UGI UTILITIES, INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the three and nine months ended June 30, 2022 and 2021
(Unaudited)

UGI UTILITIES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

UGI UTILITIES, INC. AND SUBSIDIARIES

GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this document are defined below:

UGI Utilities, Inc. and Related Entities

Company - UGI Utilities or collectively UGI Utilities and its subsidiaries

Electric Utility - UGI Utilities' regulated electric distribution utility

Energy Services - UGI Energy Services, LLC, a wholly-owned second tier subsidiary of UGI and affiliate of UGI Utilities

PA Gas Utility - UGI Utilities' regulated natural gas distribution business

UGI - UGI Corporation, parent company of UGI Utilities

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

Other Terms and Abbreviations

4.75% Senior Note - A private placement of $90 million principal amount of senior notes due July 2032, issued by UGI Utilities

4.99% Senior Note - A private placement of $85 million principal amount of senior notes due September 2052, to be issued by UGI Utilities on or before September 15, 2022

2021 Annual Report - UGI Utilities' Annual Report for the fiscal year ended September 30, 2021

AOCI - Accumulated Other Comprehensive Income (Loss)

ASC - Accounting Standards Codification

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

ASU - Accounting Standards Update

Bcf - Billions of cubic feet

CDC - Centers for Disease Control and Prevention

COA - Consent Order and Agreement

Core market - Comprises (1) firm residential, commercial and industrial customers to whom UGI Utilities has a statutory obligation to provide service who purchase their natural gas or electricity from UGI Utilities; and (2) residential, commercial and industrial customers to whom UGI Utilities has a statutory obligation to provide service who purchase their natural gas or electricity from others

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

DS - Default service

DSIC - Distribution System Improvement Charge

FERC - Federal Energy Regulatory Commission

Fiscal 2022 - The fiscal year ending September 30, 2022

GAAP - U.S. generally accepted accounting principles

IRPA - Interest rate protection agreement

MDPSC - Maryland Public Service Commission

MGP - Manufactured gas plant

NPNS - Normal purchase and normal sale

NYMEX - New York Mercantile Exchange

PADEP - Pennsylvania Department of Environmental Protection

PAPUC - Pennsylvania Public Utility Commission

PGC - Purchased gas costs

Retail core-market - Comprises firm residential, commercial and industrial customers to whom UGI Utilities has a statutory obligation to provide service that purchase their natural gas from Gas Utility

SCAA - Storage contract administrative agreement

U.S. - United States of America

USD - U.S. dollar

Utilities Term Loan - A $125 million unsecured variable-rate term loan agreement entered into in October 2017, by UGI Utilities, Inc., which was amended in July 2022 to extend its maturity date from October 2022 to July 2027

WHO - World Health Organization

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(Millions of dollars)

	June 30, 2022	September 30, 2021	June 30, 2021
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1	$ 1	$ 2
Accounts receivable (less allowances for doubtful accounts of $23, $16 and $20, respectively)	159	83	110
Accrued utility revenues	12	8	8
Inventories	71	57	35
Derivative instruments	5	21	9
Prepaid expenses and other current assets	24	32	20
Total current assets	272	202	184
Property, plant and equipment (less accumulated depreciation of $1,359, $1,288 and $1,273, respectively)	3,538	3,332	3,226
Goodwill	182	182	182
Regulatory assets	318	337	389
Other assets	16	16	16
Total assets	$ 4,326	$ 4,069	$ 3,997
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 7	$ 7	$ 7
Short-term borrowings	170	130	100
Accounts payable	103	98	76
Regulatory liabilities	6	39	24
Other current liabilities	139	128	140
Total current liabilities	425	402	347
Long-term debt	1,276	1,280	1,207
Deferred income taxes	538	510	497
Pension benefit obligations	69	88	163
Regulatory liabilities	311	313	310
Other noncurrent liabilities	75	73	66
Total liabilities	2,694	2,666	2,590
Common stockholder's equity:			
Common Stock	60	60	60
Additional paid-in capital	509	474	474
Retained earnings	1,082	891	902
Accumulated other comprehensive loss	(19)	(22)	(29)
Total common stockholder's equity	1,632	1,403	1,407
Total liabilities and stockholder's equity	$ 4,326	$ 4,069	$ 3,997

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(Millions of dollars)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Revenues	$ 235	$ 181	$ 1,171	$ 923
Costs and expenses:				
Cost of sales — gas and purchased power (excluding depreciation shown below)	107	67	595	401
Operating and administrative expenses	55	55	177	174
Operating and administrative expenses — related parties	5	5	17	16
Depreciation	32	29	94	87
Other operating (income) expense, net	(2)	1	(1)	2
	197	157	882	680
Operating income	38	24	289	243
Pension and other postretirement plans non-service income	2	1	6	2
Interest expense	(14)	(14)	(43)	(42)
Income before income taxes	26	11	252	203
Income tax expense	(7)	(2)	(61)	(46)
Net income	$ 19	$ 9	$ 191	$ 157

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(Millions of dollars)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Net income	$ 19	$ 9	$ 191	$ 157
Other comprehensive income:				
Reclassifications of net losses on derivative instruments (net of tax of $(1), $1, $(2) and $0, respectively)	1	2	3	4
Other comprehensive income	1	2	3	4
Comprehensive income	$ 20	$ 11	$ 194	$ 161

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

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

	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 191	$ 157
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	94	87
Deferred income tax expense, net	16	22
Provision for uncollectible accounts	14	10
Other, net	13	(3)
Net change in:		
Accounts receivable and accrued utility revenues	(94)	(36)
Inventories	(14)	4
Deferred fuel and power costs, net of changes in unsettled derivatives	(6)	(9)
Accounts payable	14	(5)
Derivative instruments collateral paid	(11)	—
Other current assets	46	(1)
Other current liabilities	(23)	24
Net cash provided by operating activities	240	250
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(305)	(265)
Net costs of property, plant and equipment disposals	(5)	(6)
Net cash used by investing activities	(310)	(271)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions received	35	—
Payment of dividends	—	(35)
Increase (decrease) in short-term borrowings	40	(41)
Issuances of long-term debt, net of issuance costs	—	100
Repayments of long-term debt and finance leases	(5)	(6)
Net cash provided by financing activities	70	18
Cash and cash equivalents increase	$ —	$ (3)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents at end of period	$ 1	$ 2
Cash and cash equivalents at beginning of period	1	5
Cash and cash equivalents increase	$ —	$ (3)

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(unaudited)
(Millions of dollars)

	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021
Common stock, without par value		
Balance, beginning of period	$ 60	$ 60
Balance, end of period	$ 60	$ 60
Retained earnings		
Balance, beginning of period	$ 891	$ 780
Net income	191	157
Cash dividends — Common Stock	—	(35)
Balance, end of period	$ 1,082	$ 902
Additional paid-in capital		
Balance, beginning of period	$ 474	$ 474
Capital contribution	35	—
Balance, end of period	$ 509	$ 474
Accumulated other comprehensive income (loss)		
Balance, beginning of period	$ (22)	$ (33)
Reclassifications of net losses on derivative instruments	3	4
Balance, end of period	$ (19)	$ (29)
Total UGI Utilities common stockholder's equity	$ 1,632	$ 1,407

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Millions of dollars, except where indicated otherwise)

Note 1 — Nature of Operations

UGI Utilities directly owns and operates PA Gas Utility, a natural gas distribution utility business in eastern and central Pennsylvania and in a portion of one Maryland county. PA Gas Utility is subject to regulation by the PAPUC, the FERC, and, with respect to a small service territory in one Maryland county, the MDPSC. UGI Utilities also owns and operates Electric Utility, an electric distribution utility located in northeastern Pennsylvania. Electric Utility is subject to regulation by the PAPUC and the FERC.

Note 2 — Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP. They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2021, Condensed Consolidated Balance Sheet was derived from audited financial statements but does not include all footnote disclosures from the annual financial statements.

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's 2021 Annual Report. Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

Accounts Receivable. Accounts receivable includes amounts due pursuant to regulations of the PAPUC which allow qualifying customers to enter into a Payment Arrangement. A Payment Arrangement allows the account balance to be paid in installments over a period generally exceeding one year, without interest, with payment terms that comply with PAPUC regulations. Under PAPUC regulations, a utility company generally must continue to serve a customer who cannot pay an account balance in full if the customer (i) pays a reasonable portion of the account balance; (ii) agrees to pay the balance in installments; and (iii) agrees to pay future bills within thirty days until the amount subject to the Payment Arrangement is paid in full. Failure to make payments on a Payment Arrangement results in the full amount of the receivable under the Payment Arrangement being due. These amounts due under Payment Arrangements are considered part of our regular operating cycle and are classified as current on the Condensed Consolidated Balance Sheets.

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, whether it is subject to regulatory ratemaking mechanisms or if it qualifies and is designated as a hedge for accounting purposes.

Gains and losses on substantially all of the derivative instruments used by UGI Utilities to hedge commodity prices (for which NPNS has not been elected) are included in regulatory assets and liabilities because it is probable such gains and losses will be recoverable from, or refundable to, customers. From time to time, we enter into derivative instruments that 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. Certain other commodity derivative financial instruments, although generally effective as hedges, do not qualify for hedge accounting treatment. Changes in the fair values of these derivative instruments are reflected in net income. Cash flows from derivative financial 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 10.

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

(Millions of dollars, except where indicated otherwise)

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

Subsequent Events. Management has evaluated the impact of subsequent events through August 11, 2022, the date these condensed consolidated financial statements were issued and the effects, if any, of such evaluation have been reflected in the condensed consolidated financial statements and related disclosures.

Note 3 — Accounting Changes

New Accounting Standard Adopted in Fiscal 2022

Income Taxes. Effective October 1, 2021, the Company adopted ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" prospectively and retrospectively where deemed applicable. This ASU simplifies the accounting for income taxes by eliminating certain exceptions within the existing guidance for recognizing deferred taxes for equity method investments, performing intraperiod allocations and calculating income taxes in interim periods. Further, this ASU clarifies existing guidance related to, among other things, recognizing deferred taxes for goodwill and allocated taxes to members of a consolidated group. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

Note 4 — Revenue from Contracts with Customers

The Company recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. See Note 4 in the Company's 2021 Annual Report for additional information on our revenues from contracts with customers.

Revenue Disaggregation

The following table presents our disaggregated revenues:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Revenues from contracts with customers:				
Core Market:				
Residential	$ 117	$ 90	$ 626	$ 498
Commercial & industrial	44	34	245	190
Large delivery service	36	33	129	117
Off-system sales and capacity releases	33	16	151	92
Other	5	5	18	17
Total revenues from contracts with customers	235	178	1,169	914
Other revenues (a)	—	3	2	9
Total revenues	$ 235	$ 181	$ 1,171	$ 923

(a) Represents certain revenues not from contracts with customers, including revenues from alternative revenue programs. These revenues are outside the scope of ASC 606 and are accounted for in accordance with other GAAP.

Contract Balances

The timing of revenue recognition may differ from the timing of invoicing to customers or cash receipts. Contract assets represent our right to consideration after the performance obligations have been satisfied when such right is conditioned on something other than the passage of time. Contract assets were not material for all periods presented. Substantially all of our receivables are unconditional rights to consideration and are included in "Accounts receivable" and "Accrued utility revenues" on the Condensed Consolidated Balance Sheets. Amounts billed are generally due within the following month.

(Millions of dollars, except where indicated otherwise)

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company's obligations to transfer goods or services to a customer for which we have received consideration. The balances of contract liabilities were $11, $10 and $9 at June 30, 2022, September 30, 2021 and June 30, 2021, respectively, and are included in "Other current liabilities" and "Other noncurrent liabilities" on the Condensed Consolidated Balance Sheets.

Note 5 — Regulatory Assets and Liabilities and Regulatory Matters

For a description of the Company's regulatory assets and liabilities, other than those described below, see Note 5 in the Company's 2021 Annual Report. Other than removal costs, UGI Utilities currently does not recover a rate of return on its regulatory assets listed below. The following regulatory assets and liabilities associated with UGI Utilities are included on the Condensed Consolidated Balance Sheets:

	June 30, 2022	September 30, 2021	June 30, 2021
Regulatory assets (a):			
Income taxes recoverable	$ 140	$ 133	$ 131
Underfunded pension and postretirement plans	103	108	166
Environmental costs	34	58	58
Removal costs, net	22	24	24
Other	22	22	17
Total regulatory assets	$ 321	$ 345	$ 396
Regulatory liabilities:			
Postretirement benefit overcollections	$ 12	$ 13	$ 12
Deferred fuel and power refunds	1	36	21
State tax benefits — distribution system repairs	34	32	30
Excess federal deferred income taxes	262	267	269
Other	8	4	2
Total regulatory liabilities	$ 317	$ 352	$ 334

(a) Current regulatory assets are included in "Prepaid expenses and other current assets" on the Condensed Consolidated Balance Sheets.

Deferred Fuel and Power - costs and refunds. UGI Utilities' tariffs contain clauses that permit recovery of all prudently incurred purchased gas and power costs through the application of PGC rates and DS tariffs. These clauses provide for periodic adjustments to PGC and DS rates for differences between the total amount of purchased gas and electric generation supply costs billed to customers and recoverable costs incurred. Net undercollected costs are classified as a regulatory asset and net overcollections are classified as a regulatory liability.

PA Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for retail core-market customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel and power costs or refunds. Net unrealized gains on such contracts at June 30, 2022, September 30, 2021, and June 30, 2021, were $7, $35 and $9, respectively.

Other Regulatory Matters

Base Rate Filings. On January 28, 2022, PA Gas Utility filed a request with the PAPUC to increase its base operating revenues for residential, commercial and industrial customers by $83 annually. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable natural gas service and continue to fund programs designed to promote and reward customers' efforts to increase efficient use of natural gas. On June 24, 2022, a Joint Petition for Approval of Settlement of all issues supported by all active parties was filed with the PAPUC providing for a $49 annual base distribution rate increase for PA Gas Utility, through a phased approach, with $38 beginning October 29, 2022 and an additional $11 beginning October 1, 2023. In accordance with the terms of the Joint Petition, PA Gas Utility will not be permitted to file a rate case prior to January 1, 2024. Also, in accordance with the terms of the Joint Petition, PA Gas Utility is authorized to implement a weather normalization adjustment rider as a 5-year pilot program beginning on the effective date of the new rates. Under this rider, customer billings for distribution services will be adjusted to reflect normal weather conditions if weather deviates more than 3% from normal. Additionally, under the terms of the Joint Petition, PA Gas Utility will be authorized to implement a DSIC once its total property, plant and equipment less accumulated depreciation reaches $3,368. The Joint Petition was approved by a PAPUC administrative law judge on July 28, 2022, and is further subject to receipt of an order from the PAPUC approving the settlement. The Company cannot predict the timing or the ultimate outcome of the rate case review process.

On February 8, 2021, Electric Utility filed a rate request with the PAPUC to increase its annual base distribution revenues by $9. On October 28, 2021, the PAPUC issued a final order approving a settlement that permitted Electric Utility, effective November 9, 2021, to increase its base distribution revenues by $6.

On January 28, 2020, PA Gas Utility filed a request with the PAPUC to increase its annual base distribution operating revenues by $75 annually. On October 8, 2020, the PAPUC issued a final Order approving a settlement that permitted PA Gas Utility to increase its annual base distribution rates by $20, through a phased approach, with $10 beginning January 1, 2021 and an additional $10 beginning July 1, 2021. Additionally, PA Gas Utility was authorized to implement a DSIC once PA Gas Utility total property, plant and equipment less accumulated depreciation reached $2,875. This threshold was achieved in December 2020, and PA Gas Utility implemented a DSIC effective April 1, 2021. The PAPUC's final Order also included enhanced COVID-19 customer assistance measures, including the establishment of an Emergency Relief Program for a defined set of payment troubled customers ("ERP"). Additionally, the PAPUC's final order permitted PA Gas Utility to establish a regulatory asset for certain incremental expenses attributable to the ongoing COVID-19 pandemic, most notably expenses related to the ERP and uncollectible accounts expense, through the effective date of rates in the next PA Gas Utility base rate case, to be recovered and amortized over a 10-year period. In accordance with the terms of the final Order, PA Gas Utility was not permitted to file a rate case prior to January 1, 2022.

Note 6 — Debt

On July 12, 2022, UGI Utilities amended the existing Utilities Term Loan. The amendment extended the maturity date of the loan from October 2022 to July 2027, among other things. The current amount outstanding under the Utilities Term Loan remains unchanged and is payable in quarterly installments of $2, with the balance of the principal being due and payable at maturity. We have entered into a forward-starting interest rate swap that will generally fix the underlying market-based interest rate on this variable-rate loan through June 2026.

On June 30, 2022, UGI Utilities entered into a note purchase agreement which provides for the private placement of (1) $90 aggregate principal amount of 4.75% Senior Notes due July 15, 2032 and (2) $85 aggregate principal amount of 4.99% Senior Notes due September 15, 2052. On July 15, 2022, UGI Utilities issued $90 aggregate principal amount of 4.75% Senior Notes pursuant to the note purchase agreement. The net proceeds from the issuance of the 4.75% Senior Notes were used to reduce short-term borrowings and for general corporate purposes. The 4.99% Senior Notes are expected to be issued on or before September 15, 2022. These Senior Notes are unsecured and will rank equally with UGI Utilities' existing outstanding senior debt. UGI Utilities expects to use the net proceeds from the issuance of the 4.99% Senior Notes to reduce short-term borrowings and for general corporate purposes.

Note 7 — Commitments and Contingencies

Environmental Matters

From the late 1800s through the mid-1900s, UGI Utilities and its former subsidiaries owned and operated a number of MGPs prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the businesses of some gas companies under agreement. By the early 1950s, UGI Utilities divested all of its utility operations other than certain gas and electric operations. Beginning in 2006 and 2008, UGI Utilities also owned and operated two acquired subsidiaries, with similar histories of owning, and in some cases operating, MGPs in Pennsylvania.

UGI Utilities is subject to a COA with the PADEP to address the remediation of specified former MGP sites in Pennsylvania which is scheduled to terminate at the end of 2031. In accordance with the COA, UGI Utilities is required to either obtain a certain number of points per calendar year based on defined eligible environmental investigatory and/or remedial activities at the MGPs, or make expenditures for such activities in an amount equal to an annual environmental minimum expenditure threshold. The annual minimum expenditure threshold of the COA is $5. The COA permits the transfer of the specified wells, with related costs counted towards the annual minimum expenditure. At June 30, 2022, September 30, 2021 and June 30, 2021, our aggregate estimated accrued liabilities for environmental investigation and remediation costs related to the current COA and the predecessor agreements totaled $51, $50 and $49, respectively.

(Millions of dollars, except where indicated otherwise)

UGI Utilities does not expect the costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because UGI Utilities receives ratemaking recovery of actual environmental investigation and remediation costs associated with the sites covered by the COA. This ratemaking recognition reconciles the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. As such, UGI Utilities has recorded an associated regulatory asset for these costs because recovery of these costs from customers is probable (see Note 5).

From time to time, UGI Utilities is notified of sites outside Pennsylvania on which private parties allege MGPs were formerly owned or operated by UGI Utilities or owned or operated by a former subsidiary. Such parties generally investigate the extent of environmental contamination or perform environmental remediation. Management believes that under applicable law UGI Utilities should not be liable in those instances in which a former subsidiary owned or operated an MGP. There could be, however, significant future costs of an uncertain amount associated with environmental damage caused by MGPs outside Pennsylvania that UGI Utilities directly operated, or that were owned or operated by a former subsidiary of UGI Utilities if a court were to conclude that (1) the subsidiary's separate corporate form should be disregarded, or (2) UGI Utilities should be considered to have been an operator because of its conduct with respect to its subsidiary's MGP. Neither the undiscounted nor the accrued liability for environmental investigation and cleanup costs for UGI Utilities' MGP sites outside Pennsylvania were material for all periods presented.

Note 8 — Defined Benefit Pension and Other Postretirement Plans

The Company maintains defined benefit plans and other postretirement plans for certain current and former employees. The service cost component of our pension and other postretirement plans, net of amounts capitalized, are reflected in "Operating and administrative expenses" on the Condensed Consolidated Statements of Income. The non-service cost component, net of amounts capitalized as a regulatory asset, is reflected in "Pension and other postretirement plans non-service income" on the Condensed Consolidated Statements of Income. Other postretirement benefit cost was not material for all periods presented. Net periodic pension cost includes the following components:

Three Months Ended June 30,	2022	2021
Service cost	$ 1	$ 2
Interest cost	5	4
Expected return on assets	(9)	(9)
Amortization of:		
Actuarial loss	2	4
Net (benefit) cost	$ (1)	$ 1

Nine Months Ended June 30,	2022	2021
Service cost	$ 5	$ 6
Interest cost	15	14
Expected return on assets	(29)	(27)
Amortization of:		
Actuarial loss	5	10
Net (benefit) cost	$ (4)	$ 3

(Millions of dollars, except where indicated otherwise)

Note 9 — Fair Value Measurements

Derivative Instruments

The following table presents, on a gross basis, our derivative 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
June 30, 2022:				
Assets:				
Commodity contracts	$ 30	$ —	$ —	$ 30
Liabilities:				
Commodity contracts	$ (22)	$ —	$ —	$ (22)
September 30, 2021:				
Assets:				
Commodity contracts	$ 58	$ —	$ —	$ 58
Liabilities:				
Commodity contracts	$ (23)	$ —	$ —	$ (23)
Interest rate contracts	$ —	$ (2)	$ —	$ (2)
June 30, 2021:				
Assets:				
Commodity contracts	$ 14	$ —	$ —	$ 14
Liabilities:				
Commodity contracts	$ (6)	$ —	$ —	$ (6)
Interest rate contracts	$ —	$ (3)	$ —	$ (3)

The fair values of our Level 1 exchange-traded commodity futures and option derivative contracts are based upon actively-quoted market prices for identical assets and liabilities. The fair values of the remainder of our derivative financial instruments, which are designated as Level 2, are generally based upon recent market transactions and related market indicators.

Note 10 — Derivative Instruments and Hedging Activities

We are exposed to certain market risks related to our ongoing business operations. Management uses derivative financial and commodity instruments, among other things, to manage: (1) commodity price risk and (2) interest rate risk. Although we use derivative financial and commodity instruments to reduce market risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for speculative or trading purposes. The use of derivative instruments is controlled by our risk management and credit policies which govern, among other things, the derivative instruments we can use, counterparty credit limits and contract authorization limits. Because most of our commodity derivative instruments are generally subject to regulatory ratemaking mechanisms, we have limited commodity price risk associated with our Gas Utility or Electric Utility operations. For more 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

UGI Utilities' tariffs contain clauses that permit recovery of all prudently incurred costs of natural gas it sells to retail core-market customers, including the cost of financial instruments used to hedge purchased gas costs. As permitted and agreed to by the PAPUC pursuant to PA Gas Utility's annual PGC filings, PA Gas Utility currently uses NYMEX natural gas futures and option contracts to reduce commodity price volatility associated with a portion of the natural gas it purchases for its retail core-market customers. Gains and losses on PA Gas Utility natural gas futures contracts and natural gas option contracts are recorded in regulatory assets or liabilities on the Condensed Consolidated Balance Sheets because it is probable such gains or losses will be recoverable from, or refundable to, customers through the PGC recovery mechanism (see Note 5).

Electric Utility's DS tariffs permit the recovery of all prudently incurred costs of electricity it sells to DS customers, including the cost of financial instruments used to hedge electricity costs. Electric Utility enters into forward electricity purchase contracts to meet a substantial portion of its electricity supply needs. For all periods presented, all Electric Utility forward electricity purchase contracts were subject to the NPNS exception.

In order to reduce operating expense volatility, UGI Utilities from time to time enters into NYMEX gasoline futures contracts for a portion of gasoline volumes expected to be used in the operation of its vehicles and equipment. For all periods presented, the total volumes associated with gasoline futures contracts were not material.

Interest Rate Risk

UGI Utilities has a variable-rate term loan that is indexed to a short-term market interest rate. UGI Utilities has entered into a forward starting, amortizing, pay-fixed, receive-variable interest rate swap that generally fixed the underlying prevailing market interest rate through July 2022. We had designated this forward-starting interest rate swap as a cash flow hedge. In July 2022, UGI Utilities amended this variable-rate term loan to extend its maturity to July 2027 (see Note 6). We have entered into a forward-starting interest rate swap that will generally fix the underlying market-based interest rate on this amended variable-rate loan through June 2026.

The remainder of our long-term debt typically is issued at fixed rates of interest. As these long-term debt issuances mature, we typically refinance such debt with new debt having interest rates reflecting then-current market conditions. In order to reduce market rate risk on the underlying benchmark rate of interest associated with near- to medium-term forecasted issuances of fixed-rate debt, from time to time we enter into IRPAs. We account for IRPAs as cash flow hedges.

There were no unsettled IRPAs for all periods presented. At June 30, 2022, the amount of pre-tax net losses associated with interest rate hedges (excluding pay-fixed, receive-variable interest rate swaps) expected to be reclassified into earnings during the next twelve months is $3.

Quantitative Disclosures Related to Derivative Instruments

The following table summarizes by derivative type the gross notional amounts related to open derivative contracts at June 30, 2022, September 30, 2021 and June 30, 2021 and the final settlement dates of the Company's open derivative contracts as of June 30, 2022, excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	June 30, 2022	September 30, 2021	June 30, 2021
Commodity Price Risk:					
NYMEX natural gas futures and options contracts	Dekatherms	October 2023	13	20	12
Interest Rate Risk:					
Interest rate swaps	USD	July 2022	$ 97	$ 102	$ 103

Derivative Instrument Credit Risk

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. Restricted cash, if any, in brokerage accounts is recorded in "Restricted cash" on the Condensed Consolidated Balance Sheets.

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. 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.

(Millions of dollars, except where indicated otherwise)

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

Fair Value of Derivative Instruments

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

	June 30, 2022	September 30, 2021	June 30, 2021
Derivative assets:			
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	$ 30	$ 58	$ 14
Total derivative assets — gross	30	58	14
Gross amounts offset in the balance sheet	(22)	(23)	(6)
Cash collateral received	(3)	(14)	—
Total derivative assets — net	$ 5	$ 21	$ 8
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ —	$ (2)	$ (3)
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	(22)	(23)	(6)
Total derivative liabilities — gross	(22)	(25)	(9)
Gross amounts offset in the balance sheet	22	23	6
Total derivative liabilities — net (a)	$ —	$ (2)	$ (3)

(a) Derivative liabilities with maturities less than one year are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets. Derivative liabilities with maturities greater than one year are included in "Other noncurrent liabilities" on the Condensed Consolidated Balance Sheets.

Effects of Derivative Instruments

The following table provides information on the effects of derivative instruments designated as hedging instruments on the Condensed Consolidated Statements of Income and changes in AOCI:

	Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
Three Months Ended June 30,	2022	2021	
Cash Flow Hedges:			
Interest rate contracts	$ (2)	$ (1)	Interest expense

	Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
Nine Months Ended June 30,	2022	2021	
Cash Flow Hedges:			
Interest rate contracts	$ (5)	$ (4)	Interest expense

The effects of derivative instruments not subject to ratemaking mechanisms on the Condensed Consolidated Statements of Income were not material for all periods presented.

We are also a party to a number of other contracts that have elements of a derivative instrument including, among others, binding purchase orders, contracts which provide for the purchase and delivery of natural gas and electricity, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments. 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.

UGI UTILITIES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)
(Millions of dollars, except where indicated otherwise)

Note 11 — Accumulated Other Comprehensive Income (Loss)

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

Three Months Ended June 30, 2022	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — March 31, 2022	$ (9)	$ (11)	$ (20)
Amounts reclassified from AOCI	—	1	1
AOCI — June 30, 2022	$ (9)	$ (10)	$ (19)

Three Months Ended June 30, 2021	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — March 31, 2021	$ (14)	$ (17)	$ (31)
Amounts reclassified from AOCI	—	2	2
AOCI — June 30, 2021	$ (14)	$ (15)	$ (29)

Nine Months Ended June 30, 2022	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2021	$ (9)	$ (13)	$ (22)
Amounts reclassified from AOCI	—	3	3
AOCI — June 30, 2022	$ (9)	$ (10)	$ (19)

Nine Months Ended June 30, 2021	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2020	$ (14)	$ (19)	$ (33)
Amounts reclassified from AOCI	—	4	4
AOCI — June 30, 2021	$ (14)	$ (15)	$ (29)

Note 12 — Related Party Transactions

SCAA Activities. UGI Utilities is a party to SCAAs with Energy Services which have terms of up to three years. UGI Utilities has, among other things, released certain 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 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, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. UGI Utilities reflects the historical cost of the gas storage inventories and any exchange receivable from Energy Services which represents amounts of natural gas inventories used but not yet replenished by Energy Services. At June 30, 2022, September 30, 2021, and June 30, 2021 natural gas volumes were 3.5 bcf, 5.9 bcf, and 3.3 bcf, respectively.

Gas Supply and Delivery Services. UGI Utilities purchases natural gas and pipeline capacity from Energy Services and from time to time, UGI Utilities sells natural gas and pipeline capacity to 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.

Administrative Services. UGI provides certain financial and administrative services to UGI Utilities. UGI bills UGI Utilities monthly for all direct expenses incurred by UGI on behalf of UGI Utilities and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed and considers UGI Utilities' relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities and this allocation method has been accepted by the PAPUC in past rate case proceedings and management audits as a reasonable method of allocating such expenses. These billed expenses are classified as "Operating and administrative expenses - related parties" in the Condensed Consolidated Statements of Income.

(Millions of dollars, except where indicated otherwise)

In addition, UGI Utilities provides limited administrative services to UGI and various other affiliates pursuant to arrangements authorized by the PAPUC using similar allocation or market-based methods. Amounts billed to these entities by UGI Utilities totaled $2 and $1 during the three months ended June 30, 2022 and 2021, respectively, and $6 and $4 during the nine months ended June 30, 2022 and 2021, respectively. Such amounts reduce costs included in "Operating and administrative expenses" in the Condensed Consolidated Statements of Income.

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

	Three Months Ended June 30,		Nine Months Ended June 30,		Classification on Condensed Consolidated Statements of Income
	2022	2021	2022	2021	
SCAA Activities:					
SCAA revenues	$ —	$ 1	$ 1	$ 2	Revenues
Cost of SCAA supply purchases	$ 17	$ 6	$ 22	$ 9	Cost of sales - gas and purchased power
Gas Supply and Delivery Service:					
Natural gas and pipeline capacity revenues	$ 24	$ 11	$ 86	$ 49	Revenues
Costs of gas supply and delivery services	$ 58	$ 22	$ 285	$ 174	Cost of sales - gas and purchased power

	June 30, 2022	September 30, 2021	June 30, 2021	Classification on Condensed Consolidated Balance Sheets
SCAA storage inventories	$ 23	$ 18	$ 8	Inventories
SCAA security deposits	$ 8	$ 7	$ 7	Other current liabilities

Contribution from Parent. In April 2022, UGI contributed $35 in cash to the Company.

Note 13 — Impact of Global Pandemic

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