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 and six months ended March 31, 2022 and 2021
(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, or collectively, UGI Energy Services, LLC and its consolidated subsidiaries

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

GHI - GHI Energy, LLC, a Houston-based RNG company and indirect wholly owned subsidiary of Energy Services

Stonehenge - Stonehenge Appalachia, LLC, a midstream natural gas gathering business, which includes 47 miles of pipeline and associated compression assets

UGI - UGI Corporation

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

2021 Annual Report - Energy Services' Annual Report for the fiscal year ended September 30, 2021

2021 six-month period - Six months ended March 31, 2021

2021 three-month period - Three months ended March 31, 2021

2022 six-month period - Six months ended March 31, 2022

2022 three-month period - Three months ended March 31, 2022

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

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

Energy Services Credit Agreement - Third Amended and Restated Credit Agreement entered into on 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

FERC - Federal Energy Regulatory Commission

Fiscal 2021 - The fiscal year ended 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

***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

RNG - Renewable natural gas

***SCAA* -** Storage Contract Administrative Agreements

Stonehenge Acquisition - Acquisition of Stonehenge Appalachia, LLC, which closed January 27, 2022

U.S. - United States of America

***USD* -** U.S. dollar

***WHO* -** World Health Organization

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(Millions of dollars)

	March 31, 2022	September 30, 2021	March 31, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	$ 149	$ 197	$ 53
Restricted cash	23	21	24
Accounts receivable (less allowances for doubtful accounts of $5, $4 and $2, respectively)	211	130	160
Inventories	12	36	13
Derivative instruments	57	50	10
Prepaid expenses and other current assets	35	51	58
Total current assets	487	485	318
Property, plant and equipment (less accumulated depreciation of $342, $310 and $288, respectively)	1,851	1,678	1,700
Goodwill	337	337	336
Intangible assets, net	256	262	271
Derivative instruments	35	34	2
Investments in equity method investees	169	163	260
Other assets	51	42	38
Total assets	$ 3,186	$ 3,001	$ 2,925
LIABILITIES AND MEMBER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 10	$ 10	$ 10
Short-term borrowings	—	—	17
Accounts payable	158	140	117
Derivative instruments	20	23	28
Other current liabilities	53	41	53
Total current liabilities	241	214	225
Long-term debt	703	706	708
Deferred income taxes	305	290	244
Derivative instruments	18	21	30
Other noncurrent liabilities	16	13	16
Total liabilities	1,283	1,244	1,223
Member's equity	1,903	1,757	1,702
Total liabilities and member's equity	$ 3,186	$ 3,001	$ 2,925

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 March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
Revenues	$ 662	$ 483	$ 1,204	$ 825
Costs and expenses:				
Cost of sales (excluding depreciation and amortization shown below)	386	341	931	607
Operating and administrative expenses	30	28	58	59
Depreciation and amortization	18	19	37	37
Other operating expense, net	(2)	5	(1)	7
	432	393	1,025	710
Operating income	230	90	179	115
Income from equity method investees	5	10	13	17
Interest expense	(10)	(11)	(20)	(21)
Income before income taxes	225	89	172	111
Income tax expense	(64)	(14)	(49)	(18)
Net income	$ 161	$ 75	$ 123	$ 93
Other comprehensive income:				
Net gains on derivative instruments (net of tax of $(7), $(1), $(8) and $(1), respectively)	$ 13	$ 3	$ 19	$ 3
Reclassifications of net losses on derivative instruments (net of tax of $0, $(1), $(1) and $(1), respectively)	3	2	4	4
Other comprehensive income	16	5	23	7
Comprehensive income	$ 177	$ 80	$ 146	$ 100

See accompanying notes to condensed consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(Millions of dollars)

	Six Months Ended March 31, 2022	Six Months Ended March 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 123	$ 93
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37	37
Deferred income tax expense, net	6	42
Changes in unrealized gains and losses on derivative instruments	(20)	28
Income from equity method investees	(13)	(17)
Other, net	4	16
Net change in:		
Accounts receivable	(91)	(66)
Inventories	24	12
Accounts payable	20	31
Derivative instruments collateral deposits received	44	—
Other current assets	18	(18)
Other current liabilities	12	11
Net cash provided by operating activities	164	169
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(17)	(37)
Acquisitions of businesses and assets, net of cash acquired	(188)	—
Investments in equity method investees	(1)	(61)
Other	—	5
Net cash used by investing activities	(206)	(93)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions paid	—	(25)
Receivables Facility net repayments	—	(2)
Repayments of long-term debt and finance leases	(4)	(4)
Net cash used by financing activities	(4)	(31)
Cash, cash equivalents and restricted cash (decrease) increase	$ (46)	$ 45
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
End of period	$ 172	$ 77
Beginning of period	218	32
Cash, cash equivalents and restricted cash (decrease) increase	$ (46)	$ 45

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, 2021	$ 1,757
Net income	123
Other comprehensive income	23
Balance at March 31, 2022	$ 1,903

	Member's Equity
Balance at September 30, 2020	$ 1,627
Net income	93
Cash distributions	(25)
Other comprehensive income	7
Balance at March 31, 2021	$ 1,702

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 conducts, directly and through subsidiaries and affiliates, energy marketing, including RNG, midstream transmission, LNG storage, natural gas gathering and processing, natural gas and RNG production, electricity generation and energy services businesses primarily in the eastern region of the U.S., eastern Ohio, the panhandle of West Virginia and California. 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, 2021, 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 2021 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.

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.

	March 31, 2022	March 31, 2021
Cash and cash equivalents	$ 149	$ 53
Restricted cash	23	24
Cash, cash equivalents and restricted cash	$ 172	$ 77

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.

(Millions of dollars, except where indicated otherwise)

Reclassifications. For purposes of comparability, certain prior-year amounts have been reclassified to conform to current-year presentation.

Subsequent Events. Management has evaluated the impact of subsequent events through May 12, 2022, the date these condensed consolidated financial statements were issued, and the effects, if any, of such evaluation have been reflected in the condensed consolidated financial statements and related disclosures.

Note 3 — Accounting Changes

New Accounting Standard Adopted in Fiscal 2022

Income Taxes. Effective October 1, 2021, the Company adopted ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" prospectively and retrospectively where deemed applicable. 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. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

Note 4 — Revenue from Contracts with Customers

The Company 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 2021 Annual Report for additional information on our revenues from contracts with customers.

Revenue Disaggregation

The following table presents our disaggregated revenues:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
Revenues from contracts with customers:				
Energy Marketing	524	$ 367	$ 960	$ 618
Midstream:				
Pipeline	50	48	96	93
Peaking	80	62	125	100
Other	2	2	4	4
Electricity Generation	14	3	19	7
Total revenues from contracts with customers	670	482	1,204	822
Other revenues (a)	(8)	1	—	3
Total revenues	$ 662	$ 483	$ 1,204	$ 825

(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" on the Condensed Consolidated Balance Sheets. Amounts billed are generally due within the following month.

(Millions of dollars, except where indicated otherwise)

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 $7, $5 and $8 at March 31, 2022, September 30, 2021 and March 31, 2021, 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.

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
March 31, 2022:				
Assets:				
Commodity contracts	$ 368	$ 26	$ —	$ 394
Interest rate contracts	$ —	$ 13	$ —	$ 13
Liabilities:				
Commodity contracts	$ (223)	$ (7)	$ —	$ (230)
September 30, 2021:				
Assets:				
Commodity contracts	$ 314	$ 31	$ —	$ 345
Liabilities:				
Commodity contracts	$ (196)	$ (12)	$ —	$ (208)
Interest rate contracts	$ —	$ (18)	$ —	$ (18)
March 31, 2021:				
Assets:				
Commodity contracts	$ 33	$ 5	$ —	$ 38
Liabilities:				
Commodity contracts	$ (55)	$ (7)	$ —	$ (62)
Interest rate contracts	$ —	$ (22)	$ —	$ (22)

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 and 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, forward 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, Energy Services, 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. For all periods presented, 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 March 31, 2022, September 30, 2021, and March 31, 2021, and the final settlement dates of the Company's open derivative contracts as of March 31, 2022, excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	March 31, 2022	September 30, 2021	March 31, 2021
Commodity Price Risk:					
Natural gas futures, forward, basis swap, options and pipeline contracts	Dekatherms	March 2026	312	310	299
Electricity forward and futures contracts	Kilowatt hours	December 2025	835	879	1,118
Interest Rate Risk:					
Interest rate swaps	USD	July 2024	$ 646	$ 649	$ 653

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.

We have concentrations of credit risk associated with derivative instruments and we evaluate the creditworthiness of our derivative counterparties on an ongoing basis. As of March 31, 2022, the maximum amount of loss, based upon the gross fair values of the derivative instruments, we would incur if these counterparties failed to perform according to the terms of their contracts was $407. In general, many of our over-the-counter derivative instruments and all exchange contracts call for the posting of collateral by the counterparty or by the Company in the forms of letters of credit, parental guarantees or cash. At

(Millions of dollars, except where indicated otherwise)

March 31, 2022, we had received cash collateral from derivative instrument counterparties totaling $123. In addition, we may have offsetting derivative liabilities and certain accounts payable balances with certain of these counterparties, which further mitigates the previously mentioned maximum amount of losses.

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, many 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:

	March 31, 2022	September 30, 2021	March 31, 2021
Derivative assets:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ 13	$ —	$ —
Derivatives not designated as hedging instruments:			
Commodity contracts	394	345	38
Total derivative assets - gross	407	345	38
Gross amounts offset in balance sheet	(192)	(182)	(26)
Cash collateral received	(123)	(79)	—
Total derivative assets - net	$ 92	$ 84	$ 12
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ —	$ (18)	$ (22)
Derivatives not designated as hedging instruments:			
Commodity contracts	(230)	(208)	(62)
Total derivative liabilities - gross	(230)	(226)	(84)
Gross amounts offset in balance sheet	192	182	26
Total derivative liabilities - net	$ (38)	$ (44)	$ (58)

(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:

Three Months Ended March 31,	Gain Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2022	2021	2022	2021	
Cash Flow Hedges:					
Interest rate contracts	$ 20	$ 4	$ (3)	$ (3)	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2022	2021	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ (10)	$ (2)	Revenues
Commodity contracts	177	(5)	Cost of sales
Total	$ 167	$ (7)	

Six Months Ended March 31,	Gain Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2022	2021	2022	2021	
Cash Flow Hedges:					
Interest rate contracts	$ 27	$ 4	$ (5)	$ (5)	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2022	2021	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ (5)	$ 1	Revenues
Commodity contracts	108	(56)	Cost of sales
Total	$ 103	$ (55)	

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.

(Millions of dollars, except where indicated otherwise)

Note 8 — Accumulated Other Comprehensive Income (Loss)

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

Three Months Ended March 31, 2022	Derivative Instruments
AOCI — December 31, 2021	$ (5)
Other comprehensive income before reclassification adjustments	13
Amounts reclassified from AOCI	3
AOCI — March 31, 2022	$ 11

Three Months Ended March 31, 2021	Derivative Instruments
AOCI — December 31, 2020	$ (20)
Other comprehensive income before reclassification adjustments	3
Amounts reclassified from AOCI	2
AOCI — March 31, 2021	$ (15)

Six Months Ended March 31, 2022	Derivative Instruments
AOCI — September 30, 2021	$ (12)
Other comprehensive income before reclassification adjustments	19
Amounts reclassified from AOCI	4
AOCI — March 31, 2022	$ 11

Six Months Ended March 31, 2021	Derivative Instruments
AOCI — September 30, 2020	$ (22)
Other comprehensive income before reclassification adjustments	3
Amounts reclassified from AOCI	4
AOCI — March 31, 2021	$ (15)

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) and sells a firm storage service from a subsidiary of Energy Services, under one-year agreements.

(Millions of dollars, except where indicated otherwise)

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 and six months ended March 31, 2022 and 2021.

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

	Three Months Ended March 31,		Six Months Ended March 31,		Classification on Condensed Consolidated Statements of Comprehensive Income
	2022	2021	2022	2021	
SCAA Activities:					
SCAA revenues	$ —	$ —	$ 5	$ 3	Revenues
Costs of SCAA and firm delivery service	$ 1	$ —	$ 1	$ 1	Cost of sales
Gas Supply and Delivery Service:					
Gas supply and delivery service revenues	$ 138	$ 93	$ 227	$ 152	Revenues
Costs of natural gas and pipeline capacity purchases	$ 40	$ 23	$ 62	$ 38	Cost of sales
Administrative Services:					
Administrative services provided by UGI	$ 4	$ 5	$ 8	$ 8	Operating and administrative expenses

	March 31, 2022	September 30, 2021	March 31, 2021	Classification on Condensed Consolidated Balance Sheets
SCAA security deposits	$ 8	$ 7	$ 7	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 has 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 effects of a prolonged disruption and the potential of 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; commodity price volatility and supply chain constraints; and the effects of government stimulus efforts including tax legislation in response to COVID-19. The Company cannot predict the duration or magnitude of the pandemic and the total effects on its business, financial position, results of operations, liquidity or cash flows at this time.

Note 11 — Acquisition

Stonehenge Acquisition

On January 27, 2022, Energy Services completed the Stonehenge Acquisition in which it acquired all of the equity interests in Stonehenge, for total cash consideration of approximately $190. The Stonehenge business includes a natural gas gathering system, located in Western Pennsylvania, with more than 47 miles of pipeline and associated compression assets. The Stonehenge Acquisition is consistent with our growth strategies, including expanding our midstream natural gas gathering assets within the Appalachian basin production region. The Stonehenge Acquisition was funded using available cash. The Company has accounted for the Stonehenge Acquisition using the acquisition method and the purchase price has been primarily allocated to property, plant and equipment.

EXECUTIVE OVERVIEW

Recent Developments

Macroeconomic Conditions. During Fiscal 2021 and continuing into the current fiscal year, commodity and labor markets experienced significant inflationary pressures attributable to economic recovery and supply chain issues associated with the ongoing COVID-19 pandemic, as discussed below. These inflationary pressures led to significant volatility across various consumer price indices during Fiscal 2021 and have continued during the 2021 three- and six-month periods. We have experienced substantial shifts in commodity prices, particularly in natural gas and electricity prices, which, in turn, have led to extensive mark-to-market impacts on commodity derivatives instruments not associated with current-period activity. The ongoing strain on supply costs has resulted in increased inventory costs and certain distribution expenses across all of our businesses. It has also affected requirements around cash collateral and restricted cash associated with our outstanding derivatives. The Company believes that the impact of these external factors and the associated extreme cost volatility are temporary and their impact is expected to be mitigated by our continued cost control initiatives and liquidity management.

Ongoing COVID-19 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, we have implemented a variety of procedures to protect our employees, third-party business partners, and customers. 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 effects of a prolonged disruption and the potential of 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; commodity price volatility and supply chain constraints; and the effects of government stimulus efforts including tax legislation in response to COVID-19.

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.

2022 three-month period compared with 2021 three-month period

Energy Services' net income was $161 million in the 2022 three-month period compared to $75 million in the prior-year period. These results reflect gains on commodity derivative instruments not associated with current-period transactions of $103 million and $1 million, respectively. Although this item is reflected in our GAAP results, we have excluded this item 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 decreased $16 million in the 2022 three-month period primarily attributable to lower total margin which was negatively impacted by the settlement timing of certain multi-year commodity storage hedge contracts during the current-year period, partially offset by the absence of a contingent consideration adjustment related to the GHI acquisition in the prior-year period.

2022 six-month period compared with 2021 six-month period

Energy Services' net income was $123 million in the 2022 six-month period compared to $93 million in the prior-year period. These results reflect gains (losses) on commodity derivative instruments not associated with current-period transactions of $14 million and $(19) million, respectively. Although this item is reflected in our GAAP results, we have excluded this item 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 decreased $3 million in the 2022 six-month period primarily attributable to the absence of a benefit from the prior period related to the CARES Act partially offset by higher margins related to renewable energy marketing activities compared to the prior-year period.

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.

	Three Months Ended March 31,		Six Months Ended March 31,	
(Millions of dollars)	2022	2021	2022	2021
Adjusted total margin:				
Total revenues	$ 662	$ 483	$ 1,204	$ 825
Cost of sales	(386)	(341)	(931)	(607)
Total margin	276	142	273	218
(Subtract net gains) add net losses on commodity derivative instruments not associated with current-period transactions	(145)	—	(20)	27
Adjusted total margin	$ 131	$ 142	$ 253	$ 245
Adjusted operating income:				
Operating income	$ 230	$ 90	$ 179	$ 115
(Subtract net gains) add net losses on commodity derivative instruments not associated with current-period transactions	(145)	—	(20)	27
Adjusted operating income	$ 85	$ 90	$ 159	$ 142
Adjusted income before income taxes:				
Income before income taxes	$ 225	$ 89	$ 172	$ 111
(Subtract net gains) add net losses on commodity derivative instruments not associated with current-period transactions	(145)	—	(20)	27
Adjusted income before income taxes	$ 80	$ 89	$ 152	$ 138
Adjusted net income:				
Net income	$ 161	$ 75	$ 123	$ 93
(Subtract net gains) add net losses on commodity derivative instruments not associated with current-period transactions	(103)	(1)	(14)	19
Adjusted net income	$ 58	$ 74	$ 109	$ 112

Analysis of Results of Operations

2022 three-month period compared with the 2021 three-month period

Three Months Ended March 31,		2022		2021		Increase (Decrease)	
(Dollars in millions)							
Revenues	$	662	$	483	$	179	37 %
Total margin (a)	$	276		142	$	134	94 %
Operating and administrative expenses	$	30		28	$	2	7 %
Operating income	$	230	$	90	$	140	156 %
Income before income taxes	$	225	$	89	$	136	153 %
Non-GAAP financial measures (b):							
Adjusted total margin	$	131	$	142	$	(11)	(8)%
Adjusted operating income	$	85	$	90	$	(5)	(6)%
Adjusted income before income taxes	$	80	$	89	$	(9)	(10)%
Adjusted net income	$	58	$	74	$	(16)	(22)%

(a) Total margin represents total revenues less total cost of sales and includes the impact of net unrealized gains of $145 million on commodity derivative instruments not associated with current-period transactions for the 2022 three-month period.

(b) 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 2022 three-month period were 2.8% warmer than normal and relatively consistent with the prior-year period.

Revenues and cost of sales for the 2022 three-month period increased $179 million and $45 million, respectively, compared to the prior-year period. Excluding the effects of commodity derivative instruments not associated with current-period transactions, revenues and cost of sales increased $186 million and $197 million, respectively, compared to the prior-year period. These increases were largely driven by natural gas marketing, including the effects of peaking and capacity management activities, which were impacted by significantly higher average natural gas prices compared to the prior-year period, partially offset by lower volumes. As a result, natural gas revenues and cost of sales increased $183 million and $186 million, respectively, during the 2022 three-month period.

Total margin increased $134 million in the 2022 three-month period. Adjusted total margin decreased $11 million in the 2022 three-month period largely reflecting lower margin from capacity management contracts ($15 million) and natural gas marketing activities ($3 million). Capacity management margin was negatively impacted by the settlement timing of certain multi-year commodity storage hedge contracts during the 2022 three-month period. These impacts were partially offset by improved margin from peaking contracts ($6 million) compared to the prior-year period and incremental margin attributable to the Stonehenge Acquisition ($4 million).

Operating income and income before income taxes increased $140 million and $136 million, respectively, during the 2022 three-month period. Adjusted operating income and adjusted income before income taxes decreased $5 million and $9 million, respectively, compared to the prior-year period. The decrease in operating income primarily reflects the lower total margin and higher operating and administrative expenses ($2 million), partially offset by the absence of a contingent consideration adjustment related to the GHI acquisition in the prior-year period. The decrease in adjusted income before income taxes reflects the decrease in adjusted operating income and lower income from equity-method investments compared to the prior-year period.

Interest Expense and Income Taxes

Interest expense in the 2022 three-month period was consistent with the prior-year period, reflecting comparable average borrowings outstanding in both periods.

The increase in the Company's effective income tax rates for the 2022 three-month period was principally related to the impact of significant gains on commodity derivative instruments compared to the prior-year period and the absence of a benefit under the CARES Act during the 2022 three-month period. The Company continues to evaluate the elections available under current regulations and pending legislation. Accordingly, the impacts on the Company's income tax provisions and taxes payable or refundable related to these items are subject to change.

2022 six-month period compared with the 2021 six-month period

Six Months Ended March 31,	2022		2021		Increase (Decrease)		
(Dollars in millions)							
Revenues	$	1,204	$	825	$	379	46 %
Total margin (a)	$	273	$	218	$	55	25 %
Operating and administrative expenses	$	58	$	59	$	(1)	(2)%
Operating income	$	179	$	115	$	64	56 %
Income before income taxes	$	172	$	111	$	61	55 %
Non-GAAP financial measures (b):							
Adjusted total margin	$	253	$	245	$	8	3 %
Adjusted operating income	$	159	$	142	$	17	12 %
Adjusted income before income taxes	$	152	$	138	$	14	10 %
Adjusted net income	$	109	$	112	$	(3)	(3)%

(a) Total margin represents total revenues less total cost of sales and includes the impact of net unrealized gains (losses) of $20 million and $(27) million, respectively, on commodity derivative instruments not associated with current-period transactions for the 2022 and 2021 six-month periods.
(b) 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 2022 six-month period were 8.4% warmer than normal and 4.5% warmer than the prior-year period.

Revenues and cost of sales for the 2022 six-month period increased $379 million and $324 million, respectively, compared to the prior-year period. Excluding the effects of commodity derivative instruments not associated with current-period transactions, revenues and cost of sales increased $381 million and $373 million, respectively, compared to the prior-year period. These increases were largely driven by natural gas marketing, including the effects of peaking and capacity management activities, which were impacted by significantly higher average natural gas prices compared to the prior-year period, partially offset by lower volumes attributable to the warmer weather. As a result, natural gas marketing revenues and cost of sales increased $353 million and $360 million, respectively, during the 2022 six-month period.

Total margin increased $55 million in the 2022 six-month period. Adjusted total margin increased $8 million in the 2022 six-month period reflecting higher margin from renewable energy marketing activities ($11 million) including the impact of increased volumes and average pricing related to environmental credits compared to the prior-year period, improved margin from peaking activities ($9 million) and incremental margin attributable to the Stonehenge Acquisition ($4 million). These positive impacts were partially offset by lower margin from capacity management contracts ($10 million) and natural gas marketing activities ($7 million) which includes the effects of lower volumes due to warmer weather compared to the prior-year period.

Operating income and income before income taxes increased $64 million and $61 million, respectively, during the 2022 six-month period. Adjusted operating income and adjusted income before income taxes increased $17 million and $14 million, respectively, compared to the prior-year period. The increase in adjusted operating income is largely attributable to the increase in adjusted total margin and the absence of a contingent consideration adjustment related to the GHI acquisition in the prior-year period. The increase in adjusted income before income taxes principally reflects the increase in adjusted operating income partially offset by lower income from equity-method investments ($3 million).

Interest Expense and Income Taxes

Interest expense in the 2022 six-month period was consistent with the prior-year period, reflecting comparable average borrowings outstanding in both periods.

The increase in the Company's effective income tax rates for the 2022 six-month period was principally related to the absence of a benefit under the CARES Act during the 2022 six-month period. The Company continues to evaluate the elections available under current regulations and pending legislation. Accordingly, the impacts on the Company’s income tax provisions and taxes payable or refundable related to these items 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 COVID-19 pandemic and ongoing commodity price volatility. The Company does not have any near-term term loan maturities. The Company cannot predict the duration or magnitude that the COVID-19 pandemic and ongoing commodity price volatility 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 March 31, 2022.

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 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 $149 million at March 31, 2022 compared to $197 million at September 30, 2021. Our restricted cash balances was $23 million at March 31, 2022 and $21 million at September 30, 2021, principally comprising cash in brokerage accounts that are restricted from withdrawal. The decrease in cash and cash equivalents since September 30, 2021 is primarily attributable to commodity price volatility experienced in the 2022 six-month period and the seasonality of our business as further described in “Cash Flows” below. Our debt outstanding at March 31, 2022, totaled $713 million (including current maturities of long-term debt of $10 million). Our debt outstanding at September 30, 2021, totaled $716 million (including current maturities of long-term debt of $10 million). Total long-term debt outstanding at March 31, 2022, including current maturities, comprises $681 million of term loan borrowings and $41 million of other long-term debt comprising a finance lease liability, and is net of $9 million of unamortized debt issuance costs.

Credit Facilities

During the 2022 six-month period and at March 31, 2022, there were no borrowings outstanding under the Energy Services Credit Agreement and the available borrowing capacity was $260 million. The average daily and peak short-term borrowings outstanding under the Energy Services Credit Agreement during the 2021 six-month period were $7 million and $32 million, respectively.

Energy Services also has a Receivables Facility with an issuer of receivables-backed commercial paper currently scheduled to expire on October 21, 2022. At March 31, 2022, the outstanding balance of trade receivables was $120 million, none of which was sold to the bank. At March 31, 2021, the outstanding balance of trade receivables was $81 million of which $17 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 six months ended March 31, 2022 and 2021, peak sales of receivables were $98 million and $87 million, respectively, and average daily amounts sold were $4 million and $38 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, cash paid for acquisitions of businesses and assets and investments in equity method investees. 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.

Operating Activities: Cash flow provided by operating activities was $164 million in the 2022 six-month period compared to $169 million in the prior-year period. Cash flow from operating activities before changes in operating working capital was $137 million in the 2022 six-month period compared to $199 million in the prior-year period. Cash provided by changes in operating working capital totaled $27 million in the 2022 six-month period compared to cash used to fund operating capital of $30 million in the prior-year period. Changes in operating working capital during the 2022 six-month period reflect, among other things, increases in cash provided by changes in inventory and other current assets, principally due to increases in commodity prices during the 2022 six-month period. Additionally, the 2022 six-month period includes $44 million of cash collateral received from derivative counterparties. These increases in cash provided by changes in working capital were partially offset by increases in cash used to fund accounts receivable and accounts payable. The impact of commodity price volatility is pervasive throughout these changes in working capital.

Investing Activities: Cash flow used by investing activities was $206 million in the 2022 six-month period compared to $93 million in the prior-year period. Capital expenditures for property, plant and equipment were $17 million in the 2022 six-month period compared to $37 million in the prior-year period. Cash used for acquisitions of businesses and assets reflects the Stonehenge Acquisition in the 2022 six-month period. Cash used for investments in equity method investees in the 2021 six-month period includes contributions to Pine Run of $56 million to fund the acquisition of Pine Run Midstream, LLC.

Financing Activities: Cash flow used to fund financing activities was $4 million in the 2022 six-month period compared to $31 million in the prior-year period. The cash used by financing activities in the prior-year period primarily reflects $25 million of distributions paid.