UGI ENERGY SERVICES, LLC
AND SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
and MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
for the three months ended December 31, 2020 and 2019
(Unaudited)

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

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UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this document are defined below:

UGI Energy Services and Related Entities

***AmeriGas* -** AmeriGas Propane, L.P., an indirect wholly-owned subsidiary of UGI

***Company* -** UGI Energy Services, LLC and its consolidated subsidiaries collectively

***Energy Services* -** UGI Energy Services, LLC, a wholly-owned subsidiary of Enterprises

***Enterprises* -** UGI Enterprises, LLC, a wholly-owned subsidiary of UGI

***Pennant* -** Pennant Midstream, LLC, a Delaware limited liability company

***PennEast* -** PennEast Pipeline Company, LLC

UGI - UGI Corporation

UGI Appalachia - UGI Appalachia, LLC, a wholly-owned subsidiary of Energy Services

***UGI PennEast, LLC* -** A wholly-owned subsidiary of Energy Services that holds a 20% membership interest in PennEast

***UGI Utilities* -** UGI Utilities, Inc., a wholly-owned subsidiary of UGI

***UGID* -** UGI Development Company, a wholly-owned subsidiary of Energy Services

Other Terms and Abbreviations

***2020 Annual Report* -** Energy Services' Annual Report for the fiscal year ended September 30, 2020

2019 three-month period - Three months ended December 31, 2019

2020 three-month period - Three months ended December 31, 2020

***AOCI* -** Accumulated Other Comprehensive Income (Loss)

***ASC* -** Accounting Standards Codification

***ASC 606* -** ASC 606, "Revenue from Contracts with Customers"

***ASU* -** Accounting Standards Update

***CARES Act* -** Coronavirus Aid, Relief, and Economic Security Act

CDC - Centers for Disease Control and Prevention

CMG - Columbia Midstream Group, LLC

***COVID-19* -** A novel strain of coronavirus disease discovered in 2019

Energy Services 2020 Credit Agreement - Third Amended and Restated Credit Agreement entered into on March 6, 2020 by Energy Services, as borrower, providing for borrowings up to $260 million, including a letter of credit subfacility of up to $50 million, scheduled to expire in March 2025

Energy Services Credit Agreement - Second Amended and Restated Credit Agreement entered into by Energy Services, as borrower, providing for borrowings up to $200 million, including a letter of credit subfacility of up to $50 million prior to its replacement by the Energy Services 2020 Credit Agreement

***FASB* -** Financial Accounting Standards Board

FERC - Federal Energy Regulatory Commission

Fiscal 2020 - The fiscal year ended September 30, 2020

Fiscal 2021 - The fiscal year ending September 30, 2021

Fiscal 2022 - The fiscal year ending September 30, 2022

GAAP - U.S. generally accepted accounting principles

ICE - Intercontinental Exchange

LNG - Liquefied natural gas

NOL - Net operating loss

NPNS - Normal purchase and normal sale

NYMEX - New York Mercantile Exchange

Receivables Facility - A receivables purchase facility of Energy Services with an issuer of receivables-backed commercial paper

SCAA - Storage Contract Administrative Agreements

USD - U.S. dollar

WHO - World Health Organization

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(Millions of dollars)

	December 31, 2020	September 30, 2020	December 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents	$ 24	$ 23	$ 24
Restricted cash	25	9	44
Accounts receivable (less allowances for doubtful accounts of $2, $2 and $1, respectively)	177	99	163
Inventories	21	25	22
Derivative instruments	7	18	4
Prepaid expenses and other current assets	49	40	14
Total current assets	303	214	271
Property, plant and equipment (less accumulated depreciation of $271, $256 and $271, respectively)	1,704	1,704	1,733
Goodwill	336	336	336
Intangible assets, net	275	280	271
Derivative instruments	1	7	5
Investments in equity method investees	197	190	185
Other assets	39	35	34
Total assets	$ 2,855	$ 2,766	$ 2,835
LIABILITIES AND MEMBER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 10	$ 10	$ 10
Short-term borrowings	79	19	88
Accounts payable	106	94	119
Derivative instruments	27	21	32
Other current liabilities	51	42	63
Total current liabilities	273	186	312
Long-term debt	709	711	717
Deferred income taxes	208	199	145
Derivative instruments	29	29	14
Other noncurrent liabilities	14	14	20
Total liabilities	1,233	1,139	1,208
Commitments and contingencies (Note 5)			
Member's equity	1,622	1,627	1,627
Total liabilities and member's equity	$ 2,855	$ 2,766	$ 2,835

See accompanying notes to condensed consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(Millions of dollars)

	Three Months Ended December 31,	
	2020	2019
Revenues	$ 342	$ 364
Costs and expenses:		
Cost of sales (excluding depreciation and amortization shown below)	266	268
Operating and administrative expenses	31	30
Depreciation and amortization	18	18
Other operating income, net	2	—
	317	316
Operating income	25	48
Income from equity method investees	7	7
Interest expense	(10)	(12)
Income before income taxes	22	43
Income tax expense	(4)	(12)
Net income	$ 18	$ 31
Other comprehensive income:		
Net gains on derivative instruments (net of tax of $0 and $(1), respectively)	$ —	$ 3
Reclassifications of net losses on derivative instruments (net of tax of $0 and $0, respectively)	2	1
Other comprehensive income	2	4
Comprehensive income	$ 20	$ 35

See accompanying notes to condensed consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Millions of dollars)

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 18	$ 31
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18	18
Deferred income taxes, net	(8)	(2)
Changes in unrealized gains and losses on derivative instruments	27	7
Income from equity method investees	(7)	(7)
Other, net	9	(5)
Net change in:		
Accounts receivable	(81)	(70)
Inventories	4	1
Accounts payable	23	43
Other current assets	(16)	—
Other current liabilities	26	25
Net cash provided by operating activities	13	41
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(28)	(28)
Other	(1)	—
Net cash used by investing activities	(29)	(28)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions paid	(25)	—
Receivables Facility net borrowings	56	22
Increase (decrease) in short-term borrowings	4	(25)
Repayments of long-term debt and finance leases	(2)	(2)
Net cash provided (used) by financing activities	33	(5)
Cash, cash equivalents and restricted cash increase	$ 17	$ 8
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
End of period	$ 49	$ 68
Beginning of period	32	60
Cash, cash equivalents and restricted cash increase	$ 17	$ 8

See accompanying notes to condensed consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

(Unaudited)

(Millions of dollars)

	Member's Equity
Balance at September 30, 2020	$ 1,627
Net income	18
Cash distributions	(25)
Changes in AOCI balance (Note 8)	2
Balance at December 31, 2020	$ 1,622

	Member's Equity
Balance at September 30, 2019	$ 1,592
Net income	31
Changes in AOCI balance (Note 8)	4
Balance at December 31, 2019	$ 1,627

See accompanying notes to condensed consolidated financial statements.

(Millions of dollars, except where indicated otherwise)

Note 1 — Nature of Operations

Energy Services is a Pennsylvania limited liability company and a wholly-owned subsidiary of Enterprises. Enterprises is a wholly-owned subsidiary of UGI. Energy Services is a sole member limited liability company with Enterprises owning 100% of the membership interest.

Energy Services conducts, directly and through subsidiaries, energy marketing, including renewable natural gas, midstream transmission, LNG storage, natural gas gathering and processing, natural gas production, electricity generation and energy services businesses primarily in the Mid-Atlantic region of the U.S., eastern Ohio and the panhandle of West Virginia. UGID owns electricity generation facilities principally located in Pennsylvania. Energy Services and its subsidiaries' storage, LNG and portions of its midstream transmission operations are subject to regulation by the FERC.

Note 2 — Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP. They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2020, Condensed Consolidated Balance Sheet was derived from audited financial statements but does not include all footnote disclosures from the annual financial statements.

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's 2020 Annual Report. Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Equity Method Investments. We account for privately held equity securities of entities without readily determinable fair values in which we do not have control, but have significant influence over operating and financial policies, under the equity method. Our equity method investments are primarily comprised of PennEast and Pennant.

UGI PennEast, LLC and four other members comprising wholly-owned subsidiaries of Southern Company, New Jersey Resources, South Jersey Industries, and Enbridge, Inc., each hold a 20% membership interest in PennEast. In September 2019, a panel of the U.S. Court of Appeals for the Third Circuit ruled that New Jersey's Eleventh Amendment immunity barred PennEast from bringing an eminent domain lawsuit in federal court, under the Natural Gas Act, against New Jersey or its agencies. PennEast also filed a petition for declaratory order with the FERC regarding interpretation of the Natural Gas Act; the FERC issued an order favorable to PennEast's position on January 30, 2020. PennEast filed a petition for a writ of certiorari to seek U.S. Supreme Court review of the Third Circuit decision on February 18, 2020. On June 29, 2020, the U.S. Supreme Court invited the U.S. Solicitor General to file a brief in the case expressing the views of the U.S. On December 9, 2020, the U.S. Solicitor General filed a brief supporting PennEast's petition for a writ of certiorari. On February 3, 2021, the U.S. Supreme Court issued an order granting PennEast's petition for a writ of certiorari. The case will be set for argument in the April 2021 argument session. The ultimate outcome of these matters cannot be determined at this time, and could result in delays, additional costs, or the inability to move forward with the project, resulting in an impairment of all or a portion of our investment in PennEast.

Restricted Cash. Restricted cash principally represents those cash balances in our commodity futures brokerage accounts that are restricted from withdrawal. The following table provides a reconciliation of the total cash, cash equivalents and restricted cash reported on the Condensed Consolidated Balance Sheets to the corresponding amounts reported on the Condensed Consolidated Statements of Cash Flows.

	December 31, 2020	December 31, 2019	September 30, 2020	September 30, 2019
Cash and cash equivalents	$ 24	$ 24	$ 23	$ 26
Restricted cash	25	44	9	34
Cash, cash equivalents and restricted cash	$ 49	$ 68	$ 32	$ 60

Derivative Instruments. Derivative instruments are reported on the Condensed Consolidated Balance Sheets at their fair values, unless the NPNS exception is elected. The accounting for changes in fair value depends upon the purpose of the derivative instrument or if it qualifies and is designated as a hedge for accounting purposes.

Certain of our derivative instruments qualify and are designated as cash flow hedges. For cash flow hedges, changes in the fair values of the derivative instruments are recorded in AOCI, to the extent effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. We discontinue cash flow hedge accounting if occurrence of the forecasted transaction is determined to be no longer probable. Hedge accounting is also discontinued for derivatives that cease to be highly effective. We do not designate our commodity derivative instruments as hedges under GAAP. Changes in the fair values of these derivative instruments are reflected in net income. Cash flows from derivative instruments are included in cash flows from operating activities on the Condensed Consolidated Statements of Cash Flows.

For a more detailed description of the derivative instruments we use, our accounting for derivatives, our objectives for using them and other information see Note 7.

Use of Estimates. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and costs. These estimates are based on management's knowledge of current events, historical experience and various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may be different from these estimates and assumptions.

Reclassifications. Certain prior-period amounts have been reclassified to conform to the current-period presentation.

Subsequent Events. Management has evaluated the impact of subsequent events through February 10, 2021, the date these financial statements were issued, and the effects of such evaluation have been reflected in the financial statements and related disclosures.

Note 3 — Accounting Changes

New Accounting Standard Adopted in Fiscal 2021

Credit Losses. In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU, as subsequently amended, requires entities to estimate lifetime expected credit losses for financial instruments not measured at fair value through net income, including trade and other receivables, net investments in leases, financial receivables, debt securities, and other financial instruments, which may result in earlier recognition of credit losses. Further, the new current expected credit loss model may affect how entities estimate their allowance for losses related to receivables that are current with respect to their payment terms. Effective October 1, 2020, the Company adopted this ASU, as updated, using a modified retrospective transition approach. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

Accounting Standard Not Yet Adopted

Income Taxes. In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU simplifies the accounting for income taxes by eliminating certain exceptions within the existing guidance for recognizing deferred taxes for equity method investments, performing intraperiod allocations and calculating income taxes in interim periods. Further, this ASU clarifies existing guidance related to, among other things, recognizing deferred taxes for goodwill and allocated taxes to members of a consolidated group. This new guidance is effective for the Company for interim and annual periods beginning October 1, 2021 (Fiscal 2022). Early adoption is permitted. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance and determining the period in which the new guidance will be adopted.

Note 4 — Revenue from Contracts with Customers

Energy Services recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. See Note 4 in the Company's 2020 Annual Report for additional information on our revenues from contracts with customers.

(Millions of dollars, except where indicated otherwise)

Revenue Disaggregation

The following table presents our disaggregated revenues:

	Three Months Ended December 31, 2020	2019
Revenues from contracts with customers:		
Energy Marketing	$ 251	$ 265
Midstream:		
Pipeline	45	43
Peaking	38	42
Other	2	1
Electricity Generation	4	9
Total revenues from contracts with customers	340	360
Other revenues (a)	2	4
Total revenues	$ 342	$ 364

(a) Represents revenues from certain gathering assets and gains and losses on commodity derivative instruments not associated with current-period transactions that are not within the scope of ASC 606 and are accounted for in accordance with other GAAP.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers or cash receipts. Contract assets represent our right to consideration after the performance obligations have been satisfied when such right is conditioned on something other than the passage of time. There were no contract assets for all periods presented. Substantially all of our receivables are unconditional rights to consideration and are included in “Accounts receivable.” Amounts billed are generally due within the following month.

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company’s obligations to transfer goods or services to a customer for which we have received consideration. The balances of contract liabilities were $12, $2 and $9 at December 31, 2020, September 30, 2020 and December 31, 2019, respectively, and are included in “Other current liabilities” on the Condensed Consolidated Balance Sheets.

Note 5 — Commitments and Contingencies

There are currently no pending claims or legal actions that could have a material adverse effect on our financial position or results of operations.

(Millions of dollars, except where indicated otherwise)

Note 6 — Fair Value Measurements

Derivative Instruments

The following table presents on a gross basis, our financial assets and liabilities, including both current and noncurrent portions, that are measured at fair value on a recurring basis within the fair value hierarchy:

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
December 31, 2020:				
Derivative instruments:				
Assets:				
Commodity contracts	$ 37	$ 7	$ —	$ 44
Liabilities:				
Commodity contracts	$ (53)	$ (9)	$ —	$ (62)
Interest rate contracts	$ —	$ (30)	$ —	$ (30)
September 30, 2020:				
Derivative instruments:				
Assets:				
Commodity contracts	$ 54	$ 7	$ —	$ 61
Liabilities:				
Commodity contracts	$ (47)	$ (7)	$ —	$ (54)
Interest rate contracts	$ —	$ (32)	$ —	$ (32)
December 31, 2019:				
Derivative instruments:				
Assets:				
Commodity contracts	$ 16	$ 8	$ —	$ 24
Interest rate contracts	$ —	$ 2	$ —	$ 2
Liabilities:				
Commodity contracts	$ (56)	$ (7)	$ —	$ (63)

The fair values of our Level 1 exchange-traded commodity futures and non-exchange-traded commodity futures and forward contracts are based upon actively quoted market prices for identical assets and liabilities. The remainder of our derivative instruments are designated as Level 2. The fair values of certain non-exchange traded commodity derivatives designated as Level 2 are based upon indicative price quotations available through brokers, industry price publications or recent market transactions and related market indicators. The fair values of our Level 2 interest rate contracts are based upon third-party quotes or indicative values based on recent market transactions.

Note 7 — Derivative Instruments & Hedging Activities

We are exposed to certain market risks related to our ongoing business operations. Management uses derivative financial and commodity instruments, among other things, to manage: (1) commodity price risk; and (2) interest rate risk. Although we use derivative financial and commodity instruments to reduce market risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for speculative or trading purposes. The use of derivative instruments is controlled by our risk management and credit policies, which govern, among other things, the derivative instruments we can use, counterparty credit limits and contract authorization limits. Although our commodity derivative instruments extend over a number of years, a significant portion of our commodity derivative instruments economically hedge commodity price risk during the next twelve months. For information on the accounting for our derivative instruments, see Note 2.

The following summarizes the types of derivative instruments used by the Company to manage certain market risks:

Commodity Price Risk

In order to manage market price risk relating to fixed-price sales contracts for natural gas and electricity, the Company enters into NYMEX and over-the-counter natural gas futures and options contracts, ICE natural gas basis swap contracts, and electricity futures and forward physical contracts. The Company also uses NYMEX and over the counter electricity futures contracts to economically hedge the price of a portion of its anticipated future sales of electricity from its electric generation facilities. Also, Midstream & Marketing, from time to time, uses NYMEX futures contracts to economically hedge the gross margin associated with the purchase and anticipated later near-term sale of propane. At December 31, 2020, September 30, 2020 and December 31, 2019, volumes associated with these propane contracts were not material.

Interest Rate Risk

Energy Services has a variable-rate term loan that is indexed to a short-term market interest rate. In order to fix the underlying short-term market interest rate, Energy Services has entered into a pay-fixed, receive-variable interest rate swap to effectively fix the underlying variable rate on a significant portion of the loan's tenor through July 2024. We have designated this interest rate swap as a cash flow hedge.

Quantitative Disclosures Related to Derivative Instruments

The following table summarizes by derivative type the gross notional amounts related to open derivative contracts at December 31, 2020, September 30, 2020, and December 31, 2019, and the final settlement dates of the Company's open derivative contracts as of December 31, 2020, excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	December 31, 2020	September 30, 2020	December 31, 2019
Commodity Price Risk:					
Natural gas futures, forward, basis swap, options and pipeline contracts	Dekatherms	May 2025	303	303	331
Electricity long forward and futures contracts	Kilowatt hours	December 2024	1,140	1,082	813
Electricity short forward and futures contracts	Kilowatt hours	December 2024	97	188	556
Interest Rate Risk:					
Interest rate swaps	USD	July 2024	$ 655	$ 691	$ 697

Derivative Instrument Credit Risk

We are exposed to risk of loss in the event of nonperformance by our derivative instrument counterparties. Our derivative instrument counterparties principally comprise large energy companies and major U.S. and international financial institutions. We maintain credit policies with regard to our counterparties that we believe reduce overall credit risk. These policies include evaluating and monitoring our counterparties' financial condition, including their credit ratings, and entering into agreements with counterparties that govern credit limits or entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate. Certain of these agreements call for the posting of collateral by the counterparty or by the Company in the forms of letters of credit, parental guarantees or cash. Additionally, our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. Restricted cash in brokerage accounts is reported in "Restricted cash" on the Condensed Consolidated Balance Sheets. Although we have concentrations of credit risk associated with derivative instruments, the maximum amount of loss we would incur if these counterparties failed to perform according to the terms of their contracts, based upon the gross fair values of the derivative instruments, was not material at December 31, 2020. We generally do not have credit-risk-related contingent features in our derivative contracts.

(Millions of dollars, except where indicated otherwise)

Offsetting Derivative Assets and Liabilities

Derivative assets and liabilities are presented net by counterparty on the Condensed Consolidated Balance Sheets if the right of offset exists. We offset amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against amounts recognized for derivative instruments executed with the same counterparty. Our derivative instruments include both those that are executed on an exchange through brokers and centrally cleared and over-the-counter transactions. Exchange contracts utilize a financial intermediary, exchange, or clearinghouse to enter, execute, or clear the transactions. Over-the-counter contracts are bilateral contracts that are transacted directly with a third party. Certain over-the-counter and exchange contracts contain contractual rights of offset through master netting arrangements, derivative clearing agreements, and contract default provisions. In addition, the contracts are subject to conditional rights of offset through counterparty nonperformance, insolvency or other conditions.

In general, most of our over-the-counter transactions and all exchange contracts are subject to collateral requirements. Types of collateral generally include cash or letters of credit. Cash collateral paid by us to our over-the-counter derivative counterparties, if any, is reflected in the table below to offset derivative liabilities. Cash collateral received by us from our over-the-counter derivative counterparties, if any, is reflected in the table below to offset derivative assets. Certain other accounts receivable and accounts payable balances recognized on the Condensed Consolidated Balance Sheets with our derivative counterparties are not included in the table below but could reduce our net exposure to such counterparties because such balances are subject to master netting or similar arrangements.

Fair Value of Derivative Instruments

The following table presents the Company's derivative assets and liabilities by type, as well as the effects of offsetting:

	December 31, 2020	September 30, 2020	December 31, 2019
Derivative assets:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ —	$ —	$ 2
Derivatives not designated as hedging instruments:			
Commodity contracts	44	61	24
Total derivative assets - gross	44	61	26
Gross amounts offset in balance sheet	(36)	(36)	(17)
Total derivative assets - net	$ 8	$ 25	$ 9
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ (30)	$ (32)	$ —
Derivatives not designated as hedging instruments:			
Commodity contracts	(62)	(54)	(63)
Total derivative liabilities - gross	(92)	(86)	(63)
Gross amounts offset in balance sheet	36	36	17
Total derivative liabilities - net	$ (56)	$ (50)	$ (46)

(Millions of dollars, except where indicated otherwise)

Effects of Derivative Instruments

The following tables provide information on the effects of derivative instruments on the Condensed Consolidated Statements of Comprehensive Income for three months ended December 31, 2020 and 2019:

Three Months Ended December 31,	Gain Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2020	2019	2020	2019	
Cash Flow Hedges:					
Interest rate contracts	$ —	$ 4	$ (2)	$ (1)	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2020	2019	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ 3	$ 2	Revenues
Commodity contracts	(51)	(20)	Cost of sales
Total	$ (48)	$ (18)	

We are also a party to a number of other contracts that have elements of a derivative instrument. However, these contracts qualify for NPNS exception accounting under GAAP because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold. These contracts include, among others, binding purchase orders, contracts that provide for the purchase and delivery, or sale, of energy products, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments.

Note 8 — Accumulated Other Comprehensive Income (Loss)

The tables below presents changes in AOCI, net of tax:

Three Months Ended December 31, 2020	Derivative Instruments
AOCI - September 30, 2020	$ (22)
Amounts reclassified from AOCI	2
Other comprehensive income	2
AOCI - December 31, 2020	$ (20)
Three Months Ended December 31, 2019:	
AOCI - September 30, 2019	$ (2)
Other comprehensive income before reclassification adjustments	3
Amounts reclassified from AOCI:	1
Other comprehensive income	4
AOCI - December 31, 2019	$ 2

(Millions of dollars, except where indicated otherwise)

Note 9 — Related Party Transactions

SCAA Activities. From time to time, Energy Services is a party to SCAAs with UGI Utilities which have terms of up to three years. Under the SCAAs, UGI Utilities has, among other things, released certain natural gas storage and transportation contracts (subject to recall for operational purposes) to Energy Services for the terms of the SCAAs. UGI Utilities also transferred certain associated natural gas storage inventories upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the term of the SCAAs. Energy Services receives payments from UGI Utilities for storage inventories and pipeline transportation and storage capacity charges associated with SCAAs. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. In conjunction with the SCAAs, Energy Services pays UGI Utilities security deposits.

Gas Supply and Delivery Services. UGI Utilities purchases natural gas and pipeline capacity from Energy Services. Additionally, UGI Utilities has gas supply and delivery service agreements with Energy Services pursuant to which Energy Services provides certain gas supply and related delivery service to UGI Utilities.

From time to time, Energy Services purchases natural gas or pipeline capacity from UGI Utilities. Also from time to time, Energy Services sells natural gas and pipeline capacity to UGI Utilities (in addition to those transactions already described above).

Administrative Services. UGI provides certain financial and administrative services to the Company. UGI bills the Company monthly for all direct expenses and for an allocated share of indirect corporate expenses incurred or paid on behalf of the Company. The allocation of indirect UGI corporate expenses to the Company utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers the Company's relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services were provided. Management believes that this allocation method is reasonable and equitable to the Company.

Propane Sales. From time to time, Energy Services sells propane to AmeriGas on an as needed basis. The sales price is generally based on market prices at the time of sale. There were no sales of propane by Energy Services to AmeriGas during the three months ended December 31, 2020 and 2019.

The following related party balances are included in our condensed consolidated financial statements:

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Classification on Condensed Consolidated Statements of Comprehensive Income
SCAA Activities:			
SCAA revenues	$ 3	$ 2	Revenues
Costs of SCAA and firm delivery service	$ 1	$ 1	Cost of sales
Gas Supply and Delivery Service:			
Gas supply and delivery service revenues	$ 59	$ 61	Revenues
Costs of natural gas and pipeline capacity purchases	$ 15	$ 14	Cost of sales
Administrative Services:			
Administrative services provided by UGI	$ 3	$ 3	Operating and administrative expenses

	December 31, 2020	September 30, 2020	December 31, 2019	Classification on Condensed Consolidated Balance Sheets
SCAA security deposits	$ 8	$ 8	$ 8	Prepaid expenses and other current assets

Note 10 — Impact of Global Pandemic

In March 2020, the WHO declared a global pandemic attributable to the outbreak and continued spread of COVID-19 that has had a significant impact throughout the global economy. In connection with the mitigation and containment procedures recommended by the WHO, the CDC, and as imposed by federal, state, and local governmental authorities, including shelter-in-place orders, quarantines and similar restrictions, the Company implemented a variety of procedures to protect its employees, third-party business partners, and customers worldwide. The Company continues to provide essential products and services to its customers in a safe and reliable manner, and will continue to do so in compliance with mandated restrictions presented by each of the markets it serves. The Company continues to evaluate and react to the potential effects of a prolonged disruption and the continued impact on its results of operations. These items may include, but are not limited to: the financial condition of its customers; decreased availability and demand for its products and services; realization of accounts receivable; impairment considerations related to certain current assets, long-lived assets and goodwill; delays related to current and future projects; and the effects of government stimulus efforts including tax legislation in response to COVID-19. While its operations and financial performance continue to be impacted by COVID-19, the Company cannot predict the duration or magnitude of the outbreak and the total effects on its business, financial position, results of operations, liquidity or cash flows at this time.

Recent Developments

In March 2020, the WHO declared a global pandemic attributable to the outbreak and continued spread of COVID-19 that has had a significant impact throughout the global economy. In connection with the mitigation and containment procedures recommended by the WHO, the CDC, and as imposed by federal, state, and local governmental authorities, including shelter-in-place orders, quarantines and similar restrictions, we implemented a variety of procedures to protect our employees, third-party business partners, and customers. Although our results continue to be impacted by COVID-19 in Fiscal 2021, we continue to provide essential products and services to our global customers in a safe and reliable manner and will continue to do so in compliance with mandated restrictions presented by each of the markets we serve. We continue to evaluate and react to the potential effects of a prolonged disruption and the continued impact on our results of operations. These items may include, but are not limited to: the financial condition of our customers; decreased availability and demand for our products and services; realization of accounts receivable; impairment considerations related to certain current assets, long-lived assets and goodwill; delays related to current and future projects; and the effects of government stimulus efforts including tax legislation in response to COVID-19.

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. Among other things, the CARES Act includes provisions which modify the NOL limitation and carryback rules including a five-year carryback for NOLs and the temporary removal of the 80 percent limitation on NOL utilization for taxable years beginning before January 1, 2021.

For additional information related to the CARES Act and its impact on our results of operations, see “Interest Expense and Income Taxes” below.

We cannot predict the duration or total magnitude of the pandemic and the total effects on our business, financial position, results of operations, liquidity or cash flows at this time, but we remain focused on managing our financial condition and liquidity throughout this global crisis.

Executive Overview

Three months ended December 31, 2020 and 2019

Energy Services' net income was $18 million for the three months ended December 31, 2020 compared to $31 million for the three months ended December 31, 2019. Our results reflect after-tax losses on commodity derivative instruments not associated with current-period transactions of $20 million and $5 million in the 2020 and 2019 three-month periods, respectively. Our results in the 2019 three-month period also reflect acquisition and integration expenses associated with CMG of $1 million. Although these items are reflected in our GAAP results, we have excluded these items from our non-GAAP measures. See "Non-GAAP Financial Measures" below.

Excluding the impacts of commodity derivative instruments not associated with current-period transactions, adjusted net income for the 2020 three-month period was largely consistent with the prior-year period as the absence of earnings contributions from assets divested in the prior year were largely offset by improved capacity management earnings.

Non-GAAP Financial Measures

We present the non-GAAP measures adjusted total margin, adjusted operating income, adjusted income before income taxes and adjusted net income, in order to assist in the evaluation of our overall performance. We believe that these non-GAAP measures provide meaningful information to investors about our performance because they eliminate the impact of (1) gains and losses on commodity derivative instruments not associated with current-period transactions, principally comprising unrealized gains and losses on such derivative instruments, and (2) other significant discrete items that can affect the comparisons of period-over-period results. These financial measures are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not as a substitute for, the comparable GAAP measures.

The following table includes reconciliations of adjusted total margin, adjusted operating income, adjusted income before income taxes and adjusted net income to the most directly comparable financial measures calculated and presented in accordance with GAAP for the periods presented.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

(Millions of dollars)	Three Months Ended December 31, 2020	2019
Adjusted total margin:		
Total revenues	$ 342	$ 364
Cost of sales	(266)	(268)
Total margin	76	96
Net losses on commodity derivative instruments not associated with current-period transactions	27	7
Adjusted total margin	$ 103	$ 103
Adjusted operating income:		
Operating income	$ 25	$ 48
Net losses on commodity derivative instruments not associated with current-period transactions	27	7
CMG acquisition and integration expenses	—	1
Adjusted operating income	$ 52	$ 56
Adjusted income before income taxes:		
Income before income taxes	$ 22	$ 43
Net losses on commodity derivative instruments not associated with current-period transactions	27	7
CMG acquisition and integration expenses	—	1
Adjusted income before income taxes	$ 49	$ 51
Adjusted net income:		
Net income	$ 18	$ 31
Net losses on commodity derivative instruments not associated with current-period transactions	20	5
CMG acquisition and integration expenses	—	1
Adjusted net income	$ 38	37

Analysis of Results of Operations

The following analysis compares Energy Services' results of operations for the 2020 three-month period with the 2019 three-month period.

For the three months ended December 31,	2020	2019	Increase (Decrease)	
(Dollars in millions)				
Revenues	$ 342	$ 364	$ (22)	(6)%
Total margin (a)	$ 76	$ 96	$ (20)	(21)%
Operating and administrative expenses (b)	$ 31	$ 30	$ 1	3 %
Operating income	$ 25	$ 48	$ (23)	(48)%
Income before income taxes	$ 22	$ 43	$ (21)	(49)%
Non-GAAP financial measures (c):				
Adjusted total margin	$ 103	$ 103	$ —	— %
Adjusted operating income	$ 52	$ 56	$ (4)	(7)%
Adjusted income before income taxes	$ 49	$ 51	$ (2)	(4)%
Adjusted net income	$ 38	$ 37	$ 1	3 %

(a) Total margin represents total revenues less total cost of sales and includes the impact of net unrealized losses of $27 million and $7 million, respectively, on commodity derivative instruments not associated with current-period transactions for the three months ended December 31, 2020 and 2019.

(b) The 2019 three-month period includes $1 million of acquisition and integration expenses associated with CMG.

(c) These financial measures are non-GAAP financial measures and are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not a substitute for, the comparable GAAP measures. See "Non-GAAP Financial Measures" above.

Average temperatures across Energy Services' energy marketing territory during the three months ended December 31, 2020 were 9.1% warmer than normal and 11.4% warmer than the prior-year period. Energy Services' prior-year results include contributions from its ownership interest in Conemaugh, which was sold in September 2020.

Revenues in the 2020 three-month period were $22 million lower than the prior-year period principally reflecting decreased natural gas revenues ($27 million) and, to a much lesser extent, lower peaking revenues ($7 million) and the absence of revenues attributable to its previous ownership interest in Conemaugh ($6 million). The effect of these revenue decreases was partially offset by higher capacity management revenues ($8 million) and renewable energy revenues ($7 million). Cost of sales were $266 million in the 2020 three-month period compared to $268 million in the prior-year period. Cost of sales in the 2020 and 2019 three-month periods include net unrealized losses on commodity derivative instruments not associated with current-period transactions of $27 million and $7 million, respectively. Excluding the effects on cost of sales of these commodity derivative instruments, total cost of sales decreased $22 million principally reflecting decreased natural gas costs ($24 million) and the absence of costs attributable to Conemaugh ($3 million), partially offset by higher renewable energy costs ($8 million). The significant decreases in both natural gas revenues and cost of sales during the 2020 three-month period are largely attributable to lower average natural gas prices and, to a much lesser extent, lower volumes compared to the prior-year period.

Total margin decreased $20 million in the 2020 three-month period. Adjusted total margin was comparable in both periods reflecting improved capacity management margin ($8 million) which were largely offset by lower peaking margin ($5 million) and the absence of margins attributable to Conemaugh ($2 million) compared to the prior-year period.

Operating income and income before income taxes decreased $23 million and $21 million, respectively, in the 2020 three-month period. Adjusted operating income and adjusted income before income taxes decreased $4 million and $2 million, respectively. These decreases principally reflect the increase in operating and administrative expenses excluding the effects of acquisition and integration expenses associated with CMG ($2 million).

Interest Expense and Income Taxes

Interest expense in the 2020 three-month period decreased $2 million compared to the prior-year period primarily reflecting lower average short-term borrowings outstanding compared to the prior-year period.

Income tax expense in the 2020 three-month period includes a $3 million tax benefit resulting from the carryback of an NOL under the CARES Act. Excluding this benefit, the effective income tax rate was 31.8% in the 2020 three-month period compared to 27.9% in the prior-year period.

The Company has not yet filed its income tax return for Fiscal 2020, and continues to evaluate other tax positions or strategies that could affect taxable income or loss. Accordingly, the impacts on the Company's income tax provisions and taxes payable or refundable related to the CARES Act are subject to change.

Financial Condition and Liquidity

The Company expects to have sufficient liquidity including cash on hand and available borrowing capacity to continue to support long-term commitments and ongoing operations despite uncertainties associated with the outbreak and continued spread of COVID-19. The Company does not have any near-term term loan maturities. While the Company's operational and financial performance has been impacted by COVID-19 in the 2020 three-month period, it is a rapidly evolving situation and the Company cannot predict the ultimate impact that COVID-19 will have on its liquidity, debt covenants, financial condition or the timing of capital expenditures. Energy Services was in compliance with all debt covenants as of December 31, 2020.

We depend on both internal and external sources of liquidity to provide funds for working capital and to fund capital requirements. Our short-term cash requirements not met by cash from operations are generally satisfied with borrowings under our Receivables Facility and the Energy Services 2020 Credit Agreement. Long-term cash requirements are generally met through the issuance of long-term debt and capital contributions. We believe that we have sufficient liquidity in the forms of cash and cash equivalents on hand; cash expected to be generated from operations; credit facility and Receivables Facility borrowing capacity; and the ability to obtain long-term financing to meet anticipated contractual and projected cash commitments. Issuances of debt securities in the capital markets and additional credit facilities may not, however, be available to us on acceptable terms.

Our cash and cash equivalents totaled $24 million at December 31, 2020 compared to $23 million at September 30, 2020. Our restricted cash balances was $25 million at December 31, 2020 and $9 million at September 30, 2020, principally comprising cash in brokerage accounts that are restricted from withdrawal. Our debt outstanding at December 31, 2020, totaled $798 million (including current maturities of long-term debt of $10 million and short-term borrowings of $79 million). Our debt outstanding at September 30, 2020, totaled $740 million (including current maturities of long-term debt of $10 million and short-term borrowings of $19 million). Total long-term debt outstanding at December 31, 2020, including current maturities, comprises $690 million of term loan borrowings and $41 million of other long-term debt comprising a finance lease liability, and is net of $12 million of unamortized debt issuance costs.

Credit Facilities

At December 31, 2020, there were $4 million of borrowings outstanding under the Energy Services 2020 Credit Agreement and the available borrowing capacity was $256 million. The average daily and peak short-term borrowings outstanding under the Energy Services 2020 Credit Agreement during the 2020 three-month period were $14 million and $32 million, respectively. The average daily and peak short-term borrowings outstanding under the Energy Services Credit Agreement during the 2019 three-month period were $41 million and $77 million, respectively.

Energy Services also has a Receivables Facility with an issuer of receivables-backed commercial paper currently scheduled to expire on October 22, 2021. At December 31, 2020, the outstanding balance of trade receivables was $83 million of which $75 million was sold to the bank. At December 31, 2019, the outstanding balance of trade receivables was $86 million of which $68 million was sold to the bank. Amounts sold to the bank are reflected as "Short-term borrowings" on the Condensed Consolidated Balance Sheets. During the three months ended December 31, 2020 and 2019, peak sales of receivables were $75 million and $68 million, respectively, and average daily amounts sold were $28 million and $50 million, respectively.

Cash Flows

Due to the seasonal nature of the Company's businesses, cash flows from operating activities are generally strongest during the first and second fiscal quarters when customers pay for natural gas, electricity and other energy products consumed during the peak heating season months. In addition, cash flows from operating activities can be significantly affected by year-to-year variations in changes in operating working capital reflecting changes in energy commodity prices, principally changes in prices for natural gas. Cash flow from investing activities is principally affected by cash expenditures for property, plant and equipment and cash paid for acquisitions of businesses and assets. Changes in cash flow from financing activities are primarily due to issuances and repayments of long-term debt, short-term borrowings and capital contributions from, and cash distributions to, Enterprises.

<u>Operating Activities:</u> Cash flow from operating activities was $13 million in the 2020 three-month period compared to $41 million in 2019 three-month period. Cash flow from operating activities before changes in operating working capital was $57 million in the 2020 three-month period compared to $42 million in the 2019 three-month period. Cash used to fund changes in operating working capital totaled $44 million in the 2020 three-month period compared to $1 million in the prior-year period. Changes in operating working capital during the 2020 three-month period primarily reflects an increase in in cash required to fund changes in accounts receivable, other current assets and accounts payable.

<u>Investing Activities:</u> Cash flow used by investing activities, primarily attributable to expenditures for property, plant and equipment, was $29 million in the 2020 three-month period compared to $28 million in the 2019 three-month period.

<u>Financing Activities:</u> Cash flow provided by financing activities was $33 million in the 2020 three-month period compared to cash flow used to fund financing activities of $5 million in the 2019 three-month period. The cash provided by financing activities in the 2020 three-month period primarily reflects higher net borrowings under the Receivables Facility and other short-term borrowings compared to net repayments in the prior-year period.