UGI UTILITIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2021 and 2020

UGI UTILITIES, INC. AND SUBSIDIARIES

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GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used 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, an indirect wholly owned subsidiary of UGI and affiliate of UGI Utilities

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

1.59% Senior Note - A private placement of $100 million principal amount of senior notes due June 2026, issued by UGI Utilities, Inc.

1.64% Senior Note - A private placement of $75 million principal amount of senior notes due September 2026, issued by UGI Utilities, Inc.

ABO - Accumulated Benefit Obligation

AFUDC - Allowance For Funds Used During Construction

AOCI - Accumulated Other Comprehensive Income (Loss)

ASC - Accounting Standards Codification

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

ASC 740 - ASC 740, "Income Taxes"

ASC 820 - ASC 820, "Fair Value Measurement"

ASC 980 - ASC 980, "Regulated Operations"

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

EDFIT - Excess deferred federal income taxes

ERISA - Employee Retirement Income Security Act of 1974

FASB - Financial Accounting Standards Board

FERC - Federal Energy Regulatory Commission

Fiscal 2020 - The fiscal year ended September 30, 2020

Fiscal 2021 - The fiscal year ended September 30, 2021

Fiscal 2022 - The fiscal year ending September 30, 2022

Fiscal 2023 - The fiscal year ending September 30, 2023

Fiscal 2024 - The fiscal year ending September 30, 2024

Fiscal 2025 - The fiscal year ending September 30, 2025

Fiscal 2026 - The fiscal year ending September 30, 2026

GAAP - U.S. generally accepted accounting principles

IRPA - Interest rate protection agreement

IT - Information technology

MDPSC - Maryland Public Service Commission

MGP - Manufactured gas plant

NAV - Net asset value

NPNS - Normal purchase and normal sale

NYMEX - New York Mercantile Exchange

PADEP - Pennsylvania Department of Environmental Protection

PAPUC - Pennsylvania Public Utility Commission

PBO - Projected benefit obligation

Pension Plan - Defined benefit pension plan for employees hired prior to January 1, 2009 of UGI, UGI Utilities and certain of UGI's other domestic wholly owned subsidiaries

PGC - Purchased gas costs

PJM - PJM Interconnection, LLC

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 agreements

TCJA - Tax Cuts and Jobs Act

***Temporary Rates Order* -** Order issued by the PAPUC on March 15, 2018, that converted PAPUC approved rates of a defined group of large Pennsylvania public utilities into temporary rates for a period of not more than 12 months while the PAPUC reviewed effects of the TCJA

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

USD - U.S. Dollar

Utilities Savings Plan - A 401(k) savings plan for eligible employees

***VEBA* -** Voluntary Employees' Beneficiary Association

WHO - World Health Organization

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Report of Independent Auditors

To the Stockholder and the Board of Directors of UGI Utilities, Inc.

We have audited the accompanying consolidated financial statements of UGI Utilities, Inc. and subsidiaries, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholder's equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UGI Utilities, Inc. and subsidiaries at September 30, 2021 and 2020, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

December 15, 2021

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Millions of dollars)

	September 30, 2021	September 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1	$ 5
Accounts receivable (less allowances for doubtful accounts of $16 and $15, respectively)	80	75
Accounts receivable — related parties	3	3
Accrued utility revenues	8	14
Inventories	57	39
Derivative instruments	21	7
Other current assets	32	21
Total current assets	202	164
Property, plant and equipment	4,620	4,265
Less accumulated depreciation	(1,288)	(1,210)
Net property, plant and equipment	3,332	3,055
Goodwill	182	182
Regulatory assets	337	395
Other assets	16	13
Total assets	$ 4,069	$ 3,809
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 7	$ 8
Short-term borrowings	130	141
Accounts payable — trade	82	86
Accounts payable — related parties	16	6
Employee compensation and benefits accrued	19	20
Interest accrued	13	13
Customer deposits and advances	42	40
Regulatory liabilities	39	38
Other current liabilities	54	39
Total current liabilities	402	391
Long-term debt	1,280	1,113
Deferred income taxes	510	462
Pension benefit obligations	88	170
Regulatory liabilities	313	315
Other noncurrent liabilities	73	77
Total liabilities	2,666	2,528
Common stockholder's equity:		
Common stock	60	60
Additional paid-in capital	474	474
Retained earnings	891	780
Accumulated other comprehensive loss	(22)	(33)
Total common stockholder's equity	1,403	1,281
Total liabilities and stockholder's equity	$ 4,069	$ 3,809

See accompanying Notes to Consolidated Financial Statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Millions of dollars)

	Year Ended September 30,	
	2021	2020
Revenues	$ 1,070	$ 1,030
Costs and expenses:		
Cost of sales — gas and purchased power (excluding depreciation shown below)	456	448
Operating and administrative expenses	232	230
Operating and administrative expenses — related parties	21	15
Depreciation	118	105
Other operating expense, net	1	3
	828	801
Operating income	242	229
Pension and other postretirement plans non-service income	2	—
Interest expense	(55)	(54)
Income before income taxes	189	175
Income tax expense	(43)	(39)
Net income	$ 146	$ 136

See accompanying Notes to Consolidated Financial Statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Millions of dollars)

	Year Ended September 30,	
	2021	2020
Net income	$ 146	$ 136
Net losses on derivative instruments (net of tax of $0 and $1, respectively)	—	(2)
Reclassifications of net losses on derivative instruments (net of tax of $(1) and $(2), respectively)	6	4
Benefit plans, principally actuarial gains and losses (net of tax of $(3) and $1, respectively)	4	(2)
Reclassifications of benefit plans actuarial losses and net prior service benefits (net of tax of $(1) and $0, respectively)	1	1
Other comprehensive income	11	1
Comprehensive income	$ 157	$ 137

See accompanying Notes to Consolidated Financial Statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of dollars)

	Year Ended September 30, 2021	Year Ended September 30, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 146	$ 136
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	118	105
Deferred income tax expense, net	34	23
Pension contributions, net of pension cost	(8)	(4)
Provision for uncollectible accounts	13	13
Other, net	4	10
Net change in:		
Accounts receivable and accrued utility revenues	(12)	(20)
Inventories	(18)	4
Deferred fuel and power costs, net of changes in unsettled derivatives	(19)	17
Accounts payable	9	—
Prepaid income taxes	(6)	6
Derivative instruments collateral received	14	—
Other current assets	(7)	4
Other current liabilities	8	(15)
Net cash provided by operating activities	276	279
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property, plant and equipment	(392)	(339)
Net costs of property, plant and equipment disposals	(8)	(8)
Net cash used by investing activities	(400)	(347)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(35)	(50)
Decrease in short-term borrowings	(11)	(25)
Issuances of long-term debt, net of issuance costs	174	149
Repayments of long-term debt	(8)	(8)
Net cash provided by financing activities	120	66
Cash, cash equivalents and restricted cash decrease	$ (4)	$ (2)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash, cash equivalents and restricted cash at end of year	$ 1	$ 5
Cash, cash equivalents and restricted cash at beginning of year	5	7
Cash, cash equivalents and restricted cash decrease	$ (4)	$ (2)
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 52	$ 49
Income taxes	$ 17	$ 9

See accompanying Notes to Consolidated Financial Statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(Millions of dollars)

	Year Ended September 30,	
	2021	2020
Common stock, without par value		
Balance, beginning of year	$ 60	$ 60
Balance, end of year	$ 60	$ 60
Retained earnings		
Balance, beginning of year	$ 780	694
Net income	146	136
Cash dividends — Common Stock	(35)	(50)
Balance, end of year	$ 891	$ 780
Additional paid-in capital		
Balance, beginning of year	$ 474	474
Balance, end of year	$ 474	$ 474
Accumulated other comprehensive income (loss)		
Balance, beginning of year	$ (33)	$ (34)
Net losses on derivative instruments	—	(2)
Reclassifications of net losses on derivative instruments	6	4
Benefit plans, principally actuarial gains (losses)	4	(2)
Reclassifications of benefit plans actuarial losses and net prior service benefits	1	1
Balance, end of year	$ (22)	$ (33)
Total UGI Utilities, Inc. stockholder's equity	$ 1,403	$ 1,281

See accompanying Notes to Consolidated Financial Statements.

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Note 1- Nature of Operations

UGI Utilities directly owns and operates Gas Utility, a natural gas distribution utility business in eastern and central Pennsylvania and in a portion of one Maryland county. 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

Basis of Presentation

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

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

Principles of Consolidation

The consolidated financial statements include the accounts of UGI Utilities and its subsidiaries. We eliminate intercompany accounts and transactions when we consolidate.

Effects of Regulation

UGI Utilities accounts for the financial effects of regulation in accordance with ASC 980. In accordance with this guidance, incurred costs that would otherwise be charged to expense are capitalized and recorded as regulatory assets when it is probable that the incurred costs will be recovered through rates in the future. Similarly, we recognize regulatory liabilities when it is probable that regulators will require customer refunds through future rates or when revenue is collected from customers for expenditures that have not yet been incurred. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to that item will be recovered or refunded within a year of the balance sheet date. Generally, regulatory assets and regulatory liabilities are amortized into expense and income over the periods authorized by the respective regulatory body. For additional information regarding the effects of rate regulation on our utility operations, see Note 5.

Fair Value Measurements

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

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

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

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

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

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

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

Derivative Instruments

Derivative instruments are reported on the Consolidated Balance Sheets at their fair values, unless the NPNS exception is elected. The accounting for changes in fair value depends upon the purpose of the derivative instrument, 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 or 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 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 12.

Revenue Recognition

In accordance with ASC 606, the Company recognizes revenue when control of promised goods or services is transferred to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. Certain revenues such as revenue from leases, financial instruments and alternative revenue programs are not within the scope of ASC 606 because they are not from contracts with customers. Such revenues, if any, are accounted for in accordance with other GAAP. Revenue-related taxes collected on behalf of customers and remitted to taxing authorities, principally sales and use taxes, are not included in revenues. Electric Utility's gross receipts taxes are presented on a gross basis. The Company has elected to use the practical expedient to expense the costs to obtain contracts when incurred as such amounts are generally not material. See Note 4 for additional disclosures regarding the Company's revenue from contracts with customers.

Accounts Receivable

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

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 Consolidated Balance Sheets.

Income Taxes

We record deferred income taxes in the Consolidated Statements of Income resulting from the use of accelerated tax depreciation methods based upon amounts recognized for ratemaking purposes. We also record a deferred income tax liability for tax benefits, principally the result of accelerated tax depreciation for state income tax purposes, that are flowed through to ratepayers when temporary differences originate and record a regulatory income tax asset for the probable increase in future revenues that will result when the temporary differences reverse.

We amortize deferred investment tax credits related to plant additions over the service lives of the related property. We reduce our deferred income tax liability for the future tax benefits that will occur when the deferred investment tax credits, which are not taxable, are amortized. We also reduce the regulatory income tax asset for the probable reduction in future revenues that will result when such deferred investment tax credits amortize.

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return including giving effect to intercompany transactions. The result of this allocation is consistent with income taxes calculated on a separate return basis. We record interest on tax deficiencies and income tax penalties, if any, in "Income tax expense" on the Consolidated Statements of Income. Interest income or expense recognized in Income tax expense on the Consolidated Statements of Income was not material for all periods presented.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash on hand, cash in banks and highly liquid investments with maturities of three months or less when purchased. Restricted cash principally represents those cash balances in our commodity futures brokerage accounts that are restricted from withdrawal.

Inventories

Our inventories are stated at the lower of cost or net realizable value. We determine cost using an average cost method for all of our inventory.

Property, Plant and Equipment and Related Depreciation

We record property, plant and equipment at the lower of original cost or fair value if impaired. Capitalized costs include labor, materials and other direct and indirect costs, and AFUDC. The amounts assigned to property, plant and equipment of acquired businesses are based upon estimated fair value at date of acquisition. When we retire depreciable utility plant and equipment, we charge the original cost to accumulated depreciation for financial accounting purposes. Costs incurred to retire utility plant and equipment, net of salvage, are recorded in regulatory assets and amortized over five years, consistent with prior ratemaking treatment (See Note 5).

We record depreciation expense for plant and equipment on a straight-line basis based upon projected service lives of the various classes of depreciable property. The estimated useful lives of the classes of depreciable property are reviewed by a third party and adjusted, if necessary, as part of periodic service life studies required by the PAPUC.

We include in property, plant and equipment costs associated with computer software we develop or obtain for use in our business. IT costs associated with major system installations, conversions and improvements, such as software training, data conversion, business process reengineering costs, preliminary project stage costs and cloud computing are deferred as a regulatory asset and included as a component of property, plant and equipment. As of September 30, 2021, such costs included within property, plant and equipment and not yet requested in a rate proceeding were $4. As of September 30, 2020, such costs were not material. We amortize computer software and related IT system installation costs on a straight-line basis over expected periods of benefit not exceeding 15 years once the installed software is ready for its intended use.

We classify amortization of computer software costs and IT regulatory assets included in property, plant and equipment as "Depreciation" in the Consolidated Statements of Income. No depreciation expense is included in cost of sales in the Consolidated Statements of Income.

Goodwill

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

From time to time, we may assess qualitative factors to determine whether it is more likely than not that the fair value of such reporting unit is less than its carrying amount. From time to time, we may bypass the qualitative assessment and perform the quantitative assessment by comparing the fair values of the reporting units with their carrying amounts, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to such excess but not to exceed the total amount of the goodwill of the reporting unit.

No provisions for goodwill impairments were recorded during Fiscal 2021 and Fiscal 2020.

Impairment of Long-Lived Assets

Impairment testing for long-lived assets (or an asset group) is required when circumstances indicate that such assets may be impaired. If it is determined that a triggering event has occurred, we perform a recoverability test based upon estimated undiscounted cash flow projections expected to be realized over the remaining useful life of the long-lived asset or asset group. If the undiscounted cash flows used in the recoverability test are less than the long-lived asset's carrying amount, we determine its fair value. If the fair value is determined to be less than its carrying amount, the long-lived asset is reduced to its estimated fair value and an impairment loss is recognized in an amount equal to such shortfall. When determining whether a long-lived asset has been impaired, management groups assets at the lowest level that has identifiable cash flows. No provisions for impairments of long-lived assets were recorded during Fiscal 2021 or Fiscal 2020.

Environmental Matters

We are subject to environmental laws and regulations intended to mitigate or remove the effects of past operations and improve or maintain the quality of the environment. These laws and regulations require the removal or remedy of the effect on the environment of the disposal or release of certain specified hazardous substances at current or former operating sites.

Environmental reserves are accrued when assessments indicate that it is probable that a liability has been incurred and an amount can be reasonably estimated. Amounts recorded as environmental liabilities on the Consolidated Balance Sheets represent our best estimate of costs expected to be incurred or, if no best estimate can be made, the minimum liability associated with a range of expected environmental investigation and remediation costs. Our estimated liability for environmental contamination is reduced to reflect anticipated participation of other responsible parties but is not reduced for possible recovery from insurance carriers. Under GAAP, if the amount and timing of cash payments associated with environmental investigation and cleanup are reliably determinable, such liabilities are discounted to reflect the time value of money. We intend to pursue recovery of incurred costs through all appropriate means, including regulatory relief. We receive ratemaking recognition of environmental investigation and remediation costs associated with in-state environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. For further information, see Note 10.

Employee Retirement Plans

We use a market-related value of plan assets and an expected long-term rate of return to determine the expected return on assets of our pension and other postretirement plans. The market-related value of plan assets, other than equity investments, is based upon fair values. The market-related value of equity investments is calculated by rolling forward the prior-year's market-related value with contributions, disbursements and the expected return on plan assets. One third of the difference between the expected and the actual value is then added to or subtracted from the expected value to determine the new market-related value (see Note 9).

Subsequent Events

Management has evaluated the impact of subsequent events through December 15, 2021, the date these consolidated financial statements were issued and the effects, if any, of such evaluation have been reflected in the consolidated financial statements and related disclosures.

Note 3- Accounting Changes

New Accounting Standard Adopted in Fiscal 2021

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

New Accounting Standard Adopted Effective October 1, 2021

Income Taxes. In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This ASU simplifies the accounting for income taxes by eliminating certain exceptions within the existing guidance for recognizing deferred taxes for equity method investments, performing intraperiod allocations and calculating income taxes in interim periods. Further, this ASU clarifies existing guidance related to, among other things, recognizing deferred taxes for goodwill and allocated taxes to members of a consolidated group. Effective October 1, 2021, the Company adopted this ASU, as updated, using a prospective approach. 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. The Company generally has the right to consideration from a customer in an amount that corresponds directly with the value to the customer for our performance completed to date. As such, we have elected to recognize revenue in the amount to which we have a right to invoice except in the case of certain large delivery service customers for which we recognize revenue on a straight-line basis over the term of the contract, consistent with when the performance obligations are satisfied by the Company.

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

UGI Utilities supplies natural gas and electricity and provides distribution services of natural gas and electricity to residential, commercial, and industrial customers who are generally billed at standard regulated tariff rates approved by the PAPUC through the ratemaking process. Tariff rates include a component that provides for a reasonable opportunity to recover operating costs and expenses and to earn a return on net investment, and a component that provides for the recovery, subject to reasonableness reviews, of PGC and DS costs.

Customers may choose to purchase their natural gas and electricity from Gas Utility or Electric Utility, or, alternatively, may contract separately with alternate suppliers. Accordingly, our contracts with customers comprise two promised goods or services: (1) delivery service of natural gas and electricity through the Company's utility distribution systems and (2) the natural gas or electricity commodity itself for those customers who choose to purchase the natural gas or electricity directly from the Company. Revenue is not recorded for the sale of natural gas or electricity to customers who have contracted separately with alternate suppliers. For those customers who choose to purchase their natural gas or electricity from the Company, the performance obligation includes both the supply of the commodity and the delivery service.

The terms of our core market customer contracts are generally considered day-to-day as customers can discontinue service at any time without penalty. Performance obligations are generally satisfied over time as the natural gas or electricity is delivered to customers, at which point the customers simultaneously receive and consume the benefits provided by the delivery service and, when applicable, the commodity. Amounts are billed to customers based upon the reading of a customer's meter which occurs on a cycle basis throughout each reporting period. An unbilled amount is recorded at the end of each reporting period based upon estimated amounts of natural gas or electricity delivered to customers since the date of the last meter reading. These unbilled estimates consider various factors such as historical customer usage patterns, customer rates and weather.

UGI Utilities has certain fixed-term contracts with large commercial and industrial customers to provide natural gas delivery services at contracted rates and at volumes generally based on the customer's needs. The performance obligation to provide the contracted delivery service for these large commercial and industrial customers is satisfied over time and revenue is generally recognized on a straight-line basis.

UGI Utilities makes off-system sales whereby natural gas delivered to our system in excess of amounts needed to fulfill our distribution system needs is sold to other customers, primarily other distributors of natural gas, based on an agreed-upon price and volume between the Company and the counterparty. Gas Utility also sells excess capacity whereby interstate pipeline capacity in excess of amounts needed to meet our customer obligations is sold to other distributors of natural gas based upon an agreed-upon rate. Off-system sales and capacity releases are generally entered into one month at a time and comprise the sale of a specific volume of gas or pipeline capacity at a specific delivery point or points over a specific time. As such, performance obligations associated with off-system sales and capacity release customers are satisfied, and associated revenue is recorded, when the agreed upon volume of natural gas is delivered or capacity is provided, and title is transferred, in accordance with the contract terms.

Electric Utility provides transmission services to PJM by allowing PJM to access Electric Utility's electricity transmission facilities. In exchange for providing access, PJM pays Electric Utility consideration determined by a formula-based rate approved by FERC. The formula-based rate, which is updated annually, allows recovery of costs incurred to provide transmissions services and return on transmission-related net investment. We recognize revenue over time as we provide transmission service.

Other revenues represent revenues from other ancillary services provided to customers and are generally recorded as the service is provided to customers.

(Millions of dollars, except where indicated otherwise)

The following table presents our disaggregated revenues by reportable segment during Fiscal 2021 and Fiscal 2020:

	2021	2020
Revenues from contracts with customers:		
Core Market:		
Residential	$ 564	$ 563
Commercial & industrial	216	215
Large delivery service	147	142
Off-system sales and capacity releases	113	93
Other	22	16
Total revenues from contracts with customers	1,062	1,029
Other revenues (a)	8	1
Total revenues	$ 1,070	$ 1,030

(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 at September 30, 2021 and 2020. All of our receivables are unconditional rights to consideration and are included in "Accounts receivable" and "Accrued utility revenues" on the 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 $10 and $8 at September 30, 2021 and September 30, 2020, respectively, and are included in "Other current liabilities" and "Other noncurrent liabilities" on the Consolidated Balance Sheets.

Note 5- Regulatory Assets and Liabilities and Regulatory Matters

The following regulatory assets and liabilities are included in our Consolidated Balance Sheets at September 30:

	2021	2020
Regulatory assets (a):		
Income taxes recoverable	$ 133	$ 124
Underfunded pension and postretirement plans	108	175
Environmental costs	58	61
Removal costs, net	24	26
Other	22	11
Total regulatory assets	$ 345	$ 397
Regulatory liabilities:		
Postretirement benefit overcollections	$ 13	$ 13
Deferred fuel and power refunds	36	29
State income tax benefits — distribution system repairs	32	28
PAPUC Temporary Rates Order	—	7
Excess federal deferred income taxes	267	274
Other	4	2
Total regulatory liabilities	$ 352	$ 353

(a) Current regulatory assets are recorded in "Other current assets" on the Consolidated Balance Sheets.

Other than removal costs, UGI Utilities currently does not recover a rate of return on the regulatory assets included in the table above.

Income taxes recoverable. This regulatory asset is the result of recording deferred tax liabilities pertaining to temporary tax differences principally as a result of the pass through to ratepayers of the tax benefit on accelerated tax depreciation for state income tax purposes, and the flow through of accelerated tax depreciation for federal income tax purposes for certain years prior to 1981. These deferred taxes have been reduced by deferred tax assets pertaining to utility deferred investment tax credits. UGI Utilities has recorded regulatory income tax assets related to these deferred tax liabilities representing future revenues recoverable through the ratemaking process over the average remaining depreciable lives of the associated property ranging from 1 to approximately 65 years.

Underfunded pension and other postretirement plans. This regulatory asset represents the portion of net actuarial losses and prior service costs (credits) associated with pension and other postretirement benefits which are probable of being recovered through future rates based upon established regulatory practices. These regulatory assets are adjusted annually or more frequently under certain circumstances when the funded status of the plans is remeasured in accordance with GAAP. These costs are amortized over the average remaining future service lives of plan participants.

Environmental costs. Environmental costs principally represent estimated probable future environmental remediation and investigation costs that Gas Utility expects to incur, primarily at MGP sites in Pennsylvania, in conjunction with a remediation COA with the PADEP. Pursuant to base rate orders, Gas Utility receives ratemaking recognition of its estimated environmental investigation and remediation costs associated with its environmental sites. This ratemaking recognition balances the accumulated difference between historical costs and rate recoveries with an estimate of future costs associated with the sites. The period over which Gas Utility expects to recover these costs will depend upon future remediation activity. For additional information on environmental costs, see Note 10.

Removal costs, net. This regulatory asset represents costs incurred, net of salvage, associated with the retirement of depreciable utility plant. As required by PAPUC ratemaking, removal costs include actual costs incurred associated with asset retirement obligations. Consistent with prior ratemaking treatment, UGI Utilities expects to recover these costs over five years.

Postretirement benefit overcollections. This regulatory liability represents the difference between amounts recovered through rates by Gas Utility and Electric Utility and actual costs incurred in accordance with accounting for postretirement benefits. With respect to Gas Utility, postretirement benefit overcollections are generally being refunded to customers over a ten-year period beginning October 19, 2016. With respect to Electric Utility, the overcollections are being refunded to ratepayers over a 20-year period effective October 27, 2018.

Deferred fuel and power refunds. Gas Utility's and Electric Utility's tariffs contain clauses that permit recovery of all prudently incurred purchased gas and power costs through the application of PGC rates in the case of Gas Utility and DS tariffs in the case of Electric Utility. 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.

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 September 30, 2021 and 2020, were $35 and $8, respectively.

State income tax benefits — distribution system repairs. This regulatory liability represents Pennsylvania state income tax benefits, net of federal benefit, resulting from the deduction for income tax purposes of repair and maintenance costs associated with Gas Utility or Electric Utility assets that are capitalized for regulatory and GAAP reporting. The tax benefits associated with these repair and maintenance deductions will be reflected as a reduction to income tax expense over the remaining tax lives of the related book assets.

PAPUC Temporary Rates Order. On May 17, 2018, the PAPUC ordered each regulated utility currently not in a general base rate case proceeding, including Gas Utility, to reduce their rates to credit customers any tax savings as a result of the TCJA through the establishment of a negative surcharge. These negative surcharges applied to bills rendered on or after July 1, 2018 and remained in effect until October 11, 2019, the effective date of Gas Utility's new base rates, subject to a final reconciliation of any over- or under-crediting of the tax savings. The remaining regulatory liability was returned to customers through an additional temporary negative surcharge from January 1, 2021 through September 8, 2021.

In its May 17, 2018 Order, the PAPUC also required Pennsylvania utilities to establish a regulatory liability for tax benefits that accrued during the period January 1, 2018 through June 30, 2018, resulting from the reduced federal tax rate. The rate treatment of this regulatory liability was addressed in Gas Utility's base rate proceeding filed January 28, 2019 (see "Base Rate Filings" below for further information).

For Pennsylvania utilities that were in a general base rate proceeding, including Electric Utility, no negative surcharge applied. The tax benefits that accrued during the period January 1, 2018 through October 26, 2018, the date before Electric Utility's base rate case became effective were refunded to Electric Utility ratepayers through a one-time bill credit.

Excess federal deferred income taxes. This regulatory liability is the result of remeasuring UGI Utilities' federal deferred income tax liabilities on utility plant due to the enactment of the TCJA on December 22, 2017. In order for our utility assets to continue to be eligible for accelerated tax depreciation, current law requires that excess federal deferred income taxes resulting from the remeasurement be amortized no more rapidly than over the remaining lives of the assets that gave rise to the excess federal deferred income taxes, ranging from 1 year to approximately 65 years. This regulatory liability has been increased to reflect the tax benefit generated by the amortization of the excess deferred federal income taxes and is being amortized and credited to tax expense.

Other. Other regulatory assets and liabilities comprise a number of deferred items including, among others, unrecovered revenues from alternative revenue programs, certain incremental expenses attributable to the ongoing COVID-19 pandemic, certain information technology costs, energy efficiency conservation costs and rate case expenses.

Other Regulatory Matters

Base Rate Filings. 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, 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 permits 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, Gas Utility was authorized to implement a DSIC once Gas Utility total property, plant and equipment less accumulated depreciation reaches $2,875. This threshold was achieved in December 2020 and Gas Utility implemented a DSIC effective April 1, 2021. The PAPUC's final Order also includes 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 permits 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 Gas Utility base rate case, to be recovered and amortized over a 10-year period. In accordance with the terms of the Joint Petition, Gas Utility is not be permitted to file a rate case prior to January 1, 2022.

On January 28, 2019, Gas Utility filed a rate request with the PAPUC to increase the base operating revenues for residential, commercial, and industrial customers throughout its Pennsylvania service territory by an aggregate $71. On October 4, 2019, the PAPUC issued a final Order approving a settlement that permitted Gas Utility, effective October 11, 2019, to increase its base distribution revenues by $30 under a single consolidated tariff, approved a plan for uniform class rates, and permitted Gas Utility to extend its Energy Efficiency and Conservation and Growth Extension Tariff programs by an additional term of five years. The PAPUC's final Order approved a negative surcharge, to return to customers $24 of tax benefits experienced by Gas Utility over the period January 1, 2018 to June 30, 2018, plus applicable interest, in accordance with the May 17, 2018 PAPUC Order, which became effective for a twelve-month period beginning on October 11, 2019, the effective date of Gas Utility's new base rates, subject to final reconciliation of any over- or under-crediting of the tax savings.

(Millions of dollars, except where indicated otherwise)

Note 6- Property, Plant and Equipment

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

	2021	2020
Distribution	$ 3,943	$ 3,630
Transmission	110	111
Computer equipment and software	224	208
General and other	261	217
Construction in process	82	99
Total property, plant and equipment	$ 4,620	$ 4,265

Note 7- Debt

Significant Financing Activities

On May 7, 2021, UGI Utilities entered into a Note Purchase Agreement with a consortium of lenders. Pursuant to the Note Purchase Agreement, UGI Utilities issued $100 aggregate principal amount of 1.59% Senior Notes due June 15, 2026 and $75 aggregate principal amount of 1.64% Senior Notes due September 15, 2026 in June and September 2021, respectively. These senior notes are unsecured and will rank equally with UGI Utilities' existing outstanding senior debt. The net proceeds from these issuances were used to reduce short-term borrowings and for general corporate purposes.

Credit Facilities

Information about the UGI Utilities Credit Agreement, which is scheduled to expire in June 2024 and includes a $100 sublimit for letters of credit, is presented in the following table. Borrowings on the UGI Utilities Credit Agreement bear interest at a rate indexed to a short-term market rate. Borrowings outstanding under these agreements are reflected as "Short-term borrowings" on the Consolidated Balance Sheets.

	Total Capacity	Borrowings Outstanding	Available Borrowing Capacity	Weighted Average Interest Rate - End of Year
September 30, 2021	$ 350	$ 130	$ 220	1.35 %
September 30, 2020	$ 350	$ 141	$ 209	1.12 %

(Millions of dollars, except where indicated otherwise)

Long-term Debt

Long-term debt comprises the following at September 30:

	2021	2020
Senior Notes:		
4.12%, due September 2046	$ 200	$ 200
4.98%, due March 2044	175	175
3.12%, due April 2050	150	150
4.55%, due February 2049	150	150
4.12%, due October 2046	100	100
6.21%, due September 2036	100	100
2.95%, due June 2026	100	100
1.59%, due June 2026	100	—
1.64%, due September 2026	75	—
Medium-Term Notes:		
6.13%, due October 2034	20	20
6.50%, due August 2033	20	20
Variable-rate term loan, due through October 2022 (a)	102	108
Other	1	3
Total long-term debt	1,293	1,126
Less: unamortized debt issuance costs	(6)	(5)
Less: current maturities	(7)	(8)
Total long-term debt due after one year	$ 1,280	$ 1,113

(a) The effective interest rates on this term loan was 4.00% at both September 30, 2021 and 2020. We have entered into a pay-fixed, receive variable interest rate swap to effectively fix the underlying variable rate on these borrowings. Term loan borrowings are due in equal quarterly installments of $2, with the balance of the principal being due in full at maturity.

Scheduled principal repayments of long-term debt for each of the next five fiscal years ending September 30 include: $7 due in Fiscal 2022; $96 due in Fiscal 2023. There are no scheduled principal repayments due in Fiscal 2024, Fiscal 2025 and Fiscal 2026.

Restrictive Covenants. Our long-term debt and the UGI Utilities Credit Agreement generally contain customary covenants and default provisions which may include, among other things, restrictions on additional indebtedness and also restrict liens, guarantees, investments, loans and advances, payments, mergers, consolidations, asset transfers, transactions with affiliates, sales of assets, acquisitions and other transactions. These agreements contain standard provisions which require compliance with certain financial ratios. UGI Utilities was in compliance with its debt covenants as of September 30, 2021.

(Millions of dollars, except where indicated otherwise)

Note 8- Income Taxes

The provisions for income taxes consist of the following:

	2021	2020
Current expense:		
Federal	$ 9	$ 15
State	—	1
Total current expense	9	16
Deferred expense:		
Federal	25	17
State	9	6
Total deferred expense	34	23
Total income tax expense	$ 43	$ 39

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

	2021	2020
U.S. federal statutory tax rate	21.0 %	21.0 %
Difference in tax rate due to:		
State income taxes, net of federal benefit	3.9	3.0
Effect of plant basis differences, including amortization of EDFIT	(1.9)	(1.5)
Other, net	(0.2)	(0.4)
Effective tax rate	22.8 %	22.1 %

Pennsylvania utility ratemaking practice permits the flow through to ratepayers of state tax benefits resulting from accelerated tax depreciation. For Fiscal 2021 and Fiscal 2020, the beneficial effects of state tax flow through of accelerated depreciation reduced tax expense by $9 and $11, respectively.

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

	2021	2020
Excess book basis over tax basis of property, plant and equipment	$ 510	$ 485
Goodwill	47	44
Regulatory assets	93	107
Other	3	2
Gross deferred tax liabilities	653	638
Pension plan liabilities	(26)	(48)
Regulatory liabilities	(93)	(94)
Environmental liabilities	(15)	(16)
Other	(9)	(18)
Gross deferred tax assets	(143)	(176)
Net deferred tax liabilities	$ 510	$ 462

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

We file income tax returns in various other states but are subject to state income tax principally in Pennsylvania. Pennsylvania income tax returns are generally subject to examination for a period of three years after the filing of the respective returns.

At September 30, 2021 and 2020, unrecognized income tax benefits were not material.

(Millions of dollars, except where indicated otherwise)

Note 9- Employee Retirement Plans

Defined Benefit Pension and Other Postretirement Plans. We sponsor a defined benefit pension plan for employees hired prior to January 1, 2009, of UGI, UGI Utilities and certain of UGI's other domestic wholly owned subsidiaries. Pension Plan benefits are based on years of service, age and employee compensation. We also provide postretirement health care benefits to certain retirees and postretirement life insurance benefits to certain active and retired employees. Benefit obligations and benefit costs associated with our other postretirement benefit plans are not material.

The following table provides a reconciliation of the PBOs, the fair values of assets and the funded status associated with our pension plan as of September 30, 2021 and 2020. ABO is the present value of benefits earned to date with benefits based upon current compensation levels. PBO is ABO increased to reflect future compensation.

	Pension Benefits	
	2021	2020
Change in benefit obligations:		
Benefit obligations — beginning of year	$ 736	$ 705
Service cost	9	9
Interest cost	21	23
Actuarial (gain) loss	(23)	27
Benefits paid	(29)	(28)
Benefit obligations — end of year	$ 714	$ 736
Change in plan assets:		
Fair value of plan assets — beginning of year	$ 566	$ 529
Actual gain on assets	77	52
Employer contributions	12	13
Benefits paid	(29)	(28)
Fair value of plan assets — end of year	$ 626	$ 566
Funded status of the plans — end of year	$ (88)	$ (170)
Liabilities recorded in the balance sheet:		
Unfunded liabilities – included in pension benefit obligations	$ (88)	$ (170)
Net amount recognized	$ (88)	$ (170)
Amounts recorded in stockholder's equity (pre-tax):		
Net actuarial loss	$ 13	$ 21
Total	$ 13	$ 21
Amounts recorded in regulatory assets and liabilities (pre-tax):		
Net actuarial loss	108	174
Total	$ 108	$ 174

In Fiscal 2021 and Fiscal 2020, the change in the pension plan's PBO due to actuarial gains and losses is principally the result of changes in discount rates. In Fiscal 2022, the estimated amount that will be amortized from stockholder's equity and regulatory assets into net periodic benefit costs is approximately $7, the majority of which represents net actuarial losses, primarily associated with the Company's Pension Plan.

Actuarial assumptions are described below. The discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the Company's Pension Plan. The discount rate was then developed as the single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The expected rate of return on assets assumption is based on current and expected asset allocations as well as historical and expected returns on various categories of plan assets (as further described below).

(Millions of dollars, except where indicated otherwise)

	Pension Benefits	
Weighted-average assumptions:	2021	2020
Discount rate – benefit obligations	3.10 %	2.90 %
Discount rate – benefit cost	2.90 %	3.30 %
Expected return on plan assets	7.10 %	7.20 %
Rate of increase in salary levels	3.25 %	3.25 %

The ABOs for the Pension Plan were $667 and $687 as of September 30, 2021 and 2020, respectively. Included in the end of year Pension Plan PBOs above are $68 at September 30, 2021, and $73 at September 30, 2020, relating to employees of UGI and certain of its other subsidiaries.

The service cost component of our pension and other postretirement plans, net of amounts capitalized, are reflected in "Operating and administrative expenses" on the Consolidated Statements of Income. The non-service cost components, net of amounts capitalized as a regulatory asset, are reflected in "Pension and other postretirement plans non-service income" on the Consolidated Statements of Income. Other postretirement benefit cost was not material in Fiscal 2021 and Fiscal 2020. Net periodic pension costs include the following components:

	Pension Benefits	
	2021	2020
Service cost	$ 9	$ 8
Interest cost	21	21
Expected return on assets	(39)	(34)
Amortization of:		
Actuarial loss	14	13
Net benefit cost	$ 5	$ 8

It is our general policy to fund amounts for the Pension Plan benefits equal to at least the minimum contribution required set forth in applicable employee benefit laws. From time to time we may, at our discretion, contribute additional amounts. During Fiscal 2021 and Fiscal 2020, we made contributions to the Pension Plan of $12 and $13, respectively. The minimum required contributions in Fiscal 2022 are not expected to be material.

The Company has established a VEBA trust to pay retiree health care and life insurance benefits by depositing into the VEBA the annual amount of postretirement benefits costs, if any. We do not expect to be required to make any contributions to the VEBA during Fiscal 2022.

Expected payments over the next 10 years for postretirement benefits other than pension benefits are not material. Expected payments for pension benefits are as follows:

	Pension Benefits
Fiscal 2022	$ 31
Fiscal 2023	$ 33
Fiscal 2024	$ 34
Fiscal 2025	$ 35
Fiscal 2026	$ 36
Fiscal 2026 - 2030	$ 192

We also sponsor unfunded and non-qualified supplemental executive defined benefit retirement income plans. At September 30, 2021 and 2020, the PBOs of these plans were $10 and $9, respectively. Expenses recorded for these plans were not material in Fiscal 2021 and Fiscal 2020.

Pension Plan Assets. The assets of the Pension Plan are held in trust. The investment policies and asset allocation strategies for the assets in this trust are determined by an investment committee comprising officers of UGI and UGI Utilities. In Fiscal 2020, the Company transitioned its investment strategy to minimize projected funded status volatility by more closely aligning the duration of the U.S. Pension Plan's fixed income portfolio to the duration of its liabilities. The proportion of plan assets allocated to fixed income investments will increase as the funded status increases. To achieve the stated objective, beginning in October 2019, investments are made principally in common collective trust funds that consist of equity index investments, bond index investments and short-term investments, and, to a much less extent, UGI Common Stock. Previously, investments were made principally in publicly traded, diversified equity and fixed income index mutual funds and UGI Common Stock. Assets associated with the VEBA plans are excluded from the tables below as such assets are not material.

(Millions of dollars, except where indicated otherwise)

The targets, target ranges and actual allocations for the Pension Plan trust assets at September 30 are as follows:

	Actual		Target Asset Allocation		Permitted Range
	2021	2020	2021	2020	September 30, 2021
Equity investments:					
U.S. equities	25.5 %	26.5 %	29.0 %	29.0 %	24.0% –34. 0%
Non-U.S. equities	24.8 %	25.0 %	24.5 %	24.5 %	19.5% – 29.5%
Global equities (a)	12.7 %	12.3 %	11.5 %	11.5 %	6.5% – 16.5%
Total	63.0 %	63.8 %	65.0 %	65.0 %	60.0% – 70.0%
Fixed income funds & cash equivalents	37.0 %	36.2 %	35.0 %	35.0 %	30.0% – 40.0%
Total	100.0 %	100.0 %	100.0 %	100.0 %	

(a) Comprises investment funds that consist of a mix of U.S. and Non-U.S. equity securities.

Common collective trust funds in the Pension Plan primarily include investments in U.S., non-U.S. and global (a mix of U.S. and Non-U.S.) equities, fixed income and short-term investments. The fair values of common collective trust funds and cash equivalents are valued at NAV of units of the collective trusts. The NAVs, as provided by the trustee, are used as a practical expedient to estimate fair value based on the fair values of the underlying investments held by the funds less their liabilities. The fair values of the Pension Plan trust assets by asset class and level within the fair value hierarchy, as described in Note 2, as of September 30, 2021 and 2020 are as follows:

	2021	2020
Pension Plan:		
Domestic equity investments:		
UGI Corporation Common Stock	$ 35	$ 27
Total domestic equity investments (a)	35	27
Common collective trust funds:		
U.S. equity index investments	124	123
Non-U.S. equity index investments	155	141
Global equity index investments	80	70
Bond index investments	226	200
Cash equivalents	6	5
Total common collective trust funds (b)	591	539
Total	$ 626	$ 566

(a) Level 1 investments within the fair value hierarchy
(b) Assets measured at NAV and therefore excluded from the fair value hierarchy.

The expected long-term rates of return on Pension Plan trust assets have been developed using a best estimate of expected returns, volatilities and correlations for each asset class. The estimates are based on historical capital market performance data and future expectations provided by independent consultants. Future expectations are determined by using simulations that provide a wide range of scenarios of future market performance. The market conditions in these simulations consider the long-term relationships between equities and fixed income as well as current market conditions at the start of the simulation. The expected rate begins with a risk-free rate of return with other factors being added such as inflation, duration, credit spreads and equity risk premiums. The rates of return derived from this process are applied to our target asset allocation to develop a reasonable return assumption.

Defined Contribution Plan. We sponsor the Utilities Savings Plan. Generally, participants in the Utilities Savings Plan may contribute a portion of their compensation on a before-tax and after-tax basis. The Utilities Savings Plan provides for employer matching contributions. Those employees hired after December 31, 2008, who are not eligible to participate in the Pension Plan, receive employer matching contributions at a higher rate. The cost of benefits under the Utilities Savings Plan totaled $6 in Fiscal 2021 and $5 in Fiscal 2020. We also sponsor a nonqualified supplemental defined contribution executive retirement plan. This plan generally provides supplemental benefits to certain executives that would otherwise be provided under retirement plans but are prohibited due to limitations imposed by the Internal Revenue Code. Costs associated with this plan were not material in Fiscal 2021 and Fiscal 2020.

Note 10- 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.

Prior to October 1, 2020, UGI Utilities was subject to three COAs with the PADEP to address the remediation of specified former MGP sites in Pennsylvania and, in the case of one COA, the plugging of specified natural gas wells. Effective October 1, 2020, the three COAs were consolidated into one agreement that supersedes the existing agreements, and which is scheduled to terminate at the end of 2031. In accordance with the consolidated 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 consolidated COA is $5. The consolidated COA permits the transfer of the specified wells, with related costs counted towards the annual minimum expenditure. At September 30, 2021 and 2020, our aggregate estimated accrued liabilities for environmental investigation and remediation costs related to the current COA and the predecessor agreements totaled $50 and $53, 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 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 was material for all periods presented.

(Millions of dollars, except where indicated otherwise)

Note 11- 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 as described in Note 2:

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
September 30, 2021				
Derivative instruments:				
Assets:				
Commodity contracts	$ 58	$ —	$ —	$ 58
Liabilities:				
Commodity contracts	$ (23)	$ —	$ —	$ (23)
Interest rate contracts	$ —	$ (2)	$ —	$ (2)
September 30, 2020				
Derivative instruments:				
Assets:				
Commodity contracts	$ 7	$ —	$ —	$ 7
Liabilities:				
Interest rate contracts	$ —	(5)	$ —	$ (5)

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 12- 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

Gas Utility's 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 Gas Utility's annual PGC filings, 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 Gas Utility natural gas futures contracts and natural gas option contracts are recorded in regulatory assets or liabilities on the 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. At September 30, 2021 and 2020, 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. At September 30, 2021 and 2020, 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 fixes the underlying prevailing market interest rate on borrowings at 3.00% beginning September 30, 2019 through July 2022. We have designated this forward-starting 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.

At September 30, 2021 and 2020, we had no unsettled IRPAs. At September 30, 2021, the amount of 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 approximately $4.

Quantitative Disclosures Related to Derivative Instruments

The following table summarizes by derivative type the gross notional amounts related to open derivative contracts at September 30, 2021 and 2020 and the final settlement dates of the Company's open derivative contracts as of September 30, 2021, excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)	
			September 30,	
Type	Units	Settlements Extending Through	2021	2020
Commodity Price Risk:				
NYMEX natural gas futures and options contracts	Dekatherms	September 2022	20	22
Interest Rate Risk:				
Interest rate swaps	USD	July 2022	$ 102	$ 108

Derivative Instrument Credit Risk

Our commodity exchange-traded futures contracts generally require cash deposits in margin accounts. At September 30, 2021, we had received cash collateral from derivative instrument counterparties totaling $14.

Offsetting Derivative Assets and Liabilities

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

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

(Millions of dollars, except where indicated otherwise)

Fair Value of Derivative Instruments

The following table presents the Company's derivative assets and liabilities by type, as well as the effects of offsetting, if any, as of September 30:

	2021	2020
Derivative assets:		
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	$ 58	$ 7
Total derivative assets – gross	58	7
Gross amounts offset in the balance sheet	(23)	—
Cash collateral received	(14)	—
Total derivative assets – net	$ 21	$ 7
Derivative liabilities:		
Derivatives designated as hedging instruments:		
Interest rate contracts	$ (2)	$ (5)
Derivatives subject to PGC and DS mechanisms:		
Commodity contracts	(23)	—
Total derivative liabilities – gross	(25)	(5)
Gross amounts offset in the balance sheet	23	—
Total derivative liabilities – net (a)	$ (2)	$ (5)

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

Effects of Derivative Instruments

The following table provides information on the effects of derivative instruments designated as hedging instruments on the Consolidated Statements of Income and changes in AOCI for Fiscal 2021 and Fiscal 2020:

	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
	2021	2020	2021	2020	
Cash Flow Hedges:					
Interest rate contracts	$ —	$ (3)	$ (7)	$ (6)	Interest expense

The effects of derivative instruments not subject to ratemaking mechanisms on 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 13- Accumulated Other Comprehensive Income (Loss)

Other comprehensive income (loss) principally reflects losses on IRPAs and interest rate swaps qualifying as cash flow hedges and actuarial gains and losses on postretirement benefit plans, net of reclassifications to net income.

Changes in AOCI, net of tax, during Fiscal 2021 and Fiscal 2020 are as follows:

	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI - September 30, 2019	$ (13)	$ (21)	$ (34)
Reclassifications of benefit plans actuarial losses and net prior service benefits	1	—	1
Reclassifications of net losses on interest rate contracts	—	4	4
Net losses on interest rate contracts	—	(2)	(2)
Benefit plans, principally actuarial losses	(2)	—	(2)
AOCI - September 30, 2020	$ (14)	$ (19)	$ (33)
Reclassifications of benefit plans actuarial losses and net prior service benefits	1	—	1
Reclassifications of net losses on interest rate contracts	—	6	6
Benefit plans, principally actuarial gains	4	—	4
AOCI - September 30, 2021	$ (9)	$ (13)	$ (22)

Note 14- Other Operating Expense, Net

Other operating expense, net, comprises the following:

	2021	2020
Donations	$ (2)	$ (3)
Other, net	1	—
Total other operating expense, net	$ (1)	$ (3)

Note 15- Related Party Transactions

Income taxes. The Company joins with UGI and its subsidiaries in filing a consolidated federal income tax return. For further information on income taxes, see Notes 2 and 8.

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 both September 30, 2021 and 2020, natural gas volumes were 5.9 bcf.

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

(Millions of dollars, except where indicated otherwise)

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 Consolidated Statements of Income.

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 at September 30, 2021 and 2020 totaled $6 and $5, respectively. Such amounts reduce costs included in "Operating and administrative expenses" in the Consolidated Statements of Income.

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

	2021	2020	Classification on Consolidated Statements of Income
SCAA Activities:			
SCAA revenues	$ 2	$ 2	Revenues
Cost of SCAA supply purchases	$ 19	$ 12	Cost of sales - gas purchased power
Gas Supply and Delivery Service:			
Natural gas and pipeline capacity revenues	$ 62	$ 45	Revenues
Costs of gas supply and delivery services	$ 205	$ 167	Cost of sales - gas purchased power

	2021	2020	Classification on Consolidated Balance Sheets
SCAA storage inventories	$ 18	$ 10	Inventories
SCAA security deposits	$ 7	$ 8	Other current liabilities

Note 16- Impact of Global Pandemic

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