UGI UTILITIES, INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the three and nine months ended June 30, 2023 and 2022
(Unaudited)

UGI UTILITIES, INC. AND SUBSIDIARIES

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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 an affiliate of UGI Utilities

PA Gas Utility - UGI Utilities' regulated natural gas distribution business primarily located in Pennsylvania

UGI - UGI Corporation, parent company of UGI Utilities

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

Other Terms and Abbreviations

2022 Annual Report - UGI Utilities' Annual Report for the fiscal year ended September 30, 2022

AOCI - Accumulated Other Comprehensive Income (Loss)

ASC - Accounting Standards Codification

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

Bcf - Billions of cubic feet

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

DS - Default service

DSIC - Distribution System Improvement Charge

FERC - Federal Energy Regulatory Commission

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

NTSB - National Transportation Safety Board

NYMEX - New York Mercantile Exchange

OSHA - Occupational Safety and Health Administration

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

SOFR - Secured Overnight Financing Rate

U.S. - United States of America

UGI Utilities Credit Agreement - A five-year unsecured revolving credit agreement entered into by UGI Utilities on June 27, 2019 providing for borrowings up to $350 million, including a letter of credit subfacility of up to $100 million, scheduled to expire in June 2024. On December 13, 2022, UGI Utilities entered into an amendment to UGI Utilities Credit Agreement, providing for borrowings up to $425 million and to replace the reference rate from LIBOR with Term SOFR

USD - U.S. dollar

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(Millions of dollars)

	June 30, 2023	September 30, 2022	June 30, 2022
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7	$ 3	$ 1
Restricted cash	12	19	—
Accounts receivable (less allowances for doubtful accounts of $29, $19 and $23, respectively)	145	97	157
Accounts receivable - related parties	3	4	2
Accrued utility revenues	19	15	12
Inventories	50	121	71
Prepaid expenses and other current assets	22	40	29
Total current assets	258	299	272
Property, plant and equipment (less accumulated depreciation of $1,451, $1,375 and $1,359, respectively)	3,953	3,704	3,538
Goodwill	182	182	182
Regulatory assets	277	267	318
Other assets	21	19	16
Total assets	$ 4,691	$ 4,471	$ 4,326
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 6	$ 7	$ 7
Short-term borrowings	108	151	170
Accounts payable	77	120	76
Accounts payable - related parties	18	20	27
Regulatory liabilities	64	5	6
Other current liabilities	185	142	139
Total current liabilities	458	445	425
Long-term debt	1,443	1,448	1,276
Deferred income taxes	492	474	538
Pension benefit obligations	69	78	69
Regulatory liabilities	294	311	311
Other noncurrent liabilities	80	77	75
Total liabilities	2,836	2,833	2,694
Commitments and contingencies (Note 6)			
Common stockholder's equity:			
Common Stock	60	60	60
Additional paid-in capital	509	509	509
Retained earnings	1,301	1,086	1,082
Accumulated other comprehensive loss	(15)	(17)	(19)
Total common stockholder's equity	1,855	1,638	1,632
Total liabilities and stockholder's equity	$ 4,691	$ 4,471	$ 4,326

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,	
	2023	2022	2023	2022
Revenues	$ 226	$ 235	$ 1,374	$ 1,171
Costs and expenses:				
Cost of sales — gas and purchased power (excluding depreciation shown below)	92	107	730	595
Operating and administrative expenses	62	55	198	177
Operating and administrative expenses — related parties	5	5	15	17
Depreciation	33	32	98	94
Other operating (income) expense, net	—	(2)	2	(1)
	192	197	1,043	882
Operating income	34	38	331	289
Pension and other postretirement plans non-service income	1	2	3	6
Interest expense	(18)	(14)	(54)	(43)
Income before income taxes	17	26	280	252
Income tax expense	(4)	(7)	(65)	(61)
Net income	$ 13	$ 19	$ 215	$ 191

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,	
	2023	2022	2023	2022
Net income	$ 13	$ 19	$ 215	$ 191
Other comprehensive income:				
Net gains on derivative instruments (net of tax of $(1), $0, $(1) and $0, respectively)	1	—	1	—
Reclassifications of net losses on derivative instruments (net of tax of $0, $(1), $0 and $(2), respectively)	1	1	1	3
Other comprehensive income	2	1	2	3
Comprehensive income	$ 15	$ 20	$ 217	$ 194

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, 2023	Nine Months Ended June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 215	$ 191
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	98	94
Deferred income tax (benefit) expense, net	(9)	16
Provision for uncollectible accounts	20	14
Other, net	(4)	13
Net change in:		
Accounts receivable and accrued utility revenues	(71)	(94)
Inventories	71	(14)
Deferred fuel and power costs, net of changes in unsettled derivatives	78	(6)
Accounts payable	(14)	14
Derivative instruments collateral paid	—	(11)
Other current assets	(59)	46
Other current liabilities	100	(23)
Net cash provided by operating activities	425	240
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(375)	(305)
Net costs of property, plant and equipment disposals	(6)	(5)
Net cash used by investing activities	(381)	(310)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions received	—	35
(Decrease) increase in short-term borrowings	(43)	40
Repayments of long-term debt and finance leases	(4)	(5)
Net cash (used) provided by financing activities	(47)	70
Cash, cash equivalents and restricted cash decrease	$ (3)	$ —
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash, cash equivalents and restricted cash at end of period	$ 19	$ 1
Cash, cash equivalents and restricted cash at beginning of period	22	1
Cash, cash equivalents and restricted cash decrease	$ (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, 2023	Nine Months Ended June 30, 2022
Common stock, without par value		
Balance, beginning of period	$ 60	$ 60
Balance, end of period	$ 60	$ 60
Retained earnings		
Balance, beginning of period	$ 1,086	$ 891
Net income	215	191
Balance, end of period	$ 1,301	$ 1,082
Additional paid-in capital		
Balance, beginning of period	$ 509	$ 474
Capital contribution	—	35
Balance, end of period	$ 509	$ 509
Accumulated other comprehensive income (loss)		
Balance, beginning of period	$ (17)	$ (22)
Net gains on derivative instruments	1	—
Reclassifications of net losses on derivative instruments	1	3
Balance, end of period	$ (15)	$ (19)
Total UGI Utilities common stockholder's equity	$ 1,855	$ 1,632

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, which serves customers in eastern and central Pennsylvania and in portions of one Maryland county. PA Gas Utility is subject to regulation by the PAPUC, FERC, and, with respect its customers in Maryland, the MDPSC. UGI Utilities also owns and operates Electric Utility, which serves customers in portions of Luzerne and Wyoming counties in northeastern Pennsylvania. Electric Utility is subject to regulation by the PAPUC and FERC.

Note 2 — Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP. They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2022, Condensed Consolidated Balance Sheet was derived from audited financial statements but does not include all footnote disclosures from the annual financial statements.

These financial statements should be read in conjunction with the financial statements and related notes included in the Company's 2022 Annual Report. Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

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

	June 30, 2023	June 30, 2022
Cash and cash equivalents	$ 7	$ 1
Restricted cash	12	—
Cash, cash equivalents and restricted cash	$ 19	$ 1

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.

(Millions of dollars, except where indicated otherwise)

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 9.

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

Subsequent Events. Management has evaluated the impact of subsequent events through August 10, 2023, the date these condensed consolidated financial statements were issued and the effects, if any, of such evaluation have been reflected in the condensed consolidated financial statements and related disclosures.

Note 3 — Revenue from Contracts with Customers

The Company recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. See Note 4 in the Company's 2022 Annual Report for additional information on our revenues from contracts with customers.

Revenue Disaggregation

The following table presents our disaggregated revenues:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2023	2022	2023	2022
Revenues from contracts with customers:				
Core market:				
Residential	$ 117	$ 117	$ 738	$ 626
Commercial & industrial	43	44	280	245
Large delivery service	37	36	133	129
Off-system sales and capacity releases	14	33	152	151
Other	10	5	35	18
Total revenues from contracts with customers	221	235	1,338	1,169
Other revenues (a)(b)	5	—	36	2
Total revenues	$ 226	$ 235	$ 1,374	$ 1,171

(a) Represents certain revenues not from contracts with customers. These revenues are outside the scope of ASC 606 and are accounted for in accordance with other GAAP.
(b) Includes the impact of the weather normalization adjustment rider, a five-year pilot program beginning on November 1, 2022 for PA Gas Utility. See Note 4 for additional information.

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.

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 $13, $11 and $11 at June 30, 2023, September 30, 2022 and June 30, 2022, respectively, and are included in "Other current liabilities" and "Other noncurrent liabilities" on the Condensed Consolidated Balance Sheets.

(Millions of dollars, except where indicated otherwise)

Note 4 — 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 2022 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, 2023	September 30, 2022	June 30, 2022
Regulatory assets (a):			
Income taxes recoverable	$ 84	$ 72	$ 140
Underfunded pension plan	118	114	103
Environmental costs	28	37	34
Deferred fuel and power costs	—	7	2
Removal costs, net	22	22	22
Other	32	23	20
Total regulatory assets	$ 284	$ 275	$ 321
Regulatory liabilities:			
Postretirement benefit overcollections	$ 10	$ 11	$ 12
Deferred fuel and power refunds	63	3	1
State tax benefits — distribution system repairs	40	38	34
Excess federal deferred income taxes	242	261	262
Other	3	3	8
Total regulatory liabilities	$ 358	$ 316	$ 317

(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 collected from 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 (losses) gains on such contracts at June 30, 2023, September 30, 2022, and June 30, 2022, were $(7), $5 and $7, respectively.

Other Regulatory Matters

Base Rate Filings. On January 27, 2023, Electric Utility filed a request with the PAPUC to increase its annual base distribution revenues by $11. The increased revenues would fund ongoing system improvements and operations necessary to maintain safe and reliable electric service. Electric Utility requested that the new electric rates become effective March 28, 2023. The PAPUC issued an order on March 2, 2023, suspending the effective date for the rate increase to allow for investigation and public hearings. On July 14, 2023, a Joint Petition for Approval of Settlement of all issues supported by all active parties was filed with the PAPUC providing for a $9 annual base distribution rate increase for Electric Utility. The Joint Petition is subject to receipt of a recommended decision and a final order of the PAPUC approving the settlement. In accordance with the terms of the Joint Petition, the proposed rate increase will become effective on or before October 1, 2023, or as directed by the PAPUC in the final order. The Company cannot predict the timing or the ultimate outcome of the rate case review process.

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. On September 15, 2022, the PAPUC issued a final order approving a settlement 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 final order, 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 final order, PA Gas Utility was authorized to implement a weather normalization adjustment rider as a five-year pilot program beginning on November 1, 2022. Under this rider, when weather deviates from normal by more than 3%, residential and small commercial customer billings for distribution services are adjusted monthly for weather related impacts exceeding the 3% threshold. Additionally, under the terms of the final order, PA Gas Utility was authorized to implement a DSIC once its total property, plant and equipment less accumulated depreciation reached $3,368 (which threshold was achieved in September 2022).

On February 8, 2021, Electric Utility filed a 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.

Note 5 — Debt

On December 13, 2022, the Company entered into an amendment to the UGI Utilities Credit Agreement, providing for borrowings up to $425 and to replace the use of LIBOR with Term SOFR. Borrowings under the amended UGI Utilities Credit Agreement can be used to finance the working capital needs of the Company and for general corporate purposes. The UGI Utilities Credit Agreement is scheduled to expire June 2024.

Borrowings under the amended UGI Utilities Credit Agreement bear interest, subject to our election, at a floating rate of either (i) Term SOFR plus the applicable margin plus a credit spread adjustment of 0.10% or (ii) the base rate plus the applicable margin. The applicable margin remains unchanged from the original credit agreement.

Note 6 — 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. At June 30, 2023, September 30, 2022 and June 30, 2022, our aggregate estimated accrued liabilities for environmental investigation and remediation costs related to the COA totaled $52, $53 and $51, respectively.

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 4).

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

(Millions of dollars, except where indicated otherwise)

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.

Other Matters

West Reading, Pennsylvania Explosion. On March 24, 2023, an explosion occurred in West Reading, Pennsylvania which resulted in seven fatalities, significant injuries to eleven others, and extensive property damage to buildings owned by R.M. Palmer, a local chocolate manufacturer, and other neighboring structures. The NTSB, OSHA and the PAPUC are investigating the West Reading incident. On July 18, 2023, the NTSB issued an Investigative Update in its ongoing investigation. That report identifies a fracture in a retired UGI gas service tee and a fracture in a nearby steam system, but it does not address causation of the fractures or the explosion. The NTSB investigative team includes representatives from the Company, the PAPUC, the local fire department and the Pipeline and Hazardous Materials Safety Administration. The Company is cooperating with the investigation. The NTSB may invite other parties to participate.

While the investigation into this incident is still underway and the cause of the explosion has not been determined, the Company has received claims as a result of the explosion and is involved in lawsuits relative to the incident. The Company maintains liability insurance for personal injury, property and casualty damages and believes that third-party claims associated with the explosion, in excess of the Company's deductible, are recoverable through the Company's insurance. The Company cannot predict the result of these pending or future claims and legal actions at this time.

Note 7 — Defined Benefit Pension and Other Postretirement Plans

The Company maintains defined benefit pension 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, are 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 benefit includes the following components:

	Pension Benefits	
Three Months Ended June 30,	2023	2022
Service cost	$ 1	$ 1
Interest cost	7	5
Expected return on assets	(9)	(9)
Amortization of:		
Actuarial loss	—	2
Net benefit	$ (1)	$ (1)

	Pension Benefits	
Nine Months Ended June 30,	2023	2022
Service cost	$ 3	$ 5
Interest cost	20	15
Expected return on plan assets	(26)	(29)
Amortization of:		
Actuarial loss	—	5
Net benefit	$ (3)	$ (4)

(Millions of dollars, except where indicated otherwise)

Note 8 — 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, 2023:				
Assets:				
Commodity contracts	$ 11	$ —	$ —	$ 11
Interest rate contracts	$ —	$ 4	$ —	$ 4
Liabilities:				
Commodity contracts	$ (18)	$ —	$ —	$ (18)
September 30, 2022:				
Assets:				
Commodity contracts	$ 32	$ —	$ —	$ 32
Interest rate contracts	$ —	$ 3	$ —	$ 3
Liabilities:				
Commodity contracts	$ (26)	$ —	$ —	$ (26)
June 30, 2022:				
Assets:				
Commodity contracts	$ 30	$ —	$ —	$ 30
Liabilities:				
Commodity contracts	$ (22)	$ —	$ —	$ (22)

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 9 — 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 PA Gas Utility or Electric Utility operations. For more information on the accounting for our derivative instruments, see Note 2.

The following sections summarize the types of derivative instruments used by the Company to manage these 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 4).

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. We have entered into a pay fixed-receive variable interest rate swap which generally fixes the underlying market-based interest rate on this variable rate debt through June 2026. We have designated this interest rate swap as a cash flow hedge.

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, 2023, the amount of pre-tax net losses associated with interest rate hedges expected to be reclassified into earnings during the next twelve months is $1.

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

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	June 30, 2023	September 30, 2022	June 30, 2022
Commodity Price Risk:					
NYMEX natural gas futures and options contracts	Dekatherms	February 2024	24	19	13
Interest Rate Risk:					
Interest rate swaps	USD	June 2026	$ 91	$ 95	$ 97

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. 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.

(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, 2023	September 30, 2022	June 30, 2022
Derivative assets:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ 4	$ 3	$ —
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	11	32	30
Total derivative assets — gross	15	35	30
Gross amounts offset in the balance sheet	(9)	(26)	(22)
Cash collateral received	—	—	(3)
Total derivative assets — net (a)	$ 6	$ 9	$ 5
Derivative liabilities:			
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	(18)	(26)	(22)
Total derivative liabilities — gross	(18)	(26)	(22)
Gross amounts offset in the balance sheet	9	26	22
Total derivative liabilities — net (b)	$ (9)	$ —	$ —

(a) Derivative assets with maturities less than one year are included in "Prepaid expenses and other current assets" and derivative assets with maturities greater than one year are included in "Other assets" on the Condensed Consolidated Balance Sheets.

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

(Millions of dollars, except where indicated otherwise)

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:

	Gain Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Gain (Loss) Reclassified from AOCI into Income
Three Months Ended June 30,	2023	2022	2023	2022	
Cash Flow Hedges:					
Interest rate contracts	$ 2	$ —	$ (1)	$ (2)	Interest expense

	Gain Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Gain (Loss) Reclassified from AOCI into Income
Nine Months Ended June 30,	2023	2022	2023	2022	
Cash Flow Hedges:					
Interest rate contracts	$ 2	$ —	$ (1)	$ (5)	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.

(Millions of dollars, except where indicated otherwise)

Note 10 — Accumulated Other Comprehensive Income (Loss)

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

Three Months Ended June 30, 2023	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — March 31, 2023	$ (10)	$ (7)	$ (17)
Other comprehensive income before reclassification adjustments	—	1	1
Amounts reclassified from AOCI	—	1	1
AOCI — June 30, 2023	$ (10)	$ (5)	$ (15)

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)

Nine Months Ended June 30, 2023	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2022	$ (10)	$ (7)	$ (17)
Other comprehensive income before reclassification adjustments	—	1	1
Amounts reclassified from AOCI	—	1	1
AOCI — June 30, 2023	$ (10)	$ (5)	$ (15)

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)

Note 11 — 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, 2023, September 30, 2022, and June 30, 2022, natural gas volumes were 3.0 bcf, 5.9 bcf, and 3.5 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 relevant factor (such as headcount for employee-related expenses) or, when there is not a specific relevant factor, utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed. The allocation 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. These billed allocated 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 were not material for all periods presented. 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
	2023	2022	2023	2022	
SCAA Activities:					
SCAA revenues	$ —	$ —	$ 1	$ 1	Revenues
Cost of SCAA supply purchases	$ 4	$ 17	$ 10	$ 22	Cost of sales - gas and purchased power
Gas Supply and Delivery Service:					
Natural gas and pipeline capacity revenues	$ 7	$ 24	$ 68	$ 86	Revenues
Costs of gas supply and delivery services	$ 14	$ 58	$ 222	$ 285	Cost of sales - gas and purchased power

	June 30, 2023	September 30, 2022	June 30, 2022	Classification on Condensed Consolidated Balance Sheets
SCAA storage inventories	$ 7	$ 43	$ 23	Inventories
SCAA security deposits	$ 9	$ 8	$ 8	Other current liabilities