UGI ENERGY SERVICES, LLC
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
and MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
for the years ended September 30, 2020 and 2019

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

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UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this document are defined below:

UGI Energy Services and Related Entities

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

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

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

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

***ESFC* -** Energy Services Funding Corporation, a wholly-owned subsidiary of Energy Services

GHI Energy, LLC - a Houston-based renewable natural gas company

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

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

UGI - UGI Corporation

UGI Appalachia - UGI Appalachia, LLC, a wholly-owned subsidiary of Energy Services, comprising the natural gas gathering and processing business of CMG and its equity interest in Pennant

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

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

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

Other Terms and Abbreviations

Adjusted LIBOR - A rate derived from LIBOR

***AFUDC* -** Allowance for Funds Used During Construction

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

***ARO* -** Asset Retirement Obligation

***ASC* -** Accounting Standards Codification

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

ASC 740 - ASC 740, "Income Taxes"

ASC 805 - ASC 805, "Business Combinations"

ASC 820 - ASC 820, "Fair Value Measurement"

ASC 840 - ASC 840, "Leases"

ASC 842 - ASC 842, "Leases" (effective October 1, 2019)

ASC 980 - ASC 980, "Regulated Operations"

ASU - Accounting Standards Update

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

CDC - Centers for Disease Control and Prevention

CMG - Columbia Midstream Group, LLC

CMG Acquisition - Acquisition of CMG and Columbia Pennant, LLC on August 1, 2019 pursuant to the CMG Acquisition Agreements

CMG Acquisition Agreements - Agreements related to the CMG Acquisition comprising (1) a purchase and sale agreement related to the CMG acquisition, dated July 2, 2019, by and among Columbia Midstream & Minerals Group, LLC, Energy Services, UGI and TransCanada PipeLine USA Ltd., and (2) a purchase and sale agreement related to the Colombia Pennant, LLC acquisition, dated July 2, 2019, by and among Columbia Midstream & Minerals Group, LLC, Energy Services, and TransCanada PipeLine USA Ltd.

Conemaugh - Conemaugh generation station, a 1,711-megawatt, coal-fired electricity generation station located near Johnstown, Pennsylvania

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

EBITDA - Earnings before interest expense, income taxes, depreciation, and amortization

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

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

Energy Services Term Loan - A seven-year $700 million senior secured term loan agreement entered into on August 13, 2019, with a group of lenders

FASB - Financial Accounting Standards Board

FERC - Federal Energy Regulatory Commission

Fiscal 2019 - The fiscal year ended September 30, 2019

Fiscal 2020 - The fiscal year ended September 30, 2020

Fiscal 2021 - The fiscal year ending September 30, 2021

Fiscal 2022 - The fiscal year ending September 30, 2022

Fiscal 2023 - The fiscal year ending September 30, 2023

Fiscal 2024 - The fiscal year ending September 30, 2024

Fiscal 2025 - The fiscal year ending September 30, 2025

GAAP - U.S. generally accepted accounting principles

Hunlock - Hunlock station, a 130-megawatt natural gas-fueled electricity generating station located near Wilkes-Barre, Pennsylvania

ICE - Intercontinental Exchange

LIBOR - London Inter-bank Offered Rate

LNG - Liquefied natural gas

NOL - Net operating loss

NPNS - Normal purchase and normal sale

NYMEX - New York Mercantile Exchange

PJM - PJM Interconnection, LLC

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

ROU - Right-of-use

SAR - Stock Appreciation Rights

SCAA - Storage Contract Administrative Agreements

USD - U.S. Dollar

VIE - Variable Interest Entity

WHO - World Health Organization

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Report of Independent Auditors

To the Member and Management of UGI Energy Services, LLC

We have audited the accompanying consolidated financial statements of UGI Energy Services, LLC and subsidiaries, which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of comprehensive income, cash flows and changes in member's equity for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UGI Energy Services, LLC and subsidiaries at September 30, 2020 and 2019, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

December 15, 2020

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

	September 30, 2020	September 30, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 23	$ 26
Restricted cash	9	34
Accounts receivable (less allowances for doubtful accounts of $2 and $1 respectively)	90	89
Accounts receivable - related parties	9	5
Inventories	25	23
Derivative instruments	18	4
Prepaid expenses and other current assets	40	11
Total current assets	214	192
Property, plant and equipment:		
Gross property, plant and equipment	1,960	1,972
Accumulated depreciation	(256)	(256)
Net property, plant and equipment	1,704	1,716
Goodwill	336	336
Intangible assets, net	280	269
Derivative instruments	7	2
Investments in equity method investees	190	179
Other assets	35	24
Total assets	$ 2,766	$ 2,718
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 10	$ 7
Short-term borrowings	19	91
Accounts payable	81	68
Accounts payable - related parties	13	14
Derivative instruments	21	30
Other current liabilities	42	38
Total current liabilities	186	248
Long-term debt	711	679
Deferred income taxes	199	145
Derivative instruments	29	17
Other noncurrent liabilities	14	37
Total liabilities	1,139	1,126
Commitments and contingencies (Note 11)		
Member's equity	1,627	1,592
Total liabilities and member's equity	$ 2,766	$ 2,718

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of dollars)

	Year Ended September 30, 2020	Year Ended September 30, 2019
Revenues	$ 1,210	$ 1,471
Costs and expenses:		
Cost of sales (excluding depreciation and amortization shown below)	831	1,249
Operating and administrative expenses	121	112
Loss on disposal of Conemaugh	52	—
Depreciation and amortization	74	51
Other operating income, net	—	(2)
	1,078	1,410
Operating income	132	61
Income from equity method investees	27	9
Interest expense	(42)	(9)
Income before income taxes	117	61
Income tax expense	(12)	(14)
Net income	$ 105	$ 47
Other comprehensive loss:		
Net losses on derivative instruments (net of tax of $9 and $1, respectively)	(23)	(2)
Reclassifications of net losses on derivative instruments (net of tax of $(1) and $0, respectively)	3	—
Other comprehensive loss	(20)	(2)
Comprehensive income	$ 85	$ 45

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of dollars)

	Year Ended September 30, 2020	Year Ended September 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 105	$ 47
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74	51
Deferred income tax expense (benefit), net	57	(1)
Changes in unrealized gains and losses on derivative instruments	(45)	31
Loss on disposal of Conemaugh	52	—
Other, net	(2)	(8)
Net change in:		
Accounts receivable	(12)	19
Inventories	(2)	2
Accounts payable	12	(6)
Other current assets	(22)	(1)
Other current liabilities	(5)	1
Net cash provided by operating activities	212	135
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(92)	(121)
Acquisitions of businesses and assets, net of cash acquired	(16)	(1,319)
Other, net	(3)	(5)
Net cash used by investing activities	(111)	(1,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions	—	1,104
Distributions	(50)	(557)
Receivables Facility net (repayments) borrowings	(27)	44
Issuances of debt, net of discount and issuance costs	—	688
Repayments of debt	(7)	(2)
(Decrease) increase in short-term borrowings	(45)	45
Net cash (used) provided by financing activities	(129)	1,322
Cash, cash equivalents and restricted cash (decrease) increase	$ (28)	$ 12
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
End of year	$ 32	$ 60
Beginning of year	60	48
Cash, cash equivalents and restricted cash (decrease) increase	$ (28)	$ 12
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid (received) for:		
Interest	$ 40	$ 8
Income taxes	$ (9)	$ 7

See accompanying notes to consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

(Millions of dollars)

	Member's Equity
Balance at September 30, 2018	$ 1,004
Net income	47
Capital contributions	1,104
Cash distributions	(557)
Cumulative effect of change in accounting principle - ASC 606	(4)
Changes in AOCI balance (Note 14)	(2)
Balance at September 30, 2019	$ 1,592
Net income	105
Cash distributions	(50)
Changes in AOCI balance (Note 14)	(20)
Balance at September 30, 2020	$ 1,627

See accompanying notes to consolidated financial statements.

Note 1 — Nature of Operations

The consolidated financial statements reflect the consolidated financial position and results of operations of Energy Services and its subsidiaries. Energy Services is a Pennsylvania limited liability company and a wholly-owned subsidiary of UGI Enterprises. Enterprises is a wholly-owned subsidiary of UGI. Energy Services is a sole member limited liability company with Enterprises owning 100% of the membership interest.

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

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

Our consolidated financial statements are prepared in accordance with GAAP. 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.

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

Principles of Consolidation

The consolidated financial statements include all the accounts of Energy Services, its majority-owned subsidiaries and VIEs, if any, where it has concluded that it is the primary beneficiary. A VIE is defined as a legal entity that has equity investors that do not have sufficient equity at risk for the entity to support its activities without additional subordinated financial support or, as a group, the holders of the equity at risk lack (i) the power to direct the entity's activities or (ii) the obligation to absorb the expected losses or the right to receive the expected residual returns of the entity. A VIE is required to be consolidated by a company if that company is the primary beneficiary. The primary beneficiary is the entity that has a controlling financial interest in the VIE such that it has the power to direct the activities of the VIE that most significantly impact the VIE's financial performance.

We eliminate intercompany accounts and transactions when we consolidate. 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. Distributions received from equity method investees are included in cash flows from operating activities on the Consolidated Statements of Cash Flows. For a more detailed description of our equity method investees, see Note 16. Energy Services' wholly-owned, special purpose subsidiary, ESFC, is consolidated for financial statement purposes (see Note 6).

Effects of Regulation

A subsidiary of the Company accounts for the financial effects of regulation in accordance with the FASB's guidance in ASC 980. In accordance with this guidance, incurred costs and estimated future expenditures that would otherwise be charged to expense are capitalized and recorded as regulatory assets when it is probable that the incurred costs or estimated future expenditures will be recovered through rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have not yet been incurred. Generally, regulatory assets and liabilities are amortized into expense and income over the periods authorized by the regulator. At both September 30, 2020 and 2019, regulatory assets of $2 were included in "Other assets" on the Consolidated Balance Sheets. There were no regulatory liabilities recorded at September 30, 2020 and 2019.

Fair Value Measurements

The Company applies fair value measurements on a recurring and, as otherwise required under ASC 820, on a nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value measurements performed on a recurring basis principally relate to derivative instruments.

ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

We use the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access at the measurement date.

- Level 2 — Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means.

- Level 3 — Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability.

Fair value is based upon assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and risks inherent in valuation techniques and inputs to valuations. This includes not only the credit standing of counterparties and credit enhancements but also the impact of our own nonperformance risk on our liabilities. We evaluate the need for credit adjustments to our derivative instrument fair values. These credit adjustments were not material to the fair values of our derivative instruments.

Derivative Instruments

Derivative instruments are reported on the 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 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 13.

Business Combination Purchase Price Allocations

From time to time, the Company enters into material business combinations. The purchase price is allocated to the various assets acquired and liabilities assumed at their estimated fair value as of the acquisition date with the residual of the purchase price allocated to goodwill. Fair values of assets acquired and liabilities assumed are based upon available information. Estimating fair values is generally subject to significant judgment, estimates and assumptions especially with respect to intangible assets. The allocation of the purchase price may be modified up to one year after the acquisition date, under certain circumstances, as more information is obtained about the fair value of assets acquired and liabilities assumed.

(Millions of dollars, except where indicated otherwise)

Revenue Recognition

In accordance with ASC 606, 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. Certain revenues such as revenue from leases, financial instruments and other revenues are not within the scope of ASC 606 because they are not from contracts with customers. Such revenues are accounted for in accordance with other GAAP.

Revenue-related taxes collected on behalf of customers and remitted to taxing authorities, principally sales and use taxes, are not included in revenues. Gross receipts taxes are presented on a gross basis. The Company has elected to use the practical expedient to expense the costs to obtain contracts when incurred for contracts that have a term less than one year. The costs incurred to obtain contracts that have durations of longer than one year are not material. See Note 4 for additional disclosures regarding the Company's revenue from contracts with customers.

Accounts Receivable

Accounts receivable are reported on the Consolidated Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Accounts receivable that are acquired are initially recorded at fair value on the date of acquisition. Provisions for uncollectible accounts are established based upon our collection experience and the assessment of the collectability of specific amounts. Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

Income Taxes

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. In all periods presented, we joined with UGI as disregarded entities in filing state tax returns. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return and combined state income tax returns including giving effect to intercompany transactions. The result of this allocation is consistent with income taxes calculated on a separate return basis. Accordingly, income tax-related payments and accrued income tax balances principally reflect transactions with UGI resulting from this allocation. We record interest on tax deficiencies and income tax penalties in "Income tax expense" on the Consolidated Statements of Comprehensive Income. Interest income or expense recognized in "Income tax expense" on the Consolidated Statements of Comprehensive Income was not material for all periods presented.

See Note 7 for information regarding the March 27, 2020, enactment of the CARES Act.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on hand, cash in banks and highly liquid investments with maturities of three months or less when purchased. 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 Consolidated Balance Sheets to the corresponding amounts reported on the Consolidated Statements of Cash Flows.

	2020	2019	2018
Cash and cash equivalents	$ 23	$ 26	$ 40
Restricted cash	9	34	8
Cash, cash equivalents and restricted cash	$ 32	$ 60	$ 48

Inventories

Inventories principally comprise natural gas, liquefied natural gas and, to a lesser extent, propane. Our inventories are stated at the lower of cost or net realizable value. We determine cost using an average cost method.

(Millions of dollars, except where indicated otherwise)

Property, Plant and Equipment and Related Depreciation

We record property, plant and equipment at the lower of original cost or fair value, if impaired. Capitalized costs include labor, materials and other direct and indirect costs, and for certain operations subject to cost-of-service rate regulation, AFUDC. We also include in property, plant and equipment costs associated with computer software we develop or obtain for use in our business. The amounts assigned to property, plant and equipment of acquired businesses are based upon estimated fair value at date of acquisition. When we retire or otherwise dispose of plant and equipment, we eliminate the associated cost and accumulated depreciation and recognize any resulting gain or loss in "Other operating income, net" on the Consolidated Statements of Comprehensive Income.

We record depreciation expense on plant and equipment on a straight-line basis over estimated economic useful lives. Our natural gas production assets are depreciated on the units of production method. At September 30, 2020, estimated useful lives by asset type were as follows:

Asset Type	Minimum Estimated Useful Life (in years)	Maximum Estimated Useful Life (in years)
Buildings and improvements	30	40
Natural gas and propane storage and distribution equipment	15	40
Electricity generation facilities	25	40
Pipeline and related assets	25	40
Transportation equipment and office furniture and fixtures	3	7
Computer software	3	7

We classify amortization of computer software and related IT system installation costs included in property, plant and equipment as depreciation expense. Depreciation expense totaled $63 and $48 in Fiscal 2020 and Fiscal 2019, respectively. No depreciation expense is included in "Cost of sales" on the Consolidated Statements of Comprehensive Income.

Goodwill and Intangible Assets.

Intangible Assets. We amortize intangible assets over their estimated useful lives unless we determine their lives to be indefinite. Estimated useful lives of definite-lived intangible assets, primarily consisting of customer relationships (other than customer relationships acquired in the CMG Acquisition), generally do not exceed 15 years. The estimated useful lives of customer relationships acquired in the CMG Acquisition are 35 years (see Note 5).

We test definite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the associated carrying amounts may be impaired. Determining whether an impairment loss occurred requires comparing the carrying amount to the estimated fair value of the asset in accordance with ASC 820. There were no such indicators identified in Fiscal 2020 or Fiscal 2019.

Goodwill. We do not amortize goodwill, but test it at least annually for impairment at the reporting unit level. A reporting unit is an operating segment, or one level below an operating segment (a component) if it constitutes a business for which discrete financial information is available and regularly reviewed by segment management. Components are aggregated into a single reporting unit if they have similar economic characteristics. A reporting unit with goodwill is required to perform an impairment test annually or whenever events or circumstances indicate that the value of goodwill may be impaired.

We are required to recognize an impairment charge under GAAP if the carrying amount of a reporting unit exceeds its fair value. From time to time, we may assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. We may bypass the qualitative assessment and perform the quantitative assessment by comparing the fair values of the reporting units with their carrying amounts, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to such excess but not to exceed the total amount of the goodwill of the reporting unit. There were no accumulated goodwill impairment losses at September 30, 2020 and 2019. For further information on our goodwill and intangible assets, see Note 9.

Impairment of Long-Lived Assets

Impairment testing for long-lived assets or an asset group is required when circumstances indicate that such assets may be impaired. If it is determined that a triggering event has occurred, we perform a recoverability test based upon estimated undiscounted cash flow projections expected to be realized over the remaining useful life of the long-lived asset. If the undiscounted cash flows used in the recoverability test are less than the long-lived asset's carrying amount, we determine its fair value. If the fair value is determined to be less than its carrying amount, the long-lived asset is reduced to its estimated fair value and an impairment loss is recognized in an amount equal to such shortfall. When determining whether a long-lived asset has been impaired, management groups assets at the lowest level that has identifiable cash flows.

No provisions for impairments of long-lived assets were recorded during Fiscal 2019. See Note 5 for further information on the loss associated with the disposition of Conemaugh during Fiscal 2020.

Debt Issuance Costs

We defer and amortize debt issuance costs and debt premiums and discounts over the expected lives of the respective debt issues considering maturity dates. Deferred debt issuance costs associated with long-term debt are reflected as a direct deduction from the carrying amount of such debt. Deferred debt issuance costs associated with revolving credit facilities reflected as short-term borrowings are classified as “Other assets” on our Consolidated Balance Sheets. Amortization of debt issuance costs is reported as "Interest expense" on the Consolidated Statements of Comprehensive Income.

Leases

Effective October 1, 2019, the Company adopted ASU No. 2016-02, "Leases," which, as amended, is included in ASC 842. This new accounting guidance supersedes previous lease accounting guidance in ASC 840 and requires entities that lease assets to recognize the assets and liabilities for the rights and obligations created by those leases on its balance sheet. The new guidance also requires additional disclosures about the amount, timing and uncertainty of cash flows from leases.

We adopted this new guidance using the modified retrospective transition method. Amounts and disclosures related to periods prior to October 1, 2019 have not been restated and continue to be reported in accordance with ASC 840. We elected to apply the following practical expedients in accordance with the guidance upon adoption:

- Short-term leases: We did not recognize short-term leases (term of 12 months or less) on the balance sheet;
- Easements: We did not re-evaluate existing land easements that were not previously accounted for as leases; and
- Other: We did not reassess the classification of expired or existing contracts or determine whether they are or contain a lease. We also did not reassess whether initial direct costs qualify for capitalization under ASC 842.

Upon adoption, we recorded ROU assets and lease liabilities of $9 related to our operating leases. Our accounting for finance leases remained substantially unchanged. There were no cumulative effect adjustments made to member's equity as of October 1, 2019. The adoption did not have a significant impact on our consolidated statements of comprehensive income or cash flows. See Note 10 for additional disclosures regarding our leases.

Asset Retirement Obligation

The Company accounts for AROs in accordance with GAAP which requires that an ARO be recorded when a legal obligation to retire an asset exists, and such obligation can be reasonably estimated. The Company has determined that it has legal obligations associated with certain of its property, plant and equipment primarily those associated with its natural gas gathering assets. Prior to its sale on September 30, 2020, the Company also had such obligations associated with its interest in Conemaugh. The Company’s share of such liability was $4 at September 30, 2019.

The obligations associated with its natural gas gathering assets relate primarily to purging and sealing pipelines if abandoned and, in certain instances, the removal of such facilities. With respect to the Company’s natural gas gathering and certain of its other assets, AROs were not recorded because the Company plans to operate and maintain these natural gas gathering and other facilities as long as supply and demand for natural gas and natural gas liquids exists, which the Company expects for the foreseeable future. Therefore, the Company believes that these assets have indeterminate lives, and no ARO was recorded at September 30, 2020 and 2019. The Company continues to evaluate its AROs and future developments that could impact its AROs.

Subsequent Events. Management has evaluated the impact of subsequent events through December 15, 2020, the date these financial statements were issued, and the effects of such evaluation have been reflected in the financial statements and related disclosures.

Note 3 — Accounting Changes

New Accounting Standards Adopted in Fiscal 2020

Derivatives and Hedging. Effective October 1, 2019, the Company adopted ASU No. 2017-12, "Targeted Improvements to Accounting for Hedging Activities." This ASU amends and simplifies existing guidance to allow companies to more accurately present the economic effects of risk management activities in the financial statements. For cash flow and net investment hedges as of the adoption date, the guidance required a modified retrospective approach. The amended presentation and disclosure guidance was required prospectively. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

Leases. Effective October 1, 2019, the Company adopted new accounting guidance for leases in accordance with ASC 842. See Notes 2 and 10 for a detailed description of the impact of the new guidance and related disclosures.

Reference Rate Reform. In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This ASU provides entities with temporary optional guidance to ease potential accounting burdens to transition away from LIBOR or other reference rates that are expected to be discontinued and replaced with alternative reference rates. This ASU applies to all entities that have contracts, hedging relationships and other transactions affected by reference rate reform. The provisions in this ASU, among other things, simplify contract modification accounting and allow hedging relationships affected by reference rate reform to continue. ASU 2020-04 is effective upon issuance and entities are able to apply the amendments prospectively through December 31, 2022. During the third quarter of Fiscal 2020, the Company elected certain optional expedients related to all outstanding cash flow hedging relationships and such elections did not have a material impact on our consolidated financial statements.

New Accounting Standard Adopted Effective October 1, 2020

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

Accounting Standard Not Yet Adopted

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

Note 4 — Revenue from Contracts with Customers

Energy Services recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Energy Services generally has the right to consideration from a customer in an amount that corresponds directly with the value to the customer for performance completed to date. As such, we have elected to recognize revenue in the amount to which we have a right to invoice except in the case of certain of our peaking contracts for which we recognize revenue on a straight-line basis over the term of the contract, consistent with when the performance obligations are satisfied by Energy Services.

We do not have a significant financing component in our contracts because we receive payment shortly before, at, or shortly after the transfer of control of the good or service. Because the period between the time the performance obligation is satisfied and payment is received is generally one year or less, Energy Services has elected to apply the significant financing component practical expedient and no amount of consideration has been allocated as a financing component.

Energy Services revenues from contracts with customers are discussed below.

<u>Energy Marketing.</u> Energy Services operates energy marketing businesses that sell energy commodities, principally natural gas and electricity, to residential, commercial, industrial and wholesale customers.

Energy Services markets natural gas and electricity on full-requirements or agreed-upon volume bases under contracts with varying length terms and at fixed or floating prices that are based on market indices adjusted for differences in price between the market location and delivery locations. Performance obligations associated with these contracts primarily comprise the delivery of the natural gas and electricity over a contractual period of time. Performance obligations also include other energy-related ancillary services provided to customers such as capacity. For performance obligations that are satisfied at a point in time such as the delivery of natural gas, revenue is recorded when customers take control of the natural gas. Revenue is recorded for performance obligations that qualify as a series, when customers consume the natural gas or electricity is delivered, which corresponds to the amount invoiced to the customer. For transactions where the price or volume is not fixed, the transaction price is not determined until delivery occurs. The billed amount, and the revenue recorded, is based upon consumption by the customer.

<u>Midstream.</u> Energy Services provides natural gas pipeline transportation, natural gas gathering, natural gas processing and natural gas underground storage services, which generally contain a performance obligation for Energy Services to have availability to transport or store a product. Additionally, Energy Services provides stand-ready services to sell supplemental energy products and related services, primarily LNG and propane-air mixtures during periods of high demand that typically result from cold weather. Energy Services also sells LNG to end-user customers for use by trucks, drilling rigs and other motor vehicles and equipment, and facilities that are located off the natural gas grid.

Contracts for natural gas transportation and gathering services are typically long-term contracts with terms of up to 30 years, while contracts for storage are typically for one-year or multiple storage season periods. Contracts to provide natural gas during periods of high demand have terms of up to 15 years. Contracts to sell LNG for trucks, drilling rigs and other motor vehicles and equipment are typically short-term (less than one year). Depending on the type of services provided or goods sold, midstream revenues may consist of demand rates, commodity rates, and transportation rates and may include other fees for ancillary services. Pipeline transportation, natural gas gathering and storage services provided and services to stand ready to sell supplemental energy products and services each are considered to have a single performance obligation satisfied through the passage of time ratably based upon providing a stand-ready service generally on a monthly basis. Contracts to sell LNG to end-user customers contain performance obligations to deliver LNG over the term of the contract and revenue is recognized at a point in time when the control of the energy products is transferred to the customer. The price in the contract corresponds to our efforts to satisfy the performance obligation and reflects the consideration we expect to receive for the satisfied performance obligation, and, therefore, the revenue is recognized based on the volume delivered and the price within the contract. In cases where shipping and handling occurs prior to the LNG being delivered to the customer's storage vessel, we have elected to treat this as a cost of fulfillment and not a separate performance obligation. Revenues are typically billed and payment received monthly. Advance fees received from customers for stand-ready services are deferred as contract liabilities and revenue is recognized ratably over time as the performance obligation is satisfied over a period less than one year.

A subsidiary of Energy Services provides natural gas transportation services to customers who are generally billed at standard regulated tariff rates approved by FERC through a ratemaking process. Tariff rates include a component that provides for a reasonable opportunity to recover operating costs and expenses and to earn a return on net investment.

<u>Electricity Generation.</u> UGID sells power generated from electricity generation assets in the wholesale electricity markets administered by PJM regional transmission organization. Power contracts with PJM consist of the sale of power, capacity and ancillary services, all of which are considered a bundle of various services. Performance obligations are satisfied over time, generally on a daily basis, as electricity is delivered to and simultaneously consumed by the customer. As such, UGID has

(Millions of dollars, except where indicated otherwise)

elected to recognize revenue in the amount to which we have a right to invoice which is based on market prices at the time of the delivery of the electricity to the customers.

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 at September 30, 2020 and 2019. Substantially all of our receivables are unconditional rights to consideration and are included in “Accounts receivable.” Amounts billed are generally due within the following month.

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company’s obligations to transfer goods or services to a customer for which we have received consideration. The balances of contract liabilities were $2 and $5 at September 30, 2020 and 2019, respectively, and are included in “Other current liabilities” on the Consolidated Balance Sheets.

Revenue Disaggregation

The following table presents our disaggregated revenues during Fiscal 2020 and Fiscal 2019 :

	2020	2019
Revenues from contracts with customers:		
Energy Marketing	$ 878	$ 1,207
Midstream:		
Pipeline	168	88
Peaking	106	114
Other	7	8
Electricity Generation	34	43
Total revenues from contracts with customers	1,193	1,460
Other revenues (a)	17	11
Total revenues	$ 1,210	$ 1,471

(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.

Note 5 — Acquisitions and Disposition

CMG Acquisition

On August 1, 2019, Energy Services completed the CMG Acquisition in which Energy Services acquired all of the equity interests in CMG and CMG’s approximate 47% interest in Pennant, for total cash consideration of $1,284. The CMG Acquisition was consummated pursuant to the CMG Acquisition Agreements. CMG and Pennant provide natural gas gathering and processing services through five discrete systems located in western Pennsylvania, eastern Ohio and the panhandle of West Virginia. The CMG Acquisition is consistent with our growth strategies, including expanding our midstream natural gas gathering and processing assets within the Marcellus and Utica production regions. The CMG Acquisition was funded with cash from borrowings under the Energy Services Term Loan, capital contributions and cash on hand. We refer to CMG and its equity interest in Pennant as "UGI Appalachia."

(Millions of dollars, except where indicated otherwise)

The Company has accounted for the CMG Acquisition using the acquisition method. The components of the final CMG purchase price allocations are as follows:

Assets acquired:		
Accounts receivable	$	10
Prepaid expenses and other current assets		1
Property, plant and equipment		614
Investment in Pennant		88
Intangible assets (a)		250
Total assets acquired	$	963
Liabilities assumed:		
Accounts payable	$	3
Total liabilities assumed		3
Goodwill		324
Net consideration transferred (including working capital adjustments)	$	1,284

(a) Represents customer relationships having an average amortization period of 35 years.

We allocated the purchase price of the acquisition to identifiable intangible assets and property, plant and equipment based on estimated fair values as follows:

- Customer relationships were valued using a multi-period, excess earnings method. Key assumptions used in this method include discount rates, growth rates and cash flow projections. These assumptions are most sensitive and susceptible to change as they require significant management judgment; and

- Property, plant and equipment were valued based on estimated fair values primarily using depreciated replacement cost and market value methods.

The excess of the purchase price for the CMG Acquisition over the fair values of the assets acquired and liabilities assumed has been reflected as goodwill and results principally from anticipated future capital investment opportunities and value creation resulting from new natural gas processing assets in the Marcellus and Utica production regions. The goodwill recognized from the CMG Acquisition is deductible for income tax purposes.

Energy Services recognized $15 of direct transaction-related costs associated with the CMG Acquisition during Fiscal 2019, which costs are reflected in "Operating and administrative expenses" on the 2019 Consolidated Statement of Comprehensive Income.

Other Business Combinations and Acquisition of Assets

In July 2020, Energy Services acquired GHI Energy, LLC, a Houston, Texas-based renewable natural gas company currently doing business in California, in a business combination for total consideration of $23 including cash of $16. During Fiscal 2019, Energy Services acquired all rights, title and interests in the retail natural gas marketing business of South Jersey Energy Company including its wholly-owned subsidiary, Open Flow Energy, in a business combination for cash consideration of $15. These acquisitions were accounted for under the acquisition method and the assets acquired and liabilities assumed were recognized and measured at the acquisition date at fair value.

During Fiscal 2019, Energy Services acquired 21 miles of natural gas gathering lines and related dehydration and compression equipment located in northern Pennsylvania in an asset acquisition for cash consideration of $20.

(Millions of dollars, except where indicated otherwise)

Disposal of Conemaugh

Conemaugh. In July 2020, Energy Services, through a wholly-owned subsidiary, entered into an agreement to sell its approximate 5.97% ownership interest in Conemaugh. As a result the Company reduced the carrying amount of these assets to their fair values during the third quarter of Fiscal 2020. The fair values of such assets were based upon the agreed upon sales prices, and was determined to be a Level 2 measurement within the fair value hierarchy. During the third quarter of Fiscal 2020, we recognized a non-cash, pre-tax impairment charge of $52 which amount is reflected in "Loss on disposal of Conemaugh" on the 2020 Consolidated Statement of Comprehensive Income. The sale was completed on September 30, 2020.

Note 6 — Debt

Significant Financing Activities during Fiscal 2020

On March 6, 2020, Energy Services entered into the Energy Services 2020 Credit Agreement, as borrower, with a group of lenders. The Energy Services 2020 Credit Agreement amends and restates the Energy Services Credit Agreement. The Energy Services 2020 Credit Agreement provides for borrowings up to $260, including a $50 sublimit for letters of credit. Energy Services may request an increase in the amount of loan commitments under the Energy Services 2020 Credit Agreement to a maximum aggregate amount of $325, subject to certain terms and conditions. Borrowings under the Energy Services 2020 Credit Agreement can be used to fund acquisitions and investments and for general corporate purposes. This credit agreement is collateralized by substantially all of the assets of Energy Services, subject to certain exceptions and carveouts including, but not limited to, accounts receivables and certain real property. The Energy Services 2020 Credit Agreement is scheduled to expire in March 2025.

Borrowings under the Energy Services 2020 Credit Agreement bear interest at either (i) the Alternate Base Rate plus a margin or (ii) the Adjusted LIBOR plus a margin. The Alternate Base Rate, as defined, is the highest of (a) the prime rate, (b) the federal funds rate plus 0.50%, and (c) the Adjusted LIBOR for a one-month interest period plus 1% but in no event shall the Alternative Base Rate be less than 1%. The margins on borrowings ranges from 0.75% to 2.75% and are dependent upon Energy Services' ratio of Consolidated Total Indebtedness to Consolidated EBITDA, as defined. The initial margin on the Alternate Base Rate and Adjusted LIBOR on borrowings under the Energy Services 2020 Credit Agreement were 1.50% and 2.50%, respectively. The Energy Services 2020 Credit Agreement includes customary provisions with respect to the replacement of LIBOR.

Credit Facilities and Short-term Borrowings

Information about the Energy Services 2020 Credit Agreement as of September 30, 2020 and the Energy Services Credit Agreement as of September 30, 2019 is presented in the following table. Borrowings outstanding under these agreements are classified as "Short-term borrowings" on the Consolidated Balance Sheets. Borrowings on these credit agreements bear interest at rates indexed to short-term market rates.

	Expiration Date	Total Capacity (a)	Borrowings Outstanding	Available Borrowing Capacity	Weighted Average Interest Rate - End of Year
September 30, 2020	March 2025	$ 260	$ —	$ 260	N.A.
September 30, 2019	March 2021	$ 200	$ 45	$ 155	6.25 %

(a) Includes a $50 sublimit for letters of credit and is guaranteed by certain subsidiaries of Energy Services.

N.A. - Not applicable

Accounts Receivable Securitization Facility. Energy Services has a Receivables Facility with an issuer of receivables-backed commercial paper currently scheduled to expire in October 2021. The Receivables Facility, as amended, provides Energy Services with the ability to borrow up to $150 of eligible receivables during the period November to April, and up to $75 of eligible receivables during the period May to October. Energy Services uses the Receivables Facility to fund working capital, margin calls under commodity futures contracts, capital expenditures, dividends and for general corporate purposes.

(Millions of dollars, except where indicated otherwise)

Under the Receivables Facility, Energy Services transfers, on an ongoing basis and without recourse, its trade accounts receivable to its wholly-owned, special purpose subsidiary, ESFC, which is consolidated for financial statement purposes. ESFC, in turn, has sold and, subject to certain conditions, may from time to time sell, an undivided interest in some or all of the receivables to a major bank. Amounts sold to the bank are reflected as "Short-term borrowings" on the Consolidated Balance Sheets. ESFC was created and has been structured to isolate its assets from creditors of Energy Services and its affiliates, including UGI. Trade receivables sold to the bank remain on the Company's balance sheet and the Company reflects a liability equal to the amount advanced by the bank. The Company records interest expense on amounts owed to the bank. Energy Services continues to service, administer and collect trade receivables on behalf of the bank, as applicable.

Information regarding the amounts of trade receivables transferred to ESFC and the amounts sold to the bank during Fiscal 2020 and Fiscal 2019, as well as the balance of ESFC trade receivables at September 30, 2020 and 2019 are as follows:

	2020	2019
Trade receivables transferred to ESFC during the year	$ 1,046	$ 1,373
ESFC trade receivables sold to the bank during the year	$ 182	$ 179
ESFC trade receivables - end of year (a)	$ 50	$ 55

(a) At September 30, 2020 and 2019, the amounts of ESFC trade receivables sold to the bank were $19 and $46, respectively, and are reflected as "Short-term borrowings" on the Consolidated Balance Sheets.

Long Term Debt

Long-term debt comprises the following at September 30:

	2020	2019
Variable-rate term loan due through August 2026 (a)	$ 691	$ 698
Other (b)	42	—
Total long-term debt	733	698
Less: unamortized debt issuance costs	(12)	(12)
Less: current maturities	(10)	(7)
Total long-term debt due after one year	$ 711	$ 679

(a) At September 30, 2020 and 2019, the effective interest rate on the term loan was 5.30% and 5.79%, respectively. This term loan is collateralized by substantially all of the assets of Energy Services, subject to certain exceptions and carveouts including, but not limited to, accounts receivable and certain real property. We have entered into a pay-fixed, receive variable interest rate swap to effectively fix the underlying variable rate on these borrowings. Term loan borrowings are due in equal quarterly installments of $2, with the balance of the principal being due in full at maturity. Under certain circumstances, Energy Services is required to make additional principal payments if the consolidated total leverage ratio, as defined, is greater than defined thresholds.
(b) Amounts include finance lease liabilities recognized as a result of the adoption of ASU No. 2016-02. For additional information, see Note 2 and Note 10.

Scheduled principal repayments of long-term debt and finance leases for each of the next five fiscal years ending September 30 are as follows: Fiscal 2021 - $10; Fiscal 2022 - $7; Fiscal 2023 - $7; Fiscal 2024 - $7; Fiscal 2025 - $7.

Restrictive Covenants. Our long-term debt and the Energy Services 2020 Credit Agreement generally contain customary covenants and default provisions which may include, among other things, restrictions on the incurrence of additional indebtedness and also restrict liens, guarantees, investments, loans and advances, payments, mergers, consolidations, asset transfers, transactions with affiliates, sales of assets, acquisitions and other transactions.

The Energy Services Term Loan requires that Energy Services and subsidiaries maintain a minimum ratio of consolidated EBITDA to debt service, as defined, of 1.10 to 1.00.

The Energy Services 2020 Credit Agreement requires Energy Services and subsidiaries not to exceed a ratio of total indebtedness to EBITDA, as defined, of 4.00 to 1.00 and maintain a minimum ratio of Consolidated EBITDA to Consolidated Interest Expense, as defined and as calculated on a quarterly basis, of 3.50 to 1.00.

(Millions of dollars, except where indicated otherwise)

Note 7 — Income Taxes

The provisions for income taxes consist of the following:

	2020	2019
Current (benefit) expense:		
Federal	$ (44)	$ 13
State	(1)	2
Total current (benefit) expense	(45)	15
Deferred expense (benefit):		
Federal	44	(1)
State	13	—
Total deferred expense (benefit)	57	(1)
Total income tax expense	$ 12	$ 14

A reconciliation from the statutory federal tax rate to our effective tax rate is as follows:

	2020	2019
Statutory federal tax rate	21.0 %	21.0 %
Difference in tax rate due to:		
Effect of U.S. tax legislation	(18.0)	—
State income taxes, net of federal benefit	7.5	4.2
Allowance for funds used during construction	(0.8)	(1.5)
Other, net	0.4	0.1
Effective tax rate	10.1 %	23.8 %

On March 27, 2020, the CARES Act was enacted into law. The primary tax impact on the Company from the legislation was the change in federal net operating loss carryback rules which allowed the Company's U.S. federal tax loss generated in Fiscal 2020 to be carried back to Fiscal 2015. The carryback of our Fiscal 2020 U.S. federal tax loss in a 21% rate environment to offset taxable income in Fiscal 2015 in a 35% rate environment generated an incremental $21 income tax benefit in Fiscal 2020.

(Millions of dollars, except where indicated otherwise)

Deferred tax liabilities (assets) comprise the following at September 30:

	2020	2019
Gross deferred tax liabilities:		
Excess book basis over tax basis of property, plant and equipment	$ 192	$ 169
Investment in Pennant	20	—
Goodwill and other intangible assets	10	—
ROU assets	11	—
Total gross deferred tax liabilities	233	169
Gross deferred tax assets:		
State net operating loss carryforwards	(6)	(3)
Inventory capitalization	(5)	(4)
Derivative financial instruments	(8)	(12)
Lease liabilities	(11)	—
Other	(7)	(5)
Total gross deferred tax assets	(37)	(24)
Net deferred tax liabilities	$ 196	$ 145

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return including giving effect to intercompany transactions. UGI's federal income tax returns are settled through the tax year 2017.

In Fiscal 2020 and Fiscal 2019, we joined with UGI as disregarded entities in filing state tax returns. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI combined state income tax returns including giving effect to intercompany transactions. We file separate company income tax returns in a number of states but are subject to state income tax principally in Pennsylvania. Pennsylvania income tax returns are generally subject to examination for a period of three years after the filing of the respective returns.

At September 30, 2020, certain wholly-owned subsidiaries had Pennsylvania net operating losses of $71, with associated deferred tax assets of $6, which expire through 2040.

At September 30, 2020 and 2019, unrecognized income tax benefits were not material.

Note 8 — Property, Plant and Equipment

Property, plant and equipment comprise the following at September 30:

	2020	2019
Land	$ 20	$ 20
Buildings and improvements	65	68
Natural gas and propane storage and distribution facilities	407	397
Electricity generation assets	211	307
Pipeline and related assets	1,098	1,034
Other	49	50
Construction in process	110	96
Gross property, plant and equipment	$ 1,960	$ 1,972

(Millions of dollars, except where indicated otherwise)

Note 9 — Goodwill and Intangible Assets

Changes in the carrying amount of goodwill are as follows:

Balance at September 30, 2018	$	6
Acquisitions (Note 5)		330
Balance at September 30, 2019	$	336
Balance at September 30, 2020	$	336

Intangible assets comprise the following at September 30:

	2020	2019
Customer relationships	$ 299	$ 270
Land development rights and other	26	13
Accumulated amortization	(45)	(14)
Intangible assets, net	$ 280	$ 269

Amortization expense of intangible assets was $14 and $3 for Fiscal 2020 and Fiscal 2019, respectively. Estimated amortization expense of intangible assets during the next five fiscal years is as follows: Fiscal 2021 — $18; Fiscal 2022 — $13; Fiscal 2023 — $10; Fiscal 2024 — $10; Fiscal 2025 — $10.

Note 10 — Leases

Lessee

We lease various buildings and other facilities, real estate, and other equipment, the majority of which are operating leases. The lease of our corporate office building is a finance lease. We determine if a contract is or contains a lease by evaluating whether the contract explicitly or implicitly identifies an asset, whether we have the right to obtain substantially all of the economic benefits of the identified leased asset and to direct its use.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. We recognize ROU assets at the lease commencement date at the value of the lease liability adjusted for any prepayments, lease incentives received, and initial direct costs incurred. Lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. These payments are discounted using the discount rate implicit in the lease, when available. We apply an incremental borrowing rate, which is developed utilizing a credit notching approach based on information available at the lease commencement date, to substantially all of our leases as the implicit rate is often not available.

Lease expense is recognized on a straight-line basis over the expected lease term. Renewal and termination options are not included in the lease term unless we are reasonably certain that such options will be exercised. Leases with an original lease term of one year or less, including consideration of any renewal options assumed to be exercised, are not included in the Consolidated Balance Sheets.

Certain leasing arrangements require variable payments that are dependent on asset usage or are based on changes in index rates, such as the Consumer Price Index. The variable payments component of such leases cannot be determined at lease commencement and is not recognized in the measurement of ROU assets or lease liabilities, but is recognized in earnings in the period in which the obligation occurs.

ROU assets and lease liabilities recorded in the Consolidated Balance Sheet at September 30 are as follows:

	2020	Location on the Balance Sheet
ROU assets:		
Operating lease ROU assets	$ 8	Other assets
Finance lease ROU assets	47	Property, plant and equipment
Total ROU assets	$ 55	
Lease liabilities:		
Operating lease liabilities — current	$ 2	Other current liabilities
Operating lease liabilities — noncurrent	6	Other noncurrent liabilities
Finance lease liabilities — current	3	Current maturities of long-term debt
Finance lease liabilities — noncurrent	38	Long-term debt
Total lease liabilities	$ 49	

The components of lease cost for Fiscal 2020 are as follows:

	2020
Operating lease cost	$ 3
Finance lease cost:	
Amortization of ROU assets	2
Interest on lease liabilities	2
Short-term lease cost	1
Total lease cost	$ 8

Lease cost associated with variable lease components was not material for the Fiscal 2020.

(Millions of dollars, except where indicated otherwise)

The following table presents the cash and non-cash activity related to lease liabilities included in the Consolidated Statement of Cash Flows occurring during the period:

		2020
Cash paid related to lease liabilities:		
Operating cash flows — operating leases	$	3
Operating cash flows — finance leases	$	2
Non-cash lease liability activities:		
ROU assets obtained in exchange for operating lease liabilities (including the impact upon adoption)	$	13
ROU assets obtained in exchange for finance lease liabilities (including the impact upon adoption)	$	19

The following table presents the weighted-average remaining lease term and weighted-average discount rate as of September 30, 2020:

Weighted-average remaining lease term	In years
Operating leases	5.3
Finance leases	29.8
Weighted-average discount rate	**%**
Operating leases	4.9%
Finance leases	6.4%

Expected annual lease payments based on maturities of operating and finance leases, as well as a reconciliation to the lease liabilities on the Consolidated Balance Sheet, as of September 30, 2020, were as follows:

	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	After Fiscal 2025	Total Lease Payments	Imputed Interest	Lease Liabilities
Operating leases:	$ 3	$ 2	$ 2	$ 1	$ —	$ 1	$ 9	$ (1)	$ 8
Finance leases:	$ 3	$ 3	$ 3	$ 3	$ 3	$ 82	$ 97	$ (56)	$ 41

At September 30, 2020, operating and finance leases that had not yet commenced were not material.

Disclosures Related to Periods Prior to Adoption of ASC 842

As discussed above, the Company adopted ASC 842 effective October 1, 2019, using a modified retrospective approach. As required, the following disclosure is provided for periods prior to adoption. The Company's future minimum payments under non-cancelable operating leases at September 30, 2019, which were accounted for under ASC 840, were as follows:

	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	After Fiscal 2024
Minimum operating lease payments	$ 3	$ 3	$ 3	$ 3	$ 3	$ 38

Lessor

We enter into lessor arrangements for the purposes of storing, gathering or distributing natural gas to customers, which we classify as operating leases. Lease income is generally recognized on a straight-line basis over the lease term and included in "Revenues" on the Consolidated Statements of Comprehensive Income (see Note 4).

(Millions of dollars, except where indicated otherwise)

Note 11 — 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 12 — 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 as described in Note 2.

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
September 30, 2020				
Derivative instruments:				
Assets:				
Commodity contracts	$ 54	$ 7	$ —	$ 61
Liabilities:				
Commodity contracts	$ (47)	$ (7)	$ —	$ (54)
Interest rate contracts	$ —	$ (32)	$ —	$ (32)
September 30, 2019				
Derivative instruments:				
Assets:				
Commodity contracts	$ 20	$ 10	$ —	$ 30
Liabilities:				
Commodity contracts	$ (56)	$ (12)	$ —	$ (68)
Interest rate contracts	$ —	$ (3)	$ —	$ (3)

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 13 — Derivative Instruments & Hedging Activities

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

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

Commodity Price Risk

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

Interest Rate Risk

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

Quantitative Disclosures Related to Derivative Instruments

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

			Notional Amounts (in millions)	
			September 30,	
Type	Units	Settlements Extending Through	2020	2019
Commodity Price Risk:				
Natural gas futures, forward, basis swap, options and pipeline contracts	Dekatherms	December 2024	303	323
Electricity long forward and futures contracts	Kilowatt hours	December 2023	1,082	883
Electricity short forward and futures contracts	Kilowatt hours	April 2024	188	629
Interest Rate Risk:				
Interest rate swaps	USD	July 2024	$ 691	$ 698

Derivative Instrument Credit Risk

We are exposed to risk of loss in the event of nonperformance by our derivative instrument counterparties. Our derivative instrument counterparties principally comprise large energy companies and major U.S. and international financial institutions. We maintain credit policies with regard to our counterparties that we believe reduce overall credit risk. These policies include evaluating and monitoring our counterparties' financial condition, including their credit ratings, and entering into agreements with counterparties that govern credit limits or entering into netting agreements that allow for offsetting counterparty receivable and payable balances for certain financial transactions, as deemed appropriate. Certain of these agreements call for the posting of collateral by the counterparty or by the Company in the forms of letters of credit, parental guarantees or cash. Additionally, our natural gas and electricity exchange-traded futures contracts generally require cash deposits in margin accounts. At September 30, 2020 and 2019, restricted cash in brokerage accounts is reported in "Restricted cash" on the Consolidated Balance Sheets. Although we have concentrations of credit risk associated with derivative instruments, the maximum amount of loss we would incur if these counterparties failed to perform according to the terms of their contracts, based upon the gross fair values of the derivative instruments, was not material at September 30, 2020. We generally do not have credit-risk-related contingent features in our derivative contracts.

(Millions of dollars, except where indicated otherwise)

Offsetting Derivative Assets and Liabilities

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

In general, most of our over-the-counter transactions and all exchange contracts are subject to collateral requirements. Types of collateral generally include cash or letters of credit. Cash collateral paid by us to our over-the-counter derivative counterparties, if any, is reflected in the table below to offset derivative liabilities. Cash collateral received by us from our over-the-counter derivative counterparties, if any, is reflected in the table below to offset derivative assets. Certain other accounts receivable and accounts payable balances recognized on the 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, as of September 30:

	2020	2019
Derivative assets:		
Derivatives not designated as hedging instruments:		
Commodity contracts	$ 61	$ 30
Total derivative assets - gross	61	30
Gross amounts offset in balance sheet	(36)	(24)
Total derivative assets - net	$ 25	$ 6
Derivative liabilities:		
Derivatives designated as hedging instruments:		
Interest rate contracts	$ (32)	$ (3)
Derivatives not designated as hedging instruments:		
Commodity contracts	(54)	(68)
Total derivative liabilities - gross	(86)	(71)
Gross amounts offset in balance sheet	36	24
Total derivative liabilities - net	$ (50)	$ (47)

(Millions of dollars, except where indicated otherwise)

Effect of Derivative Instruments

The following tables provide information on the effects of derivative instruments on the Consolidated Statements of Comprehensive Income for Fiscal 2020 and Fiscal 2019:

	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2020	2019	2020	2019	
Cash Flow Hedges:					
Interest rate contracts	$ (32)	$ (3)	$ (4)	$ —	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2020	2019	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ 10	$ 7	Revenues
Commodity contracts	(35)	(33)	Cost of sales
Total	$ (25)	$ (26)	

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

Note 14 — Accumulated Other Comprehensive Income

AOCI activity is related to a pay-fixed, receive variable interest rate contract used to fix the variable rate on the Energy Services variable-rate term loan (see Note 6). Changes in AOCI during Fiscal 2020 and Fiscal 2019 are as follows:

	Derivative Instruments
AOCI - September 30, 2018	$ —
Other comprehensive loss before reclassification adjustments (after-tax)	(2)
Other comprehensive loss	(2)
AOCI - September 30, 2019	$ (2)
Other comprehensive loss before reclassification adjustments (after-tax)	(23)
Amounts reclassified from AOCI:	
Reclassification adjustments (pre-tax)	4
Reclassification adjustments tax benefit	(1)
Reclassification adjustments (after-tax)	3
Other comprehensive loss	(20)
AOCI - September 30, 2020	$ (22)

(Millions of dollars, except where indicated otherwise)

Note 15 — 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.

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 Fiscal 2020 and Fiscal 2019.

The following related party balances are included in our consolidated financial statements at September 30:

	2020	2019	Classification on the Consolidated Statements of Comprehensive Income
SCAA Activities:			
SCAA revenues	$ 12	$ 16	Revenues
Costs of SCAA and firm delivery service	$ 2	$ 3	Cost of sales
Gas Supply and Delivery Service:			
Gas supply and delivery service revenues	$ 167	$ 215	Revenues
Costs of natural gas and pipeline capacity purchases	$ 45	$ 65	Cost of sales
Administrative Services:			
Administrative services provided by UGI	$ 15	$ 9	Operating and administrative expenses

	2020	2019	Classification on Consolidated Balance Sheets
SCAA security deposits	$ 8	$ 8	Prepaid expenses and other current assets

Note 16 — Equity Method Investments

Our investments noted below are accounted for under the equity method of accounting as we have the ability to exercise significant influence, but not control, over these entities. These are included in "Investments in equity method investees" on the

Consolidated Balance Sheets. Equity method earnings are included in "Income from equity method investees" on the Consolidated Statements of Comprehensive Income.

PennEast

An indirect wholly-owned subsidiary of UGI, UGI PennEast, LLC, and four other members comprising wholly-owned subsidiaries of Southern Company, New Jersey Resources, South Jersey Industries, and Enbridge, Inc., each hold a 20% membership interest in PennEast. PennEast was formed to construct an approximate 120-mile natural gas pipeline from Luzerne County, Pennsylvania to the Trenton-Woodbury interconnection in New Jersey. Affiliates of all members plan to be customers of the pipeline under 15-year contracts. We are obligated to provide capital contributions based upon our ownership percentage. Our investment in PennEast at September 30, 2020 and 2019 totaled $96 and $85, respectively.

There is no external debt at PennEast at September 30, 2020 with all activities having been fully funded by its members. We make contributions to PennEast as required pursuant to the terms of the Limited Liability Company Agreement and we are committed to contribute up to $225 in capital contributions.

The Company signed a Project Management Agreement with PennEast on September 10, 2014. Pursuant with the terms of this agreement, the Company provides services to PennEast related to management, marketing, development, administration and construction of the pipeline. The Company is paid a project management fee throughout the term of the agreement, which will expire 90 days after the project in-service date. The amount of the project management fees recognized by the Company with respect to PennEast was not material for all periods presented.

In September 2019, a panel of the U.S. Court of Appeals for the Third Circuit ruled that New Jersey's Eleventh Amendment immunity barred PennEast from bringing an eminent domain lawsuit in federal court, under the Natural Gas Act, against New Jersey or its agencies. The Third Circuit subsequently denied PennEast's petition for rehearing en banc. PennEast also filed a petition for declaratory order with the FERC regarding interpretation of the Natural Gas Act; the FERC issued an order favorable to PennEast's position on January 30, 2020. PennEast filed a petition for a writ of certiorari to seek U.S. Supreme Court review of the Third Circuit decision on February 18, 2020. On June 29, 2020, the U.S. Supreme Court invited the U.S. Solicitor General to file a brief in the case expressing the views of the U.S. On December 9, 2020, the U.S. Solicitor General filed a brief supporting PennEast's petition for a writ of certiorari. The ultimate outcome of these matters cannot be determined at this time, and could result in delays, additional costs, or the inability to move forward with the project, resulting in an impairment of all or a portion of our investment in PennEast.

Pennant

On August 1, 2019, Energy Services completed the CMG Acquisition including CMG's approximate 47% interest in Pennant Midstream, LLC for $88 (see Note 5). Pennant operates various natural gas midstream assets in Western Pennsylvania and Eastern Ohio.

Our investment in Pennant at September 30, 2020 and 2019 totaled $94 and $91, respectively. As of September 30, 2020 and 2019, the carrying amount of our investment in Pennant exceeded our share of Pennant's underlying equity in net assets by $94 and $98, respectively. This difference is comprised of basis differences associated with property, plant and equipment of natural gas gathering and natural gas processing assets. This difference is being amortized over 25 to 40 years which represents the useful lives of the underlying assets within Pennant.

The Company assumed a Project Management Agreement with the acquisition of Pennant on August 1, 2019. Pursuant with the terms of this agreement, the Company provides services to Pennant related to management, development, administration and construction of fixed assets. The Company is paid a project management fee throughout the term of the agreement. The amount of the project management fees recognized by the Company with respect to Pennant was not material for all periods presented.

Note 17 — Impact of Global Pandemic

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

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. Among other things, the CARES Act includes provisions which modify the NOL limitation and carryback rules including a five-year carryback for NOLs and the temporary removal of the 80 percent limitation on NOL utilization for taxable years beginning before January 1, 2021. See Note 7 for additional information on the effects of these provisions on the Company's income tax expense for Fiscal 2020.

Recent Developments

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

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic. Among other things, the CARES Act includes provisions which modify the NOL limitation and carryback rules including a five-year carryback for NOLs and the temporary removal of the 80 percent limitation on NOL utilization for taxable years beginning before January 1, 2021. For additional information on the CARES Act and the related impact on our results of operations for Fiscal 2020, see “Interest Expense and Income Taxes” below and Note 7 to Consolidated Financial Statements.

While our operations and financial performance have been significantly impacted by COVID-19 in Fiscal 2020, 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.

Executive Overview

Energy Services' net income was $105 million for Fiscal 2020 compared to $47 million for Fiscal 2019. Our Fiscal 2020 results reflect after-tax gains on commodity derivative instruments not associated with current-period transactions of $30 million compared to after-tax losses of $22 million in Fiscal 2019. Fiscal 2020 results also reflect a $37 million after-tax loss associated with the disposal of Conemaugh. Fiscal 2020 and Fiscal 2019 results also reflect after-tax acquisition and integration expenses associated with CMG of $1 million and $11 million, respectively. Although these items are reflected in our GAAP results, we have excluded these items from our non-GAAP measures. See "Non-GAAP Financial Measures" below.

Excluding the impacts of commodity derivative instruments not associated with current-period transactions, the loss related to the disposal of Conemaugh, and the CMG acquisition and integration expenses, adjusted net income for Fiscal 2020 was $33 million higher than the prior year. This increase principally reflects incremental net income from UGI Appalachia and a tax benefit resulting from the carryback of an NOL under the CARES Act. These positive effects were partially offset by increased interest expense related to debt issued to finance a portion of the CMG Acquisition.

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.

(Millions of dollars)	Year Ended September 30, 2020	2019
Adjusted total margin:		
Total revenues	$ 1,210	$ 1,471
Cost of sales	(831)	(1,249)
Total margin	379	222
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(45)	31
Adjusted total margin	$ 334	$ 253
Adjusted operating income:		
Operating income	$ 132	$ 61
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(45)	31
Loss on disposal of Conemaugh	52	—
CMG acquisition and integration expenses	2	16
Adjusted operating income	$ 141	$ 108
Adjusted income before income taxes:		
Income before income taxes	$ 117	$ 61
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(45)	31
Loss on disposal of Conemaugh	52	—
CMG acquisition and integration expenses	2	16
Adjusted income before income taxes	$ 126	$ 108
Adjusted net income:		
Net income	$ 105	$ 47
Net (gains) losses on commodity derivative instruments not associated with current-period transactions	(30)	22
Loss on disposal of Conemaugh	37	—
CMG acquisition and integration expenses	1	11
Adjusted net income	$ 113	$ 80

Analysis of Results of Operations

The following analysis compares Energy Services results of operations for Fiscal 2020 with Fiscal 2019.

Energy Services	2020	2019	Increase (Decrease)	
(Dollars in millions)				
Revenues	$ 1,210	$ 1,471	$ (261)	(18)%
Total margin (a)	$ 379	$ 222	$ 157	71 %
Operating and administrative expenses (b)	$ 121	$ 112	$ 9	8 %
Operating income (c)	$ 132	$ 61	$ 71	116 %
Income before income taxes	$ 117	$ 61	$ 56	92 %
Non-GAAP financial measures (d):				
Adjusted total margin	$ 334	$ 253	$ 81	32 %
Adjusted operating income	$ 141	$ 108	$ 33	31 %
Adjusted income before income taxes	$ 126	$ 108	$ 18	17 %
Adjusted net income	$ 113	$ 80	$ 33	41 %

(a) Total margin represents total revenues less total cost of sales. Total margin for Fiscal 2020 and Fiscal 2019 includes net pre-tax gains of $45 million and net pre-tax losses of $31 million, respectively, on commodity derivative instruments not associated with current-period transactions.

(b) Operating and administrative expenses for Fiscal 2020 and Fiscal 2019 include $2 million and $16 million, respectively, of acquisition and integration expenses associated with CMG.

(c) Fiscal 2020 includes a $52 million loss associated with the disposal of Conemaugh.

(d) 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 Fiscal 2020 were 7.9% warmer than normal and 6.3% warmer than the prior year.

Revenues in Fiscal 2020 and Fiscal 2019 include $3 million and $4 million, respectively, of net unrealized gains on commodity derivative instruments not associated with current period transactions. Excluding the effects on revenues of these commodity derivative instruments, revenues decreased $260 million compared to the prior year principally reflecting decreased natural gas revenues ($330 million) and, to a much lesser extent, lower electric generation ($9 million) and peaking ($8 million) revenues. The effect of these revenue decreases was partially offset by higher natural gas gathering revenues ($84 million) largely attributable to incremental revenues from UGI Appalachia. The significant decrease in natural gas revenues is primarily attributable to lower average natural gas prices during Fiscal 2020 and, to a much lesser extent, lower natural gas volumes. Cost of sales were $831 million in Fiscal 2020 compared to $1,249 million in Fiscal 2019. Cost of sales in Fiscal 2020 and Fiscal 2019 includes $42 million of net unrealized gains and $35 million of net unrealized losses, respectively, on commodity derivative instruments not associated with current-period transactions. Excluding the effects on cost of sales of these commodity derivative instruments, total cost of sales decreased $341 million principally reflecting decreased natural gas costs ($326 million) and, to a much lesser extent, lower peaking costs ($13 million).

Total margin increased $157 million in Fiscal 2020. Adjusted total margin increased $81 million principally reflecting higher natural gas gathering total margin ($84 million) largely attributable to incremental margin from UGI Appalachia and, to a much lesser extent, increased peaking ($5 million) and capacity ($4 million) margins including a refund received in Fiscal 2020 in connection with contracted pipeline rates. The effect of these increases was partially offset by lower electric generation margin ($5 million) largely related to lower volumes at the Conemaugh generating facility in Fiscal 2020 and lower retail commodity margin ($5 million) which reflects lower volumes attributable to the warmer weather compared to the prior year.

Operating income and income before income taxes increased $71 million and $56 million, respectively, in Fiscal 2020. Adjusted operating income and adjusted income before income taxes increased $33 million and $18 million, respectively. The increase in adjusted operating income principally reflects the increase in adjusted total margin partially offset by higher depreciation and amortization expense ($23 million) and increased operating and administrative expenses ($23 million, excluding $2 million and $16 million, respectively, of acquisition and integration expenses in Fiscal 2020 and Fiscal 2019). The higher depreciation and amortization expense and operating and administrative expenses are largely attributable to UGI

Appalachia. The increase in adjusted income before income taxes reflects the previously mentioned increase in adjusted operating income and higher equity income ($18 million) primarily from Pennant, a natural gas gathering and processing equity interest that was acquired as part of UGI Appalachia. These positive effects were partially offset by higher interest expense ($33 million) compared to the prior year.

Interest Expense and Income Taxes

Interest expense in Fiscal 2020 increased $33 million compared to the prior year period primarily attributable to long-term debt issued in August 2019 to fund a portion of the CMG Acquisition.

Income tax expense in Fiscal 2020 includes a $21 million tax benefit resulting from the carryback of an NOL under the CARES Act. Excluding this benefit, the effective income tax rate was 28.2% in Fiscal 2020 compared to 23.8% in the prior year. The Fiscal 2019 rate included a state tax benefit for the reduction of state deferred tax liabilities related to the blended effective state tax rate.

Liquidity and Capital Resources

The Company expects to have sufficient liquidity including cash on hand and available borrowing capacity to continue to support long-term commitments and ongoing operations despite uncertainties associated with the outbreak and continued spread of COVID-19. The Company's liquidity has been positively influenced by continued low commodity prices experienced during Fiscal 2020 and overall decreased margin calls and collateral deposits associated with derivative instruments. In addition, the Company does not have any near-term term loan maturities. While the Company's operations and financial performance has been significantly impacted by COVID-19 during Fiscal 2020, it is a rapidly evolving situation and the Company cannot predict the ultimate impact that COVID-19 will have on its liquidity, debt covenants, financial condition or the timing of capital expenditures. Energy Services was in compliance with all debt covenants as of September 30, 2020.

We depend on both internal and external sources of liquidity to provide funds for working capital and to fund capital requirements. Our short-term cash requirements not met by cash from operations are generally satisfied with borrowings under our Receivables Facility and borrowings under the Energy Services 2020 Credit Agreement. Long-term cash requirements are generally met through the issuance of long-term debt. 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 borrowings; 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 $23 million at September 30, 2020 and $26 million at September 30, 2019. Our restricted cash balances at September 30, 2020 and 2019, principally comprising cash in brokerage accounts that are restricted from withdrawal, totaled $9 million and $34 million, respectively. Our debt outstanding at September 30, 2020, totaled $740 million (including current maturities of long-term debt of $10 million and short-term borrowings of $19 million). Our debt outstanding at September 30, 2019, totaled $777 million (including current maturities of long-term debt of $7 million and short-term borrowings of $91 million). Total long-term debt outstanding at September 30, 2020, including current maturities, comprises $691 million of Energy Services Term Loan and $42 million of other long-term debt principally comprising a finance lease liability recognized as a result of the adoption of ASU No. 2016-02, and is net of $12 million of unamortized debt issuance costs.

Credit Facilities

On March 6, 2020, Energy Services entered into the Energy Services 2020 Credit Agreement, as borrower, with a group of lenders. The Energy Services 2020 Credit Agreement amends and restates the Energy Services Credit Agreement. The Energy Services 2020 Credit Agreement provides for borrowings up to $260 million, including a $50 million sublimit for letters of credit. Energy Services may request an increase in the amount of loan commitments under the Energy Services 2020 Credit Agreement to a maximum aggregate amount of $325 million, subject to certain terms and conditions. Borrowings under the Energy Services 2020 Credit Agreement can be used to fund acquisitions and investments and for general corporate purposes. The Energy Services 2020 Credit Agreement is scheduled to expire in March 2025.

At September 30, 2020, there were no borrowings outstanding under the Energy Services 2020 Credit Agreement. At September 30, 2019, there were $45 million of borrowings outstanding under the Energy Services Credit Agreement. The weighted average interest rate on such borrowing as of September 30, 2019 was 6.25%. The average daily and peak short-term borrowings outstanding under the Energy Services 2020 Credit Agreement during Fiscal 2020 were $18 million and $77 million, respectfully. The average daily and peak short-term borrowings outstanding under the Energy Services Credit Agreement during Fiscal 2019 were $13 million and $220 million, respectively.

Receivables Facility. Energy Services also has a Receivables Facility with an issuer of receivables-backed commercial paper. On October 23, 2020, the expiration date of the Receivables Facility was extended to October 22, 2021. The Receivables Facility provides Energy Services with the ability to borrow up to $150 million of eligible receivables during the period November through April, and up to $75 million of eligible receivables during the period May through October. Energy Services uses the Receivables Facility to fund working capital, margin calls under commodity futures contracts, capital expenditures, dividends and for general corporate purposes.

At September 30, 2020, the outstanding balance of trade receivables was $50 million of which $19 million was sold to the bank. At September 30, 2019, the outstanding balance of trade receivables was $55 million of which $46 million was sold to the bank. Amounts sold to the bank are reflected as “Short-term borrowings” on the Consolidated Balance Sheets. During both Fiscal 2020 and Fiscal 2019, peak sales of receivables were $97 million and $68 million, respectively. During Fiscal 2020 and 2019, average daily amounts sold were $45 million and $21 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. Conversely, operating cash flows are generally at their lowest levels during the third and fourth fiscal quarters when the Company’s investment in working capital, principally inventories and accounts receivable, is generally greatest.

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 activity is principally affected by cash expenditures for property, plant and equipment and cash paid for acquisitions of businesses and assets. Changes in cash flow from financing activities are primarily due to issuances and repayments of long-term debt, short-term borrowings and capital contributions from, and cash distributions to, Enterprises.

Operating Activities: Cash flow from operating activities was $212 million in Fiscal 2020 compared to $135 million in Fiscal 2019. Cash flow from operating activities before changes in operating working capital was $241 million in Fiscal 2020 compared to $120 million in Fiscal 2019. The increase in cash flow from operating activities before changes in operating working capital principally reflects operating cash flows of UGI Appalachia acquired in late Fiscal 2019. Changes in operating working capital (used) provided operating cash flow of $(29) million in Fiscal 2020 compared to $15 million in Fiscal 2019. Cash flow used to fund changes in operating working capital in Fiscal 2020 principally reflects an increase in prepaid income taxes associated with an NOL carryback under the CARES Act and, to a lesser extent, the impact of increasing natural gas prices on cash flow from changes in accounts receivable and inventories, while the prior year cash flow from changes in operating working capital cash flow reflects, in large part, the timing of payments on cash flow from changes in accounts payable.

Investing Activities: Cash flow used by investing activities was $111 million in Fiscal 2020 compared to $1,445 million in Fiscal 2019. The significantly higher cash used for investing activities in Fiscal 2019 principally reflects cash paid for the CMG Acquisition. Cash capital expenditures for property, plant and equipment totaled $92 million in Fiscal 2020 compared to $121 million in Fiscal 2019.

Financing Activities: Cash flow (used) provided by financing activities was $(129) million in Fiscal 2020 and $1,322 million in Fiscal 2019. In Fiscal 2019, immediately prior to the CMG Acquisition, UGI Corporation contributed $1,104 million in cash to finance a significant portion of the CMG Acquisition. Subsequently, on August 13, 2019, Energy Services entered into the Energy Services Term Loan, a $700 million variable-rate term loan agreement with a group of lenders. A significant portion of the proceeds from borrowings under the Energy Services Term Loan were used to return a portion of the contribution previously made by UGI in conjunction with the CMG Acquisition.

Capital Expenditures

Our capital expenditures include continued investments in midstream assets. During Fiscal 2020 and Fiscal 2019, our capital expenditures totaled $92 million and $121 million, respectively. The decrease in capital expenditures during Fiscal 2020 largely relates to prior year expenditures on certain gathering assets that were placed into service in early Fiscal 2020. We expect capital expenditures of approximately $110 million in Fiscal 2021 which include continued investments in midstream assets.

Contractual Obligations and Commitments

The following is a summary of our significant contractual obligations existing as of September 30, 2020:

	Payments Due by Period				
(Millions of dollars)	Total	Fiscal 2021	Fiscal 2022 - 2023	Fiscal 2024 - 2025	Thereafter
Long-term debt (a)	$ 733	$ 10	$ 14	$ 14	$ 695
Interest on long-term-fixed rate debt (a)(b)(c)	209	37	72	70	30
Operating leases	9	3	4	1	1
Supply contracts	622	313	248	44	17
Derivative instruments (d)	18	13	5	—	—
Total	$ 1,591	$ 376	$ 343	$ 129	$ 743

(a) Based upon stated maturity dates for debt outstanding at September 30, 2020.

(b) Based upon stated interest rates adjusted for the effects of an interest rate swap.

(c) Calculated using applicable interest rates or forward interest rate curves and leverage ratios, as of September 30, 2020.

(d) Represents the sum of amounts due if derivative instrument liabilities were settled at the September 30, 2020 amounts reflected in the Consolidated Balance Sheet (but excluding amounts associated with interest rate contracts).

Related Party Transactions

See Note 15 to Consolidated Financial Statements for a discussion of related party transactions.

Recently Issued Accounting Pronouncements

See Note 3 to Consolidated Financial Statements for a discussion of the effects of recently issued accounting guidance.