

The East Ohio Gas Company  
Financial Statements

Fiscal Years Ended December 31, 2020, 2019 and 2018  
with Independent Auditors' Report

# The East Ohio Gas Company

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## GLOSSARY OF TERMS

The following abbreviations or acronyms used in this document are defined below:

<b>Abbreviation or Acronym</b>	<b>Definition</b>
<b>2017 Tax Reform Act</b>	An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018 (previously known as the Tax Cuts and Jobs Act) enacted on December 22, 2017
<b>ABO</b>	Accumulated benefit obligation
<b>AFUDC</b>	Allowance for funds used during construction
<b>AMR</b>	Automated meter reading program
<b>ARO</b>	Asset retirement obligation
<b>CEP</b>	Capital Expenditure Program, as established by House Bill 95, Ohio legislation enacted in 2011, deployed by East Ohio to recover certain costs associated with capital investment
<b>DES</b>	Dominion Energy Services, Inc.
<b>DETI</b>	Eastern Gas Transmission and Storage, Inc. (formerly known as Dominion Energy Transmission, Inc.), a subsidiary of Berkshire Hathaway Energy Company effective November 2020 (previously a subsidiary of Dominion Energy)
<b>Dominion Energy</b>	The legal entity, Dominion Energy, Inc., one or more of its consolidated subsidiaries (other than East Ohio) or operating segments, or the entirety of Dominion Energy, Inc. and its consolidated subsidiaries
<b>Dominion Energy Gas</b>	The legal entity, Eastern Energy Gas Holding, LLC (formerly known as Dominion Energy Gas Holdings, LLC), a wholly-owned subsidiary of Berkshire Hathaway Energy Company effective November 2020 (previously a wholly-owned subsidiary of Dominion Energy), one or more of its consolidated subsidiaries, or the entirety of Eastern Energy Gas Holding, LLC and its consolidated subsidiaries
<b>DSM</b>	Demand-side management
<b>East Ohio</b>	The East Ohio Gas Company, doing business as Dominion Energy Ohio
<b>GAAP</b>	U.S. generally accepted accounting principles
<b>IRCA</b>	Intercompany revolving credit agreement
<b>IRS</b>	Internal Revenue Service
<b>LIFO</b>	Last-in-first-out inventory method
<b>NAV</b>	Net asset value
<b>Ohio Commission</b>	Public Utilities Commission of Ohio
<b>PIPP</b>	Percentage of Income Payment Plan
<b>PIR</b>	Pipeline Infrastructure Replacement program
<b>UEX Rider</b>	Uncollectible Expense Rider
<b>VEBA</b>	Voluntary Employees' Beneficiary Association
<b>VIE</b>	Variable interest entity

## **INDEPENDENT AUDITORS' REPORT**

To the Sole Director and Stockholder of The East Ohio Gas Company

We have audited the accompanying financial statements of The East Ohio Gas Company (the "Company"), which comprise the balance sheets at December 31, 2020 and 2019, and the related statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the financial statements (collectively referred to as the "financial statements").

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The East Ohio Gas Company at December 31, 2020, and 2019 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

March 29, 2021

The East Ohio Gas Company  
 Statements of Income

Year Ended December 31,	<u>2020</u>	<u>2019</u>	<u>2018</u>
(millions)			
<b>Operating Revenue<sup>(1)</sup></b>	<b>\$ 770.2</b>	<b>\$ 733.6</b>	<b>\$ 729.3</b>
<b>Operating Expenses</b>			
Purchased gas <sup>(1)</sup>	69.5	65.2	65.9
Other operations and maintenance <sup>(1)</sup>	255.5	296.1	244.2
Depreciation and amortization	90.9	85.0	83.4
Other taxes	135.1	129.5	127.3
Total operating expenses	<u>551.0</u>	<u>575.8</u>	<u>520.8</u>
Income from operations	<u>219.2</u>	<u>157.8</u>	<u>208.5</u>
Other income	87.8	79.5	78.5
Interest and related charges <sup>(1)</sup>	0.2	39.6	36.8
Income from operations before income tax expense	<u>306.8</u>	<u>197.7</u>	<u>250.2</u>
Income tax expense	42.0	51.4	61.9
<b>Net income</b>	<b><u>\$ 264.8</u></b>	<b><u>\$ 146.3</u></b>	<b><u>\$ 188.3</u></b>

(1) See Note 17 for amounts attributable to related parties.

The accompanying notes are an integral part of East Ohio's Financial Statements.

# The East Ohio Gas Company

## Balance Sheets

At December 31,  
(millions)

2020

2019

### ASSETS

#### Current Assets

Cash and cash equivalents	\$	4.5	\$	7.2
Customer receivables (less allowance for doubtful accounts of \$0.8 million and \$1.1 million)		216.3		193.3
Other receivables (less allowance for doubtful accounts of \$1.1 million and \$0.9 million)		7.8		17.9
Affiliated receivables		9.7		7.8
Prepayments		80.9		73.8
Inventories				
Materials and supplies		12.5		12.4
Gas stored		18.3		19.0
Regulatory assets		50.7		57.7
Other		0.7		0.9
Total current assets		<u>401.4</u>		<u>390.0</u>

#### Property, Plant and Equipment

Property, plant and equipment		5,397.0		5,018.7
Accumulated depreciation and amortization		(1,119.5)		(1,054.9)
Total property, plant and equipment, net		<u>4,277.5</u>		<u>3,963.8</u>

#### Deferred Charges and Other Assets

Pension and other postretirement benefit assets <sup>(1)</sup>		1,441.2		1,250.1
Intangible assets, net		52.1		51.9
Regulatory assets		628.0		619.1
Other		17.4		22.7
Total deferred charges and other assets		<u>2,138.7</u>		<u>1,943.8</u>
Total assets	\$	<u>6,817.6</u>	\$	<u>6,297.6</u>

(1) See Note 17 for amounts attributable to related parties.

The accompanying notes are an integral part of East Ohio's Financial Statements.

The East Ohio Gas Company  
Balance Sheets (continued)

At December 31,  
(millions)

	2020	2019
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 118.5	\$ 122.8
Payables to affiliates	5.9	59.2
Affiliated current borrowings	222.1	7.6
Accrued interest, payroll and taxes	197.5	178.0
Customer deposits	9.8	15.3
Regulatory liabilities	72.9	12.7
Contract liabilities	39.0	37.8
Other	52.7	59.0
Total current liabilities	718.4	492.4
<b>Long-Term Debt</b>		
Long-term debt	1,772.5	—
Affiliated long-term debt	—	1,665.0
Finance leases	8.5	5.5
Total Long-Term Debt	1,781.0	1,670.5
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes and investment tax credits	802.9	730.2
Asset retirement obligations	85.4	83.0
Regulatory liabilities	702.2	801.1
Other	24.9	22.3
Total deferred credits and other liabilities	1,615.4	1,636.6
Total liabilities	4,114.8	3,799.5
<b>Commitments and Contingencies (See Note 15)</b>		
<b>Equity</b>		
Common stock <sup>(2)</sup>	1,322.3	1,312.9
Retained earnings	1,380.5	1,185.2
Total equity	2,702.8	2,498.1
Total liabilities and equity	\$ 6,817.6	\$ 6,297.6

(1) See Note 17 for amounts attributable to related parties.

(2) No par; 50,000 shares authorized; 7,966 shares outstanding at December 31, 2020 and 2019.

The accompanying notes are an integral part of East Ohio's Financial Statements.

The East Ohio Gas Company  
 Statements of Equity

	Common Stock		Retained Earnings	Total
	Shares	Amount		
(millions)				
December 31, 2017	7,966	\$ 655.9	\$ 883.9	\$ 1,539.8
Net income			188.3	188.3
December 31, 2018	7,966	655.9	1,072.2	1,728.1
Net income			146.3	146.3
Dividends			(33.3)	(33.3)
Contributions from Dominion Energy		657.0		657.0
December 31, 2019	7,966	1,312.9	1,185.2	2,498.1
Net income			264.8	264.8
Dividends			(69.5)	(69.5)
Contributions from Dominion Energy		9.4		9.4
December 31, 2020	<b>7,966</b>	<b>\$ 1,322.3</b>	<b>\$ 1,380.5</b>	<b>\$ 2,702.8</b>

*The accompanying notes are an integral part of East Ohio's Financial Statements.*



# The East Ohio Gas Company

## Statements of Cash Flows

Year Ended December 31,  
(millions)

	2020	2019	2018
<b>Operating Activities</b>			
Net income	\$ 264.8	\$ 146.3	\$ 188.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	90.9	85.0	83.4
Deferred income taxes	44.2	42.7	107.6
Other adjustments	(1.5)	(0.6)	(1.5)
Changes in operating assets and liabilities	(253.2)	(72.2)	(187.6)
Net cash provided by operating activities	<u>145.2</u>	<u>201.2</u>	<u>190.2</u>
<b>Investing Activities</b>			
Plant construction and other property additions	(392.6)	(372.8)	(354.8)
Other	(14.5)	(8.8)	(11.9)
Net cash used in investing activities	<u>(407.1)</u>	<u>(381.6)</u>	<u>(366.7)</u>
<b>Financing Activities</b>			
Issuance (repayment) of affiliated current borrowings, net	214.5	(809.3)	182.4
Issuance of long-term debt	1,800.0	365.0	—
Repayment of long-term debt	(1,666.9)	(0.8)	(0.1)
Equity contribution from parent	9.4	657.0	—
Dividends paid to parent	(69.5)	(33.3)	—
Unamortized discount and debt issuance costs	(28.3)	—	—
Net cash provided by financing activities	<u>259.2</u>	<u>178.6</u>	<u>182.3</u>
Increase (decrease) in cash, restricted cash and equivalents	(2.7)	(1.8)	5.8
Cash, restricted cash and cash equivalents at beginning of year <sup>(1)</sup>	7.2	9.0	3.2
Cash, restricted cash and cash equivalents at end of year <sup>(1)</sup>	<u>\$ 4.5</u>	<u>\$ 7.2</u>	<u>\$ 9.0</u>
<b>Supplemental Cash Flow Information</b>			
Cash paid (received) during the year for:			
Interest and related charges, excluding capitalized amounts	\$ 19.6	\$ 38.1	\$ 35.9
Income taxes	11.9	5.4	(26.7)
Significant noncash investing and financing activities:			
Accrued capital expenditures	18.8	15.1	5.1
Finance leases	5.8	10.3	—

(1) No amounts were held in restricted cash and equivalents in any of the periods presented.

The accompanying notes are an integral part of East Ohio's Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. DESCRIPTION OF BUSINESS

East Ohio, a public utility, was organized as an Ohio corporation in 1898 and is a wholly-owned subsidiary of Dominion Energy. East Ohio serves residential, commercial and industrial gas sales, transportation and gathering service customers in Ohio. Revenue generated by East Ohio is based primarily on rates established by the Ohio Commission.

### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

#### General

East Ohio makes certain estimates and assumptions in preparing its Financial Statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, and cash flows for the periods presented. Actual results may differ from those estimates.

East Ohio participates in certain Dominion Energy-sponsored pension and other postretirement benefit plans. See Note 14 for further information on these plans.

Certain amounts in East Ohio's historical Financial Statements and Notes have been reclassified to conform to the current presentation for comparative purposes; however, such reclassifications did not impact net income, total assets, liabilities, equity or cash flows.

#### Operating Revenue

Operating revenue is recorded on the basis of services rendered, commodities delivered or contracts settled and includes amounts yet to be billed to customers. East Ohio utilizes a straight-fixed-variable rate design for a majority of its customers. Under this rate design, East Ohio recovers a large portion of its fixed operating costs through a flat monthly charge accompanied by a reduced volumetric base delivery rate. Accordingly, East Ohio's revenue is less impacted by weather-related fluctuations in natural gas consumption than under the traditional rate design. East Ohio's customer receivables at December 31, 2020 and 2019 included \$62.2 million and \$58.1 million, respectively, of accrued unbilled revenue based on estimated amounts of natural gas delivered but not yet billed to its customers. In addition, East Ohio collects sales taxes, however, these amounts are excluded from revenue.

The primary types of sales and service activities reported as operating revenue for East Ohio are as follows:

#### Revenue with Contracts from Customers

- **Regulated gas transportation and storage sales** consist primarily of state-regulated gas distribution charges to retail distribution service customers opting for alternate suppliers;
- **Regulated gas sales** consist primarily of state-regulated natural gas sales and related distribution services;
- **Nonregulated gas sales** consist primarily of sales of excess gas;
- **Other regulated revenue** consists primarily of miscellaneous regulated revenue; and
- **Other nonregulated revenue** consists primarily of miscellaneous service revenue.

#### Other revenue

- **Other revenue** consists primarily of revenue accounted for under the alternative revenue program guidance associated with equity return for under-recovery of PIR.

Revenues from gas sales are recognized over time, as the customers of East Ohio consume the gas as it is delivered. Transportation contracts are primarily stand-ready service contracts that include fixed reservation and variable usage fees. Fixed fees are recognized ratably over the life of the contract, which is less than 12 months, as the stand-ready performance obligation is satisfied, while variable usage fees are recognized when East Ohio has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the performance obligation completed to date. As a local distribution company, substantially all of East Ohio's revenues are derived from performance obligations satisfied over time, rather than recognized at a single point in time, and are month-to-month contracts billed according to the terms of its tariff. Payment for most sales varies by contract type, but is typically due within a month of billing.

#### Purchased Gas

Where permitted by regulatory authorities, the differences between East Ohio's purchased gas expenses and the related levels of recovery for these expenses in current rates are deferred and matched against recoveries in future periods. The deferral of gas costs in excess of current period recovery is recognized as a regulatory asset, while rate recovery in excess of current period gas costs is recognized as a regulatory liability.

Virtually all of East Ohio's natural gas purchases are either subject to deferral accounting or are recovered from the customer in the same accounting period as the sale.

### **Income Taxes**

A consolidated federal income tax return is filed for Dominion Energy and its subsidiaries, including East Ohio. The state of Ohio, where East Ohio does business, does not have a corporate income tax.

East Ohio participates in intercompany tax sharing agreements with Dominion Energy and its subsidiaries. Current income taxes are based on taxable income or loss and credits determined on a separate company basis.

Under the agreements, if a subsidiary incurs a tax loss or earns a credit, recognition of current income tax benefits is limited to refunds of prior year taxes obtained by the carryback of the net operating loss or credit or to the extent the tax loss or credit is absorbed by the taxable income of other Dominion Energy consolidated group members. Otherwise, the net operating loss or credit is carried forward and is recognized as a deferred tax asset until realized.

Accounting for income taxes involves an asset and liability approach. Deferred income tax assets and liabilities are provided, representing future effects on income taxes for temporary differences between the bases of assets and liabilities for financial reporting and tax purposes. Accordingly, deferred taxes are recognized for the future consequences of different treatments used for the reporting of transactions in financial accounting and income tax returns. East Ohio establishes a valuation allowance when it is more-likely-than-not that all, or a portion, of a deferred tax asset will not be realized. East Ohio has not recorded any valuation allowances.

East Ohio recognizes positions taken, or expected to be taken, in income tax returns that are more-likely-than-not to be realized, assuming that the position will be examined by tax authorities with full knowledge of all relevant information.

If it is not more-likely-than-not that a tax position, or some portion thereof, will be sustained, the related tax benefits are not recognized in the financial statements. Unrecognized tax benefits may result in an increase in income taxes payable, a reduction of income tax refunds receivable or changes in deferred taxes. Also, when uncertainty about the deductibility of an amount is limited to the timing of such deductibility, the increase in income taxes payable (or reduction in tax refunds receivable) is accompanied by a decrease in deferred tax liabilities. Except when such amounts are presented net with amounts receivable from or amounts prepaid to tax authorities, noncurrent income taxes payable related to unrecognized tax benefits are classified in other deferred credits and other liabilities on the Balance Sheets and current payables are included in accrued interest, payroll and taxes on the Balance Sheets. East Ohio has no unrecognized tax benefits.

East Ohio recognizes interest on underpayments and overpayments of income taxes in interest expense and other income, respectively. Penalties are also recognized in other income.

At December 31, 2020, the Balance Sheet had a federal income tax-related affiliated payable of \$14.0 million. The net affiliated payables are expected to be paid to Dominion Energy.

At December 31, 2019, the Balance Sheet had a federal income tax-related affiliated payable of \$2.4 million. The net affiliated payables were paid to Dominion Energy.

Investment tax credits are deferred and amortized over the service lives of properties giving rise to the credits.

### **Cash and Cash Equivalents**

Current banking arrangements generally do not require checks to be funded until they are presented for payment. At December 31, 2020 and 2019, accounts payable included \$3.1 million and \$3.2 million, respectively, of checks outstanding but not yet presented for payment. For purposes of the Statements of Cash Flows, cash and cash equivalents include cash on hand, cash in banks and temporary investments purchased with an original maturity of three months or less.

### **Property, Plant and Equipment**

Property, plant and equipment is recorded at lower of original cost or fair value, if impaired. Capitalized costs include labor, materials and other direct and indirect costs such as asset retirement costs, AFUDC and overhead costs. The cost of repairs and maintenance, including minor additions and replacements, is generally charged to expense as it is incurred. East Ohio capitalized AFUDC to property, plant and equipment of \$3.5 million in 2020, \$1.1 million in 2019 and less than \$1 million in 2018.

The undepreciated cost of property, less salvage value, is generally charged to accumulated depreciation at retirement. Cost of removal collections from utility customers not representing AROs are recorded as regulatory liabilities. For property that will be abandoned significantly before the end of its useful life, the net carrying value is reclassified from plant-in-service when it becomes probable it will be abandoned.

Depreciation of property, plant and equipment is computed on the straight-line method based on projected service lives. East Ohio's average composite depreciation rates on property, plant and equipment are as follows:

Year Ended December 31, (percent)	2020	2019	2018
Transmission	1.78	1.84	2.03
Distribution	2.27	2.55	2.41
Storage	1.28	1.10	2.22
General and other	2.88	2.11	4.00

### Long-Lived and Intangible Assets

East Ohio performs an evaluation for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets or intangible assets with finite lives may not be recoverable. A long-lived or intangible asset is written down to fair value if the sum of its expected future undiscounted cash flows is less than its carrying amount. Intangible assets with finite lives are amortized over their estimated useful lives.

### Regulatory Assets and Liabilities

The accounting for East Ohio's regulated gas operations differs from the accounting for nonregulated operations in that East Ohio is required to reflect the effect of rate regulation in its Financial Statements. For regulated businesses subject to state cost-of-service rate regulation, regulatory practices that assign costs to accounting periods may differ from accounting methods generally applied by nonregulated companies. When it is probable that regulators will permit the recovery of current costs through future rates charged to customers, these costs that otherwise would be expensed by nonregulated companies are deferred as regulatory assets. Likewise, regulatory liabilities are recognized when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have yet to be incurred.

East Ohio evaluates whether or not recovery of its regulatory assets through future rates is probable as well as whether a regulatory liability due to customers is probable and makes various assumptions in its analyses. These analyses are generally based on:

- Orders issued by regulatory commissions, legislation and judicial actions;
- Past experience;
- Discussions with applicable regulatory authorities and legal counsel;
- Forecasted earnings; and
- Considerations around the likelihood of impacts from events such as unusual weather conditions, extreme weather events and other natural disasters.

Generally, regulatory assets and liabilities are amortized into income over the period authorized by the regulator. If recovery of a regulatory asset is determined to be less than probable, it will be written off in the period such assessment is made. A regulatory liability, if considered probable, will be recorded in the period such assessment is made or reversed into earnings if no longer probable. See Note 7 for additional information.

### Leases

East Ohio leases certain assets including vehicles, building and other operational assets under both operating and finance leases. For East Ohio's operating leases, rent expense is recognized on a straight-line basis over the term of the lease agreement, subject to regulatory framework. Rent expense associated with operating leases, short-term leases and variable leases is primarily recorded in other operations and maintenance expense in the Statements of Income. Rent expense associated with finance leases results in the separate presentation of interest expense on the lease liability and amortization expense of the related right-of-use asset in the Statements of Income.

Certain of East Ohio's leases include one or more options to renew, with renewal terms that can extend the lease from one to ten years. The exercise of renewal options is solely at East Ohio's discretion and is included in the lease term if the option is reasonably certain to be exercised. A right-of-use asset and corresponding lease liability for leases with original lease terms of one year or less are not included in the Balance Sheets, unless such leases contain renewal options that the Company is reasonably certain will be exercised. Additionally, certain of East Ohio's leases contain escalation clauses whereby payments

are adjusted for consumer price or other indices or contain fixed dollar or percentage increases. East Ohio also has leases with variable payments based upon usage of, or revenues associated with, the leased assets.

The determination of the discount rate utilized has a significant impact on the calculation of the present value of the lease liability included in the Balance Sheets. For the Company's fleet of leased vehicles, the discount rate is equal to the prevailing borrowing rate earned by the lessor. For the Company's remaining leased assets, the discount rate implicit in the lease is generally unable to be determined from a lessee perspective. As such, East Ohio uses internally-developed incremental borrowing rates as a discount rate in the calculation of the present value of the lease liability. The incremental borrowing rates are determined based on an analysis of the Company's available unsecured borrowing rates, adjusted for a collateral discount, over various lengths of time that most closely correspond to the Company's lease maturities.

### **Asset Retirement Obligations**

East Ohio recognizes AROs at fair value as incurred or when sufficient information becomes available to determine a reasonable estimate of the fair value of future retirement activities to be performed, for which a legal obligation exists. These amounts are generally capitalized as costs of the related tangible long-lived assets. Since relevant market information is not available, fair value is estimated using discounted cash flow analyses. Quarterly, East Ohio assesses its AROs to determine if circumstances indicate that estimates of the amounts or timing of future cash flows associated with retirement activities have changed. AROs are adjusted when significant changes in the amounts or timing of future cash flows are identified. East Ohio reports accretion of AROs and depreciation on asset retirement costs associated with its natural gas pipeline assets as an adjustment to the related regulatory liabilities as revenue is recoverable from customers for AROs.

### **Inventories**

Materials and supplies inventories are valued primarily using the weighted-average cost method. Stored gas inventory for East Ohio used in gas distribution operations is valued using the LIFO method. Under the LIFO method, current stored gas inventory was valued at \$18.3 million and \$19.0 million at December 31, 2020 and 2019, respectively. Based on the average price of gas purchased during 2020 and 2019, the cost of replacing the current portion of stored gas inventory exceeded the amount stated on a LIFO basis by \$51.8 million and \$60.2 million, respectively.

### **Gas Imbalances**

Natural gas imbalances occur when the physical amount of natural gas delivered from, or received by, a pipeline system or storage facility differs from the contractual amount of natural gas delivered or received. East Ohio values these imbalances due to, or from, shippers and operators at an appropriate index price at period end, subject to the terms of its tariff. Imbalances are settled in-kind. Imbalances due to East Ohio from other parties are reported in other current assets and imbalances that East Ohio owes to other parties are reported in other current liabilities in the Balance Sheet.

### **New Accounting Standards**

#### ***Leases***

In February 2016, the Financial Accounting Standards Board issued revised accounting guidance for the recognition, measurement, presentation and disclosure of leasing arrangements. The update requires that a liability and corresponding right-of-use asset are recorded on the balance sheet for all leases, including those leases classified as operating leases, while also refining the definition of a lease. In addition, lessees are required to disclose key information about the amount, timing and uncertainty of cash flows arising from leasing arrangements. Lessor accounting remains largely unchanged.

East Ohio adopted this revised accounting guidance effective for annual reporting periods beginning January 1, 2019 using a modified retrospective approach, which requires lessees to recognize and measure leases at the date of adoption. Under this approach, East Ohio utilized the transition practical expedient to maintain historical presentation for periods before January 1, 2019. East Ohio also applied the other practical expedients, which required no reassessment of whether existing contracts are or contain leases, no reassessment of lease classification for existing leases and no reassessment of existing or expired land easements that were not previously accounted for as leases. In connection with the adoption of this revised accounting guidance, East Ohio recorded approximately \$19 million of offsetting right-of-use assets and liabilities for operating leases in effect at the adoption date. See Note 10 for additional information.

#### ***Net Periodic Pension and Other Postretirement Benefit Costs***

In March 2017, the Financial Accounting Standards Board issued revised accounting guidance for the presentation of net periodic pension and other postretirement benefit costs. This guidance became effective for East Ohio beginning January 1, 2018 and requires that the service cost component of net periodic pension and other postretirement benefit costs be classified in the same line item as other compensation costs arising from services rendered by employees, while all other components of net periodic pension and other postretirement costs are classified outside of income from operations. In addition, only the service cost component remains eligible for capitalization during construction. These changes do not impact the accounting by participants in a multi-employer plan. The standard also recognizes that in the event that a regulator continues to require

capitalization of all net periodic benefit costs prospectively, the difference would result in recognition of a regulatory asset or liability. For costs not capitalized for which regulators are expected to provide recovery, a regulatory asset will be established. As such, the amounts eligible for capitalization in the Financial Statements of East Ohio, as subsidiary participants in Dominion Energy's multi-employer plans, will differ from the amounts eligible for capitalization in the Consolidated Financial Statements of Dominion Energy, the plan administrator.

### NOTE 3. OPERATING REVENUE

East Ohio operating revenue, subsequent to the adoption of revised guidance for revenue recognition from contracts with customers, consists of the following:

Year Ended December 31, (millions)	2020	2019	2018
Regulated gas transportation and storage <sup>(1)</sup>	\$ 672.1	\$ 626.7	\$ 611.1
Regulated gas sales:			
Residential	62.2	70.6	80.7
Commercial	5.0	3.7	5.4
Other	0.4	0.6	0.3
Nonregulated gas sales	5.5	5.0	6.1
Other regulated revenues	16.3	23.0	21.8
Other nonregulated revenues	5.8	4.0	3.9
Total operating revenue from contracts with customers	767.3	733.6	729.3
Other revenues	2.9	—	—
Total operating revenue	\$ 770.2	\$ 733.6	\$ 729.3

(1) See Note 17 for amounts attributable to related parties

Contract liabilities represent an entity's obligation to transfer goods or services to a customer for which the entity has received consideration, or the amount that is due, from the customer. At December 31, 2020 and 2019, East Ohio's contract liability balances were \$39.0 million and \$37.8 million, respectively, all of which is included in current liabilities in the Balance Sheets. During years ended December 31, 2020 and 2019, East Ohio recognized revenue of \$37.3 million and \$32.1 million, respectively, from the beginning contract liability balance as East Ohio fulfilled its obligations to provide service to its customers.

### NOTE 4. INCOME TAXES

Judgment and the use of estimates are required in developing the provision for income taxes and reporting of tax-related assets and liabilities. The interpretation of tax laws involves uncertainty, since tax authorities may interpret the laws differently. East Ohio is routinely audited by federal tax authorities. Ultimate resolution of income tax matters may result in favorable or unfavorable impacts to net income and cash flows, and adjustments to tax-related assets and liabilities could be material.

As indicated in Note 2, East Ohio's operations, including accounting for income taxes are subject to regulatory treatment. For regulated operations, many of the changes in deferred taxes from the 2017 Tax Reform Act represent amounts probable of collection from or return to customers and were recorded as either an increase to regulatory asset or liability. See Note 8 for more information and current year developments.

Details of East Ohio's income tax expense were as follows:

Year Ended December 31, (millions)	2020	2019	2018
<b>Current:</b>			
Federal	\$ (2.2)	\$ 8.7	\$ (45.7)
State	—	—	—
Total current expense	(2.2)	8.7	(45.7)
<b>Deferred:</b>			
Federal			
Taxes before operating loss carryforwards, investment tax credits and tax reform	44.2	42.7	99.7
Tax reform	—	—	7.9
State	—	—	—
Total deferred expense	44.2	42.7	107.6
Total income tax expense	\$ 42.0	\$ 51.4	\$ 61.9

The statutory U.S. federal income tax rate reconciles to East Ohio's effective income tax rate as follows:

Year Ended December 31, (millions)	2020	2019	2018
Federal income taxes statutory rate	21.0%	21.0%	21.0%
Increases (reductions) resulting from:			
Reversal of excess deferred income taxes	(7.6)	(2.2)	(1.0)
Write-off of regulatory assets	—	7.7	—
Legislative change - federal	—	—	3.2
AFUDC equity	(0.1)	—	—
Other	0.4	(0.5)	1.6
Effective tax rate	13.7%	26.0%	24.8%

The 2017 Tax Reform Act reduced the statutory federal income tax rate to 21% beginning in January 2018. Accordingly, current and deferred income taxes are recorded at the new 21% rate. Deferred taxes will reverse at the weighted average rate used to originate the deferred tax liability, which in some cases will be 35%. The reversal of these excess deferred income taxes will impact the effective tax rate and rates charged to customers. See Note 8 for current year developments.

In 2020, East Ohio's tax rate includes the effects of the Ohio Commission's order to share excess deferred income taxes with customers via a tax saving credit rider beginning in April 2020.

In 2019, East Ohio wrote off a \$19 million regulatory asset and recognized \$15 million deferred income tax expense for amounts no longer probable of recovery from customers.

In 2018, East Ohio applied the provisions of proposed regulations addressing the availability of federal bonus depreciation for the period beginning after September 27, 2017 through December 31, 2017. The application of these proposed regulations at East Ohio had no impact on income tax expense as the changes in, and remeasurement of, deferred tax liabilities increased regulatory liabilities by \$23 million. In addition, changes in estimates of amounts probable of return to customers increased income tax expense by \$8 million and increased regulatory liabilities by \$10 million.

Significant components of East Ohio's deferred income taxes were as follows:

Year Ended December 31, (millions)	2020	2018
<b>Deferred income taxes:</b>		
Total deferred income tax asset	\$ 117.0	\$ 121.4
Total deferred income tax liability	919.9	851.6
Total net deferred income tax liabilities	\$ 802.9	\$ 730.2
<b>Total deferred income taxes:</b>		
Depreciation method and plant basis differences	\$ 589.5	\$ 549.8
Excess deferred income taxes	(117.2)	(123.1)
Deferred fuel, purchased energy and gas costs	7.1	3.7
Pension and other postretirement benefits	322.1	299.5
Loss and credit carryforwards	(0.6)	(0.8)
Other	2.0	1.1
Total net deferred income tax liabilities	\$ 802.9	\$ 730.2
Deferred investment tax credits	—	—
Total deferred taxes and deferred investment tax credits	\$ 802.9	\$ 730.2

Dominion Energy participates in the IRS Compliance Assurance Process which provides the opportunity to resolve complex tax matters with the IRS before filing its federal income tax returns, thus achieving certainty for such tax return filing positions agreed to by the IRS. The IRS has completed its audit of tax years through 2018. The statute of limitations has not yet expired for tax years after 2016. Although Dominion Energy has not received a final letter indicating no changes to its taxable income for the tax year 2019, no material adjustments are expected. The IRS examination of tax year 2020 is ongoing.

## NOTE 5. PROPERTY, PLANT AND EQUIPMENT

Major classes of property, plant and equipment and their respective balances for East Ohio are as follows:

At December 31, (millions)	2020	2019
<b>Utility:</b>		
Transmission	\$ 552.3	\$ 510.6
Distribution	4,010.0	3,764.4
Storage	300.8	294.1
Gas gathering	210.4	201.3
General and other	205.5	189.0
Plant under construction	114.6	55.9
Total utility	5,393.6	5,015.3
Other	3.4	3.4
Total property, plant and equipment	\$ 5,397.0	\$ 5,018.7

## NOTE 6. INTANGIBLE ASSETS

East Ohio's intangible assets are subject to amortization over their estimated useful lives. East Ohio's amortization expense for intangible assets for the period ending December 31, 2020, 2019 and 2018 was \$7.3 million, \$6.4 million and \$6.4 million, respectively. In 2020, East Ohio acquired \$7.8 million of intangible assets, primarily representing software, with an estimated weighted-average amortization period of approximately 10 years.

The components of intangible assets are as follows:

(millions)	At December 31, 2020		At December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Software and other	\$ 103.5	\$ 51.4	\$ 95.8	\$ 43.9



Annual amortization expense for these intangible assets is estimated to be as follows:

(millions)	2021	2022	2023	2024	2025
	\$ 7.3	\$ 6.1	\$ 4.7	\$ 4.3	\$ 3.5

## NOTE 7. REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities include the following:

(millions)	December 31, 2020	December 31, 2019
<b>Regulatory assets:</b>		
Deferred project costs and DSM programs <sup>(1)</sup>	\$ 25.2	\$ 15.5
Unrecovered gas costs <sup>(2)</sup>	18.0	17.7
PIPP <sup>(3)</sup>	—	13.3
UEX Rider <sup>(4)</sup>	7.1	11.2
Other	0.4	—
Regulatory assets-current	50.7	57.7
Unrecognized pension and other postretirement benefit costs <sup>(5)</sup>	105.3	190.1
Deferred project costs <sup>(1)</sup>	522.7	429.0
Regulatory assets-noncurrent	628.0	619.1
<b>Total regulatory assets</b>	<b>\$ 678.7</b>	<b>\$ 676.8</b>
<b>Regulatory liabilities:</b>		
Provision for future cost of removal and AROs <sup>(6)</sup>	15.1	11.6
Cost-of-service impact of 2017 Tax Reform Act <sup>(7)</sup>	11.4	—
Income taxes refundable through future rates <sup>(8)</sup>	38.1	1.1
Other	8.3	—
Regulatory liabilities-current	72.9	12.7
Income taxes refundable through future rates <sup>(8)</sup>	546.7	618.9
Provision for future cost of removal and AROs <sup>(6)</sup>	147.4	138.1
Cost-of-service impact of 2017 Tax Reform Act <sup>(7)</sup>	—	40.3
Other	8.1	3.8
Regulatory liabilities-noncurrent	702.2	801.1
<b>Total regulatory liabilities</b>	<b>\$ 775.1</b>	<b>\$ 813.8</b>

- (1) Primarily reflects amounts expected to be collected from gas customers in East Ohio's service territories associated with current and prospective rider projects, including CEP, PIR and DSM as well as costs associated with the Pipeline Safety and Management Program. The recovery period for these expenditures vary based on stipulations set forth in the respective riders. See Note 8 for more information.
- (2) Reflects unrecovered gas costs at regulated gas operations, which are recovered through filings with the Ohio Commission.
- (3) Under PIPP, eligible customers can make reduced payments based on their ability to pay. The difference between the customer's total bill and the PIPP plan amount is deferred and collected or returned annually under the PIPP rider according to East Ohio tariff provisions. See Note 8 for more information.
- (4) Reflects recovery amounts of under-recovered accumulated bad debt expense. See Note 8 for more information.
- (5) Represents unrecognized pension and other postretirement employee benefit costs expected to be recovered or refunded through future rates generally over the expected remaining service period of plan participants.
- (6) Rates charged to customers by East Ohio's regulated businesses include a provision for the cost of future activities to remove assets that are expected to be incurred at the time of retirement.
- (7) Balance refundable to customers related to the decrease in revenue requirements for recovery of income taxes. See Note 8 for more information.
- (8) Amounts recorded to pass the effect of reduced income taxes from the 2017 Tax Reform Act to customers in future periods, which will reverse at the weighted average tax rate that was used to build the reserves over the remaining book life of the property, net of amounts to be recovered through future rates to pay income taxes that become payable when rate revenue is provided to recover AFUDC equity.

At December 31, 2020, approximately \$140.8 million of regulatory assets represented past expenditures on which East Ohio does not expect to earn a return during the applicable recovery period. With the exception of PIR and the Pipeline Safety and Management Program expenses, these expenditures are expected to be recovered within the next two years.

## NOTE 8. REGULATORY MATTERS

East Ohio is subject to the jurisdiction of the Ohio Commission with its natural gas sales and transportation and storage services being provided under rate schedules approved by the regulatory commission. East Ohio is required to file an application for a rate case by 2024.

### 2017 Tax Reform Act

Subsequent to the enactment of the 2017 Tax Reform Act, the Ohio Commission issued orders requesting that public utilities

evaluate the total tax impact on the entity's cost of service and accrue a regulatory liability attributable to the benefits of the reduction in the corporate income tax rate. Certain of the orders requested that the public utilities submit a response to the Ohio Commission detailing the total tax impact on the utility's cost of service.

East Ohio began to reserve the impacts of the cost-of-service reduction as regulatory liabilities in January 2018 and continued to do so until April 2020 when the tax savings credit rider started into effect. At this point, the regulatory liabilities are being passed back to customer's according to the decision made by the Ohio Commission.

In October 2018, the Ohio Commission issued an order requiring rate-regulated utilities to file an application reflecting the impact of the 2017 Tax Reform Act on current rates by January 1, 2019. In December 2018, East Ohio filed its application proposing an approach to establishing rates and charges by and through which to return tax reform benefits to its customers. In December 2019, the Ohio Commission issued an order approving customer credits of approximately \$600 million that will be shared with customers primarily over the remaining book life of the property to which the excess deferred income taxes relate. In addition, East Ohio will reduce rates approximately \$19 million per year to account for the 2017 Tax Reform Act's impact on its equity return component of rates charged to customers. A tax savings credit, which passes through the reduction in the federal income tax rate under the 2017 Tax Reform Act to customers in accordance with the settlement agreement approved by the Ohio Commission, became effective with the first billing cycle in April 2020.

## **Other Regulatory Matters**

### *Pipeline Infrastructure Replacement Program*

In 2008, East Ohio began PIR, aimed at replacing approximately 25% of its pipeline system. In April 2020, the Ohio Commission approved East Ohio's application to adjust the PIR recovery for 2019 costs. The filing reflects gross plant investment for 2019 of \$209.4 million, cumulative gross plant investment of \$1.8 billion and an annual revenue requirement of \$218.1 million.

In December 2020, East Ohio filed an application with the Ohio Commission requesting approval to extend the PIR program for an additional five years upon expiration of the current authorization at the end of 2021. East Ohio proposed continued capital investment increases of 3% per year, with related increases in the annual rate-increase caps. In its application, East Ohio proposed that the new five-year period should include investment through December 2026. This case is pending.

In February 2021, East Ohio filed an application with the Ohio Commission requesting to adjust the PIR cost recovery rates for 2020 costs. The application requests an annual revenue requirement of \$242.8 million. This case is pending.

### *AMR Program*

In 2007, East Ohio began installing automated meter reading technology for its 1.2 million customers in Ohio. The AMR program approved by the Ohio Commission was completed in 2012. Although no further capital investment will be added, East Ohio is approved to recover depreciation, property taxes, carrying charges and a return until East Ohio has another rate case. In February 2021, East Ohio filed an application with the Ohio Commission requesting to adjust the AMR cost recovery for 2020 costs. The application requests a rate reduction of \$0.4 million. This case is pending.

### *Capital Expenditure Program*

In 2011, East Ohio began CEP which enables East Ohio to defer depreciation expense, property tax expense and carrying costs at the debt rate of 6.5% on capital investments not covered by its PIR program to expand, upgrade or replace its pipeline system and information technology systems as well as investments necessary to comply with the Ohio Commission or other government regulation. In May 2019, East Ohio filed an application for an alternative rate plan to establish a CEP rider to recover existing CEP related deferrals and to establish an ongoing recovery mechanism for future deferrals. The filing reflects cumulative gross plant investment of \$722.9 million through 2018 and a revenue requirement of \$82.9 million. In December 2020, the Ohio Commission approved a cumulated gross plant investment of \$721.0 million and a revenue requirement of \$82.7 million.

### *PIPP Plus Program*

Under the Ohio PIPP Plus Program, eligible customers can make reduced payments based on their ability to pay their bill. The difference between the customer's total bill and the PIPP amount is deferred and collected under the PIPP rider in accordance with the rules of the Ohio Commission. In May 2020, East Ohio filed its annual update of the PIPP rider with the Ohio Commission. In July 2020, East Ohio's annual update of the PIPP rider was automatically approved by the Ohio Commission after a 45-day waiting period from the date of the filing. The revised rider rate reflects recovery over the twelve-month period from July 2020 through June 2021 of projected deferred program costs of approximately \$11.8 million from April 2020 through June 2021, net of recovery for under-recovery of accumulated arrearages of approximately \$4.8 million as of March 31, 2020.

### UEX Rider

East Ohio has approval for a UEX Rider through which it recovers the bad debt expense of most customers not participating in the PIPP Plus Program. The UEX Rider is adjusted annually to achieve dollar for dollar recovery of East Ohio's actual write-offs of uncollectible amounts. In July 2020, the Ohio Commission approved East Ohio's application requesting approval of its UEX Rider to reflect recovery of under-recovered accumulated bad debt expense of \$5.1 million as of March 31, 2020, and recovery of prospective net bad debt expense projected to total \$11.3 million for the twelve-month period from April 2020 to March 2021.

### DSM Rider

East Ohio has approval for a DSM Rider through which it recovers expenditures related to its DSM programs. In November 2020, East Ohio filed an application with the Ohio Commission seeking approval to recover \$3.9 million under the DSM rider, which includes an over-recovery of costs during the preceding 12-month period.

## NOTE 9. ASSET RETIREMENT OBLIGATION

AROs represent obligations that result from laws, statutes, contracts and regulations related to the eventual retirement of certain of East Ohio's long-lived assets. East Ohio's AROs primarily include interim retirement of natural gas distribution pipelines. Revisions to estimates result from material changes in the expected timing or amount of cash flows associated with AROs. The changes to AROs during 2019 and 2020 were as follows:

(millions)	Amount	
AROs at December 31, 2018	\$	83.7
Accretion		5.0
Obligations incurred during the period		0.2
Obligations settled during the period		(3.5)
AROs at December 31, 2019 <sup>(1)</sup>	\$	85.4
Accretion		5.1
Obligations incurred during the period		1.0
Obligations settled during the period		(2.9)
AROs at December 31, 2020 <sup>(1)</sup>	\$	88.6

(1) Includes \$2.4 million and \$3.2 million reported in other current liabilities in the Balance Sheets at December 31, 2019 and 2020, respectively.

## NOTE 10. LEASES

At December 31, 2020 and 2019, East Ohio had the following lease assets and liabilities recorded in the Balance Sheets:

(millions)	December 31, 2020		December 31, 2019	
Lease assets:				
Operating lease assets <sup>(1)</sup>	\$	13.9	\$	19.1
Finance lease assets <sup>(2)</sup>		10.6		6.7
Total lease assets	\$	24.5	\$	25.8
Lease liabilities:				
Operating lease liabilities <sup>(3)</sup>	\$	4.8	\$	5.6
Finance lease liabilities <sup>(3)</sup>		2.1		1.3
Total lease liabilities - current		6.9		6.9
Operating lease liabilities <sup>(4)</sup>		8.2		13.0
Finance lease liabilities		8.5		5.5
Total lease liabilities - noncurrent		16.7		18.5
Total lease liabilities	\$	23.6	\$	25.4

- (1) Included in other deferred charges and other assets in the Balance Sheets.  
(2) Included in property, plant and equipment in the Balance Sheets, net of \$2.8 million and \$1.0 million of accumulated amortization at December 31, 2020 and 2019, respectively.  
(3) Included in other current liabilities in the Balance Sheets.  
(4) Included in other current deferred charges and other liabilities in the Balance Sheets.

For the years ended December 31, 2020 and 2019, total lease cost associated with the East Ohio's leasing arrangements consisted of the following:

(millions)	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Finance lease cost:</b>		
Amortization	\$ 1.9	\$ 0.8
Interest	0.3	0.2
Operating lease cost	5.5	6.8
Short-term lease cost	—	0.1
Variable lease cost	0.1	0.2
<b>Total lease cost</b>	<b>\$ 7.8</b>	<b>\$ 8.1</b>

Rent expense for all operating leases for the year ended December 31, 2018 was \$7.4 million.

For the years ended December 31, 2020 and 2019, cash paid for amounts included in the measurement of the lease liabilities consisted of the following amounts, included in the Statements of Cash Flows:

(millions)	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Operating cash flows for finance leases	0.3	\$ 0.2
Operating cash flows for operating leases	5.9	7.7
Financing cash flows for finance leases	1.9	0.8

At December 31, 2020 and 2019, the weighted average remaining lease term and weighted discount rate for East Ohio's finance and operating leases were as follows:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Weighted average remaining lease term - finance leases	<b>6 years</b>	6 years
Weighted average remaining lease term - operating leases	<b>3 years</b>	4 years
Weighted average discount rate - finance leases	<b>2.46%</b>	3.99%
Weighted average discount rate - operating leases	<b>4.54%</b>	4.55%

East Ohio lease liabilities have the following maturities:

Maturity of Lease Liabilities (millions)	Operating		Finance	
2021	\$	5.3	\$	2.4
2022		4.1		2.2
2023		2.7		1.9
2024		1.3		1.7
2025		0.5		1.3
After 2025		—		1.9
<b>Total undiscounted lease payments</b>		<b>13.9</b>		<b>11.4</b>
Present value adjustment		(0.9)		(0.8)
<b>Present value of lease liabilities</b>	<b>\$</b>	<b>13.0</b>	<b>\$</b>	<b>10.6</b>

## NOTE 11. VARIABLE INTEREST ENTITIES

The primary beneficiary of a VIE is required to consolidate the VIE and to disclose certain information about its significant variable interests in the VIE. The primary beneficiary of a VIE is the entity that has both: (1) the power to direct the activities that most significantly impact the entity's economic performance and (2) the obligation to absorb losses or receive benefits from the entity that could potentially be significant to the VIE.

DES, an affiliated VIE, provides accounting, legal, finance and certain administrative and technical services to Dominion Energy and its subsidiaries, including East Ohio. East Ohio purchased shared services from DES of \$60.2 million, \$66.9 million and \$55.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. The Balance Sheets at

December 31, 2020 and 2019 included amounts due to DES for such services of \$4.7 million and \$14.0 million, respectively. East Ohio determined that it is not the primary beneficiary of DES as it does not have both the power to direct the activities that most significantly impact its economic performance nor the obligation to absorb losses and benefits which could be significant to it. East Ohio does not have any obligation to absorb more than its allocated share of DES costs.

## NOTE 12. AFFILIATED CURRENT BORROWINGS AND LONG-TERM DEBT

During 2019, East Ohio entered into an IRCA with Dominion Energy. Affiliated current borrowings under this IRCA were \$222.1 million and \$7.6 million at December 31, 2020 and 2019, respectively. Interest expense on the IRCAs was \$1.2 million and less than a million dollars for the years ended December 31, 2020 and 2019, respectively. At both December 31, 2020 and 2019 there was no accrued interest associated with these borrowings.

During 2019, East Ohio had affiliated current borrowings under an IRCA with Dominion Energy Gas. By December 31, 2019 all outstanding balances owed to Dominion Energy Gas under this IRCA were paid and the agreement was terminated. Interest expense on the IRCA was \$14.0 million and \$15.6 million for the years ended December 31, 2019 and 2018, respectively.

At December 31, 2019, East Ohio's affiliated long-term debt to Dominion Energy Gas totaled \$1.7 billion. In June 2020, the amount of this outstanding debt was repaid in full to Dominion Energy Gas. Interest expense was \$33.0 million, \$71.9 million and \$63.5 million for the years ended December 31, 2020, 2019 and 2018, respectively. Accrued interest associated with this debt was \$22.0 million at December 31, 2019.

In June 2020, East Ohio issued, through private placement, \$500.0 million of 1.30% senior notes, \$500.0 million of 2.00% senior notes and \$800.0 million of 3.00% senior notes that mature in 2025, 2030 and 2050, respectively. East Ohio used the proceeds from this offering to repay promissory notes with Dominion Energy Gas and a portion of its IRCA balance with Dominion Energy.

Total unamortized discount and debt issuance costs associated with long-term debt was \$27.5 million at December 31, 2020. There were no such amounts at December 31, 2019.

Based on stated maturity dates, the scheduled principal payments of long-term debt at December 31, 2020, were as follows:

	2021	2022	2023	2024	2025	Thereafter	Total
(millions, except percentages)							
East Ohio	\$ —	\$ —	\$ —	\$ —	\$ 500.0	\$ 1,300.0	\$ 1,800.0
Weighted-average Coupon					1.30%	2.62%	

## NOTE 13. DIVIDEND RESTRICTIONS

The Ohio Commission may prohibit any public service company, including East Ohio, from declaring or paying a dividend to an affiliate if found to be detrimental to the public interest. At December 31, 2020, the Ohio Commission had not restricted the payment of dividends by East Ohio.

## NOTE 14. EMPLOYEE BENEFIT PLANS

### Defined Benefit Plans

East Ohio provides certain retirement benefits to eligible active employees, retirees and qualifying dependents. In addition, East Ohio participates in retirement benefit plans sponsored by Dominion Energy, which provides certain retirement benefits to eligible active employees, retirees and qualifying dependents of East Ohio. Under the terms of its benefit plans, East Ohio reserves the right to change, modify or terminate the plans. From time to time in the past, benefits have changed, and some of these changes have reduced benefits.

Pension and other postretirement benefit costs are affected by employee demographics (including age, compensation levels and years of service), the level of contributions made to the plans and earnings on plan assets. These costs may also be affected by changes in key assumptions, including expected long-term rates of return on plan assets, discount rates, healthcare cost trend rates, mortality rates and the rate of compensation increases.

East Ohio uses December 31 as the measurement date for all of its employee benefit plans, including those in which it participates with Dominion Energy. East Ohio uses the market-related value of pension plan assets to determine the expected return on plan assets, a component of net periodic pension cost, for all pension plans, including those in which it participates with Dominion Energy. The market-related value recognizes changes in fair value on a straight-line basis over a four-year period, which reduces year-to-year volatility. Changes in fair value are measured as the difference between the expected and actual plan asset returns, including dividends, interest and realized and unrealized investment gains and losses. Since the

market-related value recognizes changes in fair value over a four-year period, the future market-related value of pension plan assets will be impacted as previously unrecognized changes in fair value are recognized.

East Ohio's pension and other postretirement benefit plans hold investments in trusts to fund employee benefit payments. East Ohio's pension and other postretirement plan assets for employees represented by collective bargaining units experienced aggregate actual returns of \$247.3 million and \$269.2 million in 2020 and 2019, respectively, versus expected returns of \$118.8 million and \$112.4 million, respectively. Differences between actual and expected returns on plan assets are accumulated and amortized during future periods. As such, any investment-related declines in these trusts will result in future increases in the net periodic cost recognized for such employee benefit plans and will be included in the determination of the amount of cash to be contributed to the employee benefit plans.

### Voluntary Retirement Program

In March 2019, Dominion Energy announced a voluntary retirement program to employees that meet certain age and service requirements. In 2019, upon determinations made concerning the number of employees that elected to participate in the program, East Ohio recorded a charge of \$32.8 million (\$25.9 million after-tax) included within other operations and maintenance expense (\$31.4 million) and other taxes (\$1.4 million) in the Statement of Income.

In April 2019, East Ohio remeasured the pension and other postretirement benefit plans as a result of the voluntary retirement program. The impact of the remeasurement on net periodic benefit cost (credit) was recognized prospectively from the remeasurement date. The discount rate used for the remeasurement was 4.10% for the pension plan and 4.05% for the other postretirement benefit plans. All other assumptions used for the remeasurement were consistent with the measurement as of December 31, 2018.

### Funded Status

The following table summarizes the changes in pension plan and other postretirement benefit plan obligations and plan assets and includes a statement of the plans' funded status for East Ohio employees represented by collective bargaining units:

Year Ended December 31, (millions, except percentages)	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
<b>Changes in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 525.2	\$ 467.4	\$ 134.8	\$ 134.4
Service cost	11.0	10.1	2.0	1.9
Interest cost	18.6	19.8	4.5	5.4
Benefits paid	(24.0)	(24.1)	(9.7)	(9.3)
Actuarial (gains) losses during the year	47.8	52.2	(0.4)	3.3
Curtailments <sup>(1)</sup>	—	(0.2)	—	(0.9)
Benefit obligation at end of year	\$ 578.6	\$ 525.2	\$ 131.2	\$ 134.8
<b>Changes in fair value of plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 1,301.4	\$ 1,083.3	\$ 143.9	\$ 126.3
Actual return on plan assets	226.2	242.2	21.1	27.0
Benefits paid	(24.0)	(24.1)	(9.7)	(9.4)
Fair value of plan assets at end of year	\$ 1,503.6	\$ 1,301.4	\$ 155.3	\$ 143.9
Funded status at end of year	\$ 925.0	\$ 776.2	\$ 24.1	\$ 9.1
<b>Amounts recognized in the Balance Sheets at December 31:</b>				
Pension and other postretirement benefit assets	\$ 925.0	\$ 776.2	\$ 24.1	\$ 9.1
Net amount recognized	\$ 925.0	\$ 776.2	\$ 24.1	\$ 9.1
<b>Significant assumptions used to determine benefit obligations as of December 31:</b>				
Discount rate	2.95%	3.63%	2.69%	3.44%
Weighted average rate of increase for compensation	4.73%	4.64%	n/a	n/a
Crediting interest rate for cash balance plan	2.15%	2.83%	n/a	n/a

(1) 2019 amounts relate to a curtailment as a result of the voluntary retirement program.

Actuarial losses recognized in 2020 and 2019 in East Ohio's pension benefit obligations include a \$52.3 million and a \$52.2 million loss, respectively, resulting from decreases in discount rates. Actuarial gains recognized during 2020 in East Ohio's other postretirement benefit obligations include a \$11.6 million actuarial gain as a result of an update to healthcare claims and other healthcare-related cost assumptions partially offset by a \$11.2 million loss resulting from a decrease in discount rates. Actuarial losses recognized during 2019 in East Ohio's other postretirement benefit obligations include a \$12.5 million loss resulting from a decrease in discount rates, partially offset by a \$9.2 million gain as a result of the impact of an update to healthcare claims and other healthcare-related cost assumptions.

The ABO for the defined benefit pension plans covering East Ohio employees represented by collective bargaining units was \$540.9 million and \$492.5 million at December 31, 2020 and 2019, respectively.

Under its funding policies, East Ohio evaluates plan funding requirements annually, usually in the fourth quarter after receiving updated plan information from its actuary. Based on the funded status of each plan and other factors, East Ohio determines the amount of contributions for the current year, if any, at that time. East Ohio did not make any contributions to its qualified defined benefit pension plans in 2020 and no contributions are currently expected in 2021.

Certain regulatory authorities have held that amounts recovered in utility customers' rates for other postretirement benefits, in excess of benefits actually paid during the year, must be deposited in trust funds dedicated for the sole purpose of paying such benefits. Accordingly, East Ohio fund a portion of other postretirement benefit costs through VEBAs. East Ohio made no contributions to VEBAs in 2020 and contributions were less than a million dollars in 2019. East Ohio does not expect to contribute to any VEBA in 2021.

East Ohio does not expect any pension or other postretirement plan assets to be returned during 2021.

As of December 31, 2020 and 2019 the fair value of plan assets exceeded the ABO for East Ohio's pension plan.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for East Ohio employees represented by collective bargaining units plans:

(millions)	Estimated Future Benefit Payments	
	Pension Benefits	Other Postretirement Benefits
2021	\$ 24.6	\$ 8.6
2022	26.3	8.6
2023	27.2	8.6
2024	28.0	8.7
2025	28.4	8.6
2026-2030	<u>146.4</u>	<u>39.5</u>

#### **Plan Assets**

East Ohio's overall objective for investing its pension and other postretirement plan assets is to achieve appropriate long-term rates of return commensurate with prudent levels of risk. As a participating employer in various pension plans sponsored by Dominion Energy, East Ohio is subject to Dominion Energy's investment policies for such plans. To minimize risk, funds are broadly diversified among asset classes, investment strategies and investment advisors. The strategic target asset allocations for East Ohio's pension funds are 28% U.S. equity, 18% non-U.S. equity, 35% fixed income, 3% real estate and 16% other alternative investments. U.S. equity includes investments in large-cap, mid-cap and small-cap companies located in the U.S. Non-U.S. equity includes investments in large-cap and small-cap companies located outside of the U.S. including both developed and emerging markets. Fixed income includes corporate debt instruments of companies from diversified industries and U.S. Treasuries. The U.S. equity, non-U.S. equity and fixed income investments are in individual securities as well as mutual funds. Real estate includes equity real estate investment trusts and investments in partnerships. Other alternative investments include partnership investments in private equity, debt and hedge funds that follow several different strategies.

East Ohio also utilizes common/collective trust funds as an investment vehicle for its defined benefit plans. A common/collective trust fund is a pooled fund operated by a bank or trust company for investment of the assets of various organizations and individuals in a well-diversified portfolio. Common/collective trust funds are funds of grouped assets that follow various investment strategies.

Strategic investment policies are established for East Ohio's prefunded benefit plans based upon periodic asset/liability studies. Factors considered in setting the investment policy include employee demographics, liability growth rates, future discount rates, the funded status of the plans and the expected long-term rate of return on plan assets. Deviations from the plans' strategic allocation are a function of East Ohio's assessments regarding short-term risk and reward opportunities in the capital markets and/or short-term market movements which result in the plans' actual asset allocations varying from the strategic target asset allocations. Through periodic rebalancing, actual allocations are brought back in line with the target. Future asset/liability studies will focus on strategies to further reduce pension and other postretirement plan risk, while still achieving attractive levels of returns. Financial derivatives may be used to obtain or manage market exposures and to hedge assets and liabilities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. However, the use of a mid-market pricing convention (the mid-point between bid and ask prices) is permitted. Fair values are based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. Fair value measurements assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity

would be able to maximize the amount received or minimize the amount paid).

Fair value is based on actively-quoted market prices, if available. In the absence of actively-quoted market prices, price information is sought from external sources, including industry publications, and to a lesser extent, broker quotes. When evaluating pricing information provided by Designated Contract Market settlement pricing, other pricing services, or brokers, East Ohio considers the ability to transact at the quoted price, i.e. if the quotes are based on an active market or an inactive market and to the extent which pricing models are used, if pricing is not readily available. If pricing information from external sources is not available, or if East Ohio believes that observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value. In those cases the unobservable inputs are developed and substantiated using historical information, available market data, third-party data, and statistical analysis. Periodically, inputs to valuation models are reviewed and revised as needed, based on historical information, updated market data, market liquidity and relationships, and changes in third-party pricing sources.

East Ohio also utilizes the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1-Quoted prices (unadjusted) in active markets for identical assets that East Ohio has the ability to access at the measurement date. This primarily includes exchange-listed securities.
- Level 2-Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset, including quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets, inputs other than quoted prices that are observable for the asset, and inputs that are derived from observable market data by correlation or other means. This primarily includes certain Treasury securities, insurance contracts, and corporate, state and municipal debt instruments.
- Level 3-Unobservable inputs for the asset, including situations where there is little, if any, market activity for the asset.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. In these cases, the lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.



The fair values of pension plan and other postretirement assets by asset category East Ohio employees represented by collective bargaining units are as follows:

At December 31,	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(millions)								
<b>Pension plan</b>								
Cash and cash equivalents	\$ 1.2	\$ 0.2	\$ —	\$ 1.4	\$ 2.6	\$ 0.1	\$ —	\$ 2.7
Common and preferred stocks:								
U.S.	355.0	—	—	355.0	335.4	—	—	335.4
International	255.0	—	—	255.0	216.2	—	—	216.2
Insurance contracts	—	60.3	—	60.3	—	52.9	—	52.9
Corporate debt instruments	4.8	155.1	—	159.9	3.9	126.1	—	130.0
Government securities	4.4	108.6	—	113.0	4.4	111.1	—	115.5
Total recorded at fair value	\$ 620.4	\$ 324.2	\$ —	\$ 944.6	\$ 562.5	\$ 290.2	\$ —	\$ 852.7
Assets recorded at NAV <sup>(1)</sup> :								
Common/collective trust funds				368.0				297.4
Alternative investments:								
Real estate funds				16.0				13.4
Private equity funds				126.4				115.5
Debt funds				24.8				23.3
Hedge funds				1.9				2.1
Total recorded at NAV				\$ 537.1				\$ 451.7
Total investments <sup>(2)</sup>				\$ 1,481.7				\$ 1,304.4
<b>Other postretirement plans</b>								
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ 0.1	\$ —	\$ —	\$ 0.1
Common and preferred stocks:								
U.S.	62.3	—	—	62.3	58.2	—	—	58.2
International	15.7	—	—	15.7	12.6	—	—	12.6
Total recorded at fair value	\$ 78.0	\$ —	\$ —	\$ 78.0	\$ 70.9	\$ —	\$ —	\$ 70.9
Assets recorded at NAV <sup>(1)</sup> :								
Common/collective trust funds				64.0				62.1
Alternative investments:								
Real estate funds				0.8				0.6
Private equity funds				12.3				10.1
Debt funds				0.2				0.2
Total recorded at NAV				\$ 77.3				\$ 73.0
Total investments				\$ 155.3				\$ 143.9

(1) These investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient which are not required to be categorized in the fair value hierarchy.

(2) Excludes net assets related to pending sales of securities of \$25.1 million, net accrued income of \$2.9 million, and includes net assets related to pending purchases of securities of \$6.1 million at December 31, 2020. Excludes net assets related to pending sales of securities of \$10.9 million, net accrued income of \$3.5 million, and includes net assets related to pending purchases of securities of \$4.4 million at December 31, 2019.

The Plan's investments are determined based on the fair values of the investments and the underlying investments, which have been determined as follows:

- *Cash and Cash Equivalents*—Investments are held primarily in short-term notes and treasury bills, which are valued at cost plus accrued interest.
- *Common and Preferred Stocks*—Investments are valued at the closing price reported on the active market on which the individual securities are traded.
- *Insurance Contracts*—Investments in Group Annuity Contracts with John Hancock were entered into after 1992 and are stated at fair value based on the fair value of the underlying securities as provided by the managers and include investments in U.S. government securities, corporate debt instruments, state and municipal debt securities.

- *Corporate Debt Instruments*—Investments are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar instruments, the instrument is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote, if available.
- *Government Securities*—Investments are valued using pricing models maximizing the use of observable inputs for similar securities.
- *Common/Collective Trust Funds*—Common/collective trust funds invest in debt and equity securities and other instruments with characteristics similar to those of the funds' benchmarks. The primary objectives of the funds are to seek investment returns that approximate the overall performance of their benchmark indexes. These benchmarks are major equity indices, fixed income indices, and money market indices that focus on growth, income, and liquidity strategies, as applicable. Investments in common/collective trust funds are stated at the NAV as determined by the issuer of the common/collective trust funds and are based on the fair value of the underlying investments held by the fund less its liabilities. The NAV is used as a practical expedient to estimate fair value. The common/collective trust funds do not have any unfunded commitments, and do not have any applicable liquidation periods or defined terms/periods to be held. The majority of the common/collective trust funds have limited withdrawal or redemption rights during the term of the investment.
- *Alternative Investments*—Investments in real estate funds, private equity funds, debt funds and hedge funds are stated at fair value based on the NAV of the Plan's proportionate share of the partnership, joint venture or other alternative investment's fair value as determined by reference to audited financial statements or NAV statements provided by the investment manager. The NAV is used as a practical expedient to estimate fair value.

### Net Periodic Benefit (Credit) Cost

The service cost component and non-service cost components of net periodic benefit (credit) cost are reflected in other operations and maintenance expense and other income, respectively, in the Statements of Income. The components of the provision for net periodic benefit (credit) cost and amounts recognized in regulatory assets and liabilities for East Ohio employees represented by collective bargaining units plans are as follows:

Year Ended December 31, (millions, except percentages)	Pension Benefits			Other Postretirement Benefits		
	2020	2019	2018	2020	2019	2018
Service cost	\$ 11.0	\$ 10.1	\$ 11.6	\$ 2.0	\$ 1.9	\$ 2.3
Interest cost	18.6	19.8	18.4	4.5	5.4	5.7
Expected return on plan assets	(107.0)	(101.4)	(98.2)	(11.8)	(11.0)	(11.7)
Amortization of prior service cost	—	—	—	0.3	0.3	0.9
Amortization of net actuarial loss	8.2	7.4	6.4	0.1	0.1	—
Net periodic benefit (credit) cost	\$ (69.2)	\$ (64.1)	\$ (61.8)	\$ (4.9)	\$ (3.3)	\$ (2.8)
<b>Changes in plan assets and benefit obligations recognized in regulatory assets and liabilities:</b>						
Current year net actuarial (gain) loss	\$ (71.4)	\$ (88.6)	\$ 134.8	\$ (9.7)	\$ (12.7)	\$ 1.5
Prior service cost	—	—	—	—	—	(3.9)
Curtailments	—	(0.2)	—	—	(0.8)	—
Less amounts included in net periodic benefit cost:						
Amortization of net actuarial loss	(8.2)	(7.4)	(6.4)	(0.1)	(0.1)	—
Amortization of prior service credit (cost)	—	—	—	(0.3)	(0.3)	(0.9)
Total recognized in regulatory assets and liabilities	\$ (79.6)	\$ (96.2)	\$ 128.4	\$ (10.1)	\$ (13.9)	\$ (3.3)
<b>Significant assumptions used to determine periodic cost:</b>						
Discount rate	3.63%	4.10% - 4.42%	3.81%	2.69%	4.05% - 4.37%	3.76%
Expected long-term rate of return on plan assets	8.60%	8.65%	8.75%	8.50%	8.50%	8.50%
Weighted average rate of increase for compensation	4.64%	4.64%	4.55%	n/a	n/a	n/a
Crediting interest rate for cash balance plan	2.83%	3.30% - 3.62%	n/a	n/a	n/a	n/a
Healthcare cost trend rate <sup>(1)</sup>	n/a	n/a	n/a	6.25%	6.50%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) <sup>(1)</sup>	n/a	n/a	n/a	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate <sup>(1)</sup>	n/a	n/a	n/a	2025-2026	2025	2021

(1) Assumptions used to determine net periodic cost for the following year.

The components of regulatory assets and liabilities for East Ohio plans associated with employees represented by collective bargaining units that have not been recognized as components of net periodic benefit cost are as follows:

At December 31, (millions)	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Net actuarial (gain) loss	\$ 105.2	\$ 184.9	\$ (6.0)	\$ 3.8
Prior service cost	—	—	1.1	1.4
Total	\$ 105.2	\$ 184.9	\$ (4.9)	\$ 5.2

The expected long-term rates of return on plan assets, discount rates, healthcare cost trend rates and mortality are critical assumptions in determining net periodic benefit (credit) cost. East Ohio develops non-investment related assumptions, which are then compared to the forecasts of an independent investment advisor to ensure reasonableness. An internal committee

selects the final assumptions used for East Ohio's pension and other postretirement plans including discount rates, expected long-term rates of return, healthcare cost trend rates and mortality rates.

East Ohio determines the expected long-term rates of return on plan assets for its pension plans and other postretirement benefit plans, by using a combination of:

- Expected inflation and risk-free interest rate assumptions;
- Historical return analysis to determine long term historic returns as well as historic risk premiums for various asset classes;
- Expected future risk premiums, asset classes' volatilities and correlations;
- Forward-looking return expectations derived from the yield on long-term bonds and the expected long-term returns of major capital market assumptions; and
- Investment allocation of plan assets.

East Ohio determines discount rates from analyses of AA/Aa rated bonds with cash flows matching the expected payments to be made under its plans.

Mortality rates are developed from actual and projected plan experience for postretirement benefit plans. East Ohio's actuary conducts an experience study periodically as part of the process to select its best estimate of mortality. East Ohio considers both standard mortality tables and improvement factors as well as the plans' actual experience when selecting a best estimate.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for East Ohio's retiree healthcare plans. East Ohio establishes the healthcare cost trend rate assumption based on analyses of various factors including the specific provisions of its medical plan, actual cost trends experienced and projected and demographics of plan participants.

#### **East Ohio (Employees Not Represented by Collective Bargaining Units) – Participation in Defined Benefit Plans**

East Ohio employees not represented by collective bargaining units are covered by the Dominion Energy Pension Plan, a defined benefit pension plan sponsored by Dominion Energy, which provides benefits to multiple Dominion Energy subsidiaries. Retirement benefits payable are based primarily on years of service, age and the employee's compensation. As a participating employer, East Ohio is subject to Dominion Energy's funding policy, which is to contribute annually an amount that is in accordance with the provisions of the Employee Retirement Income Security Act of 1974. During 2020, no contributions to the plan were made by East Ohio and no contributions are currently expected in 2021. Net periodic pension credit related to the plan was \$(24.2) million, \$(17.6) million and \$(21.0) million in 2020, 2019 and 2018, respectively, recorded in other operations and maintenance expense in the Statements of Income. The funded status of various Dominion Energy subsidiary groups and employee compensation are the basis for determining the share of total pension costs for participating Dominion Energy subsidiaries. At December 31, 2020 and 2019, the amount due from Dominion Energy associated with this plan, was \$484.0 million and \$459.8 million, respectively, recorded in pension and other postretirement benefit assets in the Balance Sheets.

Retiree healthcare and life insurance benefits for East Ohio employees not represented by collective bargaining units are covered by the Dominion Energy Retiree Health and Welfare Plan which is sponsored by Dominion Energy. These plans provide certain retiree healthcare and life insurance benefits to multiple Dominion Energy subsidiaries. Annual employee premiums are based on several factors such as retirement date and years of service. Net periodic benefit credit related to this plan was \$(2.8) million, less than a million and \$(1.9) million in 2020, 2019 and 2018, respectively, recorded in other operations and maintenance expense in the Statements of Income. Employee headcount is the basis for determining the share of total other postretirement benefit costs for participating Dominion Energy subsidiaries. At December 31, 2020 and 2019 the amount due from Dominion Energy associated with this plan was \$8.1 million and \$5.1 million, respectively, recorded in pension and other postretirement benefit assets in the Balance Sheets.

#### **Defined Contribution Plan**

East Ohio also participates in a Dominion Energy-sponsored defined contribution plan which covers multiple Dominion Energy subsidiaries. East Ohio recognized \$4.0 million, \$4.0 million and \$4.1 million of expense in other operations and maintenance expense in the Statements of Income in 2020, 2019 and 2018, respectively, as employer matching contributions to this plan.

## **NOTE 15. COMMITMENTS AND CONTINGENCIES**

As a result of issues generated in the ordinary course of business, East Ohio is involved in legal proceedings before various courts and is periodically subject to governmental examinations (including by regulatory authorities), inquiries and investigations. Certain legal proceedings and governmental examinations involve demands for unspecified amounts of damages, are in an initial procedural phase, involve uncertainty as to the outcome of pending appeals or motions, or involve significant factual issues that need to be resolved, such that it is not possible for East Ohio to estimate a range of possible loss. For such matters that East Ohio cannot estimate, a statement to this effect is made in the description of the matter. Other matters may have progressed sufficiently through the litigation or investigative processes such that East Ohio is able to estimate a range of possible loss. For legal proceedings and governmental examinations that East Ohio is able to reasonably estimate a range of possible losses, an estimated range of possible loss is provided, in excess of the accrued liability (if any) for such matters. Any accrued liability is recorded on a gross basis with a receivable also recorded for any probable insurance recoveries. Estimated ranges of loss are inclusive of legal fees and net of any anticipated insurance recoveries. Any estimated range is based on currently available information and involves elements of judgment and significant uncertainties. Any estimated range of possible loss may not represent East Ohio's maximum possible loss exposure. The circumstances of such legal proceedings and governmental examinations will change from time to time and actual results may vary significantly from the current estimate. For current proceedings not specifically reported below, management does not anticipate that the liabilities, if any, arising from such proceedings would have a material effect on East Ohio's financial position, liquidity or results of operations.

The operations of East Ohio are subject to a variety of state and federal laws and regulations governing the management and disposal of solid and hazardous waste, and release of hazardous substances associated with current and/or historical operations. The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and similar state laws, may impose joint, several and strict liability for cleanup on potentially responsible parties who owned, operated or arranged for disposal at facilities affected by a release of hazardous substances. In addition, many states have created programs to incentivize voluntary remediation of sites where historical releases of hazardous substances are identified and property owners or responsible parties decide to initiate cleanups.

From time to time, East Ohio may be identified as a potentially responsible party in connection with the alleged release of hazardous substances or wastes at a site. Under applicable federal and state laws, East Ohio could be responsible for costs associated with the investigation or remediation of impacted sites, or subject to contribution claims by other responsible parties for their costs incurred at such sites. East Ohio also may identify, evaluate and remediate other potentially impacted sites under voluntary state programs. Remediation costs may be subject to reimbursement under East Ohio's insurance policies, rate recovery mechanisms, or both. Except as described below, East Ohio does not believe these matters will have a material effect on results of operations, financial condition and/or cash flows.

East Ohio has determined that it is associated with former manufactured gas plant sites. Remediation work was previously substantially completed at two sites under federal or state oversight. East Ohio is developing remediation plans at one site, and expects to conduct remediation activities at that site primarily in 2021. At December 31, 2020 and 2019, East Ohio had \$6 million and \$8 million, respectively, of reserves recorded, including \$4 million and \$8 million recorded to other operations and maintenance expense for the years ended December 31, 2020 and 2019, respectively. East Ohio is associated with nine additional sites which are not under investigation by any state or federal environmental agency nor the subject of any current or proposed plans to perform remediation activities. Due to the uncertainty surrounding such sites, East Ohio is unable to make an estimate of the potential financial statement impacts.

### **Surety Bonds**

At December 31, 2020, East Ohio had purchased \$6.3 million of surety bonds. Under the terms of surety bonds, East Ohio is obligated to indemnify the respective surety bond company for any amounts paid.

## **NOTE 16. CREDIT RISK**

Credit risk is the risk of financial loss if counterparties fail to perform their contractual obligations. In order to minimize overall credit risk, credit policies are maintained, including requiring customer deposits and the evaluation of counterparty financial condition.

East Ohio transacts mainly with residential, commercial and industrial energy consumers. These transactions principally occur in the eastern region of Ohio. East Ohio does not believe that this geographic concentration contributes to its overall exposure to credit risk. In addition, as a result of its large and diverse customer base, East Ohio is not exposed to a significant concentration of credit risk for receivables arising from gas utility operations. East Ohio's gross credit exposure for each counterparty is calculated as outstanding receivables plus any unrealized on- or off-balance sheet exposure, taking into account contractual netting rights. Gross credit exposure is calculated prior to the application of collateral. At December 31, 2020, East

Ohio's credit exposure totaled \$5.8 million. Of this amount, one investment grade counterparty, represented 61% of the total exposure.

East Ohio distributes natural gas to residential, commercial and industrial customers in Ohio using rates established by the Ohio Commission. Approximately 99% of East Ohio revenues are derived from its regulated gas distribution services. East Ohio's bad debt risk is mitigated by the regulatory framework established by the Ohio Commission. See Note 8 for further information about Ohio's PIPP and UEX Riders that mitigate East Ohio's overall credit risk.

## **NOTE 17. RELATED-PARTY TRANSACTIONS**

East Ohio engages in related-party transactions primarily with other Dominion Energy subsidiaries (affiliates). East Ohio's receivable and payable balances with affiliates are settled based on contractual terms or on a monthly basis, depending on the nature of the underlying transactions.

East Ohio participates in certain Dominion Energy benefit plans as described in Note 14. In addition, East Ohio has entered into various borrowing agreements with Dominion Energy and its subsidiaries (affiliates) as described in Note 12. A discussion of the remaining significant related-party transactions follows.

### **Transactions with Affiliates**

DES provides accounting, legal, finance and certain administrative and technical services to East Ohio. See Note 11 for more information.

East Ohio provided to and received from DETI certain services while it was an affiliated entity. Expenses recognized in association with purchased transportation and storage services from DETI were \$16.9 million for the year ended December 31, 2020 and \$22.2 million for both the years ended December 31, 2019 and 2018, presented in purchased gas in the Statements of Income. Revenue recognized from transportation and storage services provided to DETI was \$4.1 million for the year ended December 31, 2020 and \$5.9 million for both the years ended December 31, 2019 and 2018, presented in operating revenue in the Statements of Income. The Balance Sheet included amounts due to DETI of \$2.1 million at December 31, 2019.

East Ohio provides balancing and storage services to Dominion Energy Solutions, Inc. Revenue recognized in association with these services were \$0.9 million, \$1.6 million and \$2.8 million for the years ended December 31, 2020, 2019 and 2018, respectively, presented in operating revenue in the Statements of Income. In addition, East Ohio provided billing and collection services to Dominion Energy Solutions, Inc. and other gas marketing companies in Ohio through November 2020. At December 31, 2019, East Ohio had recorded a payable to Dominion Energy Solutions, Inc. of \$14.5 million. No payables were recorded to Dominion Energy Solutions, Inc. at December 31, 2020.

### **Contributions from Dominion Energy**

In 2020, Dominion Energy contributed \$9.4 million to East Ohio. This contribution was used by East Ohio to purchase telecom towers from DETI as part of the Berkshire Hathaway Energy Company sale.

In 2019, Dominion Energy contributed \$657.0 million to East Ohio. This contribution was used by East Ohio for the repayment of short term affiliated current borrowings with Dominion Energy Gas.

## **NOTE 18. SUBSEQUENT EVENTS**

East Ohio has evaluated subsequent events through the date that these financial statements were available to be issued on March 29, 2021.