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, 2023 and 2022
(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

Pennant - Pennant Midstream, LLC, an indirect wholly owned subsidiary of Energy Services

Pine Run - Pine Run Gathering, LLC

Stonehenge - Stonehenge Appalachia, LLC, a midstream natural gas gathering business

UGI - UGI Corporation

UGI Moraine East - UGI Moraine East Gathering LLC, a wholly owned subsidiary comprising the assets acquired in the Stonehenge Acquisition

UGI Utilities - UGI Utilities, Inc., a wholly-owned subsidiary of UGI comprising PA Gas Utility and Electric Utility

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

Other Terms and Abbreviations

2022 Annual Report - Energy Services' Annual Report for the fiscal year ended September 30, 2022

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

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

2023 six-month period - Six months ended March 31, 2023

2023 three-month period - Three months ended March 31, 2023

AOCI - Accumulated Other Comprehensive Income (Loss)

Aurum Renewables - Aurum Renewables LLC

ASC - Accounting Standards Codification

ASC 606 - ASC 606, “Revenue from Contracts with Customers”

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

Energy Services Amended Term Loan Credit Agreement - The first amendment to the Energy Services Term Loan Credit Agreement, entered into on February 23, 2023, comprising of an $800 million variable-rate term loan with a final maturity of February 2030

Energy Services Credit Agreement - Third Amended and Restated Credit Agreement entered into 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 Term Loan Credit Agreement - A seven-year $700 million variable senior secured term loan agreement entered into on August 13, 2019 by Energy Services

FERC - Federal Energy Regulatory Commission

Fiscal 2021 - The fiscal year ended September 30, 2021

Fiscal 2022 - The fiscal year ended September 30, 2022

Fiscal 2023 - The fiscal year ending September 30, 2023

GAAP - U.S. generally accepted accounting principles

ICE - Intercontinental Exchange

LNG - Liquefied natural gas

MBL Bioenergy - MBL Bioenergy, LLC

NPNS - Normal purchase and normal sale

NYMEX - New York Mercantile Exchange

Pennant Acquisition - During Fiscal 2022 Energy Services acquired the remaining 53% equity interest in Pennant

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

SOFR - Secured Overnight Financing Rate

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

U.S. - United States of America

USD - U.S. dollar

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(Millions of dollars)

	March 31, 2023	September 30, 2022	March 31, 2022
ASSETS			
Current assets:			
Cash and cash equivalents	$ 41	$ 62	$ 149
Restricted cash	28	43	23
Accounts receivable (less allowances for doubtful accounts of $2, $2 and $5, respectively)	209	243	190
Accounts receivable - related parties	22	27	21
Inventories	19	59	12
Derivative instruments	13	61	57
Prepaid expenses and other current assets	112	61	35
Total current assets	444	556	487
Property, plant and equipment (less accumulated depreciation of $397, $377 and $342, respectively)	1,913	1,934	1,851
Goodwill	337	337	337
Intangible assets, net	241	250	256
Derivative instruments	4	49	35
Investments in equity method investees	189	110	169
Other assets	45	45	51
Total assets	$ 3,173	$ 3,281	$ 3,186
LIABILITIES AND MEMBER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 11	$ 10	$ 10
Short-term borrowings	15	—	—
Accounts payable	116	211	146
Accounts payable - related parties	17	12	12
Derivative instruments	26	29	20
Other current liabilities	53	51	53
Total current liabilities	238	313	241
Long-term debt	813	700	703
Deferred income taxes	220	301	305
Derivative instruments	30	16	18
Other noncurrent liabilities	44	14	16
Total liabilities	1,345	1,344	1,283
Member's equity	1,828	1,937	1,903
Total liabilities and member's equity	$ 3,173	$ 3,281	$ 3,186

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,	
	2023	2022	2023	2022
Revenues	$ 642	$ 662	$ 1,313	$ 1,204
Costs and expenses:				
Cost of sales (excluding depreciation and amortization shown below)	557	386	1,254	931
Operating and administrative expenses	34	30	63	58
Depreciation and amortization	22	18	43	37
Other operating income, net	(2)	(2)	(3)	(1)
	611	432	1,357	1,025
Operating income (loss)	31	230	(44)	179
Income from equity method investees	2	5	3	13
Other non-operating loss	(1)	—	(1)	—
Interest expense	(11)	(10)	(22)	(20)
Income (loss) before income taxes	21	225	(64)	172
Income tax benefit (expense)	89	(64)	96	(49)
Net income	$ 110	$ 161	$ 32	$ 123
Other comprehensive income:				
Net (losses) gains on derivative instruments (net of tax of $6, $(7), $5 and $(8), respectively)	$ (13)	$ 13	$ (11)	$ 19
Reclassifications of net (gains) losses on derivative instruments (net of tax of $1, $0, $2 and $(1), respectively)	(3)	3	(5)	4
Other comprehensive (loss) income	(16)	16	(16)	23
Comprehensive income	$ 94	$ 177	$ 16	$ 146

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, 2023	Six Months Ended March 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 32	$ 123
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43	37
Deferred income tax (benefit) expense, net	(49)	6
Changes in unrealized gains and losses on derivative instruments	255	(20)
Settlement of interest rate swap	32	—
Income from equity method investees	(3)	(13)
Other, net	(3)	4
Net change in:		
Accounts receivable	(6)	(91)
Inventories	40	24
Accounts payable	(90)	20
Derivative instruments collateral deposits paid	(158)	44
Other current assets	(49)	18
Other current liabilities	4	12
Net cash provided by operating activities	48	164
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(33)	(17)
Acquisitions of businesses and assets, net of cash acquired	—	(188)
Investments in equity method investees	(56)	(1)
Net cash used by investing activities	(89)	(206)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions paid	(125)	—
Receivables Facility net borrowings	15	—
Issuances of long-term debt, net of discount and issuance costs	791	—
Repayments of long-term debt and finance leases	(676)	(4)
Net cash provided (used) by financing activities	5	(4)
Cash, cash equivalents and restricted cash decrease	$ (36)	$ (46)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
End of period	$ 69	$ 172
Beginning of period	105	218
Cash, cash equivalents and restricted cash decrease	$ (36)	$ (46)

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, 2022	$ 1,937
Net income	32
Cash distributions	(125)
Other comprehensive loss	(16)
Balance at March 31, 2023	$ 1,828

	Member's Equity
Balance at September 30, 2021	$ 1,757
Net income	123
Other comprehensive income	23
Balance at March 31, 2022	$ 1,903

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, 2022, 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 2022 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, 2023	March 31, 2022
Cash and cash equivalents	$ 41	$ 149
Restricted cash	28	23
Cash, cash equivalents and restricted cash	$ 69	$ 172

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. These are included in "Investments in equity method investees" on the Condensed Consolidated Balance Sheets. Equity method earnings are included in "Income from equity method investees" on the Condensed Consolidated Statements of Comprehensive Income. Our equity method investments primarily comprise MBL Bioenergy, Pine Run and other equity method investments in biomass and other renewable energy projects. Our maximum exposure to loss related to these investments is limited to the amount invested.

MBL Bioenergy. The Company has an approximately 99.99% equity interest in MBL Bioenergy, a company jointly owned by UGI Dakota, LLC, Sevana Bioenergy and a subsidiary of California Bioenergy. The sole purpose of MBL Bioenergy is the development of RNG projects in South Dakota comprising three dairy waste anaerobic digester systems. MBL Bioenergy is a variable interest entity whereby the Company has determined that it is not the primary beneficiary since it does not direct the activities that most significantly impact the entity’s economic performance. The carrying value of our investment in MBL Bioenergy at March 31, 2023 and 2022 was $78 and $0, respectively.

Pine Run. The Company has an approximately 49% interest in Pine Run, a company jointly owned by Stonehenge Energy Resources and UGI Pine Run LLC. Pine Run owns Pine Run Midstream which operates dry gas gathering pipelines and compression assets in western Pennsylvania. The carrying value of our investment in Pine Run at March 31, 2023 and 2022 was $72 and $65, respectively.

Pennant. At March 31, 2022, the carrying value of our investment in Pennant was $97. During Fiscal 2022, the Company completed the Pennant Acquisition in which the Company acquired the remaining 53% of the equity interests in Pennant. The acquisition of the remaining interests was accounted for as an acquisition of assets, and the purchase price of approximately $61 was primarily allocated to property, plant and equipment.

Aurum Renewables. On January 31, 2023, the Company, through its wholly owned indirect subsidiary, entered into a joint venture agreement with a third party Archea Holdings, LLC. The primary purpose of the joint venture, Aurum Renewables LLC, is to upgrade landfill gas from the Commonwealth Environmental Systems landfill located in Hegins, Pennsylvania to pipeline-quality RNG. Pursuant to this agreement, the Company contributed its existing 11 megawatt landfill gas-to-electricity facility, as non-cash consideration, in return for a 40% equity interest in the joint venture. The estimated fair value of the Company's 40% equity interest in Aurum Renewables, which was determined to be a Level 3 measurement within the fair value hierarchy, was approximately $19, resulting in the recognition of a $2 gain. The carrying value of our investment in Aurum Renewables LLC at March 31, 2023 was $19.

Other Investments. Our other equity method investments totaled $19 and $6 at March 31, 2023 and 2022, respectively, and principally comprise of a number of investments in biomass and other renewable energy projects.

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.

Subsequent Events. Management has evaluated the impact of subsequent events through May 11, 2023, 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 — 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 2022 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 March 31,		Six Months Ended March 31,	
	2023	2022	2023	2022
Revenues from contracts with customers:				
Energy Marketing	$ 498	$ 524	$ 1,035	$ 960
Midstream:				
Pipeline	66	50	131	96
Peaking	68	80	124	125
Other	4	2	7	4
Electricity Generation	2	14	10	19
Total revenues from contracts with customers	638	670	1,307	1,204
Other revenues (a)	4	(8)	6	—
Total revenues	$ 642	$ 662	$ 1,313	$ 1,204

(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. Contract assets were not material 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.

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 $6, $9 and $7 at March 31, 2023, September 30, 2022 and March 31, 2022, respectively, and are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets.

Note 4 — Commitments and Contingencies

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

Note 5 — Debt

Energy Services Amended Term Loan Credit Agreement. On February 23, 2023, the Company entered into the Energy Services Amended Term Loan Credit Agreement, the first amendment to the Energy Services Term Loan Credit Agreement, dated August 13, 2019. The Energy Services Amended Term Loan Credit Agreement provides, among other items, that (i) the outstanding principal amount of the loans will be increased by $125 to $800, (ii) the maturity date of the loans shall be extended to February 22, 2030, (iii) Term SOFR (as defined in the Energy Services Amended Term Loan Credit Agreement) shall replace LIBOR as a reference rate and (iv) borrowings under the Energy Services Term Loan Credit Agreement shall bear interest at a floating rate of, at Energy Services' option, either (x) Term SOFR plus the applicable margin plus a credit spread adjustment of 0.10% or (y) the base rate, as defined in the Agreement, plus the applicable margin. The applicable margin shall be 3.25% per annum for Term SOFR loans and 2.25% per annum for base rate loans. Borrowings under the Energy Services Amended Term Loan Credit Agreement are payable in equal quarterly installments of $2, commencing in March 2023, with the balance of the principal being due and payable in full at maturity.

(Millions of dollars, except where indicated otherwise)

The Energy Services Amended Term Loan Credit Agreement contains customary covenants and default provisions and requires compliance with certain financial covenants including a minimum debt service coverage ratio as defined in the Agreement.

On March 1, 2023, in connection with the Energy Services Amended Term Loan Credit Agreement, the Company terminated and settled its existing interest rate swap derivative instrument associated with the Energy Services Term Loan Credit Agreement at a $32 gain. In accordance with GAAP, this gain has been deferred in AOCI and will be amortized to interest expense over the remaining term of the initial interest rate swap. The Company entered into a new interest rate swap, effective March 31, 2023, that fixes the underlying market-based interest rate on this variable-rate term loan at 4.53% through September 2026.

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, 2023:				
Assets:				
Commodity contracts	$ 160	$ 8	$ —	$ 168
Liabilities:				
Commodity contracts	$ (240)	$ (18)	$ —	$ (258)
Interest rate contracts	$ —	$ (20)	$ —	$ (20)
September 30, 2022:				
Assets:				
Commodity contracts	$ 368	$ 30	$ —	$ 398
Interest rate contracts	$ —	31	$ —	$ 31
Liabilities:				
Commodity contracts	$ (263)	$ (14)	$ —	$ (277)
March 31, 2022:				
Assets:				
Commodity contracts	$ 368	$ 26	$ —	$ 394
Interest rate contracts	$ —	$ 13	$ —	$ 13
Liabilities:				
Commodity contracts	$ (223)	$ (7)	$ —	$ (230)

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 September 2026. We have designated this interest rate swap as a cash flow hedge. At March 31, 2023, the amount of pre-tax net gains associated with this interest rate swap expected to be reclassified into earnings during the next twelve months based upon current fair values is approximately $24.

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, 2023, September 30, 2022 and March 31, 2022, and the final settlement dates of the Company's open derivative contracts as of March 31, 2023, but excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	March 31, 2023	September 30, 2022	March 31, 2022
Commodity Price Risk:					
Natural gas futures, forward, basis swap, options and pipeline contracts	Dekatherms	October 2027	354	335	312
Electricity forward and futures contracts	Kilowatt hours	December 2026	855	816	835
Interest Rate Risk:					
Interest rate swaps	USD	September 2026	$ 760	$ 642	$ 646

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, 2023, 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 $168. 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 March 31, 2023, we had received cash collateral from derivative instrument counterparties totaling $1. 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 loss.

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.

(Millions of dollars, except where indicated otherwise)

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, 2023	September 30, 2022	March 31, 2022
Derivative assets:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ —	$ 31	$ 13
Derivatives not designated as hedging instruments:			
Commodity contracts	168	398	394
Total derivative assets - gross	168	429	407
Gross amounts offset in balance sheet	(150)	(230)	(192)
Cash collateral received	(1)	(89)	(123)
Total derivative assets - net	$ 17	$ 110	$ 92
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ (20)	$ —	$ —
Derivatives not designated as hedging instruments:			
Commodity contracts	(258)	(277)	(230)
Total derivative liabilities - gross	(278)	(277)	(230)
Gross amounts offset in balance sheet	150	230	192
Cash collateral pledged	72	2	—
Total derivative liabilities - net	$ (56)	$ (45)	$ (38)

(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 (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI into Income		Location of Gain (Loss) Reclassified from AOCI into Income
	2023	2022	2023	2022	
Cash Flow Hedges:					
Interest rate contracts	$ (19)	$ 20	$ 4	$ (3)	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2023	2022	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ 5	$ (10)	Revenues
Commodity contracts	(122)	177	Cost of sales
Total	$ (117)	$ 167	

Six Months Ended March 31,	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified from AOCI into Income		Location of Gain (Loss) Reclassified from AOCI into Income
	2023	2022	2023	2022	
Cash Flow Hedges:					
Interest rate contracts	$ (16)	$ 27	$ 7	$ (5)	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2023	2022	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ 7	$ (5)	Revenues
Commodity contracts	(267)	108	Cost of sales
Total	$ (260)	$ 103	

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, 2023	Derivative Instruments
AOCI — December 31, 2022	$ 24
Other comprehensive loss before reclassification adjustments	(13)
Amounts reclassified from AOCI	(3)
AOCI — March 31, 2023	$ 8

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

Six Months Ended March 31, 2023	Derivative Instruments
AOCI — September 30, 2022	$ 24
Other comprehensive loss before reclassification adjustments	(11)
Amounts reclassified from AOCI	(5)
AOCI — March 31, 2023	$ 8

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

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 are 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 six months ended March 31, 2023 and 2022.

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
	2023	2022	2023	2022	
SCAA Activities:					
SCAA revenues	$ 1	$ —	$ 6	$ 5	Revenues
Costs of SCAA and firm delivery service	$ 1	$ 1	$ 1	$ 1	Cost of sales
Gas Supply and Delivery Service:					
Gas supply and delivery service revenues	$ 98	$ 138	$ 208	$ 227	Revenues
Costs of natural gas and pipeline capacity purchases	$ 28	$ 40	$ 61	$ 62	Cost of sales
Administrative Services:					
Administrative services provided by UGI	$ 5	$ 4	$ 9	$ 8	Operating and administrative expenses

	March 31, 2023	September 30, 2022	March 31, 2022	Classification on Condensed Consolidated Balance Sheets
SCAA security deposits	$ 9	$ 8	$ 8	Prepaid expenses and other current assets

Forward-Looking Statements

Information contained in this Quarterly Report contains forward-looking statements. Such statements use forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," or other similar words and terms of similar meaning, although not all forward-looking statements contain such words. These statements discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future. Management believes that these are reasonable as of today's date only. Actual results may differ significantly because of risks and uncertainties that are difficult to predict and many of which are beyond management's control; accordingly, there is no assurance that results will be realized. We undertake no obligation (and expressly disclaim any obligation) to update publicly any forward-looking statement whether as a result of new information or future events.

EXECUTIVE OVERVIEW

Recent Developments

Macroeconomic Conditions. Beginning in Fiscal 2021 and continuing into Fiscal 2023, commodity and labor markets have experienced significant inflationary pressures attributable to various economic and political factors, including, among others: the economic recovery and evolving consumer patterns associated with the COVID-19 pandemic; supply chain issues including those associated with labor shortages; and significant increases and volatility in energy commodity prices. These factors have contributed to inflationary pressures as evidenced by recent increases in various consumer price indices. In response to these inflationary pressures, the Federal Reserve began increasing interest rates during Fiscal 2022. In addition, during the last several years, we have experienced significant volatility in energy commodity prices, particularly in natural gas and electricity prices, which have resulted in substantial fluctuations in the fair values of our commodity derivative instruments. These inflationary pressures and commodity price fluctuations have resulted in increases in inventory and certain operating and distribution expenses. The commodity prices fluctuations have also significantly affected the cash collateral deposit requirements of our derivative instrument counterparties and the restricted cash required to be held in our derivative broker accounts. We cannot predict the duration or total magnitude of these conditions and the effects such conditions may have on our future business, financial results, financial position, and liquidity and cash flows. However, we continue to monitor and respond to these global economic and political conditions and remain focused on managing our financial condition and liquidity as these conditions continue to evolve.

2023 three-month period compared with 2022 three-month period

Energy Services' net income was $110 million and $161 million in the 2023 and 2022 three-month period, respectively. These results reflect after-tax gains on commodity derivative instruments not associated with current-period transactions of $44 million and $103 million, respectively. Although this item is reflected in our GAAP results, we have excluded it 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 increased $8 million in the 2023 three-month period primarily attributable to higher total margin from natural gas marketing activities and natural gas gathering activities reflecting in large part the Fiscal 2022 acquisitions of UGI Moraine East and Pennant. The higher margin was partially offset by higher operating expense and depreciation expense due in part to these Fiscal 2022 acquisitions.

2023 six-month period compared with 2022 six-month period

Energy Services' net income was $32 million and $123 million in the 2023 and 2022 three-month period, respectively. These results reflect after-tax (losses) gains on commodity derivative instruments not associated with current-period transactions of $(111) million and $14 million, respectively. Although this item is reflected in our GAAP results, we have excluded it 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 increased $34 million in the 2023 six-month period primarily attributable to higher margins related to natural gas marketing activities and incremental contributions from UGI Moraine East and Pennant.

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)	2023	2022	2023	2022
Adjusted total margin:				
Total revenues	$ 642	$ 662	$ 1,313	$ 1,204
Cost of sales	(557)	(386)	(1,254)	(931)
Total margin	85	276	59	273
Add net losses (subtract net gains) on commodity derivative instruments not associated with current-period transactions	74	(145)	255	(20)
Adjusted total margin	$ 159	$ 131	$ 314	$ 253
Adjusted operating income:				
Operating income (loss)	$ 31	$ 230	$ (44)	$ 179
Add net losses (subtract net gains) on commodity derivative instruments not associated with current-period transactions	74	(145)	255	(20)
Adjusted operating income	$ 105	$ 85	$ 211	$ 159
Adjusted income before income taxes:				
Income (loss) before income taxes	$ 21	$ 225	$ (64)	$ 172
Add net losses (subtract net gains) on commodity derivative instruments not associated with current-period transactions	74	(145)	255	(20)
Adjusted income before income taxes	$ 95	$ 80	$ 191	$ 152
Adjusted net income:				
Net income	$ 110	$ 161	$ 32	$ 123
(Subtract net gains) add net losses on commodity derivative instruments not associated with current-period transactions	(44)	(103)	111	(14)
Adjusted net income	$ 66	$ 58	$ 143	$ 109

Analysis of Results of Operations

2023 three-month period compared with the 2022 three-month period

Three Months Ended March 31,	2023	2022	Increase (Decrease)	
(Dollars in millions)				
Revenues	$ 642	$ 662	$ (20)	(3)%
Total margin (a)	$ 85	$ 276	$ (191)	(69)%
Operating and administrative expenses	$ 34	$ 30	$ 4	13 %
Operating income	$ 31	$ 230	$ (199)	(87)%
Income before income taxes	$ 21	$ 225	$ (204)	(91)%
Non-GAAP financial measures (b):				
Adjusted total margin	$ 159	$ 131	$ 28	21 %
Adjusted operating income	$ 105	$ 85	$ 20	24 %
Adjusted income before income taxes	$ 95	$ 80	$ 15	19 %
Adjusted net income	$ 66	$ 58	$ 8	14 %

(a) Total margin represents total revenues less total cost of sales and includes the impact of net (losses) gains of $(74) million and $145 million, on commodity derivative instruments not associated with current-period transactions for the 2023 and 2022 three-month periods, respectively.

(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 2023 three-month period were 18% warmer than normal and 17% warmer than the prior-year period.

For the 2023 three-month period, revenues decreased $20 million whereas cost of sales increased $171 million, compared to the prior-year period. Excluding the effects of net gains and losses on commodity derivative instruments not associated with current-period transactions, revenues and cost of sales decreased $33 million and $61 million, respectively, compared to the prior-year period. The decrease in revenues principally reflects lower revenues from natural gas marketing activities ($45 million), including the effects of peaking and capacity management activities, that were impacted by lower volumes from the warmer weather and lower natural gas prices, partially offset by higher natural gas gathering and processing activities ($16 million), primarily due to the prior year acquisition of UGI Moraine East and Pennant. The decrease in cost of sales is largely driven by the lower natural gas costs related to the previously mentioned natural gas marketing activities ($56 million).

Total margin decreased $191 million in the 2023 three-month period. Adjusted total margin increased $28 million in the 2023 three-month period largely reflecting higher margins from natural gas marketing activities ($11 million), including the effects of peaking and capacity management activities, and incremental natural gas gathering and processing activities ($16 million), primarily from the prior year acquisitions of UGI Moraine East and Pennant.

Operating income and income before income taxes decreased $199 million and $204 million, respectively, during the 2023 three-month period. Adjusted operating income and adjusted income before income taxes increased $20 million and $15 million, respectively, compared to the prior-year period. The increase in adjusted operating income is largely attributable to the previously mentioned increase in adjusted total margin, partially offset by higher operating and administrative expense ($4 million) and depreciation and amortization expenses ($4 million). 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 following the acquisition of the remaining 53% ownership interest in Pennant during the fourth quarter of Fiscal 2022.

Interest Expense and Income Taxes

Interest expense in the 2023 three-month period was slightly higher compared to the prior-year period, reflecting higher average short-term borrowings during the 2023 three-month period associated with the Receivables Facility and higher long-term debt balance as a result of the Energy Services Amended Term Loan Credit Agreement entered into in February 2023.

The increase in the Company's effective income tax rate for the 2023 three-month period was principally related to the impact of significantly higher losses on commodity derivative instruments compared to the prior-year period and the availability of investment tax credits in Fiscal 2023 following enactment of the Inflation Reduction Act. 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.

2023 six-month period compared with the 2022 six-month period

Six Months Ended March 31,	2023	2022	Increase (Decrease)	
(Dollars in millions)				
Revenues	$ 1,313	$ 1,204	$ 109	9 %
Total margin (a)	$ 59	$ 273	$ (214)	(78)%
Operating and administrative expenses	$ 63	$ 58	$ 5	9 %
Operating (loss) income	$ (44)	$ 179	$ (223)	(125)%
(Loss) income before income taxes	$ (64)	$ 172	$ (236)	(137)%
Non-GAAP financial measures (b):				
Adjusted total margin	$ 314	$ 253	$ 61	24 %
Adjusted operating income	$ 211	$ 159	$ 52	33 %
Adjusted income before income taxes	$ 191	$ 152	$ 39	26 %
Adjusted net income	$ 143	$ 109	$ 34	31 %

(a) Total margin represents total revenues less total cost of sales and includes the impact of net (losses) gains of $(255) million and $20 million, on commodity derivative instruments not associated with current-period transactions for the 2023 and 2022 six-month periods, respectively.

(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 2023 six-month period were 12% warmer than normal and 6% warmer than the prior-year period.

Revenues and cost of sales for the 2023 six-month period increased $109 million and $323 million, respectively, compared to the prior-year period. Excluding the effects of net gains and losses on commodity derivative instruments not associated with current-period transactions, revenues and cost of sales increased $101 million and $40 million, respectively, compared to the prior-year period. The increase in revenues principally reflects higher revenues from natural gas and power marketing activities ($70 million), including the effects of peaking and capacity management activities, that were impacted by higher natural gas prices during the first quarter of Fiscal 2023, partially offset by the impacts from lower volumes from the warmer weather during the second quarter of Fiscal 2023. The increase in revenues also includes higher natural gas gathering and processing activities ($34 million), primarily due to the prior-year acquisitions of UGI Moraine East and Pennant. The increase in cost of sales primarily reflects the higher natural gas costs related to the previously mentioned natural gas and power marketing activities, partially offset by the impacts from lower volumes from the warmer weather ($40 million).

Total margin decreased $214 million in the 2023 six-month period. Adjusted total margin increased $61 million in the 2023 six-month period reflecting higher margins from natural gas marketing activities ($31 million), including the effects of peaking and capacity management activities that benefited from extremely cold weather in late December. The increase in total margin also includes incremental natural gas gathering and processing activities ($34 million), primarily from the prior year acquisitions of UGI Moraine East and Pennant.

Operating loss increased $223 million and loss before income taxes increased $236 million, respectively, during the 2023 six-month period. Adjusted operating income and adjusted income before income taxes increased $52 million and $39 million, respectively, compared to the prior-year period. The increase in adjusted operating income is attributable to the previously mentioned increase in adjusted total margin, partially offset by higher operating and administrative expense ($5 million) and depreciation and amortization expenses ($6 million). 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 following the acquisition of the remaining 53% ownership interest in Pennant during the fourth quarter of Fiscal 2022.

Interest Expense and Income Taxes

Interest expense in the 2023 six-month period was slightly higher compared to the prior-year period, reflecting higher average short-term borrowings during the 2023 six-month period associated with the Receivables Facility and higher long-term debt balance as a result of the Energy Services Amended Term Loan Credit Agreement entered into in February 2023.

The increase in the Company's effective income tax rate for the 2023 six-month period was principally related to the impact of significantly higher losses on commodity derivative instruments compared to the prior-year period and the availability of investment tax credits in Fiscal 2023 following enactment of the Inflation Reduction Act. 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 ongoing global macroeconomic conditions including, among others, changes in consumer behavior resulting from the COVID-19 pandemic, the inflationary cost environment and ongoing commodity price volatility. The Company does not have any near-term term loan maturities. The Company cannot predict the duration or total magnitude of the uncertain economic factors mentioned above and the total effects they 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, 2023.

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 $41 million at March 31, 2023 compared to $62 million at September 30, 2022. Our restricted cash balance was $28 million at March 31, 2023 and $43 million at September 30, 2022, principally comprising cash in brokerage accounts that are restricted from withdrawal. The decrease in cash and cash equivalents since September 30, 2022 is primarily attributable to commodity price volatility experienced in the 2023 six-month period and the seasonality of our business as further described in "Cash Flows" below. Our debt outstanding at March 31, 2023, totaled $839 million (including current maturities of long-term debt of $11 million and short-term borrowings of $15 million). Our debt outstanding at September 30, 2022, totaled $710 million (including current maturities of long-term debt of $10 million). Total long-term debt outstanding at March 31, 2023, including current maturities, comprises $798 million of term loan borrowings and $41 million of other long-term debt comprising a finance lease liability, and is net of $15 million of unamortized debt issuance costs.

Long-term debt and credit facilities

Energy Services Amended Term Loan Credit Agreement. On February 23, 2023, the Company entered into the Energy Services Amended Term Loan Credit Agreement, the first amendment to the Energy Services Term Loan Credit Agreement, dated August 13, 2019. The Energy Services Amended Term Loan Credit Agreement provides, among other items, that (i) the outstanding principal amount of the loans will be increased by $125 million to $800 million, (ii) the maturity date of the loans shall be extended to February 22, 2030 and (iii) Term SOFR (as defined in the Energy Services Amended Term Loan Credit Agreement) shall replace LIBOR as a reference rate. See Note 5 to Condensed Consolidated Financial Statements for further information on this agreement.

At March 31, 2023, 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 2023 six-month period were $13 million and $82 million, respectively. During the 2022 six-month period and at March 31, 2022 there were no borrowings under the Energy Services Credit Agreement.

Energy Services also has a Receivables Facility with an issuer of receivables-backed commercial paper currently scheduled to expire in October 2023. At March 31, 2023, the outstanding balance of trade receivables was $115 million, $15 million of which was sold to the bank. At March 31, 2022, the outstanding balance of trade receivables was $120 million, none of which 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, 2023 and March 31, 2022, peak sales of receivables were $150 million and $98 million, respectively, and average daily amounts sold were $56 million and $4 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.

<u>Operating Activities:</u> Cash flow provided by operating activities was $48 million in the 2023 six-month period compared to $164 million in the prior-year period. Cash flow from operating activities before changes in operating working capital was $307 million in the 2023 six-month period compared to $137 million in the prior-year period. The increase principally reflects the improvement in 2023 six-month period operating results (after adjusting for the noncash effects of changes in unrealized gains and losses on commodity derivative instruments) and the benefit of $32 million of cash received from the settlement of an interest rate swap. Cash flow used to fund changes in operating working capital totaled $259 million in the 2023 six-month period compared with cash provided by changes in operating working capital of $27 million in the 2022 six-month period. The greater cash used in the current-year period largely reflects cash collateral payments on derivative instruments of $158 million in the 2023 six-month period compared with cash collateral received of $44 million in the prior-year period.

<u>Investing Activities:</u> Cash flow used by investing activities was $89 million in the 2023 six-month period compared to $206 million in the prior-year period. Capital expenditures for property, plant and equipment were $33 million in the 2023 six-month period compared to $17 million in the prior-year period. Cash used for investments in equity method investees in the 2023 six-month period reflects our continued investments in renewable energy businesses. Cash used for acquisitions of businesses and assets in the prior-year six-month period reflects the Stonehenge Acquisition.

<u>Financing Activities:</u> Cash flow provided by financing activities was $5 million in the 2023 six-month period compared to cash flow used by financing activities of $4 million in the prior-year period. The cash provided by financing activities in the 2023 six-month period reflects the cash proceeds from the previously mentioned Energy Services Term Loan Agreement entered into in February 2023 and the concurrent repayment of amounts outstanding under the variable rate term loan. During the six months ended March 31, 2023, we paid cash distributions of $125 million to Enterprises.