UGI UTILITIES, INC.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the three and nine months ended June 30, 2020 and 2019
(Unaudited)

UGI UTILITIES, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

UGI UTILITIES, INC. AND SUBSIDIARIES

GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this document are defined below:

UGI Utilities, Inc. and Related Entities

***Company* -** UGI Utilities or collectively UGI Utilities and its subsidiaries

***CPG* -** UGI Central Penn Gas, Inc., a wholly owned subsidiary of UGI Utilities prior to the Utility Merger

***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, comprising the natural gas utility businesses owned and operated by UGI Utilities and, prior to the Utility Merger, PNG and CPG

***PNG* -** UGI Penn Natural Gas, Inc., a wholly owned subsidiary of UGI Utilities prior to the Utility Merger

UGI - UGI Corporation, parent company of UGI Utilities

***UGI Central* -** The natural gas rate district of CPG subsequent to the Utility Merger

***UGI Gas* -** UGI Utilities' natural gas utility

***UGI North* -** The natural gas rate district of PNG subsequent to the Utility Merger

***UGI South* -** The natural gas rate district of UGI Gas subsequent to the Utility Merger

UGI Storage - UGI Storage Company, a wholly owned subsidiary of Energy Services and affiliate of UGI Utilities

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

Other Terms and Abbreviations

***2013 OICP* -** UGI Corporation 2013 Omnibus Incentive Compensation Plan

***3.12% Senior Notes* -** A private placement of $150 million principal amount of senior unsecured notes due April 2050, issued by UGI Utilities

***2019 Annual Report* -** UGI Utilities Annual Report for the fiscal year ended September 30, 2019

***ABO* -** Accumulated benefit obligations

***AFUDC* -** Allowance for funds used during construction

***AOCI* -** Accumulated other comprehensive income (loss)

***ASC* -** Accounting Standards Codification

***ASC 605* -** ASC 605, "Revenue Recognition"

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

***ASC 740* -** ASC 740, "Income Taxes"

ASC 840 - ASC 840, "Leases"

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

ASU - Accounting Standards Update

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

Bcf - Billions of cubic feet

BIE - Pennsylvania Public Utility Commission Bureau of Investigation and Enforcement

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 2019 - The fiscal year ended September 30, 2019

Fiscal 2020 - The fiscal year ending September 30, 2020

Fiscal 2021 - The fiscal year ending September 30, 2021

Fiscal 2022 - The fiscal year ending September 30, 2022

Fiscal 2023 - The fiscal year ending September 30, 2023

Fiscal 2024 - The fiscal year ending September 30, 2024

GAAP - U.S. generally accepted accounting principles

IRPA - Interest rate protection agreement

IT - Information technology

LIBOR - London Inter-bank Offered Rate

MDPSC - Maryland Public Service Commission

MGP - Manufactured gas plant

NAV - Net asset value

NOL - Net operating loss

NPNS - Normal purchase and normal sale

NTSB - National Transportation Safety Board

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, CPG, PNG 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

ROU - Right-of-use

SAR - Stock appreciation right

SCAA - Storage contract administrative agreement

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

TCJA - Tax Cuts and Jobs Act

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

TSR - Total Shareholder Return

UGI comparator group - The Russell Midcap Utility Index, excluding telecommunications companies

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

UGI Units - UGI Corporation stock options and grants of UGI Corporation stock-based equity instruments

UGI Utilities 2019 Credit Agreement - An unsecured revolving credit agreement entered into by UGI Utilities in June 2019 providing for borrowings up to $350 million, including a letter of credit subfacility of up to $100 million

USD - U.S. Dollar

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

Utilities Term Loan - A $125 million unsecured variable-rate term loan agreement entered into in September 2018 by UGI Utilities with a group of banks

Utility Merger - The merger, effective October 1, 2018, of CPG and PNG with and into UGI Utilities

VEBA - Voluntary Employees' Beneficiary Association

WHO - World Health Organization

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(Thousands of dollars)

	June 30, 2020	September 30, 2019	June 30, 2019
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,039	$ 984	$ 3,057
Restricted cash	2,545	5,902	4,255
Accounts receivable (less allowances for doubtful accounts of $16,600, $8,112 and $15,967, respectively)	100,954	70,554	94,543
Accrued utility revenues	13,661	14,602	14,575
Inventories	28,772	42,812	32,263
Regulatory assets	4,049	9,137	3,549
Derivative instruments	1,812	1,195	851
Prepaid expenses and other current assets	10,638	26,925	13,583
Total current assets	164,470	172,111	166,676
Property, plant and equipment, at cost (less accumulated depreciation of $1,189,761, $1,129,534 and $1,115,273, respectively)	2,951,110	2,808,593	2,709,194
Goodwill	182,145	182,145	182,145
Regulatory assets	394,546	386,495	297,128
Other assets	16,199	10,185	20,479
Total assets	$ 3,708,470	$ 3,559,529	$ 3,375,622
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	$ 8,294	$ 8,374	$ 8,494
Short-term borrowings	40,000	166,000	76,000
Accounts payable	55,079	82,467	51,868
Regulatory liabilities	39,904	39,819	51,777
Derivative instruments	988	3,500	3,080
Other current liabilities	118,605	102,018	113,615
Total current liabilities	262,870	402,178	304,834
Long-term debt	1,113,949	970,819	972,716
Deferred income taxes	467,179	426,977	421,855
Pension and postretirement benefit obligations	162,217	176,617	71,946
Regulatory liabilities	317,676	318,966	324,393
Other noncurrent liabilities	79,456	70,114	66,855
Total liabilities	2,403,347	2,365,671	2,162,599
Commitments and contingencies (Note 9)			
Common stockholder's equity:			
Common Stock	60,259	60,259	60,259
Additional paid-in capital	473,580	473,580	473,580
Retained earnings	804,236	694,481	705,724
Accumulated other comprehensive loss	(32,952)	(34,462)	(26,540)
Total common stockholder's equity	1,305,123	1,193,858	1,213,023
Total liabilities and stockholder's equity	$ 3,708,470	$ 3,559,529	$ 3,375,622

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)
(Thousands of dollars)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Revenues	$ 179,150	$ 163,893	$ 901,008	$ 916,210
Costs and expenses:				
Cost of sales — gas and purchased power (excluding depreciation shown below)	67,975	61,021	403,545	438,516
Operating and administrative expenses	58,630	56,525	177,581	179,397
Operating and administrative expenses — related parties	4,025	2,861	10,897	11,571
Depreciation	26,629	23,141	78,108	67,956
Other operating expense, net	954	20	2,133	1,505
	158,213	143,568	672,264	698,945
Operating income	20,937	20,325	228,744	217,265
Pension and other postretirement plans non-service income (expense)	9	440	(234)	1,247
Interest expense	(13,848)	(12,325)	(40,888)	(36,294)
Income before income taxes	7,098	8,440	187,622	182,218
Income tax expense	(3,096)	(1,767)	(40,367)	(42,797)
Net income	$ 4,002	$ 6,673	$ 147,255	$ 139,421

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

(Thousands of dollars)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Net income	$ 4,002	$ 6,673	$147,255	$139,421
Other comprehensive income (loss):				
Net losses on derivative instruments (net of tax of $336, $486, $857, and $1,225, respectively)	(825)	(1,197)	(2,110)	(3,016)
Reclassifications of net losses on derivative instruments (net of tax of $(658), $(252), $(1,162), and $(755), respectively)	1,621	620	2,860	1,859
Reclassifications of benefit plan actuarial losses and net prior service benefits (net of tax of $(111), $(53), $(309), and $(161), respectively)	272	132	760	397
Other comprehensive income (loss)	1,068	(445)	1,510	(760)
Comprehensive income	$ 5,070	$ 6,228	$148,765	$138,661

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

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

	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 147,255	$ 139,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	78,108	67,956
Deferred income tax, net	20,928	10,455
Provision for uncollectible accounts	13,061	13,297
Other, net	2,305	2,799
Net change in:		
Accounts receivable and accrued utility revenues	(42,520)	(34,658)
Inventories	14,040	20,150
Deferred fuel and power costs, net of changes in unsettled derivatives	21,789	(19,311)
Accounts payable	(3,966)	(9,981)
Other current assets	15,400	61,210
Other current liabilities	(5,814)	3,399
Net cash provided by operating activities	260,586	254,737
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(240,379)	(267,403)
Net costs of property, plant and equipment disposals	(1,793)	(4,487)
Net cash used by investing activities	(242,172)	(271,890)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(37,500)	(15,000)
Decrease in short-term borrowings	(126,000)	(113,500)
Issuances of long-term debt, net of issuance costs	149,173	149,211
Repayments of long-term debt and finance leases	(6,389)	(7,018)
Other, net	—	(732)
Net cash (used) provided by financing activities	(20,716)	12,961
Cash, cash equivalents and restricted cash decrease	$ (2,302)	$ (4,192)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash, cash equivalents and restricted cash at end of period	$ 4,584	$ 7,312
Cash, cash equivalents and restricted cash at beginning of period	6,886	11,504
Cash, cash equivalents and restricted cash decrease	$ (2,302)	$ (4,192)

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER’S EQUITY
(unaudited)
(Thousands of dollars)

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Nine Months Ended June 30, 2020	Nine Months Ended June 30, 2019
Common stock, without par value				
Balance, beginning of period	$ 60,259	$ 60,259	$ 60,259	$ 60,259
Balance, end of period	$ 60,259	$ 60,259	$ 60,259	$ 60,259
Retained earnings				
Balance, beginning of period	$ 812,734	$ 704,051	$ 694,481	$ 579,778
Net income	4,002	6,673	147,255	139,421
Cash dividends — Common Stock	(12,500)	(5,000)	(37,500)	(15,000)
Cumulative effect of change in accounting principle - ASC 606	—	—	—	(3,926)
Reclassification of stranded income tax effects related to TCJA	—	—	—	5,451
Balance, end of period	$ 804,236	$ 705,724	$ 804,236	$ 705,724
Additional paid-in capital				
Balance, beginning of period	$ 473,580	$ 473,580	$ 473,580	$ 473,580
Balance, end of period	$ 473,580	$ 473,580	$ 473,580	$ 473,580
Accumulated other comprehensive income (loss)				
Balance, beginning of period	$ (34,020)	$ (26,095)	$ (34,462)	$ (20,329)
Reclassification of stranded income tax effects related to TCJA	—	—	—	(5,451)
Net losses on derivative instruments	(825)	(1,197)	(2,110)	(3,016)
Reclassifications of net losses on derivative instruments	1,621	620	2,860	1,859
Reclassifications of benefit plans actuarial losses and net prior service credits	272	132	760	397
Balance, end of period	$ (32,952)	$ (26,540)	$ (32,952)	$ (26,540)
Total UGI Utilities common stockholder's equity	$ 1,305,123	$ 1,213,023	$ 1,305,123	$ 1,213,023

See accompanying notes to condensed consolidated financial statements.

(Thousands of dollars, except where indicated otherwise)

Note 1 — Nature of Operations

UGI Utilities, a wholly owned subsidiary of UGI, 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. Prior to the Utility Merger on October 1, 2018, Gas Utility also conducted operations through PNG and CPG. UGI Utilities also owns and operates Electric Utility, an electric distribution utility located in northeastern Pennsylvania. Gas Utility is subject to regulation by the PAPUC and the FERC and, with respect to a small service territory in one Maryland county, the MDPSC. Electric Utility is subject to regulation by the PAPUC and the FERC.

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

Upon adoption, we recorded ROU assets and lease liabilities of $2,377 related to our operating leases. Our accounting for finance leases remained substantially unchanged. There were no cumulative effect adjustments made to opening retained earnings as of October 1, 2019. The adoption did not, and is not expected to, have a significant impact on our condensed consolidated statements of income or cash flows. See Note 7 for additional disclosures regarding our leases.

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 Company's Condensed Consolidated Balance Sheets to the corresponding amounts reported on the Company's Condensed Consolidated Statements of Cash Flows.

	Cash, Cash Equivalents and Restricted Cash			
	June 30, 2020	June 30, 2019	September 30, 2019	September 30, 2018
Cash and cash equivalents	$ 2,039	$ 3,057	$ 984	$ 10,314
Restricted cash	2,545	4,255	5,902	1,190
Cash, cash equivalents and restricted cash	$ 4,584	$ 7,312	$ 6,886	$ 11,504

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, by negotiating mutually acceptable payment terms that comply with PAPUC regulations. Under PAPUC regulations, a utility company generally must continue to serve a customer who cannot pay an account balance in full if the customer (i) pays a reasonable portion of the account balance; (ii) agrees to pay the balance in installments; and (iii) agrees to pay future bills within thirty days until the amount subject to the Payment Arrangement is paid in full. Failure to make payments on a Payment Arrangement results in the full amount of the receivable under the Payment Arrangement being due. These amounts due under Payment Arrangements are considered part of our regular operating cycle and are classified as current on the Condensed Consolidated Balance Sheets.

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

Gains and losses on substantially all of the derivative instruments used by UGI Utilities to hedge commodity prices (for which NPNS has not been elected) are included in regulatory assets and liabilities because it is probable such gains and losses will be recoverable from, or refundable to, customers. From time to time, we enter into derivative instruments that qualify and are designated as cash flow hedges. For cash flow hedges, changes in the fair values of the derivative instruments are recorded in AOCI, to the extent effective at offsetting changes in the hedged item, until earnings are affected by the hedged item. We discontinue cash flow hedge accounting if occurrence of the forecasted transaction is determined to be no longer probable. Hedge accounting is also discontinued for derivatives that cease to be highly effective. Certain other commodity derivative financial instruments, although generally effective as hedges, do not qualify for hedge accounting treatment. Changes in the fair values of these derivative instruments are reflected in net income. Cash flows from derivative financial instruments are included in cash flows from operating activities on the Condensed Consolidated Statements of Cash Flows.

For a more detailed description of the derivative instruments we use, our accounting for derivatives, our objectives for using them and other information, see Note 12.

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

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

Subsequent Events. Management has evaluated the impact of subsequent events through August 12, 2020, the date these condensed consolidated financial statements were issued and the effects, if any, of such evaluation have been reflected in the condensed consolidated financial statements and related disclosures.

Note 3 — Accounting Changes

New Accounting Standards Adopted in Fiscal 2020

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

Leases. Effective October 1, 2019, the Company adopted new accounting guidance for leases in accordance with ASC 842. See Notes 2 and 7 for a detailed description of the impact of the new guidance and related disclosures.

Accounting Standards Not Yet Adopted

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

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

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

Note 4 — Revenue from Contracts with Customers

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

(Thousands of dollars, except where indicated otherwise)

Revenue Disaggregation

The following table presents our disaggregated revenues for the three and nine months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2020	2019	2020	2019
Revenues from contracts with customers:				
Core Market:				
Residential	$ 103,269	$ 78,103	$ 498,883	$ 494,110
Commercial & industrial	29,854	34,274	192,850	202,534
Large delivery service	30,493	27,857	113,233	111,442
Off-system sales and capacity releases	11,732	14,115	80,969	98,649
Other (a)	3,223	8,992	13,294	7,717
Total revenues from contracts with customers	178,571	163,341	899,229	914,452
Other revenues (b)	579	552	1,779	1,758
Total revenues	$ 179,150	$ 163,893	$ 901,008	$ 916,210

(a) Three and nine months ended June 30, 2019 include an unallocated negative surcharge revenue increase (reduction) of $3,299 and $(11,325), respectively, as a result of a PAPUC Order issued May 17, 2018, related to the TCJA.
(b) 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.

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 June 30, 2020, September 30, 2019 and June 30, 2019. 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 $8,090, $7,194 and $6,915 at June 30, 2020, September 30, 2019 and June 30, 2019, respectively, and are included in “Other current liabilities” and “Other noncurrent liabilities” on the Condensed Consolidated Balance Sheets. Revenues recognized for the nine months ended June 30, 2020 and 2019 from the amounts included in contract liabilities at September 30, 2019 and October 1, 2018 were not material.

Remaining Performance Obligations

The Company has elected to use practical expedients as allowed in ASC 606 to exclude disclosures related to the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied for core market customers and off-system sales and capacity releases as of the end of the reporting period because these contracts have an initial expected term of one year or less. Certain contracts with large delivery service customers contain minimum future performance obligations through 2053. At June 30, 2020, the Company expects to record approximately $190,000 of revenues related to the minimum future performance obligations over the remaining terms of the related contracts.

(Thousands of dollars, except where indicated otherwise)

Note 5 — Inventories

Inventories comprise the following:

	June 30, 2020	September 30, 2019	June 30, 2019
Gas Utility natural gas	$ 10,704	$ 26,607	$ 15,465
Materials, supplies and other	18,068	16,205	16,798
Total inventories	$ 28,772	$ 42,812	$ 32,263

At June 30, 2020, UGI Utilities was party to three principal SCAAs with terms of up to three years. For all periods presented, all of UGI Utilities' SCAAs were with Energy Services. UGI Utilities has, among other things, released certain natural gas storage and transportation contracts (subject to recall for operational purposes) for the terms of the SCAAs. UGI Utilities also transferred certain associated natural gas storage inventories upon commencement of the SCAAs, will receive a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the terms of the SCAAs. The historical cost of natural gas storage inventories released under the SCAAs, which represents a portion of Gas Utility's total natural gas storage inventories, and any exchange receivable (representing amounts of natural gas inventories used by the other parties to the agreement but not yet replenished for which UGI Utilities has the rights), are included in the caption "Gas Utility natural gas" in the table above.

The carrying values of gas storage inventories released under the SCAAs at June 30, 2020, September 30, 2019 and June 30, 2019, comprising 3.3 bcf, 6.0 bcf and 3.3 bcf of natural gas, were $5,233, $13,581 and $8,234, respectively. At June 30, 2020, September 30, 2019, and June 30, 2019, UGI Utilities held a total of $7,500, $7,640 and $7,640, respectively, of security deposits received from its SCAA counterparties. These amounts are included in "Other current liabilities" on the Condensed Consolidated Balance Sheets.

For additional information related to the SCAAs with Energy Services, see Note 14.

(Thousands of dollars, except where indicated otherwise)

Note 6 — 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 2019 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, 2020	September 30, 2019	June 30, 2019
Regulatory assets:			
Income taxes recoverable	$ 133,278	$ 115,221	$ 123,901
Underfunded pension and postretirement plans	168,480	178,606	81,791
Environmental costs	61,832	59,477	56,561
Removal costs, net	22,117	28,358	29,339
Other	12,888	13,970	9,085
Total regulatory assets	$ 398,595	$ 395,632	$ 300,677
Regulatory liabilities:			
Postretirement benefit overcollections	$ 13,384	$ 14,473	$ 16,481
Deferred fuel and power refunds	27,896	6,072	12,416
State tax benefits — distribution system repairs	28,977	24,967	25,176
PAPUC Temporary Rates Order	9,967	31,277	25,414
Excess federal deferred income taxes	275,315	279,525	282,735
Other	2,041	2,471	13,948
Total regulatory liabilities	$ 357,580	$ 358,785	$ 376,170

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 (losses) on such contracts at June 30, 2020, September 30, 2019, and June 30, 2019, were $1,025, $(2,242) and $(2,141), respectively.

Other Regulatory Matters

Base Rate Filings. On January 28, 2020, Gas Utility filed a request with the PAPUC to increase its annual base distribution operating revenues by $74,551 annually, which was suspended by the PAPUC for a period extending to October 28, 2020, in accordance with standard regulatory practice. Thereafter, in response to a COVID-19 related motion to extend the suspension period indefinitely, the Company voluntarily extended the end of the suspension period to November 19, 2020. On August 3, 2020, a joint petition for settlement of all issues supported, or not opposed by all active parties, was filed with the PAPUC (the "Joint Petition"). Under the terms of the Joint Petition, Gas Utility will be permitted to increase its annual base distribution rates by $20,000, through a phased approach, with $10,000 beginning January 1, 2021 and an additional $10,000 beginning July 1, 2021. Additionally, Gas Utility will be authorized to implement a DSIC once Gas Utility total property, plant and equipment less accumulated depreciation reaches $2,875,056, with this threshold being unchanged from Gas Utility's 2019 base rate case. The Joint Petition 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 Joint Petition would permit the 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. The Joint Petition is subject to receipt of a recommended decision by a PAPUC administrative law judge and an order of the PAPUC approving the settlement. The Company cannot predict the timing or the ultimate outcome of the rate case review process.

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 $71,090. 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 $30,000 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 $24,029 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.

On October 25, 2018, the PAPUC approved a final order providing for a $3,201 annual base distribution rate increase for Electric Utility, effective October 27, 2018. As part of the final PAPUC Order, Electric Utility provided customers with a one-time $210 billing credit associated with 2018 TCJA tax benefits. On November 26, 2018, the Pennsylvania Office of Consumer Advocate filed an appeal to the Pennsylvania Commonwealth Court challenging the PAPUC's acceptance of UGI Utilities' use of a fully projected future test year and handling of consolidated federal income tax benefits. On January 15, 2020, the Pennsylvania Commonwealth Court issued a decision affirming the PAPUC Order adopting UGI Utilities' position on both issues. No party exercised their right to seek an appeal of the Commonwealth Court decision.

Note 7 — Leases

Lessee

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

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

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

Certain lease arrangements, primarily fleet vehicle leases, contain purchase options. The Company generally excludes purchase options in evaluating its leases unless it is reasonably certain that such options will be exercised. Additionally, leases of fleet vehicles often contain residual value guarantees that are due at the end of the lease. Such amounts are included in the determination of lease liabilities when we are reasonably certain that they will be owed.

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

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

ROU assets and lease liabilities recorded in the Condensed Consolidated Balance Sheet are as follows:

	June 30, 2020	Location on the Balance Sheet
ROU assets:		
Operating lease ROU assets	$ 1,680	Other assets
Finance lease ROU assets	3,007	Property, plant and equipment
Total ROU assets	$ 4,687	
Lease liabilities:		
Operating lease liabilities — current	$ 832	Other current liabilities
Operating lease liabilities — noncurrent	848	Other noncurrent liabilities
Finance lease liabilities — current	2,044	Current maturities of long-term debt
Finance lease liabilities — noncurrent	963	Long-term debt
Total lease liabilities	$ 4,687	

The components of lease cost are as follows:

	Three Months Ended June 30, 2020	Nine Months Ended June 30, 2020
Operating lease cost	$ 308	$ 926
Finance lease cost:		
Amortization of ROU assets	584	1,696
Interest on lease liabilities	23	85
Total lease cost	$ 915	$ 2,707

Lease costs associated with variable lease components and short-term leases were not material for the three and nine months ended June 30, 2020.

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

	Nine Months Ended June 30, 2020
Cash paid related to lease liabilities:	
Operating cash flows — operating leases	$ 923
Operating cash flows — finance leases	$ 85
Financing cash flows — finance leases	$ 1,696
Non-cash lease liability activities:	
ROU assets obtained in exchange for operating lease liabilities (including the impact upon adoption)	$ 2,572

There were no ROU assets obtained in exchange for finance lease liabilities for the nine months ended June 30, 2020.

(Thousands of dollars, except where indicated otherwise)

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

Weighted-average remaining lease term	In years
Operating leases	2.4
Finance leases	1.2
Weighted-average discount rate	**%**
Operating leases	2.1%
Finance leases	3.0%

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

	Remainder of Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	After Fiscal 2024	Total Lease Payments	Imputed Interest	Lease Liabilities
Operating leases:	$ 236	$ 763	$ 485	$ 209	$ 29	$ —	$ 1,722	$ (42)	$ 1,680
Finance leases:	$ 648	$ 1,595	$ 666	$ 173	$ —	$ —	$ 3,082	$ (75)	$ 3,007

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

Disclosures Related to Periods Prior to Adoption of ASC 842

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

	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	After Fiscal 2024
Total	$ 1,211	$ 509	$ 397	$ 304	$ 264	$ —

Lessor

We lease certain pipeline extensions to customers for the purposes of distributing natural gas, which we classify as operating leases. Lease income is generally recognized on a straight-line basis over the lease term and included in "Revenues" on the Condensed Consolidated Statements of Income (see Note 4).

Note 8 — Debt

On April 16, 2020, UGI Utilities issued in a private placement $150,000 of 3.12% Senior Notes due April 16, 2050 pursuant to a Note Purchase Agreement dated March 19, 2020, between UGI Utilities and certain note purchasers. The 3.12% Senior Notes are unsecured and rank equally with UGI Utilities' existing outstanding senior debt. The net proceeds from the issuance of the 3.12% Senior Notes were used to reduce short-term borrowings and for general corporate purposes. The 3.12% Senior Notes include the usual and customary covenants for similar type notes including, among others, maintenance of existence, payment of taxes when due, compliance with laws and maintenance of insurance. The 3.12% Senior Notes require UGI Utilities not to exceed a ratio of Consolidated Debt to Consolidated Total Capital, as defined, of 0.65 to 1.00.

Note 9 — Commitments and Contingencies

Contingencies

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 (CPG and PNG), with similar histories of owning, and in some cases operating, MGPs in Pennsylvania. CPG and PNG merged into UGI Utilities effective October 1, 2018.

Prior to the Utility Merger, each of UGI Utilities and its subsidiaries, CPG and PNG, were subject to COAs with the PADEP to address the remediation of specified former MGP sites in Pennsylvania. In accordance with the COAs, as amended to recognize the Utility Merger, UGI Utilities, as the successor to CPG and PNG, 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 and in the case of one COA, an additional obligation to plug specific natural gas wells, or make expenditures for such activities in an amount equal to an annual environmental cost cap (i.e. minimum expenditure threshold). The annual cost cap of the three COAs, in the aggregate, is $5,350. The three COAs are currently scheduled to terminate at the end of 2031, 2020 and 2020. UGI Utilities has initiated discussions with the PADEP to consolidate the three COAs into one agreement that, when finalized, would supersede the existing agreements as of the effective date and have a termination date of 2031. At June 30, 2020, September 30, 2019 and June 30, 2019, our aggregate estimated accrued liabilities for environmental investigation and remediation costs related to the COAs totaled $55,274, $50,441, and $47,560, 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 COAs. 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 6).

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.

Note 10 — 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, PNG, CPG 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 limited postretirement health care benefits to certain retirees and postretirement life insurance benefits to certain active and retired employees.

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

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, is reflected in "Pension and other postretirement plans non-service income (expense)" on the Condensed Consolidated Statements of Income. Net periodic pension expense and other postretirement benefit costs include the following components:

	Pension Benefits		Other Postretirement Benefits	
Three Months Ended June 30,	2020	2019	2020	2019
Service cost	$ 1,921	$ 1,637	$ 42	$ 31
Interest cost	5,227	6,050	100	109
Expected return on assets	(8,504)	(8,140)	(195)	(185)
Amortization of:				
Prior service cost (benefit)	44	63	(84)	(109)
Actuarial loss	3,391	1,721	29	17
Net cost (benefit)	2,079	1,331	(108)	(137)
Change in associated regulatory liabilities	—	—	(342)	(343)
Net cost (benefit) after change in regulatory liabilities	$ 2,079	$ 1,331	$ (450)	$ (480)

	Pension Benefits		Other Postretirement Benefits	
Nine Months Ended June 30,	2020	2019	2020	2019
Service cost	$ 5,762	$ 4,912	$ 127	$ 94
Interest cost	15,682	18,151	299	327
Expected return on assets	(25,512)	(24,420)	(584)	(554)
Amortization of:				
Prior service cost (benefit)	131	188	(251)	(327)
Actuarial loss	10,173	5,162	85	51
Net cost (benefit)	6,236	3,993	(324)	(409)
Change in associated regulatory liabilities	—	—	(1,027)	(1,028)
Net cost (benefit) after change in regulatory liabilities	$ 6,236	$ 3,993	$ (1,351)	$ (1,437)

Pension Plan assets are held in trust and consist principally of publicly traded, diversified equity and fixed income mutual funds and, to a much lesser extent, UGI Common Stock. It is our general policy to fund amounts for Pension Plan benefits equal to at least the minimum contribution required by ERISA. From time to time, we may, at our discretion, contribute additional amounts. During the nine months ended June 30, 2020 and 2019, the Company made cash contributions to the Pension Plan of $9,454 and $8,234, respectively. The Company expects to make additional cash contributions of approximately $3,000 to the Pension Plan during the remainder of Fiscal 2020.

UGI Utilities 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. The difference between such cash deposits or expense recorded and the amounts included in UGI Gas' and Electric Utility's rates, if any, is deferred for future recovery from, or refund to, ratepayers. There were no required contributions to the VEBA during the nine months ended June 30, 2020 and 2019.

We also participate in an unfunded and non-qualified defined benefit supplemental executive retirement plan. Net benefit costs associated with this plan for all periods presented were not material.

(Thousands 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:

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
June 30, 2020:				
Assets:				
Commodity contracts	$ 2,650	$ —	$ —	$ 2,650
Liabilities:				
Commodity contracts	$ (1,739)	$ —	$ —	$ (1,739)
Interest rate contracts	$ —	$ (6,148)	$ —	$ (6,148)
September 30, 2019:				
Assets:				
Commodity contracts	$ 1,357	$ —	$ —	$ 1,357
Liabilities:				
Commodity contracts	$ (3,693)	$ —	$ —	$ (3,693)
Interest rate contracts	$ —	$ (4,589)	$ —	$ (4,589)
June 30, 2019:				
Assets:				
Commodity contracts	$ 944	$ —	$ —	$ 944
Liabilities:				
Commodity contracts	$ (3,116)	$ —	$ —	$ (3,116)
Interest rate contracts	$ —	$ (4,211)	$ —	$ (4,211)

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 these risks. The primary risks managed by derivative instruments are (1) commodity price risk and (2) interest rate risk. Although we use derivative financial and commodity instruments to reduce market risk associated with forecasted transactions, we do not use derivative financial and commodity instruments for speculative or trading purposes. The use of derivative instruments is controlled by our risk management and credit policies which govern, among other things, the derivative instruments we can use, counterparty credit limits and contract authorization limits. 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.

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 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 6).

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 June 30, 2020, September 30, 2019 and June 30, 2019, 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 June 30, 2020, September 30, 2019 and June 30, 2019, 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 short-term market interest rates. UGI Utilities has entered into a forward starting, amortizing, pay-fixed, receive-variable interest rate swap that generally fixes the underlying prevailing market interest rates 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.

As of June 30, 2020, September 30, 2019 and June 30, 2019, we had no unsettled IRPAs. At June 30, 2020, the amount of net losses associated with interest rate hedges (excluding the pay-fixed, receive-variable interest rate swap above) expected to be reclassified into earnings during the next twelve months is approximately $3,485.

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, 2020, September 30, 2019 and June 30, 2019 and the final settlement date of the Company's open derivative transactions as of June 30, 2020, excluding those derivatives that qualified for the NPNS exception:

			Notional Amounts (in millions)		
Type	Units	Settlements Extending Through	June 30, 2020	September 30, 2019	June 30, 2019
Commodity Price Risk:					
NYMEX natural gas futures and options contracts	Dekatherms	June 2021	15.5	23.4	16.5
Interest Rate Risk:					
Interest rate swaps	USD	July 2022	$ 109.4	$ 114.1	$ 114.1

Derivative Instrument Credit Risk

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

Offsetting Derivative Assets and Liabilities

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

(Thousands of dollars, except where indicated otherwise)

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

Fair Value of Derivative Instruments

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

	June 30, 2020	September 30, 2019	June 30, 2019
Derivative assets:			
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	$ 2,650	$ 1,357	$ 944
Total derivative assets — gross	2,650	1,357	944
Gross amounts offset in the balance sheet	(751)	(96)	(19)
Total derivative assets — net (a)	$ 1,899	$ 1,261	$ 925
Derivative liabilities:			
Derivatives designated as hedging instruments:			
Interest rate contracts	$ (6,148)	$ (4,589)	$ (4,211)
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	(1,624)	(3,599)	(3,085)
Derivatives not designated as hedging instruments:			
Commodity contracts	(115)	(94)	(31)
Total derivative liabilities — gross	(7,887)	(8,282)	(7,327)
Gross amounts offset in the balance sheet	751	96	19
Total derivative liabilities — net (a)	$ (7,136)	$ (8,186)	$ (7,308)

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

(Thousands of dollars, except where indicated otherwise)

Effects of Derivative Instruments

The following table provides information on the effects of derivative instruments not subject to ratemaking mechanisms on the Condensed Consolidated Statements of Income and changes in AOCI for the three and nine months ended June 30, 2020 and 2019:

	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
Three Months Ended June 30,	2020	2019	2020	2019	
Cash Flow Hedges:					
Interest rate contracts	$ (1,161)	$ (1,683)	$ (2,279)	$ (872)	Interest expense

	Gain Recognized in Income		Location of Gain Recognized in Income
Three Months Ended June 30,	2020	2019	
Derivatives Not Subject to PGC and DS Mechanisms:			
Commodity contracts	$ 104	$ 10	Operating and administrative expenses

	Loss Recognized in AOCI		Loss Reclassified from AOCI into Income		Location of Loss Reclassified from AOCI into Income
Nine Months Ended June 30,	2020	2019	2020	2019	
Cash Flow Hedges:					
Interest rate contracts	$ (2,967)	$ (4,241)	$ (4,022)	$ (2,614)	Interest expense

	Loss Recognized in Income		Location of Loss Recognized in Income
Nine Months Ended June 30,	2020	2019	
Derivatives Not Subject to PGC and DS Mechanisms:			
Commodity contracts	$ (209)	$ (257)	Operating and administrative expenses

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.

(Thousands of dollars, except where indicated otherwise)

Note 13 — Accumulated Other Comprehensive Income (Loss)

The tables below present changes in AOCI, net of tax, during the three and nine months ended June 30, 2020 and 2019:

Three Months Ended June 30, 2020	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — March 31, 2020	$ (14,020)	$ (20,000)	$ (34,020)
Net losses on interest rate contract	—	(825)	(825)
Reclassifications of benefit plan actuarial losses and net prior service benefits	272	—	272
Reclassifications of net losses on interest rate contracts	—	1,621	1,621
AOCI — June 30, 2020	$ (13,748)	$ (19,204)	$ (32,952)

Three Months Ended June 30, 2019	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — March 31, 2019	$ (6,367)	$ (19,728)	$ (26,095)
Net losses on interest rate contract	—	(1,197)	(1,197)
Reclassifications of benefit plan actuarial losses and net prior service benefits	132	—	132
Reclassifications of net losses on interest rate contracts	—	620	620
AOCI — June 30, 2019	$ (6,235)	$ (20,305)	$ (26,540)

Nine Months Ended June 30, 2020	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2019	$ (14,508)	$ (19,954)	$ (34,462)
Net losses on interest rate contract	—	(2,110)	(2,110)
Reclassifications of benefit plan actuarial losses and net prior service benefits	760	—	760
Reclassifications of net losses on interest rate contracts	—	2,860	2,860
AOCI — June 30, 2020	$ (13,748)	$ (19,204)	$ (32,952)

Nine Months Ended June 30, 2019	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2018	$ (4,920)	$ (15,409)	$ (20,329)
Net losses on interest rate contract	—	(3,016)	(3,016)
Reclassifications of benefit plan actuarial losses and net prior service benefits	397	—	397
Reclassifications of net losses on interest rate contracts	—	1,859	1,859
Reclassification of stranded income tax effects related to TCJA	(1,712)	(3,739)	(5,451)
AOCI — June 30, 2019	$ (6,235)	$ (20,305)	$ (26,540)

Note 14 — 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. In conjunction with the SCAAs, UGI Utilities receives security deposits from Energy Services. 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, 2020, September 30, 2019, and June 30, 2019 natural gas volumes were 3.3 bcf, 6.0 bcf, and 3.3 bcf, respectively.

(Thousands of dollars, except where indicated otherwise)

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 or 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 Gas Utility.

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

In addition, UGI Utilities provides limited administrative services to UGI and various other affiliates pursuant to arrangements authorized by the PAPUC using similar allocation or market-based methods. Amounts billed to these entities by UGI Utilities totaled $603 and $1,536 during the three months ended June 30, 2020 and 2019, respectively, and $2,852 and $4,228 during the nine months ended June 30, 2020 and 2019, respectively. Such amounts reduce costs included in "Operating and administrative expenses" in the Condensed Consolidated Statements of Income.

The following related party balances are included in our condensed consolidated financial statements during the three and nine months ended June 30, 2020 and 2019:

	Three Months Ended June 30,		Nine Months Ended June 30,		Classification on Condensed Consolidated Statement of Income
	2020	2019	2020	2019	
SCAA Activities:					
SCAA revenues	$ 600	$ 784	$ 1,820	$ 2,303	Revenues
Cost of SCAA supply purchases	$ 4,415	$ 7,045	$ 6,764	$ 10,314	Cost of sales - gas purchased power
Gas Supply and Delivery Service:					
Natural gas and pipeline capacity revenues	$ 6,911	$ 10,041	$ 36,861	$ 57,467	Revenues
Costs of gas supply and delivery services	$ 15,954	$ 19,790	$153,519	$200,824	Cost of sales - gas purchased power

	June 30, 2020	September 30, 2019	June 30, 2019	Classification on Condensed Consolidated Statement of Balance Sheet
SCAA storage inventories	$ 5,233	$ 13,581	$ 8,234	Inventories
SCAA security deposits	$ 7,500	$ 7,640	$ 7,640	Other current liabilities

Note 15 — 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 operational and financial performance have been significantly impacted by COVID-19 in Fiscal 2020, the Company cannot predict the duration or magnitude of the outbreak and the total effects on its business, financial position, results of operations, liquidity or cash flows at this time.