

**UGI UTILITIES, INC.
AND SUBSIDIARIES**

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended December 31, 2023 and 2022
(Unaudited)

UGI UTILITIES, INC. AND SUBSIDIARIES

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UGI UTILITIES, INC. AND SUBSIDIARIES
GLOSSARY OF TERMS AND ABBREVIATIONS

Terms and abbreviations used in this document are defined below:

UGI Utilities, Inc. and Related Entities

Company - UGI Utilities or collectively UGI Utilities and its subsidiaries

Electric Utility - UGI Utilities' regulated electric distribution utility

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

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

UGI - UGI Corporation, parent company of UGI Utilities

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

Other Terms and Abbreviations

2023 Annual Report - UGI Utilities' Annual Report for the fiscal year ended September 30, 2023

AOCI - Accumulated Other Comprehensive Income (Loss)

ASC - Accounting Standards Codification

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

Bcf - Billions of cubic feet

COA - Consent Order and Agreement

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

DS - Default service

DSIC - Distribution System Improvement Charge

FERC - Federal Energy Regulatory Commission

GAAP - U.S. generally accepted accounting principles

IRPA - Interest rate protection agreement

MDPSC - Maryland Public Service Commission

MGP - Manufactured gas plant

NPNS - Normal purchase and normal sale

NTSB - National Transportation Safety Board

NYMEX - New York Mercantile Exchange

OSHA - Occupational Safety and Health Administration

UGI UTILITIES, INC. AND SUBSIDIARIES

PADEP - Pennsylvania Department of Environmental Protection

PAPUC - Pennsylvania Public Utility Commission

PGC - Purchased gas costs

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

SCAA - Storage contract administrative agreement

U.S. - United States of America

UGI Utilities 2023 Credit Agreement - Revolving credit agreement entered into by UGI Utilities on November 9, 2023, as amended, scheduled to expire in November 2028

UGI Utilities Credit Agreement - Revolving credit agreement entered into by UGI Utilities on June 27, 2019, as amended, scheduled to expire in June 2024, repaid in full and terminated concurrently with the execution of the UGI Utilities 2023 Credit Agreement

USD - U.S. dollar

UGI UTILITIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)
(Millions of dollars)

	December 31, 2023	September 30, 2023	December 31, 2022
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 19	\$ 12	\$ 16
Restricted cash	14	11	27
Accounts receivable (less allowances for doubtful accounts of \$20, \$20 and \$21, respectively)	158	107	192
Accrued utility revenues	86	23	105
Inventories	64	62	110
Prepaid expenses and other current assets	23	36	50
Total current assets	364	251	500
Property, plant and equipment (less accumulated depreciation of \$1,498, \$1,475 and \$1,400, respectively)	4,090	4,060	3,776
Goodwill	182	182	182
Regulatory assets	266	270	281
Other assets	23	24	20
Total assets	<u>\$ 4,925</u>	<u>\$ 4,787</u>	<u>\$ 4,759</u>
LIABILITIES AND STOCKHOLDER'S EQUITY			
Current liabilities:			
Current maturities of long-term debt	\$ 6	\$ 6	\$ 6
Short-term borrowings	180	248	294
Accounts payable	89	99	174
Regulatory liabilities	59	55	5
Derivative instruments	11	4	18
Other current liabilities	168	151	151
Total current liabilities	513	563	648
Long-term debt	1,689	1,442	1,446
Deferred income taxes	509	506	505
Pension benefit obligations	54	55	74
Regulatory liabilities	290	293	297
Other noncurrent liabilities	79	80	78
Total liabilities	3,134	2,939	3,048
Commitments and contingencies (Note 7)			
Common stockholder's equity:			
Common Stock	60	60	60
Additional paid-in capital	509	509	509
Retained earnings	1,237	1,292	1,159
Accumulated other comprehensive loss	(15)	(13)	(17)
Total common stockholder's equity	1,791	1,848	1,711
Total liabilities and stockholder's equity	<u>\$ 4,925</u>	<u>\$ 4,787</u>	<u>\$ 4,759</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2023	2022
Revenues	\$ 406	\$ 499
Costs and expenses:		
Cost of sales — gas and purchased power (excluding depreciation shown below)	176	282
Operating and administrative expenses	64	65
Operating and administrative expenses — related parties	5	5
Depreciation	36	32
Other operating expense, net	2	1
	<u>283</u>	<u>385</u>
Operating income	123	114
Pension and other postretirement plans non-service income	1	1
Interest expense	<u>(20)</u>	<u>(19)</u>
Income before income taxes	104	96
Income tax expense	<u>(24)</u>	<u>(23)</u>
Net income	<u>\$ 80</u>	<u>\$ 73</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2023	2022
Net income	\$ 80	\$ 73
Other comprehensive income:		
Net losses on derivative instruments (net of tax of \$0 and \$0, respectively)	(2)	—
Other comprehensive loss	(2)	—
Comprehensive income	<u>\$ 78</u>	<u>\$ 73</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 80	\$ 73
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	36	32
Deferred income tax expense, net	3	8
Provision for uncollectible accounts	5	5
Other, net	(6)	(2)
Net change in:		
Accounts receivable and accrued utility revenues	(119)	(186)
Inventories	(2)	11
Deferred fuel and power costs, net of changes in unsettled derivatives	16	(4)
Accounts payable	17	66
Other current assets	14	9
Other current liabilities	15	8
Net cash provided by operating activities	59	20
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(91)	(135)
Net costs of property, plant and equipment disposals	(2)	(5)
Net cash used by investing activities	(93)	(140)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends	(135)	—
(Decrease) increase in short-term borrowings	(68)	143
Issuances of long-term debt, net of issuance costs	249	—
Repayments of long-term debt and finance leases	(2)	(2)
Net cash provided by financing activities	44	141
Cash, cash equivalents and restricted cash increase	\$ 10	\$ 21
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Cash, cash equivalents and restricted cash at end of period	\$ 33	\$ 43
Cash, cash equivalents and restricted cash at beginning of period	23	22
Cash, cash equivalents and restricted cash increase	\$ 10	\$ 21

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,	
	2023	2022
Common stock, without par value		
Balance, beginning of period	\$ 60	\$ 60
Balance, end of period	<u>\$ 60</u>	<u>\$ 60</u>
Retained earnings		
Balance, beginning of period	\$ 1,292	\$ 1,086
Net income	80	73
Cash dividends — Common Stock	(135)	—
Balance, end of period	<u>\$ 1,237</u>	<u>\$ 1,159</u>
Additional paid-in capital		
Balance, beginning of period	\$ 509	\$ 509
Balance, end of period	<u>\$ 509</u>	<u>\$ 509</u>
Accumulated other comprehensive income (loss)		
Balance, beginning of period	\$ (13)	\$ (17)
Net losses on derivative instruments	(2)	—
Balance, end of period	<u>\$ (15)</u>	<u>\$ (17)</u>
Total UGI Utilities common stockholder's equity	<u>\$ 1,791</u>	<u>\$ 1,711</u>

See accompanying notes to condensed consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

(unaudited)

(Millions of dollars, except where indicated otherwise)

Note 1 — Nature of Operations

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

Note 2 — Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with GAAP. They include all adjustments that we consider necessary for a fair statement of the results for the interim periods presented. Such adjustments consisted only of normal recurring items unless otherwise disclosed. The September 30, 2023, 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 2023 Annual Report. Due to the seasonal nature of our businesses, the results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

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

	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 19	\$ 16
Restricted cash	14	27
Cash, cash equivalents and restricted cash	<u>\$ 33</u>	<u>\$ 43</u>

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

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

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

UGI UTILITIES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

(unaudited)

(Millions of dollars, except where indicated otherwise)

For a more detailed description of the derivative instruments we use, our accounting for derivatives, our objectives for using them and other information, see Note 10.

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

Subsequent Events. Management has evaluated the impact of subsequent events through February 9, 2024, 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

Accounting Standard Not Yet Adopted.

Improvements to Income Tax Disclosures. In December 2023, the FASB issued ASU 2023-09, "Improvements to Income Tax Disclosures (Topic 740)" which requires entities to disclose, among other items, disaggregated information about a reporting entity's effective tax rate reconciliation and income taxes paid. This new guidance is effective for the Company for annual periods beginning October 1, 2025 (Fiscal 2026). Early adoption is permitted. The amendments in this ASU may be adopted using the prospective or retrospective methods. The Company is in the process of assessing the impact on its financial statements and determining the transition method and the period in which the new guidance will be adopted.

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 3 in the Company's 2023 Annual Report for additional information on our revenues from contracts with customers.

Revenue Disaggregation

The following table presents our disaggregated revenues:

	Three Months Ended December 31,	
	2023	2022
Revenues from contracts with customers:		
Core market:		
Residential	\$ 226	\$ 276
Commercial & industrial	81	101
Large delivery service	47	45
Off-system sales and capacity releases	33	65
Other	9	10
Total revenues from contracts with customers	396	497
Other revenues (a)	10	2
Total revenues	\$ 406	\$ 499

- (a) Primarily represents revenues from alternative revenue programs, including the weather normalization adjustment rider beginning on November 1, 2022 for PA Gas Utility. See Note 5 for additional information. These revenues are outside the scope of ASC 606 and are accounted for in accordance with other GAAP.

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Contract Balances

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

Contract liabilities arise when payment from a customer is received before the performance obligations have been satisfied and represent the Company’s obligations to transfer goods or services to a customer for which we have received consideration. The balances of contract liabilities were \$13, \$13 and \$12 at December 31, 2023, September 30, 2023 and December 31, 2022, respectively, and are included in “Other current liabilities” and “Other noncurrent liabilities” on the Condensed Consolidated Balance Sheets.

Note 5 — Regulatory Assets and Liabilities and Regulatory Matters

For a description of the Company’s regulatory assets and liabilities, other than those described below, see Note 4 in the Company’s 2023 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:

	December 31, 2023	September 30, 2023	December 31, 2022
Regulatory assets (a):			
Income taxes recoverable	\$ 82	\$ 83	\$ 82
Underfunded pension plan	110	111	114
Environmental costs	26	28	36
Deferred fuel and power costs	—	—	32
Removal costs, net	23	23	25
Other	32	35	27
Total regulatory assets	<u>\$ 273</u>	<u>\$ 280</u>	<u>\$ 316</u>
Regulatory liabilities:			
Postretirement benefit overcollections	\$ 11	\$ 12	\$ 11
Deferred fuel and power refunds	59	55	3
State tax benefits — distribution system repairs	43	43	39
Excess federal deferred income taxes	234	236	246
Other	2	1	3
Total regulatory liabilities	<u>\$ 349</u>	<u>\$ 347</u>	<u>\$ 302</u>

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

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

PA Gas Utility uses derivative instruments to reduce volatility in the cost of gas it purchases for retail core-market customers. Realized and unrealized gains or losses on natural gas derivative instruments are included in deferred fuel and power costs or refunds. Net unrealized losses on such contracts at December 31, 2023, September 30, 2023, and December 31, 2022, were \$11, \$2 and \$17, respectively.

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Other Regulatory Matters

Base Rate Filings. On January 27, 2023, Electric Utility filed a request with the PAPUC to increase its annual base distribution revenues by \$11. On September 21, 2023, the PAPUC issued a final order approving a settlement providing for a \$9 annual base distribution rate increase for Electric Utility, effective October 1, 2023.

On January 28, 2022, PA Gas Utility filed a request with the PAPUC to increase its base operating revenues for residential, commercial and industrial customers by \$83 annually. On September 15, 2022, the PAPUC issued a final order approving a settlement providing for a \$49 annual base distribution rate increase for PA Gas Utility, through a phased approach, with \$38 beginning October 29, 2022 and an additional \$11 beginning October 1, 2023. In accordance with the terms of the final order, PA Gas Utility was not permitted to file a rate case prior to January 1, 2024. Also in accordance with the terms of the final order, PA Gas Utility was authorized to implement a weather normalization adjustment rider as a five-year pilot program beginning on November 1, 2022. Under this rider, when weather deviates from normal by more than 3%, residential and small commercial customer billings for distribution services are adjusted monthly for weather related impacts exceeding the 3% threshold. Additionally, under the terms of the final order, PA Gas Utility was authorized to implement a DSIC once its total property, plant and equipment less accumulated depreciation reached \$3,368 (which threshold was achieved in September 2022).

Note 6 — Debt

Significant Financing Activities

The following significant financing activities occurred during the three months ended December 31, 2023.

UGI Utilities Senior Notes. On November 30, 2023, the Company entered into a Note Purchase Agreement with a consortium of lenders. Pursuant to the Note Purchase Agreement, the Company issued (1) \$25 aggregate principal amount of 6.02% Senior Notes due November 30, 2030; (2) \$150 aggregate principal amount of 6.10% Senior Notes due November 30, 2033; and (3) \$75 aggregate principal amount of 6.40% Senior Notes due November 30, 2053. The Note Purchase Agreement contains customary covenants and default provisions and requires compliance with certain financial covenants including a leverage ratio and priority debt ratio as defined in the agreement. These senior notes are unsecured and will rank equally with the Company's existing outstanding senior debt. The net proceeds from these issuances were used to reduce short-term borrowings and for general corporate purposes.

UGI Utilities 2023 Credit Agreement. On November 9, 2023, the Company entered into the UGI Utilities 2023 Credit Agreement providing for borrowings up to \$375 (including a \$50 sublimit for letters of credit and a \$38 sublimit for swingline loans). The Company may request an increase in the amount of loan commitments under the credit agreement to a maximum aggregate amount of \$125. The interest rates applicable to borrowings under the UGI Utilities 2023 Credit Agreement will remain unchanged from its predecessor agreement, the UGI Utilities Credit Agreement. The UGI Utilities 2023 Credit Agreement contains customary covenants and default provisions and requires compliance with certain financial covenants including a maximum debt to capitalization ratio as defined in the agreement. The credit agreement is scheduled to expire November 2028. Borrowings under the credit agreement may be used to refinance the Company's existing indebtedness and for general corporate purposes and ongoing working capital needs of the Company.

Note 7 — Commitments and Contingencies

Environmental Matters

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

UGI Utilities is subject to a COA with the PADEP to address the remediation of specified former MGP sites in Pennsylvania which is scheduled to terminate at the end of 2031. In accordance with the COA, UGI Utilities is required to either obtain a

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(Millions of dollars, except where indicated otherwise)

certain number of points per calendar year based on defined eligible environmental investigatory and/or remedial activities at the MGPs, or make expenditures for such activities in an amount equal to an annual environmental minimum expenditure threshold. The annual minimum expenditure threshold of the COA is \$5. At December 31, 2023, September 30, 2023 and December 31, 2022, our aggregate estimated accrued liabilities for environmental investigation and remediation costs related to the COA totaled \$50, \$52 and \$54, 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 were material for all periods presented.

Other Matters

West Reading, Pennsylvania Explosion. On March 24, 2023, an explosion occurred in West Reading, Pennsylvania which resulted in seven fatalities, significant injuries to eleven others, and extensive property damage to buildings owned by R.M. Palmer, a local chocolate manufacturer, and other neighboring structures. The NTSB and the PAPUC are investigating the West Reading incident. On July 18, 2023, the NTSB issued an Investigative Update in its ongoing investigation. That report identifies a fracture in a retired UGI gas service tee and a fracture in a nearby steam system, but it does not address causation of the fractures or the explosion. The NTSB investigative team includes representatives from the Company, the PAPUC, the local fire department and the Pipeline and Hazardous Materials Safety Administration. The Company is cooperating with the investigation. The NTSB may invite other parties to participate. In September 2023, OSHA closed their investigation of this matter, without any finding pertaining to UGI Utilities.

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

Regarding these pending claims and legal actions, the Company does not believe, at this early stage, that there is sufficient information available to reasonably estimate a range of loss, if any, or conclude that the final outcome of these matters will or will not have a material effect on our financial statements.

In addition to the matters described above, there are other pending claims and legal actions arising in the normal course of our businesses. Although we cannot predict the final results of these pending claims and legal actions, including those described above, we believe, after consultation with counsel, that the final outcome of these matters will not have a material effect on our financial statements.

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(unaudited)

(Millions of dollars, except where indicated otherwise)

Note 8 — Defined Benefit Pension and Other Postretirement Plans

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

Three Months Ended December 31,	Pension Benefits	
	2023	2022
Service cost	\$ 1	\$ 1
Interest cost	7	7
Expected return on plan assets	(8)	(9)
Amortization of:		
Actuarial loss	—	—
Net cost (benefit)	<u>\$ —</u>	<u>\$ (1)</u>

Note 9 — Fair Value Measurements

Derivative Instruments

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

	Asset (Liability)			
	Level 1	Level 2	Level 3	Total
December 31, 2023:				
Assets:				
Commodity contracts	\$ 11	\$ —	\$ —	\$ 11
Interest rate contracts	\$ —	\$ 2	\$ —	\$ 2
Liabilities:				
Commodity contracts	\$ (22)	\$ —	\$ —	\$ (22)
September 30, 2023:				
Assets:				
Commodity contracts	\$ 6	\$ —	\$ —	\$ 6
Interest rate contracts	\$ —	\$ 4	\$ —	\$ 4
Liabilities:				
Commodity contracts	\$ (8)	\$ —	\$ —	\$ (8)
December 31, 2022:				
Assets:				
Commodity contracts	\$ 18	\$ —	\$ —	\$ 18
Interest rate contracts	\$ —	\$ 3	\$ —	\$ 3
Liabilities:				
Commodity contracts	\$ (36)	\$ —	\$ —	\$ (36)

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.

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(Millions of dollars, except where indicated otherwise)

Note 10 — Derivative Instruments and Hedging Activities

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

The following sections summarize the types of derivative instruments used by the Company to manage these market risks:

Commodity Price Risk

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

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

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

Interest Rate Risk

UGI Utilities has a variable-rate term loan that is indexed to a short-term market interest rate. We have entered into a pay fixed-receive variable interest rate swap which generally fixes the underlying market-based interest rate on this variable rate debt through June 2026. We have designated this interest rate swap as a cash flow hedge.

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

There were no unsettled IRPAs for all periods presented. At December 31, 2023, the amount of pre-tax net gains and losses associated with interest rate hedges expected to be reclassified into earnings during the next twelve months is not material.

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(Millions of dollars, except where indicated otherwise)

Quantitative Disclosures Related to Derivative Instruments

The following table summarizes by derivative type the gross notional amounts related to open derivative contracts at December 31, 2023, September 30, 2023 and December 31, 2022 and the final settlement dates of the Company's open derivative contracts as of December 31, 2023, excluding those derivatives that qualified for the NPNS exception:

Type	Units	Settlements Extending Through	Notional Amounts (in millions)		
			December 31, 2023	September 30, 2023	December 31, 2022
Commodity Price Risk:					
NYMEX natural gas futures and options contracts	Dekatherms	September 2024	16	22	15
Interest Rate Risk:					
Interest rate swaps	USD	June 2026	\$ 88	\$ 89	\$ 94

Derivative Instrument Credit Risk

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

Offsetting Derivative Assets and Liabilities

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

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

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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:

	December 31, 2023	September 30, 2023	December 31, 2022
Derivative assets:			
Derivatives designated as hedging instruments:			
Interest rate contracts	\$ 2	\$ 4	\$ 3
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	11	6	18
Total derivative assets — gross	13	10	21
Gross amounts offset in the balance sheet	(11)	(4)	(18)
Total derivative assets — net (a)	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ 3</u>
Derivative liabilities:			
Derivatives subject to PGC and DS mechanisms:			
Commodity contracts	(22)	(8)	(36)
Total derivative liabilities — gross	(22)	(8)	(36)
Gross amounts offset in the balance sheet	11	4	18
Total derivative liabilities — net (b)	<u>\$ (11)</u>	<u>\$ (4)</u>	<u>\$ (18)</u>

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

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

Effects of Derivative Instruments

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

	Loss Recognized in AOCI
Three Months Ended December 31,	2023 2022
Cash Flow Hedges:	
Interest rate contracts	\$ (2) \$ —

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

We are also a party to a number of other contracts that have elements of a derivative instrument including, among others, binding purchase orders, contracts which provide for the purchase and delivery of natural gas and electricity, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments. However, these contracts qualify for NPNS exception accounting because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business and the price in the contract is based on an underlying that is directly associated with the price of the product or service being purchased or sold.

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Note 11 — Accumulated Other Comprehensive Income (Loss)

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

Three Months Ended December 31, 2023	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2023	\$ (9)	\$ (4)	\$ (13)
Other comprehensive loss before reclassification adjustments	—	(2)	(2)
AOCI — December 31, 2023	<u>\$ (9)</u>	<u>\$ (6)</u>	<u>\$ (15)</u>

Three Months Ended December 31, 2022	Postretirement Benefit Plans	Derivative Instruments	Total
AOCI — September 30, 2022	\$ (10)	\$ (7)	\$ (17)
AOCI — December 31, 2022	<u>\$ (10)</u>	<u>\$ (7)</u>	<u>\$ (17)</u>

Note 12 — Related Party Transactions

SCAA Activities. UGI Utilities is a party to SCAAs with Energy Services which have terms of up to three years. UGI Utilities has, among other things, released certain storage and transportation contracts (subject to recall for operational purposes) to Energy Services for the terms of the SCAAs. UGI Utilities also transferred certain associated storage inventories upon the commencement of the SCAAs, receives a transfer of storage inventories at the end of the SCAAs, and makes payments associated with refilling storage inventories during the term of the SCAAs. Energy Services, in turn, provides a firm delivery service and makes certain payments to UGI Utilities for its various obligations under the SCAAs. UGI Utilities reflects the historical cost of the gas storage inventories and any exchange receivable from Energy Services which represents amounts of natural gas inventories used but not yet replenished by Energy Services. At December 31, 2023, September 30, 2023, and December 31, 2022, natural gas volumes were 4.8 bcf, 5.6 bcf, and 4.7 bcf, respectively.

Gas Supply and Delivery Services. UGI Utilities purchases natural gas and pipeline capacity from Energy Services, and from time to time, UGI Utilities sells natural gas and pipeline capacity to Energy Services. Additionally, UGI Utilities has gas supply and delivery service agreements with Energy Services pursuant to which Energy Services provides certain gas supply and related delivery service to UGI Utilities.

Administrative Services. UGI provides certain financial and administrative services to UGI Utilities. UGI bills UGI Utilities monthly for all direct expenses incurred by UGI on behalf of UGI Utilities and an allocated share of indirect corporate expenses incurred or paid with respect to services provided to UGI Utilities. The allocation of indirect UGI corporate expenses to UGI Utilities utilizes a relevant factor (such as headcount for employee-related expenses) or, when there is not a specific relevant factor, utilizes a weighted, three-component formula comprising revenues, operating expenses and net assets employed. The allocation considers UGI Utilities' relative percentage of such items to the total of such items for all UGI operating subsidiaries for which general and administrative services are provided. Management believes that this allocation method is reasonable and equitable to UGI Utilities. These billed allocated expenses are classified as "Operating and administrative expenses - related parties" in the Condensed Consolidated Statements of Income.

In addition, UGI Utilities provides limited administrative services to UGI and various other affiliates pursuant to arrangements authorized by the PAPUC using similar allocation or market-based methods. Amounts billed to these entities by UGI Utilities were not material for all periods presented. Such amounts reduce costs included in "Operating and administrative expenses" in the Condensed Consolidated Statements of Income.

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

		Three Months Ended December 31,		Classification on Condensed Consolidated Statements of Income			
		2023	2022				
SCAA Activities:							
Cost of SCAA supply purchases	\$	2	\$	5	Cost of sales - gas and purchased power		
Gas Supply and Delivery Service:							
Natural gas and pipeline capacity revenues	\$	12	\$	33	Revenues		
Costs of gas supply and delivery services	\$	65	\$	110	Cost of sales - gas and purchased power		
	December 31, 2023	September 30, 2023	December 31, 2022	Classification on Condensed Consolidated Balance Sheets			
SCAA storage inventories	\$	11	\$	11	\$	34	Inventories
SCAA security deposits	\$	9	\$	9	\$	9	Other current liabilities