gas distribution system maintenance and cyber security enhancements accounted for much of the remaining increase. Total capitalized overheads increased by \$158,000 due to increased capital expenditures.

General taxes increased by \$52,251, or 3%, primarily due to higher property taxes related to ongoing investments in infrastructure replacement, system reinforcements and customer growth.

Depreciation expense increased by \$360,260, or 6%, on a comparable increase in utility plant balances.

Equity in earnings of unconsolidated affiliate decreased by \$1,414,833, as limited growth construction activities occurred during the current year. See Equity Investment in Mountain Valley Pipeline section below for additional information.

Impairment of unconsolidated affiliates reflects the \$39,822,213 other-than-temporary write down of the Company's investment in the LLC as discussed further in the Equity Investment in Mountain Valley Pipeline section below.

Other income, net increased by \$140,330, or 19%, primarily due to an approximately \$259,000 decrease in the non-service cost components of net periodic benefit costs partially offset by the absence of the equity portion of AFUDC on the two gate stations that will interconnect MVP with Roanoke Gas' distribution system and reduction in the utilization fee. Roanoke Gas ceased the recognition of AFUDC on these stations effective January 2021 until such time construction activities resume. The utilization fee under the revenue sharing agreement declined per the terms of the asset management agreement with Sequent Energy.

Interest expense increased by \$283,083, or 9%, as the total daily average debt outstanding increased by more than 10% between periods. The higher borrowing levels derived from the ongoing investment in the LLC and financing expenditures in support of Roanoke Gas' capital budget.

Roanoke Gas' interest expense increased by \$158,794 primarily due to a \$9 million increase in total average debt outstanding for the period, net of a reduction in the average interest rate from 3.49% to 3.34% associated with the issuance of the \$15 million note on October 1, 2021 with a 2.00% swap adjusted rate.

Midstream's interest expense increased by \$124,289 primarily due to a \$4.4 million increase in total average debt outstanding for the period combined with an increase in the average interest rate from 2.25% to 2.38% due to rising interest rates on the Company's variable rate debt.

Income tax expense decreased by \$10,722,008 resulting in a net tax benefit of \$7,393,764, corresponding to the recognition of the impairment of the Company's investment in the LLC. The effective tax rate was 26.7% and 24.8% for the nine month periods ended June 30, 2022 and 2021, respectively. Excluding the effect of the impairment, the effective tax rate would have been 23.6% compared to 24.8% for the same period last year. The reduction in the adjusted effective tax rate is attributable to the amortization of the deferred R&D tax credit associated with the tax credit study conducted in fiscal 2021.

RGC RESOURCES, INC. AND SUBSIDIARIES

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.

Under the provisions of ASC 323 - *Investments - Equity Method and Joint Ventures*, the Company is required to evaluate its investment in the LLC to determine if the fair value of the investments are below the carrying amount and if this decline in fair value is considered other-than-temporary. If the results of the evaluation indicate that the decline in fair value is other-than-temporary, then the recognition of an impairment is required. The following events or circumstances would indicate the potential of an other-than-temporary decline in the fair value of the investment in the LLC:

- a prolonged period of time that the fair value is below the investor's carrying value;
- the current expected financial performance is significantly worse than anticipated when the investor originally invested in the investee;
- adverse regulatory action is expected to substantially reduce the investee's product demand or profitability;
- the investee has lost significant customers or suppliers with no immediate prospects for replacement;
- the investee's discounted or undiscounted cash flows are below the investor's carrying amount; and
- the investee's industry is declining and significantly lags the performance of the economy as a whole.

The determination of fair value of the Company's investment in the LLC is a significant estimate. Management has conducted quarterly evaluations of its investment in the LLC, with the assistance of a valuation specialist, to determine the fair value utilizing an income approach and probability scenarios of discounted cash flows. In conducting these evaluations, management made a variety of assumptions that it believes to be reasonable. Variations in many of these assumptions could have a significant impact on the calculation of the fair value and the resulting level of impairment recorded. Furthermore, these assumptions are based on the facts and circumstances at the date of the evaluations and are subject to change. See the Equity Investment in Mountain Valley Pipeline section for additional information regarding the LLC valuation and impairment.

There have been no other 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, 2021.

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 management agreement ends on March 31, 2023.

Equity Investment in Mountain Valley Pipeline, LLC

Recent construction activity has been limited based on legal and regulatory challenges. Although certain permits and authorizations were previously received, there remain pending challenges impacting current progress as a result of actions by the Fourth Circuit in January and February 2022.

Following a comprehensive review of all outstanding stream and wetland crossings across the approximately 300-mile MVP 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's CPCN that sought FERC authority to cross certain streams and wetlands utilizing alternative trenchless construction methods. On April 8, 2022, the FERC authorized the amended CPCN.

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). The State 401 Approvals were both issued in December 2021 and are the subject of ongoing litigation.

On January 25, 2022, the LLC's authorizations related to the Jefferson National Forest (JNF) received from the Bureau of Land Management and the U.S. Forest Service were vacated and remanded on specific issues by the Fourth Circuit. On February 3, 2022, the Fourth Circuit vacated and remanded on specific issues the Biological Opinion and Incidental Take Statement issued by the United States Department of the Interior's Fish and Wildlife Service for MVP. On May 3, 2022, the operator for MVP announced that after evaluating legal options and consulting with the relevant federal agencies, the LLC planned to pursue new authorizations relating to the JNF and a new Biological Opinion and Incidental Take Statement; and as a result, the operator is targeting a full in-service date for MVP during the second half of 2023 at a target total project cost of approximately \$6.6 billion (excluding AFUDC). On August 2, 2022, the operator, noting the pursuit of such new authorizations and Biological Opinion and Incidental Take Statement, reiterated publicly such targeted in-service timing and cost. Related to pursuing a new Biological Opinion and Incidental Take Statement, on July 29, 2022, the LLC submitted to the U.S. Fish and Wildlife Service an updated supplement to the Biological Assessment (and notified the FERC of such submission), which updated supplement is intended to address aspects of the Fourth Circuit's February 2022 ruling and points raised by project opponents.

In addition to timely receiving, and subsequently maintaining, new authorizations in respect of the JNF and a Biological Opinion and Incidental Take Statement, the LLC must, in order to complete MVP, among other things, timely receive the Army Corps Individual Permit (as well as timely receive, as necessary, certain other state-level approvals), as well as any necessary extensions from FERC to complete MVP. On June 24, 2022, given ongoing litigation and regulatory matters, the LLC filed a request with the FERC for an extension of time to complete the MVP project for an additional four years through October 13, 2026. That request is pending. The LLC also must (i) continue to have available the orders previously issued by the FERC, which are subject to ongoing litigation, modifying its prior stop work orders and extending the LLC's prescribed time to complete MVP to October 13, 2022; and (ii) 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 in the JNF. In each case, any such foregoing or other authorizations must remain in effect notwithstanding any pending or future challenge thereto, including, in the case of new authorizations in respect of the JNF and a new Biological Opinion and Incidental Take Statement, in the Fourth Circuit. Failure to achieve any one of the above items could lead to additional delays and higher project costs.

Resources' earnings from MVP are primarily attributable to AFUDC income generated by the LLC. The LLC temporarily suspended the accrual of AFUDC on the project from 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. In November 2021, the LLC suspended the accrual of AFUDC for the winter curtailment period until such time as growth construction activities may resume. Additionally, Roanoke Gas continues the suspension of AFUDC accruals on its two gate stations that will interconnect with MVP until such time as construction activities resume on the respective gate stations.

In April 2018, the LLC announced the Southgate project and submitted Southgate's certificate application to the FERC in November 2018. In June 2020, the FERC issued the CPCN for 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 MVP and the Director of the Office of Energy Projects lifts the stop work order and authorizes the LLC to continue constructing 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 uncertainty surrounding MVP's completion. On March 11, 2021, the Fourth Circuit, 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. On December 3, 2021, the Virginia State Air Pollution Control Board denied the permit for Southgate's Lambert compressor station, which decision the LLC initially appealed before withdrawing its request to review the denial.

RGC RESOURCES, INC. AND SUBSIDIARIES

Given the continually evolving regulatory and legal environment for greenfield pipeline construction projects, as well as factors specific to MVP and Southgate, including the December 2021 compressor station state air permit denial, the LLC continues to evaluate Southgate including engaging in discussions with Dominion Energy North Carolina regarding options with respect to Southgate, including potentially refining the project's design and timing in lieu of pursuing the project as originally contemplated. Dominion Energy North Carolina's obligations under the precedent agreement in support of the original project are subject to certain conditions, including that the LLC would have completed construction of the project facilities by June 1, 2022, which deadline is subject to extension by virtue of previously declared events of force majeure. The project operator has announced that it is unable to predict the results of the discussions between the LLC and Dominion Energy North Carolina, including any potential modifications to the project, or ultimate undertaking or completion of the project.

Management conducted an assessment of its investment in the LLC 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 concluded that the investment in the LLC sustained an other-than-temporary decline in fair value as of February 22, 2022 and recorded a pre-tax impairment loss of approximately \$39.8 million in its second quarter operating results as discussed in Note 6 to the consolidated financial statements. Management re-evaluated its investment as of June 30, 2022 and concluded that its investment was fairly stated and no additional impairment was required. Management will continue monitoring the status of MVP and Southgate for circumstances that may lead to future impairments, including any significant delays or denials of necessary permits and approvals. If necessary, the amount and timing of any further impairment would be dependent on the specific circumstances, including changes to probabilities of completion, and changes in the assumed future cash flows, at the time of evaluation.

Regulatory

In November 2021, Roanoke Gas received \$858,556 in ARPA funds to assist customers with growing past due balances based on arrearage balances as of August 31, 2021. The Company was able to apply the full amount of these funds to customer accounts in December 2021.

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 deferred certain COVID-19 related costs during the first three quarters of fiscal 2022.

Roanoke Gas continues to recover the costs of its infrastructure replacement program through its SAVE Rider. In May 2022, Roanoke Gas filed its most recent SAVE application with the SCC to update the SAVE Plan and Rider for the period October 2022 through September 2023. The updated SAVE Rider is designed to collect approximately \$4.1 million in annual revenues representing approximately a \$650,000 increase over the current SAVE Rider. The Company anticipates a final order from the SCC on the SAVE Rider case in September 2022.

On May 16, 2022, Roanoke Gas announced a cooperative agreement under which Roanoke Gas and the Western Virginia Water Authority will produce commercial quality renewable natural gas ("RNG") from biogas produced at the regional water pollution control plant. In August 2022, Roanoke Gas filed an application with the SCC seeking approval of a rate adjustment clause under which the Company will recover the costs associated with constructing, owning, operating and maintaining the renewable natural gas facility. The application was filed under Chapter 30 of Title 56 of the Code of Virginia. The statute provides for a 180-day review period by the SCC.

RGC RESOURCES, INC. AND SUBSIDIARIES

On June 2, 2022, Roanoke Gas filed an application with the SCC to acquire certain natural gas delivery assets from a local housing authority. Under this application, the Company requested the approval to acquire such facilities at five separate apartment complexes, located in the Company's service territory, that were under housing authority management. Under the proposed plan, the housing authority would renew existing natural gas distribution facilities (assets) and then transfer ownership of these assets to Roanoke Gas. In turn, Roanoke Gas would assume responsibility for the operation and maintenance of these assets and recognize a gain related to the asset acquisition equal to the cost associated with the renewal.

On July 19, 2022, the SCC approved the application and on August 4, 2022, the housing authority transferred the assets from two apartment complexes to Roanoke Gas. Roanoke Gas is expected to record these assets and recognize a gain of approximately \$200,000 during the Company's fiscal fourth quarter. The housing authority expects to complete the upgrade at one more apartment complex in fiscal 2023 with a subsequent transfer of these assets. The authority is awaiting future funding to complete two additional apartment complexes. The timing of funding and the completion of the asset renewals for these two complexes is unknown at this time.

Capital Resources and Liquidity

Due to the capital intensive nature of the utility business, as well as the impact of weather variability, the Company's primary capital needs are the funding of its capital projects, investment in the LLC, 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, credit availability under short-term and long-term debt agreements and proceeds from the sale of its common stock.

Cash and cash equivalents increased by \$12,293,105 and \$977,345 for the nine-month periods ended June 30, 2022 and 2021, respectively. The following table summarizes the sources and uses of cash:

| Cash Flow Summary | Nine Months Ended June 30, | |
|---|----------------------------|-------------------|
| | 2022 | 2021 |
| Net cash provided by operating activities | \$ 19,796,980 | \$ 14,416,227 |
| Net cash used in investing activities | (21,723,386) | (19,001,279) |
| Net cash provided by financing activities | 14,219,511 | 5,562,397 |
| Increase in cash and cash equivalents | <u>\$ 12,293,105</u> | <u>\$ 977,345</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. Several 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.

Cash flows from operating activities for the nine months ended June 30, 2022 increased by \$5,380,753 compared to the same period last year. The increase was primarily driven by storage gas withdrawals and receipt of supplier refunds from the pipelines.

RGC RESOURCES, INC. AND SUBSIDIARIES

The table below summarizes the significant operating cash flow components:

| Cash Flow From Operating Activities: | Nine Months Ended June 30, | | Increase/ (Decrease) |
|---|----------------------------|---------------|-------------------------|
| | 2022 | 2021 | |
| Net income (loss) | \$ (20,317,373) | \$ 10,101,581 | \$ (30,418,954) |
| Non-cash adjustments: | | | |
| Depreciation | 6,933,866 | 6,583,841 | 350,025 |
| Equity in earnings | (71,917) | (1,486,750) | 1,414,833 |
| AFUDC | — | (55,981) | 55,981 |
| Impairment of unconsolidated affiliates | 39,822,213 | — | 39,822,213 |
| Changes in working capital and regulatory assets and liabilities: | | | |
| Accounts receivable | (2,442,787) | (1,619,716) | (823,071) |
| Gas in storage | 67,695 | 1,443,705 | (1,376,010) |
| Under-recovery of gas cost | 4,688,356 | 70,701 | 4,617,655 |
| Supplier refunds | 2,663,834 | (79,896) | 2,743,730 |
| Deferred taxes | (9,978,841) | 641,172 | (10,620,013) |
| Other | (1,568,066) | (1,182,430) | (385,636) |
| Net cash provided by operating activities | \$ 19,796,980 | \$ 14,416,227 | \$ 5,380,753 |

Operating cash flows increased by \$5.4 million primarily due to higher depreciation, receipt of supplier refunds and collection on the under-recovery balance of gas costs. During the prior fiscal year, Roanoke Gas accumulated a significant balance attributable to the under-recovery of gas cost as adjustments to the PGA factor did not keep pace with rising commodity prices and pipeline and storage fees over the last four months of fiscal 2021. In January 2022, Roanoke Gas began collecting the under-recovered balance from customers leading to the increase in operating cash flows of \$4.6 million. Furthermore, \$2.7 million in supplier refunds, resulting from rate case settlements, were received during the current fiscal year from the interstate pipelines. These supplier refunds are being passed through to Roanoke Gas' customers over a twelve month period, which began in July 2022. Due to a sharp increase in natural gas commodity prices during the third quarter of fiscal 2022, the average price of natural gas in storage increased by \$3.20 a dekatherm from the beginning of fiscal 2022 compared to an increase of \$0.54 a dekatherm for the same period last year resulting in a \$1.4 million increase in the use of cash. In addition, the rising gas costs generated higher accounts receivable balances resulting in an \$823,000 increase in the use of cash. The Company experienced a significant decrease in net deferred tax liabilities related to the \$10.2 million deferred tax asset recognized as a result of the impairment of its investment in the LLC. When netted against the non-cash impairment charge and the equity in earnings of the investment in the LLC, the combined amounts offset the decline in net income year-over-year.

Cash Flows Used in Investing Activities:

Investing activities primarily consist of expenditures related to investment in Roanoke Gas' utility plant, which includes replacing aging natural gas pipe with new plastic or coated steel pipe, improvements to the LNG plant and gas distribution system facilities and expansion of its natural gas system to meet the demands of customer growth, as well as Midstream's continued investment in the LLC. 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. Roanoke Gas' total capital expenditures for the nine-months ended June 30, 2022 were approximately \$17.4 million compared to \$15.0 million during the same period last year. Capital expenditures for fiscal 2022 are expected to increase approximately \$5 million over the prior year primarily due to the investment in the RNG project under a cooperative agreement between Roanoke Gas and the Western Virginia Water Authority. Midstream will continue its investments in the LLC for the purposes of maintaining the system currently in place until such time as construction activities resume and the pipeline is placed in service. The investment in the LLC for the remainder of the current fiscal year is expected to be below the corresponding investment during the same period last year.

RGC RESOURCES, INC. AND SUBSIDIARIES

Cash Flows Provided by Financing Activities:

Financing activities generally consist of borrowings and repayments under credit agreements, issuance of stock and the payment of dividends. Net cash flows provided by financing activities were \$14.2 million for the nine months ended June 30, 2022, compared to \$5.6 million for the same period last year. The increase in financing cash flows is primarily attributable to Resources' \$27 million equity offering in March 2022 of which \$12 million was invested in Roanoke Gas and \$10 million in Midstream. In part due to these cash injections and due to the issuance of Roanoke Gas' \$15 million and \$5 million notes and Midstream's \$8 million note, Roanoke Gas was able to pay down its line-of-credit balance and maturing \$7 million note and Midstream applied \$18 million against its credit facility during the current fiscal year.

On September 24, 2021, Roanoke Gas entered into an unsecured Delayed Draw Term Note in the principal amount of \$10 million with an interest rate based on 30-day LIBOR plus 100 basis points maturing on October 1, 2028. Related to this note, the Company also entered into an interest rate swap agreement that effectively converts the variable rate note into a fixed rate instrument with an effective annual interest rate of 2.49%. Roanoke Gas received the first installment of \$5 million on April 1, 2022 with the remaining \$5 million scheduled to be received on or about October 1, 2022.

On August 20, 2021, Roanoke Gas entered into an unsecured Delayed Draw Term Note in the principal amount of \$15 million with an interest rate of 1.20% above the 30-day SOFR Average per annum maturing on August 20, 2026. Related to this note, the Company also entered into an interest rate swap agreement that effectively converts the variable rate note into a fixed rate instrument with an effective annual interest rate of 2.00%. The term note funded on October 1, 2021.

On November 1, 2021 Midstream entered into an unsecured promissory note in the principal amount of \$8 million with an interest rate based on 30-day LIBOR plus 115 basis points maturing January 1, 2028. Related to this note, Midstream also entered into an interest rate swap agreement that effectively converts the variable rate note into a fixed rate instrument with an effective annual interest rate of 2.443%. The loan will convert into an installment loan with principal pay-down beginning in fiscal 2023. In addition, this note reduces the borrowing capacity defined by the Third Amendment to Credit Agreement and related Promissory Notes. The total borrowing capacity declined from \$41 million to \$33 million effective with the new promissory note. All other terms of the Third Amendment to Credit Agreement remain unchanged.

On March 31, 2022, Roanoke Gas entered into an unsecured line-of-credit agreement replacing the line-of-credit agreement dated March 25, 2021. The agreement provides for a variable interest rate based upon Daily Simple SOFR plus 1.10% and multiple tier borrowing limits to accommodate seasonal borrowing demands. The Company's total available borrowing limits during the term of the line-of-credit agreement range from \$21 million to \$33 million. Unlike the prior two year line-of-credit agreement, the current line-of-credit agreement is for one year and will expire on March 31, 2023, unless extended. The Company anticipates being able to extend or replace the credit line upon expiration. As of June 30, 2022, the Company had no outstanding balance under its line-of-credit agreement.

In connection with the line-of-credit, the Company also entered into the Seventh Amendment to Credit Agreement as of March 31, 2022, which amends the original Credit Agreement dated March 31, 2016 and all subsequent amendments. The Amendment aligns the termination date, maximum principal amount available under the line-of-credit, amends certain financial conditions required of Resources, and retains all other terms and requirements of prior credit agreements. This Amendment modifies the interest coverage ratio calculation to exclude the effect of non-cash impairments on the investment in the LLC up to the total investment balance as of December 31, 2021.

RGC RESOURCES, INC. AND SUBSIDIARIES

In March 2022, the Company issued 1,350,000 shares of common stock in an equity offering resulting in net proceeds of nearly \$27 million. The Company issued the common stock to strengthen its balance sheet. The net proceeds were invested in Roanoke Gas to supplement the funding of its infrastructure improvement and replacement program and in Midstream to reduce its outstanding debt. An additional 79,323 shares of common stock have been issued during fiscal 2022 related to the DRIP, Restricted Stock, stock option exercises and ATM activity.

On March 31, 2022, Midstream applied \$10 million from a cash infusion received from Resources related to the \$27 million equity issue to pay down a corresponding amount on the non-revolving credit facility, which in turn further reduced the total borrowing capacity to \$23 million. On June 30, 2022, Midstream entered into the Fourth Amendment to Credit Agreement and related Promissory Notes. The Amendment modified the original Credit Agreement and prior amendments by replacing the 30-day LIBOR plus 1.35% interest rate on the Promissory Notes with Term SOFR plus 1.50%, as well as extended the maturity date to December 31, 2023. All other terms of the Fourth Amendment to Credit Agreement remain unchanged.

The recent rise in interest rates could result in a significant increase in interest expense associated with the Company's variable rate debt or the issuance of any new debt in the future.

Management regularly evaluates the Company's liquidity through a review of its available financing resources and its cash flows. Resources' maintains the ability to raise equity capital through its ATM program, private placement or other public offerings. Management believes Roanoke Gas has access to sufficient financing resources to meet its cash requirements for the next year, including the line-of-credit and the two private shelf facilities. Roanoke Gas may also adjust capital spending as necessary.

Based on the LLC's projected cash requirements for MVP, which includes MVP construction resuming in 2023, Midstream will need between \$15 million and \$17 million in additional capital over the next 12 to 24 months to meet its commitments to the LLC. Various options are being evaluated, including seeking additional borrowing capacity from its lending partners and/or an equity infusion from Resources.

As of June 30, 2022, Resources' long-term capitalization ratio was 45% equity and 55% 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, 2022, the Company has evaluated, under the supervision and with the participation of management, including the chief executive officer and the 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, 2022.

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, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RGC RESOURCES, INC. AND SUBSIDIARIES

Part II – Other Information

ITEM 1 – LEGAL PROCEEDINGS

No material proceedings.

ITEM 1A – RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Resources' Annual Report on Form 10-K for the year ended September 30, 2021 and subsequent revisions on the Form 10-Q for the quarters ended December 31, 2021 and March 31, 2022.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

None.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

| Number | Description |
|---------|--|
| 3(b) | Amended and Restated Bylaws of RGC Resources, Inc. (incorporated by reference to Exhibit 3(b) to the Registrant's Current Report on Form 8-K filed on April 8, 2022) |
| 10.1 | Fourth Amendment to Credit Agreement between RGC Midstream, LLC and the lenders Atlantic Union Bank and Truist Bank dated June 30, 2022 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 5, 2022) |
| 10.2 | Amended and Restated Note in the principal amount of \$13,800,000 in favor of Atlantic Union Bank due December 31, 2023 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on July 5, 2022) |
| 10.3 | Amended and Restated Note in the principal amount of \$9,200,000 in favor of Truist Bank due December 31, 2023 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on July 5, 2022) |
| 14 | Revised Code of Ethics |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer |
| 32.1* | Section 1350 Certification of Principal Executive Officer |
| 32.2* | Section 1350 Certification of Principal Financial Officer |
| 101.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.

RGC RESOURCES, INC. AND SUBSIDIARIES

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 9, 2022

RGC Resources, Inc.
By: /s/ Jason A. Field
Jason A. Field
Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

**CODE OF ETHICS
FOR
THE BOARD OF DIRECTORS, OFFICERS, AND EMPLOYEES**

Introduction

This Code of Ethics for the Board of Directors, Officers, and Employees (“Code of Ethics”) has been approved by the Board of Directors of RGC Resources, Inc. to govern the professional conduct of the Board of Directors, the officers, and employees of RGC Resources, Inc. and its subsidiary companies (any reference to RGC Resources or Company is intended to mean RGC Resources, Inc. and its subsidiary companies; any reference to Directors, officers or employees is intended to include the Directors, officers and employees of RGC Resources, Inc. and its subsidiary companies). This Code of Ethics is designed to deter wrongdoing and to promote honest and ethical conduct. This Code of Ethics is designed to be in compliance with applicable governmental laws, rules, and regulations while providing guidance for fair, full, and timely disclosure with all public and regulatory communications.

Compliance with the Law

The business of RGC Resources will be conducted in full compliance with all applicable laws and regulations at all levels of the government and in all levels of the organization. When it becomes difficult to determine which law, rule, or regulation is applicable or if an interpretation or intent of such a rule or regulation is unclear, then the Company’s legal counsel will be consulted before taking action.

Employment Policies

RGC Resources is committed to equal opportunity employment. Directors, officers, and employees are expected to discharge their responsibilities not only in conformity with the laws governing this subject but also in a manner fully consistent with the objectives and intent of the Company’s equal employment opportunity (EEO) policies. All employees and applicants for employment, as well as existing and prospective customers, contractors and suppliers, shall be treated without discrimination based on race, color, religion, sex, pregnancy, veteran status, marital status, childbirth and related medical conditions, lactation, age, national origin, genetic information, gender identity, sexual orientation, or physical or mental disability and all other legally protected classifications.

The Company does not condone and expressly forbids any and all harassment of its employees, acts of favoritism or the support of any hostile environment. RGC Resources strives to provide each employee with a safe and healthy work environment. Each employee has the responsibility for maintaining this safe and healthy workspace by following all employment, safety and health rules, policies and practices, and by promptly reporting all accidents, injuries and unsafe equipment, practices, or conditions, as well as inappropriate conduct that violates the Company’s policies such as its EEO and/or harassment policies. Violence, intimidation, bullying, and threatening behavior will not be permitted.

Employees must report to work free from the influence of, or without a detectable presence in an employee’s system of, alcohol or illegal drugs, including the unlawful use or misuse of legal controlled substances. The use of alcohol or illegal drugs and the misuse of legal controlled substances on Company premises or on Company time will not be tolerated.

The Human Resources department, in conjunction with all levels of management, will be responsible for interpreting and enforcing all workplace conduct rules and policies. Any question concerning employment rules or practices should be directed to the Human Resources department.

Disclosure of Information

RGC Resources will periodically disclose material public information according to the requirements and guidelines set forth for public companies by the Securities and Exchange Commission (“SEC”) and the NASDAQ stock market. Any information that has not been publicly disclosed or which is considered as confidential will be distributed within the Company only on a “need to know” basis. No Director, officer, or employee shall discuss confidential information on a selective basis or use such information to his or her personal advantage or for the benefit of others.

All corporate, customer, shareholder, and supplier information, other than information that is public knowledge as a result of authorized disclosure, is to be considered confidential, privileged and proprietary to RGC Resources at all times during and following an individual’s service on the Board of Directors or employment with the Company. Such information may be used only for official Company business and should be safeguarded at all times. Information concerning a customer, employee, or a particular business transaction may be released externally only in accordance with approved policies, as required by law, or under the advice of legal counsel.

Insider Trading

With respect to RGC Resources common stock, all Directors, officers and employees are required to adhere to the Company’s Insider Trading Policy.

Regulator, Investor, Analyst, and Media Contacts

RGC Resources authorizes only certain employees to discuss the Company and its matters with regulators, investors, analysts, and media representatives. These employees are normally the Chief Executive Officer (CEO) and his designee(s), Chief Financial Officer, and Chief Operating Officer. All other employees must refer all regulatory, investor, analyst, and media contacts to the authorized employees.

All Company communications shall comply with applicable law. No authorized spokesperson shall disclose material information to investors, analysts, or media unless such information has been, or is simultaneously being disclosed to the public.

Conflicts of Interest

Business and personal activities of Directors, officers, and employees should be conducted in a way that avoids conflicts of interest for RGC Resources, its customers, its contractors, and its vendors. A conflict of interest will exist whenever an employee or an employee’s family member has an interest in a matter that may influence a decision or impair the impartial judgment that must be exercised in the employee’s responsibilities to the Company. A conflict of interest may also be determined by the public perception of the handling of a matter. No Director, officer or employee may use Company property, information, or opportunity that comes to that employee through their position with the Company for improper personal gain.

No employee may represent the Company in a transaction unless clearly delineated in the employees’ definition of their job duties or otherwise approved by the CEO and/or the Board of Directors. Furthermore, no Director, officer, or employee may represent RGC Resources in any transaction with any person or party in which the Director, officer or employee or a Director’s, officer’s or employee’s family member holds a material financial interest. A material financial interest is defined as 5% or greater ownership. No Director, officer, or employee shall have a material management interest or a material financial interest in any firm that supplies goods or services

to the Company unless this transaction is dictated by the acceptance of the lowest responsible bid presented in a competitive bidding process or authorized by the Audit Committee. No Director, officer, or employee shall have a material management interest or a material financial interest in any firm that is considered to be a competitor of the Company. To avoid any such conflicts, the Director, officer, or employee that assumes a material managerial or financial interest in any company must report this interest immediately in writing to the CEO and the Audit Committee.

Directors and officers will be required to report annually in writing all outside business and financial interests that could influence the impartial performance of their duties to RGC Resources. Employees may also be required to make similar disclosures.

Political Interest

Only the CEO is authorized by the Board of Directors to use Company funds or assets to support a candidate for public office in local or state elections. The CEO may delegate such authority to another employee as deemed appropriate. All Directors, officers, and employees that participate in political campaigns do so as individuals and shall not represent the political views of the Company. Directors and employees shall notify the CEO in writing prior to accepting a nomination or appointment to any public office. Because of statutory requirements, service as an elected official might be inappropriate unless assurances have been given that business relations between RGC Resources and the governing body would be prohibited or otherwise controlled and governed by an approved regulatory tariff.

Due to the complexity of all the rules and regulations governing the disclosure of all contacts with all federal and state legislators, only Directors, officers, or employees that are approved by the CEO are authorized to make contacts with local, state, or federal legislators regarding activities related to Company interests.

Gifts

No Director, officer, or employee may accept gifts or favors designed or with the appearance of being designed to influence that individual in the performance of their duties for RGC Resources. This prohibition shall not preclude the acceptance of gifts or favors of small value intended merely to be tokens of respect. Gifts include any type of gratuity, favor, service, discount or price concession, loan, fee, compensation, or anything of monetary value. All such gifts are prohibited except business travel, lodging, entertainment, and meals of reasonable value in the course of meeting or other occasions, the purpose of which is to hold meaningful business discussions, provided that all such expenses would otherwise be paid by the Company if not paid by the other party. Should any Director, officer, or employee receive a prohibited gift or favor, then these gifts or favors should be promptly turned over to the CEO for return or donation to a charitable organization. No Director, officer, employee, or family member may extend or accept a gift or favor of significant value or which does not meet the same criteria applicable to the acceptance of gifts as outlined above.

Loans

In compliance with all federal laws, the Company shall not directly or indirectly extend credit in the form of a personal or business loan to any Director, officer, or employee.

Accounting Practices

The books of account, financial statements, and records of the Company shall accurately reflect the operations and financial results of the Company and be maintained in accordance with generally accepted accounting principles and the requirements of federal securities laws. All assets, liabilities, income, and expenses of the Company shall be properly recorded. There shall be no disbursements or receipts of corporate funds outside of the Company's established accounting system.

Antitrust and Fair Competition

Antitrust laws are very complex and cannot be specifically outlined in this Code of Ethics. Directors, officers, and employees of RGC Resources must comply with the letter and spirit of all applicable laws and must only engage in ethical competition and business practices.

Code of Ethics Compliance

Each Director, officer, and employee is responsible for bringing to the Company's attention any circumstances that are believed in good faith to be a violation of any of the requirements contained in this Code of Ethics. The Company considers the failure to report any suspected violations to be as serious as the violation itself. Information regarding violations may be submitted to the Company through the whistleblower system or directly to the CEO. The Company will ensure that the Director, officer, or employee with a good faith belief concerning possible violations is protected from any retaliation or adverse action for having reported such a possible violation or having participated in an investigation of such a matter. Every new Director, officer, and employee will be given a copy of this Code of Ethics and will be required to acknowledge acceptance of its terms.

Review of Code of Ethics

The Audit Committee of the Board of Directors shall review this Code of Ethics at least annually and may recommend to the Board of Directors any amendments as it may from time to time determine necessary to promote and maintain high legal, ethical, and moral standards governing the business practices of the Company.

Failure to accept or adhere to this Code of Ethics will be investigated by the Company and/or the Audit Committee. If the Director, officer, or employee is found, after thorough investigation, to have violated this Code, such person may be relieved of his or her duties for the Company or face other disciplinary action.



Paul W. Nester
President & 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 9, 2022

/s/ Paul W. Nester

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

CERTIFICATION

I, Jason A. Field, 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 9, 2022

/s/ Jason A. Field

Jason A. Field
Vice President, Chief Financial Officer 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, 2022 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 9, 2022

**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, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jason A. Field, Vice President, Chief Financial Officer 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/ Jason A. Field

Jason A. Field

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

Date: August 9, 2022