UGI ENERGY SERVICES, LLC
AND SUBSIDIARIES

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

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

TABLE OF CONTENTS

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., a wholly-owned subsidiary of UGI

***CMG* -** Columbia Midstream Group, LLC

***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

***Pennant* -** Pennant Midstream, LLC

***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

***2019 Annual Report* -** Energy Services' Annual Report for the fiscal year ended September 30, 2019

2019 six-month period - Six months ended March 31, 2019

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

2020 six-month period - Six months ended March 31, 2020

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

Adjusted LIBOR - A rate derived from LIBOR

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

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

***ARO* -** Asset Retirement Obligations

***ASC* -** Accounting Standards Codification

***ASC 605* -** ASC 605, “Revenue Recognition”

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

ASC 805 - ASC 805, “Business Combinations”

ASC 840 - ASC 840, “Leases”

ASC 842 - ASC 842, “Leases” (effective October 1, 2019)

ASU - Accounting Standards Update

ASU 2014-09 - Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers”

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

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.

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

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 ending 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

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

MD&A - Management’s Discussion and Analysis of Financial Condition and Results of Operations

NPNS - Normal purchase and normal sale

NYMEX - New York Mercantile Exchange

PADEP - Pennsylvania Department of Environmental Protection

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

Stock Unit - Unit awards that entitle the grantee to shares of UGI Common Stock or cash subject to service conditions

TCJA - Tax Cuts and Jobs Act

TSR - Total Shareholder Return

UGI Performance Units - Unit awards that entitle the grantee to shares of UGI Common Stock or cash subject to service and market performance conditions

USD - U.S. Dollar

VIE - Variable Interest Entity

WHO - World Health Organization

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)
(Thousands of dollars)

	March 31, 2020	September 30, 2019	March 31, 2019
ASSETS			
Current assets:			
Cash and cash equivalents	$ 20,862	$ 25,893	$ 51,511
Restricted cash	33,894	33,922	3,598
Accounts receivable (less allowances for doubtful accounts of $1,462, $1,173 and $1,242, respectively)	133,784	93,514	197,992
Inventories	15,870	22,668	14,077
Derivative instruments	5,852	3,583	11,159
Prepaid expenses and other current assets	12,817	12,842	13,734
Total current assets	223,079	192,422	292,071
Property, plant and equipment:			
Gross property, plant and equipment	2,027,599	1,971,495	1,272,376
Accumulated depreciation	(287,051)	(255,992)	(230,099)
Net property, plant and equipment	1,740,548	1,715,503	1,042,277
Goodwill	336,266	335,554	11,919
Intangible assets, net	266,698	268,540	20,597
Derivative instruments	6,240	1,903	3,795
Investments in equity method investees	189,624	178,897	81,080
Other assets	37,223	25,677	23,964
Total assets	$ 2,799,678	$ 2,718,496	$ 1,475,703
LIABILITIES AND MEMBER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 9,777	$ 7,135	$ 132
Short-term borrowings	43,000	91,400	—
Accounts payable	91,590	81,504	168,072
Derivative instruments	38,671	30,148	4,050
Other current liabilities	30,317	38,000	58,069
Total current liabilities	213,355	248,187	230,323
Long-term debt	712,976	679,473	269
Deferred income taxes	166,220	145,197	149,649
Derivative instruments	32,273	17,185	4,781
Other noncurrent liabilities	19,730	36,217	9,159
Total liabilities	1,144,554	1,126,259	394,181
Commitments and contingencies (Note 9)			
Member's equity	1,655,124	1,592,237	1,081,522
Total liabilities and member's equity	$ 2,799,678	$ 2,718,496	$ 1,475,703

See accompanying notes to condensed consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Thousands of dollars)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Revenues	$ 415,476	$ 535,554	$ 779,635	$ 980,914
Costs and expenses:				
Cost of sales (excluding depreciation and amortization shown below)	286,621	435,230	554,973	802,002
Operating and administrative expenses	29,292	24,932	58,980	48,713
Depreciation and amortization	18,781	11,325	36,958	22,565
Other operating income, net	(102)	(471)	(177)	(944)
	334,592	471,016	650,734	872,336
Operating income	80,884	64,538	128,901	108,578
Income from equity method investees	7,930	1,610	14,432	3,081
Other non-operating income (loss)	—	51	(1)	69
Interest expense	(11,420)	(488)	(22,911)	(941)
Income before income taxes	77,394	65,711	120,421	110,787
Income tax expense	(1,787)	(18,035)	(13,933)	(30,073)
Net income	$ 75,607	$ 47,676	$ 106,488	$ 80,714
Other comprehensive income, net of tax:				
Net losses on derivative instruments (net of tax of $9,217, $0, $7,986 and $0, respectively)	(23,143)	—	(19,992)	—
Reclassifications of net losses on derivative instruments (net of tax of $(307), $0, $(552) and $0, respectively)	774	—	1,391	—
Other comprehensive loss, net of tax	(22,369)	—	(18,601)	—
Comprehensive income	$ 53,238	$ 47,676	$ 87,887	$ 80,714

See accompanying notes to condensed consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

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

	Six Months Ended March 31, 2020	Six Months Ended March 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 106,488	$ 80,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	36,958	22,565
Deferred income taxes, net	886	4,198
Changes in unrealized gains and losses on derivative instruments	(1,988)	(13,396)
Income from equity method investees	(14,432)	(3,081)
Other, net	(7,933)	945
Net change in:		
Accounts receivable	(41,696)	(95,042)
Inventories	6,798	10,763
Accounts payable	14,380	76,382
Other current assets	(113)	(568)
Other current liabilities	19,144	19,462
Net cash provided by operating activities	118,492	102,942
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(49,914)	(56,408)
Acquisitions of businesses and assets, net of cash acquired	—	(35,000)
Other	3,488	(2,147)
Net cash used by investing activities	(46,426)	(93,555)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Receivables Facility net repayments	(3,400)	(2,000)
Decrease in short-term borrowings	(45,000)	—
Distributions	(25,000)	—
Repayments of long-term debt	(3,725)	(67)
Net cash used by financing activities	(77,125)	(2,067)
Cash, cash equivalents and restricted cash (decrease) increase	$ (5,059)	$ 7,320
CASH, CASH EQUIVALENTS AND RESTRICTED CASH:		
End of period	$ 54,756	$ 55,109
Beginning of period	59,815	47,789
Cash, cash equivalents and restricted cash (decrease) increase	$ (5,059)	$ 7,320

See accompanying notes to condensed consolidated financial statements.

UGI ENERGY SERVICES, LLC AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN MEMBER'S EQUITY

(Unaudited)

(Thousands of dollars)

	Member's Equity
Balance at September 30, 2019	$ 1,592,237
Net income	106,488
Cash distributions	(25,000)
Changes in AOCI balance (Note 12)	(18,601)
Balance at March 31, 2020	$ 1,655,124

	Member's Equity
Balance at September 30, 2018	$ 1,003,986
Net income	80,714
Cumulative effect of change in accounting principle - ASC 606	(3,178)
Balance at March 31, 2019	$ 1,081,522

See accompanying notes to condensed consolidated financial statements.

Note 1 — Nature of Operations

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

Energy Services, directly and through subsidiaries, (i) conducts an energy marketing business principally in the Mid-Atlantic region of the United States, (ii) owns and operates natural gas liquefaction, storage and vaporization facilities and propane-air mixing assets, (iii) manages natural gas pipeline and storage contracts, (iv) develops, owns and operates pipelines, gathering infrastructure and gas storage facilities in the Marcellus and Utica Shale regions of Pennsylvania, eastern Ohio and the panhandle of West Virginia, and (v) owns all or portions of electricity generation facilities. Energy Services and its subsidiaries' storage and portions of its LNG and midstream transmission operations are subject to regulation by the FERC.

Note 2 — Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP. They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2019, Condensed Consolidated Balance Sheet was derived from audited financial statements but does not include all footnote disclosures from the annual financial statements.

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's 2019 Annual Report. Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

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 $9,317 related to our operating leases. Our accounting for finance leases remained substantially unchanged. There were no cumulative effect adjustments made to opening member's equity as of October 1, 2019. The adoption did not, and is not expected to, have a significant impact on our condensed consolidated statements of income or cash flows. See Note 6 for additional disclosures regarding our leases.

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

UGI PennEast, LLC and four other members comprising wholly owned subsidiaries of Southern Company, New Jersey Resources, South Jersey Industries, and Enbridge, Inc., each hold a 20% membership interest in PennEast. In September 2019, a panel of the U.S. Court of Appeals for the Third Circuit ruled that New Jersey's Eleventh Amendment immunity barred PennEast from bringing an eminent domain lawsuit in federal court, under the Natural Gas Act, against New Jersey or its agencies. The Third Circuit subsequently denied PennEast's petition for rehearing en banc. Following the Third Circuit denial of petition for rehearing, PennEast 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. 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.

(Thousands of dollars, except where indicated otherwise)

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

	Cash, Cash Equivalents and Restricted Cash			
	March 31, 2020	March 31, 2019	September 30, 2019	September 30, 2018
Cash and cash equivalents	$ 20,862	$ 51,511	$ 25,893	$ 39,989
Restricted cash	33,894	3,598	33,922	7,800
Cash, cash equivalents and restricted cash	$ 54,756	$ 55,109	$ 59,815	$ 47,789

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

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

For a more detailed description of the derivative instruments we use, our accounting for derivatives, our objectives for using them and other information see Note 11.

Business Combination Purchase Price Allocations. From time to time, the Company enters into business combinations. In accordance with ASC 805, the purchase price is allocated to the various assets acquired and liabilities assumed at their estimated fair value as of the acquisition date. Fair values of assets acquired and liabilities assumed are based upon available information. Estimating fair values is generally subject to significant judgment and assumptions and most commonly impacts property, plant and equipment and intangible assets, including those with indefinite lives. Generally, we have, under certain circumstances, up to one year from the acquisition date to finalize the purchase price allocation.

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

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

Subsequent Events. Management has evaluated the impact of subsequent events through May 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 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 6 for a detailed description of the impact of the new guidance and related disclosures.

Accounting Standards Not Yet Adopted

Credit Losses. In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments.*"* This ASU, as subsequently amended, requires entities to estimate lifetime expected credit losses for financial instruments not measured at fair value through net income, including trade and other receivables, net investments in leases, financial receivables, debt securities, and other financial instruments, which may result in earlier recognition of credit losses. Further, the new current expected credit loss model may affect how entities estimate their allowance for loss for receivables that are current with respect to their payment terms. ASU 2016-13 is effective for the Company for interim and annual periods beginning October 1, 2020 (Fiscal 2021). Early adoption is permitted. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance.

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. ASU 2019-12 is effective for the Company for interim and annual periods beginning October 1, 2021 (Fiscal 2022). Early adoption is permitted. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance and determining the period in which the new guidance will be adopted.

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 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 may elect to apply the amendments prospectively through December 31, 2022. The Company is in the process of assessing the impact on its financial statements from the adoption of the new guidance and determining the period in which the optional expedients will be elected.

Note 4 — Revenue from Contracts with Customers

Energy Services recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. See Note 4 in the Company's 2019 Annual Report for information on our revenues from contracts with customers.

(Thousands of dollars, except where indicated otherwise)

Revenue Disaggregation

The following table presents our disaggregated revenues for the three and six months ended March 31, 2020 and 2019:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2020	2019	2020	2019
Revenues from contracts with customers:				
Energy Marketing	$ 296,936	$ 435,795	$ 561,521	$ 809,128
Midstream:				
Pipeline	45,066	20,781	88,254	38,511
Peaking	57,084	59,865	98,664	100,545
Other	1,704	2,359	3,488	4,977
Electricity Generation	7,844	11,591	16,642	23,281
Total revenues from contracts with customers	408,634	530,391	768,569	976,442
Other revenues (a)	6,842	5,163	11,066	4,472
Total revenues	$ 415,476	$ 535,554	$ 779,635	$ 980,914

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

Contract Balances

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

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company's obligations to transfer goods or services to a customer for which we have received consideration. The balances of contract liabilities were $3,150, $4,879 and $4,071 at March 31, 2020, September 30, 2019 and March 31, 2019, respectively, and are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets. Revenues recognized for the six months ended March 31, 2020 and 2019 from the amounts included in contract liabilities at September 30, 2019 and October 1, 2018 were $4,879 and $5,003, respectively.

Remaining Performance Obligations

Energy Services has elected to use practical expedients as allowed in ASC 606 to exclude disclosures related to the aggregate amount of the transaction price allocated to certain performance obligations that are unsatisfied as of the end of the reporting period because these contracts have an initial expected term of one year or less, or we have a right to bill the customer in an amount that corresponds directly with the value of services provided to the customer to date. Certain contracts with customers at Energy Services contain minimum future performance obligations through 2047. At March 31, 2020, Energy Services expects to record approximately $2.0 billion of revenues, related to the minimum future performance obligations over the remaining terms of the related contracts.

Note 5 — Acquisitions

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 $1,284,391. 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".

(Thousands 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:		
Cash	$	258
Accounts receivable		10,210
Prepaid expenses and other current assets		1,095
Property, plant and equipment		613,603
Investment in Pennant		88,000
Intangible assets (a)		250,000
Total assets acquired	$	963,166
Liabilities assumed:		
Accounts payable	$	3,275
Other noncurrent liabilities		133
Total liabilities assumed	$	3,408
Goodwill		324,633
Net consideration transferred (including working capital adjustments)	$	1,284,391

(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.

Note 6 — 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.

(Thousands of dollars, except where indicated otherwise)

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 Condensed 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 Condensed Consolidated Balance Sheet are as follows:

	March 31, 2020	Location on the Balance Sheet
ROU assets:		
Operating lease ROU assets	$ 9,820	Other assets
Finance lease ROU assets	47,698	Property, plant and equipment
Total ROU assets	$ 57,518	
Lease liabilities:		
Operating lease liabilities - current	$ 3,021	Other current liabilities
Operating lease liabilities - noncurrent	6,799	Other noncurrent liabilities
Finance lease liabilities - current	2,821	Current maturities of long-term debt
Finance lease liabilities - noncurrent	38,535	Long-term debt
Total lease liabilities	$ 51,176	

The components of lease cost are as follows:

	Three Months Ended March 31, 2020	Six Months Ended March 31, 2020
Operating lease cost	$ 920	$ 1,754
Finance lease cost:		
Amortization of ROU assets	408	816
Interest on lease liabilities	661	1,102
Short-term lease cost	68	279
Total lease cost	$ 2,057	$ 3,951

Lease cost associated with variable lease components was not material for the three and six months ended March 31, 2020.

(Thousands of dollars, except where indicated otherwise)

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

	Six Months Ended March 31, 2020
Cash paid related to lease liabilities:	
Operating cash flows from operating leases	$ 1,753
Operating cash flows from finance leases	$ 1,102
Financing cash flows from finance leases	$ 225
Non-cash lease liability activities:	
ROU assets obtained in exchange for operating lease liabilities (including the impact upon adoption)	$ 11,353
ROU assets obtained in exchange for finance lease liabilities (including the impact upon adoption)	$ 18,605

The following table presents the weighted-average remaining lease term and weighted-average discount rate as of March 31, 2020:

Weighted-average remaining lease term	In years
Operating leases	5.5
Finance leases	30.2
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 Condensed Consolidated Balance Sheet, as of March 31, 2020, were as follows:

	Remainder of Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	After Fiscal 2024	Total Lease Payments	Imputed Interest	Lease Liabilities
Operating leases:	$ 1,834	$ 3,194	$ 1,730	$ 1,595	$ 1,323	$ 1,929	$ 11,605	$ (1,785)	$ 9,820
Finance leases:	$ 1,336	$ 2,703	$ 2,744	$ 2,785	$ 2,827	$ 85,744	$ 98,139	$(56,783)	$ 41,356

At March 31, 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
Total	$ 3,249	$ 3,150	$ 3,005	$ 2,987	$ 2,954	$ 37,905

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 Condensed Consolidated Statements of Comprehensive Income (see Note 4).

(Thousands of dollars, except where indicated otherwise)

Note 7 — Debt

Significant Financing Activities

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 $260,000, including a $50,000 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 $325,000, 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.

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.

The Energy Services 2020 Credit Agreement requires that Energy Services not exceed ratios of Consolidated Total Indebtedness to Consolidated EBITDA, as defined, of 4.00 to 1.00, and maintain a minimum ratio of Consolidated EBITDA to Consolidated Interest Expense, as defined, of 3.50 to 1.00. The Energy Services 2020 Credit Agreement is guaranteed by certain subsidiaries of Energy Services and 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 subject to customary covenants and default provisions including restrictions on the incurrence of additional indebtedness and also restricts liens, guarantees, investments, loans and advances, payments, mergers, consolidations, asset transfers, transactions with affiliates, sales of assets, acquisitions and other transactions.

Note 8 — Goodwill and Intangible Assets

Goodwill and intangible assets comprise the following:

	March 31, 2020	September 30, 2019	March 31, 2019
Goodwill	$ 336,266	$ 335,554	$ 11,919
Intangible assets:			
Customer relationships	268,474	269,867	11,203
Land development rights and other	30,099	13,417	22,114
Accumulated amortization	(31,875)	(14,744)	(12,720)
Intangible assets, net	$ 266,698	$ 268,540	$ 20,597

Amortization expense of intangible assets was $5,006 and $542 for the three months ended March 31, 2020 and 2019, respectively, and $7,584 and $1,029 for the six months ended March 31, 2020 and 2019, respectively. The estimated aggregate amortization expense of these intangible assets for the remainder of Fiscal 2020 and for the next four fiscal years is as follows: remainder of Fiscal 2020 — $6,762; Fiscal 2021 — $10,665; Fiscal 2022 — $8,953; Fiscal 2023 — $8,953; Fiscal 2024 — $8,953.

Note 9 — 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.

(Thousands of dollars, except where indicated otherwise)

Note 10 — Fair Value Measurements

Derivative Instruments

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

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
March 31, 2020				
Derivative instruments:				
Assets:				
Commodity contracts	$ 18,884	$ 8,292	$ —	$ 27,176
Liabilities:				
Commodity contracts	$ (51,474)	$ (5,266)	$ —	$ (56,740)
Interest rate contracts	$ —	$ (29,288)	$ —	$ (29,288)
September 30, 2019				
Derivative instruments:				
Assets:				
Commodity contracts	$ 20,007	$ 9,958	$ —	$ 29,965
Liabilities:				
Commodity contracts	$ (56,725)	$ (11,957)	$ —	$ (68,682)
Interest rate contracts	$ —	$ (3,130)	$ —	$ (3,130)
March 31, 2019				
Derivative instruments:				
Assets:				
Commodity contracts	$ 21,064	$ 20,371	$ —	$ 41,435
Liabilities:				
Commodity contracts	$ (16,448)	$ (18,864)	$ —	$ (35,312)

The fair values of our Level 1 exchange-traded commodity futures and options contracts 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 11 — 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 these risks. The primary risks managed by derivative instruments are (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.

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. In addition, the Company uses NYMEX futures and options contracts to economically hedge the gross margin associated with the purchase and anticipated later near-term sale of natural gas or propane.

Interest Rate Risk

During Fiscal 2019 Energy Services entered into Energy Services Term Loan. In order to fix the underlying short-term market interest rates, we entered into an associated pay-fixed, receive-variable interest rate swap agreement for all of Energy Services Term Loan's outstanding principal balance, and a significant portion of the loan's tenor and designated such swaps as cash flow hedges.

Quantitative Disclosures Related to Derivative Instruments

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

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	March 31, 2020	September 30, 2019	March 31, 2019
Commodity Price Risk:					
Natural gas futures, forward and pipeline contracts	Dekatherms	December 2024	156.0	189.9	204.0
Natural gas basis swap contracts	Dekatherms	December 2024	155.4	131.1	84.0
NYMEX natural gas storage futures contracts	Dekatherms	March 2021	2.2	0.3	0.3
NYMEX natural gas option contracts	Dekatherms	N/A	—	2.4	—
NYMEX propane storage futures contracts	Gallons	April 2020	0.1	0.5	0.1
Electricity long forward and futures contracts	Kilowatt hours	December 2023	1,054.0	883.3	902.2
Electricity short forward and futures contracts	Kilowatt hours	April 2024	502.5	628.6	265.0
Interest Rate Risk:					
Interest rate swaps	USD	July 2024	$ 694.8	$ 698.3	$ —

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 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. Restricted cash in brokerage accounts is reported in "Restricted cash" on the Condensed Consolidated Balance Sheets. Although we have concentrations of credit risk associated with derivative instruments, the maximum amount of loss we would incur if these counterparties failed to perform according to the terms of their contracts, based upon the gross fair values of the derivative instruments, was not material at March 31, 2020. We generally do not have credit-risk-related contingent features in our derivative contracts.

(Thousands of dollars, except where indicated otherwise)

Offsetting Derivative Assets and Liabilities

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

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

Fair Value of Derivative Instruments

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

	March 31, 2020	September 30, 2019	March 31, 2019
Derivative assets:			
Derivatives not designated as hedging instruments:			
Commodity contracts	$ 27,176	$ 29,965	$ 41,435
Total derivative assets - gross	27,176	29,965	41,435
Gross amounts offset in balance sheet	(15,084)	(24,479)	(26,481)
Total derivative assets - net	$ 12,092	$ 5,486	$ 14,954
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ (29,288)	$ (3,130)	$ —
Derivatives not designated as hedging instruments:			
Commodity contracts	(56,740)	(68,682)	(35,312)
Total derivative liabilities - gross	(86,028)	(71,812)	(35,312)
Gross amounts offset in balance sheet	15,084	24,479	26,481
Total derivative liabilities - net	$ (70,944)	$ (47,333)	$ (8,831)

(Thousands of dollars, except where indicated otherwise)

Effect of Derivative Instruments

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

Three Months Ended March 31,	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	$ (32,360)	$ —	$ (1,081)	$ —	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2020	2019	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ 6,660	$ 4,608	Revenues
Commodity contracts	(29,731)	3,778	Cost of sales
Total	$ (23,071)	$ 8,386	

Six Months Ended March 31,	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	$ (27,978)	$ —	$ (1,943)	$ —	Interest expense

	Gain (Loss) Recognized in Income		Location of Gain (Loss) Recognized in Income
	2020	2019	
Derivatives Not Designated As Hedging Instruments:			
Commodity contracts	$ 9,147	$ 1,758	Revenues
Commodity contracts	(49,804)	23,249	Cost of sales
Total	$ (40,657)	$ 25,007	

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 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.

(Thousands of dollars, except where indicated otherwise)

Note 12 — Accumulated Other Comprehensive Income (Loss)

The tables below present changes in AOCI during the three and six months ended March 31, 2020:

Three Months Ended March 31, 2020:	Derivative Instruments
AOCI - December 31, 2019	$ 1,543
Net losses on interest rate contract (after-tax)	(23,143)
Amounts reclassified from AOCI:	
Reclassification adjustments (pre-tax)	1,081
Reclassification adjustments tax benefit	(307)
Reclassification adjustments (after-tax)	774
Other comprehensive loss	(22,369)
AOCI - March 31, 2020	$ (20,826)

Six Months Ended March 31, 2020:	Derivative Instruments
AOCI - September 30, 2019	$ (2,225)
Net losses on interest rate contract (after-tax)	(19,992)
Amounts reclassified from AOCI:	
Reclassification adjustments (pre-tax)	1,943
Reclassification adjustments tax benefit	(552)
Reclassification adjustments (after-tax)	1,391
Other comprehensive loss	(18,601)
AOCI - March 31, 2020	$ (20,826)

There was no AOCI activity during the three and six months ended March 31, 2019.

Note 13 — 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.

(Thousands of dollars, except where indicated otherwise)

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

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

The following related party balances are included in our condensed consolidated financial statements during the three and six months ended March 31, 2020 and 2019:

	Three Months Ended March 31,		Six Months Ended March 31,		Classification on Condensed Consolidated Statements of Comprehensive Income
	2020	2019	2020	2019	
SCAA Activities:					
SCAA revenues	$ 145	$ 168	$ 2,349	$ 3,269	Revenues
Costs of SCAA and firm delivery service	$ 576	$ 776	$ 1,220	$ 1,519	Operating and administrative expenses
Gas Supply and Delivery Service:					
Gas supply and delivery service revenues	$ 76,429	$100,415	$137,565	$181,034	Revenues
Costs of natural gas and pipeline capacity purchases	$ 15,848	$ 24,564	$ 29,950	$ 47,426	Cost of sales
Administrative Services:					
Administrative services provided by UGI	$ 4,483	$ 3,306	$ 7,779	$ 5,517	Operating and administrative expenses

	March 31, 2020	September 30, 2019	March 31, 2019	Classification on Condensed Consolidated Balance Sheets
SCAA security deposits	$ 7,500	$ 7,640	$ 9,040	Prepaid expenses and other current assets

Note 14 — 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 and 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. However, the Company continues to evaluate and react to the potential effects of a prolonged disruption and the related impacts 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; and delays related to current and future projects. While its operational and financial performance may be significantly impacted by COVID-19, the Company cannot predict the duration or magnitude of the outbreak and the 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 arising in taxable years beginning in 2018, 2019, and 2020, and the temporary removal of the 80 percent limitation on NOL utilization for taxable years beginning before January 1, 2021. The Company's annual effective income tax rate for Fiscal 2020 reflects anticipated tax benefits resulting from the carryback of an NOL for Fiscal 2020 pursuant to the provisions of the CARES Act.

The Company has not yet filed its income tax returns for Fiscal 2019 or Fiscal 2020, and continues to evaluate other tax positions or strategies that could affect current-year or prior-year taxable income or loss. Accordingly, the impacts from the CARES Act on the Company's income tax provisions and taxes payable or refundable are subject to change.

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 and 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 began to reflect the impacts of 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. However, we continue to evaluate and react to the potential effects of a prolonged disruption and the related impacts 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; and delays related to current and future projects. 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 arising in taxable years beginning in 2018, 2019, and 2020, and the temporary removal of the 80 percent limitation on NOL utilization for taxable years beginning before January 1, 2021. For additional information related to the CARES Act and its impact on our results of operations, see "Interest Expense and Income Taxes" below.

While our operational and financial performance may be significantly impacted by COVID-19, we cannot predict the duration or magnitude of the pandemic and its effects on our business, financial position, results of operations, liquidity or cash flows at this time.

Executive Overview

Three months ended March 31, 2020 and 2019

Energy Services' net income as determined in accordance with GAAP was $75.6 million for the three months ended March 31, 2020 compared to $47.7 million for the three months ended March 31, 2019. Our GAAP results reflect after-tax gains on commodity derivative instruments not associated with current-period transactions of $6.7 million and $8.2 million, respectively, in the 2020 and 2019 three-month periods. Our GAAP results in the 2020 three-month period also reflect after-tax acquisition and integration expenses associated with CMG of $0.7 million. Although these items are reflected in our GAAP results, we have excluded these items from our non-GAAP measures. See "Non-GAAP Financial Measures" below.

Excluding the impacts of commodity derivative instruments not associated with current-period transactions and the CMG acquisition and integration expenses, adjusted net income for the 2020 three-month period was $30.1 million higher than the prior-year period. This increase principally reflects incremental net income from CMG, which was acquired in August 2019, including income from an equity method investment that was included as part of the acquisition and a tax benefit resulting from the carryback of an NOL under the CARES Act. The positive effects were partially offset by increased interest expense related to debt issued to finance a portion of the CMG Acquisition. We refer to CMG and its equity interest in Pennant as "UGI Appalachia."

Six months ended March 31, 2020 and 2019

Energy Services' net income as determined in accordance with GAAP was $106.5 million for the six months ended March 31, 2020 compared to $80.7 million for the six months ended March 31, 2019. Our GAAP results reflect after-tax gains on commodity derivative instruments not associated with current-period transactions of $1.4 million and $9.5 million, respectively, in the 2020 and 2019 six-month periods. Our GAAP results in the 2020 six-month period also reflect after-tax acquisition and integration expenses associated with CMG of $1.2 million. Although these items are reflected in our GAAP results, we have excluded these items from our non-GAAP measures. See "Non-GAAP Financial Measures" below.

Excluding the impacts of commodity derivative instruments not associated with current-period transactions and the CMG acquisition and integration expenses, adjusted net income for the 2020 six-month period was $35.1 million higher than the prior-year period. This increase principally reflects incremental net income from UGI Appalachia and the previously mentioned tax benefit resulting from the carryback of an NOL under the CARES Act. The 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.

	Three Months Ended March 31,		Six Months Ended March 31,	
(Millions of dollars)	2020	2019	2020	2019
Adjusted total margin:				
Total revenues	$ 415.4	$ 535.5	$ 779.6	$ 980.9
Cost of sales	(286.6)	(435.2)	(555.0)	(802.0)
Total margin	128.8	100.3	224.6	178.9
Net gains on commodity derivative instruments not associated with current-period transactions	(9.5)	(11.6)	(2.0)	(13.4)
Adjusted total margin	$ 119.3	$ 88.7	$ 222.6	$ 165.5
Adjusted operating income:				
Operating income	$ 80.9	$ 64.5	$ 128.9	$ 108.6
Net gains on commodity derivative instruments not associated with current-period transactions	(9.5)	(11.6)	(2.0)	(13.4)
CMG acquisition and integration expenses	1.0	—	1.7	—
Adjusted operating income	$ 72.4	$ 52.9	$ 128.6	$ 95.2
Adjusted income before income taxes:				
Income before income taxes	$ 77.4	$ 65.7	$ 120.4	$ 110.8
Net gains on commodity derivative instruments not associated with current-period transactions	(9.5)	(11.6)	(2.0)	(13.4)
CMG acquisition and integration expenses	1.0	—	1.7	—
Adjusted income before income taxes	$ 68.9	$ 54.1	$ 120.1	$ 97.4
Adjusted net income:				
Net income	$ 75.6	$ 47.7	$ 106.5	$ 80.7
Net gains on commodity derivative instruments not associated with current-period transactions	(6.7)	(8.2)	(1.4)	(9.5)
CMG acquisition and integration expenses	0.7	—	1.2	—
Adjusted net income	$ 69.6	$ 39.5	$ 106.3	$ 71.2

Analysis of Results of Operations

The following analyses compare Energy Services' results of operations for the 2020 three-month period with the 2019 three-month period and the 2020 six-month period with the 2019 six-month period.

2020 three-month period compared with the 2019 three-month period

For the three months ended March 31,	2020	2019	Increase (Decrease)	
(Dollars in millions)				
Revenues	$ 415.4	$ 535.5	$ (120.1)	(22.4)%
Total margin (a)	$ 128.8	$ 100.3	$ 28.5	28.4 %
Operating and administrative expenses (b)	$ 29.3	$ 24.9	$ 4.4	17.7 %
Operating income	$ 80.9	$ 64.5	$ 16.4	25.4 %
Income before income taxes	$ 77.4	$ 65.7	$ 11.7	17.8 %
Non-GAAP financial measures (c):				
Adjusted total margin	$ 119.3	$ 88.7	$ 30.6	34.5 %
Adjusted operating income	$ 72.4	$ 52.9	$ 19.5	36.9 %
Adjusted income before income taxes	$ 68.9	$ 54.1	$ 14.8	27.4 %
Adjusted net income	$ 69.6	$ 39.5	$ 30.1	76.2 %

(a) Total margin represents total revenues less total cost of sales and includes the impact of net unrealized gains of $9.5 million and $11.6 million, respectively, on commodity derivative instruments not associated with current-period transactions for the three months ended March 31, 2020 and 2019.
(b) The 2020 three-month period includes $1.0 million of acquisition and integration expenses associated with CMG.
(c) These financial measures are non-GAAP financial measures and are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not a substitute for, the comparable GAAP measures. See “Non-GAAP Financial Measures” above.

Average temperatures across Energy Services' energy marketing territory during the three months ended March 31, 2020 were 19.2% warmer than normal and 18.6% warmer than the prior-year period.

Revenues in the 2020 three-month period were $120.1 million lower compared to the 2019 three-month period principally reflecting decreased natural gas revenues ($138.8 million) and, to a much lesser extent, lower electric generation ($3.5 million) and peaking ($2.8 million) revenues. The significant decrease in natural gas revenues is primarily attributable to lower average natural gas prices during the 2020 three-month period and, to a much lesser extent, lower natural gas volumes. The effect of these factors was partially offset by higher natural gas gathering revenues ($25.6 million) largely attributable to incremental revenues from UGI Appalachia, and higher capacity revenues ($3.5 million) Cost of sales were $286.6 million in the 2020 three-month period compared to $435.2 million in the prior-year period, a decrease of $148.6 million, principally reflecting decreased natural gas costs ($135.4 million) largely attributable to lower average natural gas commodity prices and, to a much lesser extent, lower peaking costs ($7.3 million).

Total margin increased $28.5 million in the 2020 three-month period. Adjusted total margin increased $30.6 million principally reflecting higher natural gas gathering total margin ($25.7 million) largely attributable to incremental margin from UGI Appalachia. Higher peaking margin ($4.5 million) and a refund received in connection with pipeline contract rates ($3.0 million) also contributed to the improvement in total margin. The effect of these increases was partially offset by lower electric generation margin ($1.6 million) largely attributable to lower margin from the Hunlock generating facility driven by decreased volumes.

Operating income increased $16.4 million and income before income taxes increased $11.7 million in the 2020 three-month period, respectively. Adjusted operating income and adjusted income before income taxes increased $19.5 million and $14.8 million, respectively. The increase in adjusted operating income principally reflects the previously mentioned increase in adjusted total margin partially offset by higher depreciation and amortization expense ($7.5 million) and increased operating and administrative expenses ($3.4 million, excluding $1.0 million of acquisition and integration expenses in the 2020 three-month period). 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 includes the previously mentioned increase in adjusted operating income and equity income 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 compared to the prior-year period.

Interest Expense and Income Taxes

Interest expense in the 2020 three-month period increased $10.9 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.

The lower effective income tax rate compared to the prior-year period is largely attributable to a tax benefit resulting from the carryback of an NOL under the CARES Act ($18.7 million) reflected in the 2020 three-month period.

The Company has not yet filed its income tax returns for Fiscal 2019 or Fiscal 2020, and continues to evaluate other tax positions or strategies that could affect current-year or prior-year taxable income or loss. Accordingly, the impacts from the CARES Act on the Company's income tax provisions and taxes payable or refundable are subject to change.

2020 six-month period compared with the 2019 six-month period

For the six months ended March 31,	2020	2019	Increase (Decrease)	
(Dollars in millions)				
Revenues	$ 779.6	$ 980.9	$ (201.3)	(20.5)%
Total margin (a)	$ 224.6	$ 178.9	$ 45.7	25.5 %
Operating and administrative expenses (b)	$ 59.0	$ 48.7	$ 10.3	21.1 %
Operating income	$ 128.9	$ 108.6	$ 20.3	18.7 %
Income before income taxes	$ 120.4	$ 110.8	$ 9.6	8.7 %
Non-GAAP financial measures (c):				
Adjusted total margin	$ 222.6	$ 165.5	$ 57.1	34.5 %
Adjusted operating income	$ 128.6	$ 95.2	$ 33.4	35.1 %
Adjusted income before income taxes	$ 120.1	$ 97.4	$ 22.7	23.3 %
Adjusted net income	$ 106.3	$ 71.2	$ 35.1	49.3 %

(a) Total margin represents total revenues less total cost of sales and includes the impact of net unrealized gains of $2.0 million and $13.4 million, respectively, on commodity derivative instruments not associated with current-period transactions for the six months ended March 31, 2020 and 2019.
(b) The 2020 six-month period includes $1.7 million of acquisition and integration expenses associated with CMG.
(c) These financial measures are non-GAAP financial measures and are not in accordance with, or an alternative to, GAAP and should be considered in addition to, and not a substitute for, the comparable GAAP measures. See "Non-GAAP Financial Measures" above.

Average temperatures across Energy Services' energy marketing territory during the six months ended March 31, 2020 were 11.8% warmer than normal and 12.8% warmer than the prior-year period.

Revenues in the 2020 six-month period were $201.3 million lower than the prior-year period principally reflecting decreased natural gas revenues ($246.9 million) and, to a much lesser extent, lower electric generation and peaking revenues ($8.3 million). The significant decrease in natural gas revenues is primarily attributable to lower average natural gas prices during the 2020 six-month period and, to a much lesser extent, lower natural gas volumes. The effects of these revenue decreases were partially offset by higher natural gas gathering revenues ($56.3 million) largely attributable to incremental revenues from UGI Appalachia. Cost of sales were $555.0 million in the 2020 six-month period compared to $802.0 million in the prior-year period. The $247.0 million decrease in cost of sales is primarily attributable to decreased natural gas costs resulting from lower average natural gas commodity prices.

Total margin increased $45.7 million in the 2020 six-month period. Adjusted total margin increased $57.1 million principally reflecting higher natural gas gathering total margin ($52.0 million) largely attributable to incremental margin from UGI Appalachia and, to a much lesser extent, increased peaking margin ($7.7 million). The effects of these increases were partially offset by lower electric generation margin ($2.9 million) largely related to lower volumes at the Hunlock generating facility compared to the prior-year period.

Operating income and income before income taxes increased $20.3 million and $9.6 million, respectively, in the 2020 six-month period. Adjusted operating income and adjusted income before income taxes increased $33.4 million and $22.7 million, respectively.

The increase in adjusted operating income principally reflects the increase in adjusted total margin partially offset by higher depreciation and amortization expense ($14.4 million) and increased operating and administrative expenses ($8.6 million, excluding $1.7 million of acquisition and integration expenses in the 2020 six-month period). 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 largely reflects the previously mentioned increase in adjusted operating income and equity income 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 compared to the prior-year period.

Interest Expense and Income Taxes

Interest expense in the 2020 six-month period increased $22.0 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.

The lower effective income tax rate compared to the prior-year period is largely attributable to a tax benefit resulting from the carryback of an NOL under the CARES Act ($18.7 million) reflected in the 2020 six-month period.

The Company has not yet filed its income tax returns for Fiscal 2019 or Fiscal 2020, and continues to evaluate other tax positions or strategies that could affect current-year or prior-year taxable income or loss. Accordingly, the impacts from the CARES Act on the Company’s income tax provisions and taxes payable or refundable are subject to change.

Financial Condition and Liquidity

The Company expects to have sufficient liquidity to continue to support long-term commitments and ongoing operations despite potential uncertainties associated with the global pandemic attributable to the outbreak and continued spread of COVID-19. Energy Services was in compliance with all debt covenants as of March 31, 2020. The Company's liquidity has also been positively influenced by continued low commodity prices experienced during the six months ended March 31, 2020, partially offset by increased margin calls associated with derivative instruments, and anticipates lower working capital requirements that typically occurs in the second half of the Company's fiscal year. In addition, the Company does not have any near-term term loan maturities. The COVID-19 global pandemic is a rapidly evolving situation and the Company cannot predict the ultimate impact it will have on its liquidity, debt covenants, financial condition or the timing of capital expenditures.

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

Our cash and cash equivalents totaled $20.9 million at March 31, 2020 compared to $25.9 million at September 30, 2019. Our restricted cash balances at March 31, 2020 and September 30, 2019, principally comprising cash in brokerage accounts that are restricted from withdrawal, totaled $33.9 million in both periods. Our debt outstanding at March 31, 2020, totaled $765.8 million (including current maturities of long-term debt of $9.8 million and short-term borrowings of $43.0 million). Our debt outstanding at September 30, 2019, totaled $778.0 million (including current maturities of long-term debt of $7.1 million and short-term borrowings of $91.4 million). Total long-term debt outstanding at March 31, 2020, including current maturities, comprises $694.7 million of Energy Services Term Loan and $41.4 million of other long-term debt including a finance lease liability recognized as a result of the adoption of ASU 2016-02, and is net of $13.3 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 March 31, 2020, there were no borrowings outstanding under the Energy Services 2020 Credit Agreement and the available borrowing capacity was $260.0 million.

Energy Services also has a Receivables Facility with an issuer of receivables-backed commercial paper currently scheduled to expire on October 23, 2020. At March 31, 2020, the outstanding balance of trade receivables was $86.4 million of which $43.0 million was sold to the bank. At March 31, 2019, the outstanding balance of trade receivables was $117.0 million none of which was sold to the bank. Amounts sold to the bank are reflected as “Short-term borrowings” on the Condensed Consolidated Balance Sheets. During the six months ended March 31, 2020 and 2019, peak sales of receivables were $97.0 million and $16.0 million, respectively, and average daily amounts sold were $54.6 million and $1.3 million, respectively.

Cash Flows

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

Operating Activities: Cash flow from operating activities was $118.5 million in the 2020 six-month period compared to $102.9 million in 2019 six-month period. Cash flow from operating activities before changes in operating working capital was $120.0 million in the 2020 six-month period compared to $91.9 million in the 2019 six-month period. The increase in cash flow from operating activities before changes in operating working capital reflects the higher 2020 six-month period adjusted operating income. Changes in operating working capital used $1.5 million of operating cash flow in the 2020 six-month period compared to $11.0 million of operating cash flow provided in the 2019 six-month period. The decrease in cash flow from changes in operating working capital in the 2020 six-month period principally reflects lower cash flow from changes in accounts payable offset, in large part, by lower cash required to fund changes in accounts receivable.

Investing Activities: Cash flow used by investing activities was $46.4 million in the 2020 six-month period compared to $93.6 million in the 2019 six-month period. The higher cash used for investing activities in the 2019 six-month period principally reflects the acquisition of South Jersey Energy Company's natural gas marketing business and natural gas gathering assets in Pennsylvania. Cash capital expenditures for property, plant and equipment totaled $49.9 million in the 2020 six-month period compared to $56.4 million in 2019 six-month period.

Financing Activities: Cash flow used by financing activities was $77.1 million in the 2020 six-month period compared to $2.1 million in the 2019 six-month period. The increase in cash used by financing activities in the 2020 six-month period primarily reflects higher 2020 six-month period net repayments of Receivables Facility and other short-term borrowings and $25.0 million of distributions paid.