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File #: 174732

July 14, 2020

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Joint Application of Aqua America, Inc., Aqua Pennsylvania, Inc., Aqua Pennsylvania Wastewater, Inc., Peoples Natural Gas Company LLC and Peoples Gas Company LLC for All of the Authority and the Necessary Certificates of Public Convenience to Approve a Change in Control of Peoples Natural Gas Company LLC and Peoples Gas Company LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc.
Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063**

Dear Secretary Chiavetta:

By Order ("Order") entered January 24, 2020, in the above-captioned proceeding, the Pennsylvania Public Utility Commission ("Commission") approved the sale of Peoples Natural Gas Company LLC ("Peoples Natural Gas") and Peoples Gas Company LLC ("Peoples Gas") to Aqua America, Inc. Subsequent to the entry of the Commission's Order, Aqua America, Inc. changed its name to Essential Utilities, Inc. ("Essential"). Closing on the sale occurred on March 16, 2020.

The Commission's Order approved, with certain modifications, a Joint Petition for Approval Of Non-Unanimous, Complete Settlement Among Most Parties ("Settlement"). As relevant to this letter, the Settlement provided for a filing of a Report of Action with the Commission within 120 days of closing, which contains the closing date, the actual total sale price, and the actual accounting entries records in Essential's and the Peoples Companies' books that reflect the acquisition including the following: all Transaction Cost and Transition Cost accounting entries for Essential and the Peoples Companies that are recorded on the books of each entity; all Merger related fair value, Goodwill, and/or Acquisition Premium accounting entries for Essential and the Peoples Companies and their

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subsidiaries; all Merger-related tax accounting entries for Essential and the Peoples Companies and their subsidiaries; all Merger-related debt and equity financing accounting entries for Essential and Peoples and their subsidiaries.

In compliance with the Commission's Order, attached as Appendix "A" is the information requested in the Report of Action.

This transmittal letter and attached Appendix A are being served on all parties to the above-referenced proceeding, as well as to the Commission's Bureau of Technical Services. Any questions regarding this filing may be directed to the undersigned.

Respectfully yours,



Michael W. Hassell

MWH/kl
Attachment

cc: Kimberly Joyce
Andrew Wachter
Lynda Petrichevich
Joe Gregorini
William Roberts, II
Carol Scanlon
Paul Diskin, Director, TUS
Certificate of Service

Joint Application of Aqua America, Inc., Aqua Pennsylvania, Inc., Aqua Pennsylvania Wastewater, Inc., Peoples Natural Gas Company LLC and Peoples Gas Company LLC for All of the Authority and the Necessary Certificates of Public Convenience to Approve a Change in Control of Peoples Natural Gas Company LLC and Peoples Gas Company LLC by Way of the Purchase of All of LDC Funding, LLC's Membership Interests by Aqua America, Inc.

Docket Nos. A-2018-3006061, A-2018-3006062 and A-2018-3006063

1. Closing date – Essential Utilities, Inc. completed the acquisition of Peoples Gas on March 16, 2020.
2. Actual total sales price – Essential Utilities, Inc. completed the acquisition of Peoples Gas by payment of cash consideration of \$3,465,344,000, which remains subject to adjustment based on the completion of a closing balance sheet and finalization of other adjustments provided for in the purchase agreement. The cash consideration payment was based on the base purchase price of \$4,275,000,000, less the assumption of indebtedness of \$1,101,091,000, and other adjustments as described in footnote 3 – Acquisitions in the Essential Utilities, Inc. Form 10-Q report filed with the SEC on May 8, 2020.
3. The following accounting entries recorded the acquisition of Peoples Gas. Dollar amounts of entries are rounded in millions. Amounts are based on available information as of July 13, 2020 and subject to revision within one year of the acquisition date:
 - a. The following accounting entries recorded the transaction, transaction cost, transition cost and goodwill:

| PNG Companies LLC (amounts in millions of dollars) | | <u>DR</u> | <u>CR</u> | | |
|---|--|-----------|-----------|--|--|
| | Goodwill | \$ 2,268 | | | |
| | Investment in subsidiaries | \$ 85 | | | |
| | Member's Equity | | \$ 2,353 | | |
| | To record effect of acquisition | | | | |
| | Member's Equity (former ownership) | \$ 1,112 | | | |
| | Member's Equity | | \$ 1,112 | | |
| | To transfer prior Member's Equity to new Member's Equity | | | | |
| | Transaction/transition expenses | \$ 1 | | | |
| | Cash | | \$ 1 | | |
| | To record transaction/transition expenses | | | | |

(continued)

| Essential Utilities, Inc. (amounts in millions of dollars) | | | |
|---|--|-----------|-----------|
| (formerly Aqua America, Inc.) | | | |
| | | <u>DR</u> | <u>CR</u> |
| Investment in subsidiary | | \$ 3,465 | |
| Cash and/or Debt | | | \$ 3,465 |
| To record Essential Utilities, Inc. acquired investment in PNG Companies LLC and its subsidiaries | | | |
| Transaction/transition expenses | | \$ 132 | |
| Cash | | | \$ 132 |
| To record transaction/transition expenses | | | |

b. The following accounting entries recorded merger-related fair value adjustments:

| PNG Companies LLC (amounts in millions of dollars) | | | |
|--|--|-----------|-----------|
| | | <u>DR</u> | <u>CR</u> |
| Intangible Assets | | \$ 5 | |
| Goodwill | | | \$ 5 |
| To record fair value of identified intangible assets for non-regulated business acquired | | | |
| Goodwill | | \$ 25 | |
| Regulatory liability - AOCI OPEB | | \$ 12 | |
| Equity - AOCI OPEB | | \$ - | |
| Regulatory Asset - AOCI Pension | | | \$ 36 |
| Equity - AOCI Pension | | | \$ 1 |
| To record the remeasurement of the retirement plans as a result of purchase accounting | | | |
| Regulatory Asset - Pension / OPEB | | \$ 15 | |
| Pension / OPEB benefit obligation | | | \$ 15 |
| To record fair value remeasurement of the retirement benefit plans | | | |
| Accumulated depreciation | | \$ 1,295 | |
| Property, plant & equipment | | | \$ 1,295 |
| To record fair value adjustment for PP&E | | | |
| Allowance for doubtful accounts | | \$ 15 | |
| Accounts receivable | | | \$ 15 |
| To record fair value adjustment for accounts receivable | | | |
| Regulatory asset | | \$ 89 | |
| Long-term debt | | | \$ 85 |
| Unamortized debt issuance costs | | | \$ 4 |
| To record fair value adjustment for long-term debt assumed and debt issuance costs | | | |

c. The following accounting entries recorded merger-related tax accounting entries

| PNG Companies LLC (amounts in millions of dollars) | | <u>DR</u> | <u>CR</u> |
|---|--|-----------|-----------|
| Goodwill | | \$ 3 | |
| Deferred tax asset | | | \$ 3 |
| Deferred tax liability | | \$ 10 | |
| Goodwill | | | \$ 10 |
| To record deferred tax adjustment for remeasurement of the retirement benefit plans | | | |
| Regulatory asset | | \$ 4 | |
| Deferred income taxes | | | \$ 4 |
| To record deferred tax adjustment for fair value remeasurement of the retirement benefit plans | | | |
| Deferred tax liability | | \$ 19 | |
| Goodwill | | | \$ 19 |
| To remove deferred tax liabilities associated with pre-existing goodwill that is removed from books | | | |

d. The following accounting entries recorded merger-related debt and equity financings:

| Essential Utilities, Inc. (amounts in millions of dollars) | | | |
|---|--|-----------|-----------|
| (formerly Aqua America, Inc.) | | | |
| | | <u>DR</u> | <u>CR</u> |
| Cash | | \$ 892 | |
| Deferred debt issuance costs | | \$ 8 | |
| Long-term debt | | | \$ 900 |
| To record issuance of long-term debt in April 2019 (\$436 was used to fund acquisition) | | | |
| Cash | | \$ 1,263 | |
| Additional paid in capital (issuance costs) | | \$ 31 | |
| Common stock | | | \$ 19 |
| Additional paid in capital | | | \$ 1,275 |
| To record issuance of common equity in April 2019 | | | |
| Cash | | \$ 674 | |
| Additional paid in capital (issuance costs) | | \$ 13 | |
| Deferred debt issuance costs | | \$ 3 | |
| Long-term debt | | | \$ 119 |
| Additional paid in capital | | | \$ 571 |
| To record issuance of tangible equity units in April 2019 | | | |
| Cash | | \$ 730 | |
| Additional paid in capital (issuance costs) | | \$ 20 | |
| Common stock | | | \$ 11 |
| Additional paid in capital | | | \$ 739 |
| To record issuance of common equity under private placement in March 2020 | | | |
| Cash | | \$ 150 | |
| Short-term debt | | | \$ 150 |
| To record issuance of short-term debt in March 2020 | | | |
| Cash | | \$ 212 | |
| Long-term debt | | | \$ 212 |
| To record borrowings from revolving credit facility in March 2020 | | | |

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA E-MAIL ONLY

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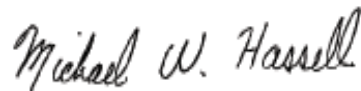
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Date: July 14, 2020

Michael W. Hassell